



Annual Report 2006

euromicron
Aktiengesellschaft

Highlights in 2006

New Supervisory Board

The new Supervisory Board of euromicron AG is appointed by Frankfurt/Main Local Court effective January 20, 2006.



Company acquisition
euromicron's subsidiary NTA acquires Krumm Telekom GmbH, Langen (Hessen).

Buy euromicron

The experts from "SES Research" rate euromicron's share a "buy". Upside price target: EUR 26.

Interesting order for the Group

New display panels at Dortmund Central Station – euromicron systems installs 40 new display panels.



Great trust by customer in the euromicron Group

The euromicron Group implements a nationwide, state-of-the-art voice communications system based on the Internet Protocol (VoIP) for the Dyckerhoff Group together with its subsidiary NTA.

2006 General Meeting

The General Meeting of euromicron AG ended on June 23 with a majority of around 99% in favor of the resolutions proposed by the Executive Board and Supervisory Board on all items of the agenda.

Dividend payment of EUR 0.60 a share adopted.



January

February

March

April

May

June

High free float

80% of euromicron's shares now free floating following replacement.

Buy euromicron

The experts from "Investor Alert" advise buying shares in euromicron. Upside price target: EUR 32.



euromicron at CeBIT

The euromicron Group presented itself in 2006 under the slogan "Competence goes Solution" and showcased solutions for a wide range of customer needs for communications and security applications at the trade fair.

euromicron „trading buy“

The experts from "neue märkte" give shares in euromicron the rating "trading buy". Upside price target: EUR 30.00.

Buy euromicron

The experts from "Independent Research" still advise buying. Upside price target: EUR 27.50.



euromicron systems GmbH implements one of the most modern video surveillance solutions, with video sensor technology, video management and alarm lighting, for prisons in North Rhine-Westphalia.

euromicron switches to the "Prime Standard"

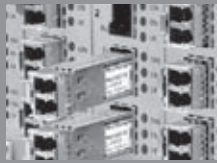
Frankfurt Stock Exchange approves euromicron AG's move to the Prime Standard.

Expectant press

"Der Aktionär" and "Euro am Sonntag" expect further takeovers in the 2nd half of 2006.

Further acquisitions

The acquisition of an 80% stake in Microsens GmbH & Co. KG, Hamm, means that the euromicron Group is expanding its expertise in the development and production of active and passive network components.



Acquisition of an 80% stake in BCK-Systeme Datentechnik GmbH, Northern Bavaria.

euromicron subsidiary NTA wins innovation award

The business award "Innovative SMEs of the Volks- und Raiffeisenbanken" was bestowed upon NTA Mainz.



Move to new premises

euromicron AG moves into new premises at Westhafen Haus on October 1, 2006. The communications infrastructure was equipped with cutting-edge technology from euromicron and can now also be demonstrated to customers in its own offices.



Buy euromicron

The analysts from SES Research continue to rate euromicron's share a "buy". Upside price target: EUR 29.00.

Share buyback program

Pursuant to the authorization granted by the General Meeting on June 23, 2006, the Executive Board of euromicron AG decided on November 23, 2006, to launch a stock buyback program.

Company acquisitions

The euromicron Group strengthens its presence in Southern Germany and Berlin by acquiring all the shares in TBS Munich and a 51% stake in TPB Berlin through the euromicron subsidiary SKM Spezialkabel München.



July

August

September

October

November

December

Buy euromicron

The experts from "Euro am Sonntag" advise buying shares in euromicron, with an upside price target of EUR 23.00 and a stop loss at EUR 14.50.



Focus on integration

The merger of euromicron's subsidiary delcom GmbH with euromicron systems GmbH lays the foundation for concentration and expansion of the "euromicron North Grouping" and signals the start of the integration process.

1st appearance at Security in Essen

In cooperation with Jungmann Systemtechnik, euromicron presents itself for the first time at the Security trade fair in Essen and showcases an integrated and intelligent security system for control rooms and control centers.



Company acquisitions

The euromicron subsidiary Pfeiffer acquires an 80% stake in Gustav Hartmann GmbH and strengthens the Group in the Munich region with this established company.

euromicron acquires all the shares in three companies from Hamburg's SSM Group: SSM Halle GmbH, SSM Leipzig GmbH and Engel Schwerin GmbH. As a result, its regional expansion in the former states of East Germany is largely completed.

Order from ROFU Kinderland Spielwarenhandels GmbH

Pfeiffer GmbH, Ettlingen, a subsidiary of euromicron, implements automated data transfer between stores and head office of ROFU Kinderland Spielwarenhandels GmbH.

euromicron Managing Director awarded Rhineland-Palatinate's highest accolade

The Minister President of the state of Rhineland-Palatinate bestows its Order of Merit on the Managing Director of NTA Mainz, Hans A. Becker.

The euromicron Group – Key figures

KEY FIGURES	2006 EUR m.	2005 EUR m.
Consolidated sales	115.9	114.1
Sales by segment		
euromicron North	56.8	48.7
euromicron South	62.1	51.5
Segment-related consolidation	–3.0	13.9
Sales by region		
Germany	106.2	100.9
Euro zone	6.8	7.9
Rest of World	2.9	5.3
EBIT (operating)	12.9*	6.8
EBIT (consolidated)	7.7	8.3
EBIT by segment		
euromicron North	7.6	4.3
euromicron South	5.3	2.5
euromicron AG and consolidation	–5.2	1.5
Consolidated net profit	4.4	5.6
Cash flow	2.7	4.2
Number of shares in circulation (thousands)	4,620	4,660
Earnings per share (in EUR)	0.95	1.21**
Total assets	109.8	100.8
Equity ratio	61.3 %	66.0 %
Employees (number as an average for the year)	767	805

* Before non-recurring expenses and holding costs

** Earnings per share after adjustment for industrial holdings: EUR 0.56

euromicron

Multifunctional Network Solutions

A sophisticated portfolio of products and services, a flexible organizational structure and responsibility in the Group's industrial management are major cornerstones in euromicron's success. Innovative development and production operations, professional project and system companies and interdisciplinary procurement, distribution and consulting teams ensure that euromicron delivers all-round solutions of persuasive quality to customers and holds a strong market position. The motivation and goal for all our daily actions is to grow with the company and increase its value lastingly.

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Dr. Willibald Späth
Chairman of the Executive Board

Dr. Edgar Bernardi
Member of the Executive Board

Dear Shareholders,

Dear Readers,

Fiscal 2006 saw an overall economic situation that was characterized by a slight boom and also marked the beginning of a new era for our company. We from the Executive Board are delighted to be able to report another successful business year, despite only moderate impetus in the market for information and telecommunications technology.

The Group's planned development was driven forward with great success on the back of its good capital resources and a return to the buy and build strategy. The newly formed Supervisory Board actively supported the measures aimed at strategic further development of euromicron and the unswerving path of achieving sustained growth organically and through company acquisitions. We made good progress in fiscal 2006 and were able to reach our strategic and operational objectives.

The euromicron Group generated consolidated sales of around EUR 116 million. As a result, the company grew by more than 18% in network technology, its sole core business since 2006, compared with the adjusted figures for the previous year (EUR 98 million).

Earnings before income and taxes (consolidated EBIT) were EUR 7.7 million, corresponding to year-on-year growth in our core business over 2005 of more than 60% after adjustment. The nine new company acquisitions in 2006, as well as new IFRS requirements, merger costs and small expenses, such as removal costs, strained consolidated earnings by non-recurring expenses of EUR 2.8 million, while the more than EUR 4.5 million EBIT generated by the acquired companies will not be able to be fully posted until fiscal 2007.

The Group's operating income before non-recurring expenses and holding costs was EUR 12.9 million, meaning we achieved our target corridor.

We managed to enhance the image of the euromicron Group and brand as a leading solution provider of communications systems and security networks that boasts production expertise in the field of fiber optics technology by means of selective strategic acquisitions and innovation-driven, successful large projects.

Admission of euromicron's shares to the Prime Standard also increased its attention and attractiveness in the capital market.

Activities in the first half of the year focused on increasing synergies through the integration of Elabo GmbH in core business, expansion of our presence in the Rhine/Main region, the purchase of Krumm Telekom GmbH and acquiring all the shares in NTA.

A major milestone as part of integration and implementation of our strategy was accomplished with the merger of delcom GmbH with euromicron systems GmbH on August 1, 2006. That marked the beginning of expansion of the North Grouping as a system house and the development of larger units.

The systematic implementation of the acquisition strategy led to the planned successes in the second half of the fiscal year. Our goal of complementing our portfolio of products and services as a technology-oriented and innovative Group was continued with the purchase of Microsens KG, a developer and producer of small active components. We were able to expand our regional presence significantly through the acquisitions of BCK GmbH, Telefonbau Schneider, Munich, and Hartmann GmbH in Southern Germany. The purchase of the companies SSM Halle, SSM Leipzig, Engel & Co. in Schwerin and a majority stake in Telecom Partner, Berlin, rounded out our blanket coverage in the north and east of Germany. The group is now excellently prepared to step up market penetration on the back of its regional orientation and portfolio.

Our international presence was also expanded successively through the new companies. The euromicron Group is now represented by branch offices in France, Poland, Singapore and Dubai. The positioning of the euromicron branch was successfully underscored nationally and internationally in 2006 by our participation in the trade fairs CeBIT, Security Essen and Gitex in Dubai.

To ensure further expansion of the Group and to cope with the requirements of integration, we have restructured euromicron AG organizationally and strengthened our workforce in the areas of economics and investor relations, strategy, integration and key account and sales management. Our move to new premises at the Westhafen in Frankfurt/Main also underpins the start of a new era at the Group in terms of the image we portray. All these measures will help drive the Group's development and achieve the ambitious aim in the coming year of sales of EUR 180 million on an annualized basis and operating income before holding costs of EUR 16 million.

euromicron's shares performed very pleasingly in line with the assessments and expectations of analysts in a positive climate on the capital market. Successful implementation of the planned strategic acquisitions and fine organic growth stimulated the extremely positive share performance.

The share price rose by 20% in the year under review. In this context, our market capitalization was able to be increased and exceeded the EUR 100 million mark for the first time. Starting at EUR 17.92, the shares peaked at EUR 22.50 and ended the year at EUR 21.50.

The broad spread of the shares over international institutional investors increased the capital market's attention for euromicron's development. Earnings per shares were just under EUR 1.00 on consolidated net profit of again EUR 4.4 million and thanks to our achieving the envisaged goals of profitable growth. This is a sharp increase over the previous year (EUR 0.56 in core business); earnings per share excluding non-recurring expenses would have been EUR 1.39.

The Executive Board will therefore propose to the General Meeting an increase in the dividend for fiscal 2006 to EUR 0.70 a share, or an increase of around 16%. Responsible management and control of the company in the spirit of the Corporate Governance Code is part of euromicron's corporate philosophy.

The Executive Board and Supervisory Board have intensively addressed the recommendations of the Corporate Governance Code in the period under review and introduced further ones for euromicron.

Efficient cooperation between the Supervisory Board and Executive Board, regard to shareholder interests and transparency and responsibility are key aspects of our corporate governance. Our Compliance Officer reports regularly to the Executive Board. You can find the detailed report starting on page 36.

Dear Shareholders, the success of 2006 is the result of systematically pursuing a corporate strategy geared to yield and value. Once again in 2007, the company has a very solid commercial and financial foundation, expects good operating performance, has interesting acquisition objects in its sights and so is optimistic about achieving the forecast targets.

The euromicron Groups thanks you, our shareholders and lenders, all employees and executives, business partners and friends for your loyalty to the company and your trust.



Dr. Willibald Späth

Chairman of the Executive Board



Dr. Edgar Bernardi

Member of the Executive Board

euromicron

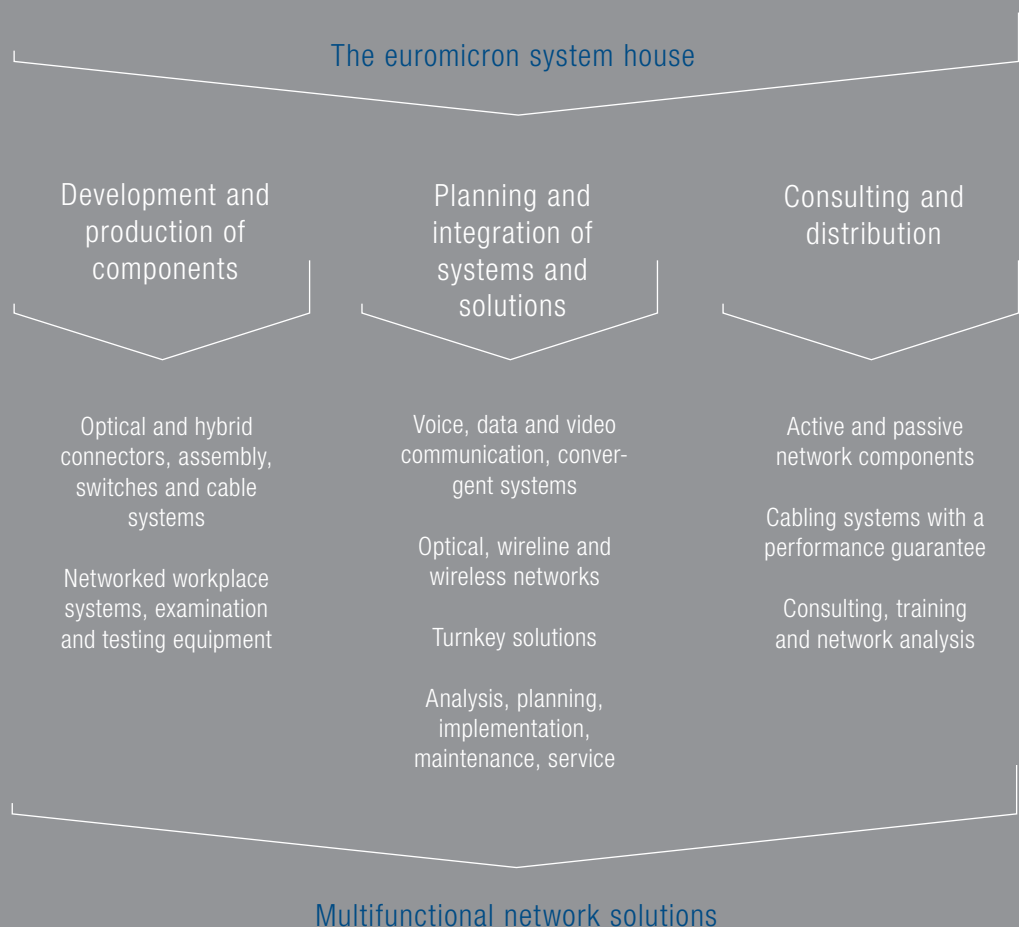
euromicron International

euromicron AG is an international group with core competence in the field of network and fiber optics technology.



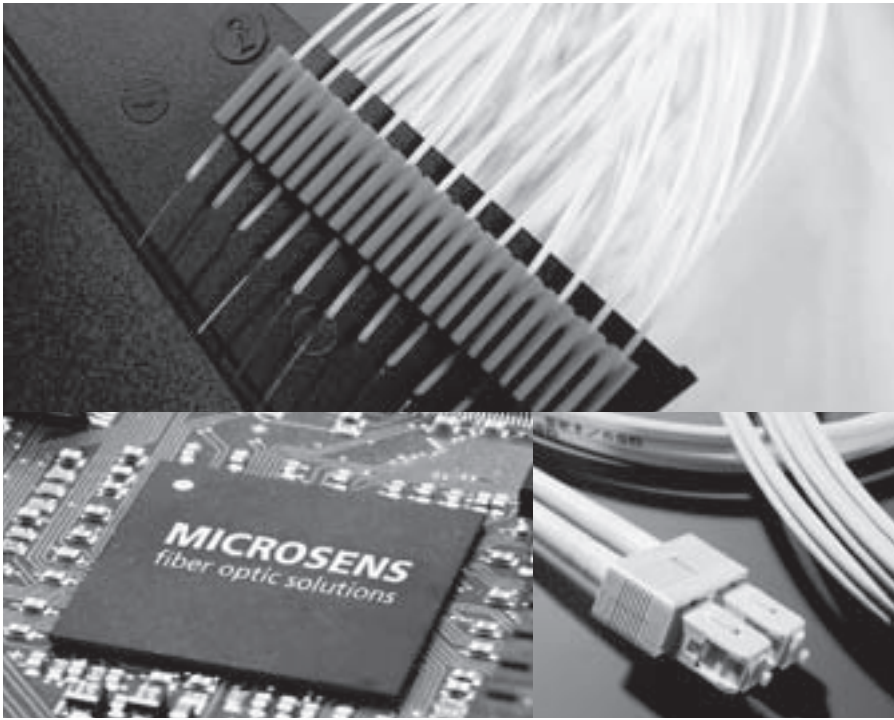
euromicron – the system house

The broad know-how of the individual companies together with the specialist knowledge of the Competence Centers makes euromicron a leading vendor of multifunctional network solutions.





Data, voice and TV:
all over the Internet.
And with components from euromicron!
Triple play – with euromicron inside



euromicron AG's expertise in producing active and passive fiber optics technology, from connectors, assembly to optical switches and multiplexers: euromicron stands for high quality, reliability in delivery and resilience in operation.

euromicron

Components

Convergence of different applications, increased requirements for their reliability and strong demand for bandwidth and speed necessitate high-quality network components. As a solution provider with production expertise, euromicron AG knows users' requirements and, as a manufacturer of components, can fulfill them precisely. Its many years of experience in data and in particular Internet technology now makes euromicron an end-to-end solution provider for voice, data and video transmission technology in the wake of technology-driven convergence of applications based on the Internet. As carriers expand nationwide to offer triple play, euromicron is supplying the high-quality fiber-optic components and is installing network access systems in large German cities.

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Aschaffenburg - Würzburg -
Nürnberg

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München Hbf

Internet-controlled passenger information systems,
at 58 stations throughout Germany to date!
Installed by euromicron.

Deutsche Bahn – and euromicron outside



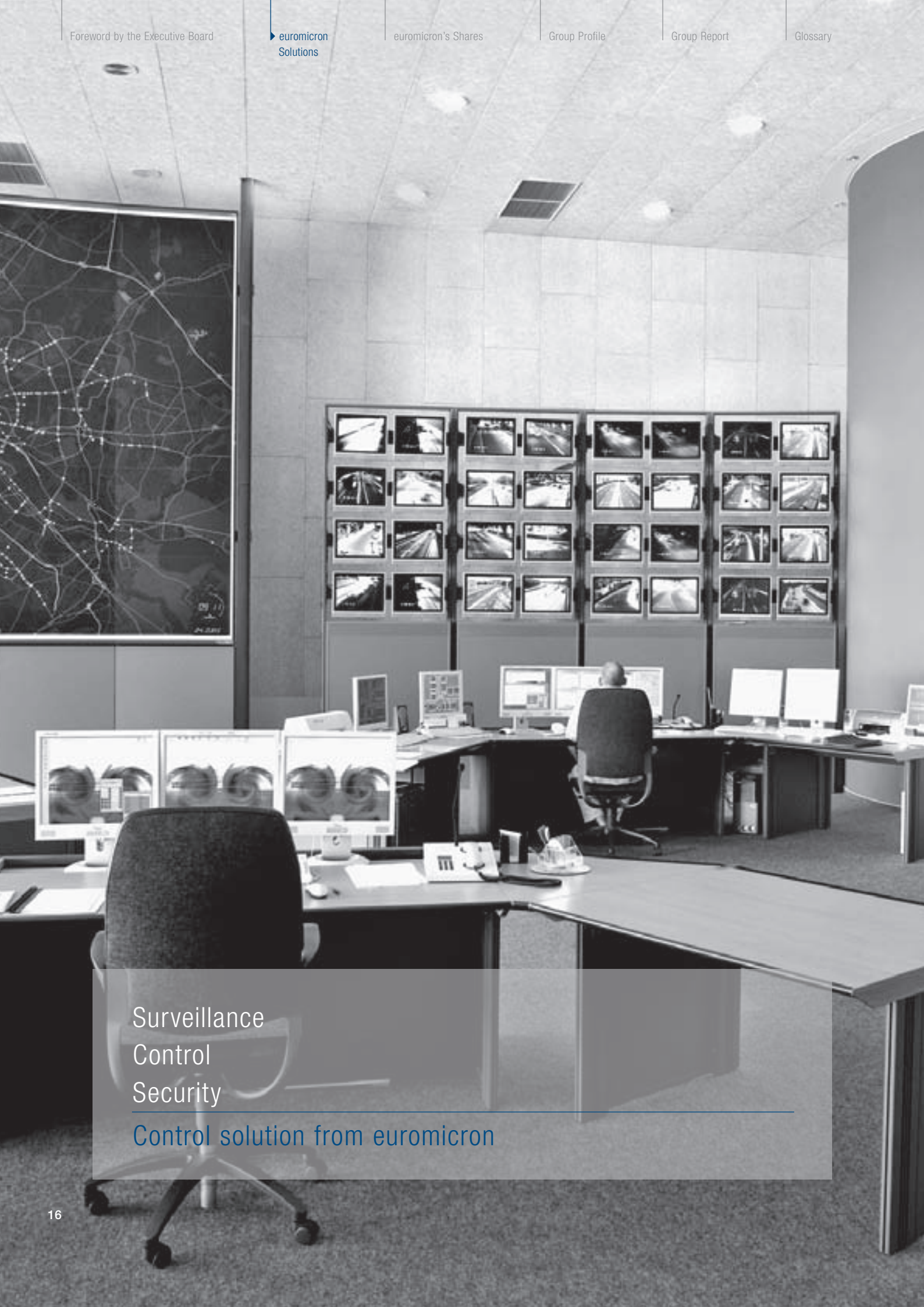
Processing and storage of just about all data in business transactions with customer, product, logistics or process information in data centers and server farms demands the very highest reliability and above all security. The importance of physically protecting such premises where highly sensitive data is processed, for example by video surveillance, is growing rapidly.

euromicron

Systems

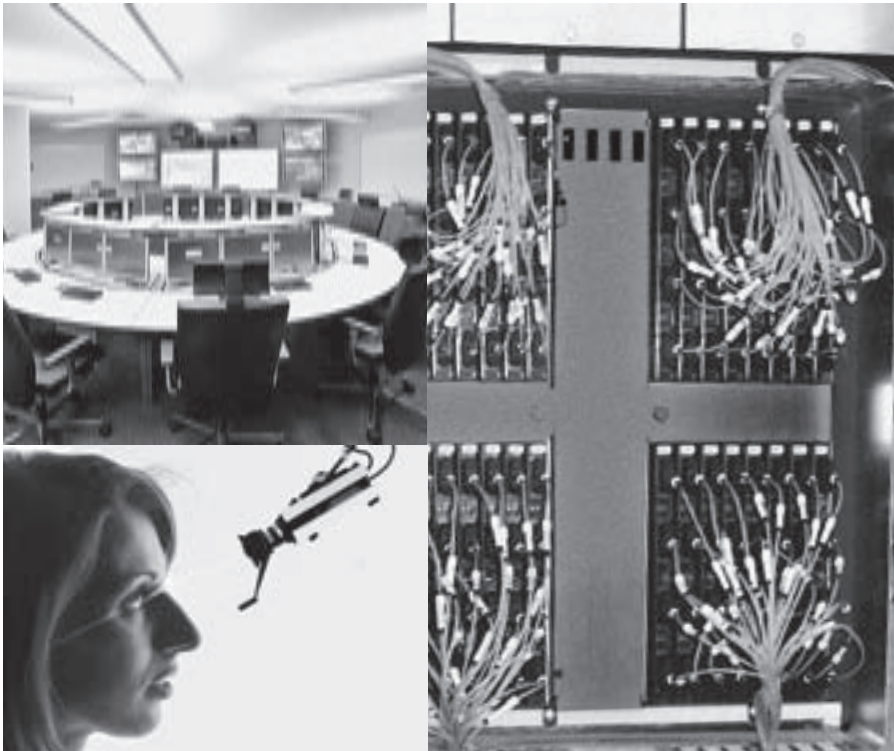
Rapid, up-to-date information is now indispensable when it comes to ensuring connections that run accurate to the minute, short waits and optimized journey times. That is why Deutsche Bahn has converted its passenger information systems to leading-edge technology that provides its passengers with the latest and most important travel information at all times by means of networking and Internet control. euromicron installs, configures and now also maintains these display systems at just about all large German rail stations.

High-speed trains now have top-speed display systems to match – to the satisfaction of passengers and of euromicron’s customer Deutsche Bahn.



Surveillance
Control
Security

Control solution from euromicron



Surveillance of soccer stadiums, forgery-proof access control by means of iris recognition or protection of data centers against uninvited infiltrators gaining entry through the door or over the network are increasingly complex tasks – and ones that euromicron solves by providing control stations developed and produced in-house and based on its many years of expertise in planning data infrastructures at data centers.

euromicron

Solutions

Apart from the greater security requirements for information and telecommunications technology, in particular at data and server centers, there is a growing need for surveillance and control systems in public places where large crowds of people congregate, such as underground railways, airports, city centers, soccer stadiums, etc.

The euromicron Group has therefore systematically expanded its portfolio of products and services to cover physical and logical security technology and has now evolved into a leading solution provider for communication systems and security networks. On the basis of URM, the fiber optic system specially developed for data centers, and installation of the data infrastructure, euromicron now offers with its Data Center Solutions an all-round solution ranging from emergency power supply, access control systems to video surveillance and protection of data by means of detection and repulsion of infiltrators. The technology, which is now almost completely IP-based, also permits transfer of video and surveillance signals over the Internet, allowing cameras or monitor systems to be controlled via the Internet by means of intelligent active components.



euromicron AG
(XETRA)

In EUR thou.



euromicron's shares

euromicron's shares likewise performed pleasingly in this climate. Systematic company acquisitions, combined with organic growth, and positive opinions by analysts were well received by the market and gave the shares a boost. They started 2006 at EUR 17.92 and ended it at EUR 21.50, a rise of some 20%. If the EUR 0.60 dividend per share for fiscal 2005 is added, that gives an increase of more than 23%. That meant the share price showed a clear response to good corporate news.

In this context, the company's market capitalization was also increased and exceeded the EUR 100 million mark for the first time.

euromicron's share has been listed on the Prime Standard since June 14, 2006, and has thus become more transparent and attractive for the capital market.

Dividend and yield

In the spirit of ensuring continuity in the dividend, the Executive Board and Supervisory Board of euromicron AG will propose to the General Meeting on June 20, 2007, an increase in the dividend for fiscal 2006 by around 16% to EUR 0.70. This corresponds to a dividend rate of 67% measured by the company's earnings. If the dividend per share is included in the price of euromicron's shares at the end of fiscal 2006, this again gives a dividend yield of around 3.3%.

The Executive Board and Supervisory Board are thus adhering to their shareholder-friendly dividend policy, giving shareholders a suitable share of the company's success and acknowledging their loyalty to the company.

Capital measures

The General Meeting on June 23, 2006, consented to the launch of a stock option program for executives of the euromicron Group; a total of up to 466,000 stock options with a subscription right to shares in euromicron AG may be issued.

You can find more detailed information on the stock option program in the Notes on page 94.

In addition, the Executive Board decided on November 23, 2006 – pursuant to authorization granted at the 2006 General Meeting – to initiate a share buyback program to safeguard the growth strategy and if necessary so that the shares can be used as an acquisition currency. The term runs from November 27, 2006, to April 30, 2007, and the program comprises a maximum of 5% of the capital stock. A total of almost 40,000 shares had been acquired at the end of 2006. The latest information on shares that have been bought back can be accessed at all times on the company's relevant Internet page at www.euromicron.de.

**euromicron AG
(XETRA)**

In EUR thou.



**Share profile
(key data)**

Type of share	No-par bearer shares
Segment	Prime Standard
Sector	Technology
Index	Technology All Share
ISIN	DE0005660005
Places of trading	Frankfurt/XETRA
Abbreviation	EUC.GY
Designated sponsors	Commerzbank AG, Gebhard Wertpapierhandelsbank AG

**The shares on
the market**

	2006	2005
Number of shares issued at the balance sheet date	4,660,000	4,660,000
– of which own shares	39,050	–
Capital stock (EUR)	11,914,000	11,914,000
Highest price (XETRA) (EUR)	22.50	19.40
Lowest price (XETRA) (EUR)	16.60	16.00
Closing price at the end of the year (XETRA) (EUR)	21.50	17.92
Market capitalization at the end of the year (in EUR million)	100.2	83.5
Earnings per share (EUR)	0.95	1.21*
Volume of shares traded	2,919,142	182,526

* EUR 0.56 after adjustment for industrial holdings

Investor relations

The goal of our investor relations work is to provide our shareholders, institutional and other investors, journalists and banks with comprehensive and prompt information on the company's performance in the spirit of the Corporate Governance Code and enable them to make a reasonable assessment of the company's strategy and its business situation. In addition, we aim to arouse interest in euromicron, its further development and its potentials.

Apart from the large replacement and increase in free float to approximately 80%, we significantly intensified our dialog with the capital market in 2006. Through this, our aim is to strengthen our presence on the capital market, achieve a realistic and fair valuation of euromicron's share and further expand our national and international investor base. One focus of IR work is on winning long-term investors. For example, we were able to acquire new institutional investors, in particular from the UK, Austria and Switzerland.

euromicron took part in four investors' conferences in the past fiscal year. The Executive Board and Investor Relations team held more than 50 individual meetings with analysts and institutional investors to discuss the current business situation, significant developments at the company and investment highlights. We staged an Analysts' Conference and also published matters of relevance to the company and share price in ad-hoc communications and press releases. Our principle is to provide all target groups on the financial market with the same information at the same time. That means our investor relations activities contribute to transparency and fairness. All the latest communications, releases, annual and quarterly reports, analysts' opinions, presentations, share price information, etc., are published regularly on our Website at www.euromicron.de.

In addition, the annual General Meeting also gives private shareholders the opportunity to obtain comprehensive information on the company's business development from the Executive Board of euromicron AG. The numerous shareholders who attended the General Meeting on June 23, 2006, voted by 99% in favor of the individual items on the agenda that required their consent.

Investor Relations activities will be bolstered further in fiscal 2007. The goal is not only to provide professional support for existing shareholders by means of intensive communication and strengthen their trust in the share, but also to win further investors in euromicron from Germany and abroad.

Consequently, a number of roadshows and one-to-one meetings at major European financial centers in Germany and abroad were scheduled and held, an Analysts' Conference in connection with the 2006 financial statements was arranged, and participation in various capital market conferences had been planned.

In order to learn more about what the company does in practice, more and more analysts and investors are visiting euromicron at CeBIT in Hanover. Along demonstrations of the latest products and solutions, they can obtain an insight into its operational activities.

Growing analyst coverage

Despite the relatively short time that euromicron's shares have been the focus of investors again, a good relationship with the capital market has been built. Constantly growing coverage offers private and institutional investors alike an important means of guidance.

euromicron's share has been regularly analyzed and valued by banks and research institutes since the replacement. Studies and commentaries on its current business development, questions of valuation and background information are issued. The following establishments in particular report on euromicron: BHF-Bank, Commerzbank, Gebhard Bank, Dr. Kalliwoda Research, Independent Research, SES Research and VARA Research. The assessments by the analysts were "buy" across the board.



The team of euromicron AG in Frankfurt/Main stands for organization, integration and public relations work.

Networked competence – the employees of the euromicron Group

The euromicron Group's human resources strategy is an integral part of its corporate strategy. The willingness of our employees to achieve and the personal commitment and high sense of responsibility of every single one of them are the foundation for the Group's success. The euromicron team in Frankfurt/Main has played a decisive part in ensuring the Group's positive success together with the employees of and persons in charge at the associated companies.

The complex cross-Group tasks in 2006 were successfully addressed and accomplished by the team in close cooperation with the Executive Board and the subsidiaries. The corporate culture is geared to fostering great willingness to achieve and to clear goals that enable employees to leverage their full potential.

Fiscal year 2006 in particular was shaped by a series of very different requirements. Nine acquisitions and their integration, the merger of the two largest individual companies, conversion of reporting to IFRS, greater communication with investors and analysts in the field of investor relations, expansion of sales activities, expansion of the Group's central procurement, various appearances at trade fairs in Germany and abroad and the team's move to new premises demanded team spirit, speed of action, good ideas, entrepreneurial thinking and powerful implementation at all units of the company.

Since the aim of growing the company increased in importance in 2006, we strengthened our numbers in the areas of strategy and integration, economics and investor relations, key account and sales management and investment controlling and won four experienced employees to take over these additional tasks at the Group.

In order to achieve our ambitious goals and further them, we are investing out of conviction in the competence and qualification of our employees at euromicron AG and the subsidiaries. We further expanded personnel development in fiscal 2006 and established potential and successor planning for team leaders and executives, culminating in a seminar program. Their task will be to secure euromicron's success permanently.

The sales congresses established in 2006 offer our sales employees the chance to train strategy and conduct so that they make a professional and qualified impression on our customers.

One of our tried-and-tested instruments is also training young people. We continue to accord this great importance.

In 2006 an average of around 767 people were employed at the euromicron Group, including 53 trainees. The company in Frankfurt/Main now employs 10 people.

The Executive Board thanks all employees for their outstanding achievements and desire to perform in fiscal 2006.



Polie schin
APC

- Hohe ...ktiv
- Hohe ...d
- Hohe Steck
- durc
- durc
- Einfar
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Overall, however, convergence of the various applications and technologies in the IT and telecommunications arena and the greater reliability requirements on them are resulting in continued strong demand for bandwidth, speed and above all security. In addition, communications and security technology has become a production and process factor in all industries and sectors of the economy – today's business processes would not be conceivable without them, both in consumer and business and economic applications.

The sharp increase in complexity means that the business of IT and telecommunications providers is increasingly leaning toward technical/commercial consulting in end-to-end solutions and applications rather than toward purely selling products or services. In particular in the last year, the euromicron Group has positioned itself nationwide as a solution provider of communications and security technology by means of further acquisitions and synergetic integration and reflected this market development in its cross-Group sales strategy.

Triple play applications, i. e. Internet telephony, surfing and Internet TV, were basically made possible by digital technology and convergence of systems on the standardized basis of the Internet Protocol and high-speed Internet access required for this. Mobile applications such as the cell phone, laptop with an UMTS card or Blackberry reflect the need to be able to be reached and access information anytime, anywhere, but also the speed and flexibility with which information is now exchanged and requested. Thanks to mobile phones with a camera, smartphones and SMSs, mobile communications have now penetrated the consumer market, which could only be captured by low user prices. The quantities of other terminal devices, such as digital cameras, flat screen televisions, DVD players and games consoles are also making their contribution. Cashless payment transactions, electronic POS systems and, linked to them, merchandise management and logistics systems can only work by means of networking and active computer and storage systems. Processing and storage of just about all data in business transactions, such as customer, product, logistics or process information, in data centers and server farms demands the very highest reliability and above all security. The importance of physically protecting such premises where highly sensitive data is processed, for example by access control, video surveillance, danger alerting systems, etc., is growing rapidly.

As with every new technology, growing use of information and telecommunications technology is accompanied by increasing misuse. Of the 171 billion e-mails that are sent every day throughout the world, 71% are spam mails ("trash" mails). In June 2006, around 180,000 different malwares (malicious software with a destructive or criminal function), such as viruses, worms, spyware, Trojans, etc., were known worldwide. A year earlier, in June 2005, there were just around 140,000 different types. Phishing (criminally motivated fishing out of identification codes such as PINs and TANs) and bot nets (the infiltration into a computer system of external software that then executes a different process or job on the computer and integrates it in the bot net, which in turn sends spam mails worldwide, for example) are the latest means of criminal attacks on networked computer systems; in the meantime, cell phones and other terminal devices that are equipped with a standard operating system and in some cases are only connected to the Internet to download updates or ringtones are also affected. The need for logical protection of computer systems by means of intrusion detection and prevention systems, firewalls, anti-virus and anti-spam software, etc., is becoming more and more apparent, as is the need to protect the entire IT and telecommunications infrastructure, in particular at companies whose business processes are mainly geared to computer and storage systems.

Independently of greater security requirements in ITC technology, there is a growing need for surveillance and control systems in public places where large crowds of people congregate, such as underground railways, airports, city centers, etc., not least owing to the growing fear of terrorist attacks. Successes in detaining suspects thanks to video recordings mean that there is a sharp increase in the acceptance of such surveillance systems. The global market for electronic security systems is growing at 6% and 8% a year. Experts estimate that some EUR 52 billion will be spent on installing such systems in 2007 alone. Business with access control systems grew by around 5% in Germany in 2005 and video technology by just under 4%. Here too, an aid is advanced ITC technology that enables video and surveillance signals to be transferred over the Internet or cameras or access systems to be controlled via the Internet by means of intelligent systems. The euromicron Group has therefore increasingly expanded its portfolio of products and services since 2004 to include physical and logical security technology and has now established itself as a leading solution provider for communications systems and security networks.

The euphoria during the World Cup in Germany in the summer of 2006 and the associated presentation and leveraging of the latest communication technology spread to the consumer sector and demand for high-performance transmission technology. Deutsche Telekom invested strongly in expanding broadband access (VDSL fiber optics technology) to German households, as well as in media transmission technology in soccer stadiums.

In addition, the large influx of visitors necessitated among other things modernization of display and communication technology at the train stations of Deutsche Bahn, as well as surveillance and security equipment at public places. euromicron was able to share strongly in this greater investment activity in all these areas.

In particular, the Group companies that develop and produce passive and active components for fiber optics technology were able to demonstrate not only their competence, but also their high quality, flexibility and ability to deliver on time.

As part of its buy and build strategy, euromicron has now achieved a breadth of expertise, products and services that are perceived and valued by customers for their excellence, especially since they are now offered reliably throughout Germany. In this, euromicron leverages its experience as a developer and producer of high quality fiber optic components – and, thanks now to MICROSENS, active technology. Moreover, the Group can plan, integrate and maintain communications and security systems on a vendor-independent, yet qualified basis on just about all well-known IT and telecommunications products and so solve customers' complex application problems. As a result, the company has not just acquired further expertise, but also additional and forward-looking potential for innovation.

Alongside its successful development, euromicron has now formulated and begun to implement a cross-Group sales strategy that addresses this customer-driven orientation. The Group has operated successfully to date with a large number of individual competences and is now putting in place a global organization so that customers can also be given qualified support everywhere. The consistent appearance and recognition factor give customers the assurance that they have a strong partner in euromicron.

Report of the Supervisory Board

Dr. Franz-Stephan von
Gronau, Chairman of the
Supervisory Board



Cooperation between the Supervisory Board and the Executive Board

During the fiscal year 2006, the Supervisory Board performed the duties required if it by law and the Articles of Association, advised the Executive Board of euromicron AG and constantly supervised management of the company. The Supervisory Board was directly involved in all significant business events and decisions of fundamental importance.

The Executive Board regularly and comprehensively informed the Supervisory Board at its meetings about the company's situation, development of its business and financial situation, investment and acquisition projects and basic questions of corporate policy and strategy. It informed the Supervisory Board about the most important key financial indicators on the basis of monthly reports and submitted matters requiring approval in good time so that a resolution on them could be adopted. The Supervisory Board approved these after examining extensive documents, queries to the Executive Board and intensive discussions with the members of the Executive Board. It was also informed comprehensively of special business transactions between the meetings and, where necessary, asked to adopt resolution by circularization. In addition, the Chairman of the Executive Board informed the Chairman of the Supervisory Board about all important developments and impending decisions in regular one-on-one meetings and phone calls.

Subjects of the Supervisory Board meetings in 2006

The Supervisory Board held five meetings in fiscal 2006 – on January 30, March 29, June 23, August 31 and December 11 – at which it examined in detail the company's economic situation and strategic development.

In addition to current business developments of euromicron AG and the Group, the topics regularly discussed at the meetings of the Supervisory Board were the course of business of the Group companies and their market environment, risk management, basic questions of corporate planning and the Company's corporate policy, questions of Group integration, the stock option program and selected issues related to the capital market. In addition, the Supervisory Board kept itself informed in regular meetings and talks with the Executive Board of euromicron's AG growth strategy that was being implemented following the focus on network technology. Points of emphasis in this context were external growth through company acquisitions, organic growth and the costs required for this, as well as the development of liquidity and the key financial indicators.

The Supervisory Board satisfied itself that the Executive Board has conducted business correctly and has taken all necessary measures in good time.

Corporate governance

The Supervisory Board and Executive Board have analyzed the recommendations and suggestions of the German Corporate Governance Code and issued an updated declaration on conformance in accordance with Section 161 of the German Stock Corporation Law. Both bodies have thus fulfilled the obligation to ensure transparent and responsible management and control of the company. The declaration on conformance is contained in the Annual Report 2006 and is available at all times on the company's Internet site.

Examination of the 2006 financial statements

The annual financial statements of euromicron AG and the Management Report as of December 31, 2006, as well as the IFRS consolidated financial statements including the group management report as of December 31, 2006, along with the bookkeeping and the risk identification system, were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, and each issued with an unqualified audit opinion. The audit reports of the Company and the Group were available to the Supervisory Board in good time before the balance sheet meeting on March 28, 2007. The Supervisory Board examined the financial statements and the management report, as well as the consolidated financial statements and group management report of euromicron AG and the auditor's reports and concurs with the auditor's findings following detailed discussion with the Executive Board. The auditors took part in the balance sheet meeting of the Supervisory Board, reported on the main results of their audit of the annual and consolidated financial statements and answered supplementary questions by the Supervisory Board.

Upon conclusion of its examination, the Supervisory Board raises no objections. The Supervisory Board therefore approved the financial statements of euromicron AG and the euromicron Group prepared by the Executive Board at its meeting on March 28, 2007. The financial statements of euromicron AG are thus adopted. The Supervisory Board examined the Executive Board's proposal

to pay a dividend of EUR 0.70 a share (i. e. a total of EUR 3,234,665) and to carry the remaining net income of EUR 1,584,587.75 forward to a new account, and endorses this proposal of the Executive Board.

Explanations on the details pursuant to Section 289 (4) and Section 315 (4) HGB (German Commercial Code)

In accordance with Section 171 (2) Sentence 2 AktG (German Stock Corporation Law), we explain the details pursuant to Section 289 (4) and Section 315 (4) HGB in the management report and the group management report as follows:

- a) The composition of the subscribed capital and the arrangements on appointing and removing members of the Executive Board and on amendment of the Articles of Association comply with statutory provisions and are self-explanatory.
- b) More than ten percent of the voting rights in euromicron AG is held by Cycladic Capital Management Limited, London, UK, (18.34% of the voting rights, and by Longview S.A., Brussels, Belgium, (11.34% of the voting rights). euromicron AG has not received any further notification of shareholders whose voting rights have exceeded the 10% threshold.
- c) The company has authorized capital. Accordingly, the Executive Board is authorized to increase the capital stock by up to EUR 5,957,000 on one or several occasions with the approval of the Supervisory Board by issuing new shares in exchange for cash or non-cash contributions. The details of this are specified in Section 5 (4) of the Articles of Association.

The Executive Board is also authorized to acquire its own shares up to December 23, 2007, at a maximum proportional amount of the capital stock of EUR 1,191,400.00 for these shares. The shares are to be acquired on the stock market or by means of a public offering addressed to all shareholders of the Company. The Executive Board is further authorized to sell the shares acquired in the Company to third parties in exchange for non-cash contributions, with the consent of the Supervisory Board and excluding shareholders' subscription right, in particular also in connection with company mergers and the acquisition of companies, parts of companies and/or holdings in companies. Own shares acquired by the company may also be sold to third parties with the exclusion of the subscription right in accordance with Section 186 (3) Sentence 4 AktG. Lastly, own shares acquired by the company may also be redeemed without the need for a further resolution to be adopted by the General Meeting.

- d) Explanations on the matters pursuant to Section 289 (4) and Section 315 (4) HGB, namely
 - No. 2 (restrictions relating to voting rights or the transfer of shares),
 - No. 4 (naming of the holders of shares with special rights that confer powers of control, and description of the special rights),
 - No. 5 (nature of the control of voting rights when employees have a capital stake and do not directly exercise their control rights),
 - No. 8 (significant agreements by the company made subject to the condition of a change in control pursuant to a takeover bid, and the resultant effects) and
 - No. 9 (compensation agreements concluded by the company with members of the Executive Board or employees in the event of a takeover bid), are not necessary since details to this effect were not required to be made in the management report and group management report.

Composition of the Supervisory Board

There were the following changes in the members on the company's boards in fiscal 2006: Dieter Jeschke, Günther Leibinger and Dietmar Hermle resigned their seats on the Supervisory Board effective January 16, 2006. Pursuant to registration on January 20, 2006, by Frankfurt/Main Local Court, Dr. Franz-Stephan von Gronau, Josef Martin Ortolf and Dr. Max Hirschberger were appointed members of the Supervisory Board. The newly composed Supervisory Board elected Dr. Franz-Stephan von Gronau as its Chairman and Josef Martin Ortolf as its Deputy Chairman.

Dr. Max Hirschberger retired from the Supervisory Board upon conclusion of the General Meeting on June 23, 2006. Dr. Andreas de Forestier was elected as his replacement on the Supervisory Board.

Thanks

The Supervisory Board wishes to express its thanks to the Executive Board, the General Managers and all employees of the euromicron Group for their personal commitment and achievement in fiscal 2006.

Frankfurt/Main, March 28, 2007

The Supervisory Board



Dr. Franz-Stephan von Gronau
Chairman of the Supervisory Board

Board Members of the Company

Executive Board

Dr. Willibald Späth

Chairman of the Executive Board

Strategy, Acquisitions, Finance,
Public Relations and Investor Relations

Dr. Edgar Bernardi

Member of the Executive Board

Market, Technology, Products and
Operations

Supervisory Board members since January 20, 2006

Dr. Franz-Stephan von Gronau

Chairman of the Supervisory Board of
euromicron AG

Certified public accountant, tax consultant, lawyer

Dr. Max Hirschberger

Member of the Supervisory Board of
euromicron AG

(from January 20, 2006, to June 23, 2006)

Lawyer

Josef Martin Ortolf

Deputy Chairman of the Supervisory Board of
euromicron AG

Senior Vice President Power Tools and
Head of Product Group Professional Power
Tools Europe, Africa, Near/Middle East at
Robert Bosch GmbH, Leinfelden-Echterdingen

Dr. Andreas de Forestier

Member of the Supervisory Board of
euromicron AG

Member of the Executive Board of Münchener
Bank eG, Munich (until Dec. 31, 2006)
Unlimited partner of DG Immobilien Objekt-
gesellschaft

– Stuttgart, Industriestraße and

– Berlin, Kronenstraße 5 and 7

Chairman of the Board of the charitable
foundation Noris Stiftung, Nuremberg

Supervisory Board members until January 16, 2006

Dieter Jeschke

Chairman of the Supervisory Board of euromicron AG

Chairman of the Executive Board of AdCapital AG, Leinfelden-Echterdingen

Chairman of the Supervisory Board of AdCapital Beteiligungs AG and Maschinenfabrik Hermle AG

Günther Leibinger

Deputy Chairman of the Supervisory Board of euromicron AG

Deputy Chairman of the Supervisory Board of Maschinenfabrik Berthold Hermle AG and AdCapital AG

Dietmar Hermle

Member of the Supervisory Board of euromicron AG

Spokesman for the Executive Board of Berthold Hermle AG

Corporate Governance

Report by the Executive Board and Supervisory Board of euromicron AG for 2006

The Executive Board and Supervisory Board of euromicron AG expressly approve the recommendations in the German Corporate Governance Code for transparent management and monitoring of companies.

Cooperation of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of euromicron AG work together for the benefit of the company. The Supervisory Board is involved in all significant business transactions as a control and advisory instance. The Executive Board requires the Supervisory Board's consent to fundamental decisions. The Supervisory Board has also defined the duties of the Executive Board to provide information and report to it, as well as the responsibilities of the Executive Board's members, in rules of internal procedure.

Declaration on conformity (Section 161 AktG (German Stock Corporation Law))

euromicron AG is firmly convinced that it has been practicing a series of principles and recommendations in the code for a long time and has fully satisfied the statutory demands and expectations of its shareholders with its understanding of corporate governance.

The Company will also acknowledge the German Corporate Governance Code in the version dated June 12, 2006, as binding on it in future and comply with it with the exception of a small number of deviations. These deviations are mainly due to the Company's size and business model. The Executive Board and Supervisory Board of euromicron AG hereby declare that the company has complied and will comply in future with the German Corporate Governance Code, with the exception of the following recommendations:

Re Section 3.8 of the code:

"... 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."

Reason:

euromicron AG does not follow this recommendation. The D&O policy does not envisage any deductible for the board members. It is a group insurance policy for a large number of executive employees in which a differentiation by board members and other executives does not appear appropriate.

Re Sections 4.2.4 and 4.2.5 of the code:

“The total compensation of each member of the Management Board is to be disclosed by name, divided into non-performance-related, performance-related and long-term incentive components. Disclosure shall be made in a compensation report which as part of the Corporate Governance Report describes the compensation system for Management Board members in a generally understandable way.”

Reason:

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

Re Section 5.3 of the code:

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

Reason:

Since the General Meeting on June 24, 2004, the Supervisory Board of euromicron AG consists only of three persons in accordance with the Articles of Association. The formation of committees is therefore not expedient, especially since the Supervisory Board constitutes a quorum in accordance with Section 108 (2) Sentence 3 AktG (German Stock Corporation Law) only if there are at least three members.

Re Section 5.4.7 of the code:

“The compensation of the members of the Supervisory Board shall be reported individually in the Corporate Governance Report, subdivided according to components.”

Reason:

In accordance with Section 13 of the Articles of Association, the members of the Supervisory Board receive compensation that consists of a fixed and a variable component. In addition, the overall compensation is published in the Annual Report, with the result that no further disclosure is envisaged. The nine new company acquisitions entailed consulting services, mainly for due diligence processes, of which three examinations were conducted by an auditing firm in which a member of the Supervisory Board has an interest. A total fee of EUR 106 thousand was paid for this.

Re Section 7.1.4 of the code:

“The company shall publish a list of third party companies in which it has a shareholding that is not of minor importance for the enterprise. ... The following shall be provided: name and headquarters

of the company, the amount of the shareholding, the amount of equity and the operating result of the past financial year.”

Reason:

euromicron AG follows the recommendation of the code in that it presents a list of holdings in the form of clear charts of the company structure. In addition, extensive details of the purpose and role in the Group of the companies that are not of minor importance to the existence and development of euromicron AG and the Group are given. More detailed publication is dispensed with in order to avoid competitive disadvantages as a result of disclosure of details on valuations and the earnings power of individual holdings.

Stock option program

The General Meeting on June 23, 2006, adopted a resolution to authorize the Executive Board of euromicron AG, with the consent of the Supervisory Board, to issue up to 466,000 stock options with a subscription right to shares in euromicron AG as part of the 2006 stock option program by December 31, 2009. The stock options are intended solely for subscription by members of the Executive Board of euromicron AG, members of the management bodies of subordinate affiliated companies of euromicron AG and selected executive employees of euromicron AG (including assistants to the Executive Board members).

A total of 230,000 stock options were issued in fiscal 2006.

Securities transactions requiring disclosure

There were no director's dealing transactions in accordance with Section 15a WpHG (German Securities Trading Law) in fiscal 2006.

The members of the Executive Board and Supervisory Board do not hold more than 1% of the shares issued by euromicron AG directly or indirectly.

Apart from this, the Company now already complies in many parts with the additional suggestions of the German Corporate Governance Code.

Frankfurt/Main, December 2006

For the Supervisory Board



Dr. Franz-Stephan von Gronau
Chairman of the Supervisory Board

For the Executive Board



Dr. Willibald Späth
Chairman of the Executive Board

Group Management Report 2006

Profile

The euromicron Group is a leading solution provider of communications systems and security networks and boasts production expertise in the field of fiber optics technology. Its range of services covers the development, implementation and maintenance of optical fiber-, copper- and plastic-based and wireless networks, the manufacture of optical components and tools, assembly of fiber optic and all other types of cable, as well as distribution of network equipment and components. The product portfolio includes smaller active network components, connectors and connection technology for optical fiber networks, pre-assembled fiber optic cables and assembly and measuring equipment. These are integrated components of WANs and LANs used for data communication at data centers, and in the field of medical and security technology.

Corporate development and business performance

Fiscal 2006 was characterized in particular by growth-driven further development of euromicron into a leading-edge technology group regionally and in terms of expertise by means of a total of nine company acquisitions and an increase in shareholdings. Whereas 2005 was marked by the fact that no decisions were taken to acquire shares as a result of the large shareholder at the time, external growth was able to be initiated intensively in 2006 through a return to the buy and build strategy. Apart from systematic regional rounding out of the Group's activities, above all in Southern and Eastern Germany, its production competence was extended to the field of small active optical network components and campus business was expanded; this offers complete technological support in the fields of communication, information, security and data infrastructure for large company locations.

The euromicron Group's international presence was also expanded further through the acquisitions in the shape of new branch offices in France, Poland and Singapore.

The acquired companies generate annual sales of just under EUR 30 million and a strong EBIT of more than EUR 4.5 million, for which the Group has made forward-looking investments of around EUR 16 million, including the increase in shareholdings. Owing to the fact that the companies were mainly acquired in the 2nd quarter, i. e. late on in the year, their positive impact on sales and EBIT will not be seen in full until fiscal 2007. At the same time, these acquisitions entailed considerable special expenses that strained net income in 2006.

The general economic conditions in the market were satisfactory and were not – as in the past – only underpinned by exports, but also increasingly by the domestic market. Apart from the rise in private consumption, industry also invested more in new technologies in order to cope with the growing requirements posed by larger and larger volumes of data and faster and faster transfer rates. Special influences like the World Cup, the V-DSL project at Deutsche Telekom or the Deutsche Bahn's development of its stations also supported these trends. It remains to be seen whether this marks a lasting significant turnaround in the IT and telecommunications market. No extensive investment could be expected from the public sector due to its strained financial situation. Large capital spending projects were launched or continued by public-sector companies only sporadically.

The fierce competition that has been raging for years and been putting heavy pressure on margins in system business was also a great challenge for the euromicron Group in the past fiscal year, although a slight relaxation and trend toward reliability and quality is discernable in a number of niche markets in which our companies operate. It is not clear whether this easing will be sustained, meaning we expect strong competition in future, too.

The euromicron Group developed pleasing in this environment. The farsighted rationalization and cost flexibilization measures initiated in the previous years enabled most of our companies to perform positively. Despite this satisfactory situation at present, optimization and rationalization measures are constantly being envisaged and implemented so that this level can be retained or even improved on in future.

The Group's operating income (before special expenses and central holding costs) at December 31, 2006, was, as planned, around EUR 12.9 million, a sharp increase of almost 90% over the previous year (core business: EUR 6.8 million) (also see later under the section "Business segments").

A further focus in the fiscal year was structural gearing of the existing portfolio to the future. The main emphasis here was on stepping up integration and deepening cooperation between the existing companies, be it further expansion of key account management or the objective of every company being able to offer the whole range of products and services from the euromicron Group to all customers nationwide. This stronger consistent presence of the Group also reaped successes in 2006: large customer orders were able to be won, for example from the European Patent Office or North Rhine-Westphalia's prisons, against well-known competitors.

The goal of obtaining more powerful, larger units through the integration of associated companies was implemented in 2006. The merger of delcom GmbH with euromicron systems GmbH created a company with a sales volume of nearly EUR 40 million, a competence center for active network and security technology that forms the nucleus for further integration steps in the north of Germany.

The above alignment of the euromicron Group, which envisages only a few, but powerful larger companies in the medium term, was also taken into account in the company acquisitions. Against this backdrop, not all the new companies were acquired directly by euromicron AG, but in some cases by regional associated companies of euromicron AG.

The past fiscal year was also of key importance with regard to the capital market. euromicron AG has been listed in the Prime Standard of Deutsche Börse Frankfurt since June 2006. Following the change in shareholder structure and now that there is a high free float of more than 80% (definition of Deutsche Börse AG), listing in this segment means that we attract far more attention in our efforts to increase the international shareholder structure, as well as among customers, business partners and potential new shareholders.

In addition, the past fiscal year saw the launch of a share buyback program to underpin our growth strategy. Under this, a maximum of 5% of the capital stock can be bought back up to April 30, 2007; by the end of the year, around 39,050 shares had been purchased.

Finally, a stock option program was initiated in 2006 and approved by the General Meeting (see item 25 in the notes to consolidated financial statements for details).

euromicron AG also blazed the way in terms of innovation. One of the acquired companies is well-known and respected in the market for its development activities. Moreover, on the basis of customers' concrete problems, new connectors or solutions for industrial workplace and test systems were developed. A cross-Group Innovation Circle that pools the competences of the individual companies and jointly develops systems and solution for customers was also set up in the fiscal year. One of our project companies captured an innovation award.

Net assets, financial position and results of operations

Sales

In fiscal 2006, the euromicron Group posted consolidated sales of EUR 115.9 million, a year-on-year increase of around 1.6%. Following adjustment to exclude the last industrial holding sold at the end of 2005, however, growth in sales in what is now the only core business segment of network technology is around 18% (previous year: EUR 98 million).

This increase in our core business segment is all the more pleasing given that general economic conditions in our traditional markets improved only slowly and 2006 was again characterized by projects being deferred. We compensate the pressure on prices and margins in system business, as well as the increasingly shorter-term commissions by our customers, thanks to our great flexibility, quality and solution competence.

Sales for the secondary reporting segments developed as follows:

SALES BREAKDOWN

	2006 EUR thou.	2005 EUR thou.
Components and Assembly	41,317	35,762
Projects and Systems	72,573	60,406
Distribution and Services	6,723	5,160
Consolidations	-4,676	-3,286
	115,937	98,042
Adjustment for industrial holding	0	16,063
Sales according to income statement	115,937	114,105

All areas recorded sales growth in 2006. Whereas our component production and assembly companies, which are highly specialized and operate in niche markets, grew by over 15%, growth at the Project and Systems companies was some 20%. As a result, both areas were able to profit from the pickup in willingness to invest in the IT/telecommunications sector. Distribution and Services also chalked up growth (plus 30%), although this was strongly driven by expansion of this area into an internal group service provider and a central procurement and consulting organization.

Due to the different times at which the companies were acquired, different legal forms, including the conversions and new company foundations ahead of first-time consolidation, they are included at different proportions in the sales and earnings for 2006.

Earnings

In fiscal 2006, the euromicron Group achieved earnings before interest and taxes (EBIT) of EUR 7.7 million (previous year: EUR 8.3 million) on sales of EUR 115.9 million. One-off costs in connection with the nine company acquisitions, including the effects from purchase price allocation in accordance with IFRS 3, merger costs and the stock option program launched in the past fiscal year had a major impact. Before these special expenses, EBIT is over EUR 10 million.

The fall in EBIT is mainly the result of two effects: the above-mentioned special expenses from 2006 and special income in 2005. This special income of around EUR 2.9 million from the previous year came from deconsolidation as part of the sale of the last industrial holding. If the previous year's EBIT is adjusted to take this deconsolidation effect into account, EBIT in 2006 increased by more than 40%.

The increase in the ratio of cost of materials on the basis of sales revenues by 2.5 percentage points to 50.2% (previous year: 47.7%) reflects the reduction in fixed personnel expenses and is due to the outside contracting of activities that are not a core competence of ours, a strategy that was pursued vigorously as part of our flexibilization, as well as the continuing pressure on margins in project and system business.

At the same time, personnel costs were cut by 3.7 percentage points to give a ratio of 27.7% (previous year: 31.4%), also as a consequence of the restructuring carried out in the previous year.

Selling expenses still account for the largest share of the other operating expenses. Only moderate research and development costs were incurred, since our companies do not conduct basic research, but usually application-oriented development. The other operating expenses include fees for auditing of the financial statements of EUR 251 thousand.

Net financing costs improved again by 18% year-on-year due to the continued repayment of the industry loan and an optimized investment strategy. We remain true to our principle of secure cash investments.

The tax ratio is around 35%, compared with 24% in the previous year. A major reason for this is the deconsolidation income from the sale of Frako (see above) of EUR 2.9 million, which did not have any effect on taxation in the previous year.

The Group achieved a consolidated net profit of EUR 4.4 million. Earnings per share were EUR 0.95. Following adjustment for the above-stated non-recurring expenses, they would have been around EUR 1.39. In the previous year, earnings per share were EUR 1.21; for core business alone, it would have been approximately EUR 0.56 a share in 2005.

**INCOME
STATEMENT**

	2006 EUR thou.	2005 EUR thou.
Net sales	115,937	114,105
Inventory changes	-3,101	-3,405
Own work capitalized	892	0
Other operating income	1,172	5,405
Cost of materials	-58,225	-54,443
Personnel costs	-32,130	-35,925
Depreciation and amortization expense	-1,906	-2,133
Other operating expenses	-14,942	-15,304
Operating profit (consolidated EBIT)	7,697	8,300
Net financing costs	-515	-637
Income before income taxes	7,182	7,663
Income taxes	-2,565	-1,843
Consolidated net income for the period, before minority interests	4,617	5,820
Minority interests	-249	-173
Consolidated net profit	4,368	5,647
Earnings per share (EPS) in EUR	0.95	1.21

New orders and order books

Our past decision to sacrifice order volumes in favor of quality of earnings and not to acquire any loss-making projects was again a major premise of our corporate policy in the year under review. The euromicron Group continues not to pursue the strategy of displacing competitors from the market with cut-rate prices, but to offer customers all-round solutions with its competence and unique selling points.

New orders in fiscal 2006 developed in line with our expectations against the backdrop of the slight improvement in general economic conditions and were EUR 108.4 million, more than 10% above the adjusted figure for the previous year of EUR 98.1 million.

Order books at December 31, 2006, were EUR 44.1 million, around 12% down on the previous year (adjusted figure: EUR 50.2 million). This development reflects two aspects: firstly, the tendency to increasingly shorter-term commissions by our customers, secondly the previous year 2005 was also marked by a number of projects on which work had been commenced and that straddled periods, with the result that they were not posted in this volume in the past fiscal year. These orders on hand, which are mainly expected to be accomplished in 2007, means that there are contractual agreements for a not insignificant portion of the sales planned for 2007.

Balance sheet

The total assets of the euromicron Group increased in fiscal 2006 by around 9% to EUR 109.8 million. This is mainly due to additions in the consolidated companies.

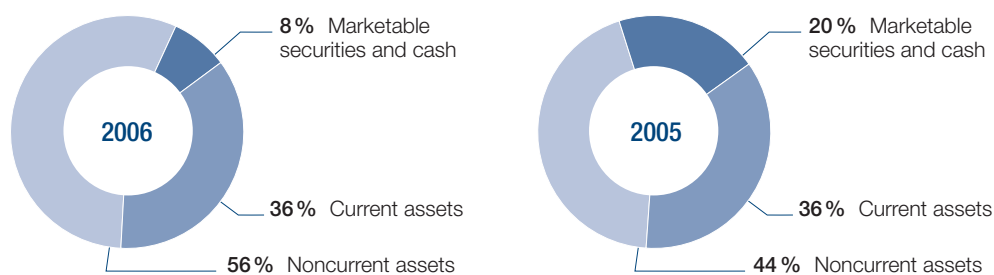
CONSOLIDATED BALANCE SHEET STRUCTURE

	2006 EUR thou.	%	2005 EUR thou.	%
Noncurrent assets	61,541	56.1	43,739	43.4
Current assets	39,974	36.4	36,579	36.3
Marketable securities and cash	8,242	7.5	20,466	20.3
Assets	109,757	100.0	100,784	100.0
Stockholders' equity	67,333	61.3	66,475	66.0
Long-term debt	4,345	4.0	7,780	7.7
Current liabilities	38,079	34.7	26,529	26.3
Liabilities	109,757	100.0	100,784	100.0

The increase in noncurrent assets is largely attributable to the company acquisitions in 2006 and the related increase in goodwill. The ratio of equity and long-term outside capital to assets is 116.5% (previous year: 169.8%). The decline is due to the above-proportionally sharp increase in noncurrent assets of around EUR 18 million and the fall in long-term debt of approximately EUR 3.4 million. The ratio of noncurrent assets to total assets is 56.1% (previous year: 43.4%).

Current assets fell from EUR 20.5 million to EUR 8.2 million, mainly due to the decline in cash and financial assets, especially as the result of the planned investment in company acquisitions, further repayment of the industry loan and the dividend payout. The increase in trade accounts receivable from EUR 17.0 million to EUR 25.3 million runs counter to this and is mainly driven by additions to the consolidated companies and to a slight extent also by the late completion of projects that were invoiced, but not paid, in the past fiscal year.

ASSETS

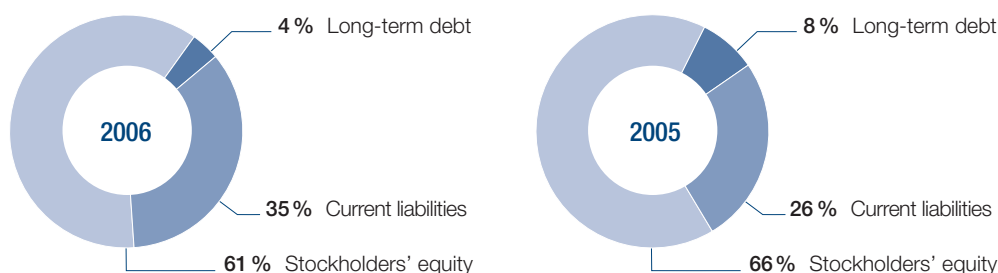


Long-term debt fell year-on-year, predominantly as a result of the further repayment of EUR 5.1 million of the industry loan.

In contrast, current liabilities rose from EUR 26.5 million to EUR 38.1 million, primarily due to an increase in short-term financial debt. The company acquisitions and short-term project-related interim financing are the causes of this.

The Group's net debt (interest-bearing outside capital minus cash and financial assets) was EUR 12.4 million at the end of the year. The Group's financing continues to be geared to the long term. As part of this, attention is paid to ensuring that the investment grade awarded us by two banks in their rating is not jeopardized.

LIABILITIES



Stockholders' equity increased from EUR 66.5 million to EUR 67.3 million. This figure contains the shares (39,050) acquired by December 31, 2006, as part of the share buyback program, which – together with the costs of acquiring them – were offset against stockholders' equity without any impact on profit.

The equity ratio at December 31, 2006, nevertheless remains at a comfortable level of 61.3% (previous year: 66.0%). The percentage reduction is mainly the result of the sharp increase in total assets.

Financing

The Group is in principle financed centrally, with euromicron AG assuming the obligation to maintain the liquidity of the Group companies. This is done in particular by the provision of funds as part of financial transactions within the Group. Internal financial equalization as part of a cash management system reduces the volume of outside funding. Centralization of financing strengthens the Group's position vis-à-vis banks and other market players and so makes an important contribution to optimizing the opportunities for obtaining and investing capital.

Financial and liquidity planning in conjunction with promised credit lines of EUR 30 million ensures that the Group always has a sufficient liquidity reserve.

Statement of cash flows

Cash and cash equivalents of the euromicron Group at December 2006 fell to EUR 8.2 million, mainly as a result of the acquisition of nine companies, further loan repayments, the payment of an attractive dividend to shareholders and an increase in shareholdings. As planned, a major part of the liquid funds from 2005 of around EUR 20 million were invested per the end of 2006.

The net cash provided by operating activities is mainly attributable to the net profit for 2006 and the increase in working capital. The net cash used in investing activities is almost exclusively due to the nine company acquisitions, whereas a company sale primarily provided net cash in the previous year. The net cash provided by financing activities results from short-term utilization of credit lines – mainly as part of the acquisitions and for financing projects – and counter-effects primarily from the 2005 dividend payment and continued repayment of the industry loan.

STATEMENT OF CASH FLOWS

	2006 EUR thou.	2005 EUR thou.
Net cash provided by operating activities	1,989	9,731
Net cash used in (provided by) investing activities	-18,093	7,547
Net cash provided by (used in) financing activities	3,972	-8,189
Other changes	-92	0
Change in cash and cash equivalents	-12,132	9,089
Cash and cash equivalents at beginning of period	20,466	11,377
Cash and cash equivalents at end of period	8,242	20,466

The net cash and cash equivalents at the end of the period of more than EUR 8.2 million allows us, together with unutilized promised credit lines, to keep on pursuing our growth strategy, make the planned acquisitions and yet retain a certain independence from the capital markets. At the same time, we aim to maintain the trusted and fine cooperation with our banks, in particular to leverage these more greatly in niche business to the benefit of the Group and if applicable to include a reasonable component of outside capital in financing acquisitions.

Derivate financial instruments

Financial instruments include derivatives as defined by Section 2 (2) No. 3 WpHG (German Securities Trading Law). These are forward transactions endowed as fixed-term deals or option deals, the price of which depends directly or indirectly on the rate of interest or other yields.

In fiscal 2004, euromicron AG had acquired a “leveraged EURIBOR in Arreas Swap with part-time cap”, whose parameters – volume, interest rate and term – were tailored to the existing industry loan.

The purchase sum is reduced analogously to repayment of the loan and is EUR 5,150 thousand from September 2, 2006, to December 31, 2006.

The market-to-market valuation at the balance sheet date is EUR –47 thousand.

The segments

Following the sale of the last industry holding at the end of 2005, the euromicron Group now operates solely in its core business of network technology, with the result that the existing structure in segment reporting no longer applies. The dominant structure now at the Group is a regional division of business, linked to the objective of generating a structurally and operationally powerful Northern grouping and Southern grouping. Consequently, the following comments relate to the new primary segments of euromicron North and euromicron South.

KEY FIGURES FOR THE SEGMENTS

		euromicron North	euromicron South	euromicron AG and eliminations	euromicron Group
2006	Sales	56,775	62,165	–3,003	115,937
	EBIT	7,561	5,308	–5,172	7,697
2005	Sales	48,707	51,506	13,892	114,105
	EBIT	4,311	2,448	1,541	8,300

euromicron North:

A brightening in the general economic picture could be perceived in the North segment, supported by special topics such as Deutsche Telekom's V-DSL, which above all gave a boost to the business of the production companies. Sales were grown by 16.6% from EUR 48.7 million to EUR 56.8 million. Earnings before interest and taxes (EBIT) were able to achieve an increase of around 75% as a result of the expansion of high-margin business and special topics (EUR 7.6 million compared with EUR 4.3 million in the previous year). The EBIT margin rose from 8.9% to 13.3%.

This segment groups seven companies: four project and system and three production companies.

euromicron South:

Here too, broadly positive economic trends made themselves felt, but the drivers were mainly in project and system business, where a number of largish orders were captured. Sales rose from EUR 51.5 million to EUR 62.2 million or by some 21%. An increase in EBIT of more than 115% was recorded. Apart from profitable growth in orders, the savings in the wake of the restructuring expenses from the previous year had an impact.

This segment groups ten companies: seven project and system and two production companies, as well as one from Distribution and Services.

Taken together, these two segments were thus able to grow sales at the operating companies from EUR 100.2 to EUR 118.9 million, an increase of around 19%. The EBIT makes an even more pleasing picture: the fact that we achieved our planned target for 2006 of EUR 12.9 million in operational business means an increase over 2005 (EUR 6.8 million) of approximately 90%.

In the remaining segment – euromicron AG and consolidations – the EBIT for 2006 is EUR – 5.2 million. The regularly incurred central holding costs, in particular the special expenses discussed further above, are assigned here.

Fiscal 2005 also includes effects from sales, earnings and deconsolidation from the last industrial holding that was sold at the end of 2005, meaning that a comparison with fiscal 2006 would not be very informative and so is dispensed with here.

Employees

The high motivation and fine education of our employees were again a foundation for our success in the past fiscal year. The euromicron Group makes high demands on the quality of its products and services and provides attractive jobs offering great challenges and interesting opportunities for development. In fiscal 2006, an average of 767 people (including 53 trainees) were employed at the euromicron Group, a year-on-year decrease of around 5%. Factors in this were the sale of the last industrial holding and restructuring measures in 2005, although they were countered by the company acquisitions in 2006.

The euromicron Group ensures a supply of qualified employees for the future through practical vocational training. In addition, the Group will ensure its growing need for highly specialized skilled workers not only externally by buying in services and knowledge, but also by internal qualification programs and internal and external further training and development programs.

As part of personnel development, we began in the past fiscal year to train potential junior staff for future management tasks and responsible specialist posts at the Group in order to expand their potential for entrepreneurial thinking, to encourage them and to enhance their loyalty, as well as to be able to leverage all the options available for a medium-term generation change.

We are fully aware that our employees' know-how is crucial to the Group's future. That is why fostering our employees and qualifying them systematically in line with requirements is a core element of our corporate policy.

Investment, research and development

In 2006 euromicron again lived up to its mission to be a high-tech enterprise with a high standard of quality and reliability through the acquisition of innovative companies and investment in further developing new products and solutions, permanently optimizing production and control processes and qualifying its own employees.

Of special mention is the acquisition of MICROSENS GmbH & Co. KG, a developer and producer of active optical components, that has an innovative and experienced development department with great know-how, yet as a result requires constant adaptation to technological trends, driven among other things by new microprocessor technology, higher performances and so software development tools that require adaptations and associated measurement technology. In addition, MICROSENS has invested in production in order to comply with the EU's RoHS directive (**R**estriction **o**f the use of certain **h**azardous **s**ubstances in electrical and electronic equipment). As a result, the entire production line now uses lead-free processes. This was also followed by numerous changes to the layout and redesign of existing products. Thanks to this early and successful introduction of the RoHS standard, MICROSENS is one of the first companies to have completely implemented the process.

In the field of active optical components, the WDM modules have been further developed above all, in particular a new TDM multiplexer that concentrates more broadband data channels on one line. This enables a combination of TDM and WDM technology, resulting in a significant price advantage and greater flexibility in broadband networks, such as the connection of data centers or generally in the backbone arena.

In the field of passive optical components, our company EUROMICRON Werkzeuge GmbH has complemented the LC connector family with the angled polished version LC-APC; at the same time, the APC8000 polishing machine required for this was launched on the market and is being sold successfully worldwide in cooperation with the company Senko. Further development of the connector system EM-RJ was stepped up, aimed at optoelectronic interfaces. Market rollout of the EM-RJ will result in initial projects in 2007.

Work on the ProFaM project being funded by the German Ministry of Science and Research has advanced further and will be successfully completed in 2007. The findings from it will form the foundation for producing new, high-density connector families based on cutting-edge, innovative technologies. Alongside this, new products are being developed and their results are to be presented at trade fairs in 2007.

Our product portfolio was expanded to include a wall splice box in a stainless steel design complying with the IP65 industry standard for harsh ambient conditions. This was developed by us in accordance with customer specifications and is now being marketed in a first large order. On the basis of this, we again strengthened our product development activities relating to the use of plastic and glass fiber in the industrial arena.

Apart from our experience as a developer and producer of high-quality optical components, we now also offer vendor-independent services in active technology, leveraging our skills from the fields of communications and security systems and solutions. This demands permanently upgrading the qualifications of our employees so that they are versed in all well-known IT and telecommunications products so as to plan, integrate and maintain communications and security systems for our customers that then also solve complex application problems.

We counter the complexity of technology with our user experience by simplifying it, in particular for the field of gerontotechnology, which makes communications and security for life in old age more pleasant in our business segment.

In a cross-Group "Innovation Circle" established from 2006 on, we not only pool the innovative strength and expertise of the individual companies, but jointly develop systems and solutions based on our own products, with the focus on market requirements that are defined by the cooperation of our system companies with their customers.

euromicron will remain a highly innovative Group that invests strongly and is thus able to achieve sustained and significant competitive advantages as a competent solution provider.

Risk report

The euromicron group's risk policy is oriented toward its strategy of increasing the company's value in the medium and long term. As part of this group strategy and statutory stipulations, euromicron AG has maintained an extensive risk management system since 2000 for itself and at its associated companies. Risk management at the euromicron Group is geared to ensuring that management can recognize significant risks at an early stage and take prompt measures to counter them.

The risk management system is an integral part of the entire planning, control and reporting process at all associated companies. The aim is to identify, assess, control and document risks systematically. Taking into account defined risk categories, the main risks are assessed as regards the probability of their occurring and the level of damage; communication and reporting on relevant risks is controlled by defined thresholds. The risks are reviewed at regular intervals as part of risk monitoring to determine their applicability. A Group-wide policy is in place to ensure compliance with consistent standards in the risk management system.

Risks at euromicron's associates essentially relate – as in previous years – to the general economic data, in particular the continuing structural problems specifically in the German market and in general in the euro zone compared with other large economic zones. The pickup in industry's willingness to invest and the increase in private consumption reduced these risks in the year under review.

The investment freeze by large carriers in the previous years ended partly, as hoped for last year. This trend will probably continue in the coming year. Competitive pressure will continue in the vast majority of markets. We have taken proactive steps against this risk for years by means of extensive restructuring, cost-cutting and rationalization measures, a continuous process that necessitates permanent observation of markets and process optimization. However, that this risk is spread can be seen from the fact that the Group has relatively high sector diversification as regards its customers and as a whole is not dependent on one or a small number of customers.

Our companies' quality of earnings is testimony to the fact that this risk has been successfully mastered and controlled in the past, and we will initiate and implement all measures to achieve our earnings targets in future in good time and rigorously. The particular focus here is on further flexibilization of our cost structures, by outsourcing and shifting of simple activities to contractors, in order to optimize costs and adapt the entire Group to market conditions.

The constant improvement in our procurement terms and strengthening of sales with the aim of being able to offer customers our whole portfolio of products and solutions "from a single source" will also reduce the risks that individual associated companies on their own have in their traditional markets.

Future mergers of associated companies and company mergers will give us larger units that can better cope with market risks, yet through their size still have the flexibility to seize and exploit all opportunities quickly. In addition, synergy potentials can be leveraged by means of optimized internal communication and the elimination of duplicate functions.

Exchange rate risks from the price of the dollar against the euro and negative effects from politically unstable regions of the world have little impact on the euromicron Group at present since it predominantly operates in Germany and the euro zone. The possibilities of currency hedges for the other transactions are constantly examined, if necessary, and they are concluded as and when required.

Risks of euromicron AG lie mainly in the long-term preservation of the value and earnings power of its associates, and to financing of these as part of cash pooling. These risks, which are directly related to the risks of the associates, are constantly monitored, assessed and assigned measures as a result of our permanent, standardized management information system. The flat hierarchies at the Group, short information channels and constant communication at all levels of the companies mean that the risks can be recognized and counteracted promptly.

Risks from investments in new companies are countered by extensive due diligence processes and long-term accompaniment of prospective acquisitions.

Among other things, euromicron AG assesses its associated companies on the basis of the result of their operational business activity. Business performance is assessed during the year using the submitted sales, earnings and order figures and liquidity, profitability and other key indicators as compared with planning. In the course of a fiscal year, several calculations of expectations with forecasts up to the end of the year are carried out. However, far more criteria than pure key indicators are required for investment and business decisions given the fast pace of technology markets. This is underpinned and supported by the operational independence and responsibility of the Group companies. Company management therefore also bases its decisions on the analysis of specialists who are involved in the process and have extensive market, product and industry know-how. A wide range of different assessment criteria are used and are adapted case-by-case.

The financing of euromicron AG and the euromicron Group does not harbor any risks as far as can be seen at present. Despite the extensive loan repayments of past years, both at euromicron AG and the associated companies, and high investments in the fiscal year, the Group has sufficient liquid funds and credit lines. Just about all associates obtain funding from the cash pool and do not have any external debt. The Group's further development and continuation of growth and integration are not exposed to any risks in terms of liquidity.

We do not see any risks due to pending legal proceedings. The tax audit for the years 1997 to 2000 has been completed and processed. A follow-up audit for the years 2001 to 2005 commenced at the end of the fiscal year.

In the current assessment of the Executive Board, the known risks will have no significant impact on the financial position, net assets and results of operations of euromicron.

Declaration on the Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Law)

In fiscal 2006, euromicron AG also complied with most recommendations of the German Corporate Governance Code. Exceptions are due to the size and business model of the company.

The declaration on conformance in accordance with Section 161 AktG can be found on the company's homepage at <http://www.euromicron.de> and can be viewed at the company.

Salient points of the compensation system for the Executive Board

The total remuneration of the members of the Executive Board consists of a number of components. These are components not related to performance (fixed amount and fringe benefits) and performance-related components (bonus and stock option program).

The stock option program was introduced in fiscal 2006 as a long-term remuneration component.

The structure of the remuneration system is discussed and reviewed regularly by the Supervisory Board. The Supervisory Board is responsible for setting the remuneration for the Executive Board. Criteria for assessing the reasonableness of the remuneration are in particular the tasks of the respective member of the Executive Board, the performance of the Executive Board and the company's economic situation, and the company's success and future prospects on a comparative basis with other companies.

Environment

The euromicron Group with its associated companies does not own any large production sites that are subject to strict environmental protection guidelines. Nevertheless, the protection of people, the air, soil and water and sparing use of natural resources have high priority at the euromicron Group. Consequently, compliance with all pertinent regulations is observed in all environment-related areas in order to ensure that products and services are produced and delivered in an as ecologically friendly way as possible.

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

- a.) The company's subscribed capital consists of 4,660,000 no-par bearer shares.
- b.) Capital stakes that exceed 10% of the voting rights and have last been reported to the company:
Cycladic Capital Management Ltd., London, UK: 18.34%
Longview S.A., Brussels, Belgium: 11.34%
- c.) The Executive Board is appointed and removed by the Supervisory Board in accordance with the Articles of Association in compliance with Section 84 AktG (German Stock Corporation Law). Amendments to the Articles of Association require the consent of the General Meeting.
- d.) Powers of the Executive Board to issue or buy back shares:

The Executive Board was authorized by the General Meeting to increase the capital stock by up to EUR 5,957,000 on one or several occasions with the approval of the Supervisory Board by issuing new shares against cash or non-cash contributions (authorized capital) by June 20, 2010.

The General Meeting on June 23, 2006, authorized the company pursuant to Section 71 (1) No. 8 AktG to acquire its own shares up to December 23, 2007, at a maximum proportional amount of the capital stock of EUR 1,191,400.00 for these shares. This is 10% of the Company's capital stock at the time of the General Meeting of EUR 11,914,000.00. The Executive Board decided on November 23, 2006 to initiate a share buyback program with a term up to April 30, 2007, in which shares up to 5% of the capital stock can be bought back.

Significant events after the balance sheet date

Any events that, had they occurred before the end of the fiscal year, would have entailed a different presentation of the company's situation as part of its obligation to report are not known.

Outlook for 2007

euromicron AG has positioned itself well as a solution provider for communications systems and security networks with production expertise in fiber optics technology in a tough market, yet one with the highly promising future. The goal in future is to communicate our competence and efficiency even more intensively in the market and increasingly place the euromicron brand.

Despite the current satisfactory general economic conditions, which we believe will continue this year, the aim is to continue building our competence and the products and services we can offer. We assume that industry will continue to invest and expect that the public sector will also have to invest strongly in future in its communications infrastructure so as not to be cut off from the general development. We hold out good hopes of being successful here with our approaches that are geared to solving problems. We are convinced that we are in a phase of longer-term extensive new investment in the industry and will successfully capture a share of this.

The euromicron Group continues to set store rigorously by quality, service and reliability and its philosophy of being able to offer an overall concept geared toward solving customers' problems. Our operational success shows that customers appreciate this and increasingly have a critical view of the quality offered by low-cost providers where security-related, cost-intensive or vital aspects of networks of all types are concerned. We are confident that quality will win through in the long term, despite times of pressure on prices and margins.

We will continuously translate our strategic strengths into operational successes on the basis of the following fields of action:

Growth initiative: following re-assumption of our buy and build strategy in fiscal 2006 with the acquisition of a total of nine companies and an increase in shareholdings, we will also grow externally in 2007 and look for suitable companies that fit the development and orientation of the euromicron Group regionally and in terms of their activity. After achieving full coverage in Germany by and large, we are increasingly directing our attention to German-speaking countries abroad, in particular Austria and Switzerland. We are planning to acquire companies with a sales volume of around EUR 30–40 million nationally and internationally. In doing so, we will continue to subject the business models and sustainable future prospects of possible investments to a careful and critical examination.

In the light of the brightening economic climate and our strong market position, we are also confident of continuing to grow organically.

Our target is therefore to post annualized sales of EUR 180 million (including planned acquisitions on an annual basis) for 2007, after which our goal will be to break through the EUR 200 million mark.

The personnel prerequisites for this further expansion of the Group have already been created by strengthening the holding systematically with management capacities in the areas of strategy & integration, economics & investor relations and key account & sales management.

Internationalization: in the past fiscal year, we were able to increase the share of Group sales generated abroad to 8.4% in our core business; euromicron now also has a presence in France, Poland and Singapore. We intend to keep on pursuing this path of a stronger international setup rigorously, be it through the planned acquisitions in Austria and/or Switzerland, expansion of export activities or cooperation linkups or joint ventures.

