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# GROUP MANAGEMENT REPORT

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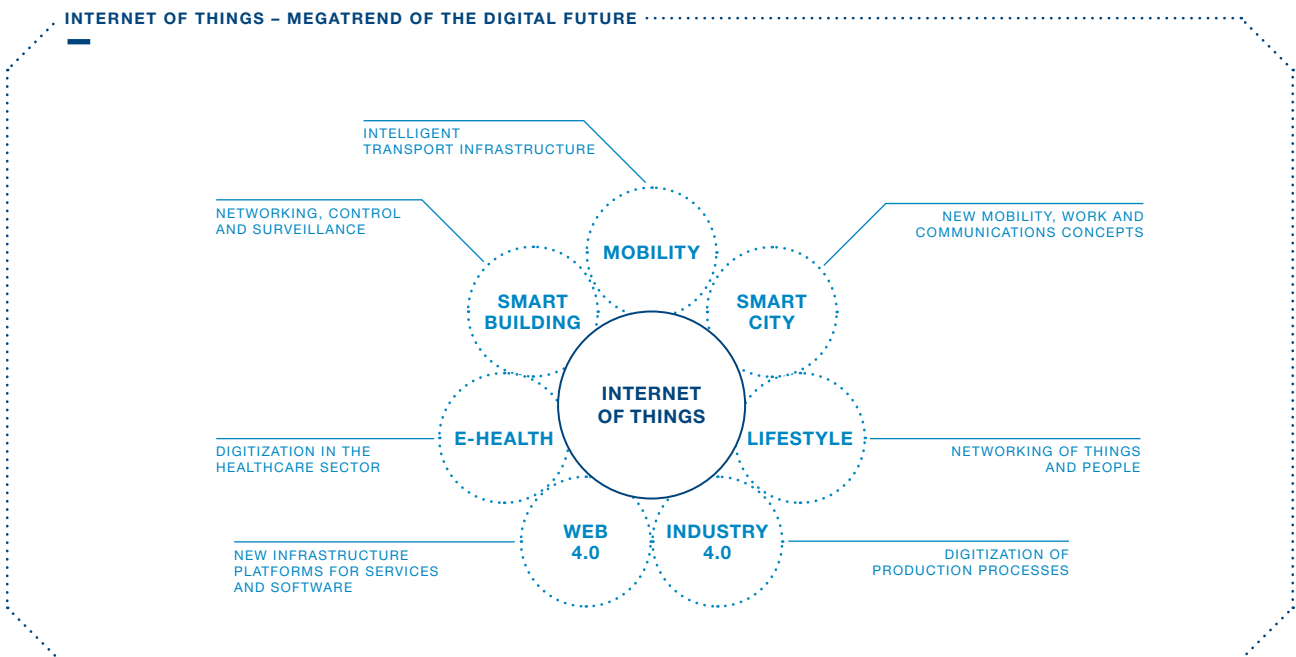
# 1. FUNDAMENTALS OF THE GROUP

## 1.1 Business model of the Group

### Profile

euromicron is a leading provider of complete infrastructure solutions for communications, transmission, security and data networks and has a comprehensive network of branch offices in Germany and at diverse European locations.

The companies in the euromicron Group offer customers from a wide range of different sectors a one-stop shop for tailor-made, vendor-independent solutions. Their portfolio comprises planning, implementation, service and maintenance of communications solutions, as well as developing, producing and distributing network components. We cater for all common transmission media – copper, fiber optic and wireless technology (radio) – and applications. The solutions are used in supraregional networks, metropolitan networks and local area networks for data communication in a wide range of different sectors, public authorities and institutions, data centers, medical engineering and security technology. Building on this basic business, the euromicron Group develops solutions for digitizing business processes. These solutions focus on the Internet of Things (IoT), a market that will grow strongly in future.



**Legal structure**

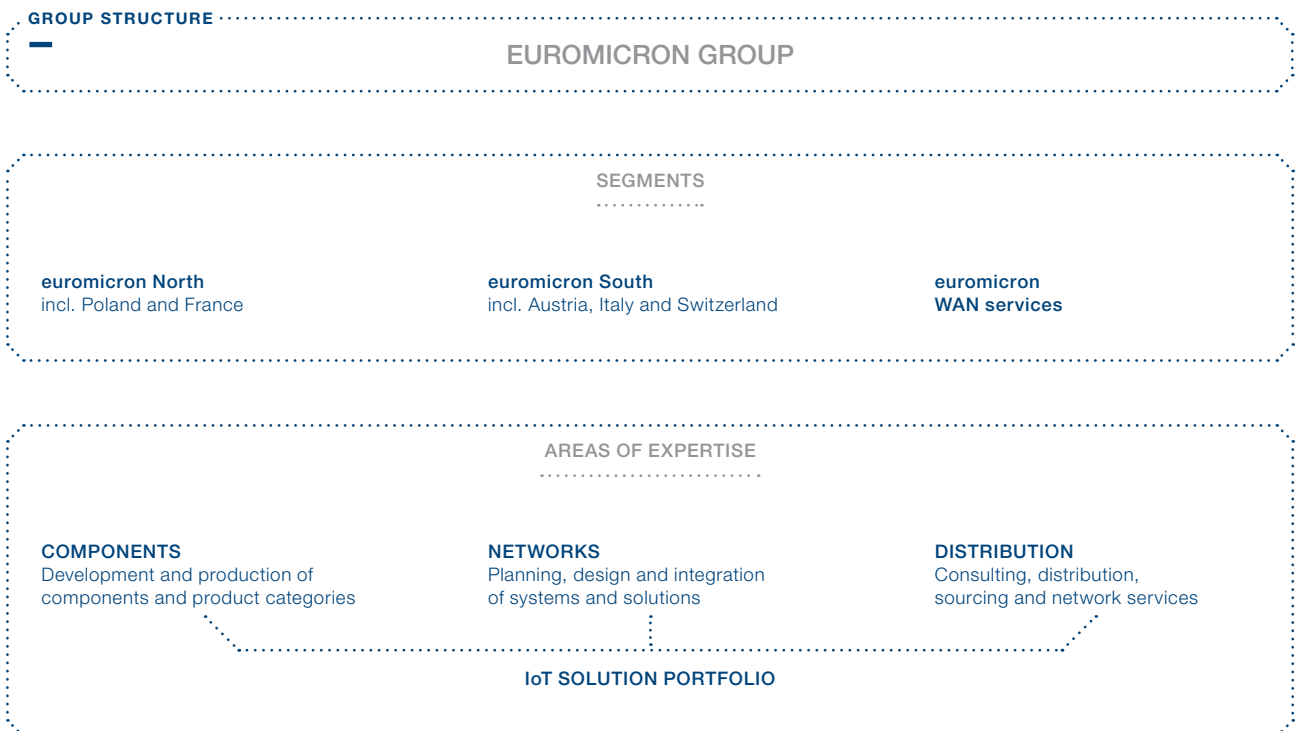
euromicron AG, Frankfurt/Main, is a strategic management holding that discharges overarching tasks at the Group. They include not only strategic controlling of the individual report segments and associated companies, but also financing, Group controlling and accounting, legal affairs, human resources, purchasing, IT and public and investor relations. Operating business is split over three segments. They also form the segments that must be reported on within the meaning of the International Financial Reporting Standards (IFRS):

- euromicron North
- euromicron South
- euromicron WAN services

Within the three segments, euromicron AG as the parent company consolidates 26 companies that are included in the consolidated financial statements. The common strategic focus on the “Internet of Things” market generates synergies across the companies and segments. That ensures the competitiveness of euromicron’s solution portfolio and opens up new potential for creating value added. Apart from companies in Germany, euromicron North also has representative agencies in Poland and France, while euromicron South also includes companies in Austria, Italy and Switzerland. The WAN services Segment groups business relating to planning, installation and maintenance of wide area networks, i.e. supra-regional networks. The figure below provides an overview of the Group’s structure:



This strategic focus taps synergies.



### Areas of expertise and sales markets

The euromicron Group pools its know-how across segments in the areas of expertise euromicron components, euromicron networks and euromicron distribution. The objective of the areas of expertise is to be successful in their respective markets, but also to achieve synergies between themselves, in particular by jointly developing an IoT solution portfolio.

#### euromicron components

The euromicron group unites its “technology suppliers” in the area of expertise “euromicron components”. They develop and produce active and passive optical network components, high-quality fiber-optic cabling systems, public address systems, testing and inspection equipment, networked workplace systems and highly professional safety and security technology for special applications. Reliable delivery, professional training in how to use our products and comprehensive services round out the portfolio.

euromicron components caters for niche markets with high-end products.

We mainly cater for niche markets with high-end products. Our innovative products, components and systems are distinguished by the very highest quality “Made in Germany” and have been certified by major market partners, such as Deutsche Telekom or Deutsche Bahn. We serve international markets through export business and our own branch offices or project offices in the respective countries.

Developments in our sales markets in this area are very strongly driven by trends such as the Internet of Things, Industry 4.0 and the related digitization of business processes. euromicron AG again invested in developing new products and enhancing existing ones in its portfolio in the year under review. For example, solutions for future markets were developed and made ready for the market in the shape of the networked workplace system “Primus 4.0” or the “Smart Office Switch”.

We also permanently examine opportunities to integrate special skills in our strategic focus in our Group by acquiring profitable technology companies. Numerous national and international references prove that customers trust in the high quality and reliability of our products: For instance at the Formula 1 Grand Prix in Sochi, Russia, for which euromicron’s subsidiary LWL-Sachsenkabel GmbH supplied pre-assembled, mobile fiber-optic cable drums for TV broadcasting, or Erich Utsch AG, which made its production operations cloud-ready with the aid of installation switches from MICROSENS GmbH & Co. KG.

#### euromicron networks

The area of expertise “euromicron networks” offers a one-stop shop for integrated solutions for all types of security, communications, transmission and data network, as well as data centers. As a system integrator, we take care of management and handling of the entire project – from planning, consulting, selecting and installing the system technology to service, maintenance and network management.

As part of that, we combine all technologies and applications in the field of information and communications technology (ICT) so as to be able to offer our customers tailored solutions in the Internet der Things (IoT) arena. In doing so, we combine the most innovative internal and external technologies to suit customers’ requirements – because our mission is to deliver best-in-class solutions.

Key success criteria for supplying best-in-class solutions are strategic partnerships with external technology suppliers and certification of our solutions by major market partners. Thanks to our many established partnerships with vendors from the fields of network, transmission and security technology, we are always able to present ideal solutions for the customer's specific needs. At the same time, we have the necessary certification to ensure top quality when it comes to planning, installing and maintaining the products used. Thanks to extensive training and further development of our employees, we hold the highest levels of certification from just about all strategic market partners. Accolades for successful projects, such as the "Avaya Networking Partner of the Year" award in fiscal 2014, are testimony to that.

In consulting-intensive solution business, customer proximity by means of on-site service is crucial: Backed by our comprehensive network of branch offices, we implement solutions across all technologies. We provide services directly on-site or through our central Service and Network Operation Center (NOC) in Backnang.

The clientele that requests solutions and services from the area of expertise "euromicron networks" is highly diversified. It includes well-known European carriers and utilities, private enterprises from the fields of transportation and logistics, public enterprises and authorities, institutions and establishments in the healthcare sector, banks and insurance companies and a large number of industrial enterprises with no restriction as to sector or size.

In view of the increasing digitization and networking of all areas of business, the market environment of the area of expertise "euromicron networks" is characterized by dynamic processes that offer great growth opportunities for euromicron AG. Digitization of network infrastructures and trends such as cloud computing, big data or the Internet of Things will change the face of communication at and between companies, public authorities and institutions. That means ICT networks must be designed to be more and more application-oriented and powerful. Companies now want an intelligent information and communications infrastructure that supports their specific needs and processes. Issues like security, redundancy and high availability play a crucial role in that – especially in relation to critical network infrastructures such as in the energy or transportation sectors.

By planning, installing and maintaining intelligent digital network infrastructures, the area of expertise "euromicron networks" supports the business processes of small, medium-sized and large enterprises with customer-specific solutions. Many successful reference projects with customers, such as Munich Airport, the Lower Saxony Autobahn Authority, Munich's transportation company Münchener Verkehrsgesellschaft, Thüringer Netkom GmbH or BürgerBreitband Netz GmbH, underscore our position as one of the leading system integrators for business-critical infrastructures.

#### **euromicron distribution**

Our area of expertise "euromicron distribution" advises and supplies customers in a vendor-independent manner in all matters relating to active and passive network components in the fiber-optic and copper arena. It also offers a full portfolio for FTTx networks and passive data center design.

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euromicron networks supports digitization of business processes with customer-specific solutions.

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euromicron distribution advises and supplies customers in a vendor-independent manner.

The offered products and systems are procured internationally and made available to customers and euromicron's sister companies in projects.

The main customer groups of the area of expertise "euromicron distribution" are municipalities and public authorities, industrial enterprises (with no restriction as regards sector) and data center service providers, system integrators and resellers.

One of the municipalities that benefited from the know-how of "euromicron distribution" in 2014 was Eichenzell, which used products and solutions from euromicron's subsidiaries SKM Skyline and euromicron NBG Fiber Optic to expand its broadband network.

#### The euromicron Competence Centers

We focus innovation and value creation by pooling our existing know-how in overarching Competence Centers. The euromicron Competence Centers make our Group-wide expert knowledge available to customers throughout Germany. The cross-company Competence Centers ensure that customers benefit from our innovative solution competence wherever they are located.

The URM Competence Center houses the Group's existing know-how on our in-house passive cabling system for data centers, as well as installation and maintenance of it. The euromicron Group benefits from the surge in data volumes and so the additional capacities required to store and process data – whether within the customer's own data centers or through leasing space from cloud computing providers. A key feature of that is to ensure maximum efficiency in the use of available space. The innovative fiber-optic cable connector system URM (yoU aRe Modular) from euromicron is one of the few systems on the market that delivers the required high data rates, yet needs a minimal footprint. The URM system is also the only product on the market to link lengthy routes without the loss of data. The fiber-optic connector family URM has been specially developed for high-density applications and is currently undergoing the standardization process at the International Electrotechnical Commission (IEC). Successful standardization is expected in the fall of 2016. Strategic establishment of a second source and the award of production licenses are also being stepped up alongside the standardization process. euromicron's system houses also guarantee proper installation and maintenance of the system. Our customers appreciate these complete solution packages from a single source. To reflect broad international interest, international certification was initiated in fiscal 2014 so as to make the system available to an even larger market.

The Unified Communications & Collaboration (UCC) Competence Center caters for growing market demand for merging different communication channels, web conferencing and, to an increasing extent, social media applications in a single platform and integrating them in an existing network. The market research institute Experton Group identifies SB4CC (Social Business for Communication & Collaboration) as one of the strongest-growing segments in the ICT market in Germany: Whereas investments in SB4CC software accounted for around nine percent of expenditure on UCC products in 2012, that figure is expected to be a quarter in 2016. That would mean high growth averaging more than 50 percent a year for SB4CC. By way of comparison: The overall ICT market in Germany will grow by an average of around two percent in the same period according to estimates by the Experton Group.

## 4

### COMPETENCE CENTERS

pool our expertise.



[urm.euromicron.com/en](http://urm.euromicron.com/en)

URM Competence Center for passive cabling systems

UCC Competence Center for unified communications & collaboration

The Advanced Enterprise Networking (AEN) Competence Center generates major parts of its value added from the fact that many services and applications are increasingly being integrated in a network and WLAN infrastructure on the basis of IP technology, virtualized and equipped with the relevant software-based security functions (such as firewalls, client security, content and anti-virus protection). We expect virtualization of the IT infrastructure to grow in importance in future.

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AEN Competence Center for advanced enterprise networking

The transition from “analog” to “IP” is also not stopping at security products and systems. Convergence of security technology and IT is now one of the most important trends in the “smart buildings” market segment. This trend is given further impetus by the growing prevalence of IP-based security products. euromicron was quick to recognize this trend and established the Physical Security Competence Center in fiscal 2014. In it, the Group pools its expert knowledge in planning, installing and maintaining IP-based security systems in a single digital building network system. euromicron thus benefits from the robust growth of electronic security systems, which the German Central Association of the Electrical Engineering and Electronics Industry (ZVEI) put at around three percent in 2014.

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Physical Security Competence Center for IP-based security systems in digital building network systems

### Locations

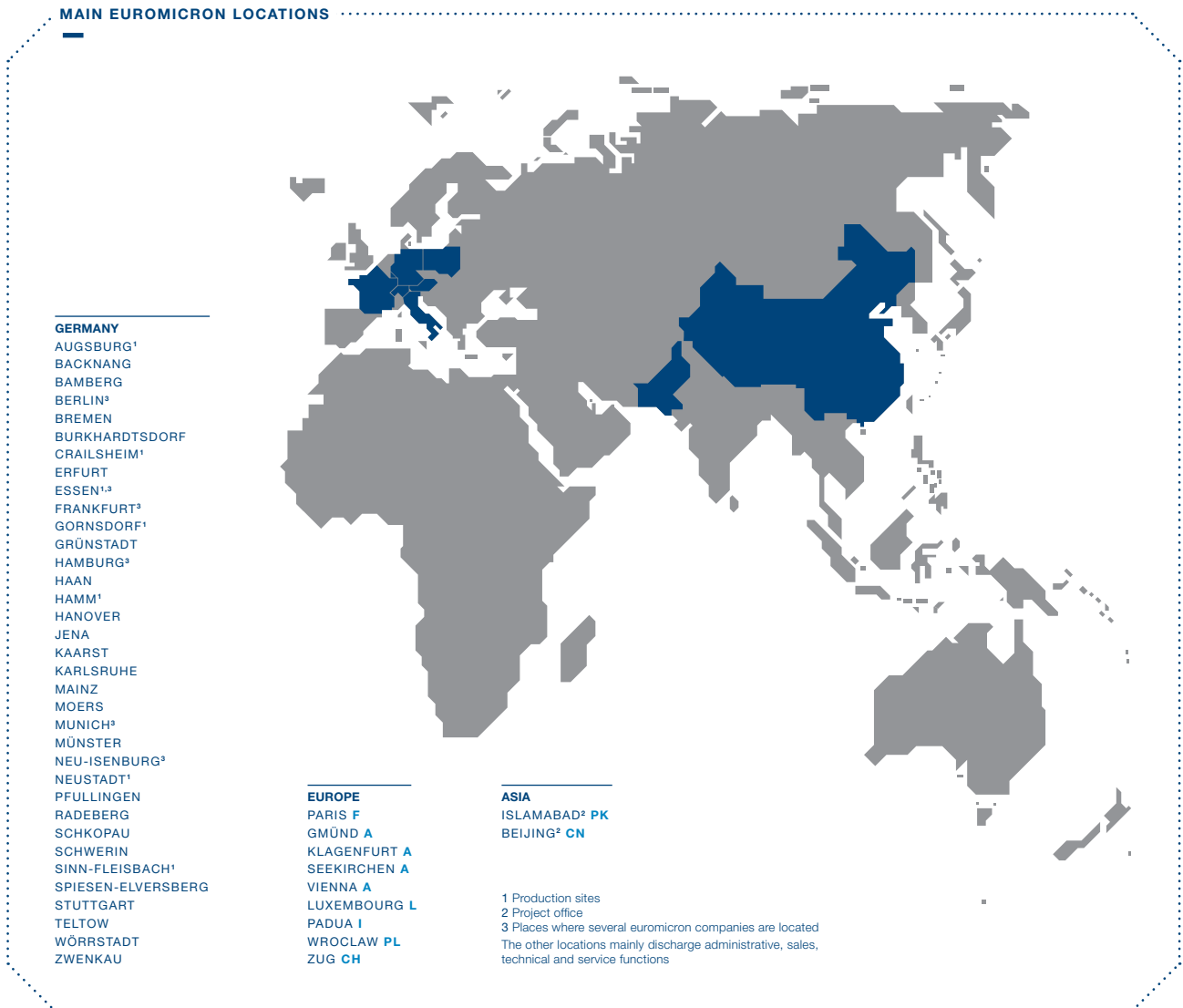
The regional focus of the euromicron Group companies' business operations is on German-speaking countries. The around 40 locations of the Group companies enable ideal customer proximity and intensive care and support for some 90 percent of euromicron's customers.

The euromicron Group constantly gears its capacities and economic requirements to the volume of business by adapting its location structures.

The companies in the euromicron Group are represented in other European countries with their own locations in Italy, Austria, Luxembourg, France, Poland and Switzerland. Subsidiaries of euromicron AG are based in some non-European countries in the shape of project offices, for example in China and Pakistan, so as to cater for country-specific market requirements there.

Emerging markets with their great demand, such as Brazil or Turkey, the United Arab Emirates or the former CIS countries are growing in importance. We tap these markets through project and export business and intensified sales activities, with these operations usually being controlled from Germany. As part of its internationalization strategy, euromicron AG permanently examines its opportunities for tapping interesting foreign markets by acquiring niche companies as a springboard for additional business activities.





## 1.2 Objectives and strategies

The euromicron Group's development into a leading company in the market for network technology since the year 2000 is based on a clearly defined corporate strategy. Following a divestment and consolidation phase up to 2005, the strategy of the past ten years has been geared very strongly to growing sales. This growth was achieved organically in part, but mainly through acquisitions (buy and build). Following the purchase of telent in 2011, the euromicron Group instigated an integration phase in order to optimize its organization and structures and so create the foundations for further growth. The Executive Board of euromicron AG has now decided to conduct a strategic realignment starting in the year 2015.

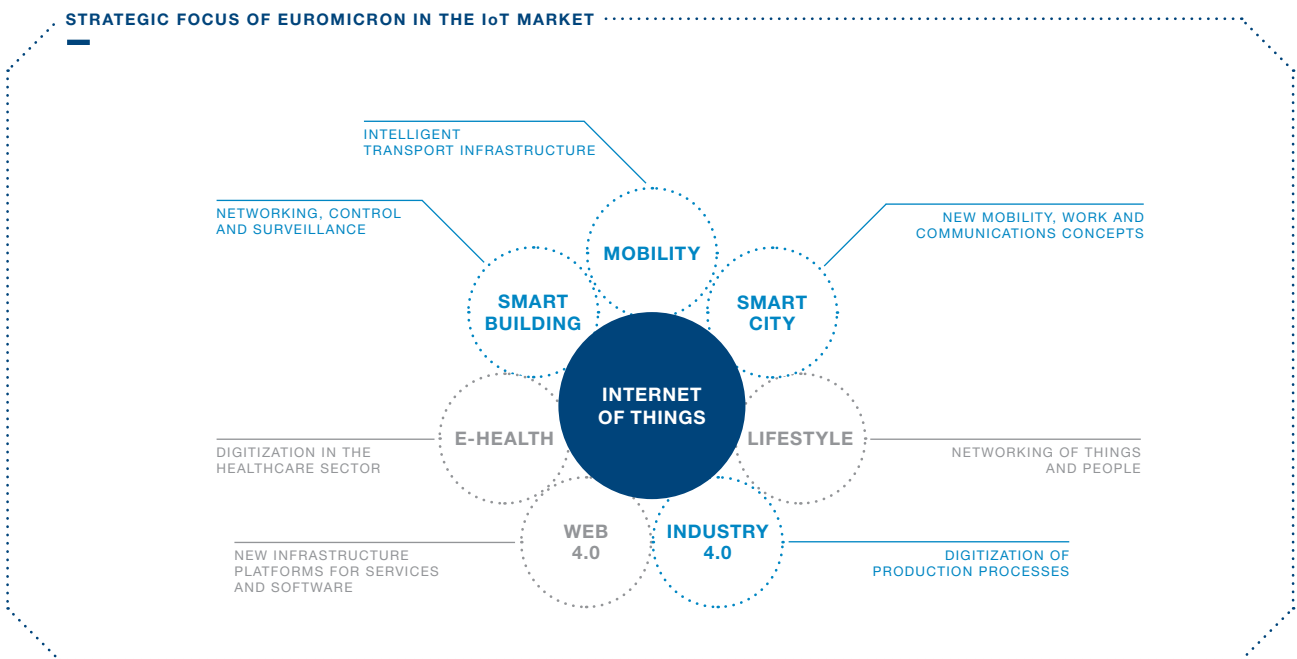
### Strategic realignment: "Enabling the Internet of Things"

euromicron AG's target sectors are experiencing dynamic change and digitization is posing new challenges for companies. The Internet of Things (IoT), Industry 4.0, big data or cloud computing are the buzzwords on the minds of existing and potential customers of euromicron. In line with the terrific pace of technological developments, euromicron is

therefore gearing its strategic focus to innovation and sustainable, profitable growth. Cash and sustainable profitability thus have a clear priority over sales growth. In the past, customers mainly demanded individual communications and IT infrastructures or individual solutions for building technology. Today, increasing digitization of processes means what are needed are complex end-to-end solutions that enable the existing individual, mostly autonomous technologies and infrastructures to interact with each other and permit integration of the related data.

euromicron follows its customers and in future will focus on end-to-end solutions for digitizing business processes in the Internet of Things market. The main emphasis here will be on solutions for intelligent buildings and critical infrastructures. Critical infrastructures are vital business infrastructures whose failure is highly problematic for the company in question. That may be the digital mobile radio system at an airport or the communications infrastructure at Deutsche Bahn. By taking this decision in favor of a strategic realignment, euromicron is tapping a future market that is just beginning to grow.

Our focus is on solutions in the fields of intelligent buildings and critical infrastructures.



By offering all-round digital solutions for the IoT market alongside individual network components, euromicron is differentiating itself clearly and significantly from the competition. The substantial customer base, broad solution portfolio and enormous innovativeness of the diverse subsidiaries in the areas of technology and system integration are the foundation for that. As part of this differentiation strategy, the Group will intensify investments in Competence Centers and carry out structural measures to focus the subsidiaries on the new market requirements. euromicron AG's business activities will continue to be aimed at small and medium-sized enterprises and large national customers. The Executive Board's goal is develop the company so that it is and stays profitable and cash-oriented.

The goal is sustainable profitability and cash orientation.

**The objective: A profitable growth model in a dynamic market of the future**

Following accomplishment of the many measures to optimize processes and structures in the past two years, the Executive Board plans to adapt the initiated integration to the new strategic alignment in 2015. The fundamental role of euromicron AG as a medium-sized holding will be retained, but the holding structures are to be organized more clearly by merging of the administrative companies and geared to the requirements of a strategic management holding. In addition, the subsidiaries from the system integration division are to be merged so as to adapt organizational structures more strongly to customer and market requirements, as well as to make them more cost-effective and transparent. In this connection, reorganization measures to optimize the structures in certain regions are envisaged.

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We are gearing our portfolio to the new strategic focus.

The goal is to gear the existing portfolio of euromicron AG to the new strategic focus by the end of 2015 and so create the conditions for systematically leveraging synergies between the technology suppliers from the production companies and the system integrators. In this connection, euromicron is also examining whether to shed equity investments that are of minor importance to its future alignment. According to an initial estimate, reorganization measures and effects from possible divestments are expected to have a negative impact of one percentage point on the forecast consolidated operating EBITDA margin in 2015 (see section 4.4 "Forecast for fiscal 2015"), but will result in a sharp improvement in operating income from 2016 on. The Executive Board therefore aims to return the consolidated EBITDA to the target corridor between 8% and 11% in the medium term.

The Executive Board estimates that, backed by a portfolio that adequately reflects market requirements, technological innovations and synergies between the technology and system integration companies will result in profitable growth in the medium term. This profitable growth model will be supplemented by selective M&A activities that are geared toward complementing and expanding the solution and technology portfolio and further increasing the company's own competitiveness with regard to future requirements in the IoT market. The focus is on small and medium-sized enterprises that have knowhow in the field of cloud operation and services, industry software and physical security applications.

**1.3 Control system****Management structure and control system**

euromicron AG is headed by two Executive Board members, who are supported by four Heads of Department responsible for the areas of Accounting and Controlling, Financing, Human Resources and Purchasing and IT. Operational business is run locally by the subsidiaries, whose Managing Directors report directly to the Executive Board.

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euromicron's SME model separates strategic Group management from management of the operational units.

Consequently, the hierarchical separation between strategic management and management of the operational units remains a key feature of euromicron's SME model. The strategic alignment is defined by euromicron AG's Executive Board, whereas the operationally independent, decentralized subsidiaries are responsible for implementing the strategy. Strategic management will be complemented in future by a central Business Development unit responsible for cross-company solution development.

Implementation of the strategy is monitored and reviewed as part of regular reporting and communication between the Executive Board, department heads and management.

Within this structure, the Managing Directors act as independent entrepreneurs with a high degree of responsibility of their own in their respective regional or supraregional market. A compensation system geared rigorously to performance supports and promotes entrepreneurship on the part of the Managing Directors.

### Internal key control indicators

All the euromicron Group's activities are controlled and monitored on a segment-oriented basis. To enable continuous analysis and controlling of the Group's business segments, management uses among other things quarterly forecasts as regards expectations, which are analyzed intensively. Budget variances are examined to determine their impact on the financial targets and measures to fulfill the budget are derived. An extensive risk management system supplements current and quarterly reporting and the annual forecast so that potential changes can be identified at an early stage. Proposals for measures to ensure that targets are achieved and to avert risks and are constantly analyzed as regards their effectiveness, discussed and implemented. Important key figures that are monitored regularly are shown in the table below:

### Key figures and control factors

003

	2014	2013*
	€ m.	€ m.
Sales	346.3	325.7
Earnings before interest and taxes (EBIT)	11.4	-0.2
Earnings before interest, taxes, depreciation and amortization (EBITDA)	21.1	8.7
EBIT margin	6.1%	2.7%
Order books	121.5	127.8
Consolidated net income for euromicron AG shareholders	2.6	-6.5
Adjusted weighted average number of shares issued (undiluted)	7.18	7.18
<b>Undiluted earnings per share in €</b>	<b>0.36</b>	<b>-0.91</b>

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

€ **346.3**  
million

in sales

**6.1%**

EBIT margin

The most important key figures used to control the Group are sales and the EBITDA margin. The EBITDA margin is defined as EBITDA divided by sales. The development in these key figures is explained in sections 2.2. "Course of business" and 2.3. "Net assets, financial position and results of operations". In future, the working capital ratio (working capital relative to sales) is to be used to control the Group so that the Group's tied-up capital and cash development can be systematically monitored and further optimized.

## 1.4 Research and development

### Objectives

Research and development are the foundation of our technological leadership and play a major part in helping us stand out from the competition. Our main goal is to develop products and solutions that enable our customers to make their work processes more efficient. In addition, our innovations should have unique technical selling points, safeguard our position in profitable niche markets and let us tap new markets of the future.

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The innovation initiative enabled new products and solutions to be launched on the market in 2014.

### Significant projects and results

The innovation initiative launched in 2013 was continued, with the result that new products and solutions were able to be launched on the market again in fiscal 2014.

euromicron's subsidiary MICROSENS expanded its Profi Line series as part of the innovation initiative to include a Gigabit Ethernet switch for rack mounting and so is systematically growing its product portfolio: With its Profi Line Rack Switch, it now offers a powerful system for creating highly complex network topologies that is suitable specifically for use in harsh environmental conditions in transportation or industrial applications. Typical application areas of the new switch include traffic control systems (intelligent transportation systems/ITS), toll bridges on motorways, camera systems for tunnel surveillance and network infrastructures in heavy industry and mining whose failure is critical.

Likewise as part of the innovation initiative, euromicron's subsidiary ELABO developed the Primus 4.0, a networked workplace system designed especially for small-series production. The new system is based on the ergonomically balanced and particularly user-friendly Primus One, the workbench system that was made ready for the market in fiscal 2013 and is certified for use in electrostatic protected areas (EPAs). It is suitable for all areas of electro-technical production – from PCs, medical equipment, and device technology to the automotive supply industry.

### R&D ratios

The continued investments in innovative and competitive new products and solutions are also reflected in the carrying amounts of capitalized development costs, which were €9.6 million at December 31, 2014 (previous year: €10.2 million); amortization of capitalized development costs was €2.8 million (previous year: €2.2 million). The newly capitalized development costs in fiscal 2014 totaled €2.2 million (previous year: €2.7 million). As initial new orders at the beginning of 2015 show, the new products are going down well with our customers.

## 2. ECONOMIC REPORT

### 2.1 General economic and industry-specific conditions

#### General economic conditions

Global economic growth (GDP) in 2014 was 3.5% and so slightly below expectations. The IMF forecast that economic output would grow by 3.7% in 2014. This decline, which began in the spring of 2014, is attributable to the continuing economic weakness of the Euro zone and Japan and slower growth compared with the previous year in emerging markets. Most industrialized nations, in particular the U.S. and UK, are making further strides in tackling the debt crisis and are exhibiting an economic recovery. However, geopolitical crises, especially the conflict between Russia and Ukraine, put a greater strain on the global economy than expected as of the second half of 2014. The IMF again expects the global economy to grow by 3.5% in 2015.

# 3.5%

global economic growth in 2014

#### Trends in the Euro area

In the Euro zone, Ireland, Portugal and Spain posted positive growth rates this year. France and Italy dampened growth in the Euro zone. Real gross domestic product improved year on year by 0.2% in the third quarter of 2014. All in all, however, the economy in the Euro area was not able to gain the anticipated momentum in 2014. The geopolitical conflicts between Russia and Ukraine also placed a burden on economic development in the Euro zone. According to the IMF, the recovery in the Euro area will probably continue in 2015. The ifo Institute expects real gross domestic product in the Euro zone to grow by 0.9% in 2015.

#### The economic situation in the Federal Republic of Germany

The German economy held its own in a tough global economic climate in 2014. There was a strong rise in GDP in the first quarter of 2014, although overall economic activity lost some of its buoyancy in the summer half-year. The economy picked up again in Germany in the fourth quarter. GDP rose by 0.7 in real terms.

Overall, real GDP in 2014 rose by 1.5%, more strongly than anticipated, and as in 2013 was again underpinned by the domestic economy. Real private consumption, alongside growth in capital spending, proved to be the main pillar for economic growth in Germany. German foreign trade also picked up momentum in the course of the year, despite a difficult environment abroad.

Experts anticipate an economic pickup at the beginning of 2015. Sharp improvements in ifo's gauge of business expectations and optimistic assessments by analysts from the Center for European Economic Research (ZEW) are evidence of this mood. Experts anticipate that GDP will increase by 1.5% for the year as a whole. Economic growth will probably be underpinned by private domestic demand in 2015 again.

# 1.5%

increase in real GDP in Germany in 2014.

### German ICT market grows by 1.6% in 2014

The German Association for Information Technology, Telecommunications and New Media (BITKOM) confirms its strong forecast of 1.6% growth in the ICT market for 2014, stressing that there have been clear shifts in the overall market. The decline in demand in the PC market was halted, but growth in smartphones and tablets is slowing.

According to EITO (European Information Technology Observatory), the German market for IT and telecommunications posted revenue of €153.4 billion (+1.6%) in 2014.

As in previous years, there are again clear differences between and within the segments. Information technology continues to stimulate the industry with software sales and growing demand again for traditional PCs in the IT hardware arena. IT services and a decline in demand for tablet computers in the IT hardware arena dampened revenue growth. Overall, there were slight declines in revenue in the segments of entertainment electronics and telecommunications. Within the telecommunications segment, the area of ICT infrastructure expansion is performing positively, which is attributable to the large investments by carriers in broadband expansion.

### Outlook for 2015

Information technology will remain the most important pillar in the German ICT market in 2015. The latest forecasts by EITO (European Information Technology Observatory) predict that revenue from software, IT services and IT hardware will probably increase by 2.4% to €79.7 billion. Big data and cloud computing will be growth drivers. The latest economic survey by BITKOM indicates positive business prospects. 79% of the companies surveyed from the IT/ICT sector forecast rising revenue in the first half of 2015, compared with just 7% that expect it to decline in the same period. The Industry Index of BITKOM improved from 67 to 72 points, confirming expectations of positive trends in the ICT arena.

€ **79.7**  
billion

in revenue is forecast for the ICT market in 2015.

## 2.2 Course of business

### General statement on the performance of the euromicron Group in fiscal year 2014

The euromicron Group closed fiscal year 2014 with sales of €346.3 million (previous year: €325.7 million) and EBITDA of €21.1 million (previous year: €8.7 million). The EBITDA margin (relative to sales) was 6.1% compared with 2.7% in the previous year. EBIT was €11.4 million (previous year: € -0.2 million).

A comparison with the previous year should allow for the fact that euromicron AG discovered mistakes in connection with the preparation of its IFRS consolidated financial statements for 2014. These mistakes related to the accounting and measurement of individual projects and receivables in fiscal years 2012 and 2013 and had to be corrected in accordance with IAS 8. We refer in this regard to the detailed presentation in section 4. "Corrections according to IAS 8" of the notes to the consolidated financial statements. Re-measurement of the affected projects resulted in a reduction in equity at January 1, 2013, totaling around €5.8 million. In fiscal 2013, there was a further reduction in equity by around €5.6 million, which completely resulted from effects that were recognized in income. This led to a reduction of €3.7 million in sales in 2013.

The sales generated in fiscal 2014 were €346.3 million and so within the forecast range of €340.0 to €360.0 million. Compared with the correct comparative figures for the previous year, sales therefore increased by 6.3%.

The EBITDA margin of 6.1% is within the forecast target corridor of 6%–8%, albeit at its lower end. EBITDA increased from €8.7 million in the previous year to €21.1 million and so more than doubled. There was also a significant improvement in EBIT from € –0.2 million to €11.4 million. The positive earnings performance of the production companies was especially pleasing.

The integration costs for projects as part of the Agenda 500 contained in the consolidated EBIT and structural costs for establishing specialist and central functions, such as IT, Legal Affairs and Central Purchasing, are around €4.0 million (previous year: €5.5 million). The project costs as part of the Agenda 500 result, among other things, from IT projects (increase in IT security and improvement of the IT infrastructure) and from projects for optimizing and harmonizing structures in system house business. In this connection, extensive measures to enhance processes in project business were instigated and implemented – from project costing, the process for order acceptance/contact examination to increases in efficiency in conducting and controlling projects.

There were no additions to the portfolio of group companies in 2014; only one business establishment was acquired by way of an asset deal. In addition, there was a merger within the Group in the North Segment in fiscal 2014, the aim of which was to combine two system house companies.

The equity ratio is stable at 38.4% following 35.1% in the previous year.

**38.4%**

equity ratio compared with 35.1%  
in the previous year



## 2.3 Net assets, financial position and results of operations

### Net assets

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

#### Asset and equity structure

004

	Dec. 31, 2014		Dec. 31, 2013	
	€ m.	%	€ m.	%
Noncurrent assets	150.7	52.4	155.1	49.0
Current assets	121.1	42.1	122.6	38.7
Cash and cash equivalents	15.6	5.4	38.8	12.3
<b>Assets</b>	<b>287.4</b>	<b>100.0</b>	<b>316.5</b>	<b>100.0</b>
Equity	110.4	38.4	111.2	35.1
Noncurrent liabilities	57.6	20.0	52.8	16.7
of which financial liabilities	46.9	16.3	41.8	13.2
Current liabilities	119.4	41.5	152.5	48.2
of which financial liabilities	49.4	17.2	67.7	21.4
<b>Equity and liabilities</b>	<b>287.4</b>	<b>100.0</b>	<b>316.5</b>	<b>100.0</b>

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

The euromicron Group's total assets at December 31, 2014, were €287.4 million compared with €316.5 million in the previous year, or a 9.2% fall.

The decline in noncurrent assets (€150.7 million; previous year: €155.1 million) is predominantly due to the reduction in other intangible assets from €23.7 million to €20.8 million, which is attributable to amortization. In addition, deferred tax assets fell from €2.3 million to €1.4 million.

Capital spending in fiscal 2014 totaled €6.5 million (previous year: €17.7 million). It should be noted in this regard that the comparative figure for the previous year contained additions from first-time consolidation of subsidiaries acquired in fiscal 2013 totaling €11.3 million (in 2014: €0.1 million).

The remaining investments of €6.4 million (previous year: €6.4 million) include €2.2 million (previous year: €2.7 million) on capitalized development costs, €1.2 million (previous year: €1.3 million) on other intangible assets and €3.0 million (previous year: €2.4 million) on property, plant and equipment.

The ratio of equity and long-term outside capital to noncurrent assets is 111.5% (previous year: 105.8%).

Within the current assets, inventories increased slightly by €1.0 million (€29.0 million; previous year: €28.0 million), while trade accounts receivable and the gross amount due from customers for contract work are in total roughly at the level of the previous year (€85.8 million; previous year: €85.6 million).

# 111.5%

Ratio of equity and long-term outside capital to noncurrent assets

Working capital (trade accounts receivable, gross amount due from customers for contract work and inventories minus trade accounts payable and prepayments) were €66.6 million at the balance sheet date (previous year: €55.7 million). The rise in working capital is almost fully attributable to the decline in trade accounts payables of €10.1 million.

Claims for income tax refunds fell from €4.6 million to €1.2 million, in particular because claims from paid-over capital gains tax carried in the previous year were refunded in fiscal 2014. The other financial assets increased slightly (€3.0 million; previous year: €2.5 million), due to the rise in factoring monies to be paid to Group companies by the factoring company. The other assets are at the level of the previous year (€2.1 million; previous year: €2.0 million).

Cash and cash equivalents fell from the high level on the key date of December 31, 2013 (€38.8 million) by €23.2 million to €15.6 million. In the previous year there were special effects that had a positive impact on cash and cash equivalents, in particular the shape increase in the volume of factoring at the end of the year and customer monies to be passed on. There were cash outflows in fiscal 2014 in particular due to the repayment of loan obligations (excess of loan repayments to newly raised loans: € –6.8 million), from purchase price payments for the acquisition of subsidiaries (which was carried in the previous year under "Other financial liabilities"; effect € –8.0 million) and from the reduction in trade accounts receivable of € –10.1 million.

Equity at December 31, 2014, was €110.4 million, slightly down on the level of the previous year (€111.2 million); the equity ratio improved from 35.1% to 38.4%. Despite the consolidated net income for the year of 22.8 million, the decline in equity in absolute terms is due mainly to revaluation effects from pensions, which resulted from the fall in interest rates and reduced equity by €3.3 million.

Other noncurrent financial liabilities fell to €2.5 million (previous year: €7.3 million), in particular due to the repayment of the long-term portion of an industry loan and reclassification of purchase price obligations and preemptive rights as current liabilities.

The liabilities to banks are divided into long-term liabilities of €43.2 million (previous year: €32.8 million) and short-term liabilities of €19.9 million (previous year: €30.4 million). The planned shift in the maturity structure toward medium- and long-term financing is mainly due to a new borrower's note loan for a nominal amount of €20.0 million that was raised in fiscal 2014.

Trade accounts payable fell from €54.3 million to €44.2 million. This is mainly due to lower trade accounts payable (including liabilities for outstanding purchase invoices) in connection with project business, which in the previous year were above-proportionately high on a multiple-year comparison.

A nominal € **20.0**  
million  
was raised with a new borrower's  
note loan in 2014

The decline in other current financial liabilities from €36.8 million to €29.1 million is predominantly due to repayment of the short-term portion of a loan and the payment in 2014 of the purchase price obligation for the acquisition of Secure Information Management GmbH (referred to as "SIM GmbH" in the following) and ATECS AG in December 2013. There was a counter-effect from the reclassification of purchase price obligations and obligations from preemptive rights from noncurrent to current liabilities.

The Group's net debt (interest-bearing financial liabilities minus securities and cash) at December 31, 2014, was €49.2 million (previous year: €33.2 million). The increase in net debt is due in particular to the decline in liquid funds, which were high in the previous year due to special effects. We refer in this regard to the explanation on the change in cash and cash equivalents in this section of the management report.

### Financial position

The Group is in principle financed centrally through euromicron AG. This is done through a central cash pooling system to which all Group companies are linked in principle. Internal financial equalization as part of a cash management system of the individual companies reduces the volume of outside funding at the Group. Centralization of financing makes a contribution to optimizing the costs of capital and the opportunities for obtaining and investing capital. Apart from financing through euromicron AG, individual Group companies have a number of smaller lines of funding, which are however insignificant in terms of volume.

At December 31, 2014, unutilized promised credit lines of €75.8 million were available to the Group (previous year: €71.7 million). In general, the Group thus has the necessary freedom to enable its planned corporate development. The key financial indicators, which were adjusted due to the integration phase effective December 31, 2013, in agreement with the Group's long-term financing partners, were adhered to at December 31, 2014.

The Group's financial position in fiscal 2014 was as follows:

### Statement of cash flows of the euromicron Group

005

for the period from January 1 to December 31, 2014 (IFRS)	2014	2013*
	€ thou.	€ thou.
Net cash used in/provided by operating activities	-1,930	39,433
Net cash used in investing activities	-14,306	-5,127
Net cash provided by financing activities	-6,972	-890
Net change in cash funds	-23,208	33,416
Cash funds at start of period	38,830	5,414
<b>Cash funds at end of period</b>	<b>15,622</b>	<b>38,830</b>

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

The reported cash used in operating activities in fiscal 2014 was € -1.9 million, whereas in the previous year there was net cash provided by operating activities totaling €39.4 million. However, the reported cash flow figures from operating activities are mainly impacted by effects resulting from the Group's factoring program.

€ **75.8**  
million

free promised credit line available  
at December 31, 2014

In order to obtain comparable cash flow figures that permit a statement to be made on the development of cash flows from operating activities, the figure was adjusted to take into account the factoring effects. This involves the following:

- Elimination of the effect from the change in the volume of factoring used between the balance sheet date and the respective balance sheet date for the previous period. This resulted in a positive cash flow effect of €31.0 million for fiscal 2013 and a negative cash flow effect from the lower volume of factoring of € –6.3 million for fiscal 2014, both of which have to be eliminated.
- Where Group companies received monies from customers resulting from receivables sold as part of factoring shortly before the balance sheet date and the Group companies were not able to pay these monies over to the factoring company, this results in a liability from customer monies to be passed on, which is carried under “Other financial liabilities”. The effect on liquidity from the change in these liabilities between the respective balance sheet date and the balance sheet date of the previous period is eliminated for the purposes of analyzing the cash flow from operating activities. This effect, which has to be eliminated, is €21.4 million for 2013 and only €1.9 million for 2014.
- The full amount of the receivable offered for sale is initially not paid out by the factoring company, but a blocked amount is withheld. This receivable due from the factoring company is carried under “Other financial assets”; here too, the change in the balance sheet item has to be eliminated for the purposes of analyzing the cash flow from operating activities. This effect is €1.7 million in 2013 and €0.5 million in 2104.

All in all, reconciliation of these three factors results in cash flows from operating activities after adjustment for factoring effects as summarized in the table below:

**Adjusted cash flow**

006

	Cash flow from operating activities acc. to statement of cash flow	Effects from factor- ing and customers' monies to be passed on included in the above	Adjusted cash flow
	€ m.	€ m.	€ m.
2013	39.4	54.1	<b>–14.7</b>
2014	–1.9	–3.9	<b>1.9</b>

After adjustment for factoring effects, there is net cash provided by operating activities totaling €1.9 million in fiscal 2014 compared with net cash used in operating activities totaling € –14.7 million in the previous year. As a result, the cash flow from operating activities in fiscal 2014 improved sharply by €16.6 million.

Net cash used in investing activities was € –14.3 million in fiscal 2014, € –9.2 million below the figure for the previous year (€ –5.1 million). This change is mainly due to the purchase price payment in 2014 of €8.0 million for companies acquired in 2013.

€ **16.6**  
million

improvement in cash flows from  
operating activities

The net cash used in financing activities in fiscal 2014 was € –7.0 million (previous year: € –0.9 million). This was predominantly due to loan repayments that exceeded the proceeds from new loans by € –6.8 million.

Cash and cash equivalents of the euromicron Group at December 31, 2014, were thus €15.6 million (previous year: €38.8 million). With its funds and free, promised credit lines, the euromicron Group is adequately positioned to secure its companies' operating business and continue its development. The Group aims to maintain the intensive, trusted and fine cooperation with its partner banks in a structured manner.

### Results of operations

007

Income statement for the period January 1 to December 31, 2014 (IFRS)			
	Note	2014	2013*
		€ thou.	€ thou.
<b>Sales</b>	( 11 )	<b>346,338</b>	<b>325,683</b>
Inventory changes		573	–698
Own work capitalized	( 12 )	2,617	3,134
Other operating income	( 13 )	2,144	1,901
Cost of materials	( 14 )	–182,468	–176,709
Personnel costs	( 15 )	–103,176	–99,028
Amortization and depreciation	( 16 )	–9,702	–8,901
Other operating expenses	( 17 )	–44,879	–45,578
<b>Earnings before interest and taxes (EBIT)</b>		<b>11,447</b>	<b>–196</b>
Interest income	( 18 )	333	61
Interest expenses	( 18 )	–4,012	–3,869
<b>Income before income taxes</b>		<b>7,768</b>	<b>–4,004</b>
Income taxes	( 19 )	–4,924	–2,397
<b>Consolidated net income/loss for the year</b>		<b>2,844</b>	<b>–6,401</b>
Thereof for euromicron AG shareholders		2,576	–6,525
Thereof for non-controlling interests	( 20 )	268	124
<b>(Un)diluted earnings per share in €</b>	( 21 )	<b>0.36</b>	<b>–0.91</b>

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

# € 346.3

million

in sales – a year-on-year increase of 6.3%.

The euromicron Group generated sales of €346.3 in fiscal 2014, 6.3% above the previous year's figure of €325.7 million.

A breakdown by the various regions shows that most sales were posted within Germany as in previous years: The sales generated in Germany in fiscal 2014 were €293.9 million (previous year: €287.6 million) or a share of 84.9% (previous year: 88.3%). Foreign sales were increased in 2014 from €38.1 million to €52.4 million, with the result that international sales contributed around 15.1% (previous year: 11.7%) to the euromicron Group's total volume of sales.

The euromicron Group's total operating performance (sales plus inventory changes) was €346.9 million, up by 6.7% on the previous year's figure of €325.0 million.

Own work capitalized fell slightly by €0.5 million from €3.1 million in the previous year to €2.6 million. The euromicron Group continues to invest in developing new products in order to expand its market position and increase its innovativeness.

As in the previous year, the cost of materials is the largest expense item in the euromicron Group's income statement. The cost of materials in fiscal 2014 was €182.5 million (previous year: €176.7 million); its ratio to total operating performance improved by 1.8 percentage points from 54.4% to 52.6%. This effect is mainly due to the increase in sales in high-margin production business, which had a positive impact on the ratio.

**52.6%**

Ratio of cost of materials to total operating performance

Personnel costs increased in fiscal 2014 by €4.2 million from €99.0 million to €103.2 million, a rise of 4.2%. The average headcount (excluding trainees) in the year under review rose from a total of 1,653 to 1,704 (+3.1%).

Amortization and depreciation was €9.7 million, as planned above the level of the previous year (€8.9 million). €0.7 million of the increase is due to higher amortization of capitalized development costs. The item also includes amortization of hidden reserves disclosed as part of capital consolidation to an amount of €2.0 million (previous year: €1.8 million).

Other operating expenses in the fiscal year were €44.9 million compared with €45.6 million in the previous year and were able to be reduced by €0.7 million despite the higher volume of business. The largest items in the other operating expenses were still vehicle and travel expenses (€13.9 million; previous year: €13.8 million), rent/room costs (€6.6 million; previous year: €7.0 million) and legal and consulting costs (€4.9 million; previous year: €4.3 million). In particular, the costs of personnel leasing increased (by €1.2 million), since loan workers were used especially in our production companies to cope with order peaks in fiscal 2014. There was an increase in IT costs from €1.5 million to €1.9 million, which is attributable to higher IT costs as part of integration and larger expenditure on IT security. The decline in expenses from allocation of individual allowances for receivables and losses of receivables had a positive effect; they fell by €0.7 million and €0.6 million respectively. In particular, trade fair/advertising costs and administrative expenses also fell by €0.6 million and €0.4 million.

Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled €21.1 million and so more than doubled from the previous year's figure of €8.7 million. The EBITDA margin was 6.1% (previous year: 2.7%). There was a similarly positive increase in EBIT: by €11.6 million from € –0.2 million in the previous year to €11.4 million.

The net financial result was € –3.7 million, around the level of the previous year (€ –3.7 million).

The tax ratio in the year under review was 63.4% (previous year: –59.9%), which is mainly attributable to the fact that, as a result of the tax losses made by companies in the South Segment, no deferred tax assets were carried on loss carryforwards incurred in fiscal 2014 in accordance with IFRS regulations, which meant that the tax ratio increased. We refer in this regard to the tax reconciliation in section 19 of the notes.

The consolidated net income for shareholders of euromicron AG was €2.6 million (previous year: € –6.5 million). Undiluted earnings per share were €0.36 versus € –0.91 in the previous year.

€ **340.1**  
million

in new orders

#### **New orders and order books**

New orders at the euromicron Group in fiscal 2014 were €340.1 million and so up on the previous year's figure of €327.7 million. Orders books were €121.5 million, slightly up on the good figure of €127.8 million for fiscal 2013.

€ **121.5**  
million

in order books

#### **Development of the segments**

Within the euromicron Group, a regional division of business dominates in accordance with the Group's internal management structure. In addition, there is the segment WAN services, in which supraregional business in the field of planning, installing and servicing wide area networks is grouped and presented.

## Segment sales

008

	2014	2013*
	€ m.	€ m.
euromicron North	116.2	113.3
euromicron South	134.5	122.3
WAN services	107.9	102.2
Consolidation	-12.3	-12.1
<b>Total sales</b>	<b>346.3</b>	<b>325.7</b>

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

## Segment earnings (EBITDA)

009

	2014	2013*
	€ m.	€ m.
euromicron North	14.1	13.4
euromicron South	6.2	-6.6
WAN services	8.1	8.1
<b>Operating EBITDA</b>	<b>28.4</b>	<b>14.9</b>
Central services	-7.3	-6.2
<b>Total EBITDA</b>	<b>21.1</b>	<b>8.7</b>

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

## Segment earnings (EBIT)

010

	2014	2013*
	€ m.	€ m.
euromicron North	10.3	10.0
euromicron South	2.3	-10.0
WAN services	6.5	6.4
<b>Operating EBIT</b>	<b>19.1</b>	<b>6.4</b>
Central services	-7.7	-6.6
<b>Total EBIT</b>	<b>11.4</b>	<b>-0.2</b>

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

Within the North Segment, SSM euromicron GmbH, Zwenkau, was merged with euromicron systems GmbH, Essen, retroactively effective January 1, 2014. Otherwise, there were no structural changes in the North Segment in fiscal 2014.

Sales in the North Segment were €116.2 million, €2.9 million or 2.6% above the previous year's €113.3 million. Whereas sales at the production companies in the North Segment increased by €6.7 million on the back of higher demand (especially for assembled cables, connectors and switches), sales in system house business in the North segment fell by €-3.8 million. This decline is mainly due to the fact that a smaller number of large projects were handled in fiscal 2014.

€ **116.2**  
million

in sales at the North Segment –  
2.6% more than the year before.



# 12.1%

is what the North Segment's EBITDA margin now stands at.

EBITDA improved by €0.7 million from €13.4 million to €14.1 million, meaning the EBITDA margin rose from 11.8% in the previous year to 12.1%. EBIT also increased slightly by €0.3 million and now stands at €10.3 million (previous year: €10.0 million). As part of this, EBITDA and EBIT at the production companies increased by €3.4 million and €2.9 million respectively, mainly on the back of the volume effect from higher sales. However, EBITDA and EBIT at the system houses fell by € –2.7 million and € –2.6 million respectively. This effect is attributable to the lower gross profit due to the decline in sales, as well as the increase in the ratio of cost of materials to total operating performance due to greater use of subcontractors (external services).

The forecast for 2014 envisaged an increase in sales of around 7% and a moderate rise in the EBITDA margin. However, this forecast was based on the reported sales of €116.1 million and an EBITDA margin of 12.1% in the previous year (before the effects from correction of the mistakes). Relative to these comparative figures, there was no increase in sales in 2014 and the EBITDA margin was at the level of the previous year. The deviation from the forecast sales is due to the fact that sales at the production companies were slightly below budget, especially as a result of order postponements in the CIS region, while sales in system house business were well below budget as a result of lower revenue from large projects. The planned positive effect on the EBITDA margin that resulted from the larger percentage share of higher-margin sales by the production companies in total sales at the North Segment was offset by the unplanned negative effect from the increase in the ratio of cost of materials to total operating performance in system house business, so that on balance the EBITDA margin was unchanged year on year.

An increase in sales in the medium single-digit percentage range and an improvement in the EBITDA margin by one percentage point is planned at the North Segment in 2015.

# 10%

increase in sales to €134.5 million at the South Segment.

The South Segment increased its sales by €12.2 million or 10.0% from €122.3 million in the previous year to €134.5 million. As part of this, there was an increase in the sales generated by the production companies and distributors (€ +10.6 million) and sales of the system houses (€ +1.6 million). A major boost to the increase in sales at the production companies came from the two companies that were newly acquired at the end of 2013, namely SIM GmbH and ATECS AG, whose sales were included for a full year for the first time in fiscal 2014.

The forecast for 2014 envisaged an increase in sales at the South Segment by around 6%, but was based on the figure reported in the previous year, i.e. €126.9 million (before the effects from correction of the mistakes). Relative to these comparative figures, the increase in sales in 2014 was 6% and so exactly as forecast.

EBITDA at the South Segment (previous year: € –6.6 million) improved sharply by €12.8 million to €6.2 million. As a result, the EBITDA margin is 4.6% compared with € –5.4% in the previous year; that meant the positive EBITDA margin in the low single-digit percentage range forecast for 2014 was slightly surpassed. EBIT (previous year: € –10.0 million) performed very positively and rose by €12.3 million to €2.3 million. The improvements in earnings applied alike to the production companies and distributors, as well as the system houses. The EBIT and EBITDA of the production companies and distributors increased by €7.4 million and €6.8 respectively, while the increase at the system houses was €5.4 million and 5.5 million respectively.

Next year, the segment's sales are to be increased by a figure in the medium single-digit percentage range by means of further sales initiatives; an increase in the EBITDA margin of between half and a full percentage point is anticipated.

All activities at the euromicron Group with their focus on wide area network services are pooled in the "WAN services" segment, irrespective of the region in which the services are performed. The segment's sales were €107.9 million, up on the previous year's €102.2 million and so roughly at the level planned for 2014. EBITDA was constant at €8.1 million. The EBITDA margin was 7.5% (previous year: 7.9%) and so has fallen slightly in 2014 compared with the EBITDA margin planned at the level of the previous year. The EBIT was €6.5 million and so slightly above the previous year's figure of €6.4 million. The rise in sales over the previous year and the budgeted figure and the constant EBITDA and EBIT in absolute terms are mainly due to the handling of specific low-margin large projects, which helped increase volumes, but did not increase earnings and so resulted in a slight decline in the EBITDA margin. The share of outside contractors and so the ratio of cost of materials to total operating performance also increased in fiscal 2014, which likewise contributed to a slight fall in the EBITDA margin.

A stable market development for this segment is planned in 2015, so sales at the level of 2014 are anticipated. The EBITDA margin budgeted for 2015 is slightly below that achieved in fiscal 2014, since expenditures to tap new forward-looking fields of business are planned in 2015.

Overall, the operating companies of the euromicron Group generated an EBITDA of €28.4 million (previous year: €14.9 million). The EBIT of the operating companies in 2014 was €19.1 million (previous year: €6.4 million).

The planned increase in the headcount at the cross-divisional companies in the euromicron Group ("Central services"), and in particular the further expansion of euromicron networks GmbH's business activities, meant that the negative EBITDA of € -6.2 million increased to € -7.3 million and the negative EBIT from € -6.6 million to € -7.7 million. This is also attributable to higher earnings-related bonuses in fiscal 2014. All in all, however, the negative EBITDA of the Central services Segment in 2014 is around €1.3 million better than forecast. This is mainly attributable to the fact that posts planned in the budget were not filled and there were also reductions in material costs. A negative EBITDA is expected next year at around the level of 2014.

## 2.4 Non-financial performance indicators

Our efficiency is not only demonstrated in economic key performance indicators, but also in the sustainability of our activities. That requires competent and motivated employees, sparing use of the natural resources available to us, increasing and preserving the value of our brands, our customers' satisfaction and the social responsibility we wish to live up to with our company as a whole.

### Employee development and loyalty

euromicron AG's success is founded on the skills and commitment of its employees. The Group's HR strategy is geared toward providing the best possible support for strategic further development and earnings strength of the individual operating companies.

€ **107.9**  
million

in sales at the "WAN services"  
Segment

**8.1%**

Constant EBITDA at  
"WAN services"

€ **1.3**  
million

higher EBITDA than expected at  
the "Central services" Segment

# 1,704

The average headcount excluding trainees

A further effect of our HR strategy is that we always have new and interesting vacancies at our Group. New career opportunities repeatedly open up for employees who wish to advance and gain further qualifications.

euromicron aims to employ a sufficient number of qualified and committed employees at all times at all business levels and to offer them attractive working conditions and prospects in a group that is geared to profitability. The average headcount (excluding trainees) at the Group in the year under review rose from a total of 1,653 to 1,704. This increase in the number of employees at the Group is mainly due to new hirings. As a result, the Group has been able to acquire further specialists and more highly qualified staff for its future development. A slight rise in the headcount is again expected in fiscal 2015 due to systematically planned recruitments, in particular in sales, project management and project handling.

Personnel costs were €103.2 million (previous year: €99.0 million). The increase is mainly due to the higher headcount.

Enhancing the loyalty of our employees to the company is of major importance for us, since they and their expertise and dedication are vital to the success of our Group's integration phase. That is why we endeavor to support and encourage euromicron's employees not only with the aid of targeted further training measures in their daily work, but also by showing them interesting prospects for the future and development opportunities. At the same time, there is a focus on internal communication and motivation by means of targets and performance and career reviews. Joint events and measures to improve the work-life balance are also offered. In addition, the Executive Board is working with the HR department to create an extensive Group-wide employee loyalty program that is to be implemented in fiscal 2015.

A key component of our diverse range of training and further development is the area of "leadership": As part of the euromicron Junior Management Program, we identify young people who are suitable for management tasks at our Group and so invest in its future at the same time. In the year under review, 20 young employees once again complete the fourth euromicron Junior Management Program. As part of it, they were taught the personal competences and management skills needed for an executive on the job over a period of two years.

In addition, the Management Forum offers staff the chance to learn methods and reflect on their own leadership skills. In this way, executives are provided with support in accompanying employees in change processes at the company.

Other important target groups for training and further development measures are project and construction managers, as well as euromicron's sales executives. The euromicron Sales Trainee Program was launched for the third successive time in the year under review and will prepare seven young people to assume a responsible position as a euromicron sales executive over a period of twelve months. We also train our personnel regularly in the field of construction and project management.

The qualification drive for project managers was continued successfully in 2014. 50% of all project managers have now gained the certificate "Certified Project Manager". That ratio is to be increased further in fiscal 2015. Construction managers were able to obtain a better understanding of the interconnections between project planning, handling and controlling in special training courses. The qualification drive is rounded out by an internal project on the subject of "project controlling".

We permanently certify our technical staff for new technologies, products and vendors. That helps us ensure that the euromicron Group keeps up with technological developments in the market and has sufficiently qualified staff. As a result, we can plan, install and maintain the perfect solution for every customer in any region.

#### Trainee ratio

As in previous year, training of new employees is of particular importance to euromicron. Apart from traditional training paths, euromicron also offers dual courses of study (bachelor's degree), trainee programs and internships. The euromicron Group's trainee ratio was again at a good level in the year under review: 4.6% compared with 5.1% in the previous year. The objective for fiscal 2015 is to maintain this ratio at the high level of the previous year.

At **4.6%**

the trainee ratio is at a good level.

The change in current market requirements and the technological environment meant that the training held at euromicron was more strongly diversified in the year under review. Whereas the focus in the previous year was still clearly on training as an electronics technician in information and communications technology, around 35% of our 82 trainees at present are learning this profession in 2014. Around 13% are training as an electronics technician for industrial engineering and IT system electronics technician respectively. In addition, 15% of our trainees are learning the vocation of an IT specialist in system integration. euromicron is also training people as IT systems support specialists, office clerks and industrial clerks. Once again this year, euromicron trainees were some of the best in their year and captured awards. The basis for this success is, apart from the dedication of the trainees themselves, the individual and pinpointed encouragement given to them by the company.

### Responsible use of natural resources

None of euromicron's associated companies is subject to special environmental protection guidelines. euromicron nevertheless aims to live up to its responsibility for society as a whole and so attaches great importance to complying with environmental protection regulations. Consequently, the Group helps ensure the responsible use of resources voluntarily and to the best of its abilities.

Great importance was deliberately attached to economical and low-CO<sub>2</sub> vehicles in assembling the euromicron fleet and, associated with this, introducing the new business travel policy for the euromicron Group. As part of moving to new locations, we also ensured that the new buildings meet the latest environmental protection guidelines. The existing and new offices and workplaces have been equipped with energy-efficient equipment whose individual components are predominantly recyclable. The same goes for the newly established euromicron IT shopping basket, which among other things reflects a greater availability of hardware that consumes less energy. As a result, euromicron makes its contribution to achieving green IT. The operations of euromicron's production companies are geared to energy-saving processes. This includes, for example, computer-aided control of the standby switches or the permanent review and rollout of electric motors with higher efficiency classes.

Consequently, euromicron's corporate philosophy, which is geared toward sustainability, is not only applied in its commercial operations, but also reflected in sparing use of natural resources.

### Established brands and growing visibility

Under the umbrella brand "euromicron", the Group and its technology companies have corporate brands that in some cases have been established in their specific market segment for more than 40 years, such as EUROMICRON Werkzeuge GmbH or ELABO GmbH. These brands have a high reputation and so value in their market segments due to the fact that they have operated so long and successfully in them.

Preserving and increasing the value of our brands will continue to be a key element of our corporate strategy in future: Continuous investments in product innovations, modern manufacturing methods, patent applications and appropriate sales and marketing activities help entrench our brands lastingly in their special segments.

In addition, we continuously strive to enhance the visibility and image of our umbrella brand. Among other things, that is of great importance in positioning our company on the capital market. In order to increase the value of the euromicron brand on the capital market, we conduct active investor and public relations work. In the year under review, we again presented our company in a raft of investor conferences and roadshows, revised our Website and placed our company in programs and articles in various media. A key component in presenting our company on the capital market remains our Annual Report, which captured two awards last year (<http://www.euromicron.de/euromicron-geschaeftsbericht-2013-ausgezeichnet>).

### Customers and quality

We want our customers to be satisfied with our products and services. That demands the very highest standards as regards the quality of our processes, our products and services and our employees.

Up to **40**

years of market experience are contributed by corporate brands such as EUROMICRON Werkzeuge GmbH or ELABO GmbH.

We gauge our customers' satisfaction at our large system houses by means of standardized customer satisfaction surveys and analyses. We also use trade shows (<http://www.euromicron.de/unternehmen/events>) to ascertain our customers' interest in our products and solutions. We use the written and personal feedback from our customers to actively derive appropriate potentials for improvement and optimization.

To meet the very highest demands made of the quality of our products and services, euromicron's products are certified in accordance with ISO 9100. In the production arena, we also hold certification, for example for making and assembling certain products, as well as approvals to supply specific products and solutions.

### 3. POSTSCRIPT REPORT

It was agreed on January 13, 2015, that the existing purchase options for a minority stake of 10% of the shares in ATECS AG, Zug/Switzerland, (referred to as ATECS AG in the following) and 10% of the shares in Secure Information Management GmbH, Neustadt a.d.W., (referred to as SIM GmbH in the following) would be exercised effective January 1, 2015. The purchase price for exercising the option is €0.8 million for the shares in ATECS AG and €0.2 million for the shares in SIM GmbH. The acquisition meant the stake held by euromicron AG in ATECS AG and SIM GmbH was 90% in each case. Due to the fact that the existing purchase options are designed as opposite put/call options that resulted in full consolidation of both companies in December 2013 following acquisition of 80% of the shares in them, the purchase price obligation of €1.0 million resulting from exercise of the options was already carried under "Other current financial liabilities" in the IFRS consolidated financial statements at December 31, 2014.

Distributions to the shareholders were resolved at the General Meeting of SIM GmbH and at the Ordinary General Meeting of ATECS AG on March 3, 2015. The distribution to minority shareholders totaling €840 thousand must be transferred from the consolidated equity to the item "Dividend/profit shares for minority interests", which is carried under the balance sheet item "Other financial liabilities", effective March 3, 2015.

euromicron AG published an ad-hoc announcement in compliance with Section 15 WpHG (German Securities Trading Act) in this regard on March 23, 2015, since mistakes affecting the accounting and measurement of individual projects in previous periods were noticed during preparation of these financial statements (IFRS consolidated financial statements for 2014) (see section 4 "Correction according to IAS 8" in the IFRS consolidated financial statements).

In addition, Dr. Willibald Späth, Chairman of the Executive Board of euromicron AG, resigned his board post effective March 23, 2015. The business for which Dr. Späth was responsible up to then was subsequently discharged by the sole board member Mr. Thomas Hoffmann.

Ms. Bettina Meyer and Mr. Jürgen Hansjosten were appointed as further members of the Executive Board effective March 31, 2015. Ms. Meyer was also appointed as Spokeswoman of the Executive Board.

On May 8, 2015, the Supervisory Board of euromicron AG acceded to Thomas Hoffmann's request for his contract of employment to be terminated by mutual consent. Mr. Hoffmann resigned as a member of the Executive Board of euromicron AG on that date. Ms. Meyer and Mr. Hansjosten will take over Mr. Hoffmann's spheres of responsibility.

## 4. FORECAST, OPPORTUNITY AND RISK REPORT

### 4.1 Explanation of deviations from the previous year's forecast

The previous year's forecast envisaged a sales target of €340 million to €360 million and an EBITDA margin between 6% and 8% for fiscal 2014. For the purposes of explaining the deviation between the actual and planned figures for fiscal 2014, the mean range of the forecast values is used as the basis of calculation, corresponding to forecast sales of €350 million and an EBITDA margin of 7%. The table below presents the deviations between the planned and actual figures for sales and EBITDA:

#### Deviation from the forecast

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Deviation from forecast sales		Deviation from forecast EBITDA	
	€ m.		
Forecast sales in 2014	350.0	Forecast sales in 2014 (€ m.)	350.0
Actual sales in 2014	346.3	Forecast EBITDA margin	7.0%
Deviation from the forecast	-3.7	Forecast EBITDA in 2014 (€ m.)	24.5
		Actual EBITDA in 2014 (€ m.)	21.1
		Deviation from the forecast (€ m.)	-3.4

The deviation from the forecast sales totals € -3.7 million. € -1.1 million of it is from the production companies and is mainly attributable to order postponements in the CIS region as a result of the tense political situation and depreciation of the ruble. The remainder of the deviation from the forecast sales (€ -2.6 million) comes from system house business and is substantially due to the fact that a smaller number of large projects were acquired in fiscal 2014.

The deviation from the forecast EBITDA totals € -3.4 million and is attributable to our production segment to an amount of € -0.5 million. This is solely due to the volume-related effect that sales were below budget; the EBITDA margin of our production segment is almost at the budgeted level in 2014. In addition, there is a deviation from the EBITDA of around € -4.2 million for the system houses. This is due to the volume-related effect of lower sales, as well as a ratio of cost of materials that was above budget, mainly as a result of greater use of subcontractors and so a higher proportion of external services. Apart from that, there were follow-up costs as part of restructuring at the Southern grouping, in particular for personnel, that were not included in the budget.

On the other hand, the EBITDA of the Central services segment was €1.3 million better than budgeted. This is attributable in particular to the fact that the posts planned in the 2014 budget were not filled in fiscal 2014; there were also reductions in material costs.

We refer to the section “Development of the segments” in 2.3 “Net assets, financial position and results of operations” as regards segment-specific reporting on the forecasts.

## 4.2 Risk report and salient features of the risk management system

### Risk strategy and general risk management

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

The risks that may have a significant influence on the financial position, net assets and results of the euromicron Group are classified in the following categories in accordance with the risk management system:

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



Generating **85%**

of sales, the German market is crucial to our success.

Up to **10%**

of total sales are generated by euromicron with its largest single customer. That means dependencies and customer risks are relativized.

### Markets

In principle, euromicron is dependent on positive economic trends in the Euro zone; as in the previous year, the German market accounts for around 85% of the company's sales and so is crucial to its success. Germany is also place of activity of most of euromicron's subsidiaries, which benefit from investments in communications, security and data networks. Consequently, the development of the German market is of great significance for the overall Group's earnings; however, given the positive economic forecasts for 2015, the likelihood of potential economic risks occurring in the German market is assessed as being low. According to current assessments, the merely slow recovery in the economies of the Mediterranean region will not have any direct impact on the company. There are only very few business relationships outside the European economies, which is why distortions there should not have any direct effect on euromicron.

Apart from economic risks, euromicron is subject to the fundamental risks relating to other market players and pressure on prices. euromicron tackles these challenges by nurturing intensive contacts with customers so as to be able to offer top-quality products and services at competitive prices. Individual subsidiaries have a low degree of dependence on individual large accounts. This risk at the Group level is relativized, since no one customer accounts for more than 10.0% of total sales (previous year: one customer). The risk of default by large customers is assessed as being low due to their very good creditworthiness. The risk of nonpayment is additionally reduced by factoring of some receivables from customers.

### Technology/R&D

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

euromicron's customers demand that the production companies deliver top-quality, tailored solutions. To meet this requirement, euromicron's development departments endeavor not only to respond to technological trends, but also to occupy a pioneering role in research and development. In order to achieve this ambitious objective, the development units at the production companies have been significantly expanded in the past two years and the quality and quantity of support for them enhanced by enlisting the services of external development partners. As a result, innovativeness is of great importance for the euromicron Group's future economic development. Due to the continued investments in innovative new products and solutions, which is also reflected in the large proportion of capitalized development costs, only low risks to the Group's future earnings performance are seen in this area.

### Products/projects

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

There are other types of risk in project business. Projects are initially funded up-front in part by the system houses. If a customer does not meet its payment obligations when a project is completed, the result may be financial losses, depending on the size of the project. However, the average default ratio for receivables at the Group in the past two years was below 0.2% of sales. In addition, there are clear stipulations that down-payments and partial invoices should be agreed when the project is accepted so that up-front financing is minimized.

Further project risks are errors in costing or inadequate order processing. The importance of this risk category for the euromicron Group is shown by the negative effect of € –11.4 million that, in accordance with the principles of IAS 8, had to be charged directly to equity in the IFRS consolidated financial statements for 2014 due to the mistakes that were discovered in the costing and valuation of products and receivables from the years 2012 and 2013. In order to minimize risks from project business, the process for approving acceptance of project orders was further structured and enhanced in the course of fiscal 2013. Further project controllers were also hired to monitor the profitability of project orders continuously. Moreover, the "Major Projects" Competence Center was established. It is responsible specifically for handling construction-related large projects and pools expert knowledge in connection with questions relating to handling of such projects.

The effectiveness of the implemented measures in fiscal 2014 is reflected in the fact that the company was itself able to identify the past costing and valuation mistakes in 2014 thanks to its professionalized structures. The extensive analysis of the project portfolio as part of preparation of the financial statements also revealed that, above and beyond the identified mistakes, no further old projects had mistakes in them and that there were no mistakes identified in projects that were handled with the new structures from 2014 on after the described measures had been introduced. Enhancement of these structures will also be a focus of the euromicron Group's risk management activities in 2015. Apart from further optimization of structures and processes in system house business envisaged for 2015, related cross-Group projects were launched in 2014 to harmonize and standardized implementation management at the project companies throughout the Group. In addition, further centralization measures in the area of project costing and an increase in personnel in project controlling are planned. Moreover, project controlling will be integrated more strongly in Group reporting in future and managed centrally. Thanks to the measures that had already been implemented and those additionally planned in 2015, the impact of risks from project business in subsequent years is regarded as manageable, with the result that project losses above and beyond the customary operational extent are not expected.

### Finances/liquidity

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

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Focusing on the Euro zone minimizes exchange rate risks.

A further significant financial risk at the euromicron Group is the earnings strength of its companies. Since the Group companies are part of the centrally managed cash pool of euromicron AG, it is necessary to ensure that there are no risks to financing of them through the cash pool. This is achieved by a permanent and standardized finance management and reporting that constantly monitors and assesses the Group companies' activities and assigns measures to them, which is why the likelihood of this risk occurring is assessed as being low.

euromicron's banks again regarded it as a good and dependable partner in fiscal year 2014. The financial institutions are still keen to retain their commitment at euromicron and to actively accompany the company on its path in the coming years, despite the fact that earnings and balance sheet ratios have been temporary impacted by the mistakes that were discovered. The key financial indicators, which were adjusted due to the integration phase effective December 31, 2013, in agreement with the Group's long-term financing partners, were adhered to at December 31, 2014.

In fiscal 2015, structuring of funding will be a key focus of the Executive Board's activities. The objective is to increase the proportion of medium- and long-term funding by means of structured financing and so adjust financing structures further to the Group's growth in size. In summary: as far as can be seen at present, this means that euromicron AG's financing appears secure and represents a manageable risk.

#### Procurement

euromicron is still a vendor-independent system house that has cooperation agreements and nurtures active collaboration with various suppliers. In addition, goods are resold within the Group by manufacturers and distributors to the system houses. Consequently, there is only a limited risk in relation to procurement.

#### Corporate

The departure of qualified personnel is a key risk at a company with a broad technological lineup like euromicron, in particular in project business, which is highly reliant on the existing staff. That is why the Group offers its employees regular training and further development measures. By gaining further qualifications, employees are motivated to assume more responsibility in their departments and demanding, varied tasks in their function. euromicron believes that professional and personal further development is a means of enhancing employee loyalty and key to a successful HR policy. In addition, the Executive Board is working with the HR department to create a comprehensive Group-wide employee loyalty program that is to be implemented in fiscal 2015. Due to our existing and planned extensive measures to ensure employees' loyalty and development, we believe the risk of losing highly qualified staff to be limited.

There are no legal risks from pending legal proceedings above and beyond current business. A tax audit is pending for the fiscal years 2006 to 2009. As far as is known at present, this will not result in any material financial risks.

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Personnel loyalty thanks to professional and personal further development

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

### 4.3 Opportunity report

Our new strategic focus “Enabling the Internet of Things” will help euromicron open up a virtually unlimited market that is just starting to grow. euromicron’s main emphasis in this market will be on the segment of smart buildings and critical infrastructures (see section 1.2 “Objectives and strategies”), since they are already key markets of euromicron.

Systematic leveraging of synergies between technology companies and system integrators represents the greatest potential for improving the euromicron Group’s results in the medium term. Whereas these synergies have been exploited at the project level to date, this will be done in future by a centrally controlled innovation process for the entire euromicron Group. This central Business Development function at euromicron is tasked with gearing the solution portfolio to the target markets and systematically creating synergies between the associated companies. This will result in further differentiation on the market in the medium term and lastingly increase the margins that can be achieved.

Apart from this market-related opportunities, one of our main goals is still to increase efficiency, especially in project business. The initiated measures described in the risk report means there are great opportunities in future to increase profitability in project business and so help improve results further.

By continuing to optimize purchasing activities and processes, we aim to achieve a further improvement in acquisition prices and delivery terms for the euromicron Group. In order to strengthen our competitiveness, we will merge the Purchasing department at the system houses and production companies in 2015 in order to leverage the existing synergies there.

Another major emphasis in 2015 will be to professionalize and optimize our sales activities. We will continue to expand key account management at our Group for important customers and target industries.

One strategic objective is to increase the share of services in our solution portfolio. To enable that, we intend to coordinate, standardize and professionalize our service structures and processes within the system integration companies in 2015. As a result, we aim to offer our customers even better service concepts tailored to their specific needs and so increase our profitability.

## IoT

opens up a virtually unlimited growth market.

Synergies between technology companies and system integrators opens up particular potential for improving results.

Increases in efficiency open the way to increasing profitability in project business.

#### 4.4 Forecast for fiscal 2015

Taking into consideration the opportunities and risks we have presented, similar sales growth as in 2014 can be expected in 2015, namely a total of between €340 and €360 million. A stable EBITDA margin between 6% and 8% is planned for operating business in 2015.

Our realignment toward the market segment “Internet of Things” means we have to continue to optimize structures at the networks area of expertise. Apart from that, we are currently examining whether to shed equity investments that are not strategically relevant.

These necessary, forward-looking reorganization measures will reduce the EBITDA margin by around one percentage point, with the result that the forecast EBITDA margin – allowing for these effects – will be in a range between 5% and 7%. After these structural measures have been completed, we expect from 2016 on to see a significant improvement in our profitability, leading to an EBITDA margin of 8% to 11% in the medium term.

This forecast is based on the assumption of a positive economic development in the Federal Republic of Germany and in the general conditions in the IT/ICT industry in 2015, as presented in section 2.1 “General economic and industry-specific conditions”. Nevertheless, the actual results may deviate significantly from the expectations and forecasts if one of the above, or other, uncertainties arise or the assumptions on which the statements were based should prove to be inaccurate.

## 5. INTERNAL CONTROL AND RISKMANAGEMENT SYSTEM IN RELATION TO THE CONSOLIDATED ACCOUNTING PROCESS

### Legal background and definition of an internal accounting control and risk management system (ICS/RMS)

Stock corporations as defined by Section 264d of the German Commercial Code (HGB) are obliged pursuant to Section 315 (2) No. 5 of that Code to present the salient features of the ICS/RMS in relation to the consolidated accounting process in the group management report. The ICS/RMS comprises all principles, procedures and measures to ensure effective, cost-efficient and proper consolidated accounting and compliance with the relevant financial reporting regulations. It is integrated in the risk management system of the overall Group, which is described in detail in section 4. under "Risk report and salient features of the risk management system".

### Fundamental regulatory and control activities to ensure proper and reliable consolidated accounting

The measures in the ICS at euromicron AG and the euromicron Group are geared to proper and reliable consolidated accounting and ensure that business transactions are recorded fully, promptly and in compliance with statutory provisions. They also ensure that stock-takes are carried out properly and assets and liabilities are carried, measured and reported accurately in the consolidated financial statements. The causes of the mistakes in project valuations from the years 2012 and 2013 were analyzed extensively and addressed. The measures that had already been implemented and those additionally planned in 2015 (see section 4. under "Risk report and salient features of the risk management system") ensure that the company has established internal control structures that prevent such mistakes occurring in subsequent years and enable it to take timely and adequate countermeasures if and when necessary. The regulatory activities also ensure that reliable and transparent evidence relating to business transactions is available in the form of accounting documents.

Process-integrated and process-independent control measures form the main elements of the ICS at the euromicron Group. Apart from manual process controls – such as the "four eyes principle" –, automated IT process checks are also a key part of the process-integrated controls. This ensures that Financial Accounting is informed promptly of the status of all documents, which significantly reduces the risk of matters not being completely or correctly reported in accounting. The separation of functions and the four eyes principle are prescribed in work instructions or have been implemented in some cases in the systems used. Strict compliance with these measures also reduces the possibility of acts of criminal intent.

Regular training courses make sure that employees at Accounting are informed of changes to the law that may have an impact on preparation of the consolidated financial statements. In addition, the text of laws and commentaries on them are available to an adequate extent.

Other control bodies, such as the Supervisory Board and independent auditor, are integrated in the Group's control environment with their process-independent auditing and monitoring activities. In particular, auditing of the consolidated financial statements and of the accounts presented by the Group companies included in the consolidated financial statements by our independent auditor form another main process-independent monitoring step in relation to the consolidated accounting procedure. The suitability and effectiveness of the internal control system is also examined constantly by the work of the Internal Auditing department.

### Specific accounting-related risks

A particular risk in relation to consolidated accounting is that the consolidated financial statements to be published contain errors that may have a significant influence on the Group's financial position, net assets and results of operations. This risk exists in reporting unusual or particularly complex business transactions or other business transactions that are not routine and so have a relatively high inherent risk. We refer you in this regard to the comments in section 4. under "Risk report and salient features of the risk management system".

### Other aspects

In preparation of the consolidated financial statements, Accounting is also dependent in part on data and information from other organizational units of the euromicron Group. Of particular importance in examining the intrinsic value of goodwill and other assets is the budgeting prepared by the respective subsidiaries in agreement with the Controlling unit of euromicron AG and approved by its Executive Board and Supervisory Board. The Treasury unit provides the data required for reporting any derivative financial instruments in the balance sheet. The data, which is provided by other organizational units, is subjected to a plausibility check in Accounting before being further processed as part of preparation of the consolidated financial statements.

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

## 6. CORPORATE GOVERNANCE REPORT

In 2014, euromicron AG largely complied with the recommendations of the German Corporate Governance Code (DCGK) in its version dated May 13, 2013, which was published on June 10, 2013, and in its amended version dated June 24, 2014, as of September 30, 2014. The exceptions, which are mainly due to the company's size and business model and to preparations for future adaptations, are listed on the company's homepage at <http://www.euromicron.de/investor-relations/corporate-governance-14>. The 2014 Corporate Governance Report published on this Internet site also contains the corporate governance declaration in accordance with Section 289a HGB (German Commercial Code).

## 7. COMPENSATION REPORT

This Compensation Report is an integrated part of the management report, summarizes the principles governing how the compensation of the Executive Board and Supervisory Board of euromicron AG is set, follows – with the exception explained below – the recommendations of the German Corporate Governance Code in the version dated May 13, 2013, which was published on June 10, 2013, or as of September 30, 2014, in its amended version dated June 13, 2014, and explains the level and structure of compensation for the respective members of the Executive Board. In addition, it specifies the principles for and level of compensation for the members of the Supervisory Board.

In accordance with the recommendation in Section 4.2.5 (3) et seq. DCGK that was newly introduced in the 2013 version, the compensation for Executive Board members is to be disclosed in individualized form using model tables for fiscal years starting after December 31, 2013. The model tables in the Code's appendix are to be used for disclosing this information. The company currently deviates from Section 4.2.5 (3) et seq. of the Code. The compensation for Executive Board members is disclosed in compliance with statutory provisions. The company has not provided any further disclosures on or breakdowns of the compensation using the model tables due the work involved in this change and the extra administrative overhead in 2014.

### Salient features of the compensation system for the Executive Board

euromicron's future success depends on the company's ability to acquire, motivate and retain good personnel. The compensation system for euromicron AG's Executive Board is therefore oriented toward performance incentives for long-term corporate governance geared to sustainability. The Executive Board's compensation is also part of an end-to-end system for executives at the euromicron Group and is intended to reflect the size and strategic alignment of the company, its economic situation and future prospects and the personal performance of the board member in question. The compensation should be competitive nationally and internationally and so offer incentives for committed and successful work. Overall responsibility for defining the compensation principles for the Group lies with the Supervisory Board, which also regularly reviews them.



## Compensation of the Executive Board

The total compensation of the Executive Board is based on Section 87 AktG (German Stock Corporation Law) and takes into account the Group's earnings targets. It is currently made up of performance-unrelated components (salary, other remuneration) and performance-related components (earnings-related bonus and a variable component with a long-term incentive effect ("LTI")). The contracts of employment and compensation structure overall are regularly reviewed together with independent external compensation experts and adjusted if necessary.

euromicron AG's compensation strategy also envisages offering remuneration that is fair and transparent and takes the interests of shareholders into consideration. The following criteria apply to the individual components of the Executive Board's compensation:

The performance-unrelated compensation is paid as a monthly salary, along with non-cash compensation. The fixed compensation of the Chairman of the Executive Board is higher than that of the other member in 2014. The other remuneration relates to use of company cars, premiums for a group accident insurance policy and a direct company insurance policy, contributions to health and nursing care insurance, and reimbursement of business-related travel and entertainment expenses. The Executive Board members pay tax on the respective benefit in money's worth of these non-cash benefits.

The company maintains an insurance policy for board members of the euromicron Group, what is termed a directors' and officers' (D&O) policy. This insurance covers personal liability if claims for financial loss are made against Executive Board members as part of their work. In accordance with the applicable arrangement in the contracts of employment with Executive Board members, a deductible of 10% is provided for in accordance with statutory provisions (deductible within the meaning of Section 93 (2) AktG (German Stock Corporation Law) in conjunction with Section 23 (1) EGAktG (Introductory Act to the German Stock Corporation Law)).

The variable, performance-related elements of the compensation for Executive Board members are geared to the company's sustainable development and consist of the following, mutually independent components:

First, there is an earnings-related bonus in the form of a variable cash payment which is geared to the Group's EBITDA and is calculated taking the Group's business results into account. An upper limit (cap) avoids entitlement to an excessively high bonus in the event of highly positive developments.

In addition, the system for compensation of an Executive Board member includes variable components with a multi-year basis of assessment (LTI). For the contribution made to increases in the company's value, the Executive Board members can receive a long-term compensation component geared to the total EBITDA amounts for the next three fiscal years as of when this compensation component is promised ("performance period"). Payment of it will be due after the consolidated financial statements for the final year of the performance period have been approved; annual payments on account will be set off against this.

In addition, as part of the compensation structure, the Supervisory Board can decide – in compliance with statutory provisions – to grant a discretionary bonus to reflect exceptional achievements and especially significant contributions to the company's development and increases in its value. The Supervisory Board did not make use of this option in fiscal 2014.

For their work in fiscal year 2014, the individual members of the Executive Board received the following payments:

The total compensation for all members of the Executive Board was €1,787 thousand. The performance-unrelated, fixed basic compensation accounted for €876 thousand (plus other non-cash compensation of €46 thousand) and the variable, performance-related compensation for €911 thousand.

The following amounts were paid to the individual members of the Executive Board:

- Dr. Willibald Späth: €1,351 thousand (performance-unrelated compensation €629 thousand; including €29 thousand in other remuneration, performance-related compensation of €317 thousand and €405 thousand from the variable component with a long-term incentive effect).
- Thomas Hoffmann: €436 thousand (performance-unrelated compensation €247 thousand; including €17 thousand in other remuneration, performance-related compensation of €114 thousand and €75 thousand from the variable component with a long-term incentive effect).

In the event that an Executive Board member's activity is terminated without an important reason, all contracts provide for a payment with which the remaining term of the contract of employment is remunerated. The same applies in the event of premature termination of a board member's activity in the case of a change of control. In both cases, no further payments that necessitate a severance pay cap have been agreed.

No loans or advances were granted to the members of the Executive Board in the year under review. Apart from the stated compensation components, the members of the Executive Board did not receive any fringe benefits. In fiscal 2014, the members of the Executive Board did not receive any benefits from third parties that have been promised or granted in relation to their work as board members. Activities in or for subsidiaries are not remunerated separately.

### Salient features of the compensation system for the Supervisory Board

The compensation of members of the Supervisory Board is governed by the Articles of Association of euromicron AG. Apart from being reimbursed for their outlays, the members of the Supervisory Board receive a fixed annual remuneration of €30 thousand. The Chairman of the Supervisory Board receives double and his/her deputy one-and-a-half times the fixed remuneration. The overall compensation for the Supervisory Board for 2014 in accordance with the Articles of Association was thus €135 thousand, which is broken down as follows:

- Dr. Franz-Stephan von Gronau: €60 thousand
- Josef Martin Ortolf: €45 thousand
- Dr. Andreas de Forestier: €30 thousand

In its own interests, the company maintains a directors' and officers' (D&O) insurance policy that also covers the members of the Supervisory Board. Its deductible is 10%.

With one exception, the members of the Supervisory Board did not receive any further payments for services provided in the year under review. The auditing firm LKC Kemper Czarske v. Gronau Berz, for which the Supervisory Board member Dr. Franz-Stephan von Gronau works, was commissioned to prepare expert opinions in connection with legal and accounting matters. A fee totaling €75 thousand was paid for the services.

## 8. DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) HGB (GERMAN COMMERCIAL CODE)

- a.) The subscribed capital of euromicron AG on the balance sheet date comprises 7,176,398 no-par value registered shares.
- b.) The company's Executive Board is not aware of restrictions on voting rights or transfer of shares, even if they may be defined under agreements between shareholders.
- c.) There are no direct or indirect capital stakes exceeding 10% of the voting rights, where the disclosures do not have to be made in the notes on the consolidated financial statements.
- d.) There are no holders of shares with special rights that confer controlling powers.
- e.) The Executive Board is appointed and removed by the Supervisory Board in accordance with the Articles of Association in compliance with Section 84 AktG (German Stock Corporation Law). Amendments to the Articles of Association require the consent of the General Meeting.
- f.) Powers of the Executive Board to issue or buy back shares:

**Authorized capital**

The General Meeting on May 14, 2014, adopted a resolution to create new authorized capital totaling €9,173,770.00. Under it, the Executive Board is authorized to increase the capital stock of euromicron AG by May 13, 2019, by up to a total of €9,173,770.00 on one or more occasions with the approval of the Supervisory Board by issuing new registered shares in exchange for cash or non-cash contributions. In accordance with the Articles of Association, there is the possibility, under specific preconditions, to exclude the statutory shareholders' subscription right. The previously existing authorized capital, which was still €1,310,541.28 following its partial use for the capital increase, was rescinded.

**Treasury shares**

The Company was authorized with effect from June 10, 2011, to acquire its own shares up to June 9, 2016, at a maximum proportional amount of the capital stock of €1,310,539.74 for these shares. This is 10% of the Company's capital stock at the time of the General Meeting. The acquired shares – together with other shares that the company has already acquired or still holds or can be ascribed to it pursuant to Sections 71 a ff. AktG (German Stock Corporation Law) – must at no time exceed 10% of the company's capital stock.

The authorization may not be used for the purpose of trading in the company's own shares. The authorization can be exercised in full or in partial amounts, once or more times, in the pursuit of one or more purposes by the company or by third parties for the company's account.

The Executive Board is further authorized, with the consent of the Supervisory Board, to redeem own shares in the company without the need for a further resolution to be adopted by the General Meeting. As part of the redemption using the simplified process, it is also authorized to redeem no-par value shares without a capital reduction by adjusting the arithmetic pro-rata amount of the other no-par value shares relative to the capital stock. This redemption can be limited to part of the acquired shares. The authorization to redeem shares can be exercised more than once. If no-par value shares are redeemed without a capital reduction using the simplified method, the Executive Board shall also be authorized to adjust the number of shares in the Company in the Articles of Association (Section 237 (3) No. 3 AktG (German Stock Corporation Law)).

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

The Executive Board did not make use of the authorization to acquire treasury shares up to December 31, 2014.

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

Frankfurt/Main, May 26, 2015

Bettina Meyer	Jürgen Hansjosten
Spokeswoman of the Executive Board	Member of the Executive Board