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## LETTER TO THE SHAREHOLDERS FOREWORD BY THE MANAGING BOARD

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Dear Shareholders and Customers,  
Dear Business Friends and Employees,

2006 was a particularly difficult year for GERICOM AG. For some years the market has been characterized by fast technological progress, shorter product life-cycles and a rapid fall in prices. Although the mobile computing and home entertainment markets still achieved a strong rate of quantitative growth in 2006, at the same time the entire industry faced a dramatic fall in prices.

The TV market, in particular, suffered an unprecedented slump. One factor which contributed to this development was the very optimistic expectations of the entire branch regarding marketing potential during the World Cup in Germany, expectations which were in no way realized and left producers with enormous overcapacities.

In addition to the large quantities of products on the market, the rapid depreciation in value in the components sector contributed to the dramatic fall in prices. On the one hand, this endorses GERICOM's policy of consistent stock control. On the other hand, a calculation based on minimum margins is impeded as major wholesale customers wish to benefit from the drop in prices and are thus demanding price adjustments to existing contracts.

Competition aimed at ousting rivals thus intensified even more in both business fields - mobile computing and home entertainment - in the course of 2006. The stiff trade rivalry put pressure on margins, eroding the profits of most producers in the year 2006. As a result of this strained market situation, more and more producers of major brands are making inroads into the cheap sector.

In order to combat this development, GERICOM has unswervingly pursued its re-dimensioning course started in the previous year, concentrating on transactions with large margins. Along the entire value-added chain GERICOM has focused on its core strengths: product design, logistics, marketing and distribution. Service has been re-organized. Decentralization has led to this important area being concentrated in the hands of a competent partner, thus enabling faster action which benefits GERICOM's customers. The more streamlined structure of the organization is a good prerequisite for success under difficult market conditions. For reasons of social responsibility, the entire re-dimensioning process has been largely carried out without redundancies.

The strained market situation and the reorganization process are reflected in the following results:

- The re-dimensioning process led to an adjusted revenue (in thousand euros) of TEUR 63,691 in 2006 compared with TEUR 196,202 in the previous year.
- The EBIT (operating result) fell in 2006 to TEUR - 27,675 (2005: TEUR - 8,503). The annual deficit amounted to TEUR - 28,496 (2005: TEUR - 9,970).
- The negative cash flow from operational activity amounted to TEUR - 4,423 (2005: TEUR 14,128), reducing liquid assets in 2006 to a level of TEUR 15,316.

A challenging market development, especially in the mass products sector, is also foreseen for 2007. Price will continue to play the leading role in view of increasingly comparable products. As a result of lower graduation effects compared to larger competitors, costing disadvantages for GERICOM are to be expected in this sector too.

The strength of GERICOM - and the basis of its success in the past - was and is its identification of market trends before the competition and its concentration on innovative products at a reasonable price. Thanks to its close relationship with its customers, major suppliers and sales partners, GERICOM

is always in tune with the times and exploits technological progress by means of a rapid implementation strategy. The company's visionary strength is reflected in a promising product pipeline.

In the field of home entertainment, computers and TV sets are increasingly merging. GERICOM has already anticipated this trend, starting three years ago to develop a television of the future. A 40" high-end TV set integrates a Microsoft Windows computer, offering in addition to the usual features internet telephony (voice-over IP) and TV streaming from the internet. This device thus becomes a central media centre serving as home cinema, games console, video-telephone or internet station. This device attracts not only private users but also new classes of customer such as business customers, hotels and public institutions. The first devices were already supplied at the end of 2006 to a hotel in Morocco.

In the mobile computing sector, GERICOM concentrates on laptops for the price-conscious and for users with special requirements. Thus GERICOM will simultaneously launch two new products on the market at the beginning of 2007. On the one hand, the outdoor laptop GERICOM X5 which surpasses the military-standard MIL-STD 810F has been further developed. This enables GERICOM to address new target groups that use their laptops on construction sites or in damp environments, for example. A further development in the laptop sector is the Phantom A4+ Superlight 42100, an ultra-fast, extra light laptop for the private user. This is one of the first laptops worldwide to utilize the new Microsoft® Windows® Vista™ Home Basic operating system. Particularly in the main market, the German-speaking countries, the customer responds to technical performance of this kind.

We are convinced that the concentration on innovative products and the resulting market advantage offer the necessary impulses for a reversal of the trend and for a positive development. So as to ensure that this market advantage and the profit margins remain secure in the long term, this strategy of innovation is being stressed even more than in the past.

In order to create the necessary conditions for this strategy, decisions were taken and measures introduced in 2006 which were not always easy. We should therefore like to take this opportunity to thank all who have supported us, especially our employees, our suppliers and last but not least our shareholders. Special thanks are due to our customers for their trust over the years.

We are ready to take up the challenges of the future with a team of first-class employees. For this reason we are personally convinced that GERICOM possesses the motivation and the strength to return to the path of success. We would like to ask you to share this trust in GERICOM and to continue to lend us your support.



Mag. Hermann Oberlehner  
Chief Executive Officer



Dr. Helmut Wiesbauer  
Chief Financial Officer

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## REPORT OF THE SUPERVISORY BOARD OF GERICOM AG ON THE BUSINESS YEAR 2006

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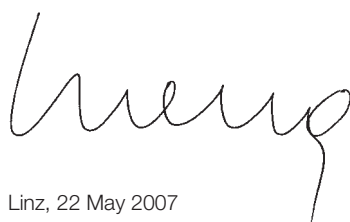
A number of personnel changes took place in the Managing Board as well as the Supervisory Board of GERICOM AG in the year of the report: Dr. Helmut Wiesbauer was appointed Chief Financial Officer with effect from 7.6.2006; Mr. Klaus Starch resigned from the management of GERICOM AG with effect from the same date. Mr. Martin Hummel resigned from his function as COO with effect from 30.6.2006 and also left the company. The composition of the Supervisory Board also changed in the course of the Supervisory Board elections held at the regular General Meeting on 7.6.2006. Mr. Stefan Pierer Dipl. Eng. and Mr. Michael Martens retired from the Supervisory Board with effect from this date. Dr. Alexander Hasch and Mr. Johann Eder, Mag. were appointed as new members of the Supervisory Board.

In the business year 2006 GERICOM AG continued to focus on financial consolidation and re-dimensioning of the business model. The necessary measures underwent intensive discussion in the Supervisory Board in the course of twelve Supervisory Board meetings and were agreed within the framework of the Supervisory Board's powers. Moreover, the Supervisory Board discussed measures with the Managing Board and prepared decisions. The Managing Board provided the Supervisory Board with regular, up-to-date, comprehensive information regarding all important issues of company planning and strategic development, regarding business operations, the situation of the company, including risk assessment and risk management. Deviations of business operations from plans and targets were explained in detail. Information was passed on orally as well as in written reports on the position of the company as regards revenue, finance, liquidity and capital.

The emphasis of the consultations in the year of the report was first and foremost on the analysis of the company and the market (both as regards supply and demand) and the reorganisation and strategic re-orientation of the company.

The members of the Supervisory Board remained in regular contact with the Managing Board outside the meetings and kept informed about current business development and important business occurrences.

The bookkeeping and the annual accounts of GERICOM AG as well as the consolidated accounts and the 2006 situation report of GERICOM AG and of the GERICOM group have been audited by the auditor, PwC Pricewaterhouse Coopers Wirtschaftsprüfung und Steuerberatung GmbH, Linz, Austria, and have been unreservedly accorded an unrestricted notice of confirmation. These accounts and reports, together with the auditor's reports, were brought to the attention of every member of the Supervisory Board. The Supervisory Board discussed the accounts in detail with the auditor and the Managing Board at a special meeting of the accounts committee held on 22 May 2007. The Supervisory Board verified the annual accounts and consolidated accounts for 2006 put forward by the Managing Board, together with the situation report, and concurred with the result of the audit. The Supervisory Board approves the annual accounts and the consolidated accounts dated 31 December 2006 which are therefore established in accordance with § 125 Paragraph 2 AktG. The Supervisory Board has herewith fulfilled its obligations as laid down in laws and by-laws.



