INTEGRALIS

ANNUAL REPORT INTEGRALIS AG

2006

Contents

Figures at a Glance

	Revenue	EBITDA pre exceptionals	EBITDA	Operating Income	Net earnings per share	
					basic	diluted
	€m	€m	€m	€m	€	€
FJ 2006	136.7	4.3	4.3	2.8	0.25	0.24
FJ 2005	112.8	-1.2	-0.7	-2.2	-0.20	-
FJ 2004	87.1	-2.1	-3.4	-4.0	-0.39	-

	Revenue	Gross Profit	Gross Margin	Personnel Expenses	Other Operating Expenses	EBITDA	EBIT	EBIT
	€m	€m	%	€m	€m	€m	€m	%
Q4/2006	40.6	13.4	33.0	8.5	2.9	2.0	1.6	3.9
Q3/2006	31.1	11.2	36.0	7.5	2.7	1.0	0.6	1.8
Q2/2006	36.0	12.1	33.5	8.1	3.0	0.9	0.5	1.3
Q1/2006	29.0	10.8	37.4	7.6	2.9	0.3	-0.1	-0.5
Q4/2005	33.5	11.5	34.3	8.1	3.1	0.3	-0.2	-0.6

Dear shareholders and business associates,

Integralis AG can look back on the most successful year in its history. With a new sales record, it performed well not only in terms of quantity but finally also in terms of quality.

For the first time, Europe's leading IT security service provider is able to report a post-tax profit. With an improved balance between income and expenses, we have proven our ability to assert ourselves in the market using our own resources. This is an enormously important milestone, which is generating confidence, something which in turn forms a crucial basis for future business success. We are sensing this confidence in everything we do. We are proud of this and working on propelling Integralis AG into new dimensions over the next few years against the backdrop of the convergence of IT and communications.

The momentum in our expansion which had emerged in 2005 continued in the year under review. With a growth rate of over 20%, we expanded nearly twice as quickly as the industry as a whole. Our figures impressively reflect a changed distribution strategy and highly motivated employees. Over the past two years, the Integralis Group's sales have shot up from € 87.1 million in 2004 to € 112.8 million in 2005 and then on to € 136.7 million in 2006. At the same time, sales per employee widened in this period from € 236k to € 344k. The marked improvement in the capacity utilization of our highly qualified team of consultants in tandem with a sharp rise in product and service sales fed through to the bottom line as well in 2006.

With the Group reporting a post-tax profit in all quarters. On the other hand, this had only been achieved in the 4th quarter of 2005, when we reported a figure of € 0.4 million after tax.

By comparison, the final quarter of 2006 generated net profit of € 2.0 million. The turn-around has continued to gain strength, with all earnings components exceeding the break-even threshold.

Still, as welcome as post-tax profit of € 2.8 million doubtless is, a net return of sales of 2.0% is not sufficient to satisfy national, much less, international standards. Accordingly, we are attaching top priority to improving profitability and have already identified potential for improvement in an analysis of our six national companies. Their earnings continued to converge in 2006, with the UK in particular performing very encouragingly. Yet, there is still a large gap in margins between the top and bottom performer in our Group. Therefore, we will be taking efforts to systematically pinpoint and remedy weaknesses. At the same time, we are still searching for promising acquisition targets, particularly enterprises in countries in which we are not already engaged, e.g. Central and Eastern Europe as well as the Gulf region. Yet, we are also looking at companies which can benefit us technologically. With our extensive stock buy-back program we have created an acquisition currency which we can use for potential acquisitions in the form of earn-out models.

Information and communications technologies are shaping our future. Since the eighties, they have acted as crucial technologies for economic growth and have become established as a basic technology in many industries.

Now, however, a new trend is increasingly emerging, namely the convergence of the previously largely independent segments telecommunications, information technology and media. This affects devices, services and infrastructures. Examples of devices include Blackberry, media centres, IP telephony and multimedia cell phones. This development is still in its infancy and its success is likely to hinge not least of all on security issues. This will open up an enormous market for Integralis offering sustained high growth.

2006 was the best year ever in Integralis AG's still young history.

Strong growth, gains in market share and, for the first time, profits are the fruits of our hard work. For this reason, we would like to take this opportunity to thank our employees, who have been unfailing in their efforts to reach the targets set. Our gratitude also extends to our shareholders and business partners for their confidence, which we hope we have lived up to. We are facing the current year with optimism and are confident of being able to grow a good deal more quickly than the competition again. Our earnings target is even more ambitious and is this: to ensure that post-tax profit grows more quickly than sales.

Georg Magg

CEO

Integralis stock outperforming the benchmark indices again

The rally in the German stock market continued in 2006, having lasted almost four years. Since hitting a low in spring 2003, the bluechip DAX index has more or less tripled in value and saw the year out at its highest level since February 2001. Even so, the markets performed steadily in the period under review. Spurred by an unexpectedly robust economy, exuberant company profits and brisk M&A activity, German equities moved steadily upwards as of the end of January. Rekindled inflation and interest fears put an abrupt end to this upside move in May. Within a single month, the previous gains had been wiped out, sending the DAX to a low for the year. However, this retreat proved to be only a brief respite. Once investor concerns had subsided, a veritable rally emerged in the second half of the year, resulting in full-year gains of around 22% for German blue chips.

Once again, German mid and smallcaps performed even better despite the considerably greater variation amongst the individual stocks. At the same time, the SDAX and the MDAX, which both hit new all-time highs, changed places in terms of performance compared with the previous year. With gains of around 31% and 29%, respectively, they were well ahead of the DAX. The TecDAX regained ground and, with advances of 24%, relegated the DAX to fourth position amongst the German benchmark indices.

Integralis stock continued to advance in 2006. Listed in the Prime Standard segment, it gained almost 35% in the year under review, thus beating the bluechip indices. It also outperformed the Prime All Share Index and Technology All Share Index, in which it is included. On balance, it achieved respectable gains but did require strong nerves on the part of investors. This is because it proved to be very volatile up until July, after ceding the strong gains of the beginning of the year. Following a sharp correction, it returned to its upward path.

With the broad market sagging in May, Integralis stock came under pressure again, hitting its low for the year and, in fact, dropping slightly below the end-of-year price for 2005. The fluctuation in Integralis stock is very telling ranging as it did from gains of over 40% in January to ensuing losses of almost 35%.

This was followed by a turnaround, with markets finding their feet again and the earnings released by the leading European IT security service provider confirming the efforts to enhance profitability. The markets began focussing on Integralis' fundamentals again and this drove the stock upwards.

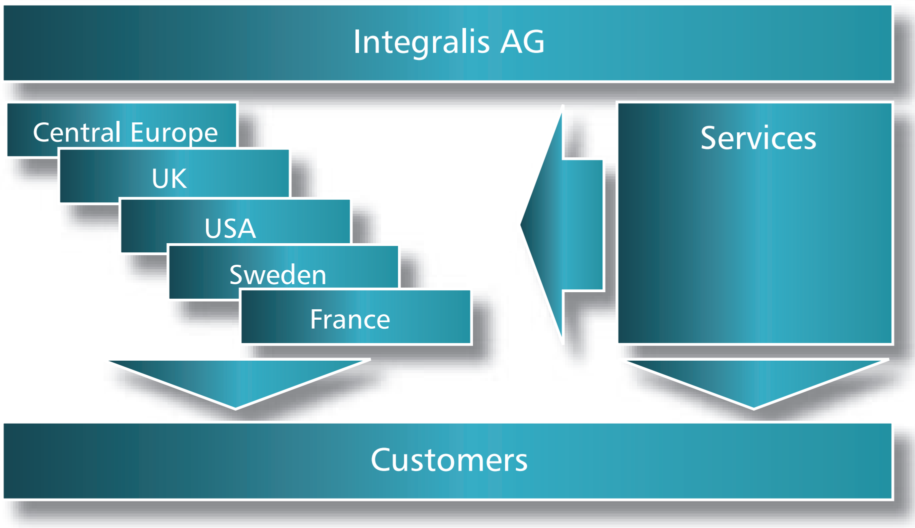
At the same time, volatility receded appreciably. This can be seen as a sign of regained confidence, doubtless aided by the Company's investor and public relations activities and the stock buy-back programme.

Integralis aims to structure the Group in a way to optimise worldwide service to the customers.

To this end decentralised organisation by country together with centralised organisation of services were set up.

The countries work independently to achieve clearly defined strategic and operative targets. A comprehensive system of controlling compares current actual figures with the country targets; at the same time continuous improvements are guaranteed by defining internal benchmarks. The country subsidiaries work under similar structures which form the three pillars of the Integralis business model.

Services, i.e. Technical Support and Managed Security Service, are directed centrally and delivered worldwide to Integralis customers by the countries via internal SLAs (Service Level Agreements). The centralised structure offers optimal quality control and also optimal returns to scale. Product Management is constantly analysing input from the countries and external information in order to adjust the service portfolio to market requirements.



Integralis – IT Security Service Provider

Integralis is Europe's leading IT security service provider. National and international FTSE 100 and DAX companies have been placing their trust in Integralis' competence, experience and quality in all matters relating to IT security for many years.

Established in 1988, the Company has over 400 employees around the world today, including more than 200 IT security specialists. IT security by Integralis means strategic and technical advice, planning, implementation as well as operations support and monitoring.

Integralis has a network of 15 branches spanning Germany, Switzerland, the United Kingdom, France, Sweden and the United States. In implementing IT security solutions, Integralis develops individual, flexible and integrated models based on a comprehensive approach to the IT security process. With its international presence and organisation as well as the experience derived from this, it can rely on a broad range of specialist knowledge as well as professionalism in all matters of relevance for IT security.

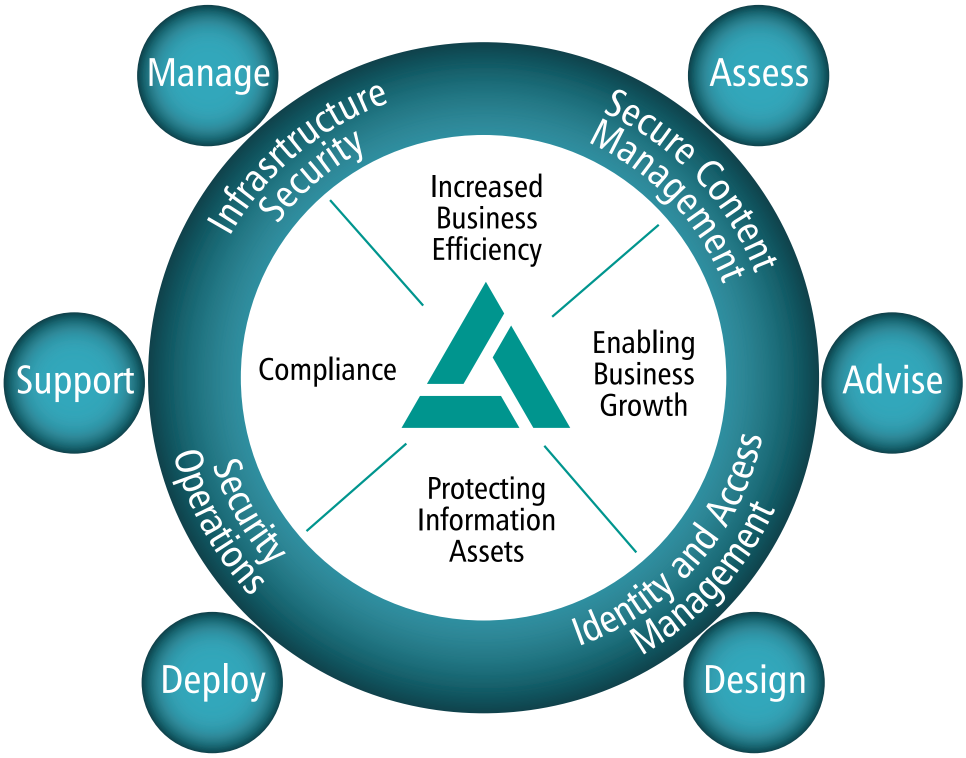
Integralis is characterised by a broad range of security products and services encompassing consulting, service and system integration and configuration of hardware and software from leading IT security vendors. The vendors themselves are subject to ongoing internal qualification and review in the interests of achieving the best possible technical solutions and meeting the highest quality standards.

The comprehensive service and support offerings range from the technical support centres (TSC) to security operation centres (SOC). The TSCs handle more than 5,000 support contracts on a 24/7 basis and ensure swift and problem-free operation of the installed customer systems. Depending on the terms of the contract, customers' systems are monitored or managed around the clock 365 days a year via the SOCs. With these centres, Integralis maintains a redundant SOC network in Germany, the United Kingdom and the United States currently serving over 7,000 customer systems in 40 countries.

A key basis for IT security is strategic IT security consulting, audits, risk management and the drafting of security policies, which provide the foundations for a comprehensive security solution as this is the only way of ensuring that a solution meeting the customers' requirements can be found.

With its extensive experience and presence, Integralis is able to serve national and international customers on a comprehensive basis and to systematically develop, implement and manage IT security solutions.

Integralis offers a comprehensive range of security products and services and works closely with leading technology providers



Assess
- Technical and organisational security checks
- Penetration test
- Compliance checks (e.g. PCI)

Design
- Design of security architectures
- Specifications and requirement profiles
- Product evaluation, selection

Support
- Integralis® SecureCall
- Software Maintenance
- 7/24 hotline support in three languages
- onsite support

Advise
- Policies and risk analyses
- Establishment of information security management systems (ISO 27001)
- ROI and feasability studies

Deploy
- Project management (PMBOK, Prince2)
- Implementation and System integration
- Rollout and training

Manage
- Firewall/VPN management
- Vulnerability management
- Managed Security for E-Mail & Web
- Managed intrusion prevention
- Managed authentication

Integralis AG Group Management Report for the Financial Year 2006

1. Course of Business, General Conditions and Competition

Readiness for investment in IT security was sustained in the commercial year 2006, and this was supported in most parts of Europe by the positive overall economic development. Growth of the IT sector and IT expenditure, at more than 5%, are still above that of the gross national product.

Already in 2005, the general situation for IT security had noticeably improved against 2004. This trend has continued into 2006 with demand showing a welcome development. Once again the Group managed to increase revenue by more than 20% against the previous year. In 2006, accordingly, we were able to outperform substantial competitors and the market in revenue growth. In almost all countries we achieved growth rates in double figures. All of the operative Group units active in the market were profitable during the reporting period.

For the Integralis Group 2006 was a particularly pleasing and important year. For the first time in the Company's history, the Group achieved a net profit for the year. On the operative level, i.e. corrected for profits from exceptional activities and additional payments from the sale of the holding in Foundstone, return on sales improved by 4.6 percentage points. This led to an operative net result for 2006 of €2.4 million. This profit reflects the markedly enhanced performance and efficiency of the entire Group and is an important milestone for Integralis and its employees.

Regularly in past years, the profit zone was in sight only to be missed in the end. This led to a sustained, large-scale loss of confidence of our shareholders, eventually reflected in the so far volatile development of the Integralis share price.

Although net income may appear modest, what is more important for our employees and for many of the shareholders is that the 2006 results reflect prior anouncements.

In order to assure that Integralis continues to be successful, 2005 saw the introduction of a profit centre organisation together with internal recharging of services. Profit centres have their own result targets and are thus responsible for achieving their EBITDA targets. These are monitored by Management each month and are the subject of a quarterly review together with the main budget holders. EBITDA goals are not only an important factor for the variable salaries of Management but also those of many employees, and consequently are of particular significance.

In 2006 the results of the main countries developed in the same direction. It is Management's declared goal that all national companies achieve similar returns on sale in the mid-term. Management by profit targets is supported by a consistent set of standard reports which monitor the main performance indicators on a weekly or monthly basis. This management system means that it is possible to detect trends down to operative-process level in order to monitor the Group's development in business, recognise deviations from targets early on and take the necessary steps.

The competitive situation of Integralis remains unchanged. Integralis has a unique position thanks to its concentration on IT security and its international alignment and size. We are not aware of any directly comparable competitors. Consequently the competitive spread of Integralis is very broad. Competitors can be categorised into three different groups:

- Large international telecommunications companies and IT outsourcers
- Local and international IT network integrators with security as a partial aspect
- Local IT security specialists

Integralis has the following decisive competitive advantages:

- International dimension of the Company together with its capability to handle major projects.
- Breadth of service portfolio, from strategic IT security consulting, IT audits, preparation for certification through conception, design and implementation topped off with 24/7 support and professionally organised Managed Security Services with built-in redundancy. All of this is provided by a team of approximately 200 IT security experts.
- Depth of IT security know-how and independence of specific vendors. This makes it possible to offer customers individually tailored and scalable solutions.

2 Profitability

Overview of figures:

In €k	2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	2006
Revenue	112,750	28,956	36,044	31,147	40,591	136,738
Gross profit	39,754	10,844	12,063	11,225	13,361	47,493
Gross margin in %	35.3%	37.4%	33.5%	36.0%	32.9%	34.7%
Personnel expenses	29,561	7,622	8,136	7,538	8,497	31,793
Personal expenses in %	26.2%	26.3%	22.6%	24.2%	20.9%	23.3%
Other operating expenses	11,360	2,889	2,998	2,653	2,904	11,451
Other operating expenses in %	10.1%	10.0%	8.3%	8.5%	7.2%	8.4%
EBITDA before exceptional items	-1,167	333	929	1,034	1,954	4,250
Exceptional items	504	-	-	-	-	-
EBITDA	-663	333	929	1,034	1,954	4,250
EBITDA in %	-0.6%	1.2%	2.6%	3.3%	4.8%	3.1%
EBIT (operating result)	-2,031	-136	471	568	1,961	2,864
EBIT margin in %	-1.8%	-0.5%	1.3%	1.8%	4.8%	2.1%
Net income	-2,261	10	292	489	1,974	2,765
Net income in %	-2.0%	0.0%	0.8%	1.6%	4.9%	2.0%
Earnings per share as per IFRS (undiluted)	**€-0.20**					**€0.25**

2.1 Revenue Development by Regions

As had already been the case in 2005, in the reporting period Integralis was once again able to achieve a significant increase in revenue, by 21.2%. When corrected for prior year's acquisition of Netsecure Sweden AB which was consolidated from May 2005 onwards, purely organic growth in revenue was 17.6%.

The following table shows the development of revenue by regions against the previous year:

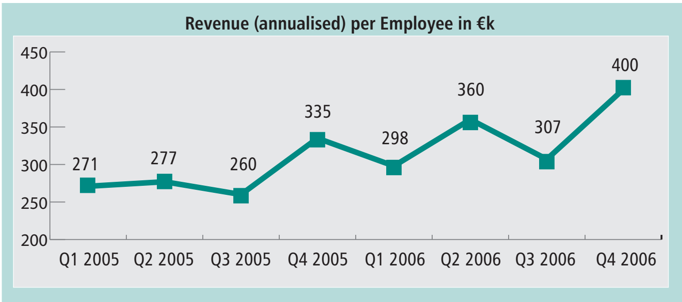
in €m	2005	2006	Change
United Kingdom	46.6	54.7	17.4%
Germany and Switzerland	30.5	36.1	18.4%
France	12.8	12.9	0.8%
USA	17.0	21.9	28.8%
Sweden	5.9	11.1	88.1%
Total	**112.8**	**136.7**	**21.2%**

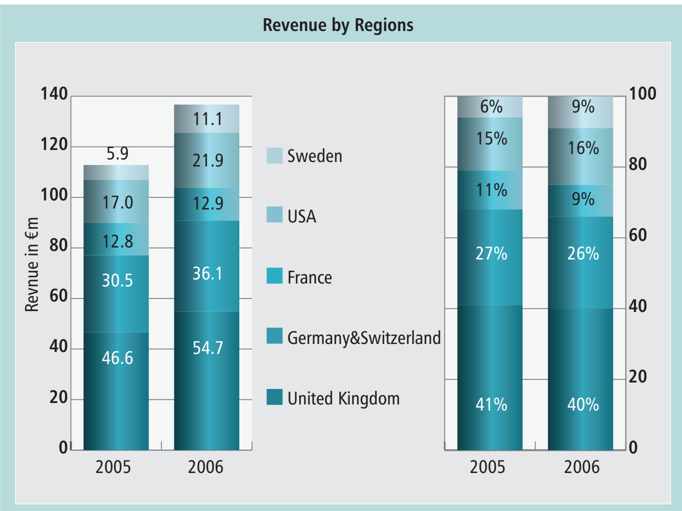
With the exception of France, double-digit growth was achieved in all countries. In France, the first nine months of 2006 were disappointing. In the first half of 2006, various steps were already taken in order to open up new client groups with further areas of IT security technology and to further exploit existing potential. In the fourth quarter the situation in France did improve, such that approximately 10% growth could be reported on a quarterly basis.

The particularly strong revenue growth in Sweden is due to the initial consolidation date of Netsecure Sweden AB, which had been acquired with effect from 1st May 2005. Irrespective of that, comparing the corresponding period for 2006 shows revenue growth of well above 30% for Sweden. The growth of the USA and Sweden, which was well above the already high Group average, made it possible to continue to reduce dependency of Group revenue on the large regions United Kingdom, Germany and Switzerland. Thus whereas in 2003 these regions contributed some 78% to overall revenue, the figure for 2006 was down to 66%.

The bar graph shows revenue development by region and their relative proportions of overall revenue.

Analysis of the development of revenue per employee makes the enhanced efficiency of the entire organisation over the past two years clearly apparent. This is underpinned by the average number of employees, which - at 400 - remained virtually unchanged against 2005 (394 employees). Employee efficiency, measured by annualised per capita revenue, increased by more than 20%.





2.2 Revenue Development by Solution Lines

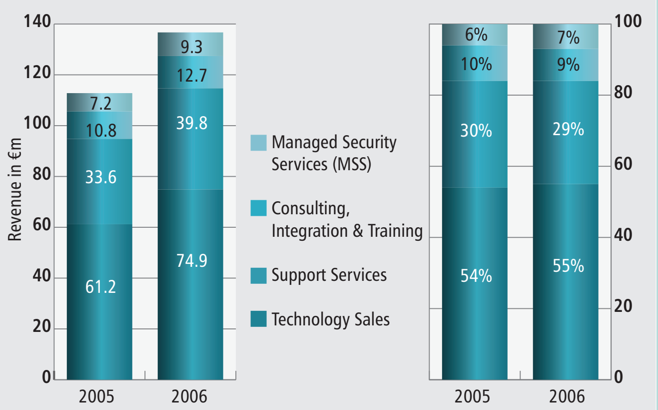
Whereas growth in the previous year depended substantially on growth in consulting and integration and the associated sale of IT security technologies, 2006 shows consistent and vigorous growth in all areas.

The following table shows the changes in revenue:

in €m	2005	2006	Change
Technology sale	61.2	74.9	22.4%
Support Contracts	33.6	39.8	18.5%
Consulting, Integration & Training	10.8	12.7	17.6%
Managed Security Services (MSS)	7.2	9.3	29.2%
Total	**112.8**	**136.7**	**21.2%**

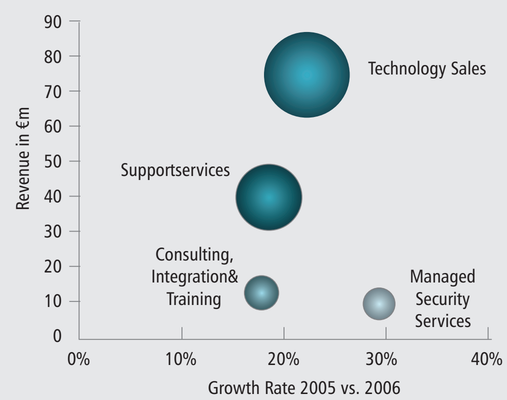
The following graph shows the distribution of revenue over the various solution lines:

Revenue by Solution Lines



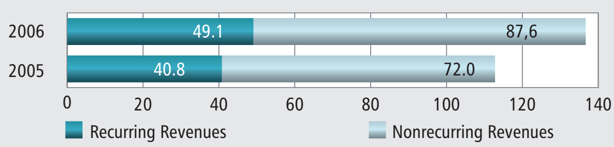
At 18.5%, the rise in the recurring Support Services business is particularly pleasant, as is the well above average figure of 29.2% for Managed Security Services. This shows that benefits from focussing on these lines are emerging.

Revenue Growth by Solution Lines



Not only recurring but also the non-recurring areas of revenue grew consistently by approximately 20%. Recurring turnovers include maintenance agreements for hardware and software, agreements for Integralis SecureCall support and agreements for Managed Security Services.

Recurring vs. Nonrecurring Revenues (in €m)



2.3 Development of Gross Profit and Gross Margins

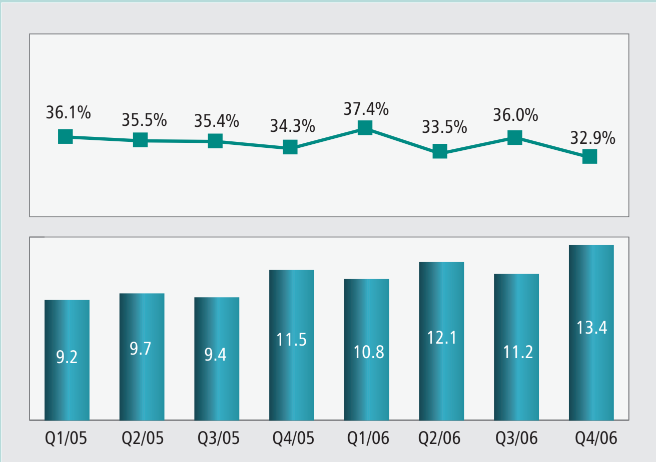
Gross profit for 2006 reached €47.5 million (2005: €39.8 million). This is growth of 19.3%. The following graph shows the positive development of gross profit and gross margins per quarter over the past two financial years.

In the context of total revenue increasing by 21.2% it was possible to keep the gross margin virtually stable. Regarding the year as a whole, the 2006 gross margin was 34.7%, which is a drop of only 0.6 percentage points (2005: 35,3 %).

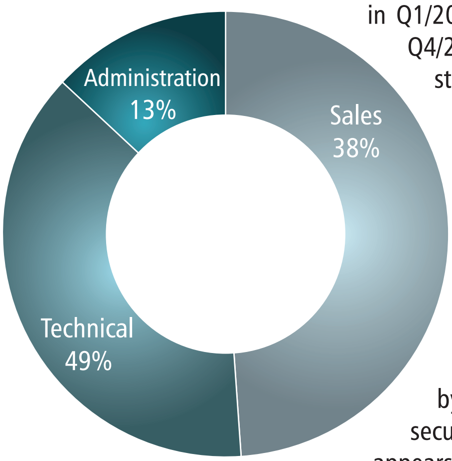
The downturn in margin in previous years has considerably decelerated. From 2004 to 2005 in particular, the downturn was still 4.8 percentage points. This significant change is attributable to various steps taken. Whilst in 2005 growth in overall revenue was just under 30%, the majority of growth was attributable to the sale of IT security technologies, associated with lower margins than other areas in the portfolio of solutions. In 2006 it was possible to distribute total growth over all solution areas, thus the turnover mix remained virtually stable.

Also in 2006, new purchasing conditions - which had already been negotiated with the main suppliers in 2005 - took effect. In order to make it possible to continue to achieve attractive margins, portfolio management in the Group was restructured at the beginning of 2006. This measure was taken so that Integralis can offer the best IT security technologies for custom solutions, supplemented by specifically matched services of high profitability.

Development of Gross Profit (in €m) and Gross Margin (in %)



2.4 Personnel Expenses and Other Operating Expenses



In the course of the year, the average number of employees rose from 389 in Q1/2006 to 406 employees in Q4/2006. An average of 400 staff were employed (2005: 394 employees). Almost half of these were technical staff.

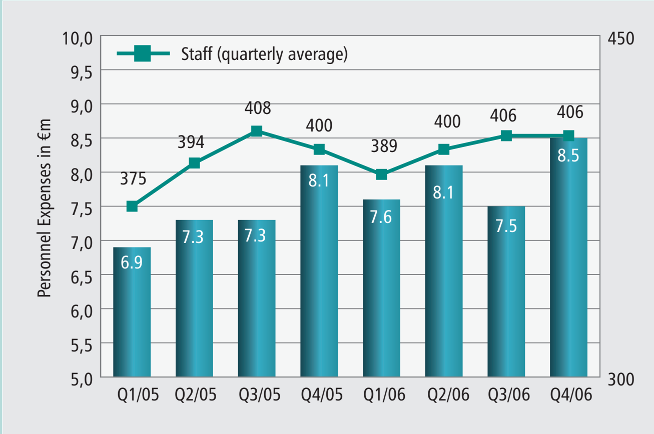
On the other side, personnel expenses developed to €31.8 million in 2006 from €29.6 million in 2005, a growth by 7.4%. The market for IT security know-how currently appears to be hotly contested. In various countries, accordingly, we have witnessed large-scale attempts to entice our employees, together with their know-how, and in most cases for considerably higher salaries. We have not been able to withstand this pressure entirely unscathed.

The strong quarterly fluctuations in personnel expenses are partially attributable to changes in headcount, but most of all due to fluctuations in the variable constituents of salary. The majority of Group employees have variable constituents of salary of between 10% and 50% of their annual target salary. With a positive development in relation to the agreed targets, variable salary portions are increasing, as reflected particularly in the fourth quarter, which saw the largest growth in revenue and results.

This graph illustrates the change in the headcount and personnel expenses for 2005 and 2006.

More detailed analysis of personnel expenses and headcounts show that there was a marked increase in efficiency in 2006. In the reporting period, EBITDA per employee was €10,625, which is a 731% increase against the previous year's EBITDA loss of €1,683. The ratio of gross profit to personnel expenses is a further indicator for the development of personnel expenses. This

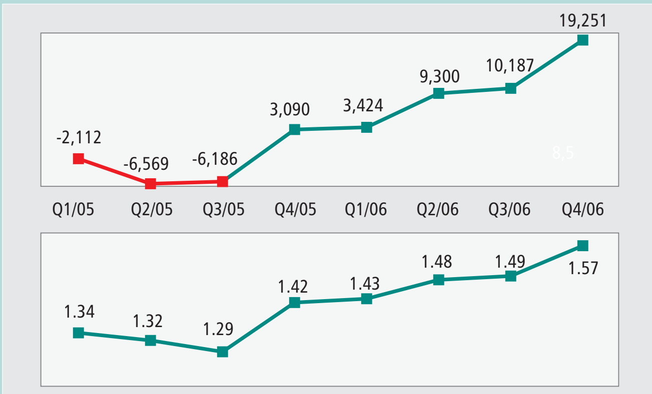
Development of employees and personnel expenses



ratio indicates how much gross profit was achieved per Euro spent on personnel.

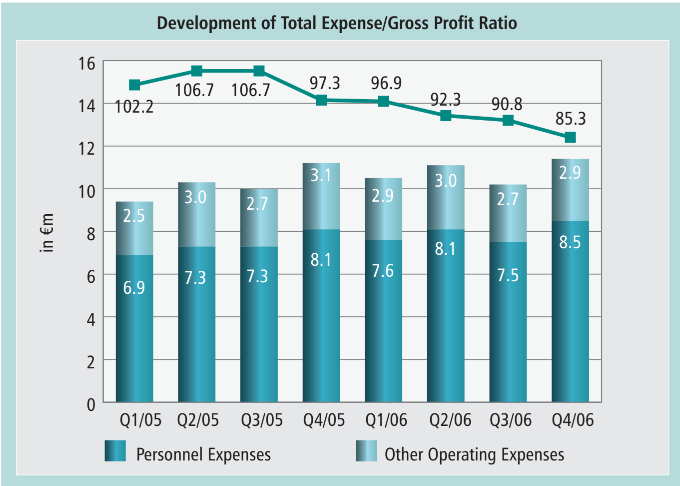
The following graphs underline the positive development in employee efficiency:

EBITDA (annualised) per Employee in €



Gross Profit/Personal Expenses in €

In 2006, by contrast, other operating expenses were kept almost at last year's level: €11.5 million against €11.4 million in 2005. This is actually a slight reduction. Corrected for exchange gains in 2005, exchange losses in 2006 and charges for the acquisition of Netsecure Sweden AB, consolidated on 1st May, other operating expenses were €10.7 million in 2006 and €11.3 million in 2005.



A similarly positive trend to the one already described for personnel expenses was apparent in respect of overall expenses (personnel and other operating expenses). The ratio of total expenses to gross profit - independent of revenue mix - clarifies the scalability of the existing business model. While costs have increased in absolute terms gross profit was disproportionately high. In 2005, this ratio was above 100% until the fourth quarter, reflecting the loss situation. In 2006, it was possible to continuously reduce the ratio, down to 85.3% in the closing quarter.

2.5 Exceptional Items, Proceeds from the Sale of Financial Assets, Depreciation, Interest, Tax and Net Income

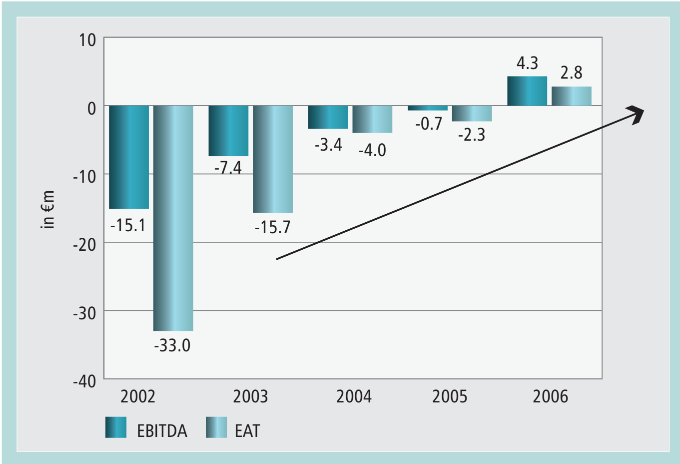
In order to consistently increase efficiency of the Group and to improve the cost structure, Management decided in 2005 to apply various restructuring measures. €2.2 million were expensed for these in 2005. On the other hand, in 2005 the Group received additional payments for the sale of the Allasso Group which had taken place in 2003, minus bonuses paid to the former management; the net amount of €2.7 million was disclosed in the profit and loss account as exceptional items. Both items constituted non-operative income of €0.5 million in the previous year. The effect of the steps taken became apparent in financial year 2006. As already described, it was possible to achieve a significant increase in efficiency and to gain control over the main cost indicators. Although some further changes were made in 2006, such as measures to continue to strengthen the service business, they were not part of major restructuring, and therefore no exceptional items were reported for 2006.

Thanks to rising interest rates and improved cash management interest income rose by 67%, from €0.3 million to €0.5 million, despite the fact that a large portion of cash was used for the share buyback programme. At the same time, interest charges declined in 2006 by €0.2 million to €0.4 million. Interest expenses consist of interest for long-term liabilities in accordance with IFRS and the interest portion of leasing obligations. There was no interest charge to banks. These mutually opposing positions led to a positive interest result of €0.2 million compared with the previous year's €-0.3 million.

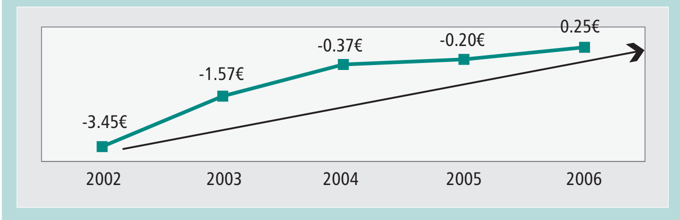
In 2004, a minority holding in Foundstone was sold to McAfee Inc., which in the same year led to proceeds of €1.8 million, followed in 2005 by a further €0.4 million from the dissolution of an escrow account for any obligations arising from guarantees. The account was fully dissolved in 2006, leading to a final non-operative result of €0.4 million from the sale of financial assets.

After years of losses, for the first time since Integralis went public in 1998, the measures taken in 2005 and 2006 made it possible to record figures in the black. EBITDA improved by 3.7 percentage points; and this made it possible, following the negative EBITDA of €0.7 million in 2005, to go on to record positive EBITDA of €4.3 million. The trend for net income (EAT) was similarly positive; net income reached €2.8 million following the previous period's deficit of €2.3 million. Accordingly, the turnaround for earnings per share as per IFRS was achieved, with €0.25 for financial year 2006 (2005: € -0.20).

The following graph shows the reconciliation of net income from the 2005 deficit of €2.3 million to the 2006 profit of €2.8 million in the context of changes in the various items of the profit and loss account in 2006.



Earnings per Share (basic) according to IFRS



Development of Net Earnings

3 Financial Situation and Assets

As in the previous year, apart from a few finance leasing agreements, the Group did not use any external sources of financing entailing an interest burden. No lines of credit have been taken up, to date, and on the balance-sheet date there are no off-balance sheet financial instruments. Neither have any financial derivatives been employed. For 2007 it is planned to settle some of the purchases previously obtained in local currency in the currency invoiced by the vendor, i.e. mostly in US dollars. To this end, currency hedging is planned. The Group's changed result situation means that use of loans to finance growth is currently being investigated.

On the balance-sheet date, the Group held liquid assets of €14.3 million (2005: €19.4 million). Positive operative cashflow of €1.9 million was well above the previous year (2005: €0.7 million). In the USA in particular, the trend to an increasing extent was that major customers, especially those quoted on the stock exchange, suspended payments at the end of the closing quarter of the year. Despite rigourous debtor management, this has negative influence on working capital. In order to reduce the latter, existing payment terms, in relation both to customers and suppliers, are being examined in 2007 and improved where required.

In late 2006, the head office of the Group was relocated to new, more favourable and modern premises. New furniture and IT equipment were purchased for this, as shown in the negative cashflow from investment activity. The share buyback programmes, started in 2006 and for which €4.3 million were spent, contributed largely to the diminishment in cash and cash equivalents. The treasury shares bought back are to be employed mainly for implementing the plans for acquisitions. The Company sees this as a good opportunity to make profitable use of existing resources in the interests of both Company and shareholders.

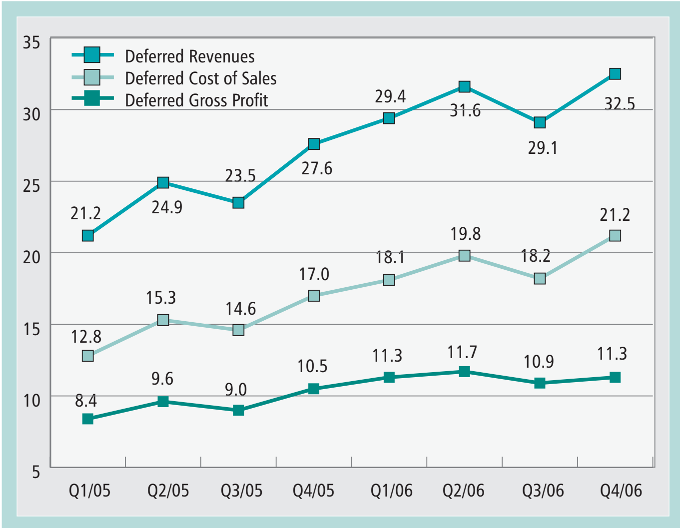
The buyback programme also contributed to the reduction in shareholders' equity. In accordance with IFRS, the cost of treasury shares repurchased are disclosed as negative items in shareholders' equity. It was possible to compensate this partially by achieving positive net income for the year for the first time. As of 31/12/2006 the equity ratio stood at 17.4% (2005: 20.2%)

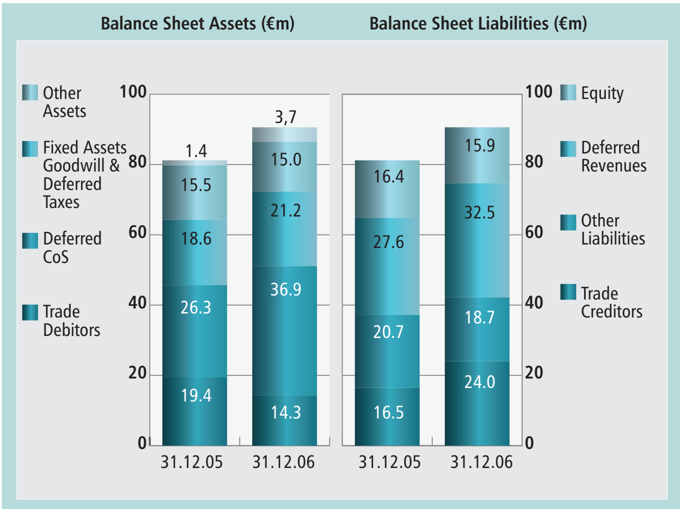
The Integralis business model entails two further factors which have a systematic, negative effect on the equity ratio at the end of the year. In terms specific to the field, the fourth quarter and especially December is the period with by far the financial year's highest monthly revenue. This leads to accounts payable and receivable rising disproportionately towards the end of the year. Secondly, renewals of the majority of support and MSS agreements come up at the end of the year. Very often, contract renewals are ordered, and also billed to the client, before the end of December. Since contract business represents a large share of total revenue, this is also a recurring year-end cycle which has two effects. As with the high end-of-year business specific to the field, this once again increases trade debtors and trade payables at the end of the year, thereby extending the balance sheet. The other effect is to increase the deferred revenue and costs of sale disclosed in the balance sheet. Deferred revenue represents the portion of contracts which have been billed before the balance sheet date but are yet to be realised as revenue. In the same way, deferred costs of sale are the proportion of bought-in vendor support already invoiced by suppliers but not yet charged to expenses.

The development in deferred items on the balance sheet is illustrated below.

Fixed assets declined slightly from €15.9 million at 31/12/2005 to €15.0 million. The major part of this relates to the correction of the earn-out estimate conducted upon initial consolidation - for the acquisition of Netsecure Sweden - which entailed a reduction in provisions and goodwill and did not affect the result. The change in other balance sheet items is mainly due to the expansion of the volume of business.

On 31/12/2006 the main balance sheet items compare to the previous year as follows:





4 Remuneration Report

4.1 Management Board Remuneration

Members of the Management Board of Integralis AG receive annual earnings with proportions of payment both dependent on and independent of results. There are also long-term incentive components of remuneration. The Supervisory Board regularly investigates the reasonableness of success-related targets. Management remuneration is performance-related and mainly consists of three components:

- fixed remuneration
- variable remuneration
- shares-based remuneration (stock options)

Fixed remuneration is paid out monthly as salary. Variable remuneration depends on achievement of goals according to the Group EBIT objectives agreed upon with the Supervisory Board. The model employed is progressive, which means that variable remuneration upon achievement, for example, of 50% of the agreed annual EBIT goal, accounts for only 35% of target earnings. Goals are based on a three-year plan which assumes significant annual increases in Group EBIT.

Share-based remuneration in the form of stock options is examined annually by the Supervisory Board. The Management was given no stock options in 2006. The existing stock options were issued in the context of the option conditions, explained in the Notes, applicable to all employees.

Furthermore, Georg Magg and Roger Friederich receive a monthly lump sum for company use of private cars ("car allowance"). Management member Graham Jones uses a company car under the internal car policy applicable in England. Management receives a supplementary payment which is directly paid by the Company into corresponding insurance agreements (e.g. pension funds) for private provision for retirement. Neither the Company nor any of the affiliated companies have direct pension obligations.

On the balance sheet date, no agreements existed for benefits from terminating activity for Management.

In the reporting year, remuneration totalled €971k (2005: €1,413k). Management remuneration was structured as follows in the financial year:

Distribution of remuneration as per §285 n° 9 HGB	Georg Magg	Roger Friederich	Graham Jones	Total
	€k	€k	€k	€k
Proportions of remuneration not dependent on results	180	129	173	482
Proportions of remuneration dependent on results	177	138	122	437
Proportions of remuneration with long-term incentive effect	-	-	-	-
Car allowance	11	11	-	22
Company contributions to private age care	13	10	7	30
Total	**381**	**288**	**302**	**971**

Stock options issued and granted to Management break down as follows at the end of the financial year:

Management member	Number of options	Capital	SOP	Issue date	Issue price	Value as at 31/12/06
					in €	in €
Georg Magg	7,500	Conditional 2002/I	III	01/04/2003	1.84	1.85
	15,000	Conditional 2003/I	IV	08/09/2003	2.70	0.99
	20,000	Authorised 2006/I	IV	08/09/2003	2.70	0.99
Graham Jones	20,000	Conditional 2002/I	III	01/04/2003	1.84	1.85
	15,000	Conditional 2003/I	IV	08/09/2003	2.70	0.99
	13,250	Authorised 2006/I	IV	08/09/2003	2.70	0.99
Roger Friederich	360	Conditional 2003/I	IV	06/10/2003	3.24	0.45
	20,000	Conditional 2005/I	V	10/06/2005	2.80	0.89

4.2 Supervisory Board Remuneration

The Supervisory Board of Integralis AG receives overall remuneration decided upon by the Annual General Meeting and independent of results of €50k plus any VAT arising. Of this, the chairman of the Board receives 4/9, his deputy receives 3/9, and a regular Board member receives 2/9 of the total remuneration per financial year. Remuneration is paid on a proportionate time basis for the time served on the Board in any financial year.

In addition, the Board was, until 2005, paid a result-related, share-based remuneration under the STAR programme, details of which are explained in the Notes. At the end of the financial year, the existing stock appreciation rights were distributed as follows:

Supervisory Board member	Number of rights	Offer acceptance	Base rate	Value as at 31/12/06
			in €	in €
Arnd Wolpers	25,000	25/08/2003	2.32	1.37
	12,500	20/09/2004	2.33	1.36
	12,500	08/08/2005	3.52	0.17
Prof. Jochen Tschunke	25,000	13/08/2003	2.32	1.37
	12,500	15/09/2004	2.33	1.36
	12,500	08/08/2005	3.52	0.17

It is intended to propose to the 2007 Annual General Meeting a new model for success-based remuneration for the Board.

4.3 Disclosures according to §315 n° 9 HGB

The Supervisory Board appoint the members of the Management Board of Integralis AG for a term of up to five years. The Supervisory Board can terminate the appointment at any time for important reasons. Every change of the Company's articles requires a resolution by the Annual General Meeting.

The authority of the Management Board to issue or redeem shares is determined by the Annual General Meeting and requires approval of the Supervisory Board. We refer to the notes which contain the explanation of the conditional and authorised share capitals as well as details concerning the recent share repurchase programmes.

5 Supplementary Report

There have not been any procedures of particular importance since the end of the financial year which would modify the Company's situation as described in this report.

6 Opportunities and Risks for the Future Development of the Company

The commercial activity of the Integralis Group entails opportunities and risks. The Company endeavours to make the best of its opportunities and to control its risks as far as possible. Risk management is a central component for protecting the success and continued existence of Integralis. Risks are identified, assessed and monitored/controlled via a consistent system of management reporting and monitoring, under the risk management system. Management controls operative risks by prompt information about the course of business and particular events in individual companies. Characteristic figures regarding management of the Group and of the national companies are available up to date and are compared each week, or in some cases each month, with Group-wide benchmarks, and steps may be taken in order to reduce risk as appropriate. Group Management meets regularly at the offices of the individual national companies in order to discuss their situation on site.

6.1 Currency risks

Since the majority of our commercial activity is implemented in US dollars and in pounds sterling, we are subject to a risk in conversion of these currencies into euros as the Group currency. In our national companies, our main suppliers raise their invoices in local currency, so that the currency risk mainly relates to conversion of national companies' results (conversion risk).

In 2006, no hedging deals were entered into, in view of the possible repercussions anticipated. For 2007, it is intended to settle portions of the volume of purchasing previously obtained in local currency in US dollars. Taking on the transactional risk has risks as well as opportunities. A currency hedging strategy under which hedging deals would be entered into has therefore been worked out. The purpose of the hedging strategy is to restrict US dollar purchasing risks if the US dollar becomes stronger, and also to gain greater benefit from currency fluctuations if the US dollar falls.

6.2 Market and Sector in General

The general weakness of the market for IT services, as observed in for example 2004, seems to have been overcome since 2005. It is currently not possible to assess how long the present trend will continue despite the positive forecasts for market growth.

The market for IT security is subject to continuous change caused by new security risks and changing technical hardware and software platforms. These changes may lead to margins collapsing in individual areas of technology, amongst the main contributors to revenue, with repercussions on the Group's profitability.

In order to avoid this, the Group's product and portfolio management regularly monitor technological developments and extensively test other technologies relevant to margins. Finally, the Group is also pressing to extend scalable, high-margin services to reduce margin pressure.

Both of these approaches present the opportunity to open up new areas in the IT security marketplace, with the result of strengthening growth and reducing possible reliance on products and/or manufacturers. In particular developing own services and opening up new IT security technologies extend the potential range of clients and partners accessible to Integralis.

6.3 Risk of Loss from Vacant Rental Premises

Rental and leasing agreements in Great Britain have a residual contract term of approximately 12 years. In order to make adequate allowance for residual risks in connection with the leasing agreement after expiry of the sub-letting arrangement to Allasso, an amount of €2.5 million was provided for in 2003. A vacancy of approximately five years was assumed. On 31/12/2006, the provision stood at €2.3 million. A vacancy of longer than expected is a risk for the Company, which would lead to increasing the provision with a corresponding effect on the result. Management is actively looking to sub-let the premises on a long-term basis. If large portions of the premises can be let, it may be possible to release the provision, which will have a one-off positive effect on the result.

6.4 Product Portfolio and Vendor Risks

In addition to the obvious market risks which the Group faces, Integralis is subject to the risk of changes in company policy by vendors of the technology we market. Changes may arise in vendors' pricing and discount terms, vendors may negotiate agreements with firms similar to our own, or they may change their sales and marketing strategies. In 2006 several vendors with which Integralis collaborates closely were taken over. It is hard to assess the consequences of these changes. In order to control risks, we maintain continuous contact at national and international level with the management of our suppliers and partners in technology. This enables us to be promptly informed of any possible positive or negative changes and also enables us to take steps at short notice in order to benefit from changes or attenuate their effects where appropriate. In addition, the Group has set itself the objective of working actively on a dual sourcing strategy so as to be able to resort to alternatives at any time concerning both suppliers and vendors.

6.5 Employees' Skills and Motivation

The continued success of the Integralis Group is extensively dependent on whether the Company is able to gain the services of new qualified employees, motivate and retain current staff and provide continuous training. In addition to an attractive area of work and a consequent policy of personnel-development, fair compensation and a share in the success of the Company are important prerequisites for motivating employees and keeping them with the company.

In the knowledge-intensive field of services in particular, the Company is required to provide employees with opportunities to develop their specialisation and/or gain promotion so as to keep the holders of know-how in the Company on a long-term basis.

Additional organisational changes also place high demands on employees within the company. On the one hand, new development prospects and challenges are continuously arising, but on the other hand this risks asking too much of our employees. Consequently, the forthcoming steps will call for a high degree of management skills from the individual members of Management. In order to support this, we intend to establish internationally consistent human resources standards and procedures.

For 2007, for example, marketing and methodology training courses with an international and long-term alignment are planned in order to promote employees and provide them with support in fulfilling their objectives. It is also intended to set up a new stock options programme, to keep a close circle of key employees permanently bound in with the Company and with the success it achieves.

7 Outlook

Growth in the world economy is set to continue on a high level in 2007. Although most experts are predicting a slight downturn on the grounds of a weaker US economy, they still anticipate expansion of around 4%. The IT field and in particular software and IT service providers are more optimistic. In a field on the 'up' side of the economy, Integralis is feeling tail wind. Studies by well-known research institutes such as Gartner, Forrester or IDC anticipate around 5% to 10% IT spending growth in 2007. Over the past two financial years, Integralis has outperformed the market and thus gained additional market shares. Even greater proportions of sustained growth are expected for MSS (Managed Security Services). Thanks to its specific IT security know-how, Integralis is predestined to benefit decisively from this growth.

Over the past commercial year, a powerful upswing in results has been achieved, and a profit has been achieved for the first continuous year since going public. This is a fine result, but no cause for complacency. With a return on sales of 2%, Integralis meets neither national nor international demands. Consequently, various activities have been planned and set in hand to increase profitability.

In order to participate in the above-average growth of the MSS market the Group will deploy an aggressive plan for continuous expansion of this solution line in the future. In order to achieve this the intention is to increase expenses and investment in 2007 The first positive results of this are anticipated for 2008; significant improvements in results should arise from deferred revenue from 2009 onwards.

For the year 2007 Management anticipates organic revenue growth well into double-figures and above the market average, whilst again increasing profitability. Although the sector is characterised by strong quarterly fluctuations, we anticipate consistent positive development against the corresponding quarters of the previous year. Despite the plan initiated for MSS growth and the associated negative effect on results, Management expects to be able to increase EBIT to €3.8 million for 2007 as a whole. This corresponds to the previously adopted objective of improving the operative result by 50% in 2007 against 2006.

An acquisition plan is already being implemented in order to gain know-how in specific areas of technology and access to new markets, and to secure and continue to expand Group profitability. Available cash and treasury shares are to be employed to this end.

In the mid-term, i.e. for 2008/09, Management upholds the objective of achieving an EBIT margin of 6%-8%. This increase is based on the expectation of being able to maintain growth above the market average. Particular attention will be paid to expanding MSS business. Irrespective of that, work will continue on increasing further potential available for increasing efficiency.

Ismaning, March 2007

The Management Board

Integralis AG Consolidated Balace Sheet (IFRS) at 31.12.2006

ASSETS			31.12.06	31.12.05
		Note Ref	EUR k	EUR k
A	**SHORT-TERM ASSETS**			
I	Cash and Cash Equivalents	3.1	14,342	19,356
II	Trade Accounts Receivable	3.2	36,872	26,250
III	Inventories	3.3	913	1,183
IV	Deferred Costs of Goods Sold		21,185	17,048
V	Prepaid Expenses and other Current Assets		2,755	1,518
	Total Short-term Assets		**76,067**	**65,355**
B	**LONG-TERM ASSETS**			
I	Property, Plant and Equipment	3.4	3,695	3,996
II	Intangible Assets	3.5	964	870
III	Goodwill	3.6	9,935	10,624
IV	Deferred Tax Assets	4.7	402	392
	Total Long-term Assets		**14,996**	**15,882**
	TOTAL ASSETS		**91,063**	**81,237**

LIABILITIES AND SHAREHOLDERS' EQUITY			31.12.06	31.12.05
		Note Ref	EUR k	EUR k
A	**CURRENT LIABILITIES**			
I	Current Portion of Capital Lease Obligations		138	74
II	Third Party Trade Accounts Payable		23,986	16,453
III	Accrued Expenses	3.7	9,547	8,821
IV	Deferred Revenue		32,490	27,574
V	Corporation Tax Payable		878	1,165
VI	Other Current Liabilities		2,653	2,933
VII	Current Portion of Provisions	3.8	1,287	2,188
	Total Current Liabilites		**70,979**	**59,208**
B	**NON-CURRENT LIABILITIES**			
I	Capital Lease Obligations less Current Portion		1,561	1,637
II	Long-term Debt less Current Portion		-	-
II	Deferred Tax Liability		279	-
III	Provisions	3.8	2,355	3,961
	Total Non-Current Liabilities		**4,195**	**5,598**
C	**SHAREHOLDERS' EQUITY**			
I	Subscribed Capital	3.9	11,548	11,425
II	Treasury Shares		-1,040	-
III	Capital Reserve		11,736	14,252
IV	Share Option Reserve		423	342
V	Foreign Currency Translation Reserve		893	815
VI	Accumulated Deficit including Group Result		-7,671	-10,403
	Total Shareholders' Equity		**15,889**	**16,431**
	TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**91,063**	**81,237**

Integralis AG Profit and Loss Statement (IFRS) for the Period from 01.01.-31.12.2006

		Note	01.01.-31.12.2006 EUR k	01.01.-31.12.2005 EUR k
1.	Total Revenue		136,738	112,750
2.	Cost of Purchased Materials and Services		89,244	72,996
	Gross Profit		47,494	39,754
3.	Personnel Expenses	4.1	31,793	29,561
4.	Other Operating Expenses	4.2	11,451	11,360
	Operating and Personnel Costs		43,243	40,920
	EBITDAE		**4,250**	**-1,167**
5.	Exceptional Income	4.4	-0	504
	EBITDA		**4,250**	**-663**
6.	Depreciation and Amortisation		1,781	1,780
7.	Profit on the Disposal of Financial Assets	4.5	395	412
	Operating Income (EBIT)		**2,864**	**-2,031**
8.	Interest income		534	325
9.	Interest expenses		375	608
	Financial Result	**4.6**	**159**	**-283**
	Result before taxes (EBT)		**3,023**	**-2,314**
10.	Tax	4.7	258	-53
	Net Income		**2,765**	**-2,261**
	Basic weighted average number of shares outstanding		11,004,525	11,055,509
	Basic net earnings per share [EUR]	4.8	0.25	-0.20
	Diluted weighted average number of shares outstanding		11,406,260	
	Diluted net earnings per share [EUR]	4.8	0.24	

Consolidated Cash Flow Statement (IFRS)
01.01.–31.12.2006

	01.01.-31.12.2006	01.01.-31.12.2006
	€k	€k
Net income for the period	**2,765**	**- 2,261**
Adjustments for:		
Interest result	- 159	283
Tax result	258	- 53
Depreciation and amortisation	1,781	1,780
Profit on disposal of financial assets	- 395	- 412
Decrease/(increase) in provisions	- 544	8
Increase in share option reserve	81	96
Foreign exchange losses/(gains)	182	- 264
Exceptional income	-	- 504
Exceptional payments	- 171	- 1,486
Interest received	426	324
Interest paid	- 120	- 135
Taxes received	34	221
Taxes paid	- 23	- 666
increase in inventories and trade accounts receivable	- 10,353	- 6,133
increase in prepayments and other current assets	- 5,374	- 3,583
increase in trade accounts payable	7,534	4,155
increase in deferred revenue	4,916	5,956
increase in accruals	1,222	2,300
decrease/(increase) in other liabilities	- 172	1,027
Change of net working capital	- 2,227	3,722
Cash flow from/(used in) operating activities	**1,887**	**653**
Acquisition of subsidiaries, net of cash acquired	- 972	- 1,296
Proceeds from disposal of subsidiaries, net of cash transferred	77	2,500
Purchases of property, plant and equipment	- 1,594	- 1,425
Proceeds from the sale of financial assets	-	412
Cash flow from/(used in) investing activities	**- 2,489**	**191**
Proceeds from issue of share capital	124	219
Payment for the purchase of treasury shares	- 4,354	-
Proceeds from short or long-term borrowings	-	61
Repayment of short or long-term borrowings	-	- 510
Payment of capital lease liabilities	- 76	- 70
Cash flow from/(used in) financing activities	**- 4,306**	**- 300**
Change of liquidity	**- 4,908**	**544**
Net effect of currency translation in cash and cash equivalents	- 106	186
Decrease/(increase) in cash and cash equivalents	- 5,014	730
Cash and cash equivalents at beginning of period	**19,356**	**18,626**
Cash Flow	**- 5,014**	**730**
Cash and cash equivalents at end of period	**14,342**	**19,356**

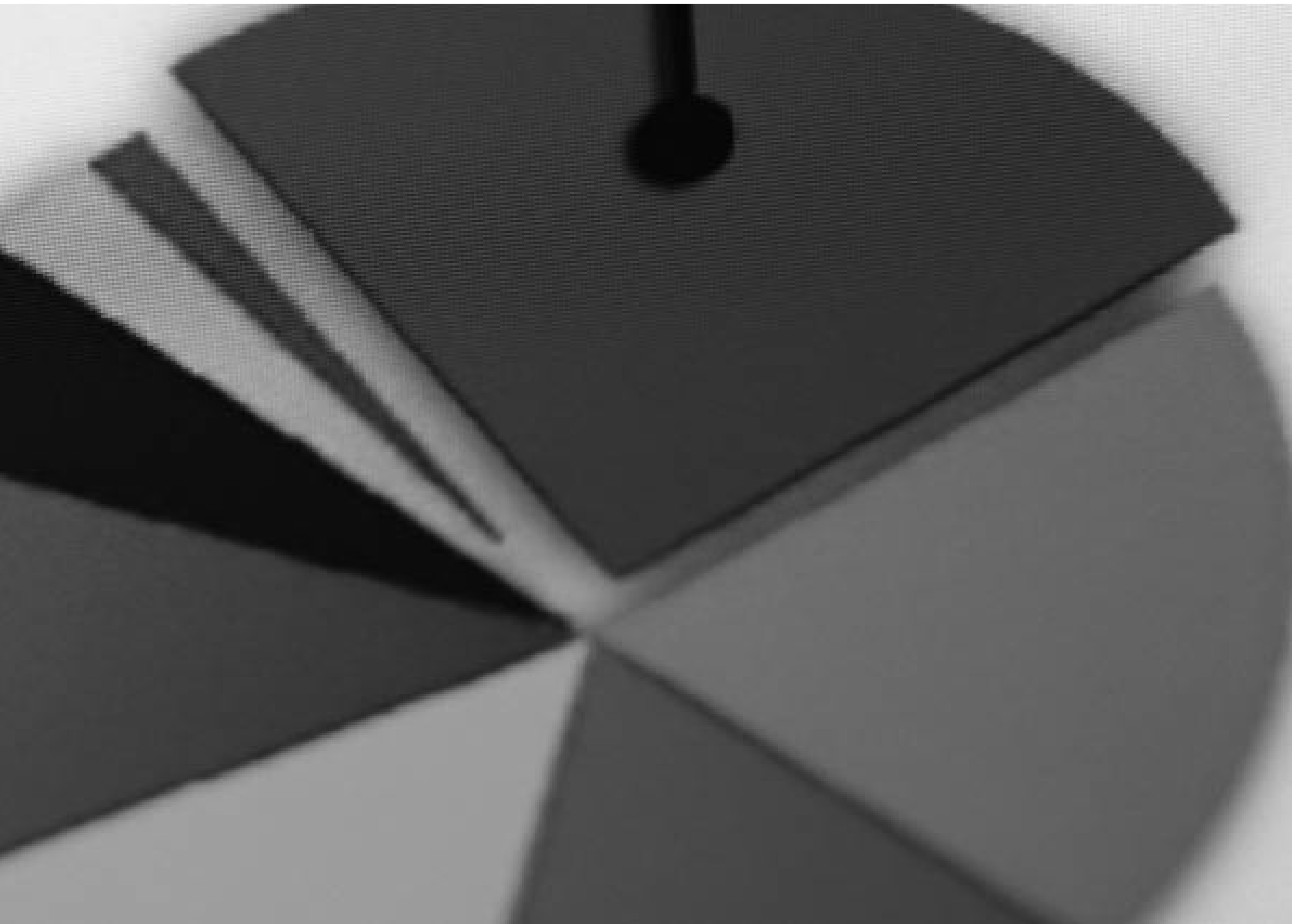
Integralis AG Consolidated Statement of Changes in Sharehodlers' Equity

Number of shares issued at 31.12.2006: 11,547,577 registered shares	Subscribed Capital	Treasury Shares	Capital Reserve	Share option Reserve	Foreign Currency Translation Reserve	Accumulated Deficit including Group Result	Total
	€ k	€ k	€ k	€ k	€ k	€ k	€ k
01.01.2005	10,506	-	13,240	246	965	- 8,142	16,815
Increase by exercise of share options	171		63	-	-	-	234
Increase by acquisition of Netsecure Sweden AB	700		904	-	-	-	1,604
Increase by acquisition of Axipe	48		45	-	-	-	93
Increase on grant of share options	-		-	96	-	-	96
Changes arising from currency conversion	-		-	-	- 150	-	- 150
Net loss for the period	-		-	-	-	- 2,261	- 2,261
31.12.2005	11,425	-	14,252	342	815	- 10,403	16,431
01.01.2006	11,425	-	14,252	342	815	-10,403	16,431
Increase by exercise of share options	89	-	35	-	-	-	124
Increase by acquisition of Axipe	34	-	64	-	-	-	98
Decrease through acquisition of own shares	-	-1,270	-3,084	-	-	-	- 4,354
Increase by acquisition of Netsecure Sweden AB	-	218	429	-	-	-	647
Treasury shares used for exercised options	-	12	7	-	-	-	19
Increase on grant of share options	-	-	-	81	-	-	81
Transferral to capital reserves	-	-	33	-	-	-33	-
Changes arising from currency conversion	-	-	-	-	78	-	78
Net profit for the period	-	-	-	-	-	2,765	2,765
31.12.06	11,548	-1,040	11,736	423	893	- 7,671	15,889

Group Fixed Asset Movements
for the year ended 31 December 2006

	COSTS OF ACQUISITION OR PRODUCTION			
	Balance 01.01.2006	Additions	Disposals	Currency Conversion
	k€	k€	k€	k€
I. Property, plant & equipment				
1. Property and leasehold rights including buildings on non-owned land	1,943	-	-	-
2. Other equipment, fixtures, fittings and equipment	15,238	1,093	- 239	141
	17,181	**1,093**	**- 239**	**141**
II. Intangible Assets				
1. Industrial property rights and simlar rights and licences to such rights	2,106	132	- 54	23
2. Self developed intangible assets	258	369	-	5
	2,364	**501**	**- 54**	**28**
III. Investments				
1. Equity securities	-	-	-	-
IV. Goodwill				
1. Goodwill	30,544	-	- 696	27
	30,544	**-**	**- 696**	**27**
	50,089	**1,594**	**- 989**	**196**

	ACCUMULATED DEPRECIATION					BOOK VALUE	
Balance 31.12.2006	Balance 01.01.2006	Additions	Disposals	Currency Conversion	Balance 31.12.2006	31.12.2006	31.12.2005
k€	k€	k€	k€	k€	k€	k€	k€
1,943	392	114	-	- 2	504	1,439	1,551
16,233	12,793	1,307	- 258	135	13,977	2,256	2,445
18,176	**13,185**	**1,421**	**- 258**	**133**	**14,481**	**3,695**	**3,996**
2,207	1,494	359	- 2	24	1,875	332	612
632	-	-	-	-	-	632	258
2,839	**1,494**	**359**	**- 2**	**24**	**1,875**	**964**	**870**
-	-	-	-	-	-	-	-
29,875	19,920	-	- 1	21	19,940	9,935	10,624
29,875	**19,920**	**-**	**- 1**	**21**	**19,940**	**9,935**	**10,624**
50,890	**34,599**	**1,780**	**- 261**	**178**	**36,296**	**14,594**	**15,490**



Segment Reporting

Segement Reporting Primary Segment	01.01.-31.12.2006	01.01-31.12.2005
	€k	€k
Segment revenue		
UK	54,753	46,569
Germany/Switzerland	36,090	30,468
USA	21,888	16,960
France	12,907	12,849
Sweden	11,099	5,904
Segment revenue	**136,738**	**112,750**
Segment gross profit		
UK	18,464	15,677
Germany/Switzerland	13,822	11,635
USA	7,227	5,632
France	4,595	4,795
Sweden	3,385	2,015
Segment gross profit	**47,493**	**39,754**
Segment result		
UK	632	-3,694
Germany/Switzerland	826	-590
USA	667	226
France	96	640
Sweden	248	472
Unallocated	395	915
Segment result	**2,864**	**-2,031**
Depreciation & amortisation		
UK	697	704
Germany/Switzerland	520	522
USA	271	252
France	169	215
Sweden	123	88
Total depreciation & amortisation	**1,780**	**1,780**
Capital expenditure & investment		
UK	608	553
Germany/Switzerland	462	408
USA	239	203
France	165	173
Sweden	121	5,810
Total capital expenditure & investment	**1,594**	**7,146**

Segement Reporting Primary Segment	01.01.-31.12.2006	01.01-31.12.2005
	€k	€k
Segment assets		
UK	27,495	23,343
Germany/Switzerland	21,599	17,174
USA	11,231	8,782
France	9,065	7,543
Sweden	6,929	4,647
Total segment assets	**76,319**	**61,489**
Segment liabilities		
UK	26,054	24,603
Germany/Switzerland	20,467	18,100
USA	10,643	9,256
France	8,590	7,950
Sweden	6,566	4,898
Total segment liabilities	**72,319**	**64,806**

Segment Reporting

Secondary Segment	01.01.-31.12.2006	01.01-31.12.2005
	€k	€k
Segment revenue		
Support contracts	39.808	33.576
Managed security services	9.285	7.173
Consulting, integration and training	12.766	10.828
Service revenue	61.859	51.577
Technology sale	74.878	61.173
Total Segment revenue	**136.738**	**112.750**
Capital expenditure & investment		
Support contracts	365	2.130
Managed security services	260	1.087
Consulting, integration and training	376	1.852
Services	1.001	5.070
Technology sale	593	2.076
Total Segment capital expenditure & investment	**1.594**	**7.146**
Segment assets		
Support contracts	17.175	8.018
Managed security services	12.155	16.817
Consulting, integration and training	16.894	15.435
Services	46.224	40.270
Technology sale	30.095	21.219
Total Segment assets	**76.319**	**61.489**

1. Notes to the Consolidated Financial Statements (IFRS) of Integralis AG

1.1 General Information

The Integralis Group is a provider, operating internationally, of IT security solutions and services. On the balance-sheet date, the Company had some 400 employees and 15 branches in five countries in Europe and in the USA. The shares of the parent company, Integralis AG, have been traded since 1998 at the prime standard in Frankfurt.

Integralis provides support for companies in the setting-up of secure communications connections and the processing of transactions via public and private networks. Customers obtain a broad portfolio of IT security services thanks to comprehensive security solutions, advice, system integration and managed security services and support.

Integralis AG produces its annual report corresponding to § 315 a HGB and in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). The group balance-sheet, the group profit & loss account, the group cashflow statement, the group segment reporting and the group statement of changes in shareholder's equity have been prepared in thousands of euros.

The financial statements are to be published on 29th March 2007. Approval is to be provided by the Management Board.

1.2 Legal Details

Integralis AG is a public limited company whose head office is at 85737 Ismaning, Robert-Bürkle-Straße 3, Germany. The company is entered on the Munich Commercial Register under number HRB 121349.

1.3 Application of International Financial Reporting Standards (IFRS) and Statement of Compliance

The consolidated financial statements of Integralis AG at 31st December 2006 as the parent company of the Integralis Group were prepared under consistent accounting and valuation principles. The standards of the International Accounting Standards Board (IASB) valid on the balance-sheet date, including the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were applied. The previous year's figures were determined according to the same principles.

The closing dated 31st December 2006 accords with all International Financial Reporting Standards which required application during the reporting period. There was no premature application of IFRS standards which had been published during the commercial year but not yet entered into force.

1.4 Companies Included in Consolidation

The Group accounts of Integralis AG include all national and foreign subsidiaries by way of full consolidation. As at 31st December 2006 the following companies, in which Integralis AG directly or indirectly holds a share of 100%, were consolidated:

Subsidiary company	Location	Capital share as percentage
Activis Ltd.	Reading, UK	100
Activis Inc.	Hartford, USA	100
Articon-Integralis SAS	Paris, France	100
Articon US Holdings Inc.	Hartford, USA	100
Integralis SAS	Paris, France	100
Integralis AB	Stockholm, Sweden	100
Integralis Inc.	Hartford, USA	100
Integralis Schweiz AG	Givisiez, Switzerland	100
Integralis Services Ltd.	Reading, UK	100
Integralis Holdings Ltd.	Reading, UK	100
Integralis Ltd.	Reading, UK	100
Integralis Services GmbH	Ismaning, Germany	100
Integralis Deutschland GmbH	Ismaning, Germany	100
Nocitra Ltd.	Reading, UK	100

1.5 Date of the Group Statements

The Group Report was prepared as per 31st December 2006. The profit and loss account, the cash flow statement and the statement of changes in shareholders' equity cover the period from 1.1.2006 to 31.12.2006. The date of the Group statements is identical with the closing dates of the companies included.

1.6 Principles of Consolidation

Nocitra Ltd (previously Articon-Integralis Ltd; Reading, Great Britain) and its subsidiary companies were included in the consolidated financial statements with effect from 1st January 2000 using the Uniting-of-Interest method. In capital consolidation the differences between share capital issued plus additional cash considerations and the net book values of the subsidiary companies were offset against equity.

The other fully consolidated companies were consolidated according to the Purchase Method as per IFRS 3. In the case of acquisitions prior to 1st January 2005, in accordance with IAS 22, assets were taken at their values at date of acquisition and any differences were capitalised as goodwill and amortised. For purchases later than 1st January 2005 the provisions of IFRS 3 have been adopted and the costs of the business combination allocated to the assets acquired and the liabilities and contingent liabilities assumed. In following periods, with effect from 1st January 2005, the Impairment-only Approach is applied. If necessary, goodwill has been adjusted to a lower fair value by an impairment charge.

Inter-company revenue, charges and income and inter-company balances were eliminated as per IAS 27.24.

1.7 Currency Conversion

Currency conversion for foreign subsidiaries is applied in accordance with IAS 21 by the principle of functional currency. Balance-sheet items except equity were converted at closing rates on the balance-sheet date. Equity was converted at historical rates. Profit and loss positions were translated at average rates. The resulting translation differences are shown without impact on the result in reserves. Conversion differences arising in capital consolidation are also shown without result impact in the reserves.

The Group Report was prepared using the euro as the functional currency.

	Closing rate		Average rate	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
GBP	1.49	1.46	1.49	1.49
USD	0.76	0.85	0.78	0.84
CHF	0.62	0.64	0.63	0.64
SEK	0.11	0.11	0.11	0.11

2.1 Cash and Cash Equivalents

For purposes of the cash flow statement as defined by IAS 7, all liquid assets with an original maturity period of up to three months are treated as cash and cash equivalents. The position mainly consists of bank balances, cheques and petty cash and shares in money market funds.

2.2 Receivables and Other Assets

Receivables and other assets are disclosed at fair value. Allowances are made for specific interest and credit risks.

2.3 Inventories

Inventories are valued according to IAS 2 at purchase costs. They are stated net of provisions for slow-moving and obsolete items. Products are evaluated by the FIFO method (first-in/first-out).

2.4 Deferred Cost of Goods Sold

These deferred costs principally include payments made for service agreements negotiated with suppliers which do not yet represent expenses in the commercial year. These items are expensed on a linear basis over the respective term of contract.

