Annual Report 2005/2006

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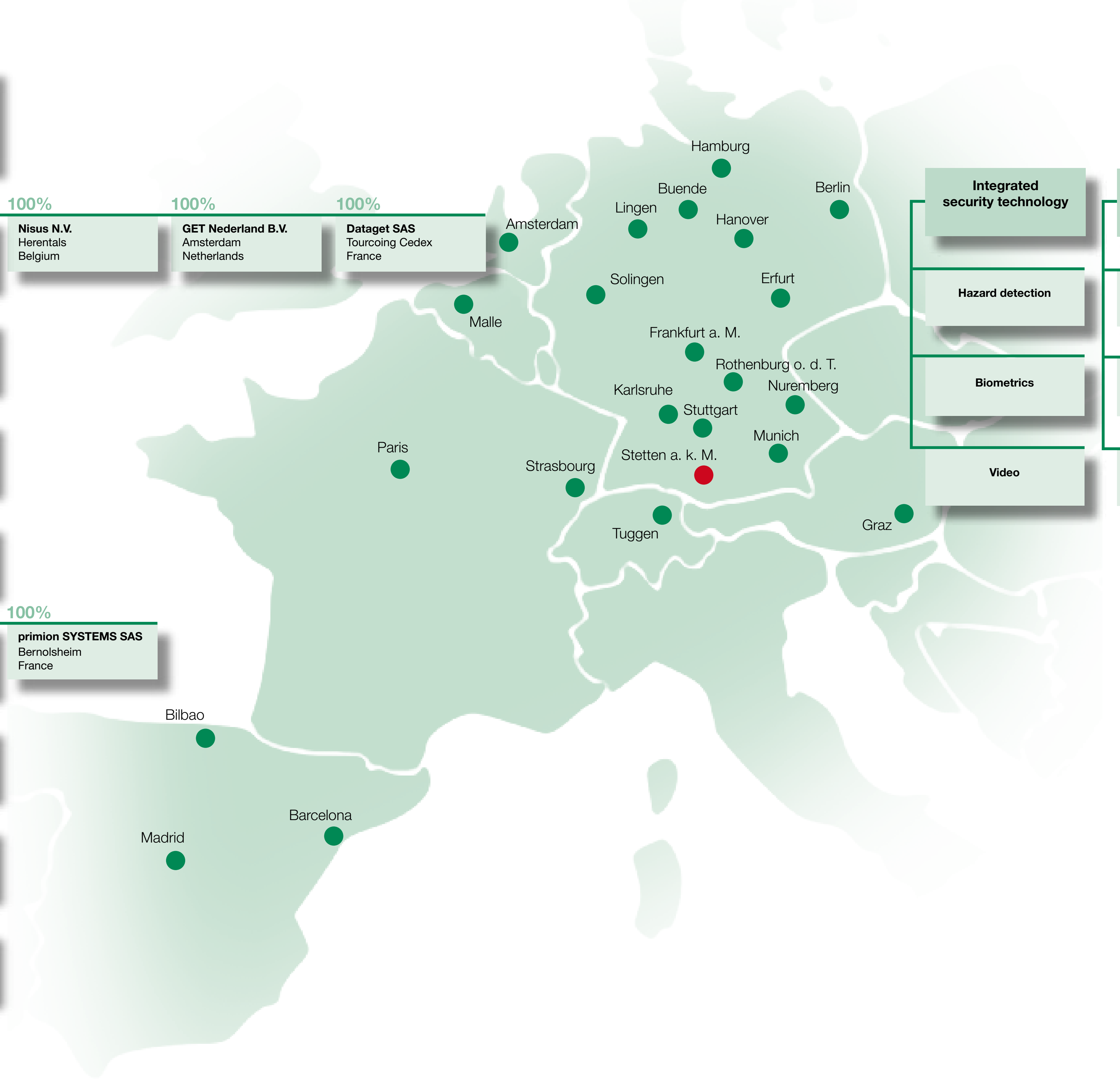
Integrated Security Technology
primion®

List of Group participations

primion Technology AG
Stetten am kalten Markt
Germany

- 100% **General Engineering & Technology**, Malle, Belgium
  - 100% **Nisus N.V.**, Herentals, Belgium
  - 100% **GET Nederland B.V.**, Amsterdam, Netherlands
  - 100% **Dataget SAS**, Tourcoing Cedex, France
- 100% **primion Staedler GmbH**, Nuremberg, Germany
- 100% **primion GmbH**, Stetten a. k. M., Germany
- 100% **primion Digitek S.L.U.**, Barcelona, Spain
- 100% **primion TECHNOLOGIE SAS**, Boulogne-Billancourt, France
  - 100% **primion SYSTEMS SAS**, Bernolsheim, France
- 51% **primion Technology GmbH**, Graz, Austria
- 26% **primion AG**, Tuggen, Switzerland
- 15% **SFK Networkservice GmbH**, Roemhild, Germany

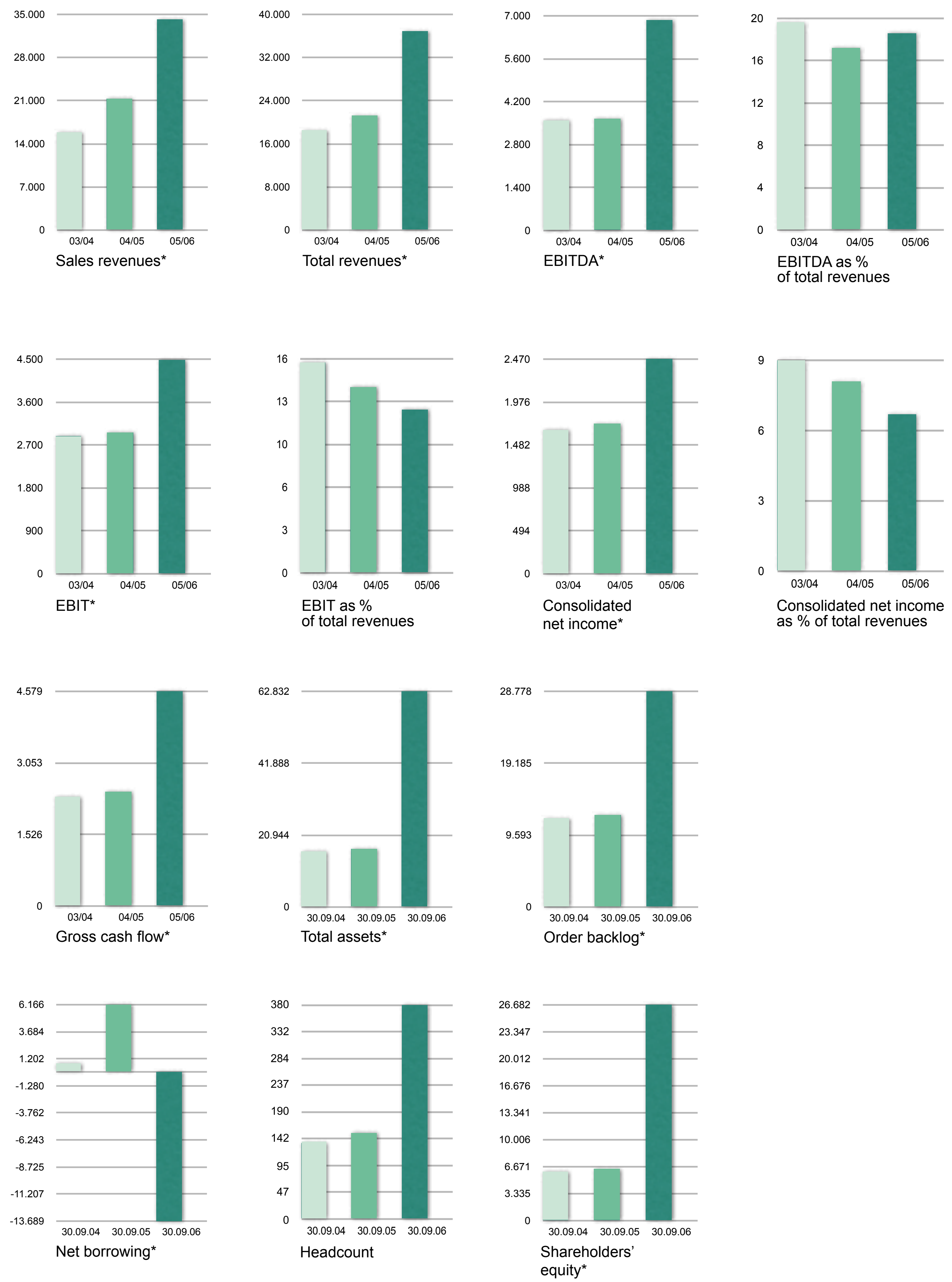


Areas of business and products

Integrated security technology
- Hazard detection
- Biometrics
- Video

Access control
- Prime key technology
- Wireless locking systems
- Biometrics

Time recording
- Worktime management
- Manpower planning
- Time recording terminals



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Overview

for fiscal 2005/2006

primion at a glance

In just eleven years primion Technology AG has become one of Germany's leading providers of sophisticated all-in-one solutions in integrated security technology.
Thanks to an experienced management team and tactical acquisitions, primion has also secured excellent positioning in the European market.

Building on innovative advances in key technologies and a maximized real net output ratio, the primion Group collaborates closely with more than 20 European branches and 30 partner companies around the globe to develop tailored solutions for its 5,000 customers worldwide.

Our strength lies in our flexibility.
We are already a market leader in Germany – and in Europe we are well on the way!

Corporate bodies

Executive Committee

- Heinz Roth, engineer (University of Applied Sciences), Chairman & CEO
- Thomas Bredehorn, Director of National Business
- Manfred Koetzle, Dip.Kfm (MBA), Chief Financial Officer (since 01/12/2005)
- Roland Schmider, engineer, Director of International Business (since 01/08/2006)

Supervisory Board

- Prof. Johann Loehn, (Chairman), physicist, Stuttgart
- Prof. Jochen Tschunke, (Deputy Chairman), engineer, Munich
  (resigned from the Supervisory Board with effect from 30/09/2006)
- Leo Benz, engineer, Munich
- Rolf Beck, lawyer, Balingen
- Konrad Haussmann, banker, Tuttlingen
- Dr. Willi Merkel, lawyer, Albstadt-Ebingen

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Heinz Roth,
Chairman of the Executive Committee & CEO

Letter from the Chief Executive Officer

Dear Ladies and Gentlemen, dear Shareholders,

For primion Technology AG, fiscal year 2005/2006 was characterized by record growth, three successful acquisitions and a successful IPO on 13 February 2006. Other notable events impacting on the year included the introduction of the POC (percentage of completion) project evaluation method and of PPA (purchase price allocation).

Following a very satisfactory operating result in the first quarter, the second quarter unfortunately did not meet our high expectations owing to the postponement of projects by two of our biggest customers. The remainder of the year saw marked improvement in the situation though anticipated synergy effects from the acquisitions were not realized as quickly as planned. Nevertheless, we are confident that we will achieve the full effects as originally conceived.

Going public has made it possible for us to put our strategy of expanding into international markets into practice with innovative new products and acquisitions. It has also enabled us to expand our market share in Germany and Europe considerably and to make strides towards achieving our goal of becoming the leading European provider of all-in-one systems for access control, time recording and integrated security technology.

Record growth

In prior years, our rate of growth with regard to sales and earnings was already well above the market average. In fiscal 2005/2006, we have accelerated that growth still more. Total revenues grew by approximately 74% to 36.8 million euros (prior year: 21.2 million euros) both organically and by way of acquisitions and the operating result before amortization (EBITDA) increased by approximately 92% to 6.9 million euros (prior year: 3.6 million euros). The operating result (EBIT) rose by 50% to 4.5 million euros (prior year: 3.0 million euros), although accrued additional depreciations, amounting to 1.5 million euros, on intangible assets gained through the acquisitions should be taken into account. As at 30 September 2006, the order backlog was approaching a very substantial 29 million euros. The prospects for further growth at primion are therefore extremely promising.
Major contributors to primion's robust growth have been the acquisitions in the field of time recording and access control: Dr. Staedtler GmbH in Nuremberg at the beginning of the period under review and the takeover of the Spanish company Digitek from Honeywell in December 2005.

On 28 September 2006 we took over the GET Group, market leader in Belgium with sales of around 12 million euros and 129 employees. Although their business results did not affect us in the fiscal year just ended, we will see the full impact in the coming fiscal year. By 30 September 2006, even without the GET Group, primion's workforce had risen from 152 to 251. With the GET Group, it rises to 380.

Market position in Germany and Europe significantly expanded

Our dynamic expansion in the year under review has meant that we have succeeded in taking our place as one of the top-level market leaders in Germany. The acquisition of the access control and time recording divisions of Dr. Staedtler GmbH contributed significantly to this.

The purchase of Digitek in Spain increased the foreign proportion of our company to around 27% in fiscal 2005/2006 (as at 30 September 2006). In the coming fiscal year, the inclusion of the GET Group will increase this proportion further to over 45%. With Digitek and GET, we now occupy a very competitive market position in Spain and the Benelux countries.
Our extremely fragmented market on the provider side is ripe for consolidation, and we have taken on an active role in this. The acquisitions made in the past fiscal year have put us in an excellent position to commence further expansion in international markets.

Continuing to extend technological leadership

Rapid integration of innovative new technologies into our solutions and systems is a major factor in our success. It also means that our existing customers see us as their technology partners for the future and wish to cooperate with us in the long-term. For new customers, our innovative strength and the consistency of our dealings with clients, always bearing their benefit in mind, are the chief reasons for their confidence in us.
The past fiscal year was once again a year in which we set new technological standards.
In our core business area, we launched a new generation of time recording terminals and access control readers – the Crystal Line – with an award-winning design and an innovative new technology platform. Naturally it also comes with a biometrics option for reading fingerprints.

We have integrated video surveillance into our access control systems and already completed large-scale projects for customers.

Mechatronic locking systems will increasingly replace mechanical locking systems. For this new and rapidly growing market we have added to our product programme and designed a wireless system which allows reader and door to be connected online without cables.

IPO powers corporate development

Going public in February 2006 strengthened our capitalization significantly. We have, consistent with our purpose, used the resources entrusted to us to implement our international growth strategy. Both the dynamic growth we have seen in the year under review and the achievement of such an excellent starting position were made possible by this, and opened up the way for international expansion.

Internationalization has enabled us to reduce our dependency on economic developments in Germany. The percentage share of sales represented by our top 3 customers has dropped from 39% (prior year) to under 15% (as at 30 September 2006). This is an aspect that will lead overall to substantially reduced volatility in business developments in the future.

On the way to market leadership in Europe

With the company having leveraged a first-rate market position, the Executive Committee will continue to pursue our international growth strategy in the new fiscal year. As in past years, we will continue to aim for above-average growth under our own steam, but on the other hand we do also plan on making selective new acquisitions.

The addition of primion products to the product ranges of the new subsidiaries in Germany and abroad will be a major factor in achieving the accelerated organic growth that we want.

In France, we will be looking to consolidate resources and will therefore merge the two companies, primion Technologie SAS in Boulogne-Billancourt and primion Systems SAS in Bernolsheim, forming a single distribution and service company. Winning a large-scale order there with Chronopost for their new logistics hub is on the cards, which would significantly raise our profile in the French market.

All in all, the strategic and operational measures we will continue to implement in the new fiscal year will bring us even closer to our medium-term goal: market leadership in Europe.

This goal was set, not for its own sake, but to be reflected for our shareholders in a sustained increase in primion's corporate value and share price.

We would like to sincerely thank those who have placed their trust in us and we undertake to further our efforts to lead primion into a successful future – for the benefit of the company and our employees and in the interests of our valued shareholders.

Stetten am kalten Markt, 15 January 2007

Heinz Roth
Chairman of the Executive Committee & CEO

Report of the Supervisory Board

for the fiscal year
from 1 October 2005 to 30 September 2006

Fiscal 2005/2006 was a successful financial year for primion Technology. Crucial events were the listing of primion shares in the Prime Standard of the Frankfurt Stock Exchange for the first time, and the acquisition of companies which supplement the company's operation at critical points, with the long-term future of the company in mind. The Supervisory Board provided advice and support to primion's Executive Committee during this critical phase, supervising management in accordance with statutory requirements and the provisions of the articles of association.

Four meetings of the Supervisory Board took place during the year under review. Decisions were made in meetings, as well via written circulation and telephone conferences. No Supervisory Board committees were formed in the reporting period.

During the year under review, the Supervisory Board had six members. However, the former Deputy Chairman of the Supervisory Board, Prof. Jochen Tschunke, and former reserve member of the Supervisory Board Mr Gregor Hipp resigned from their posts with effect from 30 September 2006. In its meeting of 2 November 2006 the Supervisory Board appointed Mr Leo Benz the Deputy Chairman. The Supervisory Board thanks its former members for their committed service to the company.
During the year under review, the Executive Committee kept the Supervisory Board informed, by means of verbal or written reports, of the company's current situation and of any business procedures of importance. In particular, the Executive Committee kept the Supervisory Board abreast of any fundamental issues concerning company policy, the business and financial situations, financial and investment planning, business development and the human resources situation.

The Supervisory Board dealt with the reports of the Executive Committee at its meetings and held regular consultations with the Executive Committee on the strategic development of the company. In meetings and based on regular exchanges of information with the Executive Committee, the Supervisory Board addressed key corporate decisions and transactions on an ongoing basis, providing insights into the company's economic situation in the process and monitoring management. All measures which required the approval of the Supervisory Board were thoroughly debated before being submitted for resolution.