Linz, 22 May 2007  
Dr. Georg Bauer  
Chairman of the Supervisory Board





COMPANY PROFILE

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## COMPANY PROFILE

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## GERICOM'S BUSINESS MODEL

Innovation and performance at reasonable prices: since GERICOM was founded in 1990, its business model has been based on these proven foundation stones. The key to the company's success is its outstanding innovative energy which has caused it to be considered a pioneer in the field of mobile computing and communication in Central Europe ever since its establishment. A feel for the market and the needs of customers combined with innovative ideas has determined GERICOM's path to success in the past. Its successful entry into the growing home entertainment market together with the launching of numerous novelties in the laptop sector is proof of its innovative powers.

This energy which is still pulsing through the company will return GERICOM to the path of success. GERICOM's business policy is characterized by its orientation towards the needs of customers and sales partners. At the same time the emphasis was and still is on generating added value by means of holistic marketing and service concepts.

Today, GERICOM combines internet technology, entertainment electronics and mobile data processing on the basis of innovative approaches to the lifestyle of a new generation.

- 1990 Establishment of S plus S GmbH.
- 1991 Entry into the fast-growing laptop and computer market.
- 1992 Orientation of customer structure to large chain stores such as Media Markt, Saturn etc.
- 1993 Comprehensive supply range from beginners' to high-end devices.
- 1994 Focus on laptops. First Pentium laptop.
- 1995 Cooperation with a laptop manufacturer in the high-end sector in Taiwan.  
Multimedia laptop. First all-in-one PC.
- 1996 Start of direct sales to small and medium companies.  
Intel award for supporting market development of Pentium processors.  
First 15" laptop.
- 1997 Cooperation with Taiwanese laptop manufacturer Compal.  
Entry into the digital camera market.  
Design of LCD monitors.
- 1998 Development of online sales, EMAS accreditation.  
First laptop with Pentium II processor.  
First laptop with DVD drive.
- 1999 GERICOM is largest group-independent laptop marketer in Europe.  
Development of an LCD PC.  
First laptop with integrated CD burner.
- 2000 Change of legal format to GERICOM AG. Stock exchange debut at the Neuer Markt in Frankfurt.  
First web laptops with wireless LAN. World's first 1000 MHz laptop.  
Leader in the digital camera market in Austria.
- 2001 Market leader in the laptop sector in Germany and Austria.  
World's first GPRS laptop.

- 2002 Market leader in the entire laptop sector in Germany again.  
World's first semi-ruggedized laptop.
- 2003 Successful extension of the product portfolio to include home entertainment.  
First laptops with DVD-RW burners and wide-screen displays.  
Start of the new Europe-wide service concept.
- 2004 First laptop with 256 MB graphic memory.  
GERICOM Frontman combines working PC with home entertainment centre.  
GERICOM introduces plasma TV with two integrated tuners.  
GERICOM is the first supplier to price 42" plasma TVs at less than 2000 euros, thus making this technology available to a broader class of customers.
- 2005 GERICOM presents the 1st Supersonic PCI E, the first laptop with the new Nvidia Geforce Go 6600 PCI Express, at the CeBIT.  
By marketing LCD TVs with 7" to 50" screens at attractive prices GERICOM takes a considerable proportion of the market.
- 2006 World's first laptop with Intel Centrino Duo mobile technology  
for less than 1,000 euros. World's first laptop with SLI technology.

## SUCCESSFUL MARKETING CONCEPT

Thanks to its know-how and years of experience, GERICOM possesses detailed knowledge of the mobile computing and home entertainment market and the requirements of the ultimate customers. GERICOM enables its customers to share in this expertise by giving them access to the latest technological consumer trends, thus offering them considerable competitive advantages. Customer-orientated sales and service concepts guarantee success in marketing a wide range of products.



GERICOM's sales concept is based on the following three pillars of success:

The value-added process, which has been described in detail, has resulted in close long-term marketing partnerships with the largest commercial enterprises in the European electronics branch. Major electronic retailers have for years trusted GERICOM as a reliable partner. These cooperative business relationships are for GERICOM of the highest value. First, they give access to a broad mass of end consumers. Secondly, these contacts provide a significant competitive advantage when new products are introduced to the market. And thirdly, it is the long-term customers who continue to support GERICOM in hard times and who have faith in the company's capacity for performance.

## MARKETING PARTNERSHIPS

As regards the realization of orders, GERICOM offers its customers a high level of flexibility thanks to its build-to-order system. Products are delivered quickly and reliably whether in large or small quantities. The continuous improvements carried out in the logistical processes in the past years have made possible today's first-class system of handling orders. The customer can choose whether to

transact his orders directly through the specially trained sales team or through an individually tailored online B2B platform.

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#### PROJECT BUSINESS

Technologically complex products are not only on offer from electronics retailers but also increasingly from commercial enterprises in other branches such as foodstuffs retailers. Smart shoppers find the latest devices from the consumer electronics branch at attractive prices offering good value for money. The retail trade thus makes its businesses more attractive and reaches new target groups.

GERICOM identified this trend early and has exploited the newly opening marketing channels. Firms and retailers have been relying for years on GERICOM's innovative products and are selling more and more LCD TVs, plasma TVs or DVD devices in addition to laptops, monitors and LCD PCs. GERICOM reacted to changing circumstances in 2006 in particular by only accepting distribution channels which do not demand an obligation to take back goods.

GERICOM offers retailers, moreover, significant levels of added value in the value-added chain by underpinning sales activity with a proven marketing concept. This extends from joint product development, assistance in pricing and determining promotion dates to designing joint advertising campaigns and giving advice at the point of sale as well as a comprehensive after-sales service. This support alone makes it possible for traders from other sectors to plan and realize sales promotions without specific and costly electronic know-how.

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#### DIRECT SALES

Within the framework of the profitable direct marketing sector GERICOM serves groups such as small and medium businesses, freelance workers as well as value-added resellers who sell laptops not as individual products but as part of a comprehensive solution. As the products in question are individually configured high-end devices, they are for the most part positioned in the higher price sector.

In addition to this, GERICOM's online sales include the direct sales sector, which means that end customers can place orders simply and quickly. Intelligent product configurators adapt the laptop to individual wishes.

### INNOVATION AT A REASONABLE PRICE

The consumer electronics market is fast-paced like scarcely any other. Characterized by dynamic technological progress, the branch stands for innovation, lifestyle and adventure. With its proximity to the market and its feel for trends, GERICOM has in the past always successfully demonstrated its pioneering role and its position as a trendsetter. The 2006 product innovations are again proof of the company's innovative powers and good assessment of the market. Led by the motto "Innovation at reasonable prices", products are characterized by high quality at the lowest possible prices. The increasingly hard competitive conditions, resulting from more and more ruthless competitive rivalry, and the dramatic drop in prices demand a flexible price configuration which affects the profit margins and the result.

Perhaps the main achievement of GERICOM in 2006 was the launching of two world highlights on the laptop market: the GERICOM Dual Phantom and the Hollywood XXL SLI. The Dual Phantom laptop which was introduced in February 2006 is distinguished by its high performance based on Intel Centrino Duo mobile technology. GERICOM marketed this technology for the first time worldwide at a price of less than 1,000 euros. The device also impresses with its modern design using rounded corners. In May 2006, GERICOM redefined laptop graphic performance with the Hollywood XXL SLI. This laptop is the first in the world to be equipped with two graphic cards based on SLI technology and is thought to be the fastest games laptop worldwide.

In 2006 GERICOM worked on further product developments which were realized in the first months of 2007. Thus, the shock-resistant, splash-proof outdoor laptop GERICOM X5 underwent further development. With the Phantom A4+ Superlight 42100, GERICOM brought an ultra-fast, extra-light laptop for the private user onto the market. This reasonably priced laptop is one of the world's first devices to come equipped with the brand-new Microsoft® Windows® Vista™ Home Basic operating system. Moreover, an all-round laptop with full games capabilities was developed in the form of the GERICOM Supersonic Force. Amongst all Vista laptops tested so far by E-Media, this device achieved the best overall rating to date.

