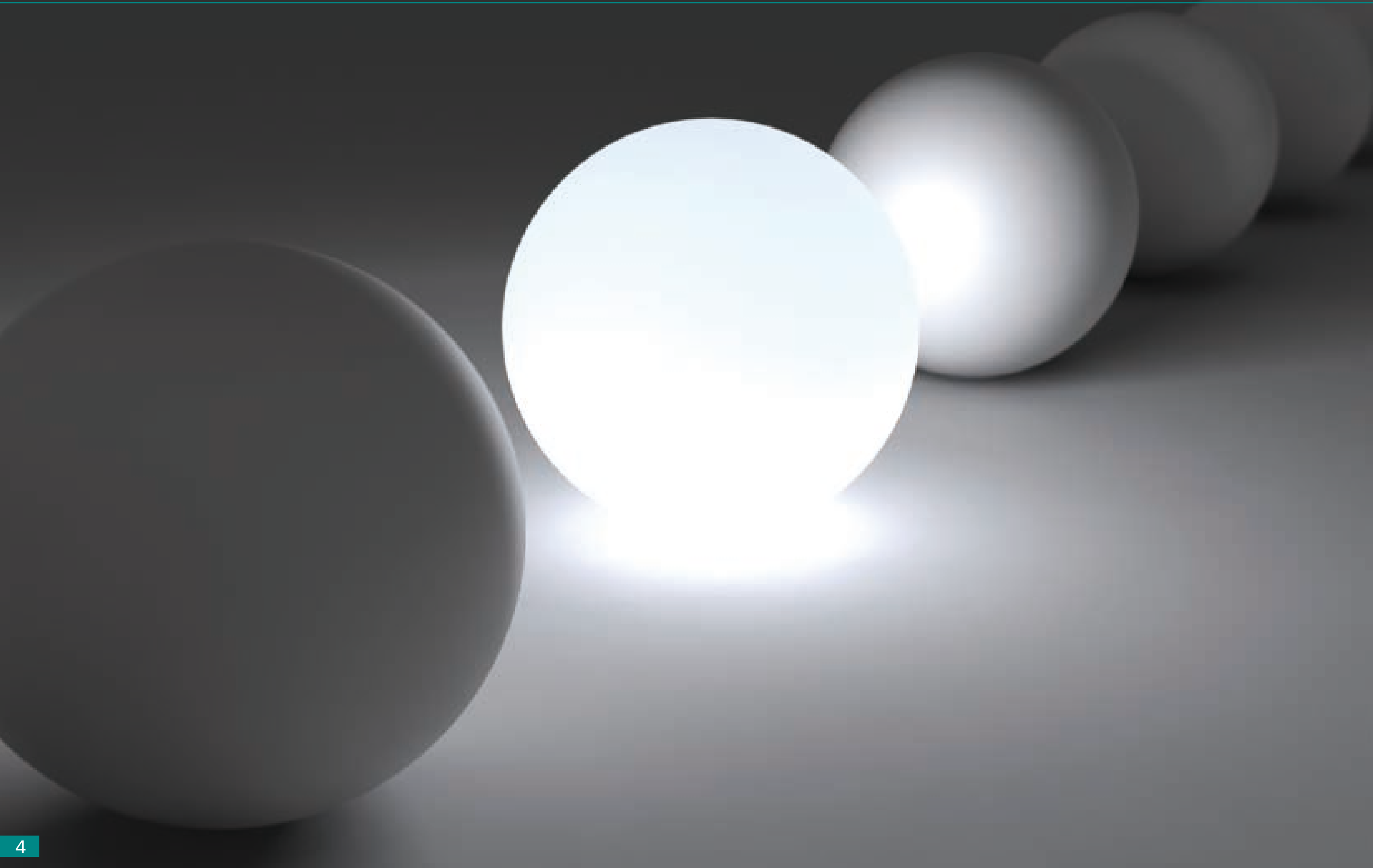
INTEGRALIS
SECURING BUSINESS

Integralis AG Annual Report | 2007

Contents



Integralis Group at a glance

	Revenue	EBITDA	EBIT	Net Income	Earnings per share undiluted	Earnings per share diluted
	M€	M€	M€	M€	€	€
FY 2007	158.3	7.1	5.0	5.2	0.48	0.47
FY 2006	136.7	4.3	2.9	2.8	0.25	0.24
FY 2005	112.8	-0,7	-2.0	-2.2	-0.20	-

	Revenue	Gross Profit	Gross Margin	Personnel Expenses	Operating Expenses	EBITDA	EBIT	EBIT
	M€	M€	%	M€	M€	M€	M€	%
Q4/2007	47.3	15.4	32.6	9.5	2.6	3.2	2.9	6.1
Q3/2007	43.0	13.8	32.1	8.5	3.7	1.7	1.1	2.5
Q2/2007	35.1	12.6	36.0	8.4	2.9	1.3	0.6	1.8
Q1/2007	32.9	12.2	37.2	8.2	3.2	0.8	0.4	1.2
Q4/2006	40.6	13.4	33.0	8.5	2.9	2.0	1.6	3.9

Dear shareholders and business associates,

You should never stop striving for perfection. This applies not only to the products and services of the Integralis Group in comparison with global competition but also to the results which we achieved in 2007.

In the previous year, we were proud to be able to report on the most successful year in our Company's history and the greatly applauded turnaround which we had achieved. Now, Integralis as Europe's leading IT security solution provider is poised for a further substantial surge in sales and earnings. With consolidated revenues of € 158.3 million and net profit for the year of € 5.2 million, we have already outstripped the previous year's figures and also outperformed the sector as a whole. There are several reasons for this encouraging feat. For one thing, Integralis has highly qualified and motivated staff and will be additionally widening its distribution capacity this year. Strategic enhancements to our distribution policy and swift implementation across the Group made a material contribution to this upbeat result. The decision to continue extending the high-margin Support Services and Managed Security Services (MSS) segments has been fully vindicated. We are particularly able to leverage our extensive technological skills, one of Integralis' core competencies, in this area and gradually gain market share from our larger peers. The need for security in mission-critical IT processes as well as the ongoing quest for savings are driving the market.

Accordingly, we are convinced of the long-term success of our Managed Security Services even though we would have liked to have achieved even greater growth in this segment in 2007.

In addition to efforts to broaden our technological skills and spur our organic growth, we are focusing on the further internationalisation of the Integralis Group. In 2007, we stepped up our regional expansion with the acquisition of ProtechT in the United Arab Emirates, a high-growth region. Since the beginning of the year, we have also been strengthening the Integralis Group's clout in Germany/Austria/Switzerland. With the acquisition of Vienna-based Greschitz IT Security, we will be reinforcing our position in the Austrian market on a sustained basis. Still, we do not plan to enter every uncharted part of the world. Rather, we are primarily striving for long-term profitability. That said, we want to implement a sensible regional addition in the new year as part of our "Follow the Sun" principle for our multilingual 7/24 security services. This is also being done in the light of our strategic goal of ensuring that the sun never sets on Integralis' IT Security Services.

As we said at the beginning, you should never stop striving for perfection and one aspect of this is the outlook for 2008 and 2009. Although we passed crucial milestones last year, we want to enter a new dimension in profits meeting high international standards by generating a further substantial increase in our EBIT margin over the next two years.

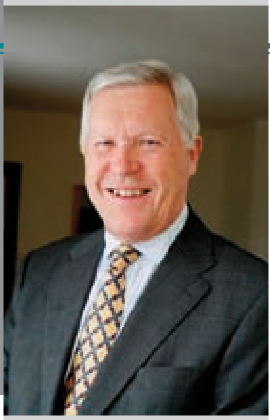
This year we will be stepping up our communications with the financial market to heighten global awareness of our Company.

On behalf of the entire Management Board, I wish to express my gratitude to our loyal shareholders as well as our business partners and employees around the world.

We have every reason to enter the new year on a note of optimism and hope that you will accompany us on this journey so that we can reap the fruits of our success together.

Georg Magg

CEO



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.

There were no changes in the Management Board during the fiscal year 2007.

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. For this purpose, the Management Board kept us regularly informed in both written and oral reports of all relevant aspects of the Group's plans and strategic development, the course of business and its status with minimum delay and on a comprehensive basis. In addition to the risk situation and risk management, the Supervisory Board also devoted its attention to Integralis' compliance programme. The details of any departures in business performance from targets and plans were submitted to the Supervisory Board and examined on the basis of the documents provided.

The annual financial statements for 2007, 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 March 26, 2008, the Supervisory Board discussed at length the auditor's report of the annual financial statements for 2007, the management report, the consolidated annual financial statements for 2007 and the Group management report together with auditing company AWT Horwath GmbH and the

Management Board. The auditing company reported on the material results of the audit. The Supervisory Board consented to the results of the audit. The examination of the management reports revealed that they were consistent with the reports which the Management Board had submitted to the Supervisory Board in the course of the year.

The Supervisory Board for its part examined the annual financial statements for 2007, the management report, the consolidated annual financial statements for 2007 and the Group management report. No objections arose. Accordingly, the Supervisory Board duty adopted the consolidated annual financial statements for 2007 and supports the Management Board's proposal for the allocation of the Company's profit.

The Supervisory Board wishes to thank all employees of Integralis Group as well as the members of the Management Board for the work which they heave performed.

Magnus Wahlbäck

Chairman of the Supervisory Board

The German equities market continued to move upwards in 2007, with many blue chips reaching new all-time highs in the first half of the year in particular. The German benchmark DAX index achieved total gains for the year of 22 percent.

At the same time, the TecDAX technology index performed even more impressively, advancing by 30 percent over the year as a whole. The broader Tec All Shares also achieved gains of no less than 22.8 percent. This performance was driven by strong economic data and healthy company earnings.

Yet, not all German indices closed the year higher. Whereas the MDAX climbed by 4.5 percent, the SDAX was in fact down for the year by 7.0 percent. This was despite the fact that both indices had hit new highs at the middle of the year.

At the end of February, clouds started looming on the horizon, when fears that the US subprime crisis might spread to the global markets unleashed nervousness amongst broader investor groups. The effects of years of rising US real estate prices and the recklessness with which many lenders had approved loans as well as the trend towards securitizing mortgages triggered massive writedowns in the bank and insurance sector. This also placed a damper on the private equity sector, which had reached a new height at the end of June when the US financial investor Blackstone was floated on the market.

Despite the corrections in the second half of 2007, the risks emanating from the subprime crisis were largely ignored by the markets. It was not until the beginning of 2008 that a massive decline in market prices ensued, when

the fallout from the subprime crisis increasingly began to make itself felt and new concerns as to banks' stability shook investors' confidence.

By contrast, Integralis stock performed far better and more consistently than many indices in 2007. Following the turnaround in the previous year, investors regained confidence in the stock, rewarding the fact that management had kept its word on the returns promised. As a result, it gained substantial momentum from its low of EUR 3.20 in mid January. In fact, spurred by good business figures and news of the acquisition of IT security solution provider Protech T, it was already trading close to EUR 5 by the end of April before entering a consolidation phase. The range around the EUR 4 mark proved to offer strong downside support. After a protracted sideways movement, the stock was able to buck market trends and post strong gains at the beginning of September. In mid November, it reached a high for the year in response to the raised earnings guidance and the planned acquisition of Greschitz IT Security. After a brief period of substantial profit-taking across the market as a whole, Integralis stock closed 2007 with gains of 55 percent, making it one of the clear outperformers amongst technology stocks.

Main figures	**2007**	**2006**
Closing price year end	€ 5.75	€ 3.84
High for the year	€ 6.22	€ 4.25
Low for the year	€ 3.20	€ 1.86
Performance of Integralis stock	55.8 %	98.9 %
Performance of Tec All Shares	22.8 %	23.2 %
Performance of Tec Dax	30.0 %	24.5 %
Performance of DAX	22.0 %	21.3 %
Number of shares at the end of the year	11,585,137	11,547,577
Market capitalization at the end of the year	€ 66.4 mn	€ 44.3 mn
Earnings per share	**€ 0.48**	**€ 0.25**

Threats to IT security growing in complexity

2007 marks a turning point in threats to IT security in the corporate sector. Amateurs are no longer at play - new methods of attack are becoming increasingly complex and are clearly no longer the work of beginners. Instead, they are designed with increasingly sophisticated research and development methods, as the Cisco subsidiary IRONPORT states in its 2008 trend report.

Global volumes of spam rose by 100 percent in 2007 to over 120 billion messages a day. To a growing extent, the purpose of this spam is not so much to sell products but increasingly to build up and extend existing spam networks. Although it is becoming harder and harder to detect viruses, they are also growing dramatically in number. The duration of individual attacks is declining but the number of attacks is rising at an enormous rate. What is more, the new variations of Trojans and malware are adaptable and intelligent and in many cases can hide inside PCs for months or even years without being detected.

Spam, virus and malware attacks cost the companies affected gigantic sums of money. Thus, according to a study conducted by the University of Hamburg, spam filtering alone causes additional costs of EUR 500 per employee each year. The loss of data through electronic communications is even more expensive. Thus, experts estimate that the critical data of more than 60 million people fell into the wrong hands last year. Purging computers and the work time required to do this costs the companies concerned around USD 20 billion a year. 60 percent of corporate data is still exposed on unprotected PCs and laptops. What is more, the risks posed by mobile devices such as PDAs, Blackberries and wireless networks are still being underestimated despite their increasing use and acceptance in corporate communications.

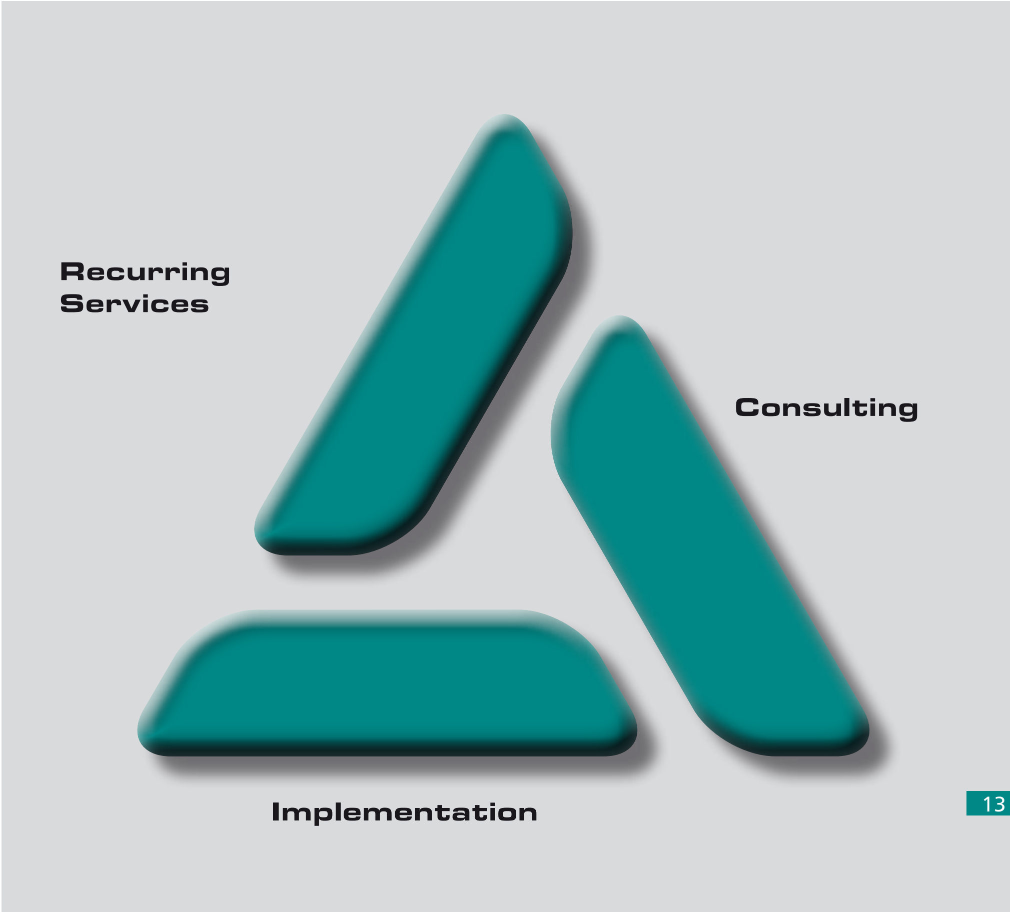
As stand-alone solutions and preparations for conventional attack scenarios do not provide any genuine sustained protection, Integralis' integrated approach is increasingly being deployed for IT security solutions. At the same time, Integralis offers a comprehensive range of security products and services and works closely with leading technology providers.

The three pillars of the business model

In our **consulting activities**, we offer extensive expertise from strategic IT security advice through to the auditing of corporate networks.

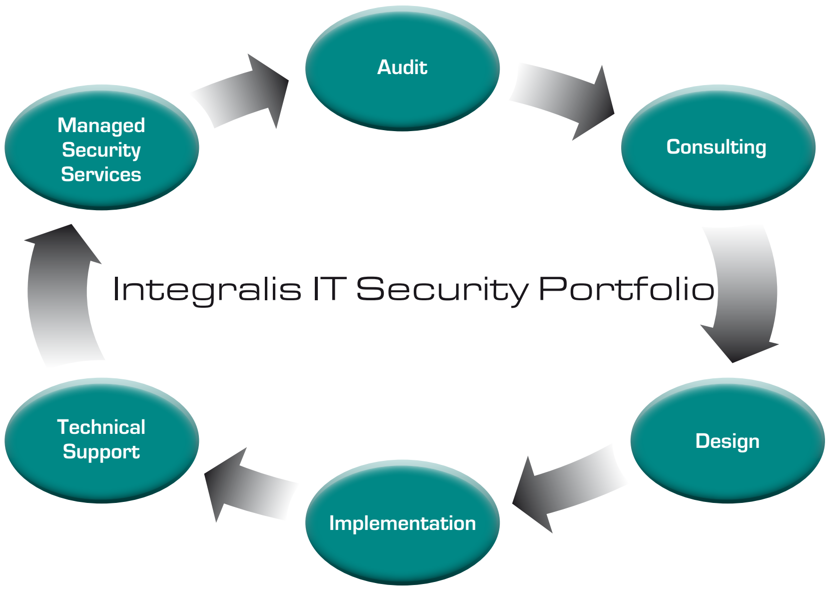
Implementation involves integrating the hardware and software of leading global vendors to produce integrated secure solutions.

Our **recurring services** support companies' operations and entail the provision of our own support and managed security services. With these highly scalable services, we are able to assist our customers around the clock. Our globally networked Security Operation Centers monitor and manage our customers' IT security environments.



Bespoke solutions for IT security in all process phases:

Integralis offers bespoke solutions to optimize IT security in all phases of the IT security process. Roughly 70 percent of the DAX 100 and FTSE companies rely on the Company's specific IT security skills and its twenty years of experience which is derived from systematically specializing in its core business.



Integralis IT Security Portfolio

The IT security process commences with the **consulting phase**. This entails the provision of technical and organizational advice on security-related matters and the general structuring of the business processes which are of relevance for security. For this purpose, allowance is made for the specific requirements of the company and its sector as well as regulatory restrictions. When it comes to the establishment of Information Security Management Systems (ISMS), our customers benefit from our many years of experience and the efficiency of our own ISMS toolbox. Thanks to the large number of successful international projects, this tool box is very comprehensive. In the next step, Integralis defines security policies and performs risk and gap analyses. The end of the consulting phase marks the preparations for ISO 27001 certification if required.

To handle these consulting-intensive processes, Integralis has more certified security specialists than any other company in Europe. What is more, some of our employees work in standard-setting bodies, something which adds value, confidence and future proofs customers' investments.

In the **design and implementation phase**, a technical concept is developed to address the security-critical weaknesses identified. This is followed by system integration, during which experienced specialists implement the concepts, followed by customer training.