At the forefront of Supervisory Board discussions in the year under review were, above all, the strategic plans being made by the Executive Committee and their implementation, and investment decisions, such as the expansion of capacity at our Stetten location. During the past fiscal year, the Supervisory Board's work was focused on two areas: the IPO for primion Technology AG and the expansion of the primion Group coupled with the subsequent opening up of new markets. This resulted from the acquisitions in the field of access control and time recording of Dr. Staedtler GmbH of Nuremberg, Digitek based in Barcelona, and the GET Group headquartered in Belgium. In addition, two new members were appointed to the company's Executive Committee during this period, bringing the total number of members to four. Mr Manfred Koetzle has been the Chief Financial Officer since 1 December 2005. Mr Roland Schmider has been responsible for the International Business division since 1 August 2006. The planned and implemented acquisitions were thoroughly discussed, investigated and finally approved. In addition, in all other measures requiring approval, the Executive Committee received the full support and requisite approval of the Supervisory Board.

In accordance with Section 3.10 of the German Corporate Governance Code, the Executive Committee reports on corporate governance in a separate section of the annual report on behalf of the Supervisory Board. On 30 September 2006 the Executive Committee and Supervisory Board issued a declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG). This is now available to shareholders on the company's website, including deviations from the Corporate Governance Code.

The annual financial statements for primion Technology AG, the consolidated financial statements as at 30 September 2006 and the management report for the primion Group were audited at the request of the Supervisory Board by RWT HORWATH GMBH Auditors, Reutlingen, and given an unqualified audit certificate. The Supervisory Board also examined these documents themselves.

The auditors' report on the annual financial statements, the consolidated financial statements and the management report for primion Technology AG as well as the management report for the primion Group as at 30 September 2006 were submitted to all members of the Supervisory Board. They were thoroughly examined at the Supervisory Board meeting of 15 January 2007 with the Executive Committee, in the presence of the auditor. At the meeting, the Executive Committee also reported in detail on the extent, emphases and costs of the audit. The Supervisory Board approved the result of the audit, and following its own examination, raised no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Executive Committee. The annual financial statements were thereby adopted.

We thank all employees and the Executive Committee for their great personal commitment and the high level of performance they have demonstrated over the past fiscal year. Our thanks too, to all our shareholders, customers and business partners for their trust in us.

Stetten am kalten Markt, 15 January 2007

Prof. Dr. Dr. h.c. mult. Johann Loehn
Chairman of the Supervisory Board

GET – open minds in an open atmosphere

It's a deal

Yves D'Hooghe, Managing Director of the GET Group (left) and Heinz Roth, CEO of primion Technology AG, at the contract signing.

primion takes over Belgian market leader

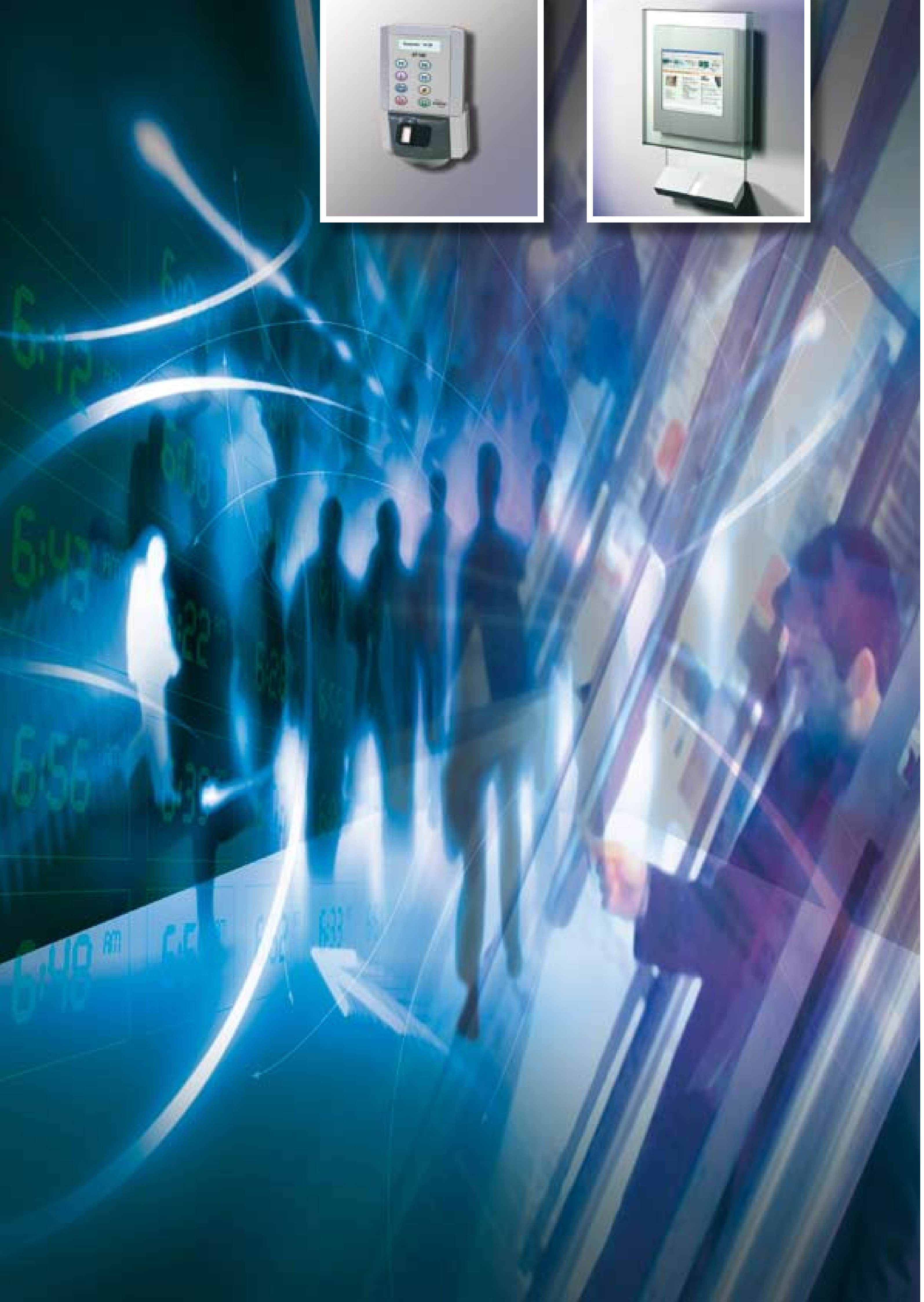
One of the most crucial decisions primion Technology AG took in the past fiscal year was to take over the GET Group as of 28 September 2006. The 100% takeover of the Belgian company, market leader in the area of HR management and access control, smoothed the way for primion's entry into the top European echelons. For primion, this was the biggest acquisition in its history so far.

The GET Group has been a successful player in the western European market for 38 years. It markets high-end solutions in the field of manpower planning and access control, thus representing a valuable addition to the primion portfolio. All 129 employees of the GET Group will continue to be employed, including the former owners, Yves and Alain D'Hooghe, who, from their respective positions in the company, will contribute to primion's further growth in the international arena, Yves D'Hooghe as managing director of the GET Group and Alain D'Hooghe as communications manager.

We shall successively add primion products to the product portfolio of the GET Group in Belgium and the Netherlands, building on an already favourable market position. Development of software and hardware specific to GET will be carried out at their subsidiary, Nisus N.V., which brings 30 developers along with it. Now with a total of 80 top-flight people in this technological area, a new dimension has opened up the primion Group in its capacity for research and development. We will be coordinating the development activities at Nisus closely with those of other development teams in future. GET's hardware production, which has been outsourced up to now, will be contracted to the production facility at our headquarters in Stetten am kalten Markt in Germany (Baden-Wuerttemberg) from now on.

GET's headquarters are located in Malle, close to Antwerp. The company was founded 43 years ago and obtained ISO 9001 certification in 1996. It is housed in an architecturally highly sophisticated redesigned building completed only last year. Employees, partners, customers and visitors alike admire the synthesis of design, comfort and elements integrated harmoniously into the surroundings without barriers or walls to disturb.

At the brightly lit, ultra-modern workstations, open-plan with a lot of glass, CEO Yves D'Hooghe's motto, "open minds in an open atmosphere", comes to life. Green areas, open lobbies and air-conditioned rooms provide the optimum conditions for communication and transparency at work. The architects were briefed to create an inspiring and motivating environment in which employees will not only feel good, but also proud of their company. The rationale for this – which experience has proved to be true – is that employees identify with the company and their productivity soars.



Leading technology,
award-winning design

(from left) the DT100 Fingerprint, DT1000 Fingerprint and the DT1000CE which won the 2007 iF product design award.

The future belongs to biometrics

Maximum convenience in an exclusive design

When innovative technology and exclusive design are combined, the result is effective and attractive at the same time: a sophisticated time recording and display terminal, which combines maximum security with maximum convenience.

The exclusive Crystal Line family of terminals and readers is currently being expanded to include wireless and biometric reader components.

The elegant DT1000 from primion is manufactured from polished glass and can be used equally for time recording, access control, production data capture and hazard detection. Special colour effects illuminate the stylish housing, changing in response to the occasion to aid the individual user.

The DT1000, a high-end information terminal from the Crystal Line series, has a TFT display with touch screen and VGA resolution, an integrated Ethernet interface and a web server. Identification is registered by means of a touchless smart card.

On request, identification can be made even more convenient in combination with biometric fingerprint readers. The third generation is up to 50 times more secure than comparable lock-and-key systems. Depending on the requirements and where it is to be used, up to 5,000 fingerprint templates can be stored in the DT1000. In order to enhance its security still further, two fingerprints are stored for each user.

In future this innovation will be deployed on the DT100 as well. The DT100 is a robust, reliable time recording terminal which has been established on the market for some time, and has now acquired a stylish addition for biometric identification.

Group Management Report

for fiscal 2005/2006

Operating activities and framework

Macroeconomic situation

The upturn in the global economy continued into autumn 2006 but did however decelerate somewhat in the course of the year. This was caused by economic pace slowing in the US, and to a lesser extent Japan, which could not be balanced out by acceleration in the eurozone and the UK. The rise in production in emerging markets, particularly China, remained robust. According to research by the Association of German Economic Research Institutes in Berlin (ARGE – The State of the Global Economy and the German Economy in Fall 2006), global economic expansion will soften somewhat in the coming year. Real gross domestic product (GDP) is set to rise by 3.1% in 2007 after 3.1% in 2005 and 3.7% in 2006.

The eurozone economy is also experiencing an upturn. The rise in GDP is up significantly in countries such as Germany and Italy where growth increments have been below average in recent years. The key impetus came from domestic demand, especially as investment in plant and equipment noticeably expanded. In the coming year, economic expansion will remain intact but will be slightly reduced as a result of the weakening boom in the global economy in particular. According to estimates by the ARGE, GDP in the eurozone will increase by 2.1% in 2007 after 2.6% in 2006 (change 2004 to 2005: 1.4%).
The upturn in the German economy noticeably gathered pace towards the end of our fiscal year. As exports continued to rise, the upturn was however increasingly buoyed by domestic demand which contributed significantly more to growth than foreign trade in the first half of 2006. This saw the German economy recovering from its weak phase which had been ongoing since spring 2004. The upturn that began in the second half of 2006 will accelerate more strongly than previously expected according to the ARGE. In 2006, the forecast for the rise in real gross domestic product (GDP in Germany) was lifted from 1.8% in the spring to 2.3% (change of GDP 2004 to 2005: 0.9%). This is the second highest growth rate of the last ten years, providing a favourable starting point for the coming year. While some institutes represented by the ARGE expect the German economy to markedly lose tempo, other institutes see indications that the upturn will continue. The research institutes assume a rise in GDP of 1.4% for 2007.

Industry situation and market environment

In previous years, the market for time and access control systems relevant to the primion Group was characterized by a low concentration of providers. Besides a few large providers there are a number of smaller companies which distinguish themselves by their regional focus or by specializing in certain fields of application and technologies. The market is currently undergoing a phase of crowding out and consolidation. We expect this trend to continue in future and in this market environment intend to carry on taking an active role in consolidation.

Over the past few years, the domestic market for access control and time recording systems posted growth rates in the region of 7%. We anticipate this positive trend to continue in the medium term. The market for mechatronic locking systems in Germany could however represent a positive exception, in all probability achieving above-average growth over the next few years. Due to expertise built up in previous years in the field of mechatronic locking systems, the primion Group enjoys potential for further opportunities in this market segment.

Positioning of the primion Group

The primion Group is an internationally operating supplier of innovative software and hardware-based systems for access control, time recording and integrated security technology. Access control systems are at the heart of the primion Group's operating activities. This core competence is supplemented by other products and services in the time recording and integrated security technology divisions. System solutions for recording time include modules for worktime management, manpower planning and production data capture, while those for integrated security technology feature hazard detection and video technology modules. Prime key technology and mechatronic system components augment access control and integrated security technology. The target group for the primion Group's products and services consists of companies of all industries and sizes. Our "one-stop shop" business model covers the entire value chain from development and production through project planning to installation and integration, as well as complementary services (e.g. consultancy, training, customer support and system maintenance).

Deploying primion technology enables customers to boost their security standards and increase efficiency in HR allocation and facility management. It is possible to combine specific modules to meet customer requirements, integrate existing IT systems via standardized interfaces and integrate system components globally.
Innovative strength and expertise in implementing customer-focused products and services make the primion Group one of the leading innovators and technology providers in the European markets for access control, time recording and integrated security technology systems.

Corporate strategy

Enabling our customers to boost security standards and increase efficiency in HR allocation and facility management by deploying primion technology lies at the heart of our corporate strategy. It is possible to combine specific modules to meet customer requirements precisely, integrate existing IT systems via standardized interfaces and integrate all system components globally.

Sales are primarily end customer-focused and are made through 12 group branch offices in Germany (Stetten am kalten Markt, Munich, Stuttgart, Karlsruhe, Nuremberg, Frankfurt, Solingen, Erfurt, Lingen, Hanover, Berlin, Hamburg), as well as through subsidiaries or affiliated companies based in Germany (Nuremberg), France (Boulogne-Billancourt and Bernolsheim), Spain (Barcelona, Madrid and Bilbao), Switzerland (Tuggen) and Benelux (Herentals, Amsterdam and Malle), plus approximately 25 distribution partners abroad. primion has more than 5,000 customers including BMW, the German Federal Employment Agency, the German Federal Armed Forces, Deutsche Telekom, Munich Airport, Porsche, Tengelmann/plus, Toll Collect, UBS Bank and Wacker Chemie.

Our successful IPO on the Frankfurt Stock Exchange on 13 February 2006 should serve to boost awareness of the primion Group, coupled with further optimization of customer perception through classic activities such as developing trade show and marketing activities. The image of the primion brand should also be reinforced in this connection, particularly with regard to the high quality of the products and services on offer.

Corporate development

One of the milestones of fiscal 2005/2006 was the IPO of primion Technology AG, the primion Group's parent company, on 13 February 2006. Going public resulted in an inflow of 18.2 million euros (after transaction costs) to primion Technology AG, which boosted the Group's share capital base in readiness for further strategic development.

From an operational perspective we were able to increase total revenues by approximately 70% to 36.8 million euros (prior year: 21.2 million euros) in fiscal 2005/2006. The first-time capitalization of software and hardware developments according to IAS 38 at 2.2 million euros, and accounting for construction contracts of approximately 1.9 million euros using the percentage of completion method, contributed to this rise in addition to the effects of Group expansion from corporate acquisitions (primion Staedtler GmbH and primion Digitek S.L.U.).

The majority of our core business – the sale of systems for access control, time recording and integrated security technology – continues to be domestic-driven. Rigorous implementation of our internationalization strategy has however enabled us to markedly increase our activities abroad, making us significantly less dependent on the German economy.

At the start of fiscal 2005/2006 we acquired the access control and time recording divisions of Dr. Staedtler GmbH, Nuremberg. Now trading as primion Staedtler GmbH, this company has many years of expertise in developing, implementing and supporting hardware-independent software solutions in the field of time recording and access control, thereby enhancing the primion product portfolio. primion Staedtler GmbH has broadened our access to the high-end market in Germany and Europe which will generate new sales opportunities for primion hardware. As at 30 September 2006 primion Staedtler GmbH employs 51 people.

In December 2005 we took over Digitek, Barcelona/Spain, previously part of Honeywell within the Novar Iberia Group. Acquiring a leading Spanish provider of time recording and access control technology has gained primion an important foothold in the Spanish market. The resulting takeover of around 1,000 Digitek customers has advanced primion Digitek S.L.U. to a key player in the Iberian market. As at 30 September 2006 primion Digitek S.L.U. employs 28 people.

At the end of fiscal 2005/2006 we acquired 100% of the shares in General Engineering & Technology N.V. (GET) of Malle/Belgium. GET is the Belgian market leader in the field of time recording, access control and security technology. The GET Group has been operating successfully in Benelux for 38 years and has branches in France and the Netherlands, as well as its headquarters in Belgium. With 30 developers based at Nisus N.V. in Herentals/Belgium, we now have extensive research and development capacity for our technology sector. As at 30 September 2006 the GET Group employs a total of 129 people.

Our acquisition activities in fiscal 2005/2006 were rounded off by the purchase of the remaining minority interests in our French subsidiaries, together with obtaining a 15% interest in SFK Networkservice GmbH of Roemhild/Germany, a provider of services in the telecommunications industry.