Integration: our aim will remain to offer customers a one-stop shop for tailored solutions based on the entire Group's range of products and services. At the same time, we will undertake further steps to form the Group companies into larger and more powerful units. We took the first step in this with the merger of delcom GmbH with euromicron systems GmbH last year. Under the notarized agreement dated January 22, 2007, SSM Halle GmbH has now also been merged with SSM euromicron GmbH retroactively effective January 1, 2007. On the basis of this, two strong system houses – euromicron North and euromicron South – are to emerge. Further company mergers are planned and are expected to be tackled in 2007.

Innovation: application-oriented products and solutions geared directly toward customer benefit are one of the strengths of euromicron. We were able to expand this area considerably as part of the company acquisitions in the past fiscal year. euromicron will continue to stick to this path in future so as to achieve competitive edges and unique selling points to the benefit of customers and shareholders.

Investor Relations: we will address the greater attention to and attractiveness of our shares as a result of the move to the Prime Standard through intensive communication with the capital market. Consequently, we will present our company and its business model to interested investors selectively through roadshows and capital market conferences and report events of relevance to the company promptly and in detail.

euromicron AG aims to continue its dividend policy, which is geared toward continuity, in 2007. In deciding on the level of the dividend it proposes, the Executive Board will also take into account the claims of shareholders to reasonable participation in the company's success and the need for financing to ensure the company's further development.

The banks have pledged total funding of EUR 30 million to the euromicron Group for all the tasks ahead of it. In addition to our own cash flow, we have a stable and sufficient financial framework.

We are convinced that – on the basis of the fields of action outlined above and our clear business model, complemented by our ability to leverage rationalization and cost-cutting potentials and our comfortable equity ratio – that we are well positioned to continue to develop the company successfully and increase its value.

The Executive Board therefore continues to look to the future of the euromicron Group with optimism.

Frankfurt/Main, March 12, 2007



Dr. Willibald Späth
Chairman of the Executive Board



Dr. Edgar Bernardi
Member of the Executive Board

Consolidated Financial Statements (IFRS)

Consolidated balance sheet of the euromicron Group

as of December 31, 2006 (IFRS)

ASSETS	Note	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Noncurrent assets			
Intangible assets	(1)	54,076	37,841
Property, plant and equipment	(1)	5,386	3,331
Financial assets	(1)	166	243
Other receivables and assets	(4)	50	0
Deferred tax assets	(2)	1,863	2,324
		61,541	43,739
Current assets			
Inventories	(3)	12,363	15,837
Trade accounts receivable	(4)	25,257	17,031
Receivables from affiliates	(4)	1	0
Other receivables and other assets	(4)	2,353	3,711
Marketable securities and cash	(5)	8,242	20,466
		48,216	57,045
		109,757	100,784

**LIABILITIES AND
STOCKHOLDERS'
EQUITY**

	Note	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Stockholders' equity (equity ratio: 61.3%; previous year: 66.0%)	(6)		
Subscribed capital (composed of 4,660,000 no-par value shares, authorized capital EUR 5,957 thousand)		11,914	11,914
Own shares at acquisition cost		-828	0
Additional paid-in capital		61,781	61,781
Gain/loss on the valuation of securities		-92	0
Consolidated retained earnings		-10,250	-13,101
Net income for the period		4,368	5,647
Minority interests		440	234
		67,333	66,475
Long-term debt			
Accrued liabilities	(7)	710	670
Liabilities	(8)	540	5,276
Deferred taxes	(9)	3,095	1,834
		4,345	7,780
Current liabilities			
Accrued liabilities	(7)	1,458	2,618
Trade accounts payable	(8)	10,498	8,044
Other liabilities	(8)	26,123	15,867
		38,079	26,529
		109,757	100,784

Consolidated income statement

of the euromicron Group for the period January 1 to December 31, 2006 (IFRS)

INCOME STATEMENT

	Note	2006 EUR thou.	2005 EUR thou.
Net sales		115,937	114,105
Inventory changes	(10)	-3,101	-3,405
Own work capitalized	(11)	892	0
Other operating income	(12)	1,172	5,405
Cost of materials	(13)	-58,225	-54,443
Personnel costs	(14)	-32,130	-35,925
Depreciation and amortization expense	(15)	-1,906	-2,133
Other operating expenses	(16)	-14,942	-15,304
Operating profit (consolidated EBIT)		7,697	8,300
Net financing costs	(17)	-515	-637
Income before income taxes		7,182	7,663
Income taxes	(18)	-2,565	-1,843
Consolidated net income for the period, before minority interests		4,617	5,820
Minority interests	(19)	-249	-173
Consolidated net profit		4,368	5,647
Earnings per share (EPS) in EUR		0,95	1,21

Statement of cash flows

of the euromicron Group for the period January 1 to December 31, 2006 (IFRS)

STATEMENT OF CASH FLOW	Dec. 31, 2006 EUR thou.	Dec. 31, 2006 EUR thou.
Consolidated net profit for the period	4,368	5,647
Depreciation and amortization of noncurrent assets	1,906	2,133
Disposal of assets, net	-93	-2,860
Change in accrued liabilities	-3,497	-702
Cash flow	2,684	4,218
Change in deferred taxes	1,906	-114
Changes in other short- and long-term assets and liabilities:		
– Inventories	6,559	-2,208
– Trade accounts receivable	-5,452	58
– Trade accounts payable	563	2,560
– Other operating assets and liabilities	-4,271	5,217
Cash provided by operating activities	1,989	9,731
Proceeds from retirement of noncurrent assets	93	0
Cash paid for investments in noncurrent assets	-2,377	-1,388
Contributions due to sale of consolidated companies	800	8,935
Disbursements due to acquisition of consolidated companies	-16,609	0
Net cash used in (provided by) investment activities	-18,093	7,547
Dividends paid	-2,796	-2,796
Change in financial debt	7,404	-5,253
Own shares	-828	0
Change in minority interests	192	-140
Net cash provided by (used in) financing activities	3,972	-8,189
Gain/loss from securities	-92	0
Net change in cash and cash equivalents	-12,132	9,089
Cash and cash equivalents at start of period	20,466	11,377
Cash and cash equivalents at end of period	8,242	20,466
Cash and cash equivalents are composed of:		
Cash	6,794	18,265
Securities	1,448	2,201
	8,242	20,466

Statement of changes in stockholders' equity

of the euromicron Group up to December 31, 2006 (IFRS)

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Subscribed capital EUR thou.	Additional paid in capital EUR thou.	Own shares EUR thou.
Balance at January 1, 2003	11,914	61,781	0
Dividend for 2003			
Consolidated net income for 2004			
Currency translation difference			
Profit share for minority interests			
Balance at December 31, 2004	11,914	61,781	0
Dividend for 2004			
Consolidated net income for 2005			
Profit share for minority interests			
Balance at December 31, 2005	11,914	61,781	0
Dividend for 2005			
Consolidated net income for 2006			
Purchase of own shares			-828
Gain/loss on the valuation of securities			
Profit share for minority interests			
Balance at December 31, 2006	11,914	61,781	-828

	Gain/loss on the valuation of			Minority interests EUR thou.	Total EUR thou.
	Consolidated retained earnings EUR thou.	Currency translation difference EUR thou.	derivatives and securities EUR thou.		
	-12,504	-252	0	333	61,272
	-2,330				-2,330
	4,529				4,529
		252		41	252 41
	-10,305	0	0	374	63,764
	-2,796				-2,796
	5,647				5,647
				-140	-140
	-7,454	0	0	234	66,475
	-2,796				-2,796
	4,368				4,368
					-828
			-92		-92
				206	206
	-5,882	0	-92	440	67,333

Notes to the IFRS consolidated financial statements for fiscal year 2006

of euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

General information

1. Description of business activities

euromicron AG (hereinafter referred to as the Company) is a registered company under German law with headquarters in Frankfurt and is mainly active in the areas of network and fiber optics technology. The Company specializes in the development, implementation and maintenance of data networks based on fiber optics. Its key products are optical components, tools and fiber optic cable assembly, as well as system business, distribution and services. The Company focuses on niche markets which require highly specialized products and customized solutions and which large system providers usually find too small. The Company is the European leader in some of these sectors.

2. Accounting principles

euromicron AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as are applicable in the European Union, in the valid version at December 31, 2006. All the mandatory standards at the balance sheet date were applied.

The IASB has published the following standards, interpretations and amendments of existing standards. However, their application is not mandatory and they have not been applied prematurely by euromicron AG. So that these IFRSs can be applied, they must first be adopted by the EU as part of the time IFRS endorsement procedure.

IFRIC 7	Mandatory application for fiscal years that start on or after March 1, 2006
IFRIC 8	Mandatory application for fiscal years that start on or after May 1, 2006
IFRIC 9	Mandatory application for fiscal years that start on or after June 1, 2006
IFRIC 10	Mandatory application for fiscal years that start on or after November 1, 2006
IFRIC 11	Mandatory application for fiscal years that start on or after March 1, 2007
IFRIC 12	Mandatory application for fiscal years that start on or after January 1, 2008

Amendments to IAS 1 (details on equity)	Mandatory application for fiscal years that start on or after January 1, 2007
IFRS 7 (financial instruments)	Mandatory application for fiscal years that start on or after January 1, 2007
IFRS 8 (operating segments)	Mandatory application for fiscal years that start on or after January 1, 2009

First-time application of the amendment to IAS 1 and IFRS 7 will result in added details in the notes. euromicron AG is currently examining the effects of IFRS 8 on its consolidated financial statements. First-time application of the other regulations stated above will not have any significant impact on presentation of the financial statements as far as can be assessed at present.

3. Other details

The consolidated financial statements of euromicron AG are presented in thousands of euros, unless stated otherwise.

The balance sheet is presented by noncurrent and current assets and liabilities in accordance with IAS 1. Current assets and liabilities are items that are due within a year. Depending on when they are due, inventories, trade accounts receivable and trade accounts payable are regarded as current assets or liabilities if they are not sold, consumed or due within a year, but are sold, consumed or due within the normal course of the business cycle.

The income statement has been prepared in accordance with IAS 1.94 using the type of expenditure format.

Estimates and assumptions must be made to a certain extent in the consolidated financial statements; the value of assets, liabilities and contingent liabilities, as well as expenses and income in the reporting period, depend on these. The actual later figures reported may differ from the amounts reported in the consolidated financial statements.

Consolidated companies

Apart from euromicron AG, the consolidated financial statements include seventeen companies in which euromicron AG directly or indirectly holds the majority of voting rights. They are all German companies. The included financial statements of the companies were audited by independent auditors and each granted an unqualified audit opinion or awarded a positive opinion relating to their inspection.

A list of consolidated and unconsolidated companies is provided at the end of the notes. Three companies that no longer perform any or only perform insignificant operational activities were not included in the consolidated financial statements due to their secondary importance for the net assets, financial position and results of operations.

There were the following changes to the consolidated companies in the fiscal year:

**CHANGES IN
CONSOLIDATED
COMPANIES**

	2006	2005
January 1	10	11
First-time consolidation	8	0
Mergers within the Group	-1	0
Deconsolidation	0	-1
December 31	17	10

(a) Significant acquisitions in fiscal year 2006

With the notarized agreement dated February 15, 2006, euromicron AG acquired the remaining 20% stake in NTA GmbH, Mainz, at a price of EUR 1,340 thousand. euromicron AG now holds all the shares in this company.

On February 1, 2006, NTA GmbH acquired all the shares in KRUMM Telekom GmbH, Langen.

With the notarized agreement dated August 25, 2006, euromicron AG acquired 80% of the shares in Microsens GmbH & Co. KG, Hamm, at a price of EUR 6,735 thousand. The purchase agreement also includes an earn-out arrangement to the sum of EUR 800 thousand if a firmly defined accumulated EBIT mark is exceeded in the years 2007 to 2009. On the basis of our estimate, we assume that this mark will be exceeded.

On August 26, 2006, euromicron AG acquired all the shares in BCK-Systeme Datentechnik GmbH, Oberhaid.

With the notarized agreement dated November 16, 2006, euromicron AG acquired all the shares in SSM Halle GmbH, Schkopau, all the shares in SSM Leipzig GmbH, Zwenkau, and all the shares in Engel Schwerin.

On November 30, 2006, Pfeiffer GmbH acquired an 80% stake in Gustav Hartmann Nachrichten- und Fernmeldetechnik GmbH, Munich.

On December 19, 2006, SKM Spezialkabel München GmbH acquired all the shares in Telefonbau Schneider GmbH, Munich, and as a result indirectly 51% of the shares in TPB Telecom Partner Berlin GmbH, Berlin.

The total purchase price for the smaller new companies, excluding Microsens GmbH & Co. KG, is EUR 8,000 thousand.

The acquiring companies are fully entitled to the rights to participate in profits at the acquired stock corporations for fiscal 2006.

In the year under review, there was no subsidiary whose financial statements were prepared in a currency other than euros.

Additions to assets and liabilities of the newly acquired companies upon first-time consolidation.

**ADDITIONS FROM
NEWLY ACQUIRED
COMPANIES**

	2006
Noncurrent assets	3,014
Current assets	7,914
Liabilities	6,772
Accrued liabilities	2,376

The newly acquired companies were consolidated at different times in the Group. The sales from the new company carried on a pro-rata basis in the Group are EUR 10,145 thousand; the pro-rata net profit is EUR 1,530 thousand.

The business generated by the new companies contributed sales of around EUR 30 million for the whole of 2006 and a net profit for the whole of 2006 of some EUR 2 million.

(b) Other changes to the consolidated companies

With the notarized agreement dated August 1, 2006, delcom GmbH was merged with euromicron systems GmbH retroactively effective January 1, 2006.

Consolidation principles

The assets and liabilities included in the consolidated financial statements are carried in accordance with the consistent accounting and measurement principles of euromicron AG in compliance with IAS 27.

Company acquisitions are carried using the purchase method of accounting. Under this, the costs of acquisition of euromicron AG are as a matter of principle offset with the pro rata stockholders' equity of the individual subsidiaries at the time the stake was acquired.

The difference from capital consolidation (first-time consolidation) is in principle analyzed to determine its cause. If it is due to the fact that individual items in the commercial balance sheet II of the subsidiary have to be carried at another value than it should have as part of the value of the shares at the key date for first-time consolidation, the difference – after allowing for deferred taxes against the stockholders' equity – is assigned to the items in the consolidated balance sheet as a result of appropriate corrections. The amount above and beyond this is carried as goodwill under the intangible assets. Existing and acquired goodwill is not written off using the regular method of depreciation, in accordance with IFRS 3, but examined for impairment at least once a year using a single-level testing method in accordance with the regulations of IAS 36.

As a matter of principle, the Group dispenses with the routine determination and elimination of inter-company profits for reasons of materiality.

If valuation adjustments for shares of consolidated companies or intragroup receivables are carried in individual financial statements, they are reversed as part of consolidation.

Receivables and payables between the companies included in the consolidated financial statements are offset against each other. Any differences resulting from this are recognized as income and carried in the income statement items "Other operating income" and "Other operating expenses".

As part of consolidation of revenue and expenditure, intercompany sales between the included subsidiaries are offset with the material and other expenses incurred on them.

There are no companies in which euromicron AG either directly or indirectly holds more than 20% but less than 50% of the voting rights, with the result that consolidation using the at equity method has not been carried out.

Explanations on the balance sheet and income statement

1. Noncurrent assets

A fixed asset movement schedule can be found on pages 100 and 101 of these notes.

Impairment of long-lived assets:

Property, plant and equipment and intangible assets are tested for impairment if, due to events or changes in circumstances, there are indications that the book value of the objects can no longer be recovered. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties. Value in use is the present value of the future cash flow expected to be derived from continued use of an asset and its retirement at the end of its useful life. If the reasons for the earlier write-off no longer exist, the assets are written up again.

(a) Intangible assets

Intangible assets comprise software, licenses, industrial rights and goodwill, as well as capitalized development costs. Purchased intangible assets, with the exception of goodwill, are capitalized at their cost of acquisition and written down over their useful life of 3 to 15 years. As a rule, extraordinary write-downs are charged if it is necessary to carry intangible assets at a lower fair value at the balance sheet date. Calculation of the fair value is based on the capitalized earnings value of assets.

Intangible assets with an unlimited useful life, such as goodwill from company acquisitions, are not written off in accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, but are tested for impairment once a year in compliance with the regulations of IAS 36. In this impairment test, the book values at December 31 of the cash generating units on which the goodwill is based are compared with their recoverable amount. The individual companies in conjunction with the regions as primary segments are defined as cash generating units at euromicron AG. The recoverable amount is calculated using the discounted cash flow (DCF) method. The future cash flows to be discounted using the DCF method are determined on the basis of medium-term planning for net assets, financial position and results of operations. If the book value exceeds the recoverable amount according to the DCF method, there is value impairment and the asset has to be written down to the recoverable amount.

The following parameters were applied in the impairment test:

	in %
Borrowing rate after taxes	4.97
Risk-free interest	3.95
Markup for return on equity	5.00
Beta factor	0.96
Weighted average cost of capital (WACC)	7.80
Growth rate	1.00

The impairment test in 2006 did not reveal any need to reduce the value of the goodwill.

Goodwill developed as follows in the fiscal year:

GOODWILL

	2006 EUR thou.	2005 EUR thou.
Goodwill as of January 1	35,553	38,338
Additions	14,742	501
Amortization	-9	0
Retirements	-800	-3,286
Goodwill as of December 31	49,486	35,553

The additions relate to the following companies:

ADDITIONS TO GOODWILL

	2006 EUR thou.
Acquisition of new companies by euromicron AG:	
Microsens GmbH & Co. KG	6,611
Seven smaller companies	6,904
	13,515
Goodwill for acquired companies	41
Additions at existing associated companies of euromicron AG	
NTA GmbH	1,128
LWL Sachsenkabel GmbH	58
	14,742

The goodwill retirements of EUR 800 thousand relate to Pfeiffer GmbH due to repayment of part of the original purchase price contractually agreed as part of a bonus/penalty arrangement.

Development costs are carried at manufacturing cost, provided the expenses can be clearly assigned, technical feasibility and future marketing is ensured and it is sufficiently likely that the development work will result in future inflows of funds.

Development costs of 1,011 thousand (previous year: EUR 74 thousand) were carried in the year under review. Amortization of the development costs carried in 2006 has not yet commenced since the development work will not be completed until 2007.

(b) Property, plant and equipment

Property, plant and equipment is carried at its acquisition or manufacturing cost less regular depreciation. Depreciation is straight-line. The following useful lives are used to calculate depreciation:

PROPERTY, PLANT AND EQUIPMENT

	Useful life in years
Buildings	10–50
Technical equipment and machinery	5–15
Other equipment, operating and office equipment	4–15

Minor assets with a procurement cost of up to EUR 410 are depreciated in full in the year of their acquisition. Extraordinary write-downs are charged if it is necessary to carry property, plant and equipment at a lower fair value at the balance sheet date.

The Company has leased property, plant and equipment which it uses. The criteria of IAS 17.8 are used to examine whether the benefits and risks of ownership have been transferred to the lessee (finance leases). If the criteria are met, the assets and liabilities are recognized at the inception of the lease to the same amount in the balance sheet, at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Leased equipment, operating and office equipment totaling EUR 219 thousand (previous year: EUR 218 thousand) were carried as finance leases at December 31.

Capitalized leased objects are written down using the straight line method over their scheduled useful lives. The future payment obligations from leasing agreements are carried under the other liabilities.

All other lease agreements in which euromicron AG is the lessee are recognized as operating leases. The leasing payments are charged to expenditure.

A detailed breakdown of property, plant and equipment is contained in the fixed asset movement schedule.

(c) Financial assets

Additions of financial assets are measured in principle at their cost of acquisition, including transaction costs.

The financial assets are subsequently measured at their cost of acquisition less write-downs for permanent impairment.

2. Deferred tax assets

Deferred taxes are recognized for differences in carrying values between the IFRS balance sheet and tax balance sheet (time differences) using the liabilities method in accordance with IAS 12, if these differences are temporary ones.

In this, deferred taxes at the level of the individual companies and consolidated entities are taken into account. Deferred tax debts are recognized to the extent that it is probable that there will be a taxable result in future. The tax rates that are enacted or can be expected to be enacted on the balance sheet at the time of realization are used to calculate deferred taxes.

Deferred tax assets are calculated on the basis of measurement differences in the following balance sheet items:

DEFERRED TAX ASSETS	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Deferred tax assets for:		
– Accrued liabilities	198	404
– Tax loss carryforwards	1,933	1,830
– Finance lease	83	82
Other assets	–351	8
Deferred tax assets	1,863	2,324

As of December 31, 2006, there were tax loss carryforwards in the Group totaling EUR 5,247 thousand (previous year: EUR 4,872 thousand). The loss carryforwards relate to three further domestic holdings. These losses may be carried forward indefinitely in accordance with the current legal position. The deferred tax rates are 17.01% and 37.87% respectively if trade tax and corporation income tax are incurred.

The Executive Board is of the opinion that deferred tax assets that have not been written down will most probably be realized.

3. Inventories

Inventories are carried in principle at the lower of acquisition/historical cost or net realizable value on the balance sheet. The historical cost includes production materials and labor costs, as well as allocable material and production and administrative overheads.

The Group's portfolio includes project companies that increasingly report project and installation services running beyond the key date in their balance sheet. In the case of significant services that run beyond the key date and whose costs and pro-rata profit realization can be clearly identified, the Group applies the percentage of completion (POC) method. The stage of completion is determined as part of the POC method in principle on the basis of the costs incurred in relation to the total anticipated costs.

INVENTORIES

	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Raw materials and supplies	4,344	3,844
Work in progress	3,684	8,559
Finished goods and merchandise	4,335	3,434
	12,363	15,837

EUR 4,842 thousand of inventories (previous year: EUR 3,867 thousand) are attributable to the euromicron North division and EUR 7,521 thousand (previous year: EUR 9,294 thousand) to the euromicron South division. They were able to be reduced despite the acquisition of new companies, mainly due to large key date-related billing of unfinished products. Inventories totaling EUR 1,965 were carried due to changes in the consolidated companies compared with the previous year.

4. Receivables and other assets

Accounts receivable are measured at their continued acquisition cost. Individual value adjustments are made if the accounts receivable are not recoverable or cannot probably be recovered; the amount of the value adjustments must, however, be able to be determined with sufficient accuracy.

RECEIVABLES AND OTHER ASSETS

	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Trade accounts receivable	25,641	17,342
Allowances for doubtful accounts	-384	-311
	25,257	17,031
Receivables from affiliates	1	0
Other assets	2,353	3,711
	27,611	20,742

Apart from an amount of EUR 50 thousand, none of the trade accounts receivables and other assets has a term of more than one year. The allowances for doubtful accounts comprise individual adjustments for receivables. Changes in the consolidated companies resulted in a reduction in trade account receivables of EUR 3,192 thousand.

The trade accounts receivable also include receivables from production contracts in accordance with the percentage of completion method. The costs associated with the contracts, including a pro-rata profit corresponding to the stage of completion, is recognized as income as the cumulative outcome from production contracts. The production contracts are recognized in income as receivables from production contracts if the cumulative result exceeds the payment on account received from the customer. The amount from these receivables is EUR 8,941 thousand (previous year:

EUR 9,148 thousand) and is carried under trade accounts receivable. Received payments on account of EUR 4,530 thousand (previous year: EUR 5,415 thousand) were offset against these receivables from production contracts.

Other assets mainly comprise prepaid capital gains tax and solidarity surcharge, as well as creditable taxes from dividend payments of the euromicron Group companies. Changes in the consolidated companies resulted in additional other assets totaling EUR 585 thousand being charged compared with the previous year.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in banking accounts, as well as marketable securities. The cash and cash equivalents are as follows:

CASH AND CASH EQUIVALENTS

	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Cash	6,794	18,265
Marketable securities	1,448	2,201
	8,242	20,466

The fall in cash results from the investments in new companies. Cash and cash equivalents totaling EUR 749 thousand were reported as a result of change to the consolidated companies.

The securities are exclusively qualified as available for sale in accordance with IAS 39. They are measured at their fair value.

6. Stockholders' equity

(a) Subscribed capital

euromicron AG's subscribed capital comprises 4,660,000 issued no-par value bearer shares. The calculated par value per share is EUR 2.56.

Own shares

The General Meeting on June 23, 2006, authorized the company pursuant to Section 71 (1) No. 8 AktG (German Stock Corporation Law) to acquire its own shares up to December 23, 2007, at a maximum proportional amount of the capital stock of EUR 1,191,400.00 for these shares. This is 10% of the Company's capital stock at the time of the General Meeting of EUR 11,914,000.00. The acquired shares – together with other shares that are owned by the company or can be ascribed to it pursuant to Sections 71 a ff. AktG – must at no time exceed 10% of the company's capital stock.

The authorization may not be used for the purpose of trading in the company's own shares.

The shares are to be acquired on the stock market or by means of a public offering addressed to all shareholders of the company.

The Executive Board is further authorized to sell the shares acquired in the Company to third parties in exchange for non-cash contributions, with the consent of the Supervisory Board and excluding shareholders' subscription right, in particular also in connection with company mergers and the acquisition of companies, parts of companies and/or holdings in companies.

The Executive Board is further authorized to sell the shares acquired in the Company for a cash payment in a way other than on the stock market or through an offering to all shareholders, with the consent of the Supervisory Board and excluding shareholders' subscription right.

The Executive Board is further authorized, with the consent of the Supervisory Board, to redeem acquired shares in the Company without the need for a further resolution to be adopted by the General Meeting. As part of the redemption, it is also authorized to redeem no-par value shares without a capital reduction. If no-par value shares are redeemed without a capital reduction, the share of the other shares in the capital stock will increase in accordance with Section 8 (3) AktG. In this case, the Executive Board is also authorized to adjust the number of shares in the Company in the Articles of Association (Section 237 (3) No. 3 AktG).

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

As a result of the share buyback program, there have been the following changes in the number of shares in circulation:

OWN SHARES

	Number
Total bearer shares	4,660,000
Own shares at December 31, 2005	0
Purchase of own shares	39,050
Sale of own shares	0
= Shares in circulation at December 31, 2006	4,620,950

At the balance sheet date, a total of 39,050 bearer shares were held by the company with a value of EUR 100 thousand (previous year: EUR 0) measured by the capital stock or 0.84% of the capital stock. The value of its own shares at acquisition cost is EUR 828 thousand. In accordance with IAS 32.33, the value of its own shares was deducted in one sum from stockholders' equity.

Contingent capital

Pursuant to the resolution adopted by the General Meeting on June 23, 2006, the capital stock of the Company was increased conditionally by up to EUR 1,191,400.00 through the issue of up to 466,000 no-par value bearer shares ("contingent capital"). The contingent capital serves to secure subscription rights from stock options that are issued pursuant to the authorization of the General

Meeting of euromicron AG on June 23, 2006, as part of the 2006 stock option program in the period from June 24, 2006, to December 31, 2009. The contingent capital increase will be conducted only to the extent that stock options are issued and the holders of these stock options make use of their right to subscribe to shares in the Company. The new shares will participate in profits in each case from the beginning of the fiscal year in which they accrue through exercise of the subscription right. The Executive Board with the consent of the Supervisory Board – and, if stock options are issued to members of the Executive Board, the Supervisory Board – is authorized to define further details of the contingent capital increase and its implementation.

The Executive Board had not made use of this authorization at December 31, 2006.

Authorized capital

A resolution of the General Meeting on June 23, 2005, rescinded the authorization for the Executive Board to increase the capital stock by up to EUR 5,957,000 on one or several occasions by issuing new shares against cash or non-cash contributions by May 30, 2005. The Executive Board was authorized to increase the capital stock by up to EUR 5,957,000 on one or several occasions with the approval of the Supervisory Board by issuing new shares against cash or non-cash contributions (authorized capital) by June 20, 2010. A subscription right will be granted to shareholders. However, the Executive Board is authorized to exempt fractional amounts from the subscription right of shareholders. The Executive Board is further authorized with the consent of the Supervisory Board to exclude the subscription right of shareholders if the authorization is used provided the capital increase in exchange for cash contributions does not exceed 10 percent of the capital stock and the issue price of the new shares is not significantly below the stock market price of the already listed shares with the same features at the time when the issue price is definitively set. Finally, the Executive Board is authorized with the consent of the Supervisory Board to exclude the subscription right if the capital increase is made for the purpose of acquiring companies or holdings in companies. The Executive Board is further authorized with the consent of the Supervisory Board to define the further details of the issue and features of the new shares.

The authorized capital has not been used up to now.

(b) Additional paid-in capital

As in the previous year, additional paid-in capital amounts to EUR 61,781 thousand.

(c) Gain/loss on the valuation of securities

The amount of EUR 92 thousand is the result of the valuation of securities that are qualified as available for sale in accordance with IAS 39.

(d) Consolidated retained earnings

Consolidated retained earnings of EUR –10,250 thousand (previous year: EUR –13,101 thousand) are composed of the retained earnings brought forward by the consolidated companies, the effects of capital consolidation, former amortization of goodwill and hidden reserves and other consolidation measures.

(e) Currency translation difference

There were no currency translation differences in fiscal 2006, since all the consolidated associated companies of euromicron AG are based in Germany.

(f) Minority interests

Under IFRS, minority interests are disclosed as part of stockholders' equity in accordance with the entity point of view.

The minority interests in stockholders' equity of the consolidated subsidiaries relate to three companies: Microsens GmbH & Co. KG, BCK-Systeme Datentechnik GmbH and Gustav Hartmann GmbH.

7. Accrued liabilities

Tax accruals and other accrued liabilities are recognized in the case of legal or constructive obligations to third parties where utilization is probable and the expected amount of the necessary accrued liability can be measured reliably. The accrued liabilities are measured in compliance with IAS 37 at the best estimate of the expenditure required to settle the obligation. Long-term accrued liabilities are measured at their cash value on the balance sheet date. They include accrued liabilities for pensions.

The accrued liabilities are composed as follows:

ACCRUED LIABILITIES	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Taxes	1,005	1,507
Other accrued liabilities	453	1,111
Short-term accrued liabilities	1,458	2,618
Accrued benefit liabilities	703	663
Accrued liabilities for anniversaries	7	7
Long-term accrued liabilities	710	670
Total accrued liabilities	2,168	3,288

(a) Other accrued liabilities

The other accrued liabilities are composed as follows:

**OTHER ACCRUED
LIABILITIES**

	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Legal disputes	102	66
Obligations from company sales	0	337
Warranty commitments	0	148
Other	351	560
	453	1,111

The reduction in other accrued liabilities is mainly due to utilization of the obligations from company sales.

The accrued liabilities developed as follows in the fiscal year:

**DEVELOPMENT OF
ACCRUED
LIABILITIES**

	Jan. 1, 2006 EUR thou.	First-time consolidation EUR thou.	Utilization EUR thou.	Reversal EUR thou.	Transfer EUR thou.	Dec. 31, 2006 EUR thou.
Noncurrent						
Accrued benefit liabilities	670	0	6	0	46	710
Current						
Tax provisions	1,507	313	1,589	180	954	1,005
Company sales	337	0	337	0	0	0
Warranties	148	7	25	130	0	0
Other	626	952	1,578	0	453	453
	3,288	1,272	3,535	310	1,453	2,168

(b) Accrued benefit liabilities

The company and a number of associates maintain a company pension scheme for certain active and retired employees. The designated payments made towards pensions may be based either on the wage or salary received in the last year of employment or on the average of the last five years.

Provisions for pensions and similar obligations are calculated using the projected unit credit method prescribed in IAS 19. The resultant obligation is recognized in the balance sheet as an accrued liability.

The 10% band rule of IAS 19 is not applied at euromicron AG in measuring the pension obligations and determining personnel costs. euromicron AG uses the method of immediate and complete payment, in which actuarial gains and losses are recognized in income, in particular if the calculation parameters change. The option of recognizing these actuarial gains and losses without any affect on income using the statement of recognized income and expense (SORIE) was not utilized.

If pension obligations were reinsured with insurance companies, the surrender values are offset with the pension obligations.

The following table provides information on the change in the projected benefit obligation in the fiscal year.

PENSION PROVISIONS	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Present value of benefit obligation at the beginning of the period under report	1,030	2,377
Service cost	45	62
Interest cost	44	39
Pension payments	-6	-6
Retirements from company disposals	0	-1,442
Present value of benefit obligation at the end of the period under report	1,113	1,030
Balance of the surrender value of reinsurance policies	-410	-367
Value carried in balance sheet	703	663

The following table provides information on the assumptions made in the calculation of benefit obligations.

Average measurement factors	2006 %	2005 %
Discount rate	4.25	4.25
Rates of increase in compensation levels	2.5	2.5
Future pension indexation	1.5	1.5

8. Liabilities

Current liabilities are measured at their repayment amount or amount required to discharge them. Long-term debt is measured at its continued acquisition cost.

The liabilities are composed as follows:

LIABILITIES	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Bank loans and overdrafts	15,130	918
Liabilities from finance lease	219	217
Trade accounts payable	10,498	8,044
Other liabilities	11,314	20,008
	37,161	29,187

The liabilities have the following terms:

TERMS OF THE LIABILITIES	Total Amount EUR thou.	Due in				
		2007 EUR thou.	2008 EUR thou.	2009 EUR thou.	2010 EUR thou.	2011 EUR thou.
Bank loans and overdrafts	15,130	14,500	167	139	118	118
Liabilities from finance lease	219	89	65	65	–	–
Trade accounts payable	10,498	10,498	–	–	–	–
Other liabilities	11,314	10,986	70	258	–	–
	37,161	36,073	302	462	118	118
(Previous year)	(29,187)	(23,911)	(5,239)	(37)	(0)	(0)

The bank loans and overdrafts are secured at the associated companies by a real estate lien of EUR 512 thousand, as well as by a global assignment on trade accounts payable, assignment of refinanced objects as security and the assignment of receivables from rent (in a dormant form).

The interest rates for bank loans and overdrafts range from 4.41% to 12.65%.

Short-term credit lines of EUR 14,998 thousand (previous year: EUR 21,183 thousand) were unused at the year-end.

The other liabilities are composed as follows:

**OTHER
LIABILITIES**

	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Industry loans	5,301	10,302
Tax liabilities	1,752	2,264
Personnel obligations	1,347	1,222
Payments on account	359	4,270
Other	2,555	1,950
	11,314	20,008

The payments on account received do not include those that can be directly assigned to production contracts on the basis of the percentage of completion method and can be offset. Trade accounts payable of EUR 1,935 thousand, payments on accounts of EUR 5 thousand, bank loans and overdrafts of EUR 1,631 and other liabilities of EUR 1,720 are carried as a result of changes in the consolidated companies.

9. Deferred tax liabilities

Deferred taxes are recognized for differences in carrying values between the IFRS balance sheet and tax balance sheet (time differences) and for accumulated losses brought forward using the liabilities method in accordance with IAS 12, if these differences are temporary ones.

In this, deferred taxes at the level of the individual companies and consolidated entities are taken into account. In principle, deferred tax debts are recorded for all temporary differences on which tax is to be paid and reported separately as deferred tax liabilities.

The deferred tax liabilities result from measurement differences in the following balance sheet items:

**DEFERRED
TAX LIABILITIES**

	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
Deferred tax liabilities for:		
Noncurrent assets	1,372	343
Dormant reserves from capital consolidation	979	612
Other assets and liabilities	744	879
Deferred tax liabilities	3,095	1,834

10. Sales

In accordance with IAS 18, sales revenues are recognized on transfer of risk or performance of the service, and are stated net of discounts, customer bonuses and rebates.

Sales and earnings from the main projects running beyond the key date were recognized in compliance with IAS 11 on a pro rata basis using the percentage of completion method. The stage of completion of the contracts is derived from the ratio of the costs incurred to date and the estimated total costs of the contract. The POC sales revenues recognized using this method correspond to the production costs for the contract plus a pro-rata profit based on the stage of completion at the balance sheet date. Pro-rata profits from the POC method are realized only for projects whose outcome can be estimated reliably. The sales include amounts from application of the percentage of completion method totaling EUR –119 thousand (previous year: EUR 7,337 thousand).

The effect on earnings in the year under review compared with the single-entity financial statements (HGB) is EUR –538 thousand (previous year: EUR 574 thousand).

Sales are broken down by secondary segment reporting as follows:

SALES BY SECONDARY BUSINESS SEGMENTS	2006	2005
	EUR thou.	EUR thou.
Components and Assembly	41,317	35,762
Projects and Systems	72,573	60,406
Distribution and Services	6,723	5,160
Cross-segment consolidation	–4,676	–3,286
Company sold in 2005	0	16,063
	115,937	114,105

11. Own work capitalized

Own work capitalized is carried at EUR 892 thousand and is mainly due to the sharp increase in development costs at an associated company in order to secure its market position and achieve unique selling points.

12. Other operating income

(a) Other operating income is composed as follows:

OTHER OPERATING INCOME	2006	2005
	EUR thou.	EUR thou.
Deconsolidation income	0	2,860
Reversal of accrued liabilities	310	544
Income from retirement of noncurrent assets	93	74
Income from property and rent	50	64
Other	719	1,292
	1,172	4,834

The changes in other operating income primarily result from the deconsolidation gain in the previous fiscal year from the sale of FRAKO Kondensatoren- und Anlagenbau GmbH. The other operating income from vehicle use reported in the previous years is offset against the personnel costs in the year under review. Consequently, the figure for other operating income in the previous year differs by EUR 571 thousand from that reported in the previous year.

13. Cost of materials

The cost of materials is composed as follows:

COST OF MATERIALS	2006 EUR thou.	2005 EUR thou.
Cost of raw materials and supplies and goods purchased	38,419	41,099
Cost of purchased services	19,806	13,344
	58,225	54,443

14. Personnel costs

The personnel costs are composed as follows:

PERSONNEL COSTS	2006 EUR thou.	2005 EUR thou.
Wages and salaries	26,688	29,184
Social security	5,442	6,170
	32,130	35,354

Average number of employees per year:

EMPLOYEES	2006 EUR thou.	2005 EUR thou.
Hourly-paid employees	446	407
Salaried employees	268	335
Trainees	53	63
	767	805

15. Amortization and depreciation

Amortization and depreciation is composed as follows:

AMORTIZATION AND DEPRECIATION	2006 EUR thou.	2005 EUR thou.
Amortization of intangible assets	604	347
Depreciation of tangible assets	1,302	1,786
	1,906	2,133

Dormant reserves totaling EUR 1,328 were identified and carried as part of purchase price allocation in the acquisition of new companies in 2006. The amortization and depreciation for this in 2006 was EUR 303 thousand.

16. Other operating expenses

Other operating expenses are composed as follows:

OTHER OPERATING EXPENSES	2006 EUR thou.	2005 EUR thou.
Vehicle and travel expenses	3,973	3,880
Rent/room costs	2,213	2,556
Legal and consulting costs	1,652	1,494
Cost of shipping goods	837	1,164
Trade fair and advertising costs	942	803
Communication expenses	680	797
Commission	390	765
Insurance/charges/contributions	516	569
Maintenance and repair	417	559
Other	3,322	2,717
	14,942	15,304

17. Net financing costs

NET FINANCING COSTS	2006 EUR thou.	2005 EUR thou.
Other interest and similar income	410	179
Income from investments	3	0
Interest and similar expenses	-928	-816
	-515	-637

18. Income taxes

INCOME TAXES	2006 EUR thou.	2005 EUR thou.
Current taxes in Germany	1,585	1,510
Deferred taxes in Germany	980	333
	2,565	1,843

The following table presents a reconciliation of the tax expense expected in each fiscal year to the tax expense actually disclosed. The expected tax expense is calculated from a total tax rate of 37.87% and the income before taxes. The total tax rate is calculated from a corporation income tax rate, including solidarity surcharge, of 26.38% and the effective trade tax rate of 11.49%.

TAX RECONCILIATION	2006 EUR thou.	2005 EUR thou.
Expected tax expense	2,720	2,902
Deconsolidation profit	0	-1,083
Effect of consolidation measures	48	158
Effect of loss carryforwards and from collection of profit and loss transfer agreements	-871	-279
Effect of other measurement differences	998	84
Tax arrears/refunds	-230	-155
Other	-100	216
Actual tax expense	2,565	1,843
Effective tax rate	35.7 %	24.1 %

The "Other" item essentially results from the difference between the actual tax rates in the individual financial statements and the assumed average total tax rate in the Group.

19. Minority interests in net income for the period

Minority interests in the net income for the period of the consolidated subsidiaries relate to three companies: Microsens GmbH & Co. KG, BCK-Systeme Datentechnik GmbH and Gustav Hartmann GmbH.

20. Earnings per share

The number of no-par value shares issued in 2006 remained constant at 4,660,000.

Earnings per share are calculated as follows:

PROFIT AND DIVIDEND

	Dec. 31, 2006 EUR thou.	Dec. 31, 2006 EUR thou.
Consolidated net income for the period	4,368	5,647
Shares in circulation (in thousand)	4,621	4,660
Earnings per share in EUR (undiluted)	0.95	1.21
Earnings per share in EUR (diluted)	0.90	1.21
Dividend per share in EUR	0.70	0.60

21. Contingencies and commitments

(a) Contingent liabilities

euromicron AG has extended letters of subordination issued to SKM Spezialkabel München GmbH (EUR 1,000 thousand), Pfeiffer GmbH (EUR 1,050 thousand) and BCK-Systems Datentechnik GmbH (EUR 180 thousand).

(b) Other financial obligations

Financial instruments

As a matter of principle, euromicron AG only uses derivative financial instruments for hedging. In these cases, the hedged item and the hedging transaction (interest rate swap) are aggregated to form a closed position.

In 2004, euromicron AG conducted an interest rate swap effective March 1, 2004, that was concluded with its basic parameters, term and level on the existing Allianz loan and so can be regarded as a hedging transaction. euromicron AG exchanges the fixed rate of interest on the loan against a variable rate of interests calculated on the basis of the 12-month EURIBOR. As of September 1, 2005, the variable rate of interest is capped.

The market-to-market valuation at the balance sheet date is EUR –47 thousand and is mainly the result of differing payment flows. euromicron AG makes annual payments, whereas interest is received quarterly. The payments not yet made by euromicron AG essentially reflect the negative market value, which has been charged as expenditure and reported in the balance sheet under other liabilities.

Over the term of the interest rate swap up to the balance sheet date, euromicron AG has earned income from this hedging transaction of EUR 140 thousand.

The liabilities from rental agreements as of December 31, 2006, amount to EUR 3,390 thousand (previous year: EUR 2,300 thousand). There are also obligations from purchase obligations of EUR 782 thousand (previous year: EUR 340 thousand) and other obligations of EUR 869 thousand.

Obligations under operating lease agreements mainly relate to operating and office equipment and amount to EUR 2,372 thousand (previous year: EUR 2,227 thousand). In 2006, payments from these leasing relationships totaling EUR 1,423 thousand were recognized as income. Amounts totaling EUR 1,266 thousand will be due within the next year and EUR 1,097 thousand in a period of between one and five years.

22. Segment reporting

Following completion of the divestment phase as part of the long-term strategy of transforming the Group into an integrated system house, the sale of FRAKO GmbH in 2005 and incorporation of ELABO GmbH into the core business segment, the euromicron Group underwent radical change in 2006. As a result, the former primary segment reporting, divided into the divisions of Network and Fiber Optics Technology and Industrial Holdings, no longer exists.

euromicron AG has largely achieved a full-coverage presence in Germany thanks to the acquisitions in 2006. The objective in the near future will be to reduce the large number of its associated companies by means of mergers and so just have a small number that can cater separately for the northern and southern regions of Germany with a full portfolio of products and services.

So as to initiate these steps, some of the new companies in 2006 were not acquired directly by euromicron AG, but by the subsidiaries with which they will later be merged. A first step in this was undertaken in the shape of the merger of delcom GmbH and euromicron systems GmbH in 2006.

A further step in 2007 will be to drive expansion of the euromicron Group abroad.

Primary segment reporting therefore changed in 2006. euromicron AG is structured into the euromicron North and euromicron South divisions, with the option of adding an International segment if international business grows to a relevant size.

Segment reporting

of the euromicron Group for the period January 1 to December 31, 2006 (IFRS)

	euromicron North EUR thou.	euromicron South EUR thou.	euromicron AG and eliminations EUR thou.	euromicron Group EUR thou.
2006				
Sales	56,775	62,165	-3,003	115,937
of which sales to third parties	55,514	60,426		
of which sales to affiliated companies	1,261	1,739		
Income before income taxes	7,561	5,308	-5,172	7,697
Assets	52,414	55,893	1,450	109,757
of which goodwill	23,928	23,802		
Liabilities	21,395	25,917	-4,888	42,424
Investments in tangible assets and property, plant and equipment	892	4,519	12,995	18,406
Amortization/depreciation	980	869	57	1,906
	euromicron North EUR thou.	euromicron South EUR thou.	euromicron AG and eliminations EUR thou.	euromicron Group EUR thou.
2005				
Sales	48,707	51,506	13,892	114,105
of which sales to third parties	47,751	50,291		
of which sales to affiliated companies	956	1,215		
Income before income taxes	4,311	2,448	1,541	8,300
Assets	36,475	44,800	19,509	100,784
of which goodwill	14,452	19,378		
Liabilities	18,029	19,422	-3,142	34,309
Investments in tangible assets and property, plant and equipment	422	247	37	706
Amortization/depreciation	895	658	580	2,133
	Fibre Optics EUR thou.	Industrial Holdings EUR thou.	euromicron AG and eliminations EUR thou.	euromicron Group EUR thou.
2004*				
Sales	71,801	38,223	0	110,024
Income before income taxes	6,535	3,672	-801	9,406
Assets	45,216	16,400	46,083	107,699
Investments	733	589	9,860	11,182
Amortization/depreciation	1,301	743	106	2,150

* The segment reporting for 2004 was retained in accordance with the former assignment of segments and segment information.

The assets are broken down by secondary segment reporting as follows:

ASSETS	2006 EUR thou.	2005 EUR thou.
SECONDARY SEGMENT REPORTING		
Components and Assembly	46,811	34,297
Projects and Systems	58,127	46,596
Distribution and Services	5,065	3,435
euromicron AG and eliminations	-246	16,456
	109,757	100,784

The investments in intangible assets and property, plant and equipment are broken down by secondary segment reporting as follows:

INVESTMENTS	2006 EUR thou.	2005 EUR thou.
SECONDARY SEGMENT REPORTING		
Components and Assembly	1,753	372
Projects and Systems	2,158	281
Distribution and Services	1,500	16
euromicron AG and eliminations	12,995	37
	18,406	706

23. Related parties

There are business relations for the entire fiscal year with the Executive Board and the Supervisory Board and with the companies in the list of those included in the consolidated financial statements, in which euromicron AG has a direct or indirect participating interest.

(a) euromicron Group cash pool management

The Group-wide cash pool management allows the companies of the euromicron Group to obtain a short-term source of finance at favorable conditions. The interest earned and paid is based on market conditions, taking into account availability and collateral, with the result that euromicron AG's participation in this system does not place it at a disadvantage. The standard interest earned amounted to 4.0% p. a. and the standard interest paid 6.0% p. a. as of December 31, 2006.

(b) Relations with related persons

Apart from the compensation for the Executive Board and Supervisory Board, there are no significant relations with related persons.

24. Declaration on the Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Law)

In fiscal 2006, the company essentially complied with the recommendations of the Corporate Governance Code, with a number of exceptions. The exceptions are due to the size and business model of the company; in some cases, future adjustments are being prepared.

The declaration on conformance and the exceptions to the recommendations are listed on the company's homepage at <http://www.euromicron.de> and can be viewed at the company.

25. Stock option program

At the General Meeting on June 23, 2006, the Executive Board was authorized, with the consent of the Supervisory Board, to issue up to 466,000 stock options with a subscription right to shares in euromicron AG by December 31, 2009. The total volume of stock options (subscription rights) for members of the Executive Board must not exceed 375,000.

At December 31, 2006, 230,000 subscription rights were issued to members of the Executive Board General Managers and employees. The stock options can be exercised at the earliest after a waiting period of two years after the respective date of issue within a period of two further years.

Detailed information on the 1st tranche is provided in the table below.

TRANCHES

Tranche	Total options	Of which for the Executive Board	Exercise price in EUR	Exercisable from	to
1	230,000	190,000	18.50	2008	2010

The earliest possible time at which the options can be exercised is August 18, 2008, if the shares of euromicron AG perform better in the reference period than the TecDAX of Deutsche Börse AG or if the stock market price of shares in euromicron AG has increased by more than an average of 5% per annum in the reference period.

The option rights cannot be exercised in full or in part within the following periods:

- 30 calendar days before announcement of quarterly results, if euromicron AG publishes these
- 30 calendar days before announcement of half-yearly results, for example in the form of an interim report
- 30 calendar days before the Ordinary General Meeting

The exercise price of the options is the arithmetic mean of the final prices of shares in euromicron AG in XETRA trading of Deutsche Börse AG during the 10 days of stock market trading directly preceding the respective day of issue.

The development of the issued stock options is shown in the table below.

DEVELOPMENT OF STOCK OPTIONS

	Number of option rights	Weighted average price in EUR
Number at start of year	0	0
Options granted	230,000	18.41
Exercised	0	0
Forfeited	0	0
Elapsed	0	0
Number at end of year	230,000	
Exercisable to end of year	0	0

Personnel costs of EUR 258 thousand were generated by the stock option program in 2006.

A Monte Carlo simulation is used to value the subscription rights. In this, the log-normally distributed processes for the price of euromicron's share and the TecDAX Index are simulated in order to reflect the performance goal in the form of outperformance by euromicron's share compared with the index or the performance goal that increases over time.

The parameters included in calculating the fair value and the overall values based on this are shown in the table below.

Tranche	1	2
Implied volatility at the time of issue	39.08 %	38.86 %
Risk-free interest rate	3.62 %	3.64 %
Term in years	1.61	1.63
Fair value per option right in EUR		
– at the date of valuation	6.27	6.25
– at the date of issue	4.15	4.46
Total value per program in EUR thou.	239	1,129

26. Auditors' fees

The item "Other operating expenses" contains fees for the group auditor, BDO Deutsche Warentreuhand AG, of EUR 251 thousand. These fees relate solely to the audits of the financial statements of the companies.

27. Significant events after the balance sheet date

Under the notarized agreement dated January 22, 2007, SSM Halle GmbH was merged with SSM euromicron GmbH retroactively effective January 1, 2007.

28. Publication of the consolidated financial statements

The consolidated financial statements were released for publication on March 28, 2007, by the Supervisory Board following their submission by the Executive Board.

euromicron AG makes use of the provision under Section 264 (3) German Commercial Code that exempts subsidiaries of euromicron AG from the obligation to disclose annual financial statements and management reports and fulfills all the necessary conditions. Exceptions to this are BCK-Systeme Datentechnik GmbH and Pfeiffer GmbH, which disclose their annual financial statements.

29. Supervisory Board und Executive Board

(a) Executive Board

The members of the Executive Board of euromicron AG are:

Dr. Willibald Späth

Chairman

Board member responsible for Strategy, Acquisitions,
Finance, Public Relations and Investor Relations

Dr. Edgar Bernardi

Board member responsible for Products,
Market, Technology and Operations

(b) Supervisory Board

The members of the Executive Board on December 31, 2006, were:

Dr. Franz-Stephan von Gronau

Chairman

Certified public accountant, tax consultant, lawyer

Josef Martin Ortolf

Deputy Chairman

Businessman

Managing partner of ConMoto Consulting GmbH (until October 2006)

Senior Vice President Power Tools and Head of Product Group Professional Power Tools Europe, Africa, Near/Middle East at Robert Bosch GmbH, Leinfelden-Echterdingen (since October 2006)

Dr. Andreas de Forestier

(since June 23, 2006)

Member of the Executive Board of Münchener Bank eG, Munich (until Dec. 31, 2006)

– Unlimited partner of DG Immobilien Objektgesellschaft

Stuttgart, Industriestraße

and Berlin, Kronenstraße 5 and 7

– Chairman of the Board of the charitable foundation Noris Stiftung, Nuremberg

Dr. Max Hirschberger

(retired on June 23, 2006)

Lawyer

Dieter Jeschke, Günter Leibinger and Dietmar Hermle resigned their office on the Supervisory Board effective January 16, 2006. The following new members of the Supervisory Board were appointed pursuant to the order of Frankfurt/Main Local Court dated January 20, 2006:

Dr. Franz-Stephan von Gronau

Josef Martin Ortolf

Dr. Max Hirschberger

(c) Remuneration of the board members

The total remuneration of the members of the Executive Board consists of a number of components: a fixed amount, bonus, a component with a long-term incentive effect (stock option program) and fringe benefits.

In 2006, the Executive Board received a total remuneration of EUR 936 thousand (previous year: EUR 587 thousand); the variable payment made up EUR 420 thousand of this (previous year: EUR 125 thousand).

Individual disclosure of the remuneration of the members of the Executive Board was waived pursuant to a resolution adopted by the General Meeting on June 23, 2006.

The remuneration of the members of the Supervisory Board is composed of a fixed and performance-related component.

The existing remuneration system for members of the Supervisory Board was supplemented by a performance-related component by the General Meeting on June 23, 2006.

Apart from being reimbursed for their outlays, the members of the Supervisory Board receive a fixed annual remuneration of EUR 6 thousand and an annual performance-related payment of EUR 100.00 for each cent of dividend distributed per share that exceeds four cents per share. The Chairman of the Supervisory Board receives double and his deputy one-and-a-half times the fixed and variable remuneration.

In the past fiscal year, the members of the Supervisory Board received remuneration of EUR 52 thousand (previous year: EUR 27 thousand). The new company acquisitions entailed consulting services, mainly relating to due diligence process, of which three examinations were conducted by the auditing firm of a member of the Supervisory Board. A fee totaling EUR 106 thousand was paid for this.

List of companies included in the consolidated financial statements

Parent company:

euromicron Aktiengesellschaft communication & control technology

Frankfurt/Main, Germany

Included subsidiaries:

a) euromicron North division

Engel & Co. GmbH Schwerin

Schwerin, Germany

euromicron systems GmbH

– An euromicron Group company –
Essen, Germany

EUROMICRON Werkzeuge GmbH

Mittenaar, Germany

LWL-Sachsenkabel GmbH, Spezialkabel und Vernetzungstechnik

Gornsdorf, Germany

Microsens GmbH & Co. Gesellschaft für Entwicklung und Vermarktung von Optoelektronischen Systemen für Datenverarbeitung KG

Hamm, Germany

SSM euromicron GmbH

Zwenkau, Germany

SSM Halle GmbH

Schkopau, Germany

b) euromicron South division

BCK-Systeme Datentechnik GmbH

Oberhaid, Germany

ELABO GmbH

Crailsheim, Germany

Gustav Hartmann Nachrichten- und Fernmeldetechnik GmbH

Munich, Germany

KRUMM Telekom GmbH

– An euromicron Group company –
Langen, Germany

NTA GmbH

– An euromicron Group company –
Mainz, Germany

o-n-e optical network elements gmbh

Grünstadt, Germany

Pfeiffer GmbH

– An euromicron Group company –
Ettlingen, Germany

rako electronic data technology gmbh

Grünstadt, Germany

Spezialkabel München GmbH Kabel- und Anschlussstechnik Computer-Netzwerke

Garching-Hochbrück, Germany

Telefonbau Schneider GmbH

Munich, Germany

List of affiliated companies and holdings not included in the consolidated financial statements

Jiangsu euromicron Technology Co., Ltd. (JET), in liquidation

Shanghai, P. R. China

SEB System Elektronik GmbH Berlin, in liquidation

Braunschweig, Germany

TPB Telecom Partner in Berlin GmbH

Berlin, Germany

Group fixed-asset movement schedule 2006

of euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

GROUP FIXED- ASSET MOVEMENT SCHEDULE 2006

	Acquisition costs				
	Jan. 1, 2006 EUR thou.	Additions EUR thou.	Retirements EUR thou.	Change in deconsolidation EUR thou.	Dec. 31, 2006 EUR thou.
Intangible assets					
Goodwill	40,295	14,701	-800	363	54,559
Concessions, industrial and similar rights	12,175	86	-60	1,384	13,585
Own work capitalized	74	1,011	0	486	1,571
Tangible assets					
Land and buildings	2,744	23	-157	1,411	4,021
Plant and machinery	5,311	518	-339	2,815	8,305
Other fixtures and fitting, tools and equipment	6,358	739	-792	2,335	8,640
Financial assets					
Other loans and investments	269	0	-137	131	263
	67,226	17,078	-2,285	8,925	90,944

	Depreciation and amortization				Book value		
	Jan. 1, 2006 EUR thou.	Additions EUR thou.	Retirements EUR thou.	Change in deconsolidation EUR thou.	Dec. 31, 2006 EUR thou.	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
	-4,742	-9	0	-322	-5,073	49,486	35,553
	-9,924	-573	54	-64	-10,507	3,078	2,251
	-37	-22	0	0	-59	1,512	37
	-1,507	-155	49	-238	-1,851	2,170	1,237
	-4,578	-342	243	-2,148	-6,825	1,480	733
	-4,997	-805	661	-1,763	-6,904	1,736	1,361
	-26	0	0	-71	-97	166	243
	-25,811	-1,906	1,007	-4,606	-31,316	59,628	41,415

Frankfurt/Main, March 17, 2007



Dr. Willibald Späth



Dr. Edgar Bernardi

Declaration by the Executive Board

The Executive Board of euromicron AG is responsible for the preparation, completeness and correctness of the consolidated financial statements and group management report, as well as the other information given in the Annual Report. The International Financial Reporting Standards (IFRS) were observed in preparing the consolidated financial statements and, where necessary, appropriate estimates made. The group management report contains an analysis of the Group's net assets, financial position and results of operations, as well as further details that are required pursuant to the provisions of the German Commercial Code.

There is an effective internal control system to ensure the reliability of the data, both for preparing the consolidated financial statements and group management report and for internal reporting. It includes consistent Group-wide policies on accounting and risk management in accordance with KonTraG (German Corporate Control and Transparency Act) and an integrated controlling concept as part of value-oriented management and audits by Group Controlling. This enables the Executive Board to identify significant risks and initiate countermeasures promptly.

BDO Deutsche Warentreuhand Aktiengesellschaft has been appointed by the Supervisory Board in accordance with the resolution adopted by the General Meeting as the auditor for euromicron AG's 2006 fiscal year. It has audited the consolidated financial statements prepared in accordance with the International Financial Reporting Standards and granted the following audit opinion.

The consolidated financial statements, the group management report, the audit report and the risk management system were discussed in detail together with the auditors at the balance sheet meeting of the Supervisory Board.

Dr. Willibald Späth

Dr. Edgar Bernardi

Auditor's Report

We have audited the consolidated financial statements – consisting of the balance sheet, the income statement, the statement of changes in stockholders' equity, the statements of cash flows and the notes – prepared by euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main, and the group management report for the fiscal year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and group management report in accordance with IFRS, as are to be applied in the EU, and in addition the commercial law regulations to be applied pursuant to Section 315 a (1) of the HGB (Handelsgesetzbuch – German Commercial Code) is the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit in such a way that misstatements and violations materially affecting the presentation of the picture of the net assets, financial position and results of operations conveyed by the consolidated financial statements, taking into account the principles of orderly accounting, and by 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 of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and 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 the companies included in the consolidated financial statements, the definition of the companies consolidated, the accounting and consolidation principles used, and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.


In our opinion pursuant to the findings gained during the audit, the consolidated financial statements comply with the IFRS, as are to be applied in the EU, and in addition to the commercial law regulations to be applied pursuant to Section 315 a (1) of the HGB (German Commercial Code) and give a true and fair view of the net assets, financial position and results of operations of the Group, taking into account these regulations. The group management report accords with the consolidated financial statements, conveys overall an accurate picture of the Group's position and accurately presents the opportunities and risks of future development.

Frankfurt/Main, March 21, 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Simon-Heckroth
Wirtschaftsprüfer



Braun
Wirtschaftsprüfer

Five-year Overview of the Group

**VALUES FROM
THE INCOME
STATEMENT**

	2006 EUR m.	2005 EUR m.	2004 EUR m.	2003* EUR m.	2002* EUR m.
Consolidated sales	115.9	114.1	110.0	134.5	147.2
Germany	106.2	100.9	96.5	104.3	118.2
Euro zone	6.8	7.9	7.1	10.4	10.5
Rest of World	2.9	5.3	6.4	19.8	18.5
EBIT	7.7	8.3	10.1	15.6	17.1
EBT	7.2	7.7	9.4	13.5	13.9
Consolidated net income/loss for the period	4.4	5.6	4.5	12.1	11.7
Cash flow	2.7	4.2	1.3	8.6	8.1

**FROM THE
BALANCE SHEET**

	2006 EUR m.	2005 EUR m.	2004 EUR m.	2003* EUR m.	2002* EUR m.
Current assets	48.2	57.1	57.6	79.8	81.5
Noncurrent assets	61.6	43.7	50.1	44.3	49.2
Current liabilities	38.1	26.5	30.3	40.6	42.1
Long-term debt	4.4	7.8	13.6	20.7	37.4
Minority interests	0.4	–	–	0.3	0.3
Stockholders' equity	67.3	66.5	63.8	62.5	50.9
Total assets	109.8	100.8	107.7	124.1	130.7
Equity ratio in %	61.3	66.0	59.2	50.4	39.0

MISCELLANEOUS

	2006 EUR m.	2005 EUR m.	2004 EUR m.	2003* EUR m.	2002* EUR m.
Investments in intangible assets and in property, plant and equipment	18.4	1.5	7.7	1.9	2.4
Employees (annual average)	767	805	765	997	1,179

* US GAAP

Single-entity Financial Statements (HGB)

Balance sheet as of December 31, 2006

euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

ASSETS	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
A. Assets		
I. Intangible assets		
Concessions, industrial and similar rights	41	46
II. Tangible assets		
Other equipment, operating and office equipment	113	96
III. Financial assets		
1. Shares in affiliated companies	73,941	61,501
2. Loans to affiliated companies	3,000	4,000
	77,095	65,643
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	21,536	13,142
2. Other assets	2,153	2,373
II. Securities	2,235	1,970
III. Cash-in-hand, bank balances	3,587	14,612
	29,511	32,097
C. Prepayments and accrued income	54	35
	106,660	97,775

EQUITY AND LIABILITIES

	Dec. 31, 2006 EUR thou.	Dec. 31, 2005 EUR thou.
A. Equity		
I. Subscribed capital	11,914	11,914
II. Capital reserves	62,847	62,847
III. Revenue reserves		
1. Reserves for own shares	828	0
2. Other revenue reserves	5,876	6,704
IV. Retained profits	4,819	3,379
	86,284	84,844
B. Provisions		
1. Provisions for pensions and similar obligations	203	168
2. Provisions for taxes	305	310
3. Other provisions	402	740
	910	1,218
C. Liabilities		
1. Liabilities to banks	13,054	111
2. Trade payables	146	134
3. Liabilities to affiliated companies	1,022	1,003
4. Other liabilities	5,244	10,465
	19,466	11,713
	106,660	97,775

Income Statement for the period January 1 to December 31, 2006

of euromicron Aktiengesellschaft communication & control technology, Frankfurt/Main

INCOME STATEMENT

	2006 EUR thou.	2005 EUR thou.
1. Income from investments	2,027	1,332
2. Income from profit and loss transfer agreements	7,450	5,368
3. Other operating income	159	683
4. Personnel expenses		
a) Salaries	-1,498	-1,107
b) Social security and other pension costs – thereof pension costs EUR 35 thousand (previous year: EUR 35 thousand)	-125	-97
5. Amortization of intangible assets and depreciation of tangible assets	-58	-63
6. Other operating expenses	-5,391	-2,044
7. Income from long-term loans – thereof from affiliated companies EUR 110 thousand (previous year: EUR 148 thousand)	104	148
8. Other interest and similar income – thereof from affiliated companies EUR 381 thousand (previous year: EUR 75 thousand)	2,900	295
9. Amortization of financial assets	-93	0
10. Interest and similar expenses – thereof to affiliated companies EUR 125 thousand (previous year: EUR 154 thousand)	-785	-821
11. Result from ordinary activities	4,690	3,694
12. Income taxes	-422	-364
13. Other taxes	-32	-1
14. Net profit for the year	4,236	3,329
15. Accumulated profit	583	50
16. Net retained profits	4,819	3,379

Proposal on the appropriation of profits

The annual financial statements of euromicron AG at December 12, 2006, disclose net retained profits of EUR 4,819,252.75. It is proposed to the General Meeting to appropriate the net retained profits as follows:

Dividend of EUR 0.70 for 4,620,950 shares	EUR 3,234,665.00
Carryforward to a new account	EUR 1,584,587.75

The annual financial statements of euromicron Aktiengesellschaft communication & control technology as of December 31, 2006, were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, and granted an unqualified audit opinion. The annual financial statements have been filed with the Frankfurt/Main Local Court.

ADSL (Asymmetric Digital Subscriber Line)

A modulation method for transferring data on the analog two-wire copper line that has been used to date only as a simple telephone line for connecting an analog phone. This method has been specially adapted to the needs of Internet use, in which a small quantity of data (query command) with low speed (upload) is required for the query, whereas a large quantity of data (files) has to be transferred at high speed (download) for the response.

Assembling fiber optic cables

Fiber optic cables are connected to one another by various methods using connectors and couplings so that the light signal is transported with practically none of the signal being lost. This creates network components that are suitable for assembly, have the right length and the right connectors and that are supplied directly to the construction site or as a spare part for storage along with the associated measurement protocol.

Attenuation

Factor by which the quality of a signal deteriorates between the beginning of a cable and the end of a cable.

Backbone

The part of a network that connects the various components and subnetworks of a large network with each other. Since backbones bear the brunt of the data load, they are mostly constructed with a large bandwidth.

Bandwidth

This denotes the transmission capacity of a voice or data connection, i. e. the volume and speed of transmission. It is therefore specified in bit/s. The greater the bandwidth, the more information can be transferred per unit of time.

BITKOM

Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V. (German Association for Information Technology, Telecommunications and New Media); it represents around 1,000 companies from the IT and communications industry that generate more than EUR 120 billion in sales and employ some 700,000 people, accounting for almost 90% of the market. They include in particular equipment manufacturers and providers of software, telecommunications services and content.

BOS wireless communication (public authorities and organizations that perform security tasks)

Separate wireless systems for public authorities and organizations that perform security tasks, such as the police, fire brigade and emergency services. These mobile systems have to be expanded in particular in tunnels, garages, etc., due to the increased requirements for security in these areas and to ensure that emergency forces can be reached there.

Bot net

The infiltration into a computer system of external software that then executes a different process or job on the computer and integrates it in the bot net, which in turn sends spam mails worldwide, for example.

Carriers

Operators of communications networks that install, provide and maintain a network infrastructure for transporting various information, such as telephony, fax, e-mails, Internet data, TV programs, etc. Service providers lease these network capacities and provide their content to end customers with it. Before global deregulation in the telecommunications sector, network operation and related services were the responsibility of a

single body and were the tasks of the national telecommunications companies. Today, these are also private wireless, metropolitan and cable network operators or providers, as well as radio and television companies.

Category 5, 6, 7, etc.

The transmission qualities of copper cables are defined by their shielding and quality. The requirements placed on the cable and so the maximum possible transfer rates are classified into categories in accordance with the relevant standards. The higher the category, the higher the transmission speed and capacity.

Coating

Optically transparent fiber optic material that protects the glass core from mechanical damage.

Connector

Mechanically detachable element for connecting two fiber optic cables, or connecting a fiber optic cable to a transmitter/receiver element.

Control station (process control center)

Part of a control center in which processes and/or rooms are monitored. All the signals in video surveillance, danger alerting, power control and other process-specific signals converge at the control station. Clear presentation of the signals on screens or large panel displays enables rapid response times. Since the control station is usually staffed around the clock, its design has also to take ergonomic requirements into consideration.

Core

The central, actual transmission medium of an optical fiber. The core diameter of a mono-mode fiber optic cable is only 9 μm . The entire optical fiber, including its coating, has a diameter of 245 μm , which is about the thickness of a human hair.

DSL (digital subscriber line)

General description for high-speed access based on the two-wire copper line (phone line) to the end customer (see also "Last mile"). Different variants of the transmission method are also called ADSL, SDSL, VDSL, etc.

EM-RJ

A new connector generation from euromicron for fiber optic connections that is fully compatible with the RJ-45 connector for copper connections. The EM-RJ can be used as a duplex connector for optical fibers and polymer optical fibers (POFs). At the same time, the standard RJ-45 copper connections can be used to transmit data up to category 6, provide a power supply (e. g. power over Ethernet) and define encodings. As a result, the EM-RJ can be used for a very wide range of applications.

Ethernet

A medium-independent communication protocol standard (IEEE 802.3) in packet transmission. It denotes a protocol for coordinating simultaneous access to a transmission medium by different users. The term Ethernet denotes both the type of cabling and transmission methods or frameworks. Ethernet can be operated at 10 Mbit/s (Ethernet), 100 to 1,000 Mbit/s (Fast Ethernet) and, more recently, 10,000 Mbit/s – or 10 Gbit/s – (Gigabit Ethernet). The maximum speed achieved at present is 10 GE (10 Gigabit Ethernet). The 10 Gbit/s Ethernet variant 10GE (IEEE 802.3ae) has been standardized since 2002 and is the first Ethernet standard to be intended exclusively for transfer via fiber optic cable. In the meantime, these speeds have also been achieved with copper cables.

Fiber optic cable (optical waveguide)

Fiber optic cable is a glass or plastic fiber for transferring modulated light. It is distinguished among other things by its extremely high

transmission capacity, which can be several terabits per second. Fiber optic cable is not sensitive to electromagnetic disturbances, is more or less interception-proof, and has extremely low attenuation values.

Fiber-to-the-Curb (FTTC)

Fiber-optic connection from carriers' local switching centers to the road junctions, from where the cabling to the buildings ("last mile") branches off. Deutsche Telekom is driving expansion of it sharply in the ten largest German cities so as to be able to market triple play applications.

Fiber-to-the-Desk (FTTD)

Terminal device cabling in fiber optics technology in which the end system on the desktop is connected directly to an optical data network. Optical-electrical conversion of the signals is carried out in the end system.

Fiber-to-the-Home (FTTH)

External cabling in fiber optics technology in which, instead of copper lines, fiber optic connections are established between the optical wide area network and the building cabling.

Fiber-to-the-Office (FTTO)

Building cabling in which a fiber optic connection is led right to the cable duct directly near the office or workplace. A mini installation switch is usually placed in the cable duct, where optical-electrical conversion is carried out, and the end systems are connected with inexpensive copper patch cables.

Firewall

A "protective wall" that is established by a special active network component between the worldwide and generally accessible Internet and a connected terminal device, such as a PC, router, switch, etc., or the local area

network (LAN) connected behind it. A firewall is configured so that only information from password-protected permitted users can enter the Internet from the "inside" to the "outside", but not the other way round. A firewall therefore acts like a controlled valve.

Gerontotechnology (living at an old age)

A technology that enables elderly people to live in their familiar surroundings under their own responsibility and by their own. It covers any device, facility or technology for management of everyday life or supporting or caring for old people, in particular in the fields of communications and security, but also in medical engineering, technology for the handicapped and orthopedics.

GSM (Global System for Mobile Communication)

Initially a Europe-wide and now a globally established standard for a digital wireless system (termed D network in Germany in emulation of the analog C network) which works in the frequency range of 900 MHz (Germany: T-Mobile (D1), Vodafone (D2)) and 1800 MHz (Germany: e plus, O2). Also termed 2nd generation (2G). Apart from telephony, fax applications and data transfer are also possible, albeit at low speed (9,600 Kbits/sec.).

Intrusion detection and prevention system (IDS and IPS)

A hardware or software system for detecting or preventing attacks on a computer system or network, usually for systems that are connected to the Internet. In conjunction with a firewall, such systems complement each other and increase network security.

IT (information technology)

A general term for the entire field of electronic data processing. This includes the sector of hardware and software for small computers (servers, PCs, notebooks, palmtops, etc.), large

computers (mainframes, storage components, server farms, etc.) and relevant network components (servers, routers, etc.).

LAN (Local Area Network)

Local network, mainly for transferring data, but also voice and other electronic information. LANs are usually to be found in office buildings or industrial plants, but also as on-board networks on vehicles, aircraft and ships.

LASER (Light Amplification by Stimulated Emission Radiation)

A laser is a light source that emits coherent (light waves that oscillate in the same phase) and quasi-monochromatic and focused light. Today, lasers are the most important high-performance sources of light for the optical transfer of data using fiber optic cables. The data information is modulated onto the light signal of the laser and fed into the fiber optic cable at high power. An optical receiver at the other end of the fiber optic cable converts the modulated data information back into signals.

Last mile

The point of telecommunication access to the end customer, i. e. the last part of the route in the telephone, data or radio network that is located between the last network node of the carrier and the socket within the end user's house. This is the two-wire phone line for the telephone network, the coaxial cable connection or satellite reception unit for the radio and television network, and modulation on the telephone line in accordance with the ADSL method (DSL connection) for the Internet.

Malware

Malicious software with a destructive or criminal function, such as computer viruses (a computer program that spreads unchecked by itself, infiltrates a computer system passively, e. g. by copying files, causes damage there and

multiplies via networked computer systems), worms (a computer program that multiplies activity, for example on a certain date, and has a similar damaging function as virus), spyware (software that collects the personal data of a computer user and passes it on to third parties for commercial purposes) or Trojans (software disguised as useful programs that then covertly and secretly execute other functions on the computer).

MAN (Metropolitan Area Network)

A communications network typically set up within towns, cities and municipalities, for transmitting data, voice, TV programs and other electronic information.

Media converter

A media converter converts electrical signals on the copper line into optical signals on the fiber optic cable. It enables, for example, coupling of copper cables (twisted-pair cable) and optical fibers in an Ethernet network. As a result of direct coupling, existing twisted-pair cables can be extended beyond the limit of 100 m. Depending on the transmission method, distances of up to 2 km (multi-mode) or up to 5 km (mono-mode) can be bridged. If mono-mode fibers are used, distances of up to 20 km (mono-mode) can even be achieved.

Mode

The individual colors or wavelengths of a white light beam are called light modes. They can be sent great distances through fiber optic cable. Some fiber optic cable has a very small diameter large enough for only a single wave of light. Such fiber optic cables are called mono-mode or single-mode fibers, in contrast to multi-mode fibers.

Multi-mode fiber

Fiber optic cable with a core diameter that is larger than the wavelength of the light. In multi-mode fibers, the different colors or wavelengths, also termed modes, spread out, traveling different distances along the fiber. Multi-mode fibers have a lower transmission range and so are used preferentially for local area networks (LANs) for networks in buildings.

Multiplexer

Multiplexers concentrate (pool) several data streams or channels on one connection line. The data streams are distributed statically (passively), i. e. in accordance with the firmly set connection, unlike with switches or routers, where the data streams are distributed dynamically (actively). Electrical or optical multiplexing technologies are available (see also "Optical multiplexer" and "WDM").

Optical fiber

Physical basis in the form of a glass fiber for transferring digital information using light as the carrier medium.

Optical free space transmission

A transmission technique of a communications system in which the optical signals are transferred in free space (air) by means of infrared or laser transmitters and receivers over a distance of up to some kilometers. A free line of sight is required for this.

Optical multiplexer

A passive optical component of a fiber optic network that simultaneously distributes the different wavelengths of a beam of light according to a prescribed setting (see also "WDM").

Optical switches

Active optical components for controlling light used as a means of transmission, for example at junctions in the transfer of optical data. Unlike the multiplexer, where the control is specified statically, the control can be changed dynamically with switches.

Patch cable

A pluggable, flexible connecting cable between network distributors or transmission systems and between sockets and end systems. Patch cables can be produced using fiber optics or copper. They are used for flexibly bridging two cable ends and so "patch" these gaps in the connection. The first patch cable was used at the telephone exchange in manually setting up a connection (by the exchange operator).

Phishing

Criminally motivated fishing out of identification codes such as PINs and TANs in Internet banking, for example. The unsuspecting user of an unprotected computer system enters an identification code that is intercepted and then misused.

Pigtail

A connecting cable that is preassembled at one end, is ready to connect up and can be attached to the other end of a single glass fiber of a multiple cable by means of a splice in order to avoid the need to mount fiber optic connectors on site.

POF

Polymer optical fiber. Fiber optic cables made of plastic that are easier to process and cheaper than glass fiber, but less pure and so can bridge shorter distances in lightwave transmission. POF is mainly used in industry and the automotive sector.

Power over Ethernet (PoE)

Terminal devices that are connected to a copper or fiber-optic based data network (Ethernet) are powered from this data connection instead of from an additional power supply unit. In particular in data networks based on fiber optic cables, such a data and power supply connection can be created by means of a hybrid cable (optical fiber and copper wire in one cable). However, VoIP phones can also be supplied with power by this means.

ProfiLIGHT family

A cabling system based on fiber optics for maximum performance requirements, analogously to the copper-based ProfiLINK family.

ProfiLINK family

A fully screened cabling system based on copper for various performance requirements from 1 Gbit/s to 10 Gbit/s (ProfiLINK Design, ProfiLINK Modul and ProfiLINK multimedia) with a system guarantee of up to 15 years. Selection of the high-quality components of the system, system tests and certification of installers for the system are conducted by the euromicron subsidiary SKM Spezialkabel München GmbH.

Providers

Companies that provide telecommunications services such as telephony (wireline and mobile), fax, Internet, TV programs, video on demand, etc. Such service providers usually do not have their own telecommunications network, but instead lease network capacities for transporting their services from carriers.

Quartz glass (silica)

Silicon dioxide in non-crystalline form. The basic material for the core of fiber optic cable.

RoHS

An EU directive restricting the use of certain hazardous substances in electrical and electronic equipment. In particular, it affects the production of printed circuit boards containing lead and other soldered joints, but also in general promotes environmentally-friendly development, production, marketing and disposal of electrical and electronic equipment.

Router

An active component of a data network that distributes the information which is split into individual data packets and does not necessarily follow in sequence, dynamically (i. e. by control signals) within the network by means of route finding, forwarding and delivery. Switches in a voice network have a similar function.

SAN (Storage Area Network)

A communications network, typically within data centers and computer centers, that connects storage media, large computer systems and server farms with each other. It is often termed Fiber Channel, since it involves high-capacity, rapid "data channels" based on fiber optic connections.

Security networks

A general term for the network system that is used physically and logically for protection and surveillance of a room, building, grounds or a communications network and its critical components. Physical protection and surveillance denotes protection against fire, intrusion, unauthorized access, theft, vandalism and manipulation, as well as surveillance by means of fire alarms, video cameras, access codes, etc. Logical protection and surveillance denotes protection against hackers, viruses, unauthorized dial-in attempts, spams, etc., and the surveillance of data and control signals in a communications network by means of monitoring, log files, etc.

SFF (small form factor)

This denotes the design of optical components, specifically fiber optic connectors. A general designation for a low size.

Single-mode fibers

Fiber optic cables with a core diameter so small that only one color or wavelength, also termed mode, is able to pass through it. Their manufacture is more complex and so single-mode fibers are more expensive than multi-mode fibers. Single-mode fibers have a higher transmission range than multi-mode fibers and so are used in wide area networks (WANs) to transport large volumes of data.

Smartphones

Mobile end devices with multiple functions, such as telephone, e-mail, Internet browser, alphanumeric keypad, etc. Such a device is now familiar under the brand name Blackberry or iPhone; all well-known mobile phone manufacturers now offer such smartphones.

Splice

Arcs of light and precision technology are used to splice together extremely fine fiber optic cables to ensure a permanent connection with no loss of data. This spliced transition point is generally termed a splice.

Splicing

Permanent connection between two fiber optic cables achieved by either fusing, gluing, or mechanically joining the cables together.

Switch

An active component in a voice network that establishes the permanent switched connection for transporting voice dynamically, i. e. in accordance with the dialing signal, within the network by means of route finding

and forwarding. Large exchanges and small telephone systems have such a switching function and so are generally termed switches. Routers have a similar function in a data network.

Telecommunications technology

A general term for the entire field of communications transmission. Historically, this sector initially included only transfer of voice and documents (telephony, telegraphy, fax). Increasing digitization has resulted in the transfer of data in the form of software files, e-mails, music, video, etc.

Triple play

High-speed data transfer over the Internet, partly based on fiber optic cable, for the simultaneous transport of the three applications telephony (ISDN), surfing and telephony in the Internet and video or TV.

UMTS (Universal Mobile Telecommunications Systems)

A further development of the GSM standard, also termed 3rd generation (3G), in which the main focus is on mobile data communication (internet use and image transfer). Transfer rates of up to 2 Mbit/second are possible with this system.

URM®

Short name for an innovative fiber optic cable connector produced by euromicron AG: yoU aRe Modular. Duplex fiber optic cable connectors built as modules; max. up to 8 fibers; small form factor (SFF) design connector that has the form of a mini patch field and enables modular and flexible reconfiguration of the fiber optic connections in the backbone network without the latter having to be laid again.

VDSL (Very High Speed Digital Subscriber Line)

A DSL technology (see also “DSL”) that permits far higher data transfer rates over a conventional phone line than ADSL (see also “ADSL”). Transfer rates of up to 200 Mbit/s are achieved, enabling triple play applications, i. e. the simultaneous use of telephony, Internet and TV broadcasts over the phone line.

Video over IP

Integrated transfer of video signals and voice and data information in digital form via the Internet Protocol (IP). Video over IP technology packages the analog video signals from the camera in small digital data packets that, like normal data, are then transferred over data networks by means of the Internet Protocol. As a result, video signals can be transferred over one and the same cabling system in addition to telephony and data.

Voice over IP

Integrated transfer of voice and data in digital form via the Internet Protocol (IP). VoIP technology packages voice in small digital packets that, like normal data, are then transferred over data networks by means of the Internet Protocol but over different lines and routes, and then combined back into “voice”. Unlike traditional telephony, where a separate line for the voice connection is required for each call, the data network (Internet) can be used far more efficiently when voice is transferred in data packets over IP. As a result, a second network for pure telephony can be dispensed with.

VPN (virtual private network)

In the worldwide and generally accessible Internet, a logical separated subnetwork can be established by means of special active components so that it acts like a virtual private network (VPN) within the entire Internet. This virtual private network can then be protected so

as to prevent external intrusion by unauthorized persons outside the VPN. The security zone created in this way within the generally accessible Internet is termed a “VPN tunnel”.

WAN (Wide Area Network)

A wide network that connects together several small networks (LAN, MAN), for example from different countries, cities or locations, over large distances by means of cable, fiber optics or satellite.

WDM (Wavelength Division Multiplex)

A method of concentration (multiplex method) on electrical, optical or wireless-based connections in order to achieve better utilization of the available bandwidth of the transmission paths and minimize the transfer costs per individual signal. A distinction is made between the following methods:

SDM (Space Division Multiplex):

Spatial separation of individual signals, e. g. on separate lines

FDM (Frequency Division Multiplex):

Individual signals are modulated onto different frequencies.

TDM (Time Division Multiplex):

Individual, usually digital, signals are transferred chronologically after each other.

CDM (Code Division Multiplex):

Code words are assigned to the individual digital signals.

DWDM (Dense Wavelength Division Multiplex):

An optical Frequency Division Multiplex method with a very dense channel (signal) spacing

CWDM (Coarse Wavelength Division Multiplex):

An optical Frequency Division Multiplex method with a wide (coarse) channel (signal) spacing; a lower-cost alternative to DWDM

WLAN (wireless LAN)

A radio-based transmission method that is usually operated in the license-free microwave band. Wireless LANs consist of radio cells in which users can log on in order to access the networks behind them. Several standards are currently new on the market, for example 802.11b (max. 11 Mbit/s), 802.11a (54 Mbit/s) or Bluetooth. All users of a radio cell share the bandwidth.

Financial Calendar 2007

March 29, 2007	Publication of the Annual Report 2006
March 29, 2007	Analysts' Conference
May 15, 2007	Publication of the business figures for the 1st quarter of 2007
June 20, 2007	General Meeting, Commerzbank Frankfurt/Main
August 14, 2007	Publication of the Half-yearly Report 2007
November 14, 2007	Publication of the business figures for the 3rd quarter of 2007

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This Annual Report is available in German and English.

Both versions can also be downloaded from the Internet at www.euromicron.de.
In cases of doubt, the German version is authoritative.

Note/disclaimer

This Annual Report also includes predictive statements and information on future developments that are based on the convictions and current views of euromicron AG's management and on assumptions and information currently available to euromicron. Where the terms "assume", "believe", "assess", "expect", "intend", "can/may/might", "plan" or similar expressions are used, they are intended to indicate predictive statements that are subject to certain elements of insecurity and risks, such as competitive pressure, changes to the law, political and economic changes, changes to business strategy, other risks and uncertainties that euromicron AG in many cases cannot influence and that may result in significant deviations between the actual results and predictive statements.

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