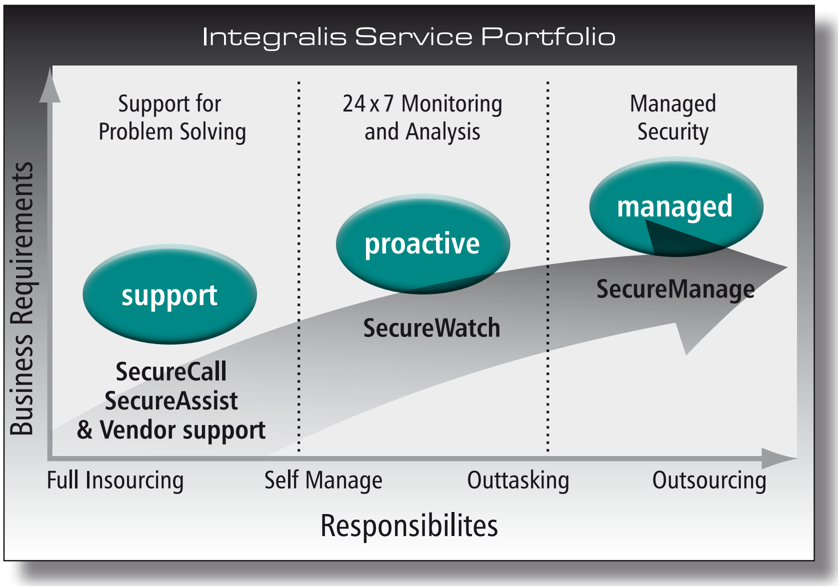
The main elements and aspects of the operative implementation of integrated IT security are set out in the following diagram:

Infrastructure Security	Secure Content Management	Security Operations	Identity & Access Management
Firewall, UTM, VPN	Secure Webbrowsing	Security Information & Event Management	Identity Management
Secure Application Delivery	E-Mail Security	Vulnerability Management	Smartcard-Solutions
Network Access Control	Data Integrity	Compliance Tools	Strong Authentication
Intrusion Prevention	Data Loss Prevention		Single Sign-on

Following successful **implementation**, Integralis offers extensive services for ongoing operations.

As part of **technical support**, we provide 7/24 multilingual assistance. Depending on customer requirements, modular service packages are available ranging from telephone support to on-site service. The decisive advantage for the customers is that they obtain competent support for the entire solution from a single source.

Managed Security Services (MSS) are the most comprehensive form of support for customers' IT security environments. Even large companies are not always able to cope with the enormous requirements of network security using their own resources and are thus increasingly relying on external specialists to manage their mission-critical



processes. Cost aspects are playing an increasingly important role in this respect.

Managed Security Services can handle even the most complex security tasks successfully, while simultaneously helping to lower operating costs and freeing up the customer's capital. As a managed security service provider, Integralis is always at the forefront of the market and keeps pace with the latest technological developments.

Unique architecture for Managed Security Services

Integralis has established its own global fail-safe architecture and, with Integralis Security Information System (ISIS), completed anticipatory development work on its own Security Information and Event Management (SIEM) Security Service Appliance (SSA). The SSA is installed in the customer's network, where it offers the unique possibility of monitoring linked systems and ad-

ditionally analyzing log files on a real-time basis. A quarter of a billion log entries are analyzed each day without the need for this data to be transferred across the network. In this way, there is no extra load on the customers' network. The preliminary evaluation of the security events is performed directly in the SSA, which condenses and correlates the data for transfer via a secure fail-safe link with the Integralis SOC's for further analysis. At the same time, the SSA operates as a secure remote access point for the systems managed on the customer's premises. If the Internet link or firewall fails, a dial-up link is automatically established. This development work makes a crucial contribution to ensuring that Integralis is able to offer this unique Managed Security Service around the world.

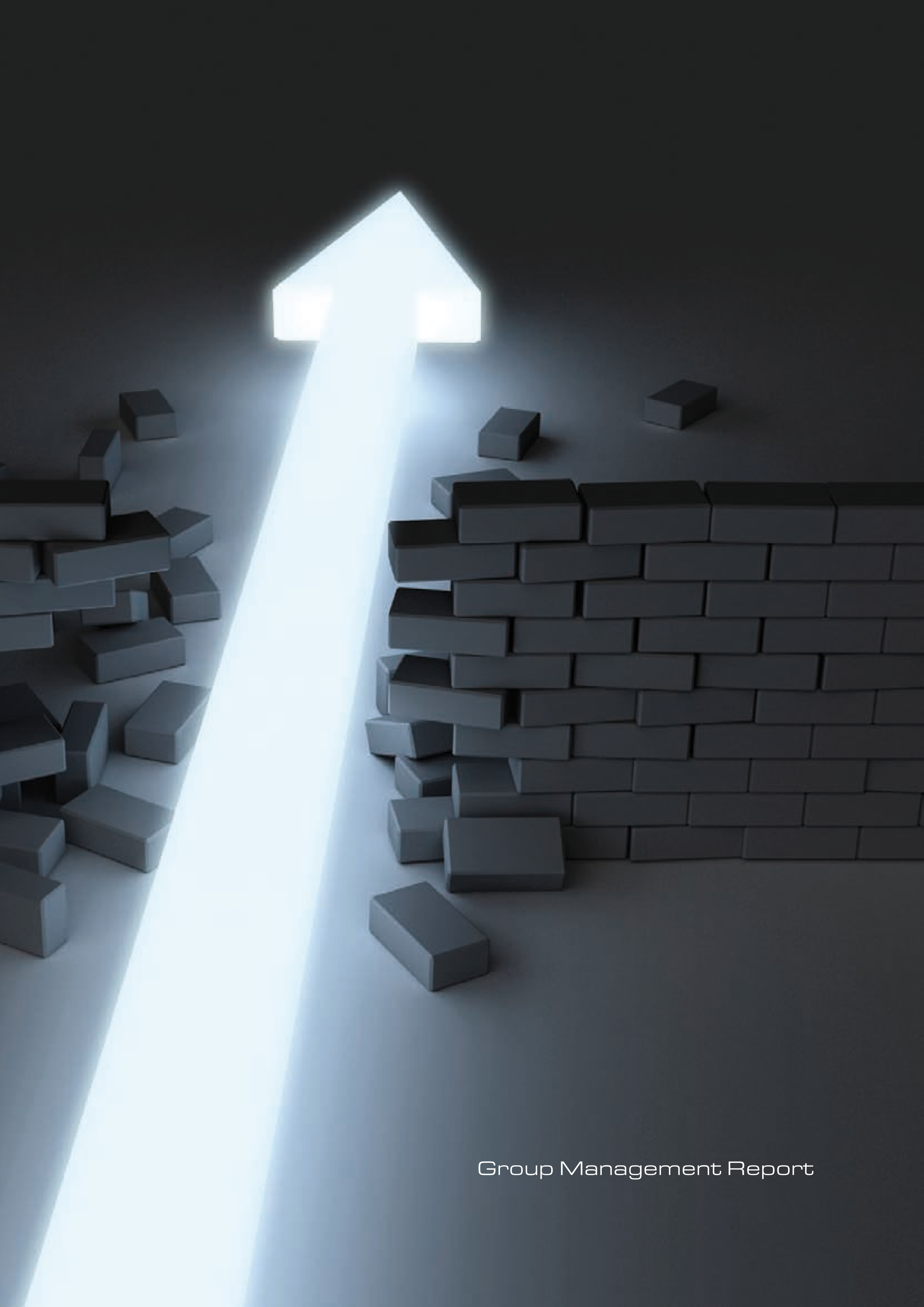
In the Integralis MSS world the sun never sets. Indeed, Integralis' services "follow the sun". The Security Operation Centers (SOC) around the world are linked to each other. Roughly 50 highly trained specialists offer support in three languages (German, English, and French) at facilities in Germany, the United Kingdom and the United States. In addition, a further two virtual SOC's operate in Sweden and France. Integralis services are being utilized by customers in over 50 countries.

Finally, the IT security process culminates in an **audit**. This involves submitting the individual policies and processes to a review. Topology analyses are produced and penetration tests performed. This also includes "ethical hacking", i.e. deliberate attacks on the customer's live and production IT systems to identify any shortfalls. Auditing activities also comprise of such aspects as social engineering and forensic analyses. Social engineering involves identifying inter-human coercion exerted with the aim of gaining unauthorized access to data. Forensics covers extensive analyses following an attack on the systems in order to formulate recommendations for the elimination of weaknesses and to restore the system operability quickly.

Strong market drivers for IT security

Legislative regulations and rules for managing data are becoming increasingly more stringent. Compliance requirements have heightened awareness of IT security. Thus, companies in Germany must observe the "Datenschutzgesetz", while operators in the UK are bound by the "Data Protection Act" and those in the United States by the provisions of the "Sarbanes-Oxley Act". Information confidentiality and integrity must be upheld, documented and be able to withstand external review. Exposure to the resultant liability risks - including for management - is rising all the time.

Research institute Gartner sees a greater volume of outsourcing as a further trend in the IT security market. With business demands rising and companies forced to go to greater lengths to ensure the reliability of their IT systems in the interests of competitiveness, IT activities and processes must undergo continuous development. As IT systems are thus becoming more and more valuable, companies are increasingly concentrating on the strategic value of their IT and security activities. Accordingly, IT security is increasingly becoming a management task.



Group Management Report

1.

Business performance, underlying conditions and competition

In 2007, the European economy again experienced robust growth, expanding by 2.7% for the year as a whole. This placed it ahead of the United States, which grew by 2.2%, although European expansion slowed in the fourth quarter according to Eurostat figures. Whereas the UK reported a real increase of 3.1% in GDP for the entire year, Germany achieved a figure of 2.5%, ahead of France, which at 2.1% remained below the European average.

As in the previous year, the IT security industry performed substantially better than the economy as a whole. According to Experton Group estimates, sales of IT security products in Germany alone came to EUR 2.08 billion, an increase of 13.4% over the previous year. Integralis benefited, to an above-average extent, from the continued upbeat conditions in the IT security sector, thus extending and strengthening its market position. The main growth drivers in Europe were e-mail and web security. Numerous security breaches and the sharp rise in spam and malicious code in websites forced companies to implement appropriate solutions. At the same time, IT threats are becoming increasingly more complex, with malware diversity growing rapidly.

Never before had so much personal data been stolen around the world as in 2007. In fact, attrion.org, a group of Internet security experts, calculates that the number of data thefts rose threefold over the previous year. The growing volume of outsourced services as well as the heightened importance of strategic and organisational security consulting resulted in the greater implementation of information security management systems (ISMS) and thus rising revenues. The Integralis Group's growth was also driven by such security-related issues as digital corporate IDs, smart cards and single sign-on (SSO) systems. In the case of SSO in particular, the benefits for companies were obvious. The growing complexity of potential IT threats is also favouring the integrated approach taken by Integralis' range of products and services, resulting in clear competitive advantages over non-integrated stand-alone solutions.

After the Company's successful turnaround during the previous year, the figures achieved in 2007 demonstrate the sustainability of the Integralis Group's success. Thus, consolidated net profit rose significantly, almost doubling over the previous year. In fact, management's targets for 2007 were exceeded. This generally very positive performance has substantially strengthened the confidence of our customers, partners and shareholders at all levels, reinforcing the basis for the Group's future performance.

The competitive environment in which Integralis operates is heterogeneous and comprises three main groups:

- International telecommunications groups and IT outsourcers operating at an global level
- Local and international IT network integrators also involved in security
- Local IT security specialists

Integralis is successfully asserting itself in this environment and has also been able to gain market share from substantially larger competitors in some segments. Integralis' greatest assets are the largest team of IT security specialists in Europe and the United States. With its many years of experience and vendor-independence, the Company is able to implement individual security solutions. For this reason, many large corporations and roughly 70% of the DAX 100 and FTSE companies rely on

Integralis' services for protecting mission-critical processes.

Integralis offers a full range of appropriate integrated solutions along the entire IT security value chain. The broad services range consists of IT security consulting, IT audits, preparations for certification, design and on-site implementation as well as global 24/7 support and professional managed security services (MSS) via its security operations centres (SOC).

Looking forward to the year ahead, the previous growth drivers for the IT security business will continue to play a crucial role. However, signs of new trends in customer demand are already emerging. Data loss/leakage prevention (DLP) is set to grow in importance and is, in fact, being called for by the German government. This includes the need for the prevention of business espionage and the theft of data by internal staff. In the infrastructure area, industry experts see a greater concentration on network access control (NAC), which should generate greater growth with larger projects in 2008. A new trend is likely to be application security. More and more customers need to be able to provide their staff and suppliers with access to applications such as SAP or Oracle in the form of high performance and secure application services delivery via the Internet or Intranet. Considering these requirements, WAN optimisation projects will also rise, promising strong growth in future years.

2.

Results of Operations

The figures at a glance: *

in € m	2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	2007
Revenue	136.7	32.9	35.1	43.0	47.3	158.3
Gross Profit	47.5	12.3	12.6	13.8	15.4	54.1
Gross Margin in %	34.7	37.3	36.0	32.1	32.6	34.2
Personnel Expenses	31.8	8.2	8.4	8.5	9.5	34.6
Personnel expenses in %	23.3	24.8	24.1	19.7	20.2	21.9
Other operating expenses	11.5	3.2	2.9	3.7	2.6	12.4
Other operating expenses in %	8.4	9.9	8.2	8.5	5.6	7.8
EBITDA	4.3	0.8	1.3	1.7	3.2	7.1
EBITDA in %	3.1	2.6	3.8	3.9	6.8	4.5
EBIT (operating result)	2.9	0.4	0.6	1.1	2.9	5.0
EBIT Margin in %	2.1	1.2	1.8	2.5	6.1	3.1
Net Income	2.8	0.4	1.1	1.2	2.5	5.2
Net Income in %	2.0	1.4	3.2	2.8	5.2	3.3
Earnings per share as per IFRS (undiluted)	0.25 €					0.48 €

* All percentages in these financial statements have been calculated on the basis of rounded EUR thousands

2.1
Revenues by region

Integralis' consolidated revenues grew again by double-digit rates in 2007, climbing by 15.7% to € 158.3 million. New acquisition ProtechT in the United Arab Emirates was consolidated for the first time in April 2007. Once again, the greatest contribution to revenues was made by the United Kingdom, which also posted the largest rate of growth. Business in this market was particularly strong in the fourth quarter, accounting for almost one third of full-year revenues.

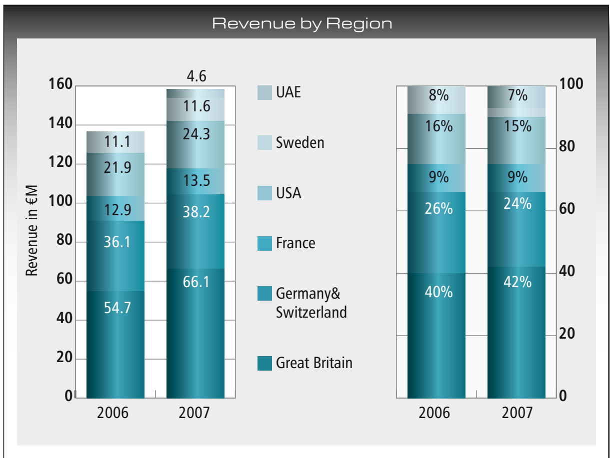
Revenue in € m	2006	2007	Change in %
Great Britain	54.7	66.1	20.7
Germany / Switzerland	36.1	38.2	5.7
USA	21.9	24.3	11.0
France	12.9	13.5	4.9
Sweden	11.1	11.6	4.3
United Arab Emirates	-	4.6	100.0
Total	**136.7**	**158.3**	**15.7**

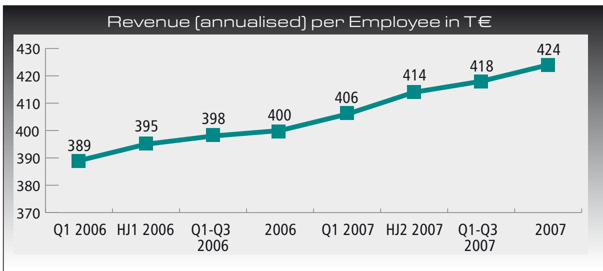
EBIT in € m	2006	2007	Change in %
Great Britain	2.2	2.7	21.4
Germany / Switzerland	1.0	1.8	82.1
USA	0.8	1.2	47.6
France	0.1	0.0	-85.7
Sweden	0.7	0.6	-8.7
United Arab Emirates	-	0.2	100.0
Unallocated	-2.0	-1.5	-19.1
Total	**2.9**	**5.0**	**73.7**

At € 2.7 million, up 21.4% on the previous year, the United Kingdom also made a major contribution to consolidated EBIT. Although revenues in Germany/Austria/Switzerland rose by only 5.7% to € 38.2 million, earnings quality was strong, with EBIT surging by an impressive 82.1% to € 1.8 million. This was due to the focus on high-margin technologies. Despite deteriorating economic conditions in the United States, Integralis achieved an 11.0% increase in that market accompanied by a rise of 47.6% in EBIT.

With earnings coming to T€ 21, France again trailed the rest of the Group. However, the favourable effects of the restructuring efforts which have been taken there, are unmistakable. Revenues grew by just on 5%.

Solid growth was achieved in Sweden thanks to a new distribution partnership. Although revenues were up 4.3%, at T€ 640 EBIT was down on the previous year. Consolidated for the first time as of April 1, 2007, ProtechT, which is based in the fast growing United Arab Emirates, reported revenues of € 4.6 million, contributing T€ 244 to consolidated earnings.





2.2

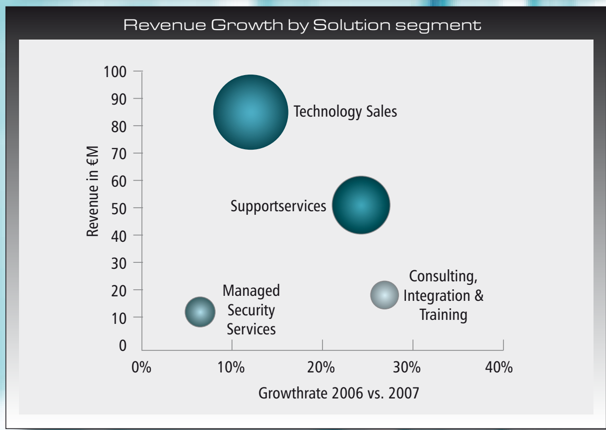
Revenues by solution segment

All solution segments grew dynamically in the year under review, with the trend seen in the previous year, i.e. growth in consulting and service business, continuing. The increase in the share of revenues from this segment is generally accompanied by higher-margin business.

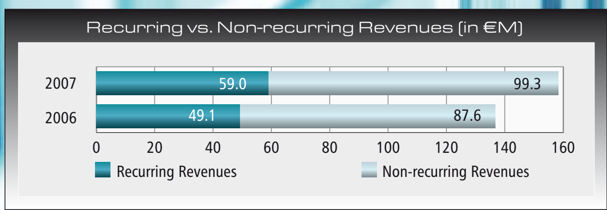
Consulting, integration and training expanded rapidly. Here, the growth achieved in Sweden was particularly significant.

As in the previous year, the share of recurring revenues (support services and managed security service) grew by over 20%, while non-recurring revenues rose by 13.2%. This structural improvement is strengthening the Integralis Group's long-term foundations on a sustained basis.

	2006		2007		Change
	in € m	in %	in € m	in %	in %
Technology sale	74.9	54.8	83.0	52.4	10.9
Support Services	39.8	29.1	49.1	31.0	23.4
Consulting. Integration & Training	12.7	9.3	16.3	10.3	27.3
Managed Security Services (MSS)	9.3	6.8	9.9	6.3	6.4
Total	**136.7**	**100.0**	**158.3**	**100.0**	**15.7**



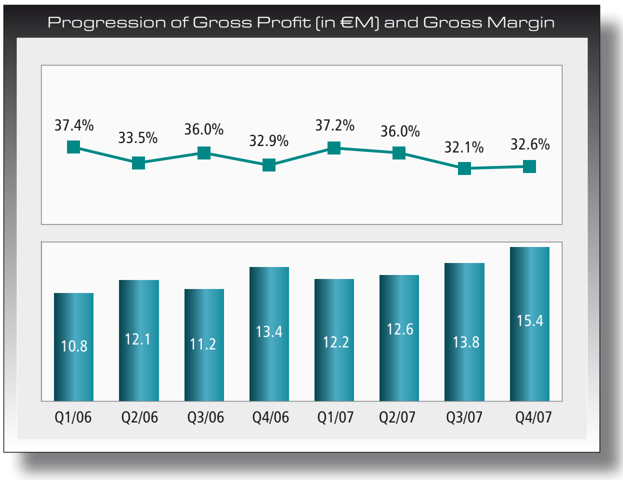
	2006		2007		Change
	in € m	in %	in € m	in %	in %
Recurring Revenues	49.1	35.9	59.0	37.3	20.2
Non-recurring Revenues	87.6	64.1	99.3	62.7	13.2
Total	**136.7**	**100.0**	**158.3**	**100.0**	**15.7**



2.3
Gross profit and gross margins

Consolidated gross profit grew by almost exactly the same rate as revenues, coming to € 54.1 million in 2007 (previous year € 47.5 million). At 34.2%, the gross margin was slightly below the previous year's figure of 34.7%. After contracting by a small degree in the course of the year up until the third quarter, the margin widened again in the final quarter of the year despite the large share of technology sales, which normally generate narrower margins.

Generally speaking, the relative share of technology sales has continued to narrow in spite of a steady absolute increase. Thanks to this structural improvement in the revenue mix over the past two years, the gross margin stabilised after coming under pressure in 2004 and 2005.

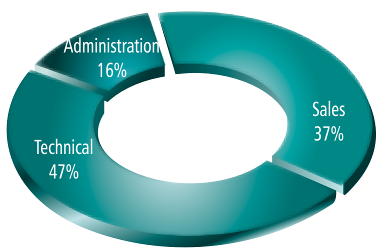


2.4
Personnel and other operating expenses

The average headcount rose during the course of the year, with Integralis employing an annual average of 424 people around the world, an increase of 6.0% over the previous year (400 employees). On a sequential quarterly basis, there was moderate personnel growth from the end of the first quarter with an average headcount of 406 to the end of the fourth quarter (434). Part of this addition is due to the acquisition of ProtechT, which employed an annual average of 14 people. The Integralis Group's pronounced technological competence is also reflected in the number of technical employees, which came to an annual average of 200 for the first time. According to its own research, Integralis has more certified security experts than any other company in Europe.

The market for qualified IT security staff remains characterised by strong demand. This constitutes a permanent challenge for the Group's human resources department in its efforts to protect and extend its expertise and competitive lead.

In 2007, Group personnel expenses came to € 34.6 million (previous year € 31.8 million), an increase of 9.0% and thus less than the rate by which



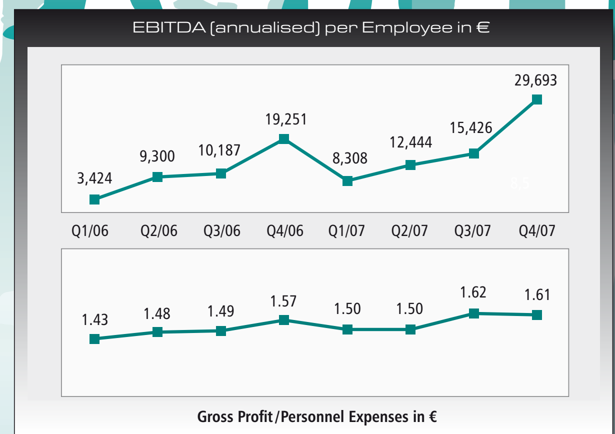
revenues grew. At 21.9%, the personnel expense ratio was thus well below the previous year's figure of 23.3%.

Growth rates for personnel expenses in the individual quarters are due to moderate recruiting activities as well as the high variable compensation components, which correlate with the achievement of targets in the corresponding periods.

The EBITDA per employee ratio indicates very favourable staff productivity. Thus in 2007, EBITDA of T€ 16.6 was achieved per employee, an increase of 56.6% over the previous year (T€ 10.6). The achievement of EBITDA budget targets plays a key role in the measurement of the variable compensation components for many employees and thus represents a clear incentive.

Other operating expenses came to € 12.4 million. Although this was up on the previous year (€ 11.5 million), this did not grow as quickly as revenues. Whereas in 2006 the ratio of operating expenses to revenues stood at 8.4%, this figure was reduced to 7.8% in the year under review. Particular success was achieved with a new foreign currency management approach. After losses of T€ 181 in the previous year, currency gains of T€ 482 were earned in 2007.

The structure of total expenses (personnel and other) is exhibiting a favourable trend. Thus, the ratio of total expenses to gross profit improved from 91.0% in 2006 to 86.9%. On a sequential quarterly basis, this ratio dropped successively, standing at only 79.0% in the fourth quarter.



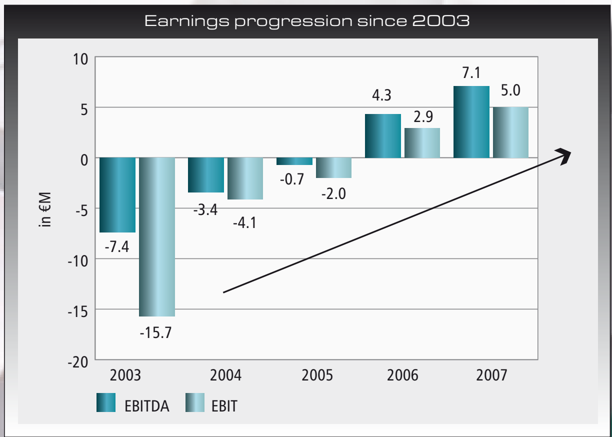
2.5 Depreciation & amortisation, interest, taxes and net profit for the year

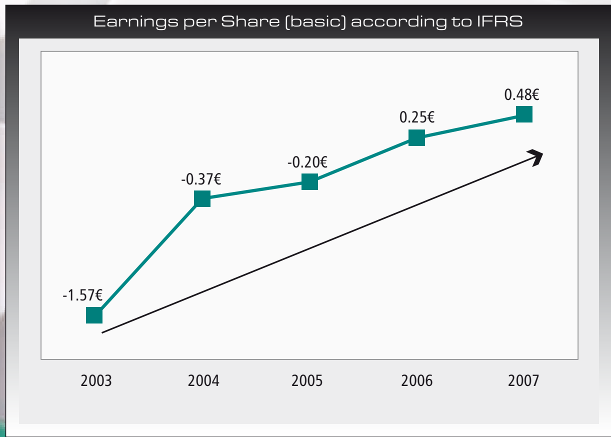
After two years of almost identical figures, the Integralis Group's depreciation & amortisation charge increased to € 2.1 million in 2007 (previous year € 1.8 million). This was due to the newly acquired company ProtechT. As a result of the purchase price allocation in accordance with IFRS 3, the orders held as of the date of acquisition (€ 0.3 million) were capitalised and written off in full in the second and third quarters.

Improvements to cash management resulted in net interest income again. Thanks to higher interest income on fixed-term deposits and lower interest expenditure on provisions, net interest income rose to € 0.3 million in 2007 (previous year € 0.2 million).

Following the successful turnaround in the previous year, the Integralis Group was able to confirm the recovery in earnings in 2007. Thus, EBITDA grew by 66.0% to € 7.1 million (previous year € 4.3 million). In fact, EBIT surged by 73.6% over the previous year, coming to € 5.0 million in the year under review (previous year € 2.9 million), equivalent to an EBIT margin of 3.1%.

Allowing for the exceptional income of € 0.4 million earned in the previous year from the sale of a minority interest, post-tax earnings more than doubled to € 5.2 million (previous year € 2.8 million; adjusted € 2.4 million). Accordingly, earnings per share rose from € 0.25 in 2006 to € 0.48 in the year under review, the best figure in the Company's twenty-year history.

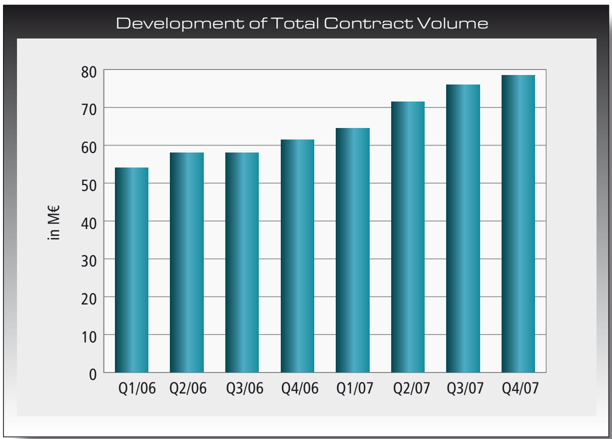




3.

Financial position, net assets and order backlog

The order backlog rose appreciably over the previous year from € 14.4 million to € 17.9 million. This was also accompanied by a significant increase within a single year in the total contract volume – an indicator of future and recurring revenues. This is defined as the total value of all contracts which have been entered into and are active or to be commenced in the future.



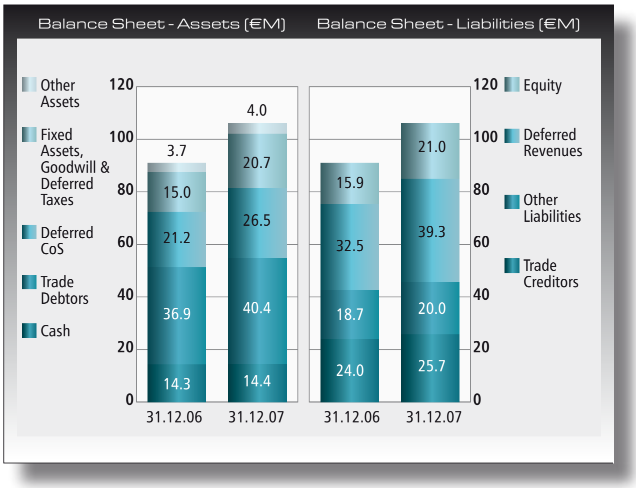
Total consolidated assets were up again year on year as of December 31, 2007, rising by 16.5% to € 106.0 million (2006: € 91.1 million) not least of all thanks to substantially improved net profit. The balance sheet structure also improved leading to a higher equity ratio, which rose from 17.4% in the previous year to 19.8%. This is all the more encouraging considering that the fourth quarter and particularly December is the busiest time of the year, resulting in a disproportionately strong increase in receivables and liabilities at the end of the year. This effect is further amplified by the growing volume of recurring-income contracts, which are generally billed at the end of the year.

Current assets rose to € 85.3 million (2006: € 76.1 million), reflecting the brisk business activity. Specifically, this is due to an increase in trade receivables as well as deferred cost of sales. The sharp year-on-year increase of 16.4% in fourth quarter revenues also left traces on trade receivables and inventories.

At € 14.4 million on the balance sheet date, cash and cash equivalents were unchanged over the previous year despite the increase of € 1.2 million in Group investing activities. What is particularly encouraging is the substantial improvement in cash flow from operating activities, which reached a new high of € 5.4 million (2006: € 1.9 million) in the year under review. This increase is due to the substantial rise in profitability to € 5.2 million (2006: € 2.8 million) as well as further improvements in the working capital structure. Investing activity comprised the final earn-out payments for Netsecure, Sweden, which had been acquired in 2005, as well as the acquisition of ProtechT, Dubai, in April 2007. In the year under review, Integralis spent € 1.3 million on buying back its own shares, down from € 4.4 million in the previous year.

Non-current assets also increased to € 20.7 million at the end of the year (previous year € 15.0 million) due to greater goodwill and deferred tax assets. The increase of € 5.0 million in goodwill is attributable to the acquisition of ProtechT FZ LLC, Dubai, in April 2007. First-time recognition of deferred tax assets from unused tax losses recorded by some subsidiaries caused this item to rise by € 1.0 million to € 1.4 million.

As of December 31, 2007, the main items of the balance sheet compared with the corresponding figures for the previous year were as follows:

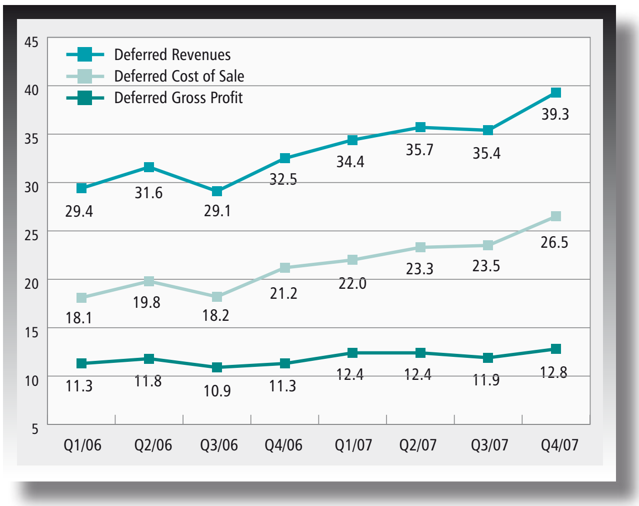


The significant increase in net profit for the year of € 5.2 million resulted in a corresponding increase in equity.

In line with the aforementioned growth in revenues and the seasonal effects on business, current liabilities climbed to € 80.6 million, up from € 71.0 million in the previous year. Trade payables and deferred revenues made a key contribution to this, climbing as they did by € 8.5 million.

At € 4.5 million, non-current liabilities were up only marginally over the previous year (€ 4.2 million). The slight increase in non-current liabilities is due to the earn-out obligation in connection with the acquisition of ProtechT, Dubai. Aside from a small number of finance leases, the Group does not utilise any external borrowings with related interest charges.

The following diagram illustrates trends in deferred cost of sales and revenues as well as seasonal effects.



4. Remuneration report

4.1 Management Board remuneration

The members of Integralis AG's Management Board receive annual compensation comprising fixed and variable components. In addition, there are compensation components with a long-term incentive effect. The Supervisory Board reviews the reasonableness of the variable components in regular intervals. The Management Board compensation is performance-oriented and primarily comprises of the following three elements:

- fixed component
- variable component
- share-based component (share options)

The fixed component is paid in the form of a monthly salary. The amount of the variable component depends on the extent to which the Group EBIT targets agreed upon with the Supervisory Board are achieved. The underlying model is progressive, i.e. the variable component payable if, for example, 50% of the agreed annual EBIT target is achieved equals only 35% of the target compensation. The targets are based on a three-year forecast, which assumes a significant annual increase in the Group's EBIT.

The share-based compensation is paid in the form of share options and is reviewed annually by the Supervisory Board. The existing share options were issued in accordance with the option terms applicable to all employees and explained in the notes to the annual financial statements. Retrospective changes to the targets are not possible. In 2007, all members of the Management Board were awarded 25,000 share options each from the SOP 2007 programme at a strike price of € 4.19 per option. As of the date of award, the fair value per option stood at € 2.20 calculated in accordance with the provisions of IFRS 2 by utilising a Monte Carlo simulation. Further information on the fair value can be found in the description of the SOP 2007 option programme in the notes to the consolidated financial statements for 2007. In accordance with Section 314 No. 6a of the German Commercial Code, the full fair value of the subscription rights awarded in 2007 was allocated to Management Board compensation for 2007.

In addition, Georg Magg and Roger Friederich receive a monthly flat-rate car allowance to cover the use of private cars on company business. Management Board member Graham Jones uses a company car in accordance with the internal guidelines for company cars applicable in the United Kingdom. The members of the Management Board receive allowances for private pension savings schemes, which are paid directly into corresponding insurance policies (e.g. support funds) by the Company. No direct pension obligations are held by the Company or any other Group members.

As of the balance sheet date, there were no obligations relating to benefits payable in the event of the termination of the Management Board position.

In the year under review, total compensation came to € 1.2 million (2006: € 1.0 million). The individualised breakdown is as follows:

Distribution of remuneration as per § 314 n° 6a HGB	Georg Magg in T€	Roger Friederich in T€	Graham Jones in T€	Total in T€
Proportion of remuneration not dependent on results	180	129	172	481
Proportion of remuneration dependent on results	185	139	185	509
Proportion of remuneration with long-term incentive effect	55	55	55	165
Car Allowance	11	11	-	22
Company contributions to private age care	18	15	31	64
Total	**449**	**349**	**443**	**1,241**

Shares and Subscription Rights of the Management Board as of 31/12/2007

Management Board	Shares	Share Options
Georg Magg	25,000	60,000
Graham Jones	22,500	53,250
Roger Friederich	16,200	35,000
Total	**63,700**	**148,250**

Management Board shareholdings 0.55%

4.2

Remuneration of the Supervisory Board

The Supervisory Board of Integralis AG receives total fixed compensation of T€ 50 plus VAT if applicable, as approved by the shareholders. Of this total amount, the Chairman of the Supervisory Board receives 4/9, his deputy 3/9 and an ordinary member of the Supervisory Board 2/9 per year. The compensation is paid on a prorated basis for the time served on the Supervisory Board in any financial year.

In addition, up until 2005 the members of the Supervisory Board received variable share-based compensation under the STAR programme, the details of which are described in the notes to the annual financial statements. At the end of the year, the value of the existing share appreciation rights broke down as follows:

As no further rights may be awarded under the STAR programme, a resolution was passed at the annual general meeting on May 10, 2007 to introduce a new performance-tied compensation component for the Supervisory Board. This resolution stipulates that the members of the Supervisory Board are to receive variable, performance-tied annual compensation for the first time as of December 31, 2007. This compensation equals T€ 15 for every T€ 1,000 by which earnings before interest and taxes (EBIT) as stated in the consolidated financial statements exceed the EBIT recorded in the previous year. The EBIT-linked annual variable compensation is capped at a maximum of T€ 150 per year.

Supervisory Board	Number of Rights	Offer Acceptance	Base Rate in €	Value as at 31/12/07 in €
Arnd Wolpers	12,500	20/09/2004	2.33	3.42
	12,500	08/08/2005	3.52	2.23
Jochen Tschunke	12,500	15/09/2004	2.33	3.42
	12,500	08/08/2005	3.52	2.23

5.

Explanatory report on the disclosures made in accordance with Section 315 (4) of the German Commercial Code

As of the end of the year, the Company's subscribed capital stood at € 11,585,137 and is divided into 11,585,137 no-par-value registered shares. There is no right to claim the issue of individual share certificates. The shares are ordinary shares granting full voting and asset rights.

There are no restrictions on voting rights or the transfer of shares.

The Company is aware of no direct or indirect shares in its capital exceeding 10% of the voting rights.

As there are no shares with special rights, there are no holders of such shares.

The shares held by employees do not exclude the exercising of controlling rights.

The Company's Management Board comprises of two or more persons who are appointed by the Supervisory Board. Otherwise, the appointment and dismissal of the members of the Management Board is governed by Sections 84, 85 of the German Stock Corporations Act. Amendments to the articles of incorporation are governed by the provisions contained in Sections 133, 179 of the German Stock Corporations Act. In the absence of any binding statutory provisions to the contrary, Article 11 (2) of the Company's articles of incorporation stipulates that resolutions are passed with a simple majority of the votes cast and that the majority of capital is deemed to constitute the simple majority of the share capital represented during the passing of the resolution.

The various arrangements as to the Company's capital as of the balance sheet date are as follows:

► Authorised capital 2005/I:

The Management Board is authorised with the Supervisory Board's approval to increase the Company's capital on a cash or non-cash basis by up to € 5,250,000.00 through the issue of up to 5,250,000 new registered shares once or in several steps on or before May 31, 2008. The Management Board may with the Supervisory Board's approval exclude the shareholders' pre-emptive subscription rights.

► Authorised capital 2006/I:

The Management Board is authorised with the Supervisory Board's approval to increase the Company's capital on a cash or non-cash basis by up to € 33,250.00 through the issue of up to 33,250 new registered shares once or in several steps on or before May 31, 2008. The Management Board may with the Supervisory Board's approval exclude the shareholders' pre-emptive subscription rights to the extent that the shares for the Management Board members Graham Jones and Georg Magg are issued at a price of at least EUR 2.70 per share.

► Contingent capital 2002/I:

The shareholders have approved contingent capital of up to € 38,000.00 through the issue of up to 38,000 shares (contingent capital 2002/I). The contingent capital 2002/I is required for granting option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other entities affiliated with the Company pursuant to the resolution of authorisation passed by the shareholders at the annual general meeting held on May 29, 2002 and amended by resolutions passed at the annual general meetings held on June 23, 2003, May 26, 2004, May 24, 2006 and May 10, 2007 (stock option programme III).