Production and procurement

As a one-stop provider we develop integrated hardware and software solutions, chiefly building them ourselves at our location in Stetten. The modular structure of our product portfolio allows us to fulfil customer-specific requirements rapidly and with flexibility, while at the same time leveraging the benefits of a platform strategy. Developing our own hardware components is a key prerequisite as this is the only way to ensure the interfaces between the various modules offer a truly precision fit. Our comparatively high production runs are the result of a consistent modular architecture. Whenever possible we deploy the same components across different end products, a strategy that facilitates construction cost optimization.

So that we can react flexibly in the event of losing a business partner and can switch to different manufacturers we intentionally avoid becoming dependent on specific suppliers. On this basis we have expanded our supplier base over the past fiscal year and negotiated new basic agreements. We have also reduced production costs further by gaining Chinese suppliers for mechanical components and plan to increase production capacity at our headquarters in Stetten, something that will enable us to tap into new market niches.

R&D

Within the primion Group, development is a key competitive factor. Gaining a market edge from technology remains one of our major strengths. This includes taking technical innovations to market at the right time and monitoring industry advances and new developments closely so we can implement these in sophisticated products in a timely manner. In-house development makes it possible to react quickly to modern technology and changing market trends and to respond to customer-specific requirements with flexibility.

Our software and hardware developers apply their skills to enhancing existing products and to developing new products that will round off primion's solution competence. New mechatronic products were at the heart of new developments over the past fiscal year, especially the electronic cylinders and special fittings which are becoming increasingly important for access control systems. During the period we also developed a new generation of intelligent data terminals for time recording and access control featuring glass housings and luminous effects to guide users, which we presented for the first time at CeBIT. Huge interest in this innovation, for which we have filed a patent application, has also prompted us to swiftly develop and present a glass identification reader that complements the design. In the field of communication we are increasingly focusing on wireless technology for the future. At a security trade show in Essen, Germany, we unveiled a totally new wireless-based communication structure, another milestone in developing primion's high-potential prime key technology.

Since taking over GET in Belgium, the Group now employs over 80 people in development.

Headcount and HR

Compared to last year's balance sheet date the number of employees in the primion Group increased from 229 to 380. In addition to expanding the number of employees at headquarters in Stetten am kalten Markt to 152, the rise in headcount can largely be attributed to the acquisitions made during the past year in Germany (primion Staedtler GmbH), Spain (primion Digitek S.L.U.) and Belgium (GET Group).
As at 30 September 2006, 60% of our employees work in sales/technical services (30 September 2005: 62%), 9% in production (30 September 2005: 12%), 12% in administration (30 September 2005: 10%) and 20% in research and development (30 September 2005: 16%).

Environmental protection

As a leading innovator and technology provider, primion respects high environmental protection standards when building and manufacturing its products, systematically using recyclable and environmentally sustainable materials and reusable packaging. Old equipment is taken back and disposed of responsibly, as are batteries and packaging materials. Employees are also encouraged to prevent waste and to separate rubbish for recycling.

Group results

Results of operations

With total revenues of 36.8 million euros (prior year: 21.2 million euros) we achieved earnings before interest and taxes (EBIT) of 4.5 million euros (prior year: 3.0 million euros). This gave an EBIT margin on total revenues of 12.2% following 13.9% the previous year.

The first-time consolidation of the bargain purchase related to primion Digitek is presented under other operating income to the amount of 1.6 million euros (prior year: nil). As the fair value of the recognized identifiable assets less liabilities exceeded the acquisition costs, the residual surplus was recognized as income during the reporting period.
The cost of materials was 11.6 million euros during the period under review (prior year: 6.0 million euros). This corresponds to a cost of materials ratio of 31.5% (prior year: 28.4%). In the third quarter, the cumulative cost of materials amounted to 31.7% after 33.4% in the second quarter and 35.6% in the first quarter. This change reflects in particular the integration of the primion Staedtler GmbH and primion Digitek S.L.U. acquisitions, which commenced during the year.

Personnel costs during the period under review were 14.2 million euros (prior year: 8.2 million euros). The personnel cost ratio therefore amounted to 38.6% (prior year: 38.5%). Despite the substantial increase in the number of employees as a result of acquisitions and systematic expansion at our Stetten location, we were able to keep the personnel cost ratio virtually constant.

Amortization in the past fiscal year amounted to 2.4 million euros (prior year: 0.7 million euros). This significant increase primarily relates to amortization of 1.5 million euros on intangible assets arising from the consolidation of primion Digitek S.L.U. and primion Staedtler GmbH. The residual amount of 0.9 million euros can be attributed to the scheduled amortization of the remaining assets. The amortization rate in fiscal 2005/2006 thus amounted to 6.5% (prior year: 3.2%).

Other operating expenses were 6.7 million euros (prior year: 3.8 million euros). This increase is primarily attributable to additional charges as a result of going public, as well as to changes arising from the business combinations.

The non-operating result was -0.5 million euros (prior year: -0.2 million euros). Substantial portions of the liquidity inflow arising from the IPO were used during the past fiscal year to pay off interim financing effected for the Staedtler and Digitek acquisitions and to finance the takeover of the GET Group.

For fiscal 2005/2006 consolidated earnings comprise 2.5 million euros (prior year: 1.7 million euros). Earnings per share are 0.49 euros compared to 0.42 euros in the prior year.

Protecting people and values

primion's integrated security concepts include custom solutions

Assets, liabilities and financial position

At the balance sheet date, total assets of the primion Group had increased to 62.8 million euros compared to 30 September 2005 (16.9 million euros). This is principally due to capital inflows from going public and the acquisitions completed during the year.

As at 30 September 2006 we capitalized non-current assets of 33.9 million euros (30 September 2005: 5.2 million euros). This rise is principally based on the increase in intangible assets related to acquisitions (30 September 2006: 25.3 million euros), with the capitalization of goodwill from the Staedtler and GET Group acquisitions accounting for 4.6 million euros thereof. Furthermore, development costs of 2.6 million euros were capitalized under intangible assets for the first time in the past fiscal year. Tangible fixed assets grew by 5.6 million euros during the reporting period to 8.4 million euros (30 September 2005: 2.8 million euros). This increase comprises additions of 4.7 million euros for business combinations.

Current assets of 28.9 million euros were disclosed as at 30 September 2006 (30 September 2005: 11.7 million euros). These mainly arose from trade accounts receivable and receivables from construction contracts, increasing from 5.6 million euros to 15.7 million euros due to acquisitions.
The change in shareholders' equity as at 30 September 2006 was primarily a consequence of a capital increase in February 2006 when the parent company's shares were placed on the Frankfurt Stock Exchange. As at 30 September 2006, shareholders' equity is 26.7 million euros (30 September 2005: 6.4 million euros), giving a shareholders' equity ratio of 42.5% (30 September 2005: 37.8%).

At the balance sheet date of 30 September 2006, debts of 36.1 million euros were carried as a liability (30 September 2005: 10.5 million euros). Of this, 14.5 million euros (prior year: 2.9 million euros) relates to non-current liabilities and 21.7 million euros to current liabilities (30 September 2005: 7.6 million euros). Liabilities include non-current financial liabilities of 9.6 million euros (30 September 2005: 2.9 million euros) and current financial liabilities of 7.8 million euros (prior year: 4.2 million euros). This increase in financial liabilities is caused by the acquisitions completed during the past fiscal year.

The proportion of liabilities to total assets was 57.5% (30 September 2005: 62.2%), giving a slight improvement in the balance sheet structure as at 30 September 2006 following the IPO and completed acquisitions.

Gross cash flow improved significantly from 2.4 million euros to 4.6 million euros during the period under review. Taking into consideration the changes in working capital, cash flow from operating activities amounted to 2.8 million euros (prior year: -3.6 million euros). In terms of investments primion spent 25.8 million euros in fiscal 2005/2006 (prior year: 0.6 million euros), of which 21.8 million euros were used for acquisition purposes. This has to be offset against the borrowed resources for financing to the amount of 13.9 million euros (prior year: 10.2 million euros). The IPO in February provided funds of 18.2 million euros, after deducting flotation costs, which were used to finance acquisitions and reduce leverage. Cash and cash equivalents within the Group increased to 3.7 million euros as at the balance sheet date (prior year: 0.9 million euros).

Subsequent events

In November 2006 we amalgamated primion Systems SAS of Bernolsheim/France into primion TECHNOLOGIE SAS, Boulogne-Billancourt/France. The resulting organization now trades under the name primion SAS. We expect this restructuring and the associated strengthening of our French subsidiary's capital base to have a positive impact on our hitherto rather unsatisfactory performance in the attractive French market.

Pursuant to Section 21 [1] Section 24 of the German Securities Trading Act (WpHG) in combination with Section 32 [2] of the Investment Act (InvG), on 22 December 2006 DWS Investment GmbH, Mainzer Landstrasse 178-190, 60327 Frankfurt am Main, Germany, informed us of the following with regard to its share of the voting rights in primion Technology AG:On 19 December 2006 DWS Investment GmbH's share of the voting rights in primion Technology AG dropped below the 5% threshold and now amounts to 0.72%. In accordance with Section 25 [1] of the German Securities Trading Act (WpHG) a notice appeared in the Frankfurter Allgemeine Zeitung on 28 December 2006.

Risk report

The risks impacting the primion Group's future development are essentially the general technological and market risks that all companies typically face. Taking all factors into consideration, the Executive Committee currently identifies no additional risks materially affecting the net assets, financial position and results of operations of the primion Group or the Group's continued existence.

When the integration of the GET Group is completed in the current fiscal year we expect the primion Group to generate sales of over 45% outside Germany in future. This will make us relatively independent of the domestic economy and the propensity to invest of German companies and the country's public sector.
Expanding markets like the markets for access control, biometrics, video technology and security technology that primion targets are characterized by intense competition and strong technological change. Further business development is thus largely dependent on the extent to which primion companies are able to maintain and extend their market position and technology leadership, and respond flexibly to changes in the marketplace.

Due to the sales potential emerging from integration and the trend towards global system integration, large manufacturers are becoming increasingly interested in this market. Therefore competition may become more aggressive with a greater concentration of participants on the provider side. Thanks to its ability to innovate and its established market position, the primion Group is well placed to take an active role in consolidation. However, it is not entirely impossible that innovations from third parties and more intense competition may reduce the impact of investments made or involve profit cuts.

Due to the rapid pace of technological change and innovation there is potential for technological development risk within the primion Group. While it is important to keep up with technical progress, it is also crucial that new products are brought to market just-in-time. Market requirements and changes must therefore be analyzed on an ongoing basis in order to keep abreast of the latest innovations. Developing new products can also be quite cost-intensive without generating the desired success.

Acquisitions must be integrated into the primion Group's corporate structure and value chain. From experience this can lead to special expenses which

may possibly impact earnings and liquidity. Achieving the objectives associated with acquisitions principally depends on the extent to which primion is able to handle the integration process smoothly and efficiently.

Effective management of all risks that arise is an integral part of the primion Group's operating policy which is why we have refined and broadened the existing risk management and early warning system for all business processes and corporate decisions. This allows us to further optimize the way the overall risk situation is determined, analyzed and presented. All key risks to which the primion Group is exposed are recognized, analyzed and processed based on standard current information regarding the market, competition, technology and the political situation, for example. Central control discusses the relevant status with responsible parties who implement operational measures to manage risk.
The regular Executive Committee meetings include extensive discussion and consideration of the risks and opportunities before decisions are made on significant measures. Deferred risks such as project backlog, financial risks or HR risks are monitored regularly by means of up-to-date reports on incoming orders, backorders and liquidity so that measures can be introduced without delay where applicable. Agreements are handled and reviewed by specialist external lawyers. Proposals for risk minimization are submitted to the Executive Committee on an ongoing basis, with imminent exposures being reported on regularly at the meetings of the Executive Committee and Supervisory Board.

There is an exchange rate risk on projects effected in currencies other than the euro which may impact turnover as well as procurement prices, and thereby the result of operations.

Outlook

There is marked improvement in the prospects for further recovery in the German economy. This gives the primion Group a favourable starting point in upcoming fiscal 2006/2007.

The integration of new subsidiaries is so far progressing in line with our objectives and expectations. For the current fiscal year we expect the synergy effects of substituting externally procured hardware for primion products to have a positive impact on results.

In terms of optimizing costs and internal processes in particular, we plan to amalgamate primion Staedtler GmbH, Nuremberg, into primion Technology AG. A corresponding proposal will be submitted at the Annual Shareholders' Meeting on 2 March 2007.

Based on the growth recorded in fiscal 2005/2006 we will make adjustments to the group IT/computing organizational structures and further optimize internal processes. In this respect we are planning to invest in expanding our existing ERP system to make information retrieval more efficient and process-oriented across all areas of the business. This project is scheduled for completion by the end of June 2007.

Furthermore, we intend to expand our distribution network in future by increasing our headcount in Germany and from associated organic growth, as well as through further acquisitions. To reduce our dependence on the German market we will continue to intensify our operating activities elsewhere in Europe. This can be realized by extending our network of international partners and undertaking further targeted acquisitions.

We are working with our internal development departments on continually improving the quality of our products and services, as well as on optimizing processes to boost our innovation and technology competencies. Our development activities include the systematic integration of more new technologies, such as prime key technology and biometrics in the field of mechatronics.
Integrating hazard detection and video technology into primion products are further key aspects.

In addition, in procurement we intend to purchase more standard components, such as individual cylinder components and door fittings, from countries like China where wage costs are lower. This should allow us to reduce production costs further, particularly when it comes to the initial procurement of tools and die-cast or plastic fixtures. To optimize costs in future we intend to have individual mechanical components made in China, particularly for new developments.

Our objective for fiscal 2006/2007 is boost total revenues to significantly more than 50 million euros and to improve the EBIT margin. We will continue to enhance internal processes at all locations and, as in the past, identify and implement potential savings by way of robust, goal-oriented cost management. Optimizing capital commitments is another key focus.
Against this background we anticipate operating cash flow to again prove satisfactory in the coming fiscal year.
We also expect to be able to expand our market position further in fiscal 2006/2007 through organic growth and targeted acquisitions.

Stetten am kalten Markt, 11 January 2007

The Executive Committee

Corporate Governance

for fiscal 2005/2006

In accordance with Section 3.10 of the German Corporate Governance Code, the Executive Committee – on behalf of the Supervisory Board – makes the following report on corporate governance at primion Technology AG:

The Executive Committee and Supervisory Board of primion Technology AG support the principles of good, responsible corporate governance as set out in the German Corporate Governance Code (hereinafter also referred to as the "Code" or "GCGC") with the amendment of 12 June 2006 and welcome the intention of the Government Commission on German Corporate Governance to provide transparent guidelines on proper corporate governance.

The Code recommends that the Executive Committee and Supervisory Board provide information on the company's corporate governance each year in a corporate governance report. This includes the explanation of any deviations from the Code (Section 3.10 GCGC). Furthermore, this report should provide information about the remuneration of members of the Supervisory Board and Executive Committee (Section 4.2.5 and 5.4.7 GCGC), the purchase and sale of shares by members of corporate bodies or management (Section 6.6 GCGC) and about share option programmes or similar incentive systems (Section 7.1.3 GCGC).
primion Technology AG has not previously issued a corporate governance report.
In the period under review the Executive Committee and Supervisory Board addressed in detail issues of compliance with the Code, comparing it with the company's own standards and determining points of deviation from the recommendations of the Government Commission on German Corporate Governance.
The nature of the Code is such that its recommendations are not generally binding so as to exclude deviations or prohibit the company from deviating from the recommendations due to specific requirements. In the light of this the Executive Committee and Supervisory Board determined that the recommendations of the Government Commission on German Corporate Governance are fulfilled in all but a few respects.
A declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) was jointly adopted and signed by the Supervisory Board and the Executive Committee and was placed on the company's website on 30 September 2006. All members of both corporate bodies declare therein that the regulations of the commission on corporate management and monitoring appointed by the German federal government are currently being fulfilled, and will be fulfilled in future, with the exception of the points indicated in the declaration of conformity.

Explanation of deviations from Code recommendations in the period under review
The following recommendations of the Code only were not implemented in the year under review:

Deductible for directors and officers' liability insurance (Section 3.8 of the GCGC)
The existing D&O insurance policies for members of management do not include a deductible. The members of the Executive Committee and Supervisory Board are not of the opinion that the commitment and responsibility with which they perform their duties can be improved by arranging a deductible. D&O insurance policies for members of the Executive Committee and Supervisory Board do not therefore stipulate a deductible.

Remuneration of members of the Executive Committee (Section 4.2.5 GCGC)
The company has decided not to fulfil the recommendations of the Code with regard to individualized disclosure of the compensation structure for the Executive Committee in a remuneration report subject to Section 4.2.5 of the GCGC which as part of the corporate governance report also explains the compensation structure of the Executive Committee in a generally understandable form. primion Technology AG is of the opinion that reporting the remuneration of Executive Committee members in the consolidated financial statements subdivided according to fixed and variable components suffices.

Formation of Supervisory Board committees (Section 5.3.1 and Section 5.3.2 GCGC)
In line with the discretion afforded under the Commission's recommendations, the Supervisory Board refrains from appointing separate Supervisory Board committees due to specifics of the company and in particular its size. The company is of the opinion that forming committees would not boost the efficiency of a Supervisory Board comprising six members.

Remuneration of members of the Supervisory Board (Section 5.4.7)
Equally, the corporate governance report does not include an individualized breakdown of the remuneration for individual members of the Supervisory Board subdivided by components; neither does the compensation structure include performance-related components (Section 5.4.7 GCGC). The same applies to the individualized and separate disclosure in the corporate governance report of remuneration amounts paid to the members of the Supervisory Board by the company or advantages extended for services provided individually, in particular advisory or agency services (Section 5.4.7 GCGC). Remuneration of the Supervisory Board occurs in accordance with the articles of association of primion Technology AG. The latest version is published on the company's website. The individualized remuneration of the members of the Supervisory Board can be derived from this, allowing an individualized presentation to be omitted from the corporate governance report. primion Technology AG is of the view that all members of the Supervisory Board perform their functions with a high level of commitment and motivation and with the company's long-term success in mind. In addition, the company does not regard performance-related remuneration as necessary to ensure the Supervisory Board performs its functions responsibly. In accordance with legal regulations, the company presents the remuneration of all Supervisory Board members as a single total in the notes to the consolidated financial statements.

Publication of the consolidated financial statements and interim reports (Section 7.1.2 GCGC)
Pursuant to Section 7.1.2. of the GCGC the consolidated financial statements should be publicly accessible within 90 days of the end of the fiscal year; interim reports shall be publicly accessible within 45 days of the end of the reporting period. At primion Technology AG, reporting follows the financial

reporting obligations of Deutsche Boerse AG for the Prime Standard. As a result primion Technology AG publishes its consolidated financial statements within four months and quarterly reports within two months of the end of the reporting period.

Transparency for our shareholders

Information about significant deadlines is provided in a timely manner to shareholders and interested parties in our financial calendar which is published in the quarterly reports as well as on our website. The Investor Relations section of our website provides all available up-to-date information including key figures, disclosures, actions subject to reporting and corporate governance. Comprehensive transparency includes ongoing control of whether significant transactions were concluded between a company within the primion Group and a member of the Executive Committee or Supervisory Board or a related party. This is reported on in the notes to the consolidated financial statements.

Shareholders and the Annual Shareholders' Meeting

At the Annual Shareholders' Meeting shareholders have the opportunity to exercise their voting rights in person or by use of a proxy or an appointed representative of the company. In addition, the invitation to the Annual Shareholders' Meeting and the requisite reports and documents for passing resolutions are published in accordance with legal requirements and made available to shareholders and interested parties on the website of primion Technology AG.

Cooperation between the Executive Committee and Supervisory Board

The Executive Committee informs the Supervisory Board regularly, extensively and in a timely manner concerning all developments and events that are of significance for the business development and situation of the primion Group. During the reporting period the Executive Committee and Supervisory Board worked closely together in a relationship based on trust. Further details concerning the cooperation between the Executive Committee and Supervisory Board can be found in the report of the Supervisory Board.

Risk management

A responsible approach to operational risk is one of the standards of good corporate governance. The Executive Committee of primion Technology AG and management within the primion Group therefore have access to intra-group risk management tools, which enable appropriate risk management and control within the company. Current corporate risks are reported on in the management report.
Group Management Report • Corporate Governance • The primion Share

Directors' dealings / shareholdings of members of Executive Committees and Supervisory Boards pursuant to Section 6.6 of the GCGC

In accordance with Section 15a of the German Securities Trading Act (WpHG), all members of the Executive Committee and Supervisory Board of primion Technology AG, as well as certain employees with management responsibilities and related parties thereof, must report without delay the purchase and sale of shares in primion Technology AG or of related financial instruments of the company (directors' dealings). Purchase and sales transactions in excess of €5,000 in a calendar year must be reported. In accordance with Section 6.6 of the GCGC, directors' dealings shall be published in the corporate governance report.The following company directors' dealings have been reported in the period to 30 September 2006:

Party subject to reporting	Trading day	Stock ex-chang	Name of securities	WKN	Trans-action type	No. of shares	Price in EUR	Total volume in EUR	Reason for the disclosure obligation
Bredehorn, Thomas	09.06.06	XETRA	*	511700	Kauf	690	7,35	5.071,50	Member of the Executive Committee
Benz, Leo	31.05.06	XETRA	*	511700	Kauf	400	9,10	3.640,00	Member of the Supervisory Board
Benz, Leo	02.06.06	XETRA	*	511700	Kauf	1.000	8,05	8.050,00	Member of the Supervisory Board
Benz, Leo	31.05.06	XETRA	*	511700	Kauf	100	9,10	910,00	Member of the Supervisory Board
Bredehorn, Thomas	09.06.06	XETRA	*	511700	Kauf	1.810	7,35	13.303,50	Member of the Executive Committee
Roth, Heinz	01.06.06	XETRA	*	511700	Kauf	5.000	9,25	46.250,00	Member of the Executive Committee
Benz, Leo	13.02.06	XETRA	*	511700	Verkauf	32.053	14,50	464.768,50	Member of the Supervisory Board
Bredehorn, Frederik	13.02.06	XETRA	*	511700	Verkauf	7.891	14,50	114.419,50	Related party (Executive Committee)
Bredehorn, Barbara	13.02.06	XETRA	*	511700	Verkauf	3.348	14,50	48.546,00	Related party (Executive Committee)
Benz, Leo	13.02.06	XETRA	*	511700	Verkauf	12.497	14,50	181.206,50	Member of the Executive Committee
primion Verwaltungsges. GbR	13.02.06	XETRA	*	511700	Verkauf	235.659	14,50	3.417.055,50	Related party (Executive Committee)
Bredehorn, Frederik	10.02.06	XETRA	*	511700	Leihe	7.891	0,00	0,00	Related party (Executive Committee)
Bredehorn, Frederik	10.02.06	XETRA	*	511700	Verkauf	32.439	14,50	470.365,50	Related party (Executive Committee)
Bredehorn, Barbara	10.02.06	XETRA	*	511700	Leihe	3.348	0,00	0,00	Related party (Executive Committee)
Tschunke-Rehm, Petra	10.02.06	XETRA	*	511700	Leihe	145	0,00	0,00	Related party (Supervisory Board)
	10.02.06	XETRA	*	511700	Verkauf	96.343	14,50	1.396.973,50	Related party (Supervisory Board)
Tschunke-Rehm, Petra	10.02.06	XETRA	*	511700	Verkauf	420	14,50	6.090,00	Related party (Supervisory Board)
J+P GbR	10.02.06	XETRA	*	511700	Leihe	33.381	0,00	0,00	Related party (Supervisory Board)
Benz, Leo	13.02.06	XETRA	*	511700	Kauf	2.000	14,87	29.740,00	Member of the Supervisory Board
Benz, Leo	10.02.06	XETRA	*	511700	Leihe	32.053	0,00	0,00	Member of the Supervisory Board
Benz, Leo	10.02.06	XETRA	*	511700	Verkauf	92.599	14,50	1.342.685,00	Member of the Supervisory Board
Benz, Leo	10.02.06	XETRA	*	511700	Kauf	75	14,50	1.087,50	Member of the Supervisory Board
VHR Verwaltungsgesellschaft Heinz Roth mbH	10.02.06	XETRA	*	511700	Verkauf	207.592	14,50	3.010.084,00	Related party (Executive Committee)
primion Verwaltungsges. GbR	10.02.06	XETRA	*	511700	Leihe	235.659	0,00	0,00	Related party (Executive Committee)
Roth, Heinz	10.02.06	XETRA	*	511700	Leihe	12.497	0,00	0,00	Member of the Executive Committee
primion Verwaltungsges. GbR	10.02.06	XETRA	*	511700	Verkauf	472.480	14,50	6.850.960,00	Related party (Executive Committee)
Roth, Heinz	10.02.06	XETRA	*	511700	Verkauf	36.102	14,50	523.479,00	Member of the Executive Committee

* primion Technology shares

In addition to these disclosures, the shareholdings or related financial instruments held by members of the Executive Committee and Supervisory Board shall be reported if these directly or indirectly exceed 1% of the shares issued by the company. If the entire holdings of all members of the Executive Committee and Supervisory Board exceed 1% of the shares issued by the company, these shall be reported separately according to Executive Committee and Supervisory Board.

As at 30 September 2006 the members of the Executive Committee and Supervisory Board directly or indirectly held 2,372,884 shares of primion Technology AG representing 42.75% of total shares issued by the company. The corresponding shareholdings of the members of the Executive Committee and Supervisory Board are listed below:

Member of the Executive Committee	Number of shares held
Heinz Roth	1,787,355
Thomas Bredehorn	83,243
Roland Schmider	10,000
Total	1,880,598

Member of the Supervisory Board	Number of shares held
Prof. Jochen Tschunke*	240,832
Leo Benz	251,454
Total	492,286

*resigned with effect from 30 September 2006

Share option programmes and similar securities-based incentive systems

There are no share option programmes or similar securities-based incentive systems within the company.

Financial statements auditing

No relationships exist between the auditor, its executive bodies and head auditors on the one hand, and the company and the members of its executive bodies on the other hand, that could call the auditor's independence into question. In accordance with Section 7.2.3 of the Code, it was arranged for the auditor to report without delay on all facts and events of importance for the tasks of the Supervisory Board which arise during the performance of the audit.

The primion Share

2006 IPO

primion Technology AG was the first initial public offering of 2006 in the Prime Standard of the Frankfurt Stock Exchange in Germany. The share (ISIN DE 0005117006, WKN 511 700) debuted on 13 February at 14.50 euros, with an initial quotation of 14.75 euros. The share offering was oversubscribed in excess of 2.5 times the amount available and the over-allotment option was fully exercised. Shortly after the listing, the mood of capital markets worldwide changed and clearly became cloudier during the spring. The DAX lost around 14%, the SDAX around 19% and the TecDAX around 23%. Coupled with primion AG's disappointing second quarter, the price of primion shares fell by approximately 52% to just under 7 euros.
Despite a noticeable recovery kicking in subsequently on the capital markets, primion's share price development did not meet our expectations.

The primion share price on XETRA as at 30 September 2006 was €9.00. The company's capital stock totals 5.55 million euros divided into 5.55 million shares. The free float amounts to 67.79%, 12.76% of which is locked in until 12 February 2007.

Annual Financial Statements of the primion Group

according to IFRS

in €k	Fiscal 2005/2006	Change	Fiscal 2004/2005	Change	Fiscal 2003/2004
Revenues	34.199	60 %	21.359	35 %	15.849
Total revenues	36.805	74 %	21.212	16 %	18.363
EBITDA	6.852	88 %	3.643	1 %	3.591
EBITDA as % of total revenues	18,6 %	8 %	17,2 %	-12 %	19,6 %
EBIT	4.476	51 %	2.959	3 %	2.883
EBIT as % of total revenues	12,2 %	-13 %	13,9 %	-11 %	15,7 %
Consolidated net income	2.470	43 %	1.727	5 %	1.651
Consolidated net income as % of total revenues	6,7 %	-18 %	8,1 %	-9 %	9,0 %
Gross cash flow	4.579	88 %	2.441	5 %	2.330

	30.09.2006	30.09.2005	30.09.2004
Order backlog	28.778	12.251	11.800
Total assets	62.832	16.883	16.285
Net borrowing	-13.689	6.166	775
Shareholders' equity	26.682	6.393	6.058
Headcount	380	152	135

Income statement

from 1 October 2005 to 30 September 2006 according to IFRS

in €	Note	2005/2006	2004/2005
Revenues	1	**34.198.852**	**21.358.934**
Changes in inventory		428.885	-147.000
Other own work capitalized	2	2.176.771	0
Total revenues		**36.804.508**	**21.211.934**
Other operating income	3	2.570.258	458.351
Costs of materials	4	11.604.613	6.023.283
Personnel expenses	5	14.213.824	8.168.085
Depreciation and amortization		2.375.848	684.934
Other operating expenses	6	6.704.579	3.835.486
Operating result (EBIT)		**4.475.902**	**2.958.497**
Non-operating result	7	**-524.366**	**-152.056**
thereof: income from financial services accounted for under the equity method		17.617	8.911
Income before taxes		**3.951.536**	**2.806.441**
Income taxes	8	1.384.788	1.067.065
Income after taxes		**2.566.748**	**1.739.376**
thereof: net income attributable to minority interests		97.231	12.433
Income attributable to shareholders of primion Technology AG (consolidated net income)		**2.469.517**	**1.726.943**
Earnings per share (basic and diluted)	9	**0,49**	**0,42**

Consolidated balance sheet

as at 30 September 2006 according to IFRS

Assets in €	Note	30.09.2006	30.09.2005
Non-current assets			
Intangible assets	10	25.310.764	2.001.913
Property, plant and equipment	11	8.389.488	2.817.293
Financial assets accounted for under the equity method	12	73.239	57.112
Other financial assets	13	87.962	5.647
Deferred tax assets	24	85.351	301.244
Total non-current assets		**33.946.804**	**5.183.209**
Current assets			
Inventories	15	6.976.385	2.548.040
Receivables from construction contracts	16	3.758.243	2.148.812
Trade accounts receivable	17	11.968.875	5.588.189
Other accounts receivable and other assets	18	1.008.134	368.927
Claims for tax refunds	19	1.503.747	117.075
Cash and cash equivalents	20	3.669.328	928.640
Total current assets		**28.884.712**	**11.699.683**
Total assets		**62.831.516**	**16.882.892**

Equity and liabilities in €	Note	30.09.2006	30.09.2005
Equity attributable to shareholders of primion Technology AG	21		
Share capital		5.550.000	4.150.000
Capital reserves		18.115.605	395.120
Retained earnings		2.906.767	1.743.831
Foreign exchange translation differences		-4.398	-2.908
Minority interests		114.371	106.468
Total equity		**26.682.345**	**6.392.511**
Non-current liabilities			
Long-term accrued liabilities	22	25.618	12.931
Non-current financial debts	23	9.556.229	2.882.683
Deferred tax liabilities	24	4.865.148	1.890
Total non-current liabilities		**14.446.995**	**2.887.504**
Current liabilities			
Current accruals	25	112.332	117.153
Current financial debts	26	7.802.057	4.221.642
Liabilities from construction contracts	27	129.561	0
Trade accounts payable	28	3.550.938	1.030.964
Tax liabilities	29	154.596	335.938
Other liabilities	30	9.952.692	1.897.180
Total current liabilities		**21.702.176**	**7.602.877**
Total liabilities		**36.149.171**	**10.490.381**
Total equity and liabilities		**62.831.516**	**16.882.892**

Changes in shareholders' equity

according to IFRS

in €	Share capital primion AG	Capital reserves	Retained earnings	Foreign exchange translation differences	Group shares	Shares of other shareholders	Total
As at 01.10.2004	**4.150.000**	**395.120**	**1.236.599**	**-2.818**	**5.778.901**	**279.323**	**6.058.224**
Dividends paid	–	–	-1.235.332	–	-1.235.332	–	-1.235.332
Income after taxes	–	–	1.726.943	–	1.726.943	12.433	1.739.376
Other comprehensive income	–	–	–	-90	-90	–	-90
Other changes recognized directly in equity	–	–	15.621	–	15.621	-185.288	-169.667
As at 30.09.2005	**4.150.000**	**395.120**	**1.743.831**	**-2.908**	**6.286.043**	**106.468**	**6.392.511**
Dividends paid	–	–	-1.452.500	–	-1.452.500	–	-1.452.500
Income after taxes	–	–	2.469.517	–	2.469.517	97.231	2.566.748
Other comprehensive income	–	–	–	-1.490	-1.490	–	-1.490
Sale of treasury shares	–	101.907	145.919	–	247.826	–	247.826
IPO	1.400.000	18.900.000			20.300.000		20.300.000
Cost of equity capital		-1.281.422			-1.281.422		-1.281.422
Other changes recognized directly in equity	–	–	–	–	0	-89.328	-89.328
As at 30.09.2006	**5.550.000**	**18.115.605**	**2.906.767**	**-4.398**	**26.567.974**	**114.371**	**26.682.345**

Cash flow statement

as at 30 September 2006 according to IFRS

in €	2005/2006	2004/2005
Income after taxes	2.566.748	1.739.376
Depreciation and amortization	2.375.848	648.934
Change in non-current accrued liabilities	12.687	1.841
Change in deferred taxes	1.476.764	108.687
Result on disposal of non-current assets	16.535	4.725
Result from using equity method	-16.127	-8.911
Result from change in measurement of financial instruments	0	-87.625
Other non-cash expenses/income	-1.845.579	6.547
Foreign exchange translation differences	-7.888	-9.021
Gross cash flow	**4.578.988**	**2.440.553**
Change in current accrued liabilities	-56.751	-795.235
Change in inventories	848.260	2.966.771
Change in receivables from construction contracts	-1.609.431	-2.148.812
Change in working capital		
Assets	-1.199.725	-2.060.380
Liabilities	206.310	-3.986.468
Cash flow from operating activities	**2.767.651**	**3.583.571**
Intangible assets/Property, plant and equipment		
Capital expenditure	-4.089.080	-384.527
Cash inflow from disposal of assets	85.512	26.327
Business combinations less acquired cash	-21.766.218	-222.284
Cash flow from investment activities	**-25.769.786**	**-580.484**
Dividends paid to primion shareholders	-1.452.500	-1.235.332
Sale of treasury shares	247.826	–
IPO proceeds net of IPO costs	18.228.011	–
Cash inflow from financial debts	13.877.516	10.166.985
Cash outflow from debt repayment	-11.018.407	-5.032.859
Cash flow from financing activities	**19.882.446**	**3.898.794**
Net change in cash and cash equivalents	**-3.119.689**	**-265.261**
Change in bank overdraft	5.860.377	77.202
Total change in cash and cash equivalents	**2.740.688**	**-188.059**
Cash and cash equivalents at beginning of period	928.640	1.116.699
Cash and cash equivalents at end of period	**3.669.328**	**928.640**
Income tax paid	1.238.142	1.382.449
Interest paid	701.229	142.638
Interest received	196.521	8.960

Notes to the consolidated financial statements

of primion Technology AG as at 30 September 2006, according to IFRS

A. General information and presentation of the consolidated financial statements

primion Technology AG (hereinafter also referred to as "primion AG") is headquartered in Steinbeisstrasse 2-4, Stetten am kalten Markt, Germany, and is listed in the Companies' Register (Handelsregister) at Sigmaringen under HRB No. 911. The Company's shares have been traded on the regulated market (Prime Standard) of the Frankfurt Stock Exchange since 13 February 2006.

The operating activities of primion AG include the development, production and sale of hardware and software, particularly for systems used for the recording of time, operating data and project duration. primion AG is also active in the development, production and sale of system technology in the areas of electronic access control equipment and facility management (building control systems), as well as for Internet applications, security technology and the provision of related services.

Since the adoption of the regulation of the European Parliament and the Council of the European Union concerning the use of international accounting standards on 6 June 2002, for fiscal years beginning after 31 December 2004 all publicly traded companies are required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Pursuant to Section 315a of the HGB (German Commercial Code), primion AG is required to prepare its consolidated financial statements according to IASB principles.

The consolidated financial statements of primion AG, including disclosures for the prior year, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional requirements of German commercial law pursuant to Section 315a [1] of the HGB (German Commercial Code). The consolidated financial statements have been prepared on a historical cost basis, qualified by the recognition of certain financial assets that are stated at fair value.

All IFRS, IAS and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Standing Interpretations Committee (SIC) effective for fiscal 2005/2006 were satisfied. The consolidated financial statements are supplemented by a Group management report and other notes required by the German Commercial Code (HGB) and/or German Stock Corporation Act (AktG). The financial statements have been prepared on the premise that the company is a going concern.

The functional currency of the Group is the euro. Unless otherwise specified, all amounts are stated in thousands of euros (€k).

The total cost method was applied in the consolidation income statement. The current/non-current classification was used for the consolidated balance sheet. Assets and liabilities are regarded as current if they accrue within a year.

To improve the clarity of presentation, items in the consolidated balance sheet and consolidated income statement have been combined where reasonable and possible. These items are itemized and correspondingly commented on in the notes to the consolidated financial statements. Prior year figures have been adjusted to conform to the current presentation.

B. Impacts of new accounting standards

1. First-time adoption of accounting principles

The consolidated financial statements for the fiscal year from 1 October 2005 to 30 September 2006 comply with all standards revised as part of the IASB's Improvement Project. In the prior year these were applied on a voluntary basis with the exception of IAS 31 "Interests in Joint Ventures" and IAS 40 "Investment Property". Moreover, in the prior year the standards IFRS 3, IAS 36 and 38 as amended were early adopted.
In order to improve the presentation of the consolidated financial statements of primion AG, the terms 'Fixed assets' and 'Liquid assets', which were used until 30 September 2005, were replaced by the terms 'Non-current assets' and 'Current assets'. As a result, the items 'Deferred tax assets' and 'Deferred tax liabilities' are no longer presented separately; instead they are presented as non-current assets and non-current liabilities respectively in accordance with IAS 1.70. Further adjustments were also made to individual item descriptions in line with IAS 1.
In addition to the standards amended in the IASB's Improvement Project which were adopted voluntarily in the prior year financial statements, the Group for the first time adopted IAS 31 "Interests in Joint Ventures", IAS 40 "Investment Property", IFRS 2 "Share-based Payment", IFRS 4 "Insurance Contracts", IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities", IFRIC 2 "Shares in Co-operative Entities" and IFRIC SIC-12 "Consolidation – Special Purpose Entities Amendment, Scope of SIC-12". There were no impacts resulting from this.

2. Published accounting principles not yet compulsory

The following IASB accounting principles, which have been published but are not yet compulsory, have not been early adopted.

IFRS 6 "Exploration for and Evaluation of Mineral Resources"
and Amendments to IFRS 1 and IFRS 6:
These amendments are initially effective for fiscal years beginning on or after 1 January 2006.

IFRS 7 "Financial Instruments: Disclosures":
IFRS 7 governs the disclosure requirements concerning financial instruments of industrial enterprises, as well as of banks and similar financial institutions. IFRS 7 replaces the disclosure requirements covered by IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Disclosure and Presentation". IFRS 7 is effective for fiscal years beginning on or after 1 January 2007. The new regulation will lead to additional disclosures concerning financial instruments in the notes.

IFRS 8 "Operating Segments":
IFRS 8 requires an entity to introduce the management approach to reporting on the financial performance of its operating segments, rather than the 'risk and reward' approach. IFRS 8 replaces IAS 14 "Segment Reporting". IFRS 8 is initially effective for fiscal years beginning on or after 1 January 2009.

Amendments to IAS 1 "Presentation of Financial Statements":
The changes will lead to additional disclosures in the notes concerning equity. The Amendment is effective for fiscal years beginning on or after 1 January 2007.

Amendments to IAS 19 "Employee Benefits":
This change enables enterprises to recognize actuarial gains and losses from defined benefit plans in equity to their full extent in the period in which they incurred. This regulation is effective for fiscal years beginning on or after 1 January 2006.

Amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates":
These changes are initially effective for fiscal years beginning on or after 1 January 2006.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement":
Cash flow hedges for highly probable, future intra-group transactions: These changes are effective for fiscal years beginning on or after 1 January 2006.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement":
Option of measuring at fair value: These changes are effective for fiscal years beginning on or after 1 January 2006.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – Financial Guarantee Contracts and Credit Commitments:
Following the revision of IAS 39 and IFRS 4, financial guarantee contracts come solely under the scope of IAS 39. Previously, financial guarantee contracts were subject to either IAS 39 or IFRS 4, depending on their form. This Amendment is effective for fiscal years beginning on or after 1 January 2006.

IFRIC 4 "Determining Whether an Arrangement Contains a Lease" and
IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds":
These interpretations are initially effective for the fiscal year beginning on or after 1 January 2006.

IFRIC 6 "Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment":
The interpretation is effective for fiscal years beginning on or after 1 January 2006.

IFRIC 7 "Applying the Restatement Approach under
IAS 29 "Financial Reporting in Hyperinflationary Economies":
This interpretation is initially effective for the fiscal year beginning on or after 1 January 2007.
IFRIC 8 "Scope of IFRS 2":
These changes are initially effective for fiscal years beginning on or after 1 May 2006.

IFRIC 9 "Reassessment of Embedded Derivatives":
This interpretation is initially effective for fiscal years beginning on or after 1 June 2006.

IFRIC 10 "Interim Financial Reporting and Impairment":
This interpretation is initially effective for fiscal years beginning on or after 1 November 2006.

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions":
This interpretation is initially effective for fiscal years beginning on or after 1 March 2007.

IFRIC 12 "Service Concession Arrangements":
This interpretation is initially effective for fiscal years beginning on or after 1 January 2008.

primion AG is currently examining the impacts of the new standards and interpretations on its financial reporting. According to a current provisional appraisal, no impacts or significant impacts affecting the net assets, financial position and results of operations of the Group are anticipated.

C. Basic principles of the consolidated financial statements

1. Scope of consolidation and methods

Subsidiaries

A subsidiary is any company where the Group has the power to govern financial and operating policies either directly or indirectly. Subsidiaries are included in the consolidated financial statements (fully consolidated) when the Group starts to exercise control over the company and are deconsolidated when this ceases to be the case.

Business combinations are accounted for by applying the purchase method pursuant to IFRS 3 ("Business Combinations"). On acquisition, the assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequently, the purchase costs of the acquired interests are offset against the acquired company's underlying shareholders' equity. Any excess of the cost of acquisition over the fair values of the identified assets, liabilities and contingent liabilities is presented as goodwill under intangible assets. Any deficiency of the cost of acquisition below the fair values of the identified assets, liabilities and contingent liabilities (i.e. negative goodwill) is, following verification, immediately recognized as income in the period of acquisition.

The interests of minority shareholders are stated at the minority's proportion of the fair values of the assets and liabilities presented and subsequently adjusted based on share of income. Minority interests in consolidated shareholders' equity and the consolidated annual results are stated separately from the parent company's interests.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group transactions, balances and unrealized gains from transactions between Group entities are eliminated. Unrealized losses are also eliminated unless there is evidence of an impairment of the asset transferred.

The comparability of the consolidated financial statements to 30 September 2006 with the prior consolidated financial statements is impaired by the business combinations completed in the year under review. Significant impacts are presented in the notes to the individual items.

In addition to primion AG as the parent company, the following (fully consolidated) companies are included in the consolidated financial statements:

Company and headquarters	Shareholding as at 30.09.2006	30.09.2005
Direct participations:		
primion TECHNOLOGIE SAS, Boulogne-Billancourt, France	100,00 %	89,60 %
primion Technology GmbH, Graz, Austria	51,00 %	51,00 %
primion Staedtler GmbH (formerly primion Holding GmbH), Nuremberg, Germany	100,00 %	100,00 %
primion GmbH, Stetten am kalten Markt, Germany	100,00 %	100,00 %
primion Digitek S.L.U., Barcelona, Spain	100,00 %	0,00 %
General Engineering & Technology N.V., Malle, Belgium	100,00 %	0,00 %
Indirect participations:		
primion SYSTEMS SAS, Bernolsheim, France*1	100,00 %	79,00 %
Nisus N.V., Herentals, Belgiun*2	100,00 %	0,00 %
GET Nederland B.V. Amsterdam, Netherlands*2	100,00 %	0,00 %
Dataget SAS Tourcoing Cedex, France*2	100,00 %	0,00 %

*1 Wholly-owned subsidiary of primion Technologie SAS, France
*2 Wholly-owned subsidiary of General Engineering & Technology N.V., Belgium

Associated companies
An associated company is an entity over which the Group is in a position to exercise significant influence, often with a share of the voting rights of between 20 and 50 per cent. Participations in associated companies are accounted for under the equity method. Pursuant to IAS 28 the shares are stated at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of gains and losses of associated companies is recognized in the non-operating result in the income statement from the date of acquisition, while the share of changes in reserves is recognized in the Group reserves.

The participation in primion AG of Tuggen/Switzerland (26%) was included in the consolidated financial statements at equity. At the balance sheet date of 30 September 2006, the net assets of primion AG of Tuggen were €282k (30 September 2005: €220k).

Foreign exchange translation
The functional currency of all fully consolidated subsidiaries is the euro.

Transactions denominated in currencies other than the euro are translated at the rates of exchange prevailing on the dates of the transactions. Gains and losses from the settlement of such transactions and from translating monetary assets and liabilities at the balance sheet date are recognized in the income statement.

Balance sheet items denominated in currencies other than the euro are measured at the rates of exchange prevailing on the balance sheet date.

Pursuant to IAS 21 and the concept of the functional currency, the percentage of equity of foreign associated companies is translated at the balance sheet date at the period-end exchange rate or historical rates. Expense and income items are translated at the average exchange rates for the period. Exchange differences arising are presented in the balance sheet under “Differences in foreign exchange translation” in equity.

The following rates of exchange were used to translate the underlying shareholders' equity of foreign associated companies:

	Balance sheet date		Annual average	
	30.09.2006	30.09.2005	2005/2006	2004/2005
1 Swiss franc (CHF) in €	1,59	1,557	1,5625	1,5504

2. Key accounting policies

The assets and liabilities of primion Technology AG and the fully consolidated domestic and foreign subsidiaries were uniformly recognized and measured as at 30 September 2006 according to the primion Group's prevailing accounting policies.
The same applies for the participation included in the consolidated financial statements using the equity method.

The comparative information for fiscal 2004/2005 is based on the same accounting policies as have been adopted for fiscal 2005/2006 unless otherwise expressly reported.

The key accounting policies adopted in drawing up these consolidated financial statements are as follows:

Recognition of income and expenses
Income is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Sales of goods are recognized when goods are delivered and title has passed. Revenues from the sale of services are recognized proportionally according to performance development in the period the services were provided.

Please refer to the separate notes on construction contracts regarding the recognition of revenues from construction contracts.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend income from financial assets is recognized when the shareholders' rights to receive payment have been established.

Non-capitalized expenses are recognized as expenses in the income statement at the time they are incurred.

Borrowing costs
Borrowing costs within the Group are recognized in the period in which they are incurred in accordance with IAS 23.

Government grants
Investment subsidies are assigned to the related acquisition and/or production costs and are deducted in reporting the related expense.

Income taxes
The tax expense represents the sum of the tax currently payable and deferred tax. Tax currently payable is calculated on the basis of the taxable income for the year of the individual companies within the Group. Deferred taxes are recognized for all temporary differences between the carrying amounts of assets and liabilities in the tax bases and financial statements and from consolidation measures.

Deferred taxes on loss carry-forwards are capitalized as costs, provided it can be expected that these will be utilized. Deferred tax is calculated at the tax rates in the period when the asset is realized or that are expected to apply based on the current legal situation in the individual countries.

The carrying amount of deferred tax assets is tested for impairment each year at the balance sheet date and, where applicable, reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred taxes are generally recognized in the income statement except for items charged or credited directly to equity.

Internally-generated intangible assets – Research & Development costs
At the beginning of fiscal 2005/2006, a standardized information collection and reporting system for Group-wide development activities was implemented at primion AG and at two further subsidiaries. As a result of introducing this system, the primion Group has been able to cumulatively demonstrate the requirements set out in IAS 38.57 et seq. on the capitalization of development costs since 1 October 2005. Group-wide development activities represent a significant intangible resource for the primion Group. primion expects considerable future economic benefits to flow to the entity from the development of software and hardware products for systems used for the recording of time, operating data and project duration. Since the beginning of fiscal 2005/2006, expenses incurred in connection with software and hardware development projects have been recognized as intangible assets if the technical and commercial feasibility of completing the development project can be demonstrated, it is probable that the intangible asset will be used or sold by the Company in the future, and if the development cost of the asset can be measured reliably.

According to IAS 38.66, development costs include all costs accrued in the development phase which are directly attributable to the development project. Borrowing costs are not included. Amortization begins when the asset is marketable and continues on a straight-line basis over the useful life which is estimated at 3 to 10 years.

As at 30 September 2006, development costs to the amount of €2,646k were capitalized. Of this €571k resulted from the acquisition of primion Staedtler GmbH. Amortization in the period from 1 October 2005 to 30 September 2006 amounted to €102k. Pursuant to IAS 38.71, development costs that were originally recognized as expenses have not been recognized as the production costs of an intangible asset at a subsequent point in time. Research and development expenditure which was directly recognized under expenses amounted to €1,350k during the period (prior year: €1,698k).

Intangible assets acquired for consideration
Intangible assets acquired are measured at acquisition/production cost less cumulative amortization.

Amortization continues on a straight-line basis over the asset's useful life which was estimated as follows for the major capitalized intangible assets:

• Software: 3-5 years
• Order backlog: max. 2 years
• Regular customers: 10 years
• Servicing agreements: 10-12 years

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Pursuant to IFRS 3, goodwill is not subject to amortization but rather tested for impairment in accordance with IAS 36 annually, and additionally on a case-by-case basis where there is an indication that the asset may be impaired, and where applicable reduced to its recoverable amount ("impairment only approach"). For the purpose of the impairment test, goodwill is allocated to cash-generating units (CGU). Any impairment is recognized as income immediately. No subsequent reversal of impairment losses takes place.

Property, plant and equipment
Property, plant and equipment are stated at their historical purchase cost less amortization. Purchase costs include the purchase costs directly attributable to the acquisition. Retroactive purchase/production costs are considered a component of the asset's purchase/production costs only when it is probable that the Group will derive future commercial benefit therefrom and the asset costs can be measured reliably. Any other repairs and maintenance are recognized as an expense in the income statement in the period in which they are incurred.
Land is not subject to amortization. For all other assets, amortization of the purchase costs continues over the asset's estimated useful life, using the straight-line method, on the following bases:

• Buildings: 20-50 years
• Machinery and auxiliary facilities: 3-13 years
• Operational and business equipment: 3-13 years

The residual carrying amounts and estimated useful lives are examined at each balance sheet date and adjusted where necessary. If an asset's carrying amount exceeds its estimated recoverable amount, it is amortized at the latter with immediate effect. Gains and losses arising on the disposal of assets are determined as the difference between the sales proceeds and the carrying amount and are recognized in income.

Impairment test
Goodwill and other intangible assets with indefinite useful lives or intangible assets not yet ready for their intended use must be tested for impairment at least once a year, while other intangible assets with limited useful lives and property, plant and equipment must be tested only when there is an indication that the asset may be impaired. Impairment is recognized as income where the asset's recoverable amount is lower than the carrying amount. The recoverable amount is generally calculated separately for each asset. Where this is not possible, calculations are made on the basis of a group of assets or the legal entity. Recoverable amount is the higher of fair value less costs to sell and the value in use. Fair value less costs to sell corresponds to the recoverable amount arising from the sale of an asset in line with standard market practice, less costs of disposal. Value in use is calculated on the basis of the estimated future cash flows arising from the use and disposal of an asset, using a discounted cash flow or earnings capacity approach. Cash flows are derived from long-term corporate planning, taking current developments into consideration. They are discounted at the balance sheet date using risk-adjusted discount rates (WACC = weighted average cost of capital) after taxes. The discount rates (WACC) used for the purposes of the disclosure in the notes were calculated by grossing up the respective WACC after taxes at a notional pre-tax discount rate (IAS 36.BCZ85).

