Interim Report Q2/2014

euromicron Aktiengesellschaft

AGENDA 500

Our Path up to 2016

euromicron

Key income figures

of the euromicron Group as of June 30, 2014

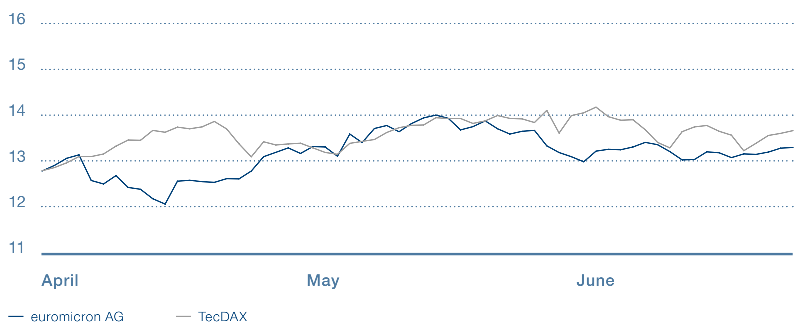
	2014 € thou.	2013 € thou.
Consolidated EBIT	5,507	9,215
Operating EBIT	9,027	12,057
EBITDA	10,503	13,420
EBITDA return as a ratio of sales (in %)	6.5%	8.8%
Income before taxes	3,698	7,351
Consolidated net income for euromicron AG shareholders	2,455	5,044
Earnings per share in € (undiluted)	0.34	0.76

(unaudited acc. to IFRS)

Share performance

of the euromicron Group from April 1 to June 30, 2014

SHARE PERFORMANCE IN €



Dear shareholders,

At the end of the first half of 2014, euromicron AG's business shows a consistent, good development and constant, quarterly increases in the planned target range.

On this stable operating base, we are pressing ahead with the expansion of our business base, the conversion of structures and the integrative development of the Group defined in the Agenda 500.

Frankfurt am Main, August 2014

The Executive Board

Foreword

As of June 30, 2014, the euromicron Group is within the planned target range both operationally and in terms of the progress of the extensive and costly Agenda 500 integration measures.

Our major private and public sector customers were a little more cautious with their investments in the second quarter of 2014 than in the first quarter, but overall were briskly investing in the first half of 2014. However, in general our customers are increasingly facing the dilemma of having to provide fast networks and attractive services to end users in order to withstand competition and to make the extensive investments required to do so. As a result, investments are mainly made in extending the life of existing networks. Investments in new, intelligent and technologically complex networks, while still being planned and in our backlog, are only made occasionally.

Under these circumstances and based on the strength of incoming orders and our order backlog in the first quarter of 2014, the euromicron Group generated consolidated sales of € 162.2 million by June 30, 2014, which again surpassed last year's outstanding sales of € 153.1 million by about 6% (see sales development table on page 09).

€ 164.1 million of orders received by the euromicron Group are also above the good level of the previous year (€ 154.8 million), as is the order backlog of around € 128.4 million (previous year: € 127.0 million).

In contrast to fiscal year 2013, which was marked by particularly strong earnings in first half and by the ramp-up of integration costs in the second half of the year, we see consistent earnings with constant quarterly increases and decreasing integration costs in the middle of the current fiscal year. As a result, consolidated earnings before taxes, after non-recurring expenses of about € 2.6 million for the integration and structural costs of developing specialized and central functions, amount to € 5.5 million. The consolidated operating income reached € 9.0 million, while the consolidated EBITDA as of June 30, 2014 is at the planned level with € 10.5 million. We therefore managed to increase the EBITDA margin to 6.5% from 6.1% in the previous quarter, which is well within the target range of 6 to 8% for the full year (see key income figures on page 11).

The integration costs for the rebuilding and expansion of our Group will be with us for some time, albeit to a lesser extent. Many of the costly Agenda 500 integration measures we build on – such as the forward-looking development of specialized and central functions of our company – could be largely completed by the end of the first half of 2014. We are aware that by incurring these expenses we are making an investment in the next scheduled growth phase and that these structural costs will continue to impact our results until they are amortized in the next growth phase in 2015 and 2016.

We are investing in the future of the euromicron Group as part of our long-term corporate strategy to give euromicron a new base for further growth and to secure a firm place for the company in a challenging market. After an intense debate at the General Meeting of euromicron AG, which was held on May 14, 2014 in Frankfurt am Main, this strategy was again confirmed by shareholders approving all agenda items.

Based on the stable operating business as of June 30, 2014 and the progress made as part of the integration, euromicron AG, assuming the acquisition and integration of one or more manufacturing companies in the Group, is well prepared to take the intended step in growth to a sales volume of € 500 million and an EBIT margin between 8 and 11% in the coming years.

Interim Management Report

of the euromicron Group from January 01 to June 30, 2014

General economic conditions

According to leading economic institutes, the global economy is growing at a moderate pace. It is still largely driven by the industrialized countries, primarily by the United States. The growth of emerging markets is limited by structural barriers, political uncertainties and volatile capital markets. According to calculations by the International Monetary Fund, the gross domestic product in the industrialized countries is expected to grow by 2.2% for the current year.

In the Euro zone, the economy continues to stabilize and shows an upward trend. According to leading institutes, the real GDP has grown by 0.3% (after 0.2% in the previous quarter) and is also expected to increase moderately in the following quarters. However, fiscal deficits and uncertain economic conditions are still affecting economic development in many member countries. Leading economic research institutes see the greatest risk for economic recovery in a possible increase in the savings rate of households as well as in a possible escalation of international conflicts in Eastern Europe and the Middle East.

The German economy continues its recovery in the second quarter of 2014, albeit at a slower rate. The domestic economy in particular is contributing more and more to growth. The positive outlook among consumers and a robust labor market coupled with low inflation favor the strong upturn in private consumption. This is countered by new geopolitical uncertainties that contribute to some measure of uncertainty and reluctance to make business decisions. Leading German economic institutes expect Germany's GDP to grow by 1.8% this year.

In its recent economic survey of ICT enterprises, the BITKOM industry association confirmed the predicted positive performance for the current fiscal year.

euromicron shares

While the stock market was characterized in the second quarter of 2014 by the ongoing political tensions as part of the conflict in Ukraine, the low interest rate policy of the central banks on the other hand led to a new short-term high of the leading German DAX index.

The general negative trend that was triggered by the crisis in Ukraine at the end of the previous quarter continued at the beginning of April. euromicron shares also couldn’t escape this trend entirely, closing at € 12.085 on April 15, 2014. The next day already saw the turnaround, so that euromicron shares ended the month of April with a share value of € 13.205, almost reaching € 13.37, the amount listed on the final day of trading in the first quarter.

In May, euromicron shares continued their positive development by continuing their upward trend begun earlier. After publication of the business figures for the first quarter of 2014, the share price temporarily climbed to € 14.095. euromicron shares ended the month of May at € 13.68, a plus of 3.60% compared to the previous month.

In June, the stock made a lateral move and could only benefit here and there from the positive mood that especially boosted the German DAX index, which exceeded the 10,000-point mark for the first time. At the end of the quarter, euromicron shares closed at € 13.31, surpassing the 14-Euro mark again at the beginning of July.

The majority of the analysts also gave a “buy” or “hold” recommendation for euromicron shares in the second quarter with a target price of up to € 24.50.

Sales

As of June 30, 2014, euromicron consolidated sales amounted to € 162.2 million, an increase of about 6.0% over previous year's € 153.1 million.

The focus of euromicron's business activities is still in Germany, one of the strongest markets in the ICT sector in Europe. Sales of € 139.4 million (previous year: € 137.1 million) in the domestic market accounted for approx. 86.0% of total sales.

In other European countries, we have our own offices in Italy, Austria, Benelux, France, Poland and Switzerland. We essentially develop the rest of the international markets with product exports and individual project business controlled from Germany or by business partners. In some non-European countries, such as China and Pakistan, we are represented with project offices to meet the local market requirements there. Our foreign sales were € 22.8 million, about 40% over the previous year's value of € 16.0 million.

Sales development – consolidated by regions

of the euromicron Group as of June 30, 2014

Regions

	2014 € thou.	2013 € thou.
Germany	139,431	137,128
Euro zone	15,114	13,231
Rest of world	7,649	2,726
Consolidated net sales	**162,194**	**153,085**

(unaudited acc. to IFRS)

Result

After one-time expenses for integration and structural costs for the development of specialized and central functions in the amount of approx. € 2.6 million, the Group's consolidated earnings before interest and taxes (EBIT) as of June 30, 2014, were € 5.5 million. The EBITDA amounted to € 10.5 million and was thus at the expected level. The EBITDA margin of around 6.5% was within the planned target range of 6 – 8% for the full year and could be increased by 0.4% over the first quarter of 2014 (6.1%). The EBITDA for the second quarter of 2014 was still affected by integration costs – especially by the segments South and by central services. However, due to the planned reduction of these integration costs, it has increased compared to the EBITDA for the fourth quarter of 2013 and the first quarter of 2014. The operating income of the associated companies was € 9.0 million

In line with sales developments, the costs of materials amounting to € 84.9 million (previous year: € 77.6 million) were above those of the previous year. The share of material costs relative to total operating performance was around 51.5% (previous year: 50.2%) and has therefore improved compared to the first quarter (52.0%).

Personnel expenses amounted to € 50.5 million (previous year € 46.2 million). This development is attributable to the increase in the number of employees since June 30, 2013 by 1.2% from 1,759 to 1,784 employees, which is primarily due to changes in scope of consolidation. In addition, the personnel costs particularly reflect the higher central and personnel restructuring costs compared to the first half of 2013.

The increase in depreciation on hidden reserves disclosed as part of company acquisitions, and on capitalized development costs led to an overall increase in depreciation from € 4.2 million in the pervious year to € 5.0 million as of June 30, 2014.

Other operating expenses amounted to € 21.6 million. This increase of € 0.8 million is primarily due to higher costs for temporary workers due to the high production capacities of our manufacturing plants. Vehicle and travel expenses, rent/room costs and legal and consulting costs are still the largest items within the other operating expenses.

With € 1.8 million, interest expenses were slightly lower than last year and are primarily the result of pre-financing the project business and of financing the growth of the euromicron group.

The tax ratio of around 30.0% was within the expected range.

The net income for the period after minority interests was € 2.5 million as of June 30, 2014, compared to € 5.0 million the previous year. Undiluted earnings per share were € 0.34 compared to € 0.76 in the strong first half of the previous year.

Key income figures as of June 30, 2014

euromicron Group

	2014 € thou.	2013 € thou.
Consolidated EBIT	5,507	9,215
Operating EBIT	9,027	12,057
EBITDA	10,503	13,420
EBITDA return as a ratio of sales (in %)	6.5%	8.8%
Income before taxes	3,698	7,351
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Earnings per share in € (undiluted)	0.34	0.76

(unaudited acc. to IFRS)

New orders, order backlog

As of June 30, 2014, our company had received new orders in the amount of € 164.1 million, an increase of about 6% over the previous year's value of € 154.8 million. We expect a continuous positive development in terms of new orders for the rest of the fiscal year.

The order backlog amounting to € 128.4 million also exceeded the previous year's level of € 127.0 million. We currently have no knowledge of any risk from significant project cancellations and postponements.

New orders/order backlog – consolidated as of June 30, 2014

euromicron Group

	2014 € thou.	2013 € thou.
Consolidated new orders	164,113	154,797
Consolidated order backlog	128,425	126,954

(unaudited acc. to IFRS)

Net assets

Compared to the total asset value of € 328.9 million on December 31, 2013, the euromicron Group's total assets had declined by € 8.2 million to € 320.7 million as of June 30, 2014.

The share of non-current assets amounted to approximately 48% of total assets, slightly above the previous year's level of 47%. Current assets decreased by € 6.8 million to € 167.0 million. As in previous years, inventories and the gross amount due from customers for contract work rose in total by around € 15.7 million for seasonal reasons, which is attributable to the solid order situation. With € 35.5 million, trade accounts receivable were at a nearly constant level due to consistent improvements in cash management.

Compared to December 31, 2013, the current balance of cash and cash equivalents decreased by € 24.4 million to € 14.4 million. Key factors for this decline were the lower factoring volume as of June 30, 2014, and the higher degree of preparatory work in projects compared to December 31, 2013, which involves a corresponding pre-financing. Our current cash and cash equivalents form a solid foundation for handling our full order books smoothly.

The ratio of equity and long-term outside capital to non-current assets is around 113%.

As of June 30, 2014, our equity was € 125.0 million, € 2.4 million above the level on December 31, 2013. The equity ratio is therefore at almost 40%, compared to 37% on December 31, 2013.

The long-term liabilities amount to approx. 15% of total assets and essentially include the long-term components of the Group's outside financing. The current liabilities have decreased by € 6.5 million to € 146.4 million as of 30 June 2014, and amount to just over 46% of total assets. This decrease is mainly due to purchase price payments made in the first quarter of 2014 for companies acquired in the previous year and to the settlement of trade accounts receivable and liabilities from customer funds to be passed on. This was offset by the increase in current liabilities to banks.

Financial position

Our Group's net debt (long-term and short-term) amounted to € 81.0 million as of June 30, 2014 (previous year: € 77.4 million). Despite a substantial growth in business and the pre-financing of projects, this is only a moderate increase, given that the effects of progressive improvements in working capital and ongoing cash optimization have a positive impact on the majority of the operating companies.

As of June 30, 2014, our company still has sufficient unused credit lines of around € 36 million from its partner banks to finance the company's further development and successful continuation of the "Fitness Program Agenda 500" in addition to covering its cash needs for the increasing business volume. Thanks to the good and long-term partnerships with leading financial institutions, the Group also has solid cash reserves for its current and strategic business development in 2014.

euromicron AG will continue to fund the euromicron Group and its associated companies directly or through its cash pool model.

Notes on cash flow

The cash flow from current business activities reported in the cash flow statement as of June 30, 2014 amounts to € –36.3 million (previous year: € 6.0 million). The adjusted operating cash flow as of June 30, 2014 amounts to € –11.7 million (previous year: € –16.4 million) and could be significantly improved by € 4.7 million compared to June 30, 2013.

When making comparisons to the previous year, it should be noted that the operating cash flow is strongly influenced by the effects arising from factoring and the associated customer funds to be forwarded. The Group companies are increasingly making use of factoring as a flexible and cost-efficient financing instrument to optimize their financial structure. After the factoring volume had increased significantly from December 31, 2012 to June 30, 2013, this trend continued until December 31, 2013 when it peaked at a volume of € 46.3 million. By June 30, 2014, the factoring volume has again moved to a level that is slightly below the level of June 30, 2013.

The figures below show the adjusted operating cash flow as of June 30, 2014 and June 30, 2013:

	June 30, 2014 € thou.	**June 30,2013** € thou.
Operating cash flow according to cash flow statement	–36,283	6,045
Effects of factoring and forwarded customer funds contained therein	–24,572	22,461
Adjusted cash flow	–11,711	–16,416

The posting of negative cash flows from operating activities as of June 30 is traditionally, and owed to the business model, due to the fact that the inventories and the project pre-financing (the gross amount due from customers for contract work) significantly increased by the end of the half-year due to the high degree of preparatory work; as of June 30, 2014, this effect reduced the half-year cash flow by around € 15.7 million.

Income Statement

of the euromicron Group for the period of January 1 to June 30, 2014

	3-month report		6-month report	
	April 1, 2014–June 30, 2014 € thou.	April 1, 2013–June 30, 2013 € thou.	Jan. 1, 2014–June 30, 2014 € thou.	Jan. 1, 2013–June 30, 2013 € thou.
Sales	**82,121**	**75,740**	**162,194**	**153,085**
Inventory changes	2,748	1,253	2,889	1,356
Own work capitalized	411	1,148	1,252	1,973
Other operating income	719	525	1,241	1,106
Cost of materials	–43,208	–38,304	–84,949	–77,558
Personnel costs	–25,914	–23,697	–50,537	–46,241
Amortization and depreciation	–2,438	–2,145	–4,996	–4,205
Other operating expenses	–11,254	–9,414	–21,587	–20,301
Earnings before interest and taxes (EBIT)	**3,185**	**5,106**	**5,507**	**9,215**
Interest income	10	6	20	37
Interest expenses	–972	–1,012	–1,829	–1,901
Income before income taxes	**2,223**	**4,100**	**3,698**	**7,351**
Income taxes	–667	–1,236	–1,110	–2,197
Consolidated net income for the period	**1,556**	**2,864**	**2,588**	**5,154**
Thereof for euromicron AG shareholders	1,494	2,818	2,455	5,044
Thereof for non-controlling interests	62	46	133	110
(Un)diluted earnings per share in €	**0.21**	**0.42**	**0.34**	**0.76**

(unaudited acc. to IFRS)

Reconciliation of quarterly results with statement of comprehensive income

of the euromicron Group as of June 30, 2014

	Jan. 1, 2014– June 30, 2014 € thou.	Jan. 1, 2013– June 30, 2013 € thou.
Consolidated net income before minority interests	**2,588**	**5,154**
Revaluation effects from pensions (will not be reclassified to the profit and loss statement in future)	0	0
Other profit/loss	**0**	**0**
Total profit/loss	**2,588**	**5,154**
Thereof for euromicron AG shareholders	2,455	5,044
Thereof for non-controlling interests	133	110

(unaudited acc. to IFRS)

Consolidated balance sheet
Asset

euromicron Group

Assets

	June 30, 2014 € thou.	Dec. 31, 2013 € thou.
Non-current assets		
Goodwill	113,529	113,529
Intangible assets	22,315	23,709
Property, plant and equipment	14,351	14,471
Other financial assets	957	960
Other assets	105	105
Deferred tax assets	2,435	2,299
	153,692	**155,073**
Current assets		
Inventories	30,494	27,961
Trade accounts receivable	35,469	34,593
Gross amount due from customers for contract work	76,881	63,761
Claims for income tax refunds	4,498	4,467
Other financial assets	1,675	2,217
Other assets	3,556	1,959
Cash and cash equivalents	14,426	38,830
	166,999	**173,788**
Total assets	**320,691**	**328,861**

(unaudited acc. to IFRS)

Consolidated balance sheet
Equity and liabilities

euromicron Group

Equity and liabilities

	June 30, 2014 € thou.	Dec. 31, 2014 € thou.
Equity		
Subscribed capital	18,348	17,037
Contribution made to carry out the adopted capital increase	0	6,838
Capital reserves	94,298	88,771
Gain/loss on the valuation of securities	177	177
Currency translation difference	0	0
Consolidated retained earnings	11,839	9,384
Stockholders' equity	124,662	122,207
Non-controlling interests	384	392
Total equity	**125,046**	**122,599**
Long-term debt		
Provisions for pensions	956	947
Other provisions	1,668	1,776
Liabilities to banks	30,554	32,806
Liabilities from finance lease	1,462	1,670
Other financial liabilities	3,989	7,322
Other liabilities	222	205
Deferred tax liabilities	10,399	8,659
	49,250	**53,385**
Current liabilities		
Other provisions	2,292	2,308
Trade accounts payable	44,358	54,639
Liabilities from current income taxes	586	4,341
Liabilities to banks	62,990	30,390
Liabilities from finance lease	459	506
Other tax liabilities	3,590	6,826
Personnel obligations	7,396	11,471
Other financial liabilities	19,379	36,811
Other liabilities	5,345	5,585
	146,395	**152,877**
Total equity and liabilities	**320,691**	**328,861**

Statement of changes in equity

of the euromicron Group for the period January 1, 2013 to June 30, 2014 (IFRS)

	Sub-scribed capital € thou.	Capital reserves € thou.	Contribution made to carry out the adopted capital increase € thou.
January 1, 2013	**17,037**	**88,771**	**0**
Consolidated net loss for 2013	**0**	**0**	**0**
Other profit/loss			
Gain/loss on the valuation of securities	0	0	0
Currency translation difference	0	0	0
Revaluation effects from pensions	0	0	0
	0	**0**	**0**
Total profit/loss	**0**	**0**	**0**
Transactions with owners			
Dividend for 2012	0	0	0
Capital increase at the AG after costs	0	0	0
Contributions made	0	0	6,838
Profit share of non-controlling shareholders	0	0	0
Transfer of profit shares for minority interests in outside capital	0	0	0
Distributions to/withdrawals by non-controlling shareholders	0	0	0
	0	**0**	**6,838**
December 31, 2013	**17,037**	**88,771**	**6,838**
Net profit for the first six month of 2014	**0**	**0**	**0**
Other profit/loss			
Gain/loss on the valuation of securities	0	0	0
Currency translation difference	0	0	0
Revaluation effects from pensions	0	0	0
	0	**0**	**0**
Total profit/loss	**0**	**0**	**0**
Transactions with owners			
Dividend for 2013	0	0	0
Contributions made to carry out the capital increase	1,311	5,527	–6,838
Profit share of non-controlling shareholders	0	0	0
Transfer of profit shares for minority interests in outside capital	0	0	0
Distributions to/withdrawals by non-controlling shareholders	0	0	0
	1,311	**5,527**	**–6,838**
June 30, 2014	**18,348**	**94,298**	**0**

(unaudited acc. to IFRS)

Consolidated retained earnings	Gain/loss from the valuation of securities	Currency translation difference	Equity attributable to the shareholders of euromicron AG	Non-controlling interests	Total equity
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
12,711	**0**	**0**	**118,519**	**525**	**119,044**
–764	**0**	**0**	**–764**	**0**	**–764**
0	177	0	177	0	177
0	0	0	0	0	0
–440	0	0	–440	0	–440
–440	**177**	**0**	**–263**	**0**	**–263**
–1,204	**177**	**0**	**–1,027**	**0**	**–1,027**
–1,999	0	0	–1,999	0	–1,999
0	0	0	0	0	0
0	0	0	6,838	0	6,838
–117	0	0	–117	117	0
–7	0	0	–7	0	–7
0	0	0	0	–250	–250
–2,123	**0**	**0**	**4,715**	**–133**	**4,582**
9,384	**177**	**0**	**122,207**	**392**	**122,599**
2,588	**0**	**0**	**2,588**	**0**	**2,588**
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**
2,588	**0**	**0**	**2,588**	**0**	**2,588**
0	0	0	0	0	0
0	0	0	0	0	0
–117	0	0	–117	117	0
–16	0	0	–16	0	–16
0	0	0	0	–125	–125
–133	**0**	**0**	**–133**	**–8**	**–141**
11,839	**177**	**0**	**124,662**	**384**	**125,046**

Statement of cash flow

euromicron Group

	Jan. 1, 2014– June 30, 2014 € thou.	Jan. 1, 2013– June 30, 2013 € thou.
Income before income taxes	3,698	7,351
Net interest income/loss and other financial expenses	1,809	1,864
Depreciation and amortization of noncurrent assets	4,996	4,205
Disposal of assets, net	–2	–5
Allowances for inventories and doubtful accounts	–31	53
Change in accrued liabilities	–367	–11
Changes in short- and long-term assets and liabilities:		
– Inventories	–2,567	–867
– Trade accounts receivable and gross amount due from customers for	–13,930	–4,273
– Trade accounts payable	–10,501	–6,549
– Other operating assets	–1,051	139
– Other operating liabilities	–13,607	5,031
– Income tax paid	–4,577	–2,258
– Income tax received	1,287	3,230
– Interest paid	–1,457	–1,901
– Interest received	17	37
Net cash provided by/used in operating activities[1)]	**–36,283**	**6,046**
Proceeds from		
– Retirement/disposal of property, plant and equipment	54	12
Payments due to acquisition of		
– Intangible assets	–1,788	–1,982
– Property, plant and equipment	–1,745	–1,185
– Subsidiaries	–8,000	–2,363
Net cash provided by/used in investment activities	**–11,479**	**–5,518**
Paid dividends	0	–1,999
Proceeds from raising of financial loans	33,263	7,464
Cash repayments of financial loans	–9,745	–3,650
Distributions to / withdrawals by non-controlling interests and profit shares of minority interests	–160	–270
Net cash provided by/used in financing activities	**23,358**	**1,545**
Net change in cash and cash equivalents	–24,404	2,073
Cash and cash equivalents at start of period	38,830	5,414
Cash and cash equivalents at end of period	**14,426**	**7,487**

1) see notes in chapter “Financial Position”

(unaudited acc. to IFRS)

Segment reporting
As of June 30, 2014

euromicron Group

Sales by report segments

	2014 € thou.	2013 € thou.
Sales for the North segment	56,852	56,046
Sales for the South segment	62,844	63,083
Sales for the WAN services segment	48,278	42,356
Total for the segments	167,974	161,485
Group consolidations	–5,780	–8,400
Consolidated sales for the Group	**162,194**	**153,085**

EBIT by report segments

	2014 € thou.	2013 € thou.
EBIT for the North segment	6,427	7,737
EBIT for the South segment	–247	1,930
EBIT for the WAN services segment	2,847	2,390
Central services and Group consolidations	–3,520	–2,842
Consolidated EBIT for the Group	**5,507**	**9,215**

Amortization/depreciation by report segments

	2014 € thou.	2013 € thou.
North, consolidated	–1,920	–1,722
South, consolidated	–2,057	–1,420
WAN services, consolidated	–806	–941
Central services and Group consolidations	–213	–122
Consolidated depreciation/amortization for the Group	**–4,996**	**–4,205**

(unaudited acc. to IFRS)

Employees

As of June 30, 2014, euromicron employed a total of 1,784 employees, including 79 trainees. Compared to December 31, 2013, this is an additional of 43 people. The increase is primarily attributable to new recruitment, especially in the area of our Competence Center and in the central control units of our Group.

As of the end of the first half of 2014, personnel expenses amounted to around € 50.5 million and were therefore above those for the same period last year (€ 46.2 million). This change is primarily due to higher personnel and training costs, which not only involve the creation of forward-looking personnel and management structures, but also include investments in the qualification of our employees. It is crucial for our business operations to keep the know-how of our staff in sales, engineering and project management up to date through continuous product training and certifications.

By training our junior staff, we are investing in the future of our company. In the first half of the year, for example, 20 young employees were completing the third euromicron Management Trainee program, which over a period of two years teaches the decision-making and leadership skills a manager needs on the job. In addition, the euromicron Sales Trainee program was started for the third time in a row, preparing seven young people over a period of twelve months to assume a responsible position as a euromicron sales representative.

At the end of the reporting period, the euromicron Group had 79 trainees. Regular top placements and awards our students are winning in state and national competitions attest to the high quality of our training and to the exceptional commitment of our trainees.

Risk report

The reports from the risk management system as of December 31, 2013 have been continuously examined and updated as part of the quarterly report of June 30, 2014. Compared to the risks for the euromicron Group stated and described in detail in the management report of the 2013 Annual Report, there have been no significant material changes, neither in the risk analysis nor in its structure or assessment as of June 30, 2014.

Taking into account all known facts and circumstances, euromicron does not anticipate any significant effects on its operational business from macroeconomic changes and in particular does not see any risks that might jeopardize the existence of the euromicron Group in a foreseeable period of time or, as far as can be assessed at present, might have a significant influence on the Group's financial position, net assets and results of operations.

Market & Technology

The first half of 2014 was very positive for German ICT companies. According to the industry association BITKOM, around three-quarters of companies (74%) were able to increase their sales, while only 13% reported declines in sales.

IT and software providers were again particularly successful, as their development was supported by increasing business expenditures for standard software, IT services and mobile technologies. Furthermore, investing in IT security remains a very high priority. According to a study by the European Information Technology Observatory (EITO), around 60% of surveyed companies consider the issue “extremely important” or “very important”.

In the second quarter of 2014, the change in the ICT sector continued. Issues such as the creation of intelligent information and telecommunications networks, the conversion of classic production plants to industry 4.0 standards and the expansion of broadband services were the driving growth factors in the ICT infrastructure sector.

In the second quarter, euromicron once again managed to prove that with its technological capabilities, consistently high level of certification and its wide specialist know-how it can help customers from all industries establish efficient and functional business processes on the basis of a sustainable and modern ICT infrastructure and the integration of value-adding applications that are based on it.

While the term “Industry 4.0” has only been in the public domain for the last three years, the concept behind it – that is the intelligent, networked factory – has been playing a central strategic role for the manufacturing industry for some time. The Knauf Group, a leading European manufacturer of building materials and systems, is a typical representative of our clientele which has to deal with changing value chains in their production that are driven by increasing digitization and networking. In light of the fact that production and order systems of the Group are to be integrated even more in the medium term, euromicron was contracted to renew the entire IT infrastructure in the company’s data center. We designed and installed a fully redundant, technically highly complex network based on different Enterprise Routing Switches and a Virtual Services Platform. Thanks to this, it is now possible for Knauf to provide adequate bandwidth for real-time data processing, mobile applications and process automation. At the same time, the euromicron solution supports continuous availability of all contents and simplifies the provision of applications from the data center. The concept of high availability also ensures the capacity for continuous production and work at the nearly 200 locations of the Knauf Group around the world.

The deployment of broadband networks has gained further momentum in the second quarter of 2014. Apart from the major carriers who continue to drive the expansion via VDSL2 Vectoring, many communities are trying to increase their attractiveness with corresponding offers of broadband service. The fact that euromicron is an established service and integration partner is proven, among other things, by projects for the BürgerBreitbandNetz GmbH & Co. KG and Thüringer Netcom GmbH, which we could win for us in the second quarter of 2014.

In light of the increasing amounts of data that need to be processed and the associated constantly increasing demands on availability and reliability of business networks, the modernization of their existing ITC infrastructure plays an important role for many of our customers. One such customer is Munich Airport, which hired euromicron as general contractor to convert and expand its in-house radio coverage. The project aims to completely replace the old system technology in Terminal 2 and to install a turnkey, comprehensive radio coverage system for the satellite terminal building under construction in order to meet the requirements of modern radio services and to ensure a fully redundant radio coverage.

These projects demonstrate that the euromicron Group, thanks to the breadth of its technological expertise, is in an excellent position to help customers in all industries modernize their existing ICT infrastructure and to restructure their business processes in a changing market environment.

Outlook

For the current year, we have set ourselves the goal to push on with the defined conversion, extension and integration measures with a view to further developing the structures, processes, and financial and human resources of our company, to largely complete these measures by the end of the year and to integrate them into a continuous improvement process.

In addition to the numerous Agenda 500 measures and projects that affect the entire value chain of our company, we constantly examine ways to supplement our Group in terms of technology and geography or in terms of its resources and competences by acquiring suitable companies. To this end, we are constantly talking with companies that are leaders in their markets and whose competences would complement euromicron's portfolio.

These long-planned strategic steps to advance the company allow us to create the basis for further organic growth of our group and for a planned smooth acquisition and integration of manufacturing companies in line with our strategic focus on products and to achieve a sustainable, good profitability after completion of the conversion and expansion phase. At the same time, we are pursuing an ambitious cost-saving program to continuously optimize processes and structures.

This, together with the continuously declining integration costs by the end of 2014, will help to secure our profit target.

For the moment, there is no evidence that the geopolitical risks in the Middle East, North Africa and Ukraine are affecting the investment behavior of our industry. Nevertheless, they represent a latent risk we are closely watching.

Against this background, and provided we will see further continuous operational growth in the second half of 2014, we stand by our forecast for the full year and expect our sales to grow to € 340 to 360 million, with an EBITDA margin of between 6% and 8%.

Due to its comprehensive, future-oriented business model and its stable liquidity base and a still solid equity ratio of almost 40%, the euromicron Group has the necessary financial strength to realize the planned growth in 2014 and in subsequent years. There are no plans for significant changes in our business strategy. A potential extension of our value creation process due to the development of cloud applications is continually being monitored.

Notes

Preamble

euromicron AG is a registered company under German law with headquarters in Frankfurt/Main and is mainly active in the areas of network and fiber optics technology.

euromicron AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable on the balance sheet date and with their interpretations by the International Financial Reporting Interpretations Committee (IFRIC). The interim report as of June 30, 2014, was prepared in compliance with the stipulations of the International Accounting Standard (IAS 34) "Interim Financial Reporting" and with the requirements of standard No. 16 "Interim Financial Reporting" of the DRSC (Deutsche Rechnungslegungs Standards Committee e.V.). The previous year's figures were determined using the same principles.

Unless otherwise stated, the figures in this interim report are presented in thousands of euros (€ thou.).

The results in the interim financial statement as of June 30, 2014, do not necessarily permit forecasts for the further course of business.

Reporting and valuation methods

Unless changes are explicitly specified, the abridged presentation of the consolidated financial statements as of June 30, 2014 invariably uses the same reporting and valuation methods as the consolidated financial statements as of December 31, 2013.

A detailed description of these methods is published in the 2013 Annual Report and is available on the company's homepage. The consolidated financial statements of euromicron AG as of December 31, 2013, were prepared on the basis of Section 315a of the German Commercial Code (HGB) in accordance with the International Financial Reporting Standards as applicable in the European Union.

An individual tax rate is used as the basis for calculating the income taxes for German companies and is also applied to the deferred taxes. The respective national rates of tax are used for calculating the income taxes for foreign companies.

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

As regards the content of the new standards and interpretations and amendments to existing standards, we refer to our comments on pages 101 to 108 of the 2013 Annual Report.

The following interpretations and amendments have been in force since the beginning of fiscal year 2014 (the amendment to IAS 36 – Impairment of Assets: Recoverable Amounts Disclosures for Non-Financial Assets (amendment) has been applied voluntarily and prematurely since December 31, 2013):

- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Financial Instruments: Offsetting Financial Assets and Financial Liabilities (amendment)
- IAS 39 Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting (amendment)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 10, IFRS 12 and IAS 27 Investment Entities (amendment)
- IFRS 10, IFRS 11 and IFRS 12 Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12 (amendment)
- IFRIC 21 Levies

Application of the new and/or amended standards and interpretations has no significant impact on the Group's financial position, net assets and results of operations or cash flow.

Consolidated companies

Apart from euromicron AG, the consolidated financial statements as of June 30, 2014 still include 27 companies in which euromicron AG directly or indirectly has the majority of voting rights.

Treasury shares

As of June 30, 2014, euromicron does not hold any treasury shares that might be offset against equity in accordance with IAS 31.33.

Non-controlling interests (minority interests)

Under IFRS 3 (2008), non-controlling interests are disclosed as part of equity in accordance with the entity point of view.

The minority interests in equity reported as of June 30, 2014 (€ 384 thousand) relate exclusively to Qubix S.p.A., Padua (10%).

Segment information

Business segments are identified using internal organizational and reporting structures, which at the euromicron Group are essentially based on regions.

euromicron reports in the operating segments euromicron North, euromicron South and WAN services, as well as Central services and Group consolidations. The interim report presents the details regularly reported to the main decision-maker. Further items from the balance sheet and income statement are not reported regularly and so are not disclosed (IFRS 8.32).

The applied accounting principles and methods are identical for all segments. The information shown for the individual segments contains segment-related consolidations.

Business transactions with related parties

Apart from the compensation for the Executive Board and Supervisory Board, there are no significant relations with related persons. There are also no business transactions between consolidated companies of the euromicron Group and non-consolidated or associated companies of the euromicron Group.

Contingencies

There were no significant changes in contingencies, contingent liabilities and other financial obligations compared with the annual financial statements as of December 31, 2013.

Declaration by the legal representatives

We declare to the best of our knowledge that the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the accounting principles to be applied for interim reporting and that the course of business, including the business results and the Group's position, is presented in the interim group management report in such a way that a true and fair view is given and the main opportunities and risks of the Group's anticipated development in the remainder of the fiscal year are described.

Frankfurt am Main, August 08, 2014

The Executive Board

Dr. Willibald Späth Thomas Hoffmann

Financial Calendar 2014

September 02, 2014	SCC_Small Cap DVFA Conference, Frankfurt/M.
September 10, 2014	ZKK – Zurich Capital Market Conference, Zurich/Switzerland
November 07, 2014	Publication of interim report Q3 2014
November 26, 2014	German Equity Forum, Frankfurt/M.

This quarterly report is available in German and English.

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

Disclaimer on predictive statements

This report also includes predictive statements and information on future developments that are based on the convictions and current views of euromicron AG's management and on assumptions and information currently available to euromicron. Where the terms "assume", "believe", "assess", "expect", "intend", "can/may/might", "plan" or similar expressions are used, they are intended to indicate predictive statements that are subject to certain elements of insecurity and risks, such as competitive pressure, changes to the law, changes in general political and economic conditions, changes to business strategy, other risks and uncertainties that euromicron AG in many cases cannot influence and that may result in significant deviations between the actual results and predictive statements. Any liability or guarantee for the used and published data and information being up-to-date, correct and/or complete is not assumed, either explicitly or implicitly.

euromicron AG
Zum Laurenburger Hof 76
60594 Frankfurt/Main, Germany
Phone: +49 69 63 15 83-0
Fax: +49 69 63 15 83-17
info@euromicron.de
Internet: www.euromicron.de

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