Contingent capital 2003/I:

The shareholders have approved contingent capital of up to € 82,500.00 through the issue of up to 82,500 shares (contingent capital 2003/I). The contingent capital 2003/I is required for granting option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other entities affiliated with the Company pursuant to the resolution of authorisation passed by the shareholders at the annual general meeting held on June 23, 2004 and amended by resolutions passed at the annual general meetings held on May 24, 2006 and May 10, 2007 (stock option programme IV).

Contingent capital 2005/I:

The shareholders have approved contingent capital of up to € 52,000.00 through the issue of up to 52,000 shares (contingent capital 2005/I). The contingent capital 2005/I is required for granting option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other entities affiliated with the Company pursuant to the resolution of authorisation passed by the shareholders at the annual general meeting held on June 9, 2006 and amended by the resolution passed at the annual general meeting held on May 10, 2007 (stock option programme V).

Contingent capital 2007/I:

The shareholders have approved contingent capital of up to € 945,000.00 through the issue of up to 945,000 shares (contingent capital 2007/I). The contingent capital 2007/I is required for granting option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other entities affiliated with the Company pursuant to the resolution of authorisation passed by the shareholders at the annual general meeting held on May 10, 2007 (stock option programme V).

The contingent capital 2002/I, 2003/I, 2005/I und 2007/I will be utilised only to the extent that the holders of subscription rights exercise these rights and to the extent that the Management Board in consultation with the Supervisory Board decides to issue new shares using such contingent capital in order to satisfy the Company's obligation to honour the subscription rights. Dividend entitlement for the new shares is identical to that for the existing shares already issued. The Management Board may determine the specific details of such contingent capital increases unless subscription rights are to be awarded to the members of the Management Board, in which case the Supervisory Board is responsible for determining the specific details of the capital increases.

Contingent capital 2007/II:

The shareholders have approved contingent capital of up to € 4,000,000.00 through the issue of up to 4,000,000 shares (contingent capital 2007/II). The contingent capital is to be used to award shares to the holders or creditors of convertible or warrant-linked bonds, which may be issued on or before May 9, 2012 pursuant to the authorisation granted by the shareholders at the annual general meeting of May 10, 2007. The contingent capital may only be used to the extent that option and conversion rights are exercised under the aforementioned conversion or warrant-linked bonds and conversion obligations are satisfied from such bonds. Dividend entitlement for the new shares is identical to that for the existing shares already issued. The Management Board may with the Supervisory Board's approval determine the specific details of such contingent capital increase.

► Authorisation to buy back shares:

At the annual general meeting held on May 10, 2007, the shareholders passed a resolution authorising the Management Board in accordance with Section 71 (1) No. 8 of the German Stock Corporations Act to buy back with the Supervisory Board's approval up to a maximum of 10% of the Company's own shares on or before the expiry of a period of 18 months starting with the date on which such authorisation is granted.

The Company has not entered into any agreements providing for contingent change-of-control restrictions.

In addition, the Company has not entered into any agreements providing for the members of the Management or any employees to receive compensation in the event of a takeover bid.

6.

Opportunities and risks

Integralis AG's business operations involve both opportunities and risks. One of the core elements of corporate management is to detect, analyse and manage risks. The Company endeavours to make optimum use of opportunities while minimising the risks as far as possible. Risk management plays a crucial role in the early detection of any trends liable to jeopardise the Company's going-concern status and in the definition of suitable strategies for ensuring its continued existence. As a matter of principle, the risk management system covers the organisational, reporting and management structures and is supplemented with specific elements. Specifically this entails an analysis of the risk dimensions strategy, market and competition, service and support, supply chain management, personnel, finance, IT and compliance. The risk management system identifies and evaluates risks and monitors and limits them by means of a uniform management, reporting and controlling system. Group management monitors operating risks in the form of regular reports on business performance and particular occurrences in the individual companies. The parameters of relevance for steering the Group and the national companies are available at short notice and updated on a fortnightly or monthly basis in line with Group-wide rules. Where necessary, measures necessary to reduce risk are then taken. The Management Board meets regularly at the offices of the individual national companies to review their situation. Risks are quantified and a scoring system used to assess their probability. Particularly high exposure results if the sum total of the weighted risks would require 10% or more of the Company's equity.

In the year under review, the quality of risk management was additionally enhanced with the recruitment of further suitable staff. Improvements to the entire risk management process will be intensified in the following year by means of further structural adjustments.

6.1 Currency risks

As a large part of our business is transacted in US dollars and pound sterling, we are exposed to exchange rate risks when these amounts are translated into our Group currency, the Euro. At our national companies, our main suppliers issue their invoices in the local currency, meaning that the currency risk is primarily confined to the translation of the national companies' financial statements (currency translation risk). In Germany and the UK part of the goods are purchased in US dollars. For this reason, various hedges, such as currency forwards, zero-cost options and average-rate options, were used.

A detailed description of hedging activities can be found in Note 8.3 of the notes to the consolidated financial statements.

6.2 Market and sector conditions

Over the past two years, the IT security market has expanded at a greater rate than the economy as a whole. Sector experts' forecasts continue to be predominantly favourable. However, it is not possible to reliably assess the duration of this trend.

The IT security market is subject to permanent change, with the speed of technological progress accelerating. Accordingly, the time required to react to security threat situations is a competitive factor. As a result of changes in individual technological areas, margins on the main revenue drivers may erode, thus exerting pressure on the Integralis Group's earnings. The competitive situation and nascent trends in the sector and the economy as a whole are therefore monitored closely and analysed to detect risks at an early stage so that the Company's range of products and services can be adjusted accordingly with minimum delay.

Successive efforts to extend the range of high-margin services and to increase the proportion of recurring revenues are reducing the Integralis Group's exposure to market and sector risks, while allowing it to harness economies of scale. This strategy entails extensions to the range as well as a reduction in the dependence on products and vendors. Systematic spending on technological expertise through the development of the Company's own services and new IT security technologies will help to increase market penetration and enhance the Company's standing in its relations with project partners.

6.3

Product portfolio and vendor risks

Integralis works closely with numerous leading international vendors. Accordingly, it is exposed to the risk of strategic changes on the part of the suppliers from whom it sources technology. This entails changes to price and discount structures as well as modifications to corporate policy. Vendors may sign contracts with our competitors or change their distribution or marketing strategies. In the past two years, several companies with whom Integralis works closely were the subject of takeovers. The sector is continuing to consolidate at a swift pace. The ramifications of these trends are difficult to assess. In an effort to minimise such risks, we maintain permanent contact with the management of our suppliers on an international and national level. This ensures that we are kept informed at short notice of any possible positive or negative changes and allows us to take action quickly to benefit from such changes or to alleviate their effects. A dual-sourcing strategy was successfully implemented in the year under review. As a result, Integralis has alternative suppliers as well as product and solution vendors.

6.4

Staff expertise and motivation

Our employees' skills form a crucial element of our success and part of the basis on which we are extending and defending our competitive lead. For this reason, human resources management is a key aspect of corporate management.

The Integralis Group's continued success hinges materially on its ability to recruit new qualified staff and to motivate, retain and train existing employees. In addition to an interesting area of activity and systematic personnel development policies, appropriate remuneration and participation in the Company's success are an important source of motivation, providing employees with an incentive to remain with the Group.

Almost half of the employees come from a scientific/technical background. For this reason, the Company is particularly committed to offering staff scope for professional or career development to bind expertise bearers on a sustained basis. As part of the integrated human resources strategy, new career models are currently being developed for technical staff.

In addition, the sustained organisational changes are making high demands of staff. On the one hand, this offers constantly new prospects of development and challenges but, on the other, may place an excessive burden on staff. For this reason, the planned activities call for a high degree of management competence on the part of the individual supervisors. This is to be supported with the international establishment of uniform human resources standards and processes.

An innovative long-term human resources strategy is currently being implemented across the Group step by step. One main aspect is personnel development. Accordingly, in-house training and skills development are to form a core aspect.

6.5

IT risks

This comprises network failure, the risk of data being corrupted, destroyed or stolen as a result of operating errors and/or external factors and restrictions in the availability of applications. Allowance is being made for changing requirements at the application level. Accordingly, a decision was made in 2007 to roll out a new Group-wide CRM system to support internal standardised processes as effectively as possible.

As specialists in IT security, we are familiar with the relevant security precautions in the configuration of hardware and software for mission-critical enterprise processes and are able to react swiftly. We are increasingly using standardised software on a cross-border basis and making greater use of virtualisation of the server infrastructure and encryption for mobile devices.

In addition to seeking greater reliability, the measures being taken this year also aim at improving network and application speed. Internal IT support is to be extended in the first half of 2008 in an effort to enhance both quality and availability in line with the needs of our increasingly internationalised business.

7.

Material events occurring after the balance sheet date

Austrian company Greschitz IT Security GmbH was acquired effective January 1, 2008. The Group is expanding into Austria under the supervision of Integralis Deutschland GmbH to ensure smooth integration of Greschitz IT Security GmbH, efficient use of shared resources and enhancements to profitability. Established in 1995 by Thomas Greschitz, Greschitz IT Security has been active in the Austrian market, during which time it has gained an excellent reputation with large companies, thanks to its competence in consulting skills and top-class expertise. With this acquisition, the Integralis Group expects to be able to achieve even closer proximity to its existing customers in Austria and to harness market potential more effectively.

On January 2, 2008, Integralis AG announced that it would be continuing its share buy-back programme until June 30, 2008 and acquiring a total of up to 450,000 of its own shares.

8.
Outlook

Experts at the United Nations see global growth for 2008 in a corridor of opportunity of between 1.6% in the worst case and 3.4% in the most optimistic case, down from 3.7% in 2007. Accordingly, economic growth is generally expected to slow. Underlying conditions for future economic growth have deteriorated to some extent recently not least of all as a result of the issues in the global capital markets. The effects of the US real estate and subprime crisis, persistently high oil prices and the strong Euro are fuelling fears of a recession. However, renowned experts and central banks do not expect the forecast turmoil in the financial markets and temporary declines in the stock markets to exert any major effect on the real economy and consumer spending, meaning that business conditions should remain favourable, albeit in conjunction with somewhat slower growth.

What is more, expectations for the IT sector are far in excess of forecasts for the economy as a whole. According to IT market research company Gartner, the global market for IT and business process services should expand by 8.1% in 2008. IT service providers' expectations of the new year are also high. In a quarterly study conducted by the Center of European Economic Research ZEW and Creditreform, the majority of the retailers and software/IT service providers stated that they expected demand and profits to increase. IDC, the world's leading observer of the IT market, forecasts global sales of USD 2.28 billion for the web security market in 2011, equivalent to average annual growth of 15%. At the same time, hosted services business is expected to more than triple in volume by 2011.

These expectations are consistent with the actual IT budgets of customers. According to a recent survey conducted by Orange Business Services, 87.2% of decision-makers at multinational companies want to spend more money on security projects in 2008. IT security is also increasingly being seen as a strategic management task. Accordingly, Integralis expects a significant increase in consulting business in 2008.

Over the past three years, the Integralis Group has been able to steadily improve its market position and successively widen market share. As Europe's leading security solutions provider, it is also benefiting from the clear trend in the convergence of stand-alone solutions to integrated overall systems.

The strong and systematic management focus on particularly high-growth and lucrative support services and managed security services (MSS) business has already made encouraging contributions to earnings in 2007. As investment in the high-growth MSS segment has been completed, the earnings contribution should widen in the present year due to economies of scale.

For the year 2008, the Management Board projects revenue growth of around 10% accompanied by a 50% improvement in EBIT, marking a further step in efforts to achieve the EBIT margin target of 6-8% in 2009.

Ismaning, February 2008

The Management Board

Responsibility Statement

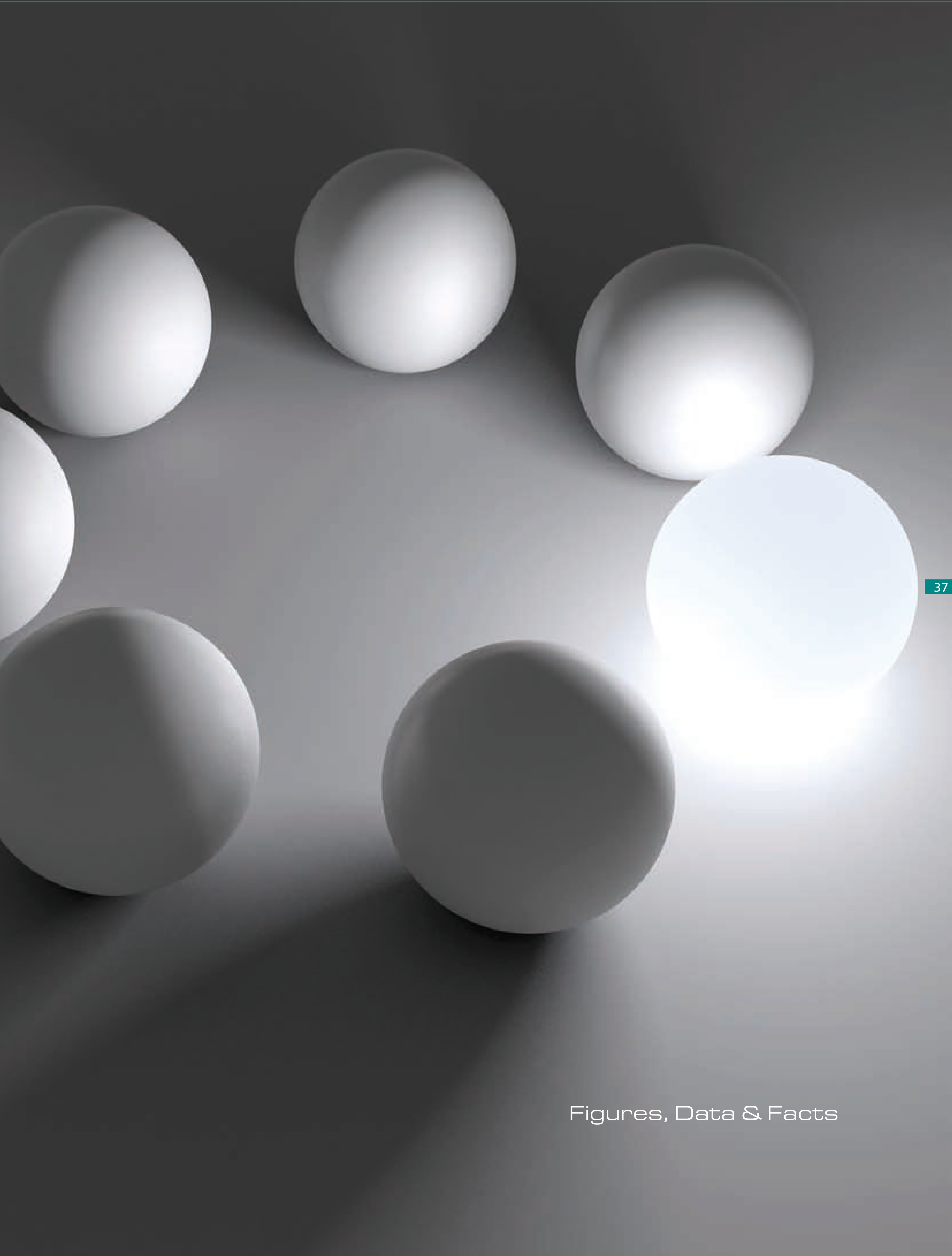
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Integralis group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Ismaning, February 2008

Integralis AG

The Management Board

Georg Magg	Roger Friederich	Graham Jones

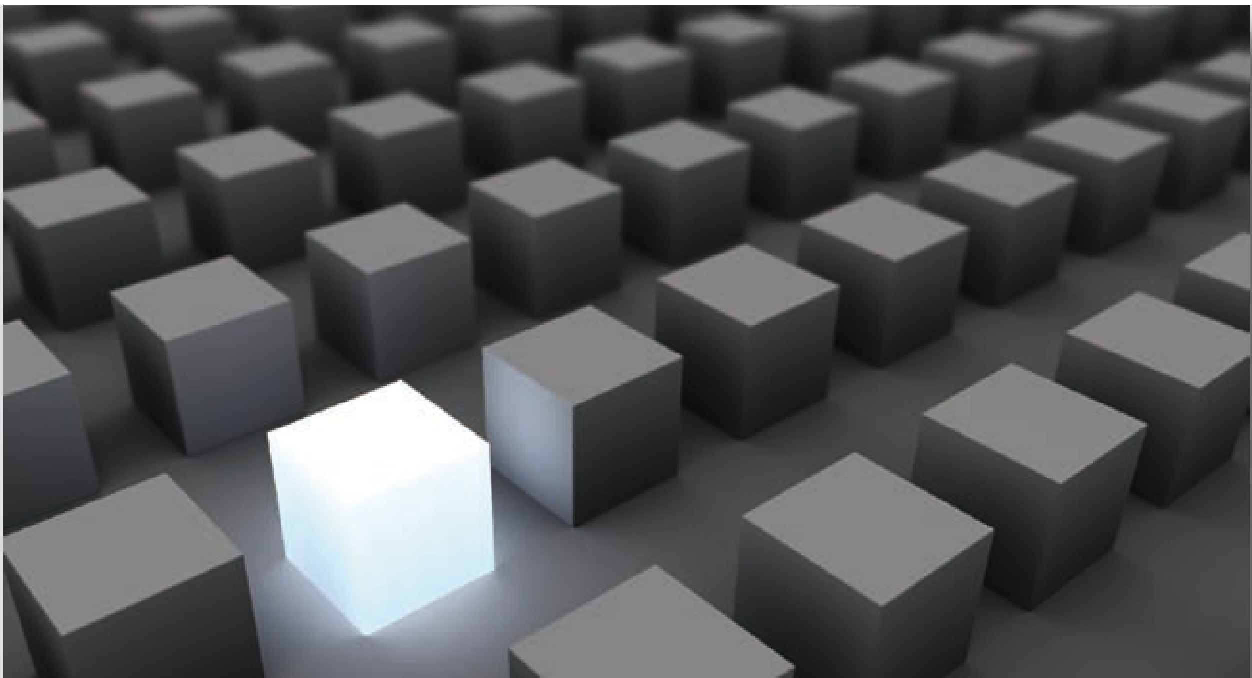


Figures, Data & Facts

ASSETS			31/12/2007	31/12/2006
		Note Ref	T€	T€
A	SHORT-TERM ASSETS			
I	Cash and Cash Equivalents	4.1	14.366	14,342
II	Trade Accounts Receivable	4.2	40,368	36,872
III	Inventories	4.3	1,638	913
IV	Deferred Costs of Goods Sold		26,525	21,185
V	Prepaid Expenses and other Current Assets	4.4	2,445	2,755
	Total Short-term Assets		**85,342**	**76,067**
B	LONG-TERM ASSETS			
I	Property, Plant and Equipment	4.5	2,699	3,695
II	Intangible Assets	4.6	1,681	964
III	Goodwill	4.7	14,895	9,935
IV	Deferred Tax Assets	4.8	1,428	402
	Total Long-term Assets		**20,703**	**14,996**
	TOTAL ASSETS		106,045	91,063

LIABILITIES AND SHAREHOLDERS' EQUITY			31/12/2007	31/12/2006
		Note Ref	T€	T€
A	CURRENT LIABILITIES			
I	Current Portion of Capital Lease Obligations		63	138
II	Third Party Trade Accounts Payable		25,661	23,986
III	Accrued Expenses	4.9	8,863	9,547
IV	Deferred Revenue		39,350	32,490
V	Corporation Tax Payable		1,037	878
VI	Other Current Liabilities	4.9	3,896	2,653
VII	Current Portion of Provisions	4.11	1,685	1,287
	Total Current Liabilites		**80,555**	**70,979**
B	NON-CURRENT LIABILITIES			
I	Capital Lease Obligations less Current Portion		1,497	1,561
II	Long-term Debt less Current Portion		118	-
II	Deferred Tax Liability	4.10	83	279
III	Provisions	4.11	2,835	2,355
	Total Non Current Liabilities		**4,533**	**4,195**
C	SHAREHOLDERS' EQUITY			
I	Subscribed Capital	4.12	11,585	11,548
II	Treasury Shares		-849	-1,040
III	Capital Reserve		11,966	11,736
IV	Share Option Reserve		550	423
V	Foreign Currency Translation Reserve		148	893
VI a	Profit/Loss Brought Forward		-7,671	-10,436
VI b	Result for the period		5,228	2,765
VI	Accumulated Deficit including Group Result		-2,443	-7,671
	Total Shareholders' Equity		**20,957**	**15,889**
	TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		106,045	91,063