In the previous year the item was disclosed under prepaid expenses and other current assets; the values for the previous year have been adjusted accordingly.

2.5 Property, Plant and Equipment

Property, plant and equipment is disclosed as per IAS 16 at costs of acquisition or production less depreciation, calculated on a straight-line basis. Where necessary, depreciation to a lower fair value is charged. Maintenance expenses are regarded as expenses for the period. The useful lives are principally between one year and ten years. Assets of minor value are fully depreciated in the year of purchase.

Where the Group is the lessee it is deemed, according to IAS 17, to be the economic owner of the leased items if it bears all the main opportunities and risks connected with ownership (finance leasing). Depreciation methods and useful lives are similar to those of comparable purchased assets. Such assets are generally capitalised at cost on the date of signing the contract. The corresponding lease obligations are disclosed as liabilities. The interest portion of the leasing obligations is expensed over the term of the lease.

In cases in which the lessor keeps possession (operate leasing), leased items are accounted by the lessor and the lessee records the leasing expenses in full as charges.

2.6 Intangible Assets

Acquired intangible assets are recorded at cost. Software and licences are written-off on a straight-line basis over their prospective useful lives of three to four years. Where necessary, depreciation to a lower fair value is charged.

Development costs are capitalised as intangible assets if it is likely, taking account of technical and financial feasibility, that a project will generate future economic benefits through use or sale and if the costs attributable to the project during its development phase can be reliably determined. Development costs capitalised as per IAS 38 are amortised over three years.

2.7 Goodwill

In accordance with IFRS 3, the Group has ceased to amortise goodwill with effect from 1st January 2005.

The carrying values of the Group's goodwill are subjected to an IAS 36 impairment test at each intermediate reporting date. An impairment loss is charged whenever the carrying value of an asset or a cash generating unit exceeds its recoverable amount Impairment losses are separately disclosed in the position "amortisation of goodwill" in the profit and loss account.

2.8 Deferred Taxes

Deferred taxes are calculated on the basis of the balance-sheet related temporary concept (IAS 12). Thus taxes are deferred for all accounting and valuation differences between IFRS and tax regulations. Deferred tax assets are only recognised to the extent that future realisation is considered probable. Calculation is applied at tax rates of between 30% and 39%.

2.9 Liabilities

Liabilities are valued at the repayment amount.

2.10 Deferred Revenue

Deferred revenue represents payments received from customers for technical support contracts and „MSS" agreements which do not yet represent revenue in the commercial year. This item is released over the remaining term of the contracts.

2.11 Provisions and Accrued Expenses

Accruals are liabilities for goods or services already received which have not yet been paid for or charged for or formally agreed with the supplier. These include amounts due to employees, for example holiday pay accrued.

Provisions differ from other liabilities such as trade payables and accruals because there is uncertainty about the timing or the amount of the future payments. Provisions take account of all identifiable risks and uncertain obligations to third parties in accordance with IAS 37 and are recorded at their most probable amounts.

2.12 Shareholders' Equity

Composition and movements in equity are shown in the Consolidated Statement of Changes in Shareholders' Equity and the Notes to the balance sheet. Treasury shares are offset from share capital and disclosed at cost according to IAS 32.

2.13 Revenue

Revenue is recognised upon delivery of the product to the extent that risk of loss of product transfers to the purchaser together with the right of ownership, or upon contractually-compliant provision of the service. In the case of long-term technical support contracts, revenue and cost are recognised in the income statement over the term of contract. No revenue is recognised if there is significant uncertainty regarding recovery of the consideration due or a return of the goods is considered likely.

2.14 Borrowing Costs

Borrowing costs are expensed in the period in which they are incurred (IAS 23).

2.15 Income Taxes

Income taxes are determined in accordance with the tax regulations of the countries in which the company operates. Deferred tax assets and liabilities are recognised for all temporary differences between the tax-related valuations and the book values of assets and liabilities and also for tax-related losses brought forward, where there is reasonable certainty that future profits will be achieved.

3.1 Cash and Cash Equivalents

A total of €268k (2005: €598k) of the cash and cash equivalents are not freely available. This is collateral for bank guarantees for rental deposits and contract fulfilment.

3.2 Accounts Receivable and Other Assets

Trade accounts receivable are shown net of allowances for doubtful receivables. Accounts receivable and other assets are due within one year. Provisions totalling €199k were made for specific debts where full payment is doubtful.

3.3 Inventories

The value of inventories sub-divides as follows:

	2006	2005
	€k	€k
Finished products and goods	913	1,222
Provision for slow-moving and obsolete items	-	-39
Total	**913**	**1,183**

3.4 Property, Plant and Equipment

Changes in the book values of fixed assets are disclosed in the movement schedule of Group fixed assets (cf. Appendix to the Notes).

Finance leasing agreements exist mainly for two leased buildings and a plot of land for which there are purchase options for 2010 and 2017. The leased assets have been capitalised in accordance with IAS 17 at their fair values. They are depreciated at 4%. The interest charges arising in connection with finance lease agreements come to €109k (2005: €114k) at an interest rate of 6.51%. The carrying value of assets under finance leasing agreements was €1,496k (31.12.2005: €1,551k).

Lease payments are expected in the future as follows:

Term	Future Payments	Interest	Net Present Value
	€k	€k	€k
Up to one year	180	-104	76
Between one and five years	650	-288	362
Over five years	1,673	-474	1,199
Total	**2,503**	**-866**	**1,637**

3.5 Intangible assets

This item comprises software and associated licences, development costs capitalised according to IAS 38 and the stock of service agreements capitalised as per IFRS 3 when Integralis (previously Netsecure) Sweden was purchased.

3.6 Goodwill

Since 1st January 2005, subsequent evaluation of goodwill has followed the Impairment-only Approach of IFRS 3. The carrying values of goodwill totalling €9,574k (31.12.2005: €10,624k) were verified against fair values. The release of €696k relates to the reduction of the earn-out obligation for acquisition of Netsecure Sweden AB.

The fair values of goodwill were examined by comparing the individual book values to the operating values. Operating values were determined on the basis of the net present values of future pre-tax results (EBITDA) under the following assumptions:

- Period of analysis: five years as from financial year 2007
- Turnover growth: between 5% and 7.5%
- Increase in costs: between 2.5% and 3.8%
- Discount rates before tax: between 21% and 25%

3.7 Accrued Expenses

Accrued expenses cover uncertain risks and foreseeable liabilities. They are expected to be settled by payment within the next financial year.

3.8 Provisions

The provisions developed in the financial year as follows:

	01.01.2006	Utilised	Released	Additions	Exchange rate effect	31.12.2006
	€k	€k	€k	€k	€k	€k
Onerous leases	2,768	753	-	191	56	2,262
Deferred consideration for Netsecure Sweden	3,319	1,293	739	-	-	1,287
STAR programme	62	-	-	31	-	93
Total	**6,149**	**2,046**	**739**	**222**	**56**	**3,642**

Of these provisions, €1,287k will be settled in the coming year. The remaining €2,355k will be utilised in after more than one year.

The provision for onerous leases relates to office premises in the UK. UK property leases, which are in the name of Nocitra Ltd., will still run for approximately 12 years. The provision of €122k for unused office space in Germany from the beginning of the year was utilised entirely in 2006.

The provision for deferred consideration for the acquisition of Netsecure Sweden AB concerns the obligation which depends on the result of the Swedish company in 2006. The release had an effect on the profit and loss account of €44k from the discount.

The provision for the STAR programme relates to the appreciation rights granted to the Supervisory Board. (cf. section 7.5.5 below for details).

3.9 Shareholders' Equity

3.9.1 Subscribed Capital, Authorised Capital and Conditional Capital

At 31st December 2006, subscribed capital totalled €11,547,577 (31st December 2005: €11,425,145), divided into 11,547,577 registered no-par value shares.

At 31st December 2006, the following authorised and conditional capital was available for future use:

- **Authorised Capital 2005/I:**

A resolution by the Annual General Meeting of 9th June 2005 authorised Management, with the Supervisory Board's approval, to increase the Company's subscribed capital by up to €5,250k in the period up to 31st May 2008 either in one or in several stages by issuing up to 5,250,000 new registered shares in exchange for cash or contribution in kind. Statutory regulations authorise Management (with the Supervisory Board's consent) to exclude the shareholders' legal subscription rights in order to acquire shares, companies and portions of companies.

In 2006, 33,914 shares were issued for deferred consideration for the purchase of Axipe SA. As at 31st December 2006, Authorised Capital 2005/I of €5,216,086 was available for future use (31st December 2005: €5,250,000).

- **Conditional Capital 2006/I:**

A resolution by the Annual General Meeting of 24th May 2006 authorised Management, with the Supervisory Board's approval, to increase the Company's subscribed capital by up to €40k in the period up to 31st May 2008 either in one or in several stages by issuing up to 40,000 new registered shares in exchange for cash. With the Supervisory Board's consent, Management is authorised to exclude the shareholders' statutory subscription rights to the extent that shares are issued to Management members Graham Jones and Georg Magg at a rate of at least €2.70 per share, whereby in the event of any increase in capital from Company funds that issue rate shall be modified by appropriate application of § 216, para. 3 AktG. No option rights for this conditional capital had been exercised by the 31st December 2006. As at 31st December 2006 40,000 shares were still available for future use.

- **Conditional Capital 2000/II:**

By resolution of the Annual General Meeting of 24th May 2006 Conditional Capital 2000/II was reduced from €201k to €80k. Subscribed capital may be increased conditionally by €80k by the issue of up to 80,120 shares. Conditional Capital 2000/II is to be used for granting option rights to members of Management, employees of the Company and of companies associated with it and managements of other companies associated with the Company (Stock Option Programme II). The new shares participate in the Company's profit from the beginning of the financial year in which they are issued. As per 31st December 2006 all option rights for this Conditional Capital 2000/II have lapsed.

- **Conditional Capital 2002/I:**

By resolution of the Annual General Meeting of 24th May 2006 Conditional Capital 2002/I was reduced from €300k to €200k. Subscribed capital can be increased conditionally by €200k by issuing up to 200,000 shares. Conditional Capital 2002/I is to be used for granting option rights to members of Management, employees of the Company and of companies associated with it and managements of other companies associated with the Company (Stock Option Programme III). In 2006 78,288 option rights at €1.33 each and 10,000 option rights at €1.84 each were exercised from this Conditional Capital 2002/I, which led to the issue of 88,288 shares. On the respective date of exercise the share price was between €2.82 and €3.80.

- **Conditional Capital 2002/II:**

The Annual General Meeting of 29th May 2002 authorised Management, with the Supervisory Board's approval, to issue in one or more stages, by 29th May 2007, registered convertible bonds and/or bonds with warrants (hereinafter: "bonds") with a total nominal value of up to €4,000k and a maximum term of ten years. For this purpose, new Conditional Capital 2002/II was created. Furthermore, Management was empowered to grant to the holders or creditors of these bonds new shares with a proportional value of subscribed capital of up to €4,000k, in accordance with the bond conditions.

Subscribed capital can be conditionally increased by €4,000k by the issue of up to 4,000,000 non-par shares. The purchase price for one share by way of exercise of the right of exchange or purchase is determined by the average closing Xetra price for the Integralis share for the last 20 trading days prior to the date of issue of the bond. The minimum exercise price shall be the pro-rata amount of subscribed capital attributable to one share. The new shares participate in the Company's profit from the beginning of the financial year in which they arise by the exercise of conversion or option rights or the fulfilment of conversion obligations. No convertible or option debentures for this Conditional Capital 2002/II had been exercised by 31st December 2006.

- **Conditional Capital 2003/I :**

A resolution by the Annual General Meeting of 24th May 2006 reduced Conditional Capital 2003/I from €270k to €180k. Subscribed capital can be increased conditionally by up to €180k by the issue of up to 180,000 shares. Conditional Capital 2003/I is for granting option rights to members of Management, employees of the Company and companies associated with it and the managements of other companies associated with the Company (Stock Option Programme IV). In 2006, 230 option rights at €3.24 each were exercised from this Conditional Capital 2003/I, which led to the issue of 230 shares.

- **Conditional Capital 2005/I :**

Conditional Capital 2005/I was created by resolution of the Annual General Meeting of 9th June 2005. Subscribed capital can be increased contingently by up to €225k by the issue of up to 225,000 shares. Conditional Capital 2005/I is for granting option rights to members of Management and employees of the Company and of companies associated with it and to management of other companies associated with the Company (Stock Option Programme V). No option rights for this Conditional Capital 2005/I had been exercised by 31st December 2006.

3.9.2 Annual Surplus and Surplus/ Deficit Carried Forward

The annual surplus for the 2006 commercial year, €2,765k (2005: €-2,261k) will be carried forward.

4. Notes to the Consolidated Profit and Loss Account

4.1 Personnel Expenses

In the reporting year, wages and salaries came to €26,969k (2005: €25,055k). The social security charges of €4,824k (2005: €4,506k) included pension charges for defined contribution plans of €160k (2005: €153k). Personnel expenses include €81k for share-based payments from the Stock Option Programmes.

4.2 Other Operating Expenses

Other operating expenses comprise the following:

	2006	2005
	€k	€k
Recruitment costs	261	372
Company cars (maintenance, leasing, insurance etc)	1,875	1,827
Other personnel costs (e.g. training, short-term contractors)	2,477	2,415
Facilities costs	2,662	2,274
Marketing	476	556
Legal and professional fees	1,120	1,413
Insurance	472	526
Finance charges	439	-57
Sundry operational expenses	1,669	2,034
Total	**11,451**	**11,360**

Research & development costs in the consolidated profit and loss account came to €754k (2005: €890k).

4.3 Exchange Gains and Losses

Exchange losses of altogether €181k (2005: gains of €264k) arising from the conversion of monetary items were included in purchased material and services and other operating expenses. Translation differences of €78k (2005: €-150k) were included without impact on the result in equity.

4.4 Exceptional Items

The exceptional items are structured as follows:

	2006	2005
	€k	€k
Restructuring costs	-	2,174
Deferred consideration for the sale of Allasso in 2003	-	-2,678
Total	**-**	**-504**

In 2006, no further exceptional costs arose; payments made during the year for restructuring measures were covered from accruals.

The restructuring costs in 2005 relate chiefly to the reorganisation and restructuring of the Integralis business in Great Britain, Germany and the USA.

On 10.04.2003 the Group negotiated with InTechnology Plc a binding agreement for the sale of the entire Allasso Group, which represented a separate division. In the previous year, dependent on the extent of business between Integralis and Allasso, additional payments - minus premiums to be paid for the former management of Allasso - totalling €2,678k were collected.

4.5 Profit on the Disposal of Financial Assets

In 2004, the Group sold its holding in Foundstone to McAfee Inc. In financial year 2006 the last €391k were received for the sale of Foundstone and included in the Group profit and loss account as profit on the disposal of financial assets (2005: €412k). In the Group cash flow statement this payment is shown as proceeds from the disposal of subsidiaries.

A profit of €3 was achieved from the sale of Nocitra AG, Switzerland.

4.6 Interest Income and Expenses

Interest income and expenses were as follows:

	2006	2005
	€k	€k
Interest income	426	324
Release of discount for provisions	44	-
Interest charges	-120	-135
Discount of provisions	-191	-472
Total	**159**	**-283**

4.7 Income Taxes

Income taxes comprise tax payments and liabilities and the tax deferrals in the individual countries. Deferred tax assets and liabilities are calculated using anticipated tax rates for the years in which the timing differences are expected to reverse. These rates are essentially based on legal regulations valid or agreed on the balance sheet date. Foreign income tax is calculated using the tax laws and regulations valid in the individual countries. Tax rates used for foreign companies range from 18% and 34%.

The tax charges for the years 2006 and 2005 compare as follows:

	2006	2005
	€k	€k
Current tax expense	15	209
Tax overprovided in previous years	-31	-117
Deferred tax charge/(credit)	274	-145
Total	**258**	**-53**

The result before tax reconciles as follows to the income tax charge:

	2006	2005
	€k	€k
Result before tax	3,023	-2,314
Income tax charge/(credit) using the German corporation tax rate	1,179	-902
Effect of tax rates in foreign jurisdictions	-238	-120
Effect of non-deductible business expenses	70	167
Effect of non-taxable income	0	-853
Effect of tax losses not provided	381	2,165
Utilisation of prior year tax losses	-1,176	-393
Effect of tax over-provided in previous years	-31	-117
Sundry items	73	-
Tax charge/(profit)	258	-53

Deferred tax assets derive from the following timing differences:

	2006	2005
	€k	€k
Fixed assets	268	261
Other provisions	134	131
Total	**402**	**392**

4.8 Earnings per Share

Earnings per share as per IAS 33 are calculated by dividing Group net income by the average number of shares outstanding during the year. To this end, both the diluted and the undiluted average number of shares need to be determined. The average number of shares for the financial year was 11,004,525 (undiluted) or 11,406,260 (diluted; 2005: 11,055,509, only undiluted).

	number	number
Number of shares 31.12.2005		11,425,145
Shares 31.12.2006	11,547,577	
Minus treasury shares	-1,040,398	
Number of shares 31.12.2006		10,507,179
Weighted average number of shares 2006 (undiluted)		11,004,525
Number of options 31.12.2005	447,629	
Number of options 31.12.2006	347,563	
Weighted average number of options 2006		401,735
Weighted average number of shares 2006 (diluted)		11,406,260

Earnings per share as per IAS 33 for 2006 were €0.25 (undiluted) and €0.24 (diluted). In 2005, undiluted earnings per share were €-0.20.

5. Segment Reporting

Segment reporting is carried out according to IAS 14. The internal reporting of Integralis distinguishes primarily by geographical regions because the risks and local markets are different. Based on this, the primary segment reporting is prepared by geographical segments. The secondary segment reporting is based on the different lines of revenue.

5.1 Primary Segment Reporting

The following geographical business segments form the primary internal report format of Integralis AG: United Kingdom, Germany and Switzerland, USA, France and Sweden. In the Integralis Group various internal resources (Helpdesk, Managed Security Service Centre, IT, Product Management, etc.) are made use of across the countries. In accordance with IAS 14.16, in this annual report expenses for these resources were for the first time allocated to the geographical segments by relative gross profit. Segment assets and liabilities were determined in the same way. This should make it easier and more reliable for the reader to compare the geographical segments. The values of the previous period were adjusted according to IAS 14.79.

From this reporting year onwards, Germany and Switzerland are regarded as one segment, as in internal reporting, since they constitute one geographical area as per IAS 14 and are directed and controlled as one. Last year’s values were adjusted accordingly.

The primary segment reporting can be found in the Appendix to the Notes.

5.2 Secondary Segment Reporting

Secondary segment reporting (see Appendix to the Notes) is based on revenue lines. Since technology sale and services, by the nature of our business, are sold as one solution, the assets and capital expenditure investments were allocated according to the relativel gross profits of the segments. The values of the previous period were adjusted according to IAS 14.79.

6. Notes to the Consolidated Cash Flow Statement

The cash flow statement was prepared using the indirect method allowed according to IAS 7, whereby investing and financing transactions which did not require the use of cash or cash equivalents were not taken into account.

Cash and cash equivalents include cash holdings, bank balances, short-term deposits and current marketable securities, but exclude bank overdrafts.

7. Other Disclosures

7.1 Disclosure According to § 314 (1) no. 9 HGB [Commercial Code]

The following fees due to the auditors of the Group statements were incurred in 2006:

	2006	2005
	€k	€k
Audit of the annual accounts	91	93
Other confirmation and evaluations	2	14
Tax advice services	40	2
Other services	18	-
Total	**151**	**109**

7.2 Disclosure According to § 314 (1) no. 6 HGB

In accordance with § 315 no. 4 HGB details on compensation of the Company's Management and Board are given in the compensation report, to be found in the Group Management Report.

7.3 Exchange Risk

The Group faces exchange rate risks for sales, purchases and borrowing in currencies other than the euro. These are essentially the US dollar and pound sterling.

The individual companies of the Group are primarily active in their respective local currency, thus exchange rate risk to the Group is limited.

7.4 Credit Risk

Management acts within the framework of an established credit policy, constantly monitoring the exposure to credit risks and performing credit assessments as appropriate.

On the balance sheet date, there were no significant concentrations of credit risk that had not been provided for. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

7.5 Stock Option Programmes

The Integralis Group has implemented various stock option programmes in past financial years with a view to employees and management participating in the Company's success. The existing stock option programmes are described in the following.

7.5.1 Stock Option Programme II ("SOP II")

The second employee participation programme was approved at the Annual General Meeting of 8th June 2000. The stock options may be exercised in three tranches: 50% after two years (Tranche I), 20% after three years (Tranche II) and 30% after four years (Tranche III). Options may be exercised within a three-month period ("exercise window") after the end of the vesting period described in the Option Programme. To exercise an option, the stock market (Xetra) price for Integralis shares must exceed the grant price on at least one trading day by 10% after two years, by 15% after three years and by 20% after four years. Since these conditions were not fulfilled in the last possible exercise year 2006 either, all options from Stock Option Programme II have lapsed.

The stock options from the second Programme developed to 31st December 2006 as follows:

	2006	2005
	Number	Number
Options outstanding at the beginning of the period	80,210	122,220
Options granted	-	-
Options exercised	-	-
Options lapsed	80,210	42,010
Options outstanding at the end of the period	**0**	**80,210**

7.5.2 Stock Option Programme III ("SOP III")

The third employee participation programme was decided at the Annual General Meeting of 29th May 2002. The stock options may be exercised within five years in four three-month exercise windows: 50% after two years (exercise window I), 20% after three years (exercise window II) and 30% after four years (exercise window III), followed by a final special exercise right (exercise window IV).

The condition for exercising is that, during the exercise window, the Xetra closing price of Integralis shares exceed the grant price on at least one trading day by 10% for exercise window I, by 15% for exercise window II, by 20% for exercise window III and by 22.5% for exercise window IV. In 2006, 82,225 stock options were exercised at €1.33 and 10,000 at €1.84. Of these, 3,937 options were fulfilled by using treasury shares.

The weighted average share price at exercise of options was €2.97.

On 31st December 2006 the value of an option, based on the Xetra closing price of 29th December 2006 of €3.69, was €2.36 for the options issued on 10th October 2002 and €1.85 for the options issued on 1st April 2003. Of the 41,025 options remaining at the end of the financial year, 13,525 were issued at €1.33 on 10th October 2002 and 27,500 at €1.84 on 1st April 2003.

The stock options issued under this programme developed to 31st December 2006 as follows:

	2006	2005
	Number	Number
Options outstanding at the beginning of the period	170,884	281,425
Options granted	-	-
Options exercised	92,225	80,621
Options lapsed	37,634	29,920
Options outstanding at the end of the period	**41,025**	**170,884**

The outstanding options are held as follows:

	2006	2005
	Number	Number
Mangement Board and managing directors of subsidiaries	27,500	148,500
Employees	13,525	22,384
Options outstanding at the end of the period	**41,025**	**170,884**

The options outstanding as of 31st December 2006 have an average remaining term of 16 months.

7.5.3 Stock Option Programme IV ("SOP IV")

The fourth employee participation programme was approved at the Annual General Meeting of 23rd June 2003. At the balance sheet date, employees and management held 117,319 options, made up of 63,250 issued on 8th September 2003 at €2.70, 43,889 issued on 6th October 2003 at €3.24 and 10,000 issued on 28th January 2005 at €2.20. The stock options may be exercised within five years in four three-month exercise windows: 50% after two years (exercise window I), 20% after three years (exercise window II) and 30% after four years (exercise window III), followed by a final special exercise right (exercise window IV).

To exercise an option, the Xetra closing price of Integralis shares must exceed the grant price on at least one trading day by 10% during exercise window I, by 15% during exercise window II, by 20% during exercise window III and by 22.5% during exercise window IV. In 2006, 1,091 stock options were exercised at €3.24 and 6,750 at €2.70. Of these, 7,611 options were fulfilled from treasury shares.

The weighted average share price at exercise of the options was €3.68.

On 31st December 2006, based on the Xetra closing price of 29th December 2006 of €3.69, the value of an option was €0.99 for the options issued on 8th September 2003, €0.45 for the options issued on 6th October 2003 and €1.49 for the options issued on 28th January 2005.

The stock options issued under this programme developed to 31st December 2006 as folllows:

	2006 Number	2005* Number
Options outstanding at the beginning of the period	136,535	213,020
Options granted	-	10,000
Options exercised	7,841	230
Options lapsed	11,555	86,255
Options outstanding at the end of the period	**117,139**	**136,535**

At the closing date, the outstanding options are held as follows:

	2006 Number	2005* Number
Mangement Board and managing directors of subsidiaries	68,610	76,200
Employees	48,529	60,335
Options outstanding at the end of the period	**117,139**	**136,535**

* The previous year's values were adjusted for options with authorised capital underlying them. This increased the number of option rights by 40,000.

The options outstanding at 31st December 2006 have an average remaining term of 23 months.

The weighted average fair value of the options granted in earlier years was determined using the Black and Scholes option price model; the following parameters were applied:

- Weighted average share price: €2.20
- Exercise price: between €2.42 and €3.97
- Expected volatility: between 77% and 109%
- Option life: two to four years
- Expected dividends: €0.00
- Risk-free interest rate: 2%

Volatility was determined using the historical volatility of the share price over the last two to four years.

7.5.4 Stock Option Programme V ("SOP V")

The fifth employee participation programme was approved at the Annual General Meeting of 26th May 2004. As of the balance sheet date, employees and Management held 52,000 options that were issued on 10th June 2005 at €2.80. The stock options can be exercised within five years during four three-month exercise windows: 50% after two years (exercise window I), 20% after three years (exercise window II) and 30% after four years (exercise window III), followed by a final special exercise right (exercise window IV).

To exercise an option, the Xetra closing price of Integralis shares must exceed the grant price on at least one trading day by 10% during exercise window I, by 15% during exercise window II, by 20% during exercise window III and by 22.5% during exercise window IV. In 2006 no options could be exercised from this Stock Option Programme. On 31st December 2006, based on the Xetra closing price of 29th December 2006 of €3.69, the value of an option was €0.89 for the options issued on 10th June 2005. The options outstanding at the end of the financial year have an average remaining term of 32 months.

The options issued so far developed up to 31st December 2006 as follows:

	2006	2005
	Number	**Number**
Options outstanding at the beginning of the period	60,000	-
Options granted	-	60,000
Options exercised	-	-
Options lapsed	8,000	-
Options outstanding at the end of the period	**52,000**	**60,000**

At the closing date, the outstanding options are held as follows:

	2006	2005
	Number	**Number**
Mangement Board and managing directors of subsidiaries	20,000	20,000
Employees	32,000	40,000
Options outstanding at the end of the period	**52,000**	**60,000**

The fair value of the options granted in earlier years was determined using the Black and Scholes option price model; the following parameters were applied:

- Weighted average share price: €2.80
- Exercise price: between €3.08 and €3.43
- Expected volatility: between 77% and 109%
- Option life: two to four years
- Expected dividends: €0.00
- Risk-free interest rate: 2%

Volatility was determined using the historical volatility of the share price over the last two to four years.

7.5.5 Stock Appreciation Rights Programme I (STAR Programme)

The Annual General Meeting of 23rd June 2003 agreed to grant to the Supervisory Board members, in addition to the fixed compensations, a variable compensation in the form of appreciation rights (Stock Appreciation Rights, STAR) under the conditions of the Company's Stock Appreciation Rights Programme I from 2003. The STAR Programme comprises a total of 150,000 appreciation rights, 50,000 of which fall to the individual Supervisory Board member.

The offer to acquire appreciation rights was made in three tranches in each case on the fifth working day after Integralis AG's intermediate report for the respective period was publicised. Each Supervisory Board member was offered 25,000 appreciation rights in 2003; 12,500 were offered in each of the years 2004 and 2005. The waiting period is one year after the grant. Stock appreciation rights may be exercised only within the two weeks following the release of an annual, semi-annual or quarterly report of Integralis AG, and only on banking days. The condition for exercising (exercise hurdle) is that the price of Integralis shares on the date of exercise is at least 10% above the base price. The rights lapse if they are not exercised within five years of issue.

The total compensation of a Supervisory Board member, consisting of fixed compensation and variable compensation according to the STAR Programme may not exceed a total of €75,000 per year.

As of 31st December 2006, the Supervisory Board members held 100,000 appreciation rights (50,000 at a base price of €2.32, 25,000 at €2.33 and 25,000 at €3.52). On 31st December 2006, based on the Xetra closing price of 29th December 2006 of €3.69, the value of an appreciation right was €1.37 for the rights issued in 2003, €1.36 for the rights issued in 2004 and € 0.17 for the rights issued in 2005.

The stock appreciation rights developed to 31st December 2006 as follows:

	2006	2005
	Number	**Number**
Rights outstanding at the beginning of the period	100,000	112,500
Rights granted	-	37,500
Rights exercised	-	37,500
Rights lapsed	-	12,500
Rights outstanding at the end of the period	**100,000**	**100,000**

7.6 Contingencies

The operating leases esssentially comprise contracts for the leasing of office buildings and company vehicles. The leasing and rental expenditure for 2006 was €2,599k (2005: €2,687). The expenditure is stated net of €587k (2005: €698k) rent received from third parties.

Future lease payments and sublease income at 31st December 2006 over the appropriate terms are as follows:

Term	Operating Leases	Sub-lease rental income
	€k	**€k**
Up to one year	3,038	363
Between one and five years	10,108	759
Over five years	11,135	1,030
Total	**24,281**	**2,152**

7.7 Income Tax Losses

According to IAS 12.34, deferred tax assets for the carryforward of unused tax losses shall be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. IAS 12.35 requires substantial indications of future taxable income in order to recognise deferred tax assets.