Where an impairment recognized in prior years is no longer applicable, impairment losses are reversed up to the carrying amount (excluding goodwill).

During the reporting period there were no intangible assets with an indefinite useful life, except for the goodwill disclosed.

Leases
Leases are classified as finance leases whenever the terms of the leases substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.
Assets which are held under finance leases are recognized as assets of the Group at the present value of the lease payments or at a lower fair value pursuant to IAS 17 and amortized over their useful life or, where applicable, a shorter term of the relevant lease.
The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation under financial liabilities. Lease payments are apportioned between interest expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.
Rentals payable under operating leases are recognized as expenses in the income statement on a straight-line basis over the term of the relevant lease.

Inventories
Inventories are stated at the lower of purchase/production cost and net realizable value.
Production costs include direct costs, a reasonable proportion of material and manufacturing overheads, amortization arising from production and production-related administrative costs. Finance costs are not recognized as part of the purchase and production costs.

In order to simplify the calculations, the average method is applied to raw materials and supplies.

Net realizable value represents the estimated selling price less all estimated costs of completion and of marketing, selling and distribution.

Construction contracts
Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized pursuant to IAS 11.22 by reference to the stage of completion at the balance sheet date (percentage of completion (POC) method). This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Payments for variations in contract work, additional claims and incentive payments are included to the extent that they have been agreed. The Group recognizes a receivable for all current amounts due from customers for construction work where the sum of invoices for partial delivery does not exceed the costs incurred plus the recognized gains. The Group recognizes a liability for all current amounts due to customers for construction work where the sum of invoices for partial delivery exceeds the costs incurred plus the recognized gains. Where the outcome of a construction contract cannot be estimated reliably, pursuant to IAS 11.32 contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.
The requirements for the recognition of revenue pursuant to IAS 11.22 were effective for the first time at the balance sheet date of 30 September 2006. As a result, and deviating from the prior year, proceeds from construction contracts are presented as revenue from now on and no longer partly as inventory changes. The prior year figures in the balance sheet and income statement have been adjusted accordingly.

Financial assets
Under the provisions of IAS 32/39 financial assets are divided into the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the respective financial asset was acquired. Management determines the classification of financial assets when they are first included in the financial statements and reviews this at each balance sheet date.
With the exception of trade accounts receivable and cash and cash equivalents, the primion Group holds no significant financial assets in terms of IAS 32/39.

Trade accounts receivable
Trade accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, net of impairment. An impairment loss for trade account receivables is recognized when there are objective indications that the receivable amounts due are not recoverable in their entirety. The level of impairment is measured as the difference between the

carrying amount of the receivable and the present value of estimated future cash flows arising from this receivable, discounted by the effective interest rate. Any impairment loss is recognized in the income statement. Corresponding write-backs take place if the reasons for the prior years' value allowances no longer apply.

Cash and cash equivalents

Cash and cash equivalents comprise cash, deposits and other short-term highly liquid financial assets with maturity of three months or less. Overdraft facilities drawn upon are recognized on the balance sheet as liabilities to banks under current financial liabilities.

Shareholders' equity

Ordinary shares are classified as shareholders' equity. According to IAS 32, costs which are directly attributable to the issue of new shares are accounted for at equity net (after taxes) as a deduction of issue proceeds.

If a company within the Group purchases primion AG treasury shares, the value of the consideration paid, including directly attributable net costs (after taxes) is deducted from the shareholders' equity the shareholders are entitled to until the shares are retracted, reissued or resold. Where such shares are subsequently reissued or resold, the consideration received is recognized in equity net of directly attributable additional transaction costs and related income taxes. At the balance sheet date of 30 September 2006 the company no longer held equity interests in the company.

Provisions

Provisions pursuant to IAS 37 are recorded only when there is a present legal or de facto obligation to third parties leading to a probable future outflow of resources that can be reasonably estimated.

Where there is a material effect, long-term provisions are recognized based on their discounted redemption amount at the balance sheet date.

Employee benefits

Pension obligations

Within the primion Group all retirement schemes are defined contribution schemes.

Share-based compensation

No share-based compensation occurred within the primion Group.

Termination benefits

Termination benefits are paid when an employee is released from employment before reaching statutory retirement age or when an employee accepts voluntary redundancy benefits. The Group recognizes redundancy benefits when demonstrably obliged to terminate the contracts of current employees according to a detailed formal plan which cannot be retracted or when employees terminate their contracts voluntarily in exchange for redundancy payments. Payments due more than 12 months after the balance sheet date are discounted at their present value.

At the balance sheet date there were no such obligations.

Lawsuits and claims for damages

Companies within the primion Group are involved in various legal and official proceedings as part of the general course of business or may become involved in the same should they be instigated or become applicable in the future. Although the outcome of individual proceedings cannot be anticipated with any certainty in view of the imponderability of lawsuits, the current assessment is that, beyond the risks taken into consideration in the financial statements as liabilities or provisions, the results of Group operations are not significantly adversely affected.

Liabilities

Liabilities are measured at amortized cost. Accordingly, current liabilities are carried at payment or redemption amounts. Non-current liabilities and financial liabilities are carried at amortized cost using the effective interest rate method.

Items with a residual maturity of up to one year are presented as current; non-current items have a residual maturity of more than a year.

Accounting policies – significant assumptions and estimates

The preparation of the consolidated financial statements requires the use of estimates and assumptions. These affect the recognition, measurement and presentation of assets, liabilities, income and expenses. All findings currently available are taken into consideration. Significant assumptions and estimates mainly relate to the useful life and recoverable amount of intangible assets, the recognition of receivables, calculations of remaining costs and the extent of progress towards the completion of construction contracts, as well as the accounting and measurement of provisions.

Estimations are based on historical experience and other assumptions that are considered accurate in the circumstances. The actual values may vary from the estimates. The estimates and assumptions are continually reviewed.

Estimates are also used in the course of acquisitions to determine the fair value of the assets and liabilities acquired. The identification and valuation of intangible assets in particular has a significant discretionary component. Fair value is generally derived from a forecast of the total expected future net cash flows. Assets may be valued using methods based on cost, market price or income, depending on the type of asset and the availability of information. The income approach is the preferred measure of intangible assets. Although primion believes that its estimates of the relevant expected useful life of certain assets and its estimations of the discounted future cash flows are appropriate, changes in assumptions or circumstances could require changes in the analysis.

The carrying amounts of assets and liabilities affected by estimates can be obtained from the breakdowns of the individual balance sheet items.

According to IAS 36 and IAS 38, goodwill must be tested for impairment annually and additionally during the fiscal year if there is an indication that the asset may be impaired. For the consolidated financial statements, assets are tested for impairment by comparing the residual carrying amount for each cash-generating unit to the recoverable amount. In line with the definition of cash-generating units, the companies within the primion Group based in Germany are identified as one CGU (the "domestic CGU"), with the Austrian, French and Spanish companies plus the recently acquired GET Group each forming a CGU. Goodwill to the amount of €4,247k is for the domestic CGU and €213k for CGU France. The provisional goodwill of the GET Group determined according to IFRS 3.62 amounts to €2,047k.

Where the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized for the difference. First, the goodwill of the relevant CGU is written down accordingly. Any remaining impairment loss is allocated among the other assets of the CGU in proportion to their net carrying amounts.
The recoverable amount is determined from discounted future cash flows, based on continuing use of the asset by the cash-generating unit and its retirement at the end of its useful life. The cash flow forecasts are derived from the current planning for the primion Group. primion calculates the cost of capital according to the debt/equity ratio by the weighted average cost of capital (WACC) formula. The WACC applied as at 30 September 2006 were between 9.33% and 9.58% before taxes. There was no impairment loss as a result of impairment tests carried out.

Financial risk management

Financial risk factors
The Group is exposed to various financial risks in the normal course of business. The Group's overall risk management policy is focused on the unpredictability of financial markets and aims to minimize potentially negative impacts on the Group's financial situation. Risk management follows guidelines approved by the Executive Committee which the Group uses to identify and measure risks. These are then hedged in close conjunction with the Group's operating units. The Executive Committee provides in writing the principles of cross-divisional risk management and guidelines for specific areas such as the management of foreign exchange risk, interest rate and credit risk, the use of derivative financial instruments and non-derivatives, as well as the investment of excess liquidity. At the balance sheet date, the Group had no exposure to derivative financial instruments.

Foreign exchange risk
Foreign exchange risk is currently immaterial within the primion Group as primion is principally active in the eurozone.

Interest rate risk
At present, management considers interest rate sensitivity arising from variable rate financing from current financial liabilities immaterial.

Group management constantly monitors movements in the money and capital markets, in order to take appropriate hedging measures by way of interest-rate hedging transactions such as interest caps and swaps, where necessary. Equally, synthetic variable financing can be created from fixed interest positions using derivative financial instruments. Due to the fixed interest liabilities mainly included for the first time in the current fiscal year, the market values of these liabilities essentially correspond to the carrying amounts.

Credit risk
The Group has no significant concentration of potential credit risk. Identifiable credit risks were adequately taken into consideration by way of corresponding value allowances.

Liquidity risk
A prudent liquidity management strategy includes holding sufficient reserves of cash and cash equivalents, financing options through adequate, approved lines of credit and the ability to issue shares. Due to the dynamic business environment in which the Group operates, primion's objective is to maintain the necessary financing flexibility by having access to sufficient untapped lines of credit.

D. Notes to the income statement and balance sheet

1. Revenues
Revenues relating to construction contracts are €30,579k (prior year: €18,148k).

With the associated company, revenues to the amount of €278k (prior year: €195k) were effected.

2. Other own work capitalized
Own work capitalized derives from the capitalization of development costs.

3. Other operating income
Other operating income comprised the following:

	2005/2006 €k	2004/2005 €k
Income from bargain purchase according to IFRS 3.56 (b)	1.577	–
Benefits in kind	379	263
Income from liabilities which no longer apply	350	–
Income from exchange rate differences	131	34
Insurance compensation	41	21
Cancellation of value adjustments	24	31
Other	68	109
	2.570	**458**

The bargain purchase amount of €1,577 (prior year: €0k) from acquiring Digitek is presented according to IFRS 3.56 (b), as the fair values of the recognized identifiable assets, liabilities and contingent liabilities exceed the acquisition costs of the business combination. Following revaluation of the residual surplus this was required to be recognized immediately in the income statement according to IFRS 3.56 (b).

4. Costs of materials

The costs of materials are composed of the following:

	2005/2006 €k	2004/2005 €k
Costs of raw materials and supplies and of purchased goods	9.867	3.622
Costs of purchased services	1.738	2.401
	11.605	**6.023**

5. Personnel expenses

Personnel expenses are composed of the following:

	2005/2006 €k	2004/2005 €k
Salaries and wages	11.831	6.735
Retirement and social benefit expenses	2.383	1.433
	14.214	**8.168**

As at 30 September 2006, the Group employed 380 employees (prior year: 152), including managing directors, the Executive Committee and Supervisory Board.

Profit sharing by management is governed by individual bonus agreements.

Group companies provide retirement benefits under defined contribution plans only. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. For the provision of retirement benefits in Germany, primion AG uses, amongst others, an appropriate reinsured group provident fund and pension plans for employees which represent defined contribution plans pursuant to IAS 19.

All ongoing contributions to publicly or privately administered pension insurance plans are recognized as expenses in the respective period under social security contributions, retirement and other benefit costs. In 2005/2006 these amounted to: €902k (2004/2005: €555k).

6. Other operating expenses

Other operating expenses are composed of the following:

	2005/2006 €k	2004/2005 €k
Rents/energy/building costs	580	277
Administrative costs/insurance	782	385
Vehicle costs	972	671
Marketing/trade shows	728	377
Travel/hospitality costs	600	351
Legal and consultancy costs	1.202	251
External development costs	467	369
Costs of restructuring	–	232
Other expenses	1.374	922
	6.705	**3.835**

7. Non-operating result

The non-operating result is composed of the following:

	2005/2006 €k	2004/2005 €k
Income accounted for under the equity method	18	9
Gains from financial instruments	–	69
Losses from financial instruments	–	-64
Interest income	184	7
Interest expenses	-726	-173
	-524	**-152**

8. Income taxes

This item comprises current incomes taxes, plus deferred taxes within the Group.

	2005/2006 €k	2004/2005 €k
Current taxes		
Germany	-485	962
Other countries	159	-4
	-326	958
Deferred taxes		
From temporary differences	1.925	118
From loss carry-forwards	-214	-9
	1.711	109
	1.385	**1.067**

Current taxes pertain to income taxes accrued or paid, claims for tax refunds for domestic corporation and corporate income taxes, as well as the corresponding income taxes for foreign subsidiaries.

A corporation tax rate of 25% plus a solidarity surcharge of 5.5% on corporation tax together with an average corporate income tax rate of 18.2% are used for domestic tax calculations. Taking into consideration the deductibility of corporate income tax from corporation tax, this give a total tax rate of 37.7%.

Foreign income tax calculations are based on the laws and regulations in force in the specific jurisdictions. For Austria an income tax rate of 25% was used as a basis. For France and Spain this was 35%.

The following table reconciles the expected tax expense in the respective period to the actual tax expense presented in the financial statements.

	2005/2006 €k	2004/2005 €k
Income before taxes	3.952	2.806
Expected tax expense at 37.7%	1.490	1.058
Changes in expected tax expense:		
Non-deductible expenses	16	15
Tax expenses relating to other periods	88	-8
Effect of bargain purchase	-595	4
Differences in foreign tax rates	26	-
Value allowance on deferred taxes	301	
Other tax effects	59	-2
Actual tax expense	**1.385**	**1.067**

9. Earnings per share

Earnings per share (in €) are calculated as follows:

	2005/2006 €k	2004/2005 €k
Income attributable to shareholders of primion Technology AG (consolidated net income)	2.469.517	1.726.943
Average number of shares issued	5.032.873	4.117.773
Earnings per share (basic and diluted)	0,49	0,42

10. Intangible assets

Intangible assets include goodwill, development costs, software, licences and similar rights such as regular customers, servicing agreements and order backlog.

Changes to intangible assets are outlined in the assets analysis.

11. Property, plant and equipment

Changes to property, plant and equipment are outlined in the assets analysis.

The additions pertain to buildings, computer hardware, office equipment and fittings, company cars and other operational and business equipment.

Tangible fixed assets to the amount of €214k (prior year: €312k) also include leased operational and business equipment which is attributable to Group ownership due to the form of the underlying lease agreements ("finance leases"). These lease items almost exclusively relate to commercial vehicles.

During the period the Group received an investment subsidy to the amount of €41k from the L-Bank Baden-Wuerttemberg, in order to extend the production and administrative premises in Stetten am kalten Markt.

12. Financial assets accounted for under the equity method

The 26% interest in primion AG of Tuggen (Switzerland) was carried at equity. In fiscal 2005/2006 the company generated net income of €77k. Total assets amounted to €665k as at 30 September 2006 while shareholders' equity was €282k.
The equity value in fiscal 2005/2006 changed as follows:

	2005/2006 €k	2004/2005 €k
As at 01.10.	57	48
Proportionate annual result	20	10
Exchange rate differences	-2	–
Income taxes	-2	-1
As at 30.09.	**73**	**57**

13. Other financial assets

Other financial assets are composed of the following:

	2005/2006 €k	2004/2005 €k
Shares in companies	4	–
Other financial assets	84	6
	88	**6**

In July 2006 primion AG held 15% of the shares in the newly formed SFK Networkservice GmbH of Roemhild, Germany.

14. Assets analysis

The assets analysis for fiscal 2004/2005 and fiscal 2005/2006 is outlined on the following pages.

Group assets analysis as at 30 September 2006

	Purchase and production costs					Depreciation and amortization				Carrying amounts	
	As at 01.10.2005 €k	Additions €k	Disposals €k	Reclassi-fication €k	As at 30.09.2006 €k	As at 01.10.2005 €k	Additions €k	Disposals €k	As at 30.09.2006 €k	30.09.2006 €k	30.09.2005 €k
Intangible assets											
Industrial property rights and similar rights and assets and licences to such rights and assets	801	17.531	–	6	18.326	561	1.608	–	2.169	16.157	240
Development costs	–	2.748	–	–	2.748	–	102	–	102	2.646	–
Goodwill	1.762	4.740	–	6	6.508	–	–	–		6.508	1.762
Intangible assets	**2.563**	**25.019**	**–**	**–**	**27.582**	**561**	**1.710**	**–**	**2.271**	**25.311**	**2.002**
Property, plant and equipment											
Land, similar rights and buildings, including buildings on third-party land	1.991	4.560	–	–	6.551	173	103	–	276	6.275	1.818
Technical facilities and machinery	286	–	–	–	286	283	1	–	284	2	3
Other facilities, operational and business equipment	3.166	1.780	201	–	4.745	2.170	562	99	2.633	2.112	996
Property, plant and equipment	**5.443**	**6.340**	**201**	**–**	**11.582**	**2.626**	**666**	**99**	**3.193**	**8.389**	**2.817**
Financial assets											
Financial assets accounted for under the equity method	57	16	–	–	73	–	–	–	–	73	57
Other financial assets	6	82	–	–	88	–	–	–	–	88	6
Financial assets	**63**	**98**	**–**	**–**	**161**	–	–	–	–	161	63
	8.069	**31.457**	**201**	**–**	**39.325**	**3.187**	**2.376**	**99**	**5.464**	**33.861**	**4.882**

Group assets analysis as at 30 September 2005

	Purchase and production costs				Depreciation and amortization				Carrying amounts	
	As at 01.10.2004 €k	Additions €k	Disposals €k	As at 30.09.2005 €k	As at 01.10.2004 €k	Additions €k	Disposals €k	As at 30.09.2005 €k	30.09.2005 €k	30.09.2004 €k
Intangible assets										
Industrial property rights and similar rights and assets and licences to such rights and assets	761	40	–	801	454	107	–	561	240	307
Goodwill	1.722	40	–	1.762	–	–	–	–	1.762	1.722
Intangible assets	**2.483**	**80**	**–**	**2.563**	**454**	**107**	**–**	**561**	**2.002**	**2.029**
Property, plant and equipment										
Land, similar rights and buildings, including buildings on third-party land	1.933	58	–	1.991	105	68	–	173	1.818	1.828
Technical facilities and machinery	286	–	–	286	279	4	–	283	3	7
Other facilities, operational and business equipment	2.963	288	85	3.166	1.722	506	58	2.170	996	1.241
Property, plant and equipment	**5.182**	**346**	**85**	**5.443**	**2.106**	**578**	**58**	**2.626**	**2.817**	**3.076**
Financial assets										
Shares in associated companies	48	9	–	57	–	–	–	–	57	48
Other assets	5	1	–	6	–	–	–	–	6	5
Financial assets	**53**	**10**	**–**	**63**	**–**	**–**	**–**	**–**	**63**	**53**
	7.718	**436**	**85**	**8.069**	**2.560**	**685**	**58**	**3.187**	**4.882**	**5.158**

15. Inventories
Inventories comprised the following:

	30.09.2006 €k	30.09.2005 €k
Raw materials and supplies	1.351	805
Work in process and services	5.274	1.654
Finished goods	325	86
Payments in advance	26	3
	6.976	**2.548**

Inventories are stated at the lower of purchase/production costs and net realizable value at the balance sheet date, less remaining costs. At the balance sheet date, value allowances amounted to €120k (prior year: €7k). Value allowances are mainly made for overrange and insufficient marketability.

The item work in process and services in fiscal 2005/2006 is mainly affected by the provisional allocation of the total reserve stocks of the GET Group pursuant to IFRS 3.62.

16. Receivables from construction contracts

	30.09.2006 €k	30.09.2005 €k
Costs incurred plus cumulative gain	5.774	2.200
Less part payments	2.146	51
	3.628	**2.149**
thereof: future receivables under POC	3.758	2.149
thereof: future payables under POC	130	–

Construction contracts are accounted for under the percentage-of-completion method (POC method) or zero profit method. The zero profit method is applied when the outcome of a construction contract cannot be estimated reliably. When using the POC method the extent of progress towards completion is determined under the cost-to-cost method.

Part payments in fiscal 2005/2006 result predominantly from the operations of primion Staedtler GmbH.

17. Trade accounts receivable
Receivables to the amount of €11,969k (prior year: €5,588k) include individual value adjustments of €292k (prior year: €28k).

Receivables from associated companies amounted to €45k (prior year: €27k).

18. Other accounts receivable and other assets
Other accounts receivable and other assets are composed of the following:

	30.09.2006 €k	30.09.2005 €k
Employee receivables	41	13
Deferred items	291	241
Tax receivables	193	–
Other receivables	483	97
	1.008	**369**

Tax receivables solely comprise claims for VAT refunds to the amount of €193k.

19. Claims for tax refunds
Claims for tax refunds of €1,503k (prior year: €117k) relate mainly to primion AG to the amount of €1,481k (prior year: €102k).

20. Cash and cash equivalents
This item presents cash and balances at banks with maturity of 3 months or less, plus securities with original maturities of up to 3 months. Of these, €2,393k is for the GET Group, €965k for primion Digitek S.L.U. and €237k for primion Systems SAS.

21. Shareholders' equity
Changes to the consolidated shareholders' equity are outlined in the statement of changes to shareholders' equity.

The share capital of primion Technology AG, amounting to €5,550k (prior year: €4,150k) is divided into 5,550,000 (prior year: 4,150,000) no-par value bearer shares with a nominal value of €1.00 per share. Each share entitles the bearer to one vote at the Annual Shareholders' Meeting.

Following a proposal of the Executive Committee and Supervisory Board, the Extraordinary Shareholders' Meeting of 12 January 2006 resolved, conditional to registration, to increase the Company's capital stock in return for cash contributions by up to €1,400k, from €4,150k to up to €5,550k by issuing up to 1,400,000 new bearer shares with a respective share of capital stock of €1.00 each.

Shareholder subscription rights were excluded. The shares were placed on the market by means of a public offer in the Federal Republic of Germany and private placements in certain other jurisdictions outside the Federal Republic of Germany and the United States. The placement proceeds were transferred to the Company net of the issue price, commission, costs and expenditure.

The Supervisory Board was authorized to amend the text of Section 5 [1] and [2] of the Company's articles of association in line with the capital increase.

The Extraordinary Shareholders' Meeting of 12 January 2006 further resolved, conditional to registration, to increase the Company's Approved Capital from up to €2,075,000 to up to €2,575,000. Section 5 [5] Sentence 1 of the Company's articles was amended correspondingly. Otherwise, Approved Capital pursuant to Section 5 [5] of the Company's articles remained unchanged.

The Shareholders' Meeting also authorized the Executive Committee, subject to the approval of the Supervisory Board, to determine further details for carrying out capital increases from Approved Capital.

Following a proposal of the Executive Committee and Supervisory Board, conditional to registering the implementation of the capital increase, the authorization to acquire Company shares as resolved by the Annual Shareholders' Meeting of 19 January 2005 was revoked and replaced by the following authorization:

1. The Company is authorized to acquire treasury shares. The authorization may not be used for the purposes of trading with Company shares; otherwise, the Executive Committee is free to determine the reason for purchase itself.

2. The authorization is limited to the purchase of shares representing €555,000 of the capital stock, however no more than 10% of the capital stock following registration of the completed capital increase. The authorization may be exercised wholly or in instalments, once or several times, for the pursuit of one or more purposes within the aforementioned limitations. The acquired shares may not, in combination with other treasury shares owned by or attributed to the Company pursuant to Sections 71a et seq. of the German Stock Corporation Act (AktG), at any time exceed 10% of the capital stock. The authorization to purchase treasury shares expires on 19 June 2007.

3. The shares may be purchased at the discretion of the Executive Committee via the stock exchange or by means of a public offer to all Company shareholders. Should the shares be purchased via the stock exchange, the price paid by the Company per share (excluding transaction costs) may not be more than 10% lower or higher than the stock market price. The stock market price for the purpose of the above arrangement is the price determined by the opening auction of the XETRA electronic trading system (or any functionally equivalent successor to the XETRA system) of the Frankfurt Stock Exchange. Should the shares be purchased via a public offer to all Company shareholders, the purchase price offer, or the limits of the offered price range per share (excluding transaction costs), may not be more than 20% lower or higher than the stock market price. The stock market price for the purpose of the above arrangement is the closing auction price of the XETRA electronic trading system (or any functionally equivalent successor to the XETRA system) of the Frankfurt Stock Exchange on the third trading day prior to the date on which the offer is announced. The offer volume may be limited. Where the total offer subscription exceeds this volume, acceptance must be granted in proportion to the respective number of shares on offer. Preference may be given to smaller amounts of up to 100 Company shares per shareholder. The principles of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz) must be observed where and insofar as applicable.

4. The Executive Committee is authorized to use Company shares acquired on the basis of the aforementioned authorization

a) to introduce Company shares on stock exchanges abroad, in countries where they were previously not permitted for trading;

b) to offer to third parties in the course of business combinations or the acquisition of companies, investments in such companies or parts of companies;

c) to issue to employees of the Company or affiliated companies pursuant to Sections 15 et seq. of the German Stock Corporation Act (AktG), or to offer for sale and/or transfer to such employees;

d) to offer to third parties and to transfer to such parties which make a significant contribution to the achievement of the Company's objectives as strategic partners of the Company, or one of its affiliated companies pursuant to Sections 15 et seq. of the German Stock Corporation Act (AktG);

e) to fulfil obligations resulting from convertible and warrant bonds issued by the Company;

f) to offer for subscription to shareholders on the basis of an offer to all shareholders, with due recognition of subscription rights and the principle of equal treatment of shareholders according to Section 53a of the German Stock Corporation Act (AktG);

g) to resell via the stock exchange with due recognition of the principle of equal treatment of shareholders according to Section 53a of the German Stock Corporation Act (AktG);

h) to sell in some way other than via the stock exchange or via an offer to all shareholders, providing that the acquired shares are sold for cash at a price which is not substantially lower than the quoted market price of Company shares with the same terms at the time of sale. This authorization is limited to no more than 10% of the Company's increased capital stock, or 10% of the Company's capital stock at the same the shares are sold, should capital stock be lower at this time. With regard to the authorized volume, other cases of eased subscription right exclusion pursuant to Section 186 [3] Sentence 4 of the German Stock Corporation Act (AktG) must be considered due to other authorizations;

i) to retire shares, without such retirement or its implementation requiring any further resolution of the Annual Shareholders' Meeting. Retirement of shares results in a reduction of the capital stock. Alter natively, the Executive Committee may decide, subject to approval of the Supervisory Board, that the capital stock should remain unchanged after retirement of the shares and thereby raise the proportion of capital stock attributable to the remaining shares pursuant to Section 8 [3] of the German Stock Corporation Act (AktG). In this case, the Executive Committee is authorized to amend the number of shares stated in the Company's articles.

5. The authorizations in section 4 may be exercised wholly or in instalments, once or several times, individually or collectively. The price at which the Company's shares may be sold at such stock exchanges, pursuant to the authorization of section 4 a), or at which they may be issued to third parties, pursuant to the authorizations of sections 4 b), d) and/or h), may not be more than 5% lower than the stock market price determined by the opening auction of the XETRA electronic trading system (or any functionally equivalent successor to the XETRA system) of the Frankfurt Stock Exchange on the day of the respective stock exchange placement or binding agreement with a third party.

The right of shareholders to subscribe to treasury shares of the Company shall be excluded to the extent that these shares are used according to the aforementioned authorizations of section 4 a), b), c), d), e) and h). Moreover, the Executive Committee is authorized in the case of a sale of Company shares as part of an offer to Company shareholders, pursuant to section 4 f), to exclude the right of shareholders to subscribe in the case of fractional amounts, subject to the approval of the Supervisory Board.

The placement of 1,400,000 shares at an issue price of €14.50 per share during the Company's IPO on 13 February 2006 resulted in proceeds of €20,300k.
With a resolution of 28 November 2005, the Annual Shareholders' Meeting followed the proposal of the Executive Committee to distribute a dividend payment of €1,453k from retained earnings of fiscal 2004/2005. The dividend payment was made on 1 December 2005.

Minority interests

	30.09.2006 €k	30.09.2005 €k
Shares of external shareholders in		
primion SYSTEMS SAS, Bernolsheim, France	–	94
primion Technology GmbH, Graz, Austria	114	12
	114	**106**

22. Long-term provisions

Long-term provisions of €26k (prior year: €13k) pertain solely to provisions for termination benefits (redundancy) arising from the Austrian company employees' severance pay and pensions fund act (BMVG) according to which an employee has a claim to redundancy benefits following three years of continuous service.

23. Non-current financial liabilities

	30.09.2006 €k	30.09.2005 €k
Liabilities to banks	9.500	2.722
Non-current finance lease liabilities	56	151
	9.556	**2.873**

The interest rate of non-current financial liabilities to banks ranges from 3.48% to 4.99%. Liabilities to banks pertain to repayment loans of primion Technology AG to the amount of €8,329k and the GET Group of €1,171k. As the loans were mainly taken out in the current fiscal year, the market values at the balance sheet date essentially correspond to the carrying amounts.

The maturity structure is broken down as follows:
From 1 to 5 years: €5,352k
Over 5 years: €4,204k

Liabilities of €4,276k (prior year: €2,566k) are collateralized. Of this, €2,500k (prior year: €2,500k) is for liabilities collateralized by mortgage loans.

Finance lease liabilities pertain almost exclusively to leases for company vehicles which are qualified as finance leases by primion AG pursuant to IAS 17. Leasing liabilities are calculated on the basis of a standard market interest rate.

Minimum leasing payments accrue as follows:

	30.09.2006 €k	30.09.2005 €k
Within one year	153	160
Between one and five years	63	160
Total future lease payments	216	320
Less future interest on lease payments	7	12
Present value of finance lease payments	**209**	**308**

24. Deferred tax assets and liabilities

Capitalized deferred tax assets and liabilities relate to the following items:

	30.09.2006 €k Deferred tax assets	30.09.2006 €k Deferred tax liabilities	30.09.2005 €k Deferred tax assets	30.09.2005 €k Deferred tax liabilities
Intangible assets	2.498	6.733	33	–
Property, plant and equipment	_	81	–	123
Financial assets	_	–	–	2
Inventories	1.467	443	–	–
Receivables from construction contracts	–	1.081	–	–
Trade accounts receivable	–	25	–	18
Liabilities	79	1.114	122	12
Loss carry-forwards	944	–	299	–
Value allowance on loss carry-forward	-301	–	–	–
Consolidation	10	–	–	–
	4.697	9.477	454	155
Netting*	-4.612	-4.612	-153	-153
	85	**4.865**	**301**	**2**

* According to IAS 12.74, under certain premises deferred tax assets and liabilities are offset if they relate to taxes levied by the same taxation authority.

At the French subsidiary, deferred tax assets on tax losses that may be carried forward indefinitely were impaired in the period to the amount of €301k. This is because at the time of preparing these financial statements it cannot be stated with reasonable assurance that these may have been utilized already in the current year, at least in part, due to recent losses incurred. On the basis of current planning, tax loss carry-forwards are expected to be fully utilized in the next 5-7 fiscal years. The recognized tax loss carry-forward as at 30 September 2006, net of valuation allowance, is €75k.

25. Short-term provisions

Short-term provisions solely comprise provisions for warranties. Provisions for warranties pertain to the estimated costs of reworking completed projects plus legal product guarantees. Provisions for warranties are recorded on the basis of historical experience and underlying revenues in the period. The warranty period is two years. The amount of €60k (prior year: €60k) is for primion AG and €52k for primion Digitek S.L.U.

In the year under review short-term provisions changed as follows:

	As at 01.10.2005 €k	Allocation €k	Consumtion €k	Reversal €k	As at 30.09.2006 €k
Warranty provisions	60	52	–	–	112
Other provisions	57	–	57	–	–
	117	**52**	**57**	**–**	**112**

26. Current financial liabilities

	30.09.2005 €k	30.09.2006 €k
Liabilities to banks	4.062	7.649
Current finance lease liabilities	160	153
	4.222	**7.802**

Liabilities to banks pertain particularly to repayment loans due within one year and overdrafts of primion AG totalling €7,251k (prior year: €2,610k). As the loans were mainly taken out in the current fiscal year, the market values at the balance sheet date essentially correspond to the carrying amounts.

Please refer to the disclosures in Section 22, Non-current financial liabilities, with regard to the interest rates of repayment loans and finance lease liabilities.

27. Liabilities from construction contracts

Please refer to the disclosures in Section 16, Receivables from construction contracts.

28. Trade accounts payable

Trade accounts are payable to third parties. They are recognized at their nominal value or repayment amount and accrue fully within one year.

The total amount of €3,551k (prior year: €1,031k) relates in particular to primion AG €1,504k (prior year: €822k), primion Staedtler GmbH €523k (prior year: €0k), primion Digitek S.L.U. €425k (prior year: €0k) and the GET Group €809k (prior year: €0k).

29. Tax liabilities

Tax liabilities totalling €155k (prior year: €336k) mainly relate to primion Digitek S.L.U. In the prior year, liabilities from income taxes were disclosed under short-term provisions.

30. Other liabilities

Other current liabilities are composed of the following:

	30.09.2006 €k	30.09.2005 €k
Liabilities from taxes	736	541
Personnel-related liabilities	2.464	581
Social security liabilities	357	218
Deferred income	2.376	292
Order payments received in advance	1.991	62
Other liabilities	2.029	203
	9.953	**1.897**

Deferred income pertains solely to proceeds from servicing agreements which are to be included in subsequent periods.

In fiscal 2005/2006 the significant components of other liabilities changed as follows:

	As at 01.10.2005 €k	Allocation €k	Consumtion €k	Reversal €k	As at 30.09.2006 €k
Liabilities from taxes on wages and VAT	541	736	541	–	736
Personnel-related liabilities	581	2.464	581	–	2.464
Social security liabilities	218	357	218	–	357
Provisions for legal and consultancy costs	37	245	37	–	245

31. Segment reporting

A business segment is a group of assets and operating activities that provides products or services which differ from those of other areas of the business in terms of their risks and rewards. A geographic segment provides products or services within a certain economic environment. Segment reporting is divided into primary and secondary segments in accordance with the regulations of IAS 14.

Due to the acquisitions in Spain and Belgium, from fiscal 2005/2006 the organization is largely managed along geographic lines. Correspondingly these are now defined as the primary segments. In accordance with IAS 14.34 in combination with IAS 14.9, Germany and Western Europe were defined as geographic segments.

The access control, time recording and integrated security technology system solutions offered by primion are regarded as a single business segment on the basis of the homogeneity criteria of IAS 14.9.

Due to integration in the production, sale and construction of electronic access control, time recording and security systems, including the associated services, the opportunity and risk structure of these systems are virtually identical.

Segment reporting takes place in accordance with the accounting recognition and measurement methods of the underlying IFRS consolidated financial statements. Intersegment consolidations were undertaken. Amortization of intangible assets and tangible fixed assets was disclosed as segment amortization.

Segment information for the business segments for fiscal 2005/2006 is provided below:

	Germany 2005/2006 €k	Western Europe 2005/2006 €k	Eliminations 2005/2006 €k	Consolidated 2005/2006 €k
REVENUES				
External revenue	29.013	5.186	0	34.199
Internal revenue	309	303	-612	0
Total revenue	**29.322**	**5.489**	**-612**	**34.199**
Segment result/EBIT	**2.458**	**2.049**	**-31**	**4.476**
Income from financial assets accounted for under the equity method				18
Other non-operating result				-542
Income before taxes				**3.952**
Income taxes				-1.385
Income after taxes				**2.567**
Net income attributable to minority interests				97
Consolidated net income				**2.470**
BALANCE SHEET				
Assets				
Segment assets	40.482	32.886	-10.814	62.554
Shares in associated companies	89	0	-16	73
Non-classified assets	15.495	784	-16.074	205
Group assets	**56.066**	**33.670**	**-26.904**	**62.832**
Liabilities				
Segment liabilities	13.757	11.163	-10.994	13.926
Non-classified liabilities	16.507	5.717	0	22.224
Group liabilities	**30.264**	**16.880**	**-10.994**	**36.150**
OTHER INFORMATION				
- Capital expenditure	11.712	19.647	0	31.359
- Depreciation and amortization	1.783	593	0	2.376

The comparative figures for the prior year are as follows:

	Germany 2004/2005 €k	Western Europe 2004/2005 €k	Eliminations 2004/2005 €k	Consolidated 2004/2005 €k
REVENUES				
External revenue	19.679	1.680	0	21.359
Internal revenue	74	583	-657	0
Total revenue	**19.753**	**2.263**	**-657**	**21.359**
Segment result/EBIT	**3.027**	**-18**	**-51**	**2.958**
Income from financial assets accounted for under the equity method				9
Other non-operating result				-161
Income before taxes				**2.806**
Income taxes				-1.067
Income after taxes				**1.739**
Net income attributable to minority interests				12
Consolidated net income				**1.727**
BALANCE SHEET				
Assets				
Segment assets	15.705	991	-156	16.540
Shares in associated companies	89	0	-32	57
Non-classified assets	1.193	335	-1.191	337
Group assets	**16.987**	**1.326**	**-1.379**	**16.934**
Liabilities				
Segment liabilities	2.632	947	-470	3.109
Non-classified assets	7.427	5	0	7.432
Group liabilities	**10.059**	**952**	**-470**	**10.541**
OTHER INFORMATION				
- Capital expenditure	375	50	0	425
- Depreciation and amortization	669	16	0	685

32. Consolidated cash flow statement

The consolidated cash flow statement differentiates between changes to funds from current operating, investment and financing activities.

The Group's companies only maintain cash and cash equivalents that are short-term funds. Cash funds comprise cash and balances with banks where they are available within three months.

Interest income and expenditure are assigned solely to operating activities.

The majority of non-cash expenses and income comprises the income from the bargain purchase (€1,577k) and a leasing liability which no longer applied (€350k). The majority of non-cash expenses for the period pertained to a value allowance on deferred tax assets on tax loss carry-forwards (€301k).

33. Notes on corporate acquisitions

In the process of purchase price allocation, assets are valued following IDW RS HFA 16 using one of the following three approaches: the market approach, the income approach or the cost approach.

When applying the market approach the fair value of an asset is determined by making comparisons with actual transactions for comparable assets. This value is adjusted according to characteristics that are specific to the asset such as age, selling propositions or the transaction environment. The market approach is primarily used to value tangible fixed assets such as buildings or machinery as an active market exists for these.

As a rule, intangible assets are acquired in the course of business combinations. For these transactions it is often difficult to find examples of prices paid for comparable assets. In most cases it is not possible to identify competent, willing parties at the time because intangible assets are not standardized; rather they predominantly exhibit highly company-specific characteristics.

With the income approach the fair value is determined by discounting future cash flows of the corresponding asset with a risk-adjusted interest rate. Thus, the fair value corresponds to the present value of anticipated future cash flows. The evaluation is based on estimates and forecasts made by management. These are founded on both present expectations and assumptions with regard to the future development of the asset, as well as on assumptions regarding a suitable risk-adjusted discount rate. The cost approach is applied only in the process of deriving the fair current value under purchase price allocation. Here costs associated with producing a precise copy of the asset are taken into consideration (reproduction cost method). Alternatively, it is possible to base on the costs of producing an asset which is equivalent in terms of use (replacement cost method). It must be checked whether deductions should be made to take into consideration technical, physical and/or commercial obsolescence. Recognizing depreciation is based on the estimated useful life as determined by commercial criteria.

Insofar as the determination of useful economic life cannot be reasonably substantiated, for assets which have already been fully amortized in particular, the consideration of so-called cut-off values may be appropriate in order to reflect the potential value lacking.

Primion Staedtler GmbH

On 1 October 2005, primion Staedtler GmbH of Nuremberg (formerly primion Holding GmbH), a previously inactive and wholly-owned subsidiary of primion Technology AG, took over certain assets and liabilities of the "Time & Access" division of Dr. Staedtler GmbH of Nuremberg by way of an asset deal.

The purchase price for the assets and liabilities taken over, which was determined on the basis of an equity guarantee, amounted to €7,567k and was paid in cash. The ancillary acquisition costs amounted to €454k, bringing the total purchase cost to €8,021k. These cash flows and the assets and liabilities acquired resulted in positive goodwill of €2,526k which was capitalized as goodwill. Goodwill mainly reflects the anticipated future synergy effects arising from the business combination, as well as the expertise of primion Staedtler's employees.

The result of operations of primion Staedtler GmbH in the fiscal year from 1 October 2005 to 30 September 2006 amounted to €219k. Revenues were €11,237k.

The assets and liabilities acquired are as follows:

	Carrying amounts €k	Fair value €k
Non-current assets		
Intangible assets	6	5.495
Property, plant and equipment	55	54
Current assets		
Inventories	1.819	1.819
Trade accounts receivable	907	907
Other accounts receivable and other assets	47	47
Cash and cash equivalents	1	1
Liabilities		
Financial liabilities	47	47
Trade accounts payable	1.023	1.023
Payments received in advance	1.172	1.172
Other liabilities	586	586
Deferred taxes	3	–
Acquired net assets		**5.495**

The cash acquired amounted to €1k.
In the process of the acquisition no areas of the business were relinquished or disposed of.

Primion Digitek S.L.U.

On 19 December 2005, primion Digitek S.L.U. of Barcelona/Spain, a wholly-owned subsidiary of primion Technology AG, acquired assets and liabilities of the 'Digitek' time and access control division of Novar Iberia S.L.U., Alcobendas (Madrid)/Spain, by means of an asset deal. primion Digitek S.L.U. of Barcelona/Spain was inactive until the time of its acquisition and was established in December 2005 solely for this purpose.
The purchase price for the assets and liabilities taken over, which was determined on the basis of an equity guarantee, amounted to €3,008k and was paid in cash. The ancillary acquisition costs amounted to €382k, bringing the total purchase cost to €3,390k. These cash flows and the assets and liabilities acquired resulted in negative goodwill (bargain purchase) of €1,577k, which was recognized in the income statement under other operating income.

The result of operations of primion Digitek S.L.U. from the time of acquisition to 30 September 2006 amounted to €1,799k. Revenues for this period were €3,258k.
Revenues and earnings from 1 October 2005 to the point of acquisition cannot be provided as this acquisition was made by means of an asset deal and the data can no longer be determined sensibly with reasonable effort.

The assets and liabilities acquired are as follows:

	Carrying amounts €k	Fair value €k
Non-current assets		
Intangible assets	423	4.509
Property, plant and equipment	130	130
Deferred taxes	3	581
Current assets		
Inventories	265	265
Trade accounts receivable	1.864	1.864
Other accounts receivable and other assets	27	27
Liabilities		
Provisions	52	52
Financial liabilities	407	407
Trade accounts payable	373	373
Other liabilities	147	147
Deferred taxes	–	1.430
Acquired net assets		**4.967**

In the process of the acquisition no areas of the business were relinquished or disposed of.

GET Group
At the end of September 2006, primion AG acquired the GET Group (General Engineering & Technology N.V. of Malle/Belgium (100%) and its wholly-owned subsidiaries Nisus N.V. based in Herentals/Belgium; GET Nederland B.V., Amsterdam/Netherlands and Dataget, Tourcoing Cedex/France). The GET Group was incorporated into the consolidated financial statements of primion AG from 28 September 2006.

The purchase price for the acquired companies comprises a fixed amount of €12,055k, a probable payment of €1,194k carried as a liability and a variable profit-related payment of not more than €2,679k. The fixed portion of the purchase price was paid in cash. As at 30 September 2006, the ancillary acquisition costs amounted to €435k thus far. At the time of preparing these consolidated financial statements, the final purchase price, and therefore the costs of purchasing the business combination, was not yet finalized. In addition, the collection of data for the purpose of identifying and valuing the assets, liabilities and contingent liabilities had not yet been completed. The purchase price allocation according to IFRS 3.62 is provisional only. Therefore this business combination has been capitalized based on the following provisional figures:

	Carrying amounts €k	Fair value €k
Non-current assets		
Intangible assets	–	7.925
Property, plant and equipment	2.689	4.498
Financial assets	78	78
Current assets		
Inventories	3.194	3.194
Trade accounts receivable	3.922	3.922
Other accounts receivable and other assets	206	206
Liquid assets	2.393	2.393
Liquid assets		
Provisions	162	162
Financial liabilities	1.447	1.447
Trade accounts payable	809	809
Other liabilities	4.852	4.852
Deferred taxes	–	3.310
Acquired net assets		**11.636**

The cash acquired amounted to €2,393k. In the process of the acquisition no areas of the business were relinquished or disposed of.
Under the assumption of a straight-line distribution of earnings and revenues in fiscal 2005, the GET Group produced revenues of €12,485k and an operating result of €402k in the period from 1 October 2005 to 30 September 2006.
The goodwill to be expected mainly reflects the anticipated future synergy effects arising from the business combination, as well as the expertise of the GET Group's employees.

Other acquisitions in fiscal 2005/2006
In March and July 2006, primion Technology AG acquired the remaining shares of primion Technologie SAS from minority shareholders totalling 10.4%. primion TECHNOLOGIE SAS of France is now a wholly-owned subsidiary. The purchase price amounted to €65k in total. Acquiring the remaining shares generated positive goodwill of €65k which has been capitalized as goodwill.

In May 2006, primion Technology AG acquired a further 3% of the shares in its previously 79%-owned subsidiary primion Systems SAS of France. The purchase price amounted to €14k and was paid in cash. Acquiring the shares generated positive difference of €1k which was capitalized as goodwill.

In August 2006, the wholly-owned subsidiary primion Technologie SAS of France acquired from minority shareholders the remaining 18% of shares in the 82%-owned subsidiary, primion Systems SAS of France. The purchase price totalled €175k and was paid in cash. The ancillary acquisition costs amounted to €2k. Acquiring the remaining shares generated positive difference of €100k which was capitalized as goodwill.

At the end of September 2006, the subsidiary primion Technologie SAS of France acquired the shares in primion Systems SAS of France held by primion Technology AG so that, following the sale of the shares, primion Systems SAS of France became a wholly-owned subsidiary of primion Technologie SAS of France.
On 29 September 2006 the fusion of primion Systems SAS of France into primion Technologie SAS of France was agreed. The fusion took legal effect on 4 November 2006 with the expiration of the objection period.

34. Other commitments
Rental agreements and operating leasing agreements pertain to office space, cars and operational and business equipment. Future rental and leasing payments for the next fiscal year are composed of the following:

Fiscal year	Rental payments €k	Operating leases €k	Maintenance €k
2006/2007	462	864	161
2007/2008	441	584	90
2008/2009	332	367	15
2009/2010	329	194	–
2010/2011	101	31	–
ab 2011/2012	96	2	–

The majority of rental agreements include options to extend and value guarantee clauses.

At the balance sheet date, purchase commitments for property, plant and equipment, construction contracts and inventories amounted to €1,010k (prior year: €37k).

35. Contingent liabilities
As an international business, the primion Group is exposed to a range of legal risks. These can include risks relating to guarantees, tax law and other legal relationships.

As at 30 September 2006, there were no significant legal proceedings pending within the primion Group.

As at 30 September 2006 there were no contingent foreign liabilities within the primion Group.

E. Other information

1. Supervisory Board
The members of the Supervisory Board are:

• Prof. Dr. Dr. h.c. mult. Johann Loehn, engineer, Stuttgart
(Chairman)
• Prof. Jochen Tschunke, engineer, Munich (until 30 September 2006)
(Deputy Chairman)
• Leo Benz, engineer, Munich
• Rolf Beck, lawyer, Balingen
• Konrad Haussmann, banker, Albstadt-Ebingen
• Dr. Willi Merkel, lawyer, Albstadt-Ebingen

The remuneration of the Supervisory Board amounted to €65k in fiscal 2005/2006 (2004/2005: €65k)

2. Executive Committee
The members of the Executive Committee are:

• Heinz Roth, engineer (University of Applied Sciences), Bodman-Ludwigshafen (Chairman & CEO)
• Thomas Bredehorn, Algermissen (Director of National Business)
• Manfred Koetzle, Dip.Kfm (MBA), Grosselfingen (since 01/12/2005; Chief Financial Officer)
• Roland Schmider, engineer, Albstadt-Ebingen (since 01/08/2006; Director of International Business)

The Executive Committee received fixed and variable remuneration for their services in fiscal 2005/2006. This is broken down as follows:

Fixed cash payment	€575k (prior year: €449k)
Variable cash payment	€454k (prior year: €310k)
Non-cash benefits	€32k (prior year: €27k)
Total remuneration	€1,061k (prior year: €786k)

3. Ownership of shares by members of corporate bodies

• Prof. Jochen Tschunke:	240,832 shares
• Leo Benz:	251,454 shares
• Heinz Roth:	1,787,355 shares
• Thomas Bredehorn:	83,243 shares
• Roland Schmider:	10,000 shares

4. Disclosures regarding related companies and persons
Due to voting interests, the subsidiaries listed under section 1, Scope of consolidation, are related companies of primion AG. Transactions with these companies are eliminated in the Group consolidation.

During the period under review, an agreement was confirmed with Mr Rolf Beck, a member of the Supervisory Board, whereby he represents primion Technology AG as a lawyer in general legal matters based on an agreement of 23 November 2004. The agreement was concluded for an indefinite period and allows for annual remuneration of €2,000 plus VAT. The Supervisory Board approved the agreement on 11 January 2007.

Furthermore, during this period an agreement with Prof. Loehn, the Chairman of the Supervisory Board, came into being, whereby Prof. Loehn advises primion Technology AG in all matters of international strategy. The agreement was concluded for an indefinite period from 1 January 2006 and allows for remuneration of €1,500 plus VAT per day. There is a fixed arrangement for 3 days of consulting per month. The Supervisory Board approved the agreement on 26 January 2006.

Executive Committee member Mr Manfred Koetzle was advanced €2k for business travel.

Prior to joining the Executive Committee of primion AG, Mr Roland Schmider was an advisor to the company from December 2005. In fiscal 2005/2006, Mr Schmider received remuneration of €84k for consultancy services.

No other significant business relationships beyond those outlined here existed with members of the Executive Committee, the Supervisory Board or their relations.

5. Audit fees
For the services performed by the auditors in fiscal 2005/2006 the following fees were recognized as expenses: €145k for the auditing of the annual financial statements, €88k for other audit work or audit-related services and €2k for tax consulting services.

6. Events after balance sheet date
There were no significant events after the balance sheet date.

7. Declaration of conformity with the Corporate Governance Code
On 30 September 2006, the Executive Committee and Supervisory Board of primion Technology AG made a declaration of conformity as stipulated by Section 161 of the German Stock Corporation Act (AktG). Shareholders now have permanent access to this via the company website at www.primion.de. Deviations from the German Corporate Governance Code are documented correspondingly.

8. Approval of the consolidated financial statements
The Executive Committee approved the present consolidated financial statements for publication on 11 January 2007. The consolidated financial statements may be changed on the basis of the Annual Shareholders' Meeting.

Stetten am kalten Markt, 11 January 2007

primion Technology AG
The Executive Committee

Auditors' Report

We have audited the consolidated financial statements prepared by primion Technology AG, Stetten am kalten Markt, comprising the balance sheet, the income statement, statement of changes in shareholders' equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the fiscal year from 1 October 2005 to 30 September 2006. The preparation of the consolidated financial statements and Group management report in accordance with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a [1] of the HGB (German Commercial Code) and the supplementary provisions of the articles of association are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Albstadt, 12 January 2007

RWT REVISION UND WIRTSCHAFTSTREUHAND GMBH
Auditors and tax consultants

Frank Stäudle
(German public auditor)

Michael Jetter
(German public auditor)