		Note	01/01/-31/12/2007 T€	01/01/-31/12/2006 T€
1.	Revenue		158,269	136,738
2.	Cost of Purchased Materials and Services		104,174	89,244
	Gross Profit		**54,095**	**47,493**
3.	Personnel Expenses	5.1	34,647	31,793
4.	Other Operating Expenses	5.2	12,393	11,451
	Operating and Personnel Costs		47,040	43,243
	EBITDA		**7,054**	**4,250**
5.	Depreciation and Amortisation		1,811	1,780
6.	Amortisation of Order Backlog ProtechT (IFRS 3)		270	-
7.	Profit on the Disposal of Financial Assets	5.5	-	395
	Operating Income (EBIT)		**4,973**	**2,864**
8.	Interest income		413	534
9.	Interest expenses		149	375
10.	Other financial result		1	-
	Financial Result	**5.6**	**266**	**159**
	Result before taxes (EBT)		**5,238**	**3,023**
11.	Tax	5.7	11	258
	Net Income		**5,228**	**2,765**
	Basic weighted average number of shares outstanding		10,816,842	11,004,525
	Basic net earnings per share [EUR]	5.8	0,48	0,25
	Diluted weighted average number of shares outstanding		11,225,768	11,406,260
	Diluted net earnings per share [EUR]	5.8	0,47	0,24



	2007	2006
	T€	T€
Cash flows from operating activities:		
Net income for the period	5,228	2,765
Adjustments for:		
Interest result	- 265	- 159
Tax result	1,050	258
Depreciation and amortisation	2,081	1,780
(Increase) / decrease in deferred taxes	- 1,039	-
Profit on disposal of financial assets	-	- 395
Decrease/(increase) in provisions	- 1,429	- 544
Increase in share option reserve	127	81
Foreign exchange losses/(gains)	- 305	181
Exceptional payments	-	- 171
Interest received	506	426
Interest paid	- 241	- 120
Taxes received	52	34
Taxes paid	- 343	- 23
Change of net working capital	- 62	- 2,227
Cash flow from/(used in) operating activities	**5,360**	**1,887**
Acquisition of subsidiaries, net of cash acquired	- 1,958	- 972
Proceeds from disposal of subsidiaries, net of cash transferred	-	77
Purchases of property, plant and equipment	- 1,729	- 1,594
Cash flow from/(used in) investing activities	**- 3,687**	**- 2,489**
Proceeds from issue of share capital	160	124
Payment for the purchase of treasury shares	- 1,347	- 4,354
Proceeds from short or long-term borrowings	118	-
Payment of capital lease liabilities	- 76	- 76
Cash flow from/(used in) financing activities	**- 1,145**	**- 4,306**
Net effect of currency translation in cash and cash equivalents	- 505	- 106
Decrease/(increase) in cash and cash equivalents	**23**	**- 5,014**
Cash and cash equivalents at beginning of period	**14,342**	**19,356**
Cash and cash equivalents at end of period	**14,366**	**14,342**

Number of shares issued at 31/12/2007: 11,585,137 registered shares	Subscribed Capital	Treasury Shares	Capital Reserve	Share option Reserve	Foreign Currency Translation Reserve	Accumulated Deficit including Group Result	Total
	T€	T€	T€	T€	T€	T€	T€
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 loss for the period						2,765	2,765
31/12/2006	11,548	- 1,040	11,736	423	893	- 7,671	15,889
01/01/2007	11,548	- 1,040	11,736	423	893	- 7,671	15,889
Utilisation for Earn-out for Netsecure purchase		172	473				645
Utilisation for purchase of ProtechT		225	776				1,001
Fulfilment for stock options exercised		34	48				82
Decrease through acquisition of own shares		- 240	- 1,108				- 1,348
Issue of new shares	37		41				78
Increase on grant of share options				127			127
Changes arising from currency conversion					- 745		- 745
Net profit for the period						5,228	5,228
31/12/2007	**11,585**	**- 849**	**11,966**	**550**	**148**	**- 2,443**	**20,957**

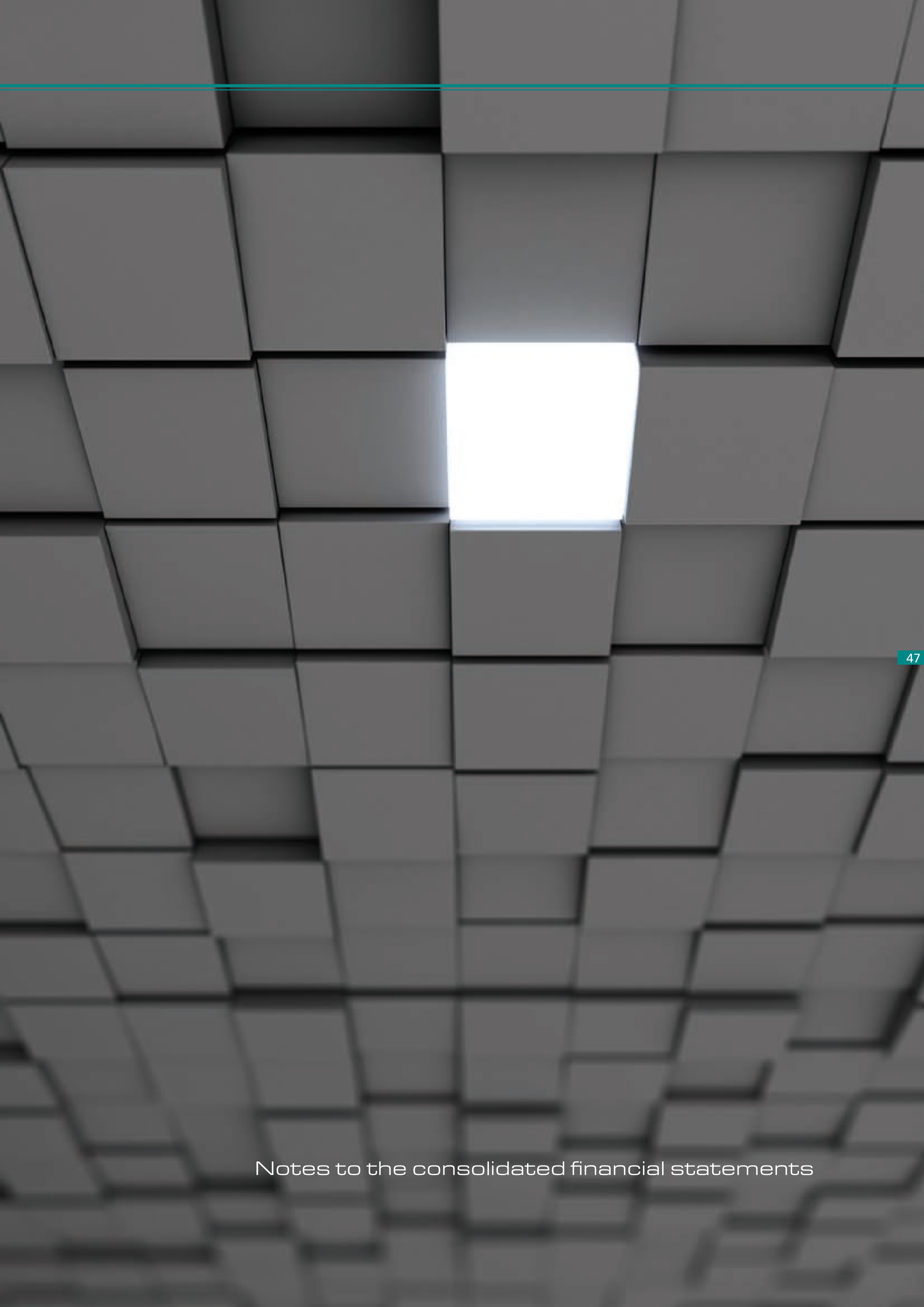
	COSTS OF ACQUISITION OR PRODUCTION						
	Balance 01/01/2007	Additions	Acquired assets	Disposals	Transfers	Currency Conversion	Balance 31/12/2007
	T€	T€	T€	T€	T€	T€	T€
I. Property, plant & equipment							
1. Property and leasehold rights including buildings on non-owned land	1,943	-	32	-	-	-	1,975
2. Other equipment, fixtures, fittings and equipment	16,233	604	24	- 2,969	- 702	- 1,151	12,039
	18,176	**604**	**56**	**- 2,969**	**- 702**	**- 1,151**	**14,014**
II. Intangible Assets							
1. Industrial property rights and simlar rights and licences to such rights	2,207	581	270	- 276	617	- 115	3,284
2. Self developed intangible assets	632	545	-	-	86	- 28	1,235
	2,839	1,126	270	- 276	703	- 143	4,519
III. Goodwill							
1. Goodwill	29,875	-	4,960	-	-	-	34,835
	29,875	**-**	**4,960**	**-**	**-**	**-**	**34,835**
	50,890	**1,730**	**5,286**	**- 3,245**	**1**	**- 1,294**	**53,368**

	ACCUMULATED DEPRECIATION							BOOK VALUE	
	Balance 01/01/2007	Additions	Acquired assets	Disposals	Transfers	Currency Conversion	Balance 31/12/2007	31/12/2007	31/12/2006
	T€	T€	T€	T€	T€	T€	T€	T€	T€
	501	79	9	-	- 39	-	550	1,425	1,439
	13,977	1,028	22	- 2,954	- 262	- 1,047	10,764	1,275	2,256
	14,478	**1,107**	**31**	**- 2,954**	**- 301**	**- 1,047**	**11,314**	**2,700**	**3,695**
	1,875	576	290	- 133	100	- 179	2,529	755	332
	-	108	-	-	201	-	309	926	632
	1,875	684	290	- 133	301	- 179	2,838	1,681	964
	19,940	-	-	-	-	-	19,940	14,895	9,935
	19,940	**-**	**-**	**-**	**-**	**-**	**19,940**	**14,895**	**9,935**
	36,293	**1,791**	**321**	**- 3,087**	**-**	**- 1,226**	**34,092**	**19,276**	**14,594**

Primary Segment	01/01/-31/12/2007	01/01/-31/12/2006 restated accdg to IAS 14.79
	T€	T€
Segment revenue		
UK	66,113	54,753
Germany/Switzerland	38,151	36,090
USA	24,306	21,888
France	13,540	12,906
Sweden	11,580	11,099
United Arab Emirates	4,578	-
Segment revenue	**158,269**	**136,738**
Segment gross profit		
UK	21,846	18,464
Germany/Switzerland	15,013	13,822
USA	7,987	7,227
France	4,483	4,595
Sweden	3,731	3,385
United Arab Emirates	1,035	-
Segment gross profit	**54,095**	**47,493**
Segment result		
UK	2,724	2,243
Germany/Switzerland	1,806	992
USA	1,159	785
France	21	147
Sweden	640	701
United Arab Emirates	244	-
Unallocated/Headquarter	-1,621	-2,003
Segment result	**4,973**	**2,863**
Depreciation & amortisation		
UK	553	559
Germany/Switzerland	665	615
USA	307	282
France	94	96
Sweden	90	179
United Arab Emirates	304	-
Unallocated/Headquarter	67	50
Total depreciation & amortisation	**2,081**	**1,780**

Primary Segment	01/01/-31/12/2007	01/01/-31/12/2006 restated accdg to IAS 14.79
	T€	T€
Capital expenditure & investment		
UK	459	500
Germany/Switzerland	553	550
USA	255	253
France	78	86
Sweden	75	160
United Arab Emirates	253	-
Unallocated/Headquarter	56	45
Total capital expenditure & investment	**1,729**	**1,594**
Segment assets		
UK	30,078	18,159
Germany/Switzerland	22,020	13,071
USA	11,561	7,975
France	9,630	7,779
Sweden	9,842	7,503
United Arab Emirates	7,781	-
Unallocated/Headquarter	771	3,000
Total segment assets	**91,682**	**57,488**
Segment liabilities		
UK	27,502	23,448
Germany/Switzerland	21,979	18,965
USA	9,897	11,335
France	9,425	7,220
Sweden	4,472	5,660
United Arab Emirates	2,883	-
Unallocated/Headquarter	6,252	5,063
Total segment liabilities	**82,410**	**71,690**

Secondary Segment	01/01/-31/12/2007	01/01/-31/12/2006 restated accdg to IAS 14.79
	T€	T€
Segment revenue		
Support contracts	49,132	39,808
Managed security services	9,881	9,285
Consulting and integration	16,251	12,766
Service revenue	75,263	61,859
Technology sale	83,006	74,877
Total Segment revenue	**158,269**	**136,738**
Capital expenditure & investment		
Support contracts	438	365
Managed security services	272	260
Consulting and integration	322	376
Services	1,032	1,001
Technology sale	697	593
Total Segment capital expenditure & investment	**1,729**	**1,594**
Segment assets		
Support contracts	49,945	30,598
Managed security services	4,438	2,995
Consulting and integration	5,952	3,748
Services	60,336	37,341
Technology sale	31,346	20,147
Total Segment assets	**91,682**	**57,488**



Notes to the consolidated financial statements

1.

General disclosures

The Integralis Group is a global provider of IT security solutions and services. On the balance sheet date, it had 427 employees and 19 offices in five European countries, including the United States, the United Arab Emirates and Singapore. Integralis AG's shares are listed in the Prime Standard segment of the Frankfurt stock exchange.

Integralis helps companies to establish secure communications networks and to manage transactions via public and private networks. The broad range of services comprises of extensive IT security solutions, consulting, system integration and support.

Integralis AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as endorsed in the EU, as well as the supplementary accounting provisions contained in Section 315a of the German Commercial Code. The consolidated balance sheet, consolidated income statement, consolidated cash flow statement, Group segment report and the consolidated statement of changes in equity have been prepared in thousands of euro's (T€). The consolidated income statement has been prepared using the nature of expense method.

The consolidated financial statements will be published on March 28, 2008.

1.1

Legal disclosures

Integralis AG is a German joint stock company (Aktiengesellschaft) with registered offices in 85737 Ismaning, Robert-Bürkle-Straße 3, Germany. It is entered in the Munich commercial register under the number HRB 121349.

1.2

Application of International Financial Reporting Standards (IFRS) and statement of compliance

The consolidated financial statements as of December 31, 2007 of Integralis AG as the parent company in the Integralis Group, have been prepared using consistent accounting and valuation principles in accordance with the IAS/IFRS standards including the SIC/IFRIC interpretations endorsed by the European Union and mandatory as of the balance sheet date. The figures for the previous year have been calculated using the same methods.

The consolidated financial statements as of December 31, 2007 conform to all International Financial Reporting Standards which were required to be applied in the European Union in the year under review.

1.3

Companies included in consolidation

All domestic and non-domestic subsidiaries are consolidated in full by Integralis AG. In the year under review, the following companies in which Integralis AG holds a 100% share either directly or indirectly or which are controlled by it were consolidated:

Subsidiary	Location	Capital share as %
Activis Inc.	Hartford, USA	100
Articon-Integralis SAS	Paris, Frankreich	100
Integralis SAS	Paris, Frankreich	100
Integralis AB	Stockholm, Schweden	100
Integralis Inc.	Hartford, USA	100
Integralis Schweiz AG	Givisiez, Schweiz	100
Integralis Services Ltd.	Reading, UK	100
Integralis Holdings Ltd.	Reading, UK	100
Integralis Ltd.	Reading, UK	100
Integralis Services GmbH	Ismaning, Deutschland	100
Integralis Deutschland GmbH	Ismaning, Deutschland	100
Nocitra Ltd.	Reading, UK	100
ProtechT FZ LLC	Dubai, VAE	100
ProtechT Technical Services LLC	Abu Dhabi, VAE	49
Integralis Services PLC	Singapore	100

The profit or loss of subsidiaries acquired or sold during the year under review is reported in the consolidated financial statements up until the actual date of sale or as of the actual date of acquisition, as the case may be.

In the year under review, Activis Ltd, Reading, UK, was liquidated on August 14, 2007. Articon US Holdings Inc., Hartford, United States, was merged with Integralis Inc, Hartford, United States, on April 1, 2007. On April 3, 2007, the shares of ProtechT FZ LLC, Dubai, UAE, were acquired. Integralis Services PLC was incorporated on December 24, 2007 with registered offices in Singapore.

On April 3, 2007, Integralis announced that it had acquired all of the capital of the Dubai-based company ProtechT FZ LLC, with first-time consolidation effective as of April 1, 2007. With this acquisition, Integralis has been able to extend its geographic presence and additionally gain skills and technological expertise in the identity and access management areas. Through its involvement in an extensive national ID card project in Qatar, ProtechT has built a strong position in the identity management market in the Gulf region. In addition to this, it has excellent relations with manufacturers and distributors as well as a superb customer base in the public and financial sectors.

Since being consolidated for the first time, ProtechT has generated revenues of T€ 4,578, with earnings coming to T€ 241. In connection with the purchase price allocation in accordance with IFRS 3, the expected gross profit from the existing order backlog of T€ 296 was capitalised. This item was released in the 2nd and 3rd quarter of 2007, resulting in one-off amortisation charge in the same amount. The segment earnings for the UAE regions include the amortisation expense on the order backlog, a factor which will no longer apply in future years.

As payment for the acquisition, the Company transferred 225,534 of its own shares valued at the April 3, 2007 closing price of € 4.44. In accordance with the agreed earnings targets for 2007 and 2008, further purchase price payments will be due and payable partially in the form of stock and partly in cash.

The following table sets out the net assets acquired, the total acquisition costs and the goodwill as of December 31, 2007.

ProtechT:
Net Assets acquired (in T€)

	Carrying amount as of 31/3/2007	Adjustments	Fair value as of 1/4/2007
Intangible Assets (Order Backlog)	-	296	296
Cash	-2	-	-2
Current Receivables	2,442	-39	2,402
Deferred Cost of Sales	-	53	53
Other Assets	47	-	47
Current Liabilities and Provisions	-1,621	-40	-1,660
Deferred Revenue	-590	-83	-673
Net Assets acquired	**276**	**187**	**463**

ProtechT: Acquisition Cost and Goodwill as of 31/12/2007 (in T€)

	T€
Initial Consideration - Cash	1,316
Initial Consideration - Shares	1,001
Provisional Acquisition Cost	162
Earn-Out Provision	2,943
Expected Total Consideration	**5,423**
Less Fair Value of Net Assets acquired	463
Goodwill	**4,960**

1.4

Date of group statements

The consolidated financial statements were prepared effective December 31, 2007. The profit and loss account, the cash flow statement and the statement of changes in equity cover the period from January 1, 2007 until December 31, 2007. The date of the consolidated financial statements is identical to that used in the single-entity financial statements prepared by the consolidated companies.

1.5

Summary of significant accounting and consolidation policies

The consolidated financial statements are prepared on the basis of historical cost with the exception of the revaluation of certain non-current assets and financial instruments. The main accounting and valuation methods are explained below.

Nocitra Ltd. (formerly Articon-Integralis Ltd; Reading, UK) and its subsidiaries were included in the consolidated financial statements on January 1, 2000 for the first time using the uniting-of-interests method. For this purpose, the difference between the proportionate share capital of these subsidiaries plus additional cash considerations and the net book values of the subsidiaries were offset against equity in the capital consolidation.

The other companies were consolidated in accordance with the purchase method set out in IFRS 3. In the case of companies acquired prior to January 1, 2005, the assets were taken at their fair values as of the date of acquisition in accordance with IAS 22. Any differences were recognised as goodwill and amortised.

Companies acquired after January 1, 2005 are consolidated in accordance with the provisions of IFRS 3 by allocating the purchase price to the fair value of the net assets as of the date of acquisition. On the date of acquisition, the business combination costs are allocated to the identifiable assets and liabilities acquired up to the amount of their fair value (purchase price allocation).

Since January 1, 2005, the impairment-only approach stipulated by IAS 36 has been applied to subsequent valuation. Where necessary, goodwill is adjusted to a lower fair value.

Intercompany revenues, expenses and income as well as all receivables and liabilities between consolidated companies are eliminated in accordance with IAS 27.24.

The consolidation methods applied were unchanged over the previous year.

1.6

Currency translation

Single-entity financial statements in foreign currencies

The currencies of all the single-entity financial statements prepared in a currency other than the euro were translated in accordance with IAS 21 using the functional currency principle. The functional currencies of the Integralis Group companies are the same as their respective national currencies.

The consolidated financial statements were prepared using the euro as the functional currency, this also being the parent company's functional currency.

The assets and liabilities of foreign subsidiaries were translated to euro at the end-of-year exchange rate and profit and loss at the annual average exchange rate. The resulting translation differences were recognised under equity. Any translation differences arising from capital consolidation are also recognised under equity.

The goodwill arising from the acquisition of a foreign business as well as any adjustments to fair value are translated using the historical spot rate.

The single-entity financial statements not prepared in euro's were translated using the following exchange rates:

	Closing Rate		Average Rate	
	31/12/2007	31/12/2006	31/12/2007	31/12/2006
GBP	1,36	1,49	1,46	1,49
USD	0,68	0,76	0,73	0,78
CHF	0,60	0,62	0,61	0,63
SEK	0,11	0,11	0,11	0,11
AED	0,18	-	0,20	-

Foreign-currency transactions

Foreign-currency transactions are translated at the exchange rate prevailing on the date on which they are executed. Any translation differences arising between the date of transaction and the date of payment are taken to the profit and loss account. Foreign-currency receivables and liabilities are translated at the closing rate, with any resulting translation gains or losses taken to the profit and loss account.

2. Accounting and valuation policies

2.1 Mandatory standards and interpretations in the year under review

In the year under review, the Group applied IFRS 7 "Financial Instruments: Disclosures" and the related revisions to IAS 1 "Presentation of the Financial Statements". The application of IFRS 7 and the revised IAS 1 has necessitated additional disclosures in these financial statements concerning the Group's financial instruments and the management of its capital.

The International Financial Reporting Interpretations Committee (IFRIC) published four interpretations which had to be applied in the year under review. These are:

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The application of these interpretations did not result in any changes in the Group's accounting and valuation policies.

2.2

Standards and interpretations already published but not yet subject to mandatory application

As of the date on which these financial statements were released for publication, the following standards and interpretations had already been published but were not yet subject to mandatory application:

- IAS 1 (revised): Presentation of the financial statements (to be applied to periods commencing on or after January 1, 2009).
- IAS 23 (revised): Borrowing costs (to be applied to periods commencing on or after January 1, 2009).
- IFRS 8: Operating segments (to be applied to periods commencing on or after January 1, 2009).
- IFRIC 11: IFRS 2 - Group and Treasury Share Transactions (to be applied to periods commencing on or after March 1, 2009)
- IFRIC 12: Service Concession Arrangements (to be applied to periods commencing on or after January 1, 2008).
- IFRIC 13: Customer Loyalty Programmes (to be applied to periods commencing on or after July 1, 2008).
- IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (to be applied to periods commencing on or after January 1, 2008).

The Management Board assumes that the aforementioned standards and interpretations will be applied to the consolidated financial statements for the year they become mandatory. In the case of IAS 1 and IFRS 8, additional disclosures will be necessary in the notes, although this will not have any effect on the Company's earnings or net assets, financial position or results of operations. Similarly, the application of standards/interpretations IAS 23, IFRIC 11/IFRS 2, IFRIC 12, IFRIC 13 and IFRIC 14/IAS 19 is not expected to exert any material influence on the consolidated financial statements for the year in which they must be applied for the first time.

2.3

Cash and cash equivalents

For the purpose of the cash flow statement in accordance with IAS 7, all cash and cash equivalents with an original term of less than three months are recognised at their nominal value. This item primarily comprises cash at banks, cheques and petty cash as well as short-term fixed-term deposits.

2.4

Receivables and other assets

Receivables and other assets are recognised at their fair value. Allowance is made for individual interest and credit risks. Profit and loss is assigned to earnings for the period if the receivables are written off or provided for.

2.5

Derivative financial instruments

Derivative financial instruments such as currency forwards, average-rate options and zero-rate options are used to partially hedge the risks arising from currency fluctuations. Derivative financial instruments are not treated as fair-value hedges or cash-flow hedges as defined in IAS 39. They are recorded at their market value as of the balance sheet date. Financial assets are recognised at their buying/selling price as of the date of the transaction and reported as other assets or other liabilities.

Any changes in fair value are recognised in the profit and loss accounts. Fair value is defined as the value which can be achieved in business operations under prevailing market conditions.

2.6

Inventories

Inventories are recognised at cost in accordance with IAS 2 less reasonable adjustments for all discernible risks arising from reduced or absent marketability. All goods are evaluated using the FIFO (first in-first out) method.

2.7

Deferred cost of goods sold

The deferred cost of goods sold primarily comprises payments made for maintenance contracts purchased from suppliers which do not yet represent expenses in the year under review. This item is expensed over the remaining term of the contract.

2.8

Property, plant and equipment

In accordance with IAS 16, property, plant and equipment are recognised at cost of acquisition or production less straight-line depreciation. Where necessary, they are written down to their fair value, if this is lower. Maintenance costs are reported as expense for the period. The assumed useful lives are between one and ten years; minor-value assets are written off in full in their year of acquisition. In accordance with IAS 16.67, property, plant and equipment is either derecognised upon being disposed or when continued use or sale of the asset is not expected to generate any economic benefits. The gains or losses resulting from the disposal of an asset are calculated as the difference of the net proceeds of the sale and the net book value of the asset and recognised in the profit and loss account for the period in which the asset is derecognised. The expected useful lives, net book value and depreciation methods are reviewed once a year and all necessary changes to estimates made on a pre-emptive basis.

In the case of leases in which the Group is the lessee, economic ownership of the leased assets is assigned to the lessee in accordance with IAS 17 if it bears materially all of the opportunities and risks from the ownership of such asset (finance lease). The depreciation methods and useful lives are the same as those for comparable assets acquired. As a matter of principle, they are recognised at cost as of the date of the contract. The corresponding lease obligations are reported under liabilities. The interest component of the lease liabilities is recorded in the profit and loss account and spread over the term of the lease.

If leases provide for economic ownership to remain with the lessor (operating lease), the asset in question is carried on the lessor's books. The lease payments are expensed in full.

2.9

Intangible assets

Intangible assets acquired are recognised at cost. Software and licences are written down on a straight-line basis over their expected useful lives of three to five years. Where necessary, they are adjusted to match their fair value, if this is lower.

Development costs are recognised as intangible assets if in the light of the technical and economic viability it is likely that the Company will derive a future economic benefit from the development project and the costs attributable to the project during the development phase can be reliably calculated. The development costs recognised in accordance with IAS 38 are amortised over three years.

2.10

Goodwill

In accordance with IFRS 3, the Group has ceased to amortise goodwill as of January 1, 2005.

The carrying values of the goodwill recognised by the Group are subject to impairment testing in accordance with IAS 36 as of each balance sheet date or on other dates in the event of any indication of impairment. Assets are always written down to their fair value if the expected recoverable amount of an asset or a cash-generating unit is less than its carrying value. Impairments are reported in the profit and loss account under "Goodwill amortisation". Impairment losses reported for goodwill are not reversed in later periods.

2.11

Taxes

Current tax assets and liabilities for the current and prior periods are evaluated at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes are calculated using the balance-sheet related temporary concept (IAS 12), under which deferred taxes are recognised for all accounting and valuation differences arising between IFRS and the applicable tax bases.

In addition, deferred tax assets are recognised for future tax reduction claims arising from unused tax losses.

Deferred tax assets are calculated for all deductible temporary differences and tax losses, however only to the extent that it is probable that the Company will have sufficient taxable income in the future against which the temporary differences or unused tax losses can be utilised.

Deferred taxes were calculated on the basis of income tax rates which according to IAS 12 applied or were expected to apply as of the balance sheet date.

2.12

Deferred revenues

Deferred revenues primarily comprise income received from customers for maintenance and MSS contracts which do not yet constitute any revenue in the year under review. This item is released over the remaining term of the contract.

2.13

Provisions and liabilities

Liabilities are recognised at their settlement amount.

Current provisions comprise liabilities for goods or service already received but not yet paid for or invoiced or for which no formal contract has yet been entered into with the creditor. This also includes staff payments due for payment, e.g. variable compensation components.

Provisions are recognised if there is a current (legal or constructive) obligation towards a third party from a past event which will probably result in an outflow of resources and whose amount can be reliably estimated. Provisions are recognised at the most likely amount.

Provisions are expensed through the profit and loss account.

Provisions which have a residual term of more than one year are discounted at normal market conditions.

2.14

Equity

The breakdown of and movements in equity can be seen from the consolidated statement of changes in equity and the notes to the balance sheet. In accordance with IAS 32, treasury stock is deducted from the Company's equity and disclosed at cost.

2.15

Revenue recognition

Revenues are evaluated at the fair value of the consideration received or owing and are recognised when it is likely that the economic benefit will flow to the Group and the amount of the revenues can be reliably determined.

Revenues are recognised upon the sale of a product provided that the material opportunities and risks arising from ownership of the products sold are transferred to the buyer. This generally occurs upon the products being dispatched.

Revenues are not recognised if there is any uncertainty as to the consideration or if there is a high likelihood of the goods being returned.

In the case of long-term technical maintenance contracts, the revenues and related costs are distributed over the term of the contracts.

Some services are provided by third parties, while in other cases the Company sells its own services. In the case of the Company's own services, the resulting revenues are recorded in accordance with the percentage of completion achieved as of the balance sheet date. If it is not possible to reliably determine the percentage of completion of a contract, only revenues equalling the expenses which have arisen and are subject to reimbursement are recognised.

2.16

Borrowing costs

Borrowing costs are recognised in the income statement for the period in which they arise (IAS 23).

2.17

Treasury shares

Treasury shares are deducted from subscribed capital at its nominal value of € 1 per share. The difference between the nominal value and the buying or selling price is netted with capital reserves. In 2007, the Company acquired and also sold treasury shares.

2.18

Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the shares by the average number of shares outstanding. This figure may be diluted by potential shares (primarily share options). Earnings per shares are calculated in accordance with IAS 33.

2.19

Employee benefits

Post-retirement benefit plans

The subsidiaries in the UK, the United States and Sweden have established post-retirement benefit plans for staff. With all these plans, the subsidiaries pay a certain percentage of their employees' remuneration into a pension fund; employees are entitled to join the post-retirement benefit plan. The Group's financial obligation is confined solely to the prorated share; it has no other obligations beyond this. There are no obligations for post-retirement benefits on the face of the balance sheet.

Share-based compensation

The Integralis Group awards share options to members of the Management Board as well as the officers of affiliated companies and employees of the Group. All of the options awarded after November 7, 2002 and vesting after January 1, 2005 were recognised in accordance with IFRS 2. If the share options are exercised, the obligation is settled either by utilising treasury shares or by issuing new shares from the Company's contingent capital. All existing share option programmes are tied to the performance of Integralis AG's share. Accordingly, the utilisation of option rights is subject to market conditions. When options are awarded, their fair value is calculated and distributed over the period ending upon the options vesting in full. The share options awarded prior to January 1, 2007 were measured in accordance with the Black-Scholes option pricing model. Options awarded after January 1, 2007 undergo a Monte-Carlo simulation to determine their fair value on the date of award. The expected number of vested share options is regularly reviewed as of the balance sheet date.

In addition, members of the Supervisory Board are awarded stock appreciation rights (STAR programme). These rights are also subject to market conditions but are always settled in cash when they are exercised. Integralis revalues the fair value of all outstanding rights as of each balance sheet date pending settlement.

3.

Critical accounting estimates and judgements

In the application of the aforementioned accounting principles, it is necessary to make estimates, assumptions and judgements to calculate the carrying value of assets and liabilities if no information is available from any other sources. The estimates and underlying assumptions are based on historical experience and other factors which are considered to be relevant. Actual figures may differ from the estimates.

The assumptions underlying the estimates are reviewed regularly. Any changes in estimates which concern only a single period are allowed for only in such period. If the changes concern the current and future periods, allowance is made for them in this and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that could have a significant risk of potentially causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

3.1

Impairment of goodwill

To identify any impairment of goodwill, it is necessary to calculate the value in use of the cash-generating unit to which the goodwill has been allocated. The calculation of the value in use necessitates an estimate of future cash flows from the cash-generating unit as well as a suitable discount rate for calculating the present value. The carrying value of the goodwill as of the balance sheet date stands at T€ 14,895.

3.2

Threatened losses in connection with vacant buildings

In the United Kingdom, there are rental leases in force for office space expiring in 2019. The Group does not use all of the office space concerned and has not sublet all of it or for the remaining period of the lease. As of December 31, 2007, it has set aside provisions of T€ 1,486 to cover rental shortfalls on the assumption that all of the premises which it does not use itself will be sublet as of 2012. If the vacancy extends beyond 2012 or the existing subleases are terminated earlier than planned, this may exert considerable pressure on earnings as it will be necessary to adjust the provisions accordingly. In the event of a sustained sublease being signed for all of the unused premises prior to 2012, this may result in the provisions being reversed, in which case the proceeds from such reversal will be taken to the income statement.

3.3

Recognition of deferred tax assets for future tax reimbursement claims as a result of unused tax losses and temporary differences

The Group recognised deferred tax assets from temporary differences as well as from unused tax losses as of December 31, 2007. The tax reimbursement claims are recognised only to the extent that it is probable that taxable profits will be available in the foreseeable future against which the deferred tax assets can be utilised.

The estimate as to future taxable profit has been made on the basis of historical experience as well as future expectations of the business performance of the companies in question. If business does not perform as expected and it is no longer considered probable that sufficient taxable profit will be available to realise all or part of the tax reimbursement claims, the carrying value of the deferred tax assets will be lowered as of the next balance sheet date and the resulting expense taken to the income statement.

4. Notes on the consolidated balance sheet

4.1 Cash and cash equivalents

As of the balance sheet date, there were cash and cash equivalents of T€ 14,366 (previous year: T€ 14,342). Of this, an amount of T€ 255 (2006: T€ 286) is subject to restricted availability as it has been pledged to cover bank guarantees issued for rental deposits and contractual performance obligations.

4.2 Receivables and other assets

Trade receivables are shown net of adjustments for bad debts. All receivables and other assets are due for settlement within one year. Individual adjustments of a total of T€ 46 have been included to allow for expected reduced payment receipts.

	2007	2006
	in T€	in T€
Trade Account Receivables	40,414	37,071
Allowance for Bad Debts	-46	-199
Total	40,368	36,872

4.3 Inventories

Inventories break down as follows:

	2007	2006
	in T€	in T€
Finished Products and Goods	1,638	913
Provision for slow-moving and obsolete Items	-	-
Total	1,638	913

4.4 Prepaid expenses and other assets

Prepaid expenses and other assets are valued at T€ 2,445 (2006: T€ 2,755) and comprise deposits and other security payments of T€ 76 (2006: T€ 37), advance payments of T€ 470 (2006: T€ 420) and prepaid expenses of T€ 1,899 (2006: T€ 2,298). Prepaid expenses primarily entail rentals, insurance premiums and maintenance contracts. In 2007, this item also includes T€ 8 for the fair value of derivative financial instruments.

4.5 Property, plant and equipment

Property, plant and equipment are broken down in the statement of movements in assets (see appendix).

In 2007, property, plant and equipment with a net carrying value of T€ 401 was reclassified as an intangible asset.

Currency translation differences between the balance sheet dates are reported in the consolidated statement of movements in assets under "Currency Conversion".

There were no impairment losses or reversals of previous impairment losses in connection with property, plant and equipment in the year under review.

Property, plant and equipment include leased assets valued at T€ 1,411 (previous year: T€ 1,496) for which the Group company in question is deemed to be the economic owner on account of the structure of the underlying leases.

Finance leases primarily concern two buildings and a piece of land, for which call options may be exercised in 2010 and 2017, respectively. The leased items are recognised at their fair value by the lessee in accordance with IAS 17. A depreciation rate of 4% is applied. The interest expense arising in connection with finance leases stands at T€ 105 (2006: T€ 109) on the basis of an interest rate of 6.58%.

As of the balance sheet date, future lease payments break down as follows:

Term	Future Payments	Interest	Net Present Value
	in T€	in T€	in T€
Up to one year	163	-99	63
Between one and five years	650	-351	299
Over five years	1,509	-311	1,199
Total	**2,322**	**-761**	**1,561**

4.6

Intangible assets

This item comprises software and related licenses, development costs capitalised in accordance with IAS 38 and the maintenance order books of T€ 137 (2006: T€ 205) gained in connection with the purchase price allocation arising from the acquisition of Netsecure Sweden.

4.7

Goodwill

Since January 1, 2005, the impairment-only approach stipulated by IFRS 3 has been applied to the valuation of goodwill. The goodwill of T€ 14,895 (2006: T€ 9,935) has been calculated on the basis of the value in use. The addition of T€ 4.960 relates to the purchase of ProtechT FZ LLC, UAE, in April 2007.

Impairment testing involved a comparison of the carrying values in question with the values in use. The values in use were calculated on the basis of the present value of future pre-tax earnings (EBITDA) in the light of the following assumptions:

- Period of five years as of 2008
- Revenue growth of between 5 % and 7.5 %
- Increase in costs of between 3.8% and 5.6%
- Pre-tax discount rates of between 15.0% and 21.4%

No impairment losses were recorded in 2007.

The carrying values of the goodwill were assigned to the following cash-generating units (CGUs):

	2007	2006
	in T€	in T€
Integralis Germany	224	224
Integralis UK	22	22
Integralis Switzerland	906	906
Integralis US	644	644
Integralis France	3,114	3,114
Integralis Sweden	5,025	5,025
Integralis UAE	4,960	0
Total	**14,895**	**9,935**

The recoverable amounts of the cash generating units were calculated on the basis of the following assumptions, which are subject to estimation uncertainties:

- **Revenue growth and growth rates used to extrapolate the cash flow forecasts beyond the current planning period:** The growth rates are based on various studies on the future performance of the market. These include a risk discount on account of the management estimates. In this connection, it was assumed that the smaller CGUs have greater growth potential than the larger ones. All growth rates projected are below the forecast for the sector as a whole to allow for the estimation uncertainty.
- **Gross margin:** Gross margins were calculated on the basis of management's experience and historical performance. To allow for the estimation uncertainty, a deduction was made to the assumed gross margins. Thus, declines of between 1 and 1.25 percentage points in the margin were used to calculate the recoverable amount for one CGU.
- **Personnel and other costs relative to changes in revenues:** It was assumed that costs will increase by 75% of the rate at which revenues increase. Here as well, cautious assumptions were applied to allow for estimation uncertainties. Thus, in these consolidated financial statements, for example, costs rose by only 55.7% of the rate at which revenues increased.
- **Discount rate:** A post-tax discount rate of 15% is applied, on the basis of which the pre-tax discount rates were adjusted in accordance with IAS 36.A20. The interest rate was calculated on the basis of the Company's incremental borrowing rate adjusted to include a risk premium deemed to be appropriate by management (IAS 36.A17). This interest rate is also used internally for measurement purposes in connection with acquisition projects.

4.8

Deferred tax assets

Deferred tax assets break down as follows:

	2007	2006
	in T€	in T€
Tangible/ Intangible Assets	840	268
Unused Tax Losses	573	-
Accruals/Provisions	15	134
Total	1,428	402

4.9

Accruals and other current liabilities

Accrued expenses comprise the following:

	2007	2006
	in T€	in T€
Accrued Suppliers` Invoices	6,152	5,127
Accrued Personnel Cost and Social Security	2,283	2,170
Other	428	2,250
Total	8,863	9,547

The other current liabilities of T€ 3,896 (2006: T€ 2,653) comprise liabilities in connection with social security of T€ 1,001 (2006: T€ 1,312), deferred income of T€ 851 (2006: T€ 1,083) and other current liabilities.

4.10

Deferred tax liabilities

Deferred tax liabilities break down as follows:

	2007	2006
	in T€	in T€
Surplus reserve	58	262
Accruals/ Provisions	25	17
Total	83	279

4.11

Non-current provisions

The changes in non-current provisions were as follows in the year under review:

	01/01/ 2007	Utilised	Released	Additions	Exchange Rate Effect	31/12/ 2007
	in T€	in T€	in T€	in T€	in T€	in T€
Onerous leases	2,262	774	-	158	-151	1,495
Earn-Out Netsecure Sweden	1,287	1,287	-	-	-	-
Earn-Out ProtechT, Dubai	-	-	-	2,943		2,943
STAR-Programme	93	93	-	82	-	82
Total	3,642	2,154	-	3,183	-151	4,520

An amount of T€ 1,685 has a term of less than one year. The remaining amount of T€ 2,835 has a residual term of over one year.

The provisions for onerous leases concern the office space in the United Kingdom. The rental and lease contracts entered into by Nocitra Ltd. have a remaining term of around 11 years.

The provisions for the earn-out obligations in connection with the acquisition of Netsecure Sweden AB were utilised in the first half of 2007.

An amount of T€ 2,952 was set aside to provide for the earn-out commitments in connection with the acquisition of ProtechT FZ LLC, Dubai. Of this, an amount of T€ 1,446 has a term of less than one year.

The provisions for the STAR programme concern the stock appreciation rights awarded to the Supervisory Board.

4.12

Equity

4.12.1 Share capital, authorised capital and contingent capital

The share capital stood at €11,585,137 as of December 31, 2007 (December 31, 2006: €11,547,577) and is divided into 11,585,137 registered no-par-value shares.

As of December 31, 2007, the following authorised and contingent capital was available for future use:

Authorised capital 2005/I:

In accordance with a resolution passed at the annual general meeting of June 9, 2005 the Management Board is authorised, with the Supervisory Board's approval, to increase the Company's share capital by up to T€ 5,250 on or before May 31, 2008 either once or in several steps by issuing up to 5,250,000 new registered shares on a cash or non-cash basis. Pursuant to statutory regulations, the Management Board may (with the Supervisory Board's consent) exclude the shareholders' statutory subscription rights in order to acquire shares or all or part of other companies.

As of December 31, 2007, authorised capital I stood at € 5,216,086 (December 31, 2006: € 5,216,086).

Authorised capital 2006/I:

In accordance with a resolution passed at the annual general meeting of May 24, 2006 and modified by a further resolution passed at the annual general meeting of May 10, 2007, the Management Board is authorised with the Supervisory Board's approval to increase the Company's share capital by up to T€ 33,250 on or before May 31, 2008 either once or in several steps by issuing up to 33,250 new registered shares on a cash or non-cash basis. The Management Board may with the Supervisory Board's approval exclude the shareholders' statutory subscription rights to the extent that shares are to be issued to Management Board members Graham Jones and Georg Magg at a price of at least € 2.70 per share. In the event of an equity issue using the Company's funds, this issue price is to be adjusted in accordance with Section 261 (3) of the German Stock Corporations Act. As of December 31, 2007, no option rights had been exercised for this authorised capital. Accordingly, 33,250 shares were still available for future use as of December 31, 2007.

Contingent capital 2002/I:

In accordance with a resolution passed at the annual general meeting on May 10, 2007, the contingent capital 2002/I was reduced to T€ 38. The share capital may be increased by up to T€ 38 through the issue of up to 38,000 shares on a contingent basis. The contingent capital 2002/I is required to grant option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other companies affiliated with the Company (stock option programme III). In 2007, 27,500 options were exercised and honoured using this contingent capital. The exercise price stood at € 1.84. Following the entry of the options exercised in the commercial register, it is no longer possible to use this capital as the underlying stock option programme III expired at the end of 2007.

Contingent capital 2003/I:

In accordance with a resolution passed at the annual general meeting on May 10, 2007, the contingent capital 2003/I was reduced to T€ 82.5. The share capital may be increased by up to T€ 82.5 through the issue of up to 82,500 shares on a contingent basis. The contingent capital 2003/I is required to grant option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other companies affiliated with the Company (stock option programme IV). In 2007, no options were exercised or honoured using this capital.

Contingent capital 2005/I:

In accordance with a resolution passed at the annual general meeting on May 10, 2007, the contingent capital 2005/I was reduced to T€ 52. The share capital may be increased by up to T€ 52 through the issue of up to 52,000 shares on a contingent basis. The contingent capital 2005/I is required to grant option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other companies affiliated with the Company in accordance with stock option programme V. In 2007, 10,000 options were exercised and honoured using this capital. The exercise price stood at € 2.80.

Contingent capital 2007/I:

In accordance with a resolution passed at the annual general meeting on May 10, 2007, contingent capital 2007/I of T€ 945 was created. The share capital may be increased by up to T€ 945 through the issue of up to 945,000 shares on a contingent basis. The contingent capital 2007/I is required to grant option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other companies affiliated with the Company in accordance with stock option programme SOP 2007. As of December 31, 2007, no option rights had been exercised for this contingent capital 2007/I.

Contingent capital 2007/II:

At the annual general meeting of May 10, 2007, a resolution was passed authorising the Management Board with the Supervisory Board's approval to issue registered convertible or warrant-linked bonds with a total nominal amount of up to T€ 4,000 and a term of no more than ten years once or in several steps on or before May 9, 2012. For this purpose, new contingent capital 2007/II was created. The Management Board was additionally authorised to award the bearers or creditors of the convertible and/or warrant-linked bonds new shares with a prorated amount of share capital of up to a total of T€ 4,000 in accordance with the conditions for the convertible and/or warrant-linked bonds.

The share capital may be increased by up to T€ 4,000 through the issue of up to 4,000,000 shares on a contingent basis. The option or conversion price equals 90% of the average price of the Company's stock in the XETRA closing auction at the Frankfurt stock exchange during the ten trading days prior to the day on which the Management Board passes a resolution to issue the bonds, provided that this is no less than the minimum issue price stipulated in Section 9 (1) of the German Stock Corporation Act. As of December 31, 2007, no convertible or option bonds had been issued for this contingent capital 2007/II.

4.12.2 Disclosures concerning capital management

In view of its historical losses, the Group has previously managed its capital in the light of its aim of achieving an equity ratio of 20% in conjunction with the goal of ensuring that the operating companies receive sufficient equity resources to protect their going concern status. The Group's equity ratio rose from 17.4% in 2006 to 19.8% as of the balance sheet date. As the Group is now operating profitably, the capital management goals will be reviewed comprehensively in 2008.

4.12.3 Net income for the year and profit carried forward

The net income for 2007 of T€ 5,228 (2006: T€ 2,765) will be carried forward.

5.

Notes on the consolidated profit and loss account

5.1

Personnel expenses

In the year under review, wages and salaries came to T€ 29,457 (2006: T€ 26,969). Social security expenses were valued at T€ 5,191 (2006: T€ 4,824) and included expenditure on defined-contribution benefits of T€ 435 (2006: T€ 160) (see also Note 8.8). Personnel expenses include T€ 127 (2006: T€ 81) by way of share-based compensations under the share option programmes.

5.2

Other operating expenses

Other operating expenses break down as follows:

	2007 in T€	2006 in T€
Other Personnel Expenses (Travel, Training, Contractors)	3,902	2,477
Company Cars (Maintenance, Leasing, Insurance, etc)	2,105	1,875
Other Charges	1,789	1,669
Legal and Professional Fees	1,488	1,120
Facilities Costs	1,437	2,662
Marketing Costs	1,065	476
Insurances	550	472
Recruitment	367	261
Finance Charges (Bank Fees, Result from Foreign Exchange Rates)	-311	439
Total	**12,392**	**11,451**

Finance costs include exchange rate gains and losses netted with bank fees, bad debt expenses/recoveries and other finance costs. This resulted in income of T€ 311 in 2007.

Personnel and other operating expenses in the "Development" segment came to T€ 719 in 2007. The figures for the previous year were restated in accordance with IAS 14.79 in the interests of comparability. Expenses in the "Development" segment came to T€ 623 in 2006.

5.3

Exchange rate gains and losses

Exchange rate gains of a total of T€ 482 (2006: losses of T€ 181) from the translation of monetary items were reported in the income statement under other operating expenses. A sum of T€ 745 (2006: T€ 78) was recognised under equity.

5.4

Profit from the sale of financial assets

The Company did not receive any profit from the sale of financial assets in 2007. In 2006, an amount of T€ 391 had been earned for the final time from the sale of Foundstone as well as an amount of T€ 3 from the sale of Nocitra AG, Switzerland. Both amounts were recorded in the income statement as profit from the sale of financial assets.

5.5

Depreciation/amortisation

The breakdown of depreciation/amortisation expense by intangible assets, property, plant and equipment and financial asses can be seen in the statement of movements in assets.

Total depreciation/amortisation expense came to T€ 2,081 in 2007 (2006: T€ 1,780). This includes the depreciation of T€ 270 in connection with the order backlog capitalised as a result of the acquisition of ProtechT FZ LLC, which was identified as an intangible asset as part of the purchase price allocation in accordance with IFRS 3.

5.6

Interest income and expense

Interest income and expense breaks down as follows:

	2007	2006
	In T€	In T€
Interest Income	413	426
Release of Discount for Provisions	-	44
Total Interest Income	413	470
Interest Charges	-114	-120
Discount of Provisions	-35	-191
Total Interest Charges	-149	-311
Financial Result	**264**	**159**

Interest income in the previous year included interest of T€ 42 from the exceptional reimbursement of value added tax paid in 2000.

5.7

Income taxes

Income taxes include the current and deferred income taxes paid or owed in the individual countries. Deferred taxes are calculated on the basis of the tax rates applicable or expected as of the date of recognition in the individual countries. As a matter of principle, these are based on the statutory rules in force or enacted on the balance sheet date. Non-domestic income taxes are based on the rules and laws applicable or enacted in the individual countries. The income tax rates applied to the non-domestic companies is between 18 % and 39 %.

Tax expense for 2007 and 2006 is as follows:

	2007	2006
	in T€	in T€
Current Tax Expense	1,050	15
Tax Overprovided in Previous Years	0	-31
Deferred Tax Charge/ (Credit)	-1,039	274
Total	**11**	**258**

Income tax expense on earnings before tax is calculated as follows:

	2007	2006
	in T€	in T€
Result before Tax	**5,238**	**3,023**
Income Tax Charge/(Credit) Using the German Tax Rate of 39%	2,043	1,179
Effect of Tax Rates in Foreign Jurisdictions	-56	-238
Effect of Non-Deductible Business Expenses	1,061	70
Tax Credit from Deferred Tax Assets due to Unused Tax Losses	-573	0
Tax Credit from Deferred Tax Assets due to Temporary Differences	-466	0
Effect of Non-Taxable Income	-384	0
Utilisation of Prior Year Tax Losses	-1,703	-1,176
Effect of Tax Over-Provided in Previous Years	30	-31
Other	59	545
Tax Charge / (Profit)	**11**	**258**

5.8

Earnings per share

Basic earnings per share as defined in IAS 33 are calculated by dividing the consolidated post-tax profit by the average number of outstanding shares. In addition the diluted average number of shares is calculated. There was an average number of basic shares of 10,816,842 in the year under review (2006: 11,004,525) and diluted shares of 11,225,768 (2006: 11,406,260).

The basic number of shares is reconciled with the diluted number of shares as follows:

	Number
Shares as at 31/12/2007	11,547,577
Minus Treasury Shares as at 31/12/2007	-849,365
Number of Shares as at 31/12/2007	10,735,772
Weighted Average Number of Shares 2007 (undiluted)	10,816,842
Plus Weighted average Number of Options in 2007	408,927
Weighted Average Number of Shares 2007 (diluted)	11,225,768

Basic earnings per shares as defined in IAS 33 came to € 0.48 in 2007 (2006: € 0.25). Diluted earnings per shares stood at € 0.47 in 2007 (2006: € 0.24)

To calculate the average number of shares, new shares issued were included on a time-proportionate basis. In addition, shares bought back and reissued were also included on a time-proportionate basis. To calculate the diluted number of shares, the weighted average number of shares is adjusted by the number of all potentially diluting shares (options).

6.

Segment report

Segment reporting complies with the stipulations in IAS 14. Integralis' internal reporting system primarily makes distinctions on the basis of geographic regions as the risks and local markets vary. Accordingly, primary segmentation is based on geographic segments. Secondary segmentation is based on the individual revenue segments.

6.1

Primary segment reporting

The following geographic segments form the primary reporting format for Integralis AG: the United Kingdom, Germany and Switzerland, the United States, France, Sweden and the United Arab Emirates.

In these consolidated financial statements (and also in the interim financial statements as of September 30, 2007), the cost of resources used on a cross-border basis (help desks, managed security service centre, IT, product management etc.) was analysed again and allocated to the individual countries in accordance with actual utilisation. Only Group expense was reported separately. This impacts the presentation of earnings in the primary segment report. However, we consider this to provide a more reliable comparison of the country segments. Depreciation/amortisation and capital spending have also been allocated more precisely to the individual regions, with group-wide items shown separately.

Assets and liabilities which cannot be directly allocated to the geographical segments or which concern Group activities are reported separately. Here, as well the allocation to country segments has been revised.

The comparative figures for earlier periods have been restated in accordance with IAS 14.79.

The table setting out the primary segment report is attached to the notes.

6.2

Secondary segment reporting

The secondary segment report is broken down by products and services. Capital spending is assigned to the segments in accordance with their share in gross profit.

On the other hand, assets are no longer assigned to segments on the basis of prorated gross profit. Trade receivables as well as deferred costs of materials were allocated directly to the segments to which they refer; the remaining assets are reported in accordance with receivables and deferred costs of material.

The comparative figures for earlier periods have been restated in accordance with IAS 14.79.

7.

Notes on the cash flow statement

The cash flow statement has been prepared using the indirect method in accordance with IAS 7. For this purpose, non-cash investing and financing activities are ignored.

Cash and cash equivalents include cash in hand, cash at banks and fixed-term deposits available at short notice. Current account loans are not included.

8.

Other notes

8.1

Disclosures in accordance with Section 314 (1) No. 9 of the German Commercial Code

The fees for the auditors of the consolidated financial statements reported as expenses in 2007 break down as follows:

	2007	2006
	in T€	in T€
Audit of Annual Accounts	154	91
Other Confirmation and Evaluation	17	2
Tax Advice Services	8	40
Other Services	9	18
Total	**188**	**151**

8.2

Disclosures in accordance with Section 314 (1) No. 6 of the German Commercial Code

In accordance with Section 315 (2) No. 4 of the German Commercial Code, the disclosures on management compensation are included in the remuneration report, which forms part of the management report.

8.3

Financial instruments

Categories of financial instruments

	31/12/2007	31/12/2006
	in T€	in T€
Financial Assets		
Designated at Fair Value through Profit & Loss		
Held for Trading	-	-
Designated Derivatives considered under Hedge Accounting	8	-
Loans and Receivables (incl. Cash and Cash Equivalents)	54,734	51,214
Financial Liabilities		
Designated at Fair Value through Profit & Loss		
Held for Trading	-	-
Designated Derivatives considered under Hedge Accounting	8	-
Carrying Amount of Other Financial Liabilities	25,661	23,986
Liabilities from Capital Leases	1,560	1,637
Longterm Loans from Banks	118	-

The fair value of derivative financial instruments is determined on the basis of listed prices. The fair value of other financial assets and liabilities is determined using generally acknowledged valuation models.

Exchange rate risk

The Group's activities primarily expose it to financial risks as a result of changes in exchange rates.

At our national companies, our main suppliers issue their invoices in the local currency, meaning that the currency risk is for the most part confined to the translation of the national companies' financial statements (currency translation risk). In Germany and the UK, some sourcing activities are denominated in US dollars, resulting in a transaction risk.

In 2007, currency management was introduced at the German company with the aim of reducing exposure to exchange rates in the event of an unfavourable EUR/USD parity. At the same time, it seeks to derive gains from favourable exchange rate trends. For this purpose, the following derivative financial instruments were used in Germany:

- Currency forwards
- Zero-cost options
- Average-rate options

These hedging operations cover around 50% of exposure. The use of hedges to minimise the exchange rate risk is governed by internal guidelines which document in writing the rules to be applied in managing exchange rate risks. In addition, a quarterly report on the currency management activities is produced. Currency management is handled with moderate administrative resource requirements in accordance with the scope of business.

The following table sets out the financial instruments outstanding as of the balance sheet date, all of which are zero-cost options. All outstanding forwards expire in less than three months.

Zero-Cost-Options	Year	Foreign Curerncy Amount in T US$	Contractual Value in T€	Fair Value of Premium in T€
Call Option	2006	-	-	-
	2007	2,500	1,729	8
Put Option	2006	-	-	-
	2007	2,500	1,674	8

The fair value of the zero-cost options is calculated on the basis of the listed market prices.

The general translation risk is predominantly limited to the subsidiaries in the United States and the United Kingdom as these companies constitute a large part of our overall business and the US dollar and pound sterling fluctuate against the euro.

Foreign currency sensitivity analysis:

Consolidated earnings are influenced by fluctuations in the US dollar and pound sterling relative to the euro. The following table shows the Group's sensitivity to a ten percent rise or fall in the euro against the US dollar and pound sterling. The ten-percent shift represents management's appraisal of a reasonable possible change in exchange rates. The sensitivity analysis shows the influence of the local earnings denominated in US dollars and pound sterling. A positive figure indicates an increase in consolidated earnings for the year if the euro increases by 10% against the US dollar and pound sterling. If the euro drops by 10% against the US dollar and pound sterling, this has an opposite effect of the same amplitude on net earnings for the year and equity. As a result, the items shown in the table below would be negative.

	Effect of US-Dollar		Effect of Brit.Pound	
	2007	2006	2007	2006
	in T€	in T€	in T€	in T€
Net Earnings/Equity	209	74	302	583

Credit risk

Group management operates within a defined credit policy, monitors the extent of any exposure to credit risks on an ongoing basis and performs credit reviews when and as required. As of the balance sheet date, there was no material clustering of credit risks necessitating provisions or adjustments. The maximum risk of default is limited to the carrying value of the receivables.

Interest risk

The Group is not exposed to any interest risk as the Group companies have not raised any material volumes of external debt.

Contingency risk

Contingency risks or the risk of a counterparty failing to satisfy its payment obligations are monitored as part of receivables management and minimised by means of credit checks and the assignment of credit limits. The default risk equals the total value of receivables recognised. The maximum default risk roughly equals the receivables reported in the balance sheet. In the light of historical experience and the composition of the customer base, the Management Board assumes that the contingency risk is very small and that actual risk is covered by adjustments to individual receivables.

8.3

Share option programmes

The Integralis Group has implemented various share option programmes over the past years to allow employees and management to participate in the Company's success The existing share option programmes are described below:

8.4.1 Share option programme III ("SOP III")

The third employee participation programme was established in accordance with a resolution passed at the annual general meeting of May 29, 2002.

The share 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 exercise is that, during the exercise window, the Xetra closing price of Integralis shares exceeds 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 2007, 11,425 share options were exercised at €1.33 and 27,500 at € 1.84. Of these, 11,425 options were honoured by using treasury shares.

Options under SOP III were exercised in different periods during 2007. The weighted average share price in XETRA trading was € 4.66 in 2007. This option programme expired at the end of the year, meaning that the remaining unexercised options lapsed.

Analysis of the number of options as of December 31, 2007:

	2007	2006
	Number	**Number**
Options Outstanding at the Beginning of the Period	41,025	170,884
Options Granted	-	-
Options Exercised	38,925	92,225
Options Forfeited	200	37,634
Options Lapsed	1,900	-
Options Outstanding at the End of the Period	-	41,025
Exercisable Options at the End of the Period	**-**	**10,425**

The outstanding options break down as follows:

	2007	2006
	Number	**Number**
Management Board and Managing Directors of Subsidiaries	-	27,500
Employees	-	13,525
Options Outstanding at the End of the Period	**-**	**41,025**

8.4.2 Share option programme IV ("SOP IV")

The fourth employee participation programme was established in accordance with a resolution passed at the annual general meeting of June 23, 2003. As of the balance sheet date, employees and management held 88,689 options, made up of 63,250 issued on September 8, 2003 at € 2.70 and 25,439 issued on October 6, 2003 at € 3.24. The share 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 exercise is that, during the exercise window, the Xetra closing price of Integralis shares exceeds 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 2007, 12,894 share options were exercised at € 3.24 and 5,000 at € 2.20. Of these, all 17,894 options were honoured by using treasury shares.

As of the balance sheet date, the values of an option based on the XETRA closing price of € 5.75 on December 28, 2007 were as follows: € 0.99 for the options issued on September 8, 2003, € 3.05 for the options issued on October 6, 2003 and € 2.51 for the options issued on January 28, 2005.

Options under SOP IV were exercised in different periods during 2007. The weighted average share price in XETRA trading was € 4.66 in 2007. The options outstanding as of December 31, 2007 have a residual average term of six months.

Analysis of the number of options as of December 31, 2007:

	2007	2006
	Number	**Number**
Options Outstanding at the Beginning of the Period	**117,139**	**136,535**
Options Granted	-	-
Options Exercised	17,894	7,841
Options Forfeited	10,556	11,555
Options Lapsed	-	-
Options Outstanding at the End of the Period	**88,689**	**117,139**
Exercisable Options at the End of the Period	**25,439**	**28,145**

The outstaynding options break down as follows:

	2007	2006
	Number	**Number**
Management Board and Managing Directors of Subsidiaries	63,250	68,610
Employees	25,439	48,529
Options Outstanding at the End of the Period	**88,689**	**117,139**

8.4.3 Share option programme V ("SOP V")

The fifth employee participation programme was established in accordance with a resolution passed at the annual general meeting of May 26, 2004. As of the balance sheet date, employees and management held 25,000 options that were issued on June 10, 2005 at € 2.80. The share 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 exercise is that, during the exercise window, the Xetra closing price of Integralis shares exceeds 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 2007, 15,000 options were exercised under this share option programme. Of these, 5,000 options were honoured by using treasury shares. As of December 31, 2007, the value of an option on the basis of the XETRA closing price of € 5.75 on December 28, 2007 stood at € 2.95. The weighted average price of the options exercised in 2007 was € 4.90. The options outstanding as of December 31, 2007 have a residual average term of 26 months.

Analysis of the number of options as of December 31, 2007:

	2007	2006
	Number	**Number**
Options Outstanding at the Beginning of the Period	**52,000**	**60,000**
Options Granted	-	-
Options Exercised	15,000	-
Options Forfeited	12,000	8,000
Options Lapsed	-	-
Options Outstanding at the End of the Period	**25,000**	**52,000**
Exercisable Options at the End of the Period	**-**	**-**

The outstanding options break down as follows:

	2007	2006
	Number	**Number**
Management Board and Managing Directors of Subsidiaries	10,000	20,000
Employees	15,000	32,000
Options Outstanding at the End of the Period	**25,000**	**52,000**

8.4.4 Share option programme VI ("SOP 2007")

The new employee participation programme was established in accordance with a resolution passed at the annual general meeting of May 10, 2007. As of the balance sheet date, employees and management held 241,000 options that were issued on August 2, 2007 at € 4.19.

The share options may be exercised no earlier than two years after and no later than five years of issue. The exercise periods are from July 1 until August 15 and from November 1 until December 15 of each year. For the options to be exercised, the average price of Integralis share in XETRA trading between the 6th and 10th day of trading before the commencement of an exercise period must have risen by at least 25% over the issue price.

The options outstanding as of December 31, 2007 have a residual average term of 55 months. The subscription rights are measured using a Monte-Carlo simulation. The model assumes premature exercise in all cases in which the closing price on the date of exercise is at least 200 % of the exercise price. The measurement of the subscription rights is based on the following parameters:

Tranche	**2007/I**	**2007/II**
Recipients	Employees	Management Board
Granting Date	02.08.2007	02.08.2007
Grant Price	€ 4.19	€ 4.19
Closing Price of Integralis Share	€ 4.22	€ 4.22
Dividend Yield	0.00%	0.00%
Interest Rate	4.27%	4.27%
Volatility of Integralis Share	65.04%	65.04%
Employee Fluctuation	3.00%	0.00%
Fair Value	**2.18 €**	**2.20 €**

The estimates of future volatility are derived from the historical prices of Integralis AG share. The historical time window is the residual term of the options.

Analysis of the number of options as of December 31, 2007:

	2007
	Number
Options Outstanding at the Beginning of the Period	-
Options Granted	259,000
Options Exercised	-
Options Forfeited	18,000
Options Lapsed	-
Options Outstanding at the End of the Period	**241,000**
Exercisable Options at the End of the Period	-

The outstanding options break down as follows:

	2007
	Number
Management Board and Managing Directors of Subsidiaries	125,000
Employees	116,000
Options Outstanding at the End of the Period	**241,000**

8.4.5 Stock appreciation rights programme I (STAR programme)

At the annual general meeting held on June 23, 2003, a resolution was passed to award the members of the Supervisory Board variable compensation in addition to their fixed compensation in the form of stock appreciation rights (STAR) under the conditions of the Company's Stock Appreciation Rights Programme I of 2003. The STAR programme comprises a total of 150,000 appreciation rights, 50,000 of which are attributable to each member of the Supervisory Board.

The offer to acquire appreciation rights was made in three tranches in each case on the fifth working day after Integralis AG's interim report for the respective period was published. Each member of the Supervisory Board was offered 25,000 appreciation rights in 2003; 12,500 were offered in each of the years 2004 and 2005. The vesting 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 exercise (exercise hurdle) is that the price of Integralis shares on the date of exercise must be at least 10% above the base price. The rights lapse if they are not exercised within five years of issue.

The total compensation received by the individual members of the Supervisory Board comprising a fixed and a variable component under the STAR programme must not exceed a total of € 75,000 per year.

On December 31, 2007, the members of the Supervisory Board held 50,000 stock appreciation rights (25,000 at € 2.33 and 25,000 at € 3.52). As of December 31, 2007, the value of a stock appreciation right on the basis of the XETRA closing price of € 5.75 on December 28, 2007 stood at € 3.42 in the case of the rights granted in 2004 and € 2.23 in the case of the rights granted in 2005.

Analysis of stock appreciation rights as of December 31, 2007:

	2007	2006
	Number	Number
Options Outstanding at the Beginning of the Period	**100,000**	**100,000**
Options Granted	-	-
Options Exercised	50,000	-
Options Forfeited	-	-
Options Lapsed	-	-
Options Outstanding at the End of the Period	**50,000**	**100,000**
Exercisable Rights at the End of the Period	**-**	**-**

8.4.6 Share buyback programme and treasury shares

IVarious share buyback programmes were carried out in 2006 and 2007 in accordance with Section 71 (1) No. 8 of the German Stock Corporation Act. All shares were bought back on the public market. The transactions complied with the trading restrictions provided for in Article 5 of Regulation (EC) No. 2273/2003 of the Commission of December 22, 2003. Regular reports on the progress of the buyback programme were published on the Company's website. In accordance with the authorisation granted at the annual general meeting, the treasury share acquired may be used for the following purposes:

- Acquisition of all or part of other entities and to satisfy purchase-price and other payment obligations arising from such acquisition
- Redemption of shares
- Honouring of existing share option programmes

On May 28, 2006, the commencement of a share buyback programme from March 29, 2006 through May 22, 2006 was announced, during which a total of 654,833 shares with a total value of € 2,329,356.51 was acquired.

On June 8, 2006, a further share buyback programme from June 12, 2006 to December 29, 2006 was announced. Under this programme, a total of 615,116 shares with a value of € 2,024,755.47 was acquired up until December 29, 2006.

On October 31, 2007, a share buyback programme from November 5 until December 29, 2007 was announced, during which a total of 239,522 shares valued at € 1,346,945.28 was acquired.

The purposes for which these treasury shares were used are described below.

For acquisitions and earn-out obligations:

- 208,193 shares on April 27, 2006 and 9,810 shares on May 17, 2006 to settle earn-out obligations of € 646,596.65 from the acquisition of the Swedish company Netsecure AB. The price per share on which the settlement of the earn-out obligations was based was € 2.97.
- 145,950 shares on March 19, 2007 and 24,752 shares on April 1, 2007 to settle earn-out obligations of € 643,597.75 from the acquisition of the Swedish company Netsecure AB. The price per share on which the settlement of the earn-out obligations was based was € 3.77.
- 225,534 shares on April 4, 2007 to settle the purchase-price obligation of € 1,001,370.96 for the acquisition of ProtechT FZ LLC, Dubai.

To date, the following shares have been used to honour obligations under share option programmes:

Treasury shares were bought at an average price of € 3.41 in 2006 and € 5.62 in 2007.

Month	Number	Value in €	Average Exercise Price in €
December 2006	11,548	26,250.85	2.27
January 2007	4,871	10,243.04	2.10
April 2007	1,200	1,596.00	1.33
May 2007	450	598.50	1.33
June 2007	1,125	1,496.25	1.33
July 2007	10,750	18,647.50	1.73
September 2007	9	29.16	3.24
October 2007	3,630	11,761.20	3.24
November 2007	7,644	23,006.56	3.01
December 2007	4,640	14,593.60	3.15
Total	**45,867**	**108,222.66**	**2.36**

As of December 31, 2007, Integralis AG held a total of 849,365 treasury shares, equivalent to 7.33 % of its total share capital as of that date.

Analysis of treasury share holdings:

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%
January 2007	-	4,871	1,035,527	8.97%
March 2007	-	145,950	889,577	7.70%
April 2007	-	251,486	638,091	5.53%
May 2007	-	450	637,641	5.52%
June 2007	-	1,125	636,516	5.50%
July 2007	-	10,750	625,766	5.41%
September 2007	-	9	625,757	5.40%
October 2007	-	3,630	622,127	5.37%
November 2007	156,402	7,644	770,885	6.68%
December 2007	83,120	4,640	849,365	7.33%
Total as per 31/12/2007	**1,509,471**	**660,106**	**849,365**	**7.33%**

* Proportion of share capital as of the end of the month in question.

8.5

Contingent liabilities

The operating leases primarily cover office space and company cars. Lease and rental expense came to T€ 2,317 in 2007 (2006: T€ 2,599). Expense is quoted net of the income from subletting the premises to third parties, which came to T€ 943 in 2007 (2006: T€ 587).

Analysis of future lease payments and subletting income as of December 31, 2007 broken down by term:

Term	Operating Leases	Rental Income from Sub-Lease
	in T€	in T€
Up to one year	4,699	413
Between one and five years	8,858	783
Over five years	8,640	-
Total	**22,197**	**1,197**

8.6

Tax losses

In accordance with IAS 12.34, a deferred tax asset should be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. IAS 12.35 calls for strong evidence of the future existence of taxable profits for deferred tax assets to be recognised.

The Company recognised deferred tax assets for unused tax losses for the first time in 2007. In the case of subsidiaries which continued to operate profitably in 2007, deferred tax assets were recognised for unused tax losses in an amount equalling the expected tax income from the utilisation of the existing tax losses against the forecast profit in 2008.

The tax losses and the periods in which they can be utilised are set out below:

Expiry Date	31/12/2007	31/12/2006
	in T€	in T€
Up to one Year	1,689	-
Between one and five Years	-	2,044
Between sex and twenty Years	5,068	4,905
No Expiry Date	79,440	44,743
Total	**86,197**	**51,692**

In the previous year, tax losses of T€ 40,000 were assumed to be unusable and were therefore not recorded. In 2007, final tax assessment notices were issued, meaning that it can be assumed that the taxable losses are recognised in full and can therefore be utilised.

8.7

Staff

The average headcount in the year under review stood at 424 (2006: 400) and breaks down as follows:

	2007	2006
	Number	Number
Sales and Marketing	158	150
Technical	201	196
Administration and Management	65	54
Total	424	400

8.8

Post-retirement benefit obligations

The subsidiaries in the UK, the United States and Sweden have established post-retirement benefit plans for staff. The expenditure recorded in the income statement for the individual plans during the year stands at T€ 429 (2006: T€ 134). At the German companies, contributions for direct insurance for employees are valued at T€ 6. There are no post-retirement benefit plans at any of the other companies of the Integralis Group. Expenditure on defined-contribution commitments came to a total of T€ 435 (2006: T€ 160).

8.9

Related parties

In accordance with the definition in IAS 24, related parties include the Management Board and the Supervisory Board of Integralis AG as well as their main shareholders. No payments were made to related parties other than the contractual compensation to the members of the Management Board and the Supervisory Board. The remuneration paid to the members of the Supervisory Board and the Management Board is described in detail in the remuneration report, which forms part of the management report.

SHARES AND SUBSCRIPTION RIGHTS OF THE EXECUTIVE BODIES AS OF 31.12.2007

Management Board	Shares	Share Options
Georg Magg	25,000	60,000
Graham Jones	22,500	53,250
Roger Friederich	16,200	35,000
Management Board shareholdings: 0.55 %		

Supervisory Board	Shares	STAR Options
Magnus Wahlbäck und ihm nahe stehende Personen	940,843	-
Arnd Wolpers und ihm nahe stehende Personen	622,561	25,000
Jochen Tschunke	-	25,000
Supervisory Board shareholdings: 13.54 %		

8.10

Management Board and Supervisory Board

The members of the Management Board in the year under review under review were:

- Georg Magg, (Chief Executive Officer), Bad Wörishofen, Germany
- Graham Jones, (Chief Operations Officer), Malvern, Worcestershire, United Kingdom
- Roger Friederich, (Chief Financial Officer), Vaterstetten, Germany

The members of the Supervisory Board in the year under review were:

- Magnus Wahlbäck, chairman, business man in Sweden
- Arnd Wolpers (deputy chairman), business man in Münsing/ Ammerland
- Prof. Jochen Tschunke, business man München

The following members of the Supervisory Board hold further memberships as per December 31, 2007 in accordance with Section 285 No. 10 of the German Commercial Code:

- Magnus Wahlbäck
  - Seatime Maritime Communications AB, Sweden (chairman of the supervisory board)
  - Singles Universe AB , Sweden (chairman of the supervisory board)
  - Maxus AB, Sweden (member of the supervisory board)
- Prof. Jochen Tschunke
  - Cowatec AG, Burglengenfeld (chairman of the supervisory board)
  - Bridge2Exit AG, Munich, (chairman of the supervisory board)
  - Leukocare AG, Munich (member of the supervisory board)
  - Mercurion AG, Dusseldorf (member of the supervisory board)
  - Exasol AG, Nuremberg (member of the supervisory board)
  - Sporthouse.de AG, Munich (member of the supervisory board)
  - Lifebridge, Munich (member of the supervisory board)

9.

Disclosures in accordance with Section 160 (1) No. 8 of the German Stock Corporations Act concerning existing shares held in the Company as of the balance sheet date subject to compulsory disclosure in accordance with Sections 21 et seq. of the German Securities Trading Act

9.1

Disclosure by Highclere International Investors Smaller Companies Fund, London, UK of March 9, 2007

Disclosure in accordance with Section 21 (1) of the German Securities Trading Act:

- The threshold of 3% of the voting rights was exceeded on February 22, 2007, such that a share of 3.14% is now held.

9.2

Disclosure by FORUM European Smallcaps GmbH, Munich, and Burkhard Wittek of November 9, 2007

Disclosures in accordance with Section 21 (1) and Section 22 (1) Sentence 1 No. 1 of the German Securities Trading Act:

- The threshold of 3% of the voting rights was exceeded on November 7, 2007, such that a share of 3.20 % is now held. Of this, 3.2% is attributable to Burkhard Wittek in accordance with Section 22 (1) Sentence 1 No. 1 of the German Securities Trading Act.

9.3

Disclosure by Axxion S.A, Luxembourg of November 20, 2007

Disclosure in accordance with Section 21 (1) of the German Securities Trading Act:

The threshold of 5% of the voting rights was no longer reached on November 13, 2007, such that a share of 3.89% is now held.

10.

Declaration of conformance with the German Corporate Governance Code

The declaration of conformance with the Corporate Governance Code stipulated by Section 161 of the German Stock Corporations Act has been issued by the Management Board and the Supervisory Board and is available for inspection by the shareholders at all times at the Company's website.

Ismaning, February 2008

The Management Board

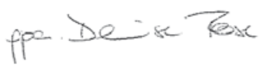
We have audited the consolidated financial statements prepared by the Integralis Aktiengesellschaft comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the financial statements, together with the group management report for the business year from 1 January 2007 to 31 December 2007. 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 the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit so 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 qualifications.

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, 29 February 2008
AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft



signed ppa. D. Rose
Wirtschaftsprüferin
(German Public Auditor)

signed G. Wörl
Wirtschaftsprüfer
(German Public Auditor)

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 2008 applies to both fiscal 2007 and fiscal 2008.

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 14 June 2007 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 2007 and will do so for 2008 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 share option plans prior to 2007 provide for a 10% increase on the base price as a target, increasing by a further 5% per year. Options granted int 2007 require a increase over base price of 25% 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 5.3.2:

The Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting.

On account of its small size, the Supervisory Board in its entirety deals with the nomination of suitable candidates to recommend them to the General Meeting.

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.

Ismaning, February 2008

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.integralis.com

Contact: Georg Magg (CEO), Roger Friederich (CFO) und Peter Banholzer (IR)

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

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

Shareholder Information
Integralis AG is a Stock corporation registered at:

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

Investor relations
You can register by e-mail with ir@integralis.com to receive regular financial information on Integralis AG. Please also use this address for any other requests for financial information such as quarterly reports or answers to investment-related questions. Or write to the following address:

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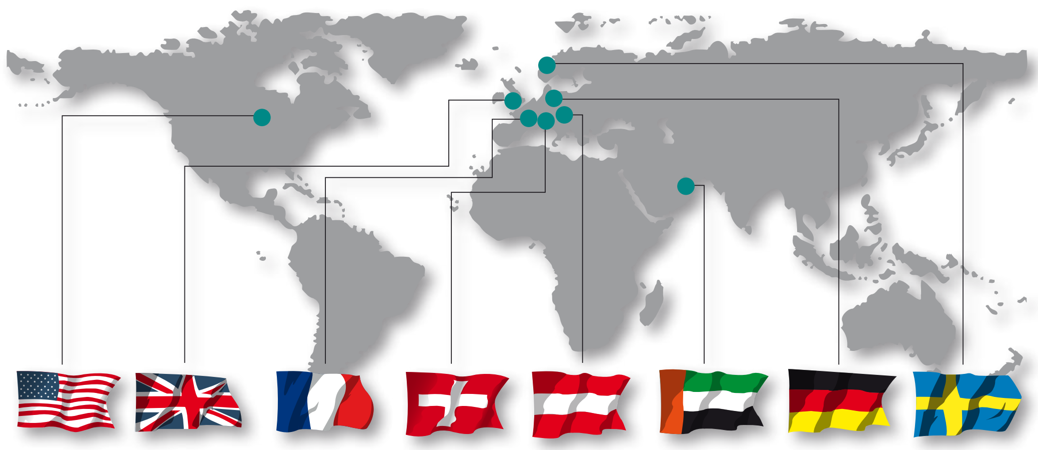
Our latest financial reports and corporate updates are available on the Internet at www.integralis.com

Integralis stock is listed in Deutsche Börse AG's Prime Standard.

Tickersymbol AAGN, WKN 515503
ISIN DE0005155030
Reuters: AAGGn.DE
Bloomberg: AAGN:GY

Financial calendar for 2008:

March 28:	Publication of annual report 2007
April 17:	Baader Small and Mid Cap Conference at Baader Wertpapier Handelsbank AG, Unterschleißheim
May 7:	Report on the 1st quarter of 2008
May 8:	Annual general meeting, Haus der Bayerischen Wirtschaft, Munich
August 14:	Report on the 2nd quarter of 2008
November 10:	Eigenkapitalforum, Frankfurt
November 10:	Report on the 3rd quarter of 2008



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