Due to the past losses of most companies in the Group, deferred tax assets for existing tax losses carried forward have not been recognised. Should the positive earnings trend continue in 2007 and this make future taxable income seem likely despite the loss history, then deferred tax assets for the carryforward of tax losses will be recognised in 2007.

The structure of tax losses carried forward by expiry date is as follows:

Expiry date	31/12/2006	31/12/2005
	€k	€k
Up to one year	0	0
Between one and five years	2,044	1,064
Between six and 20 years	4,905	8,394
No expiry date	44,743	47,384
Total	**51,692**	**56,842**

7.8 Employees

The average number of employees during the reporting year was 400 (2005: 394), categorised as follows:

	2006	2005
	Number	Number
Sales and marketing	150	139
Technical	196	195
Administration and management	54	60
Total	**400**	**394**

7.9 Pension Contributions

The Company's UK subsidiaries operate a pension plan for employees. This is a defined contribution pension scheme, under which the subsidiaries pay a defined percentage of basic salary into a pension fund on the employee's behalf. The Group's financial obligation is limited to this proportional payment alone; there are no further obligations than this. All employees in the UK may join this scheme. There are no pension liabilities in the balance sheet. The expenses recognised in the profit and loss accounts during the year for the scheme are €134k (2005: €153k). In the German companies contributions for employees' direct insurance policies amount to €26k. There are no employee pension plans elsewhere in the Integralis Group. Total expenses for defined contribution plans were €160k (2005: €153k):

7.10 Share Buyback Programme and Treasury Shares

On 28th March 2006 the beginning of a share buyback programme in accordance with § 71 paragraph 1 no. 8 AktG [Stock Corporation Act] was announced for the period 29th March 2006 to 22nd May 2006. Shares acquired through the buyback can be used to fulfil Stock Option Programme III and for earn-out obligations. Any shares remaining may be cancelled in order to lower share capital.

Between 29th March and 25th May 2006 a total of 654,833 own shares with a value of €2,329,356.51 were acquired under this programme. Of these, 208,193 were used on 27th April 2006 and 9,810 were used on 17th May 2006 to settle earn-out obligations of €646,596.65 from the acquisition of Swedish Netsecure AB. The price per share used for settling the earn-out obligation was €2.97.

On 8th June 2006 another share buy back programme was announced for the period 12th June 2006 to 29th December 2006. The shares acquired from this can be used for all stock option programmes existing at Integralis, to settle earn-out obligations and for future acquisitions. If shares still remain subsequently, they can be called in for the purpose of reducing the share capital. By 31st December 2006, 615,116 shares with a value of €2,024,755.47 had been acquired under this programme.

Of these shares, 11,548 were used in December 2006 to fulfil stock option programmes for a value of €26,250.85. This gives an average exercise price of €2.27 per option.

Integralis AG held a total of 1,040,398 own shares as of 31st December 2006. The proportion of treasury shares to share capital stood at 9.01% as of 31st December 2006.

The following table shows the development of the treasury shares held in 2006:

Month	Addition	Disposal	Holding at Month-end	Proportion of Share capital
March 2006	35,265	-	35,265	0.31%
April 2006	330,878	208,193	157,950	1.38%
May 2006	288,690	9,810	436,830	3.80%
June 2006	77,784	-	514,614	4.47%
July 2006	94,322	-	608,936	5.27%
August 2006	107,522	-	716,458	6.20%
September 2006	97,561	-	814,019	7.05%
October 2006	84,615	-	898,634	7.78%
November 2006	82,453	-	981,087	8.50%
December 2006	70,859	11,548	1,040,398	9.01%
Total	**1,269,949**	**229,551**	**1,040,398**	**9.01%**

The average price of the own shares acquired was € 3.41.

7.11 Related Party Transactions

"Related Parties" according to IAS 24 include Integralis AG's Management Board and Supervisory Board as well as its major shareholders. Outside of the contractually agreed compensation for the Management Board and the Supervisory Board there were no further payments to related parties during the financial year. The compensation of the Supervisory Board and the Management Board is described in detail in the compensation report, to be found in the Management Report.

STOCKS AND SUBSCRIPTION RIGHTS OF THE EXECUTIVE BODIES AS OF 31/12/2006

Management Board	Stocks	Stock options
Georg Magg	17,500	42,500
Graham Jones	12,000	48,250
Roger Friederich	5,840	20,360
Management Board shareholdings: 0.30%		
Supervisory Board	**Stocks**	**STAR Rights**
Magnus Wahlbäck and related parties	794,893	-
Arnd Wolpers and related parties	672,561	50,000
Jochen Tschunke	-	50,000
Supervisory Board shareholdings: 12.70%		

7.12 Executive Bodies of the Company

During the past financial year, Management Board members were:

- Georg Magg, (Chairman), Landberg/Lech, Germany
- Graham Jones, (COO), Malvern, Worcestershire, Great Britain
- Roger Friederich, (CFO), Vaterstetten, Germany

Members of the Supervisory Board in the past financial year were:

- Magnus Wahlbäck (Chairman), businessman, Stockholm, Sweden (since 24th May 2006)
- Arnd Wolpers (Deputy Chairman), businessman, Münsing/Ammerland, Germany
- Prof. Jochen Tschunke, businessman, Munich, Germany
- Duncan Soukup, businessman, Bermuda (until 24th May 2006

8. Reports in Accordance with § 160 (1) no. 8 AktG [Stock Corporation Act] on Existing Shareholdings in the Company as at the Balance Sheet Date, which Required Reporting under §§ 21 et seqq. WpHG [Securities Trading Act]

8.1 Report of Axxion S.A., Luxembourg-Munsbach of 31/03/2006

Report under § 21 para. 1 WpHG

- 21st March 2006: cross the threshold of voting right proportion of 5% to henceforth 8.7138%

8.2 Reporting of Baltimore plc (formerly Baltimore Technologies plc), London of 01/06/2006

Reports under § 21 para. 1 and § 22 para. 1, sentence 1, no. 1 WpHG:

- 12th April 2005: cross the threshold of voting right proportion of 5% to henceforth 10.37%.
- 30th May 2005: cross the threshold of 10% voting right proportion to henceforth 9.646%.
- 21st March 2006: cross the threshold of voting right proportion of 5% to henceforth 0%.

8.3 Report of Integralis AG, Ismaning of 25/07/2006

Report under § 21 para. 1 WpHG:

- 18th July 2006: cross the threshold of voting right proportion of 5% to henceforth 5.0149%.

8.4 Report of Molentor S.a.r.l., Luxemburg of 14/08/2006

Report under § 21 para. 1 and § 22 para. 1, sentence 1, no. 1 WpHG:

- 8th May 2006: cross the threshold of voting right proportion of 5% to henceforth 6.90%.

8.5 Reporting of Molentor Holding Ltd., Valetta, Malta of 14/08/2006

Report under § 21 para. 1 WpHG:

- 8th May 2006: cross the threshold of 5% voting right proportion to henceforth 6.90%.

8.6 Report of Mr. Alfred Bauer, Mittbach of 18/08/2006

Report under § 21 para. 1 WpHG:

- 17th January 2005: cross the threshold of voting right proportion of 5% to henceforth 4.9%.

8.7 Report of Argos Investment Fund SICAV, Luxemburg of 11/10/2006

Report under § 21 para. 1 WpHG:

- 21st September 2006: cross the threshold of voting right proportion of 5% to henceforth 5.86%.

8.8 Report of Argos Investment Managers SA, Luxemburg of 11/10/2006

Report under § 21 para. 1 and § 22 para. 1, sentence 1, no. 6 WpHG:

- 21st September 2006: cross the threshold of voting right proportion of 5% to henceforth 5.86%. Of these, 5.86% are attributable in accordance with § 22 para. 1 sentence 1 no. 6 WpHG.

9. Declaration of Compliance with the German Corporate Governance Codex

The Declaration of Compliance with the Corporate Governance Codex as required by § 161 AktG [Stock Corporation Act] was given by the Management and Supervisory Boards and is permanently available to the shareholders on the Company's website.

Ismaning, March 2007

The Management Board

We have audited the consolidated financial statements prepared by the Integralis Aktiengesellschaft comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determining of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Integralis Aktiengesellschaft comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 13, 2007
AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Chr. Bartelt

G. Wörl
Wirtschaftsprüfer
(German Public Auditor)

ppa. Chr. Bartelt
Wirtschaftsprüferin
(German Public Auditor)

Report of the Supervisory Board 2006

During the fiscal year, the Supervisory Board performed the duties imposed on it by law and by the Company's articles of incorporation, monitoring and advising the Company's Management Board on an ongoing basis. The Management Board briefed the Supervisory Board in detail on the Company's condition, compliance with the principles of corporate governance, the risk situation and risk management as well as planned business strategies including corporate forecasts in written and oral reports submitted at a total of six meetings as well as numerous telephone conferences. No committees were formed.

The term of Mr. Duncon Soukup as a member of the Supervisory Board ended with the annual general meeting dated May 24th 2006. Mr. Magnus Wahlbäck was elected as a new Member of the Supervisory Board and as Chairman of the Supervisory Board. Mr. Arnd Wolpers was elected Vice chairman of the Supervisory Board.

There were no changes in the Management Board during the fiscal year 2006.

All material investment decisions as well as decisions of fundamental importance were reviewed and approved by the Supervisory Board.

The Management Board and the Supervisory Board worked closely and consulted on the Company's strategic orientation in regular intervals.

The annual financial statements for 2006, the consolidated annual financial statements and the management report and Group management report were audited by auditing company AWT Horwath GmbH, Wirtschaftsprüfungsgesellschaft, Munich, which issued an unqualified auditor's report.

In connection with their activities, the auditors were also required to assess whether the Management Board had complied with the statutory requirements and, in particular, had established a monitoring and controlling system for the early detection of any events liable to impair the status of the Company or the Group as a going concern.

At its meeting of 21st March 2007 the Supervisory Board comprehensively discussed the auditor's report of the annual financial statements for 2006, the management report, the consolidated annual financial statements for 2006 and the Group management report together with the audit company AWT Horwath GmbH and the Management Board. The audit company reported on the material results of the audit. The Supervisory Board consented to the results of the audit.

The Supervisory Board for its part examined the annual financial statements for 2006, the management report, the consolidated annual financial statements for 2006 and the Group management report. No objections arose. Accordingly, the annual financial statements for 2006 as well as the consolidated annual financial statements for 2006 are duly adopted.

The Supervisory Board whishes to thank all employees of Integralis AG as well as the members of the Management Board for the work which they have performed.

Magnus Wahlbäck

Chairman of the Supervisory Board

Declaration of Conformance of Integralis AG for 2007

I. Introduction

Under Section 161 of the German Stock Corporations Act, the Management Board and Supervisory Board are required to declare once a year whether and to what extent the Company conforms to the recommendations set out in the German Corporate Governance Code and to specify which recommendations have not been applied. This declaration must be made available to the shareholders at all times.

This is a non-authoritative English translation of the original German-language declaration issued by Integralis AG.

The declaration for 2006 applies to both fiscal 2006 and fiscal 2007.

The Management Board and the Supervisory Board have examined the recommendations contained in the German Corporate Governance Code carefully. At the Company's annual general meetings, the Company's shareholders are regularly informed of individual matters relating to corporate governance.

II. Declaration issued by the Management Board and the Supervisory Board of Integralis AG pursuant to Section 161 of the German Stock Corporations Act

On the basis of the German Corporate Governance Code (GCGC) as amended on 12 June 2006 and in accordance with Section 161 of the German Stock Corporations Act, the Management Board and the Supervisory Board of Integralis AG hereby declare that the Company conformed to the recommendations of the German Corporate Governance Code in the prevailing version for 2006 and will do so for 2007 with the exception of the following:

Article 3.8:

If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed.

Integralis AG has had D&O cover for the Management Board and Supervisory Board since 1999. This is group insurance which also covers numerous other national and international employees. We see the reason for this cover as being to protecting the Company from any risks and will therefore not be introducing any deductible for members of the Management Board and Supervisory Board.

Article 4.2.3:

In particular, company stocks with a multi-year blocking period, stock options or comparable instruments (e.g. phantom stocks) serve as variable compensation components with long-term incentive effect and risk elements. Stock options and comparable instruments shall be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively shall be excluded. For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed for by the Supervisory Board.

Integralis AG's stock option plans provide for a 10% increase on the base price as a target, increasing by a further 5% per year. The Supervisory Board does not have any scope for limitation (cap) for extraordinary, unforeseen developments.

Article 5.2:

The Chairman of the Supervisory Board shall also chair the committees that handle contracts with members of the Management Board and prepare the Supervisory Board meetings. He should not be Chairman of the Audit Committee.

In the interests of effective and lean structures, there is currently no need to establish committees due to the small number of Supervisory Board members. For this reason, these duties are executed by the Supervisory Board as a whole.

Article 5.3.1:

Depending on the specifics of the enterprise and the number of its members, the Supervisory Board shall form committees with sufficient expertise.

In the interests of effective and lean structures, there is currently no need to establish committees due to the small number of Supervisory Board members.

Article 5.3.2:

The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement.

On account of its small size, the Supervisory Board in its entirety deals with the aforementioned questions relating to accounting and risk management and performs the necessary checks in connection with the auditor.

Article 5.4.1:

There shall be no age limit for members of the Supervisory Board.

No age limit has been set aside for members of the Supervisory Board as the Company wishes to continue benefiting from the skills of experienced Supervisory Board members.

Article 5.4.3:

Proposed candidates for the Supervisory Board chair shall be announced to the shareholders

This recommendation stipulates that the candidates for the Supervisory Board chair should be announced to the shareholders even though the Supervisory Board has generally not yet been elected. The law provides for the chairman of the Supervisory Board to be elected from amongst the members of the Supervisory Board. There is no provision in the law for candidates for the Supervisory Board chair to be elected from amongst the other members of the Supervisory Board, who themselves have not yet been elected. This would effectively result in a preliminary determination not anticipated by the law. For this reason, we do not follow this recommendation.

Integralis AG

For the Supervisory Board

Magnus Wahlbäck

For the Management Board

Georg Magg

Details on corporate governance at Integralis AG can be found at www.integralios.com

Contact persons: Georg Magg CEO, Roger Friederich CFO and Pia Lanig (IR)

Imprint

Management Board
Georg Magg, CEO
Roger Friederich, CFO
Graham Jones, COO

Supervisory Board
Magnus Wahlbäck, Chairman
Arnd Wolpers, Vice Chairman
Prof. Jochen Tschunke, Member

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The company is entered on the Munich Commercial Register number HRB 121349

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Our latest financial reports and corporate updates are available on the Internet at www.integralis.com

Ordinary Stock

The Company's stock is included in the Prime Standard.

Ticker symbol AAGN, WKN 515503
ISIN DE0005155030

Calendar of Events 2007

Quarterly Report 1/2007	May 08, 2007
Annual general meeting for 2007	May 10, 2007
Quarterly Report 2/2007	August 8, 2007
Analyst conference 2007	November 7, 2007
Quarterly Report 3/2007	November 7, 2007

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