## MOBILE COMPUTING - INNOVATIVE PRODUCTS FOLLOWING THE LIFESTYLE TREND



The mobile computing business sector has represented the core business sector for more than ten years, whereby GERICOM has developed an ever-growing competency in the introduction of innovative products to the market. In order to design new products and to develop them for the market, systemic market and trend research is of central significance. The early identification of technological trends and the application of this knowledge to marketable products with unique features are the GERICOM's strengths and the central factor in its success. In this process, GERICOM has for years sought the support of leading technology experts and has worked together with them in close cooperative partnership within the framework of research and development.

The expertise gained from permanent proximity to the market and visionary product ideas is reflected in the product range which is determined predominantly by a variety of laptops. Aiming at satisfying the varying needs of customers and following market trends, GERICOM offers a portfolio ranging from the beginner's model, taking in lifestyle laptops and high-end laptops, right up to full desktop replacements and related products like LCD PCs and accessories. In future, GERICOM will concentrate more on attractive specialized products. GERICOM aims to find its niche in the market by developing laptops which meet special customer requirements.



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**THE BENEFITS OF GERICOM'S PRODUCTS  
IN A NUTSHELL:**

- Mobility: a high level of independence with a minimum of weight makes flexible usage possible, innovative materials and long operation times of rechargeable batteries.
- Performance: the latest technology and practical, well-coordinated product specifications as the basis of all GERICOM products.
- Connectivity: communication on the highest level through integrated wireless LAN, Bluetooth and GPRS.
- Design: lifestyle products with futuristic yet functional design.
- Quality: consistent quality management as a prerequisite for efficient, high quality products with a long life-span.

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**CLOSE RELATIONSHIP WITH INTEL AND  
WINDOWS**

GERICOM profits from its close partnership with the leading technology companies not only in the field of research and development but also in the marketing of the various product series. As Intel's only licensed OEM customer in Austria, GERICOM was one of the first European companies to introduce laptops with the latest Intel technology to the market. Intel Centrino technology set groundbreaking standards on the European market with its first mobile processor specially adapted for laptops. GERICOM was involved from the start in its market launch.

In the field of software, GERICOM can look back on a close relationship with Microsoft. The world market leader thus decided to realize the introduction of the new Windows XP Media Center Edition together with GERICOM. In the latest product development, the Phantom A4+ Superlight 42100, too, the partnership with Microsoft has borne fruit. Thus, this laptop is one of the world's first devices to be equipped with the brand-new Microsoft® Windows® Vista™ Home Basic operating system.

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**GERICOM HAS ESTABLISHED ITSELF IN  
OVER 10 YEARS AS A LEADER IN  
INNOVATION**

- 1994** GERICOM is one of the first manufacturers to introduce a laptop with Intel Pentium processor to the market.
- 1996** GERICOM introduces laptops with a 15" display in Europe.
- 1998** GERICOM markets the first laptop with Intel Pentium II processor and a laptop with integrated DVD drive in Europe.
- 1999** The first GERICOM laptop with integrated CD burner comes on the market.
- 2000** GERICOM presents the first laptop with 1,000 MHz processor on the European market.
- 2001** GERICOM introduces the world's first GPRS laptop to the market.
- 2002** The world's first semi-ruggedized laptop with Intel Pentium IV processor and a laptop with DVD burner are successfully introduced by GERICOM.
- 2003** GERICOM puts the first laptop with wide screen display on the market and is selected as Microsoft partner for the new Windows Media Center.
- 2004** GERICOM creates with the Frontman series the perfect combination of laptop and desktop PC and entertainment centre, the EGO is the multimedia laptop with the fastest graphic.
- 2005** GERICOM presents at the CeBIT the first laptop with the new Nvidia Geforce Go 6600 PCI Express with 128/256MB Ram: the 1st Supersonic PCI E.
- 2006** GERICOM presents two world novelties: the Dual Phantom, the first laptop with Intel Centrino Duo mobile technology under 1,000 euros, and the Hollywood XXL SLI, the first laptop with two graphic cards based on SLI technology.

## HOME ENTERTAINMENT – GERICOM HELPS SHAPE TV MARKET

In addition to its core business field, mobile computing, the home entertainment business sector has been established as a further pillar for GERICOM since its introduction three years ago. Here, too, the recipe for success is highest quality at attractive prices. With a 50% share of turnover in 2006, this sector has caught up with the core business field, mobile computing.

The product portfolio in the home entertainment sector is very varied, including products closely related to the traditional product palette – such as various series of LCD TV models and high quality plasma screens – as well as a large number of other products such as video projectors, DVD players, DVD recorders and complete sound systems.

The transfer of many years of expertise and competence in the laptop sector has been a major contributing factor to rapid marketing success in this new area of business. GERICOM has again achieved a success story by identifying the trend in its early days and swiftly converting it into marketable products. GERICOM was able to exploit its experience gained from the purchase of display panels for laptops and its longstanding partnership with display manufacturers in Asia, in particular, in order to secure a high level of product know-how on entry into the new market.



In 2006 a drastic drop in prices on the TV market was triggered mainly by the sector's over-optimistic expectations regarding sales potential. The Football World Cup did not trigger as high a demand as the sector had assumed. The stockpiling of capacities led to an excessive supply of LCD and plasma TVs on the market. Moreover, display suppliers also pushed up their production quotas, driving down the price level on the panel market. As LCD and plasma displays are the core element for the technological development of TVs, this devaluation contributed to the falling prices of the end products. GERICOM, like the other large manufacturers, was hit by this extremely dynamic development on the television market.

### DRASTIC DROP IN PRICES ON THE TV MARKET

This is the background to GERICOM's decision to concentrate in future on competing with intelligent products such as media centre solutions. This trend was foreshadowed years ago by the development of a TV of the future. A 40" high-end TV integrates a Microsoft Windows computer and offers, in addition to the usual facilities, internet telephony (voice-over IP) and TV streaming from the internet. Thus, this device becomes a central media centre functioning as home cinema, games console, video-phone or internet station. This device will attract new types of customer such as business customers, hotels and public establishments as well as being used in the private sector. The first devices were already delivered at the end of 2006 to a hotel in Morocco.

## FOCUS ON QUALITY COMPONENTS

In order to offer customers top quality, GERICOM makes a point of only utilizing quality components produced by leading technology suppliers. The smooth performance of supply chain management is guaranteed by the international purchasing department at enterprise level. This comprises the internal departments at the Linz headquarters and the subsidiary companies in the Far East which were created specifically for this purpose. GERICOM meets demands for high quality by direct geographical contact with producers and suppliers. These are subject to constant checks and rigorous quality management.

### STRATEGIC PARTNERSHIPS

Thanks to many years of know-how and experience, GERICOM today has numerous natural personal contacts with the pan-Asian and pan-European supplier market. This fact gives GERICOM access at all times to the latest technological innovations. This may be exemplified by the close cooperation with the world's largest chip manufacturer, Intel. This has proven itself brilliantly in the past, especially in economically unstable times. Strategic partnerships with leaders in the technology sector help, in particular, to secure reliable supplies, guaranteeing continuing quality of the highest technological standard.

## NEW DIRECTIONS IN SERVICE AND QUALITY MANAGEMENT

Satisfied customers, competent, fast service, together with outstanding product quality must be GERICOM's criteria for quality. For this reason, GERICOM has taken it upon itself to provide new quality in its service orientation. A special service concept which is continually being optimized and tested has therefore been imposed.

### DEMANDS FOR HIGH QUALITY

The first step in the process is to be seen in quality management at the development stage. Thus new products are subject to the strictest standards right from the start. GERICOM's quality controls and quality management are subject to the strictest requirements and have pride of place in the enterprise as a whole. End production, purchasing, all logistical processes, marketing and other company sectors are subject to multiple control mechanisms.

Thus GERICOM's suppliers are obligated to identify faulty products by means of special test procedures. Clearance for delivery is not granted until extensive quality checks and CE certification have been carried out. Evaluation tests and design reviews are standard before new models are introduced. Official institutions, such as the EMV testing agency, check the electro-magnetic compatibility of products before they are exported from China. In Germany, the Landesgewerbeanstalt Bayern (Bavarian regional trade institute) is one of those who check the usability, electro-magnetic compatibility (EMV) and the electrical safety of GERICOM's products.

For many years, GERICOM has considered service an important part of the value-added process and has constantly worked on optimizing it. Customer service is after all a deciding factor in customer satisfaction.

### NEWLY FORMULATED SERVICE CONCEPT

In order to further improve service and increase customer satisfaction GERICOM restructured the area of customer service in 2006. In the course of this, all aspects of the service process were transferred to a competent partner in Linz, Austria. By concentrating on one partner, GERICOM can in future act more swiftly and satisfy customers with fast reaction times.

Thus 90 % of calls to the GERICOM hotline are taken within 60 seconds. Customers have access to personnel with the best standard of training. The hotline is manned Monday to Friday from 8 a.m. until 4 p.m. The multilingual call centre covering seven languages offers GERICOM's customers the best assistance possible.

Devices reaching the service partner are processed immediately. 21 % of service cases are assessed and repaired by a specialist on the same day. 23 % of defects can be repaired by the third day, a further 20% within five days. The repair of the remaining 36 % takes longer due to the necessity of procuring spare parts. In these cases an acceptable temporary solution is agreed on with the customer.

In all, the deficiency quota for laptops sold is well under 1 %.





SITUATION REPORT FOR THE ANNUAL ACCOUNTS AND  
CONSOLIDATED ACCOUNTS OF GERICOM AG

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As of 31.12.2006



SITUATION REPORT FOR THE ANNUAL ACCOUNTS AND  
CONSOLIDATED ACCOUNTS OF GERICOM AG

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As of 31.12.2006

## SITUATION REPORT OF GERICOM AG, LINZ

As in the previous year use was made of the possibilities provided by § 267 para. 4 HGB (Austrian Commercial Code) in connection with § 251 para. 3 HGB, for turning the Consolidated Annual Situation Report and the GERICOM AG, Linz Situation report, into a single annual situation report document.

## ECONOMIC ENVIRONMENT 2006

According to the figures published by the European Statistics Office Eurostat the gross domestic product (GDP) for the EU in its entirety grew 3.5 % in the past year. The EU thus saw stronger economic growth than in the GDP of its two important trading partners the USA and Japan. The Americans achieved annual growth of 3.1 % and the Japanese growth of 2.5 % in 2006 according to Eurostat data.

Germany took on the role of an economic locomotive in this growth process. It was above the European average with 3.7 % growth. The strongest growth was in Latvia (plus 11.7 %) and Estonia (plus 11.2 %) ahead of Slovakia (plus 9.6 %). The lowest GDP growth was in Portugal with 1.7 % and France with 2.5 %. The United Kingdom was also significantly below the EU average with 3.0 %.

## MARKET FOR MOBILE COMPUTING AND HOME ENTERTAINMENT

Consumer electronics (CE) is one of only few industries in Germany that has achieved continuously rising turnover growth over the past few years. It stands for innovation, dynamic technological progress, lifestyle and adventure in a way that no other branch can compare. The trend is for ever more powerful and affordable digital devices. Flat screen television sets, digital cameras, MP3 players and DVD recorders have become mass produced staple articles. The new trends are for DVB, Blu-Ray and HD-DVD.

In addition to private use consumer electronics are also seeing increasing use in the B2B-sector. The formerly distinct and separate markets for IT, telecommunications and entertainment electronics including the software and services for these products are increasingly growing together. IT is becoming ever more of an issue at the typical CE trade exhibitions such as CES or IFA, while consumer electronics for their part are attracting more and more interest at IT exhibitions such as CeBIT. IFA, held each autumn in Berlin, is the world's leading CE trade exhibition.

The consumer electronics industry – in particular entertainment electronics that has the biggest share of the market with 60 % – is significantly ahead of the general economic growth. Turnover in 2006 grew by 4.5 % to 22,416 billion euros.

Improved performance plus falling prices have pushed the notebook sector further ahead and also ensured it a very good growth ratio for 2000 according to the market research institute IDC. The growth achieved in the area of sold desktop PCs on the other hand, has slumped significantly.

## BUSINESS DEVELOPMENT AND FINANCIAL SITUATION

Despite the continuing general growth in the markets for notebooks and flat screen television, the market situation was characterised as in previous years by a fight for a market share. This has been and will continue to be fought largely as a price war. It is to be noticed in particular here that the pushing of the big brand name manufacturers into the cheap segment has led to and will continue to bring cut-throat competition.

GERICOM AG has here relentlessly continued its re-dimensioning course begun in the previous year by concentrating on business with big margins.

GERICOM AG used the business year 2006 above all for consolidation in separate company areas. It was thus possible to reduce staff by 85 employees without redundancies for operational reasons. Making thorough use of reserves and accounts receivable was also pursued single-mindedly.

In addition to the EBIT (earnings before interest and taxes) key figures that are used for controlling companies, GERICOM AG also made use of key figures gross yields. These are broken up into average price sub-key data at the operative level.

### CONTROL QUANTITIES

The profitability of GERICOM AG has been very strongly affected by the continuing price war in the market. Turnover in particular fell from 196,202 kEUR in 2005 to 653,691 kEUR in 2006.

### PROFITABILITY

Material purchases were reduced from 184,215 in 2005 73,867 kEUR in 2006. The thoroughly efficient management of the reserves demanded a concession to the company profits which is again reflected in the material purchasing development as shown above.

Although it was possible to reduce staffing costs and other operational expenses, the company results before tax and minority status were 27,483 kEUR. Significant factors here are in addition to the ones already mentioned, an even more offensive risk assessment of future obligations within the scope of the re-dimensioning programme (as e.g. for warranties) as also the introduction of a more restrictive reserves evaluation.

The financial situation of the company has been particularly characterised by a reduction of the stock-in-trade from 21,900 kEUR to 6,982 kEUR. The cause of this can be sought in the massive fall in turnover and the restrictive evaluation policy the company has introduced.

### FINANCIAL SITUATION

The receivables situation also shows a decline of 16,780 kEUR. This is the result among other causes of the turnover development during the course of the business year. Furthermore the liquidation of latent tax assets was necessary as a result of the business development during 2006.

The falling turnover led on the liability side to a reduction of debts from deliveries and services on the accounting closing date. The reserves for warranty and guarantee claims as also for replacement vouchers and processes needed to be increased in 2006 to some 2,000 kEUR.

As a result of earnings performance in 2006 the equity capital was reduced from 43,976 kEUR as of 31.12.2005 to a 15,507 outflow as of 31.12.2006.

Based on a result from operational activities of -27,675 kEUR GERICOM AG achieved a cash flow from operational activities of -4.423 kEUR. The cash flow from investment activities was 48 kEUR and is very largely the result of essential replacement investments. There was an overall outflow of funds during the business year 2006 amounting to 4,375 kEUR as a direct consequence of the ever fiercer price war in the market and the drop in prices connected with this, in particular for plasma and LCD TV sets.

### FINANCIAL SITUATION

EQUITY RATIO	The equity-to-assets ratio fell in comparison with the previous year by 52 % to 40 %.
ORDERS BACKLOG	The orders backlog as of 31.12.2006 was 4,500 kEUR.
ENVIRONMENTAL PROTECTION	The mountains of old electrical and electronic devices are continuing to grow. These contain not only dangerous components, but also important raw materials. The disposal of these old devices in a manner that will not pollute the environment and to assure recycling is thus an important task. The tried and tested Austrian standard ÖNORM S 2106 is gaining increasing importance against the background of the current statutory framework conditions and the implementation of the EU wide electronic devices directive.
EMPLOYEES	The voluntary social expenditure in the business year 2006 was 4 kEUR. The focus of the personnel work in 2006 was in reorganisation including the implementation of corporate-wide re-dimensioning, leading to jobs cuts during the reporting period. These jobs cuts were very largely made without the need for redundancies for operational reasons.
EVENTS FOLLOWING THE ACCOUNTING CLOSING DATE	The shareholding in GERICOM Far East Ltd., Hong Kong, China, was sold on 27 March 2007 following a Supervisory Board decision.
SUBSIDIARIES	GERICOM AG has no subsidiary companies.
RESEARCH AND DEVELOPMENT	GERICOM AG maintains research and development activities to a level and scope suitable for the business.

## POTENTIAL RISKS

The major risks in the IT industry are the increasingly significant over-capacities in the market plus the low differentiation possibilities with a massive cut-throat competition as a result. This brings significant risks for the assets, financing and profitability of a company. GERICOM AG is a very precise observer of market development and reacts to changes with adjustments of its structures and processes.

Since consumer products are manufactured, the business situation is characterised by the suitability for the consumer and the situation of the retail trade in the core markets. A further deterioration of these conditions could lead to negative effects on the business situation of the company. GERICOM sees its position in relation to both the customer and also that of suppliers of major international companies. A highest level of mutual loyalty is within the scope of the possible by means of carefully maintaining contacts and business relationships that have grown up over many years.

The business is still not a mass customer market and this means that the loss of a customer can lead to a drop in turnover. The company is insured against a total failure of accounts receivable within the scope of a credit insurance. In addition to this a credit worthiness test is made automatically and the payment risk is taken into account through advance payment or payment on delivery.

Demand-related price fluctuations on the acquisition side are met with the built-to-order-system in connection with calculated minimum margins. Only those components that are required for a fixed contract may be ordered, by this means the risk of a fall in the value of warehoused components due to technological progress or season falls in prices is limited to the throughput time for the project in hand.

GERICOM AG deals with legal risk through the allocation of reserves.

GERICOM AG is active on international markets and as a result the company is faced with exchange rate risks. The company thus aims at the minimising of risk through forward exchange operations as derivative financial instruments, to hedge the expected customer orders and US dollar dominated purchasing prices resulting from them. The securities are contract related as a result of the specific conditions that exist in the industry.

Risk management is an integral component of GERICOM AG business policy and is being continuously extended and improved.

## OUTLOOK

The World Bank forecasts a 4.5 % growth in the world economy for 2007. Worldwide economic growth has reached a turning point according to the experts and a slow-down lies ahead. This results above all from economic trends in the USA. Despite the expected deceleration it is above all the threshold countries that will continue to be a driving force in the world economy according to the World Bank forecast. A significantly slower growth is expected for the Euro Area and economic growth of 2.2 % is forecast. In Germany the boom in the economy resulting from exports and investment will continue through 2007, even if the growth pace – temporarily at least – eases off significantly. This as a result above all of the increased value added tax in Germany and the resultant expected gap in demand against the advance purchases made in 2006.

The market researchers are of one voice in regard to the consumer electronics products area: The signs are for continued growth. Flat screen TV sets, HD media, digital recording devices, new HD compatible paddles and portable digital devices ranging from MP3 players, through portable video players, mobile phones and digital cameras through to portable navigation will again assure a strong demand in the market this year.

The growth for plasma and LCD devices will at all events slow down, since many consumers already acquired these new technologies in the course of the soccer World Cup.

The LCD and plasma TV breakthrough in the market share they now have in these sectors. Business with flat screen TV sets in Germany now accounts for around a quarter of the total market. In Western Europe as a whole this area now accounts for about a third of the entire consumer electronics market. For GERICOM the home entertainment turnover exceeded that for notebooks in 2006.

The notebooks market sector will, however, account for around half of all PCs sold by the year 2011 according to the market research institute IDC. IDC points out however that the continuing notebook boom will not be able to compensate for the declining demand for desktop PCs. The saturated markets in the USA or Japan will result in only few growth possibilities for the desktop according to the market researchers. In the face of this current market development an ever more important role will be allocated to the growth markets Asia/Pacific, Latin America, Central and Eastern Europe and the Middle East and Africa. According to IDC it is these regions that account for the modest growth the desktop market is still experiencing.

As a result of the trend for first time buyers to move away from desktops in favour of bigger notebooks there is a resultant growth in demand for notebooks that is working against a fall in prices with the effect that this still represents an attractive market in which GERICOM AG sees continued potential.

Despite the thoroughly positive general outlook for the market GERICOM AG will continue to work throughout 2007 on a thorough alignment to changed market conditions and thus to counteract the cut-throat competition for the market suppliers and the downward drift of prices that results from it.



The company has introduced a wide range of measures within the scope of its re-dimensioning programme in order to counteract the unsatisfactory situation in 2006. The objective is to improve cost-effectiveness and efficiency, to optimise the product and process quality and also to stabilise turnover for 2007. It is expected that the re-dimensioning measures introduced in 2006 will bring costs savings from 2007 leading to an improvement in profitability. The primary objective is to firmly establish the position of the company so as to be able to achieve positive results in the medium term and to sustain a position as a reliable partner for customers and suppliers.

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STATEMENT IN ACCORDANCE WITH § 243  
a HGB/UGB COMMERCIAL AND  
CORPORATE CODES

1. The equity capital is in 10,900,000 owner named shares each with a nominal value of 1 EUR. The equity capital is fully paid up.
2. The voting rights at the shareholders' meeting are unlimited. There are no other known limitations to either voting rights or the transfer of stock.
3. The shareholding structure of GERICOM AG is largely characterised by the majority holding of the Oberlehner Private Trust. This holds 61.02 % of the equity capital either directly or indirectly. Less than 38.98 % of the equity capital is widely held stock.
4. None of the stock has special controlling rights.
5. GERICOM AG has no employee participation models.
6. There are no terms extending beyond the statutory requirements in respect to the members of the Managing Board and the Supervisory Board. There are in addition no terms governing amendments to the company bylaws extending beyond those directly derived from statutory obligations.
7. The Managing Board is empowered to acquire own stock to terms of § 65 para. 1 Z 4 and para. 1a and 1b of the Austrian Stock Companies Act, when the stock is offered for purchase to employees, senior employees and members of the Managing Board and the Supervisory Board of the company or of an associated company, whereby the company may acquire at most 10 % of shares without a par value – together with other own stock which the company has already purchased and still owns – this authorization applying until and including 6.12.2007 and with own stock being acquired at the current price that is to be neither more nor less than 5 % of the stock market price, and with the requirement that the Managing Board decision and the relevant re-purchase programme on which it is based including its duration is to be published.

The Managing Board is further empowered to acquire own stock to terms of § 65 para. 1 Z 8 and para. 1a and 1b of the Austrian Stock Companies Act, whereby the company may acquire at most 10 % of shares without a par value – together with other own stock which the company has already purchased and still owns – this authorization applying until and including 6.12.2007 and with own stock being acquired at the current price that is to be neither more nor less than 5 % of the stock market price, and with the requirement that the Managing Board decision and the relevant re-purchase programme on which it is based, including its duration is to be published.

The Managing Board is also empowered to terms of § 65 para. 1 Z 8 and para. 1a and 1b of the Austrian Stock Companies Act to sell own stock by other means than on the stock exchange and this for the purpose of disposing of the stock against assets in kind from other companies, operations or part operations or shareholdings in one or more companies at home or abroad or against other assets (e.g. patents).

The Managing Board is empowered in accordance with company bylaws to increase the equity capital with the approval of the Supervisory Board once or several times up until and including

the 29.4.2010 by a total of 5,450 kEUR to 16,350 kEUR at the most through the issue of up to 5,450,000 named shares with voting rights against payment in cash or in kind.

The members of the Managing Board have otherwise no other powers that are not derived directly from the statutory requirements, in particular in respect to the possibilities for the issue or the re-purchase of shares.

8. A (public) take-over bid has not been made. There are no agreements in which the company has had a part, with terms relating to the issues outlined in § 243 a Z 8 HGB (Commercial Code).
9. No compensation agreements to terms of § 243 a Z 9 HGB are in existence.

This situation report contains statements relating to the future development of the GERICOM Group and its companies and also to business developments. These statements represent assessments made by GERICOM AG on the basis of all currently available information. In the event of the assumptions that have been made not occurring as foreseen or where additional risks occur, it is possible that the actual results will deviate from the currently expected results. GERICOM AG is thus not able to accept liability for these statements.

Linz, 16 May 2007

The Managing Board:



Mag. Hermann Oberlehner



Dr. Helmut Wiesbauer

GERICOM SHARES

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## GERICOM SHARES

GERICOM shares saw a sharp drop in price during the business year 2006. Following a relatively stable price development in the first quarter of 2006 a high of 3.39 EUR was reached at the end of March. From this time on the share price fell continuously reaching an all time low of 0.80 EUR in mid November 2006. Towards the end of the year the price rallied and GERICOM shares recovered somewhat. The company was quoted at 1.06 EUR by 29.12.2006 compared with 2.26 EUR at the start of the year.

Number of shares	10,900,000
Diversified holdings	38,98 %
Result per share	-2.58 EUR
Peak price 2006	3.39 EUR
All-time low 2006	0.80 EUR
End-of-month quotation	1.06 EUR

GERICOM SHARES AT A GLANCE  
(THE SITUATION AS OF 31.12.2006)

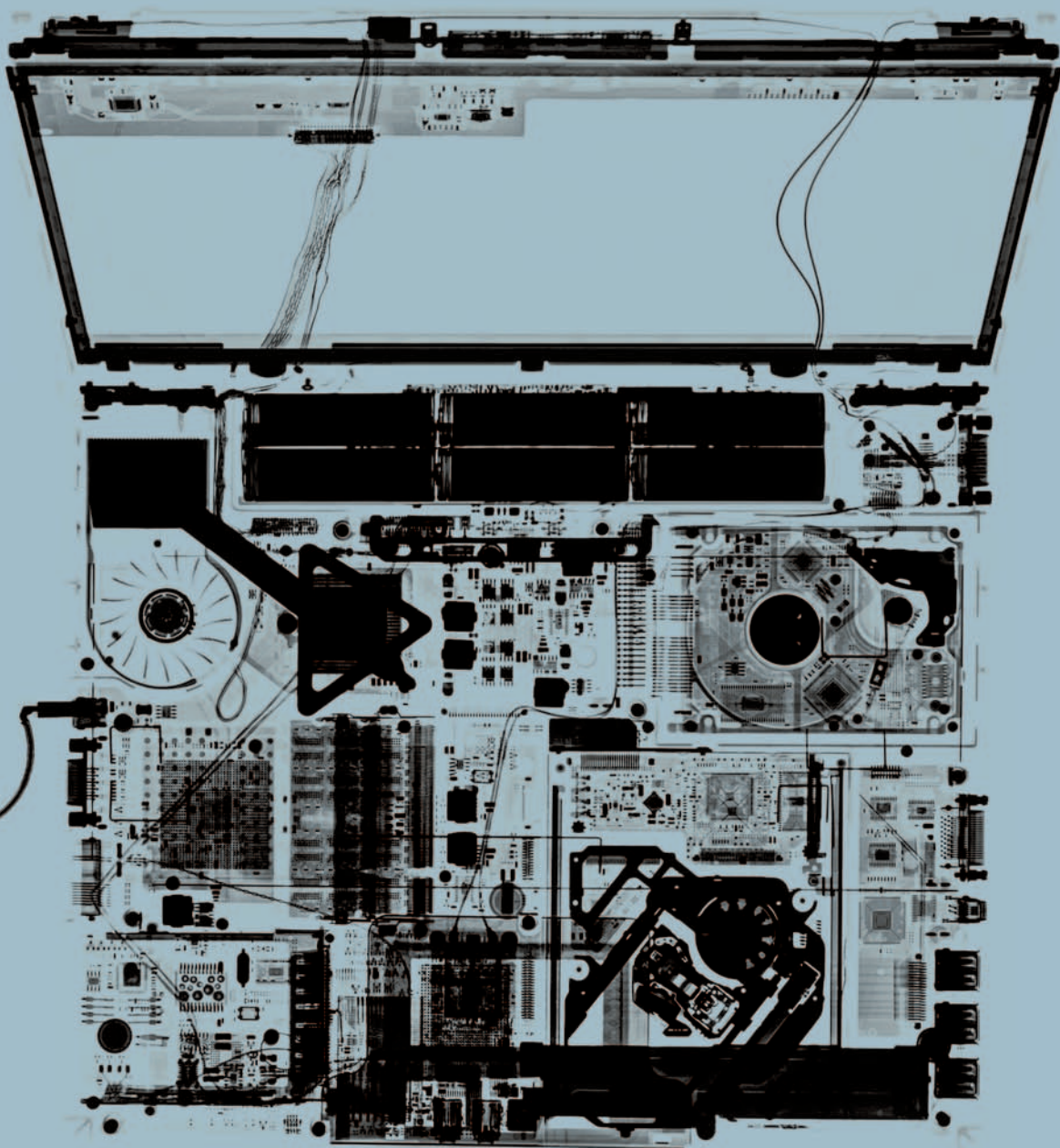
Supervisory Board	Function	Shares as of 31.12.2005	Sales	Shares as of 31.12.2006
Bauer Georg	Chairman	0	0	0
Hasch Alexander	Deputy Chairman	0	0	0
Eder Johann	Member	0	0	0

SHARES AND OPTION HOLDINGS  
OF THE SUPERVISORY BOARD

Managing Board	Function	Shares as of 31.12.2005	Shares as of 31.12.2006	Option as of 31.12.2006
Oberlehner Hermann *)	CEO	0	0	0
Wiesbauer Helmut	CFO	0	0	0

\*) Hermann Oberlehner is the beneficiary of the Oberlehner Private Trust that has a direct and indirect shareholding of 6,651,058 shares.





CONSOLIDATED FINANCIAL STATEMENT 2006

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## CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31st 2006

ASSETS	Note	As of 31.12.2006 EUR	As of 31.12.2005 EUR
<b>Long-term-assets</b>			
Property, plant and equipment	19	2,657,648	3,065,999
Intangible assets	20	13,928	78,330
Interests held in affiliated companies	21	122,046	122,046
Other financial assets	22	47,982	47,982
Deferred taxes	23	0	1,000,000
		<b>2,841,604</b>	<b>4,314,357</b>
<b>Current assets</b>			
Inventories	24	6,982,273	21,900,192
Trade accounts receivable	25	9,305,987	25,857,255
Accounts receivable from affiliated companies	45	2,610,253	6,217,879
Other accounts receivable and assets	26	2,067,552	6,541,698
Cash and cash equivalents	27	15,315,642	19,690,504
		<b>36,281,707</b>	<b>80,207,528</b>
<b>Total assets</b>		<b>39,123,311</b>	<b>84,521,885</b>

	Note	As of 31.12.2006 EUR	As of 31.12.2005 EUR	LIABILITIES
<b>Group equity</b>				
Subscribed capital	28	10,900,000	10,900,000	
Capital reserves		33,075,928	33,075,928	
Consolidated balance sheet loss (including retained earnings)		-28,468,542	0	
		<b>15,507,386</b>	<b>43,975,928</b>	
<b>Long-term debts</b>				
Other provisions for pensions	29	160,000	125,916	
		<b>160,000</b>	<b>125,916</b>	
<b>Short-term debts</b>				
Trade accounts payable	30	5,322,325	15,135,781	
Accounts payable to affiliated companies	45	121,854	3,637,835	
Accrued liabilities	31	16,694,602	14,640,149	
Liabilities from taxes on income		0	16,663	
Other current liabilities	32	1,317,144	6,989,613	
		<b>23,455,925</b>	<b>40,420,041</b>	
<b>Total liabilities</b>		<b>39,123,311</b>	<b>84,521,885</b>	

# CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE FINANCIAL YEAR 2006

	Note	2006 EUR	2005 kEUR
Sales revenues = <b>Operating revenue</b>	34	63,690,603	196,202
Other operating income	35	2,081,772	2,114
Cost of materials and cost of services purchased	36	-73,866,772	-184,215
Personnel expenses	37	-3,707,777	-5,415
Depreciation	38	-682,352	-952
Other operating expenses	39	-15,190,957	-16,237
<b>Result from operating activities</b>		<b>-27,675,483</b>	<b>-8,503</b>
Interest income	40	253,577	171
Interest payable	40	-60,598	-482
<b>Earnings before taxes and minority interests</b>		<b>-27,482,504</b>	<b>-8,814</b>
Taxes on income and earnings	41	-1,013,468	-1,156
<b>Net result for the period</b>		<b>-28,495,972</b>	<b>-9,970</b>
Net result for the period attributable to shareholders of the parent company		-28,495,972	-9,970
minorities		0	0
Result per share (basic = diluted)		-2,58	-0,91
Weighted average shares (basic = diluted)		10,900,000	10,900

## CONSOLIDATED CASH FLOW STATEMENT

	2006 EUR	2005 EUR
<b>Consolidated cash flow from operating activities</b>		
Result from operating activities	-27,675,484	-8,502,985
Change in accumulated other overall result	0	366,658
Currency translation and other changes	27,430	-38,169
Adjustments for:		
Depreciation	682,352	951,700
Increase/decrease in provisions	2,088,537	-3,372,592
Profit from disposal of fixed assets	-3,975	0
Changes in net working capital:		
Trade accounts receivable	16,551,268	51,669,605
Accounts receivable from affiliated companies	3,607,627	-6,069,126
Inventories	14,917,919	20,534,021
Current assets	4,474,146	-1,547,309
Trade accounts payable	-9,813,456	-37,552,542
Accounts payable to affiliated companies	-3,515,981	3,637,835
Other current liabilities	-5,689,132	-5,651,023
	-4,348,749	14,426,073
Payments for taxes on income	-13,468	183,892
Interest payments	-60,598	-482,000
<b>Net cash earned from (used in) operating activities</b>	<b>-4,422,815</b>	<b>14,127,965</b>
<b>Cash flow from investing activities</b>		
Acquisition of plant and equipment	-212,369	-306,873
Proceeds from disposal of plant and equipment	6,745	121,795
Income from interest	253,577	171,018
<b>Net cash used in investing activities</b>	<b>47,953</b>	<b>-14,060</b>
<b>Cash flow from financing activities</b>		
Payments-out for redemption of loanst	0	-4,337
<b>Net cash earned from (used in) financing activities</b>	<b>0</b>	<b>-4,337</b>
<b>Change in cash and cash equivalents</b>	<b>-4,374,862</b>	<b>14,109,568</b>
Cash and cash equivalents at beginning of period	19,690,504	5,580,936
Cash and cash equivalents at end of period	15,315,642	19,690,504

## STATEMENT OF CHANGES OF GROUP EQUITY

	Subscribed capital EUR	Capital reserves EUR	Retained earnings EUR	Revaluation reserves EUR	Total of group equity EUR
<b>As of 1.1.2005</b>	<b>10,900,000</b>	<b>35,134,736</b>	<b>7,949,815</b>	<b>-366,658</b>	<b>53,617,893</b>
Net result for the period	0	0	-9,970,454	0	-9,970,454
Balancing item from currency translation	0	0	7,772	0	7,772
Change in value of derivatives for cash flow hedging	0	0	0	366,658	366,658
Other changes	0	0	-45,941	0	-45,941
Dissolution of capital reserve in favour of retained earnings	0	-2,058,808	2,058,808	0	0
<b>As of 31.12.2005 = As of 1.1.2006</b>	<b>10,900,000</b>	<b>33,075,928</b>	<b>0</b>	<b>0</b>	<b>43,975,928</b>
Balancing item from currency translation	0	0	13,919	0	13,919
Other changes	0	0	13,511	0	13,511
Results directly offset with equity	0	0	27,430	0	27,430
Net result for the period	0	0	-28,495,972	0	-28,495,972
<b>As of 31.12.2006</b>	<b>10,900,000</b>	<b>33,075,928</b>	<b>-28,468,542</b>	<b>0</b>	<b>15,507,386</b>





## CONSOLIDATED APPENDIX FOR THE BUSINESS YEAR 2006

## DATA ON THE COMPANY

GERICOM AG is a joint stock company under Austrian law with its headquarters in Linz, Austria. The commercial register court of jurisdiction is also in Linz.

The company was established in Linz, Austria in 1990. The business model comprises among others the development, design and improvement of products from the areas of mobile computers/communications technology and entertainment electronics. GERICOM sells these products throughout Europe via its distribution partners and as part of a unified marketing concept. Sales are made under brand names such as Gericom, Advent or Bellagio. The parent company headquarters is in Linz. Products of the entertainment electronics business area have been sold through the available distribution channels since 2004.

## ACCOUNTING AND EVALUATION PRINCIPLES

## (1) THE FINANCIAL ACCOUNTING PRINCIPLES

The consolidated annual financial statement as of 31 December 2006 was produced in accordance with the International Financial Reporting Standards (IFRS), in the version for use in the European Union (EU) and the terms of the Austrian Commercial Code to § 245 a HGB.

The production of the company annual financial statement in concurrence with the generally acknowledged accounting and evaluation principles in accordance with the IFRS as these are to be applied in the EU, requires the application of assessments and assumptions that have influence on the amount and disclosure of the accounted assets and liabilities, the disclosed potential assets and liabilities on the accounting closing date as also the accounted revenue and expenditure during the reporting period. While these assessments are made to the best knowledge of the Managing Board on the basis of current transactions, the actual values may finally deviate from the assessed estimated ones.

Differences may occur in the totals for rounded out sums and percentage data due to rounding out through use of automatic calculators.

The International Accounting Standards Board (IASB) has introduced a number of amendments to the existing standards and has also published new standards and interpretations use of which is obligatory as of 2006. These new regulations are also to be used in the EU and in have effect on the following areas:

- Amendment to IAS 19 Actuarial profit and loss, joint accounting plans of several employers as also data
- Amendment to IAS 21 Effects of changes in currency exchange
- Amendment to IAS 39 "Financial instruments : inclusion and evaluation": Accounting of future company internal hedging relationships IAS 39 para. 80
- Amendment to IAS 39 Fair Value Option IAS 39 para. 9(b)
- Amendment to IAS 39 and IFRS 4 Financial guarantees IAS 39 para. 2(e)
- IFRS 6 Exploration and evaluation of mineral resources
- Amendment to IFRS 1 and IFRS 6
- IFRIC 4 Establishing whether an agreement contains a leasing relationship
- IFRIC 5 Right of participation in funds for waste disposal, recovery and cleaning up of the environment
- IFRIC 6 Liabilities resulting from participation in a specific market - old electronic and electrical appliances
- IFRIC 7 Application of a restatement approach to IAS 29 financial accounting in countries with high inflation
- IFRIC 8 The area of application of IFRS 2
- IFRIC 9 Re-assessment of embedded derivatives

The significant changes resulting from the first application of the revised and the new standards in the business year 2006 are explained in the following:

In accordance with IAS 19 the former actuarial profit and loss is included in the profit and loss accounts, based on the corridor method or any other systematic method resulting in an earlier inclusion of the data. the additional possibility is now provided of providing the actuarial profit and loss outside of the profit and loss accounting in the compiled revenue and expenditure statistics. Additional data is required such as the composition of the assets, sensitivity analysis and the five year data of the DBO (defined benefit obligation).

The booking of exchange rate differences for specific monetary items forming part of a net investment in a foreign business operation have been booked in the profit and loss accounts and not directly in the equity capital in accordance with IAS 21. These exchange rate changes should now be declared as equity capital, even when the monetary items are in the functional currency of the reporting company or the foreign business operation.

In accordance with IAS 39 have previously not been permitted to account company internal transactions as hedging transactions. Companies may now present company internal transactions of this kind as hedging transactions with the prerequisite that the business must have been concluded in another currency than the functional currency of the company itself and that the business transaction will have an effect on the company profit and loss accounting.

Furthermore there has been no limitation until now on the application of the fair value option. Each financial instrument could be presented as a fair value in the profit and loss accounts. The fair value option will only be possible from 2006 in specific circumstances: to eliminate accounting discrepancies; for portions of a portfolio that have been evaluated on the basis of a fair value; and hybrid instruments containing significant embedded derivatives.

In this context IFRS 1 now regulates that those companies which applied IFRS 6 prior to 1 January 2006, are exempted in regard to the comparative information from the inclusion, evaluation and provision of explanatory appendix notes obligations to IFRS 6 in the first application.

According to IFRIC 4 the company should determine in respect to establishing whether an agreement contains a leasing relationship if either: a) the fulfilment of the agreement is dependent on the application of special assets; and b) the agreement transfers the right of use of a specific asset. When both criteria are fulfilled the agreement contains a leasing relationship.

According to IFRIC 5 the company should undertake the following accounting procedures: a) an obligation to pay disposal costs should be regarded as a liability commitment b) A right to shares in a fund should be accounted using IAS 27, IAS 28, IAS 31 or SIC-12 depending on whether the share owner has the control, joint control or can exercise a significant influence on the fund. In all other cases it should be regarded as a demand arising from a repayment right to the fund in accordance with IAS 37 to the low value from the disposal obligation and the share in the fund and assessed as a fair value.

There have been no clear rules until now about the adjustment of previous periods on the first application of IAS 29. A company that is now using IAS 29 for the first time should adjust the previous period in such a manner in accordance with IFRIC 7 as if it had always made use of IAS 29.

IFRIC 8 provides clarification that IFRS 2 is to be applied. When the identifiable consideration is lower than that of the fair value of the shares acquired and held by the issuing company itself granted or the liability that results, it means that this is or will be compensated by the consideration that is not identifiable.

The assessment as to whether an embedded derivative that is detached from the structured (compound assembled) financial instrument must be accounted as a derivative, is first made when the company becomes a contractual party. Any other approach is not permitted until an amendment has been made in the contractual conditions bringing a significant change to the cash flow up until this time. In this case a new assessment is required according to IFRIC 9.

#### FIRST APPLICATION OF THE NEW ACCOUNTING STANDARDS

All the regulations derived from the above amendments to existing standards, new standards and interpretations have first been applied from the time of their obligatory use in the business year 2006.

The changes to the accounting and evaluation methods explained above have no significant effect on the assets, finances and profitability of the company. An adjustment of the previous year's figures was not required.

#### ACCOUNTING REGULATIONS THAT HAVE NOT YET BEEN APPLIED

The IASB has introduced additional standards or amendments to standards and interpretations the application of which is still not obligatory for 2006. The following standards and interpretations were taken on by the EU and published in the official journal up to the time of the production of the group consolidated accounts:

- IAS 1                      Data on capital valid as of 1 January 2007
- IFRS 7                    Financial instruments: data, valid as of 1 January 2007

The effects of the first application on the GERICOM group consolidated accounts for 2007 are currently being evaluated. The main changes in the accounting and evaluation methods are described in the following:

The amendment to IAS 1 foresees the provision of additional data in regard to the qualitative and quantitative information on capital as being necessary, e.g. data on statutory requirements, objectives as well as methods and processes in respect to capital management.

IAS 32 contains terms that are required for the explanatory appendix notes on financial instruments; IAS 30 describes the explanatory note requirements for financial institutions. All the explanatory note data rules for financial instruments are to be regulated in IFRS 7 independent of whether the company is a financial institution or not.

The IASB has also introduced further rules on accounting procedures, but these had not been taken over by the EU up to the time of the production of the group consolidated accounts:

- IFRIC 10                Interim reporting and depreciation
- IFRIC 11                Company internal business and transactions with own stock to IFRS 2
- IFRS 8                    Operative segments
- IFRIC 12                Service concession agreements
- Amendment to  
IAS 23                    Borrowing costs

Impairment losses of good will of shares acquired and held by the issuing company itself or for the financial asset held at purchase cost that has been recorded in a previous interim financial statement must not be accredited again according to IFRIC 10.

The clear regulation was provided in IFRS 2 that a cost should be recorded by the company that receives the service; what was not clearly regulated, however, was how the accounting should be done when the recipient of the service in a subsidiary company received shares in the parent company. IFRIC 11 clearly states that certain forms of transaction such as shares acquired and held by the issuing company itself should be treated as emoluments to be fulfilled on a proportional basis according to IFRS 2. Proportionally based emoluments relating to two or more companies within a corporate group are also treated.

IFRS 8 replaces IAS 14, in accordance with which the identification and reporting of segments is to be carried out on the basis of risk and turnover analyses. The reporting on the separate items is done in accordance with the accounting and evaluation methods that are made use of for the external reporting. According to IFRS 8 the segments represent components of a company in which distinct and separate financial information is available and that is regularly controlled by the top management in the operative division. Balance sheet items are reported on the basis of internal reporting.

IFRIC 12 is to be applied by companies participating in service concession agreements and provides instructions in respect to the accounting for operators of public-service concession agreements.

The amendment to IAS 23 Cost of borrowed capital does away with the option of the currently applicable standard on the immediate cost-effective booking of borrowed capital costs, which can be allocated directly to an eligible asset value.

The effect of this rule cannot be reliably assessed at this stage.

## (2) CONSOLIDATION PRINCIPLES

The annual financial statements referred to in the group consolidated accounts have all been produced to the standard group closing date 31 December 2006.

The consolidation of the subsidiary companies is made from the day on which control over the company exists and it ends on the day when this control ends.

### BASIS OF CONSOLIDATION

In the group consolidated accounts as of 31 December 2006 the following subsidiary companies in addition to GERICOM AG, Linz, were included in the full consolidation in accordance with the purchase accounting method:

- GERICOM Schweiz GmbH, Kreuzlingen, Switzerland, capital share 100 %
- GERICOM Deutschland GmbH, Munich, Germany, capital share 100 %
- GERICOM Far East Limited, Hong Kong, China, capital share 100 %
- FAR EAST IT SERVICES LTD., Tortola, British Virgin Islands, 100 % subsidiary of GERICOM Far East Limited
- GERICOM (Shanghai) Co., Ltd., Shanghai, China, 100 % subsidiary of GERICOM Far East Limited, Hong Kong, China

Subsidiary companies are all those companies in which the group has the control over the finances and business policy, regularly accompanied by a voting right of over 50 %. In the assessment of whether control exists, the existence and effects of potential voting rights that may currently be exercised or are convertible are taken into account.

The subsidiary companies are largely companies in distribution and service and or providing other back-up provisions for GERICOM AG in their respective countries.

The following other GERICOM AG subsidiaries have not been included in the group consolidated accounts on account of their subordinate significance:

- GERICOM SVA SALES GmbH, Linz, Austria, capital share 100 %
- GERICOM (Shanghai) Co., Ltd., Shanghai, China, 100 % subsidiary of GERICOM Far East, Hong Kong, China

The capital consolidation is done in accordance with IFRS 3 to the purchase accounting method at the time of the transfer of controlling the shareholding. To the extent that the purchase values of the company shares exceed the equity capital of the relevant company that has been thus established, good will assets are considered as having come into existence. The value of these is to be verified on a regular basis through impairment tests in accordance with IAS 36.

The company profit and loss accounts are compiled in accordance with the total expenditure format.

Since all of the subsidiary companies referred to have come into existence as newly established companies or were pro-rata equity capital purchased, a variance sum results from the first consolidation. There are no minority interests.

Company internal receivables and liabilities as also expenditure and revenue are eliminated.

Interim profits eliminations were not required due to their insignificance.

## CURRENCY CONVERSION

The subsidiaries abroad whose statutory annual accounts are not in euros, are to be regarded as an independent foreign part unit to the amortization criteria foreseen in IAS 21. The applicable local currency is the functional currency for the business of these subsidiaries.

The group consolidated accounts are produced in euros, since this is the functional currency of the parent company and the group reporting currency.

The currency conversion is to be done in principle in accordance with the so-called modified closing date method (IAS 21, 39). In accordance with this all monetary and non-monetary assets and liabilities in the accounts are converted to the exchange rate on the closing date.

The exchange rates used for the conversion result from the following chart:

		Average exchange rate on 31.12.2006	Average exchange rate on 31.12.2006
	1 EUR =		
Switzerland	CHF	1.6074	1.5542
China	CNY	10.27434	9.5463

The tangible fixed assets are set at purchase cost minus amortization to plan to the linear method in accordance with their expected useful service life. The following useful service life durations are to be applied:

## FIXED ASSETS (3)

The useful service life for buildings on land owned by others is 10 to 25 years, 4 to 5 years for machines and mechanical plant and 4 to 8 years for tools, operational and business equipment.

On the presentation of evidence for a loss of value a reduction is made on the sum obtained.

## MAINTENANCE COSTS

Maintenance costs are booked income statement-related in the period in which they have occurred.

## RESEARCH AND DEVELOPMENT

The company has no research activities since the company is principally active in the marketing of innovative systems on the basis component and sub-assemblies that are already suitable for the market.

Leasing relationships in which a significant proportion of the risks and opportunities connected with the ownership of the leasing object remain with the lessee are classified as operational leasing relationships. In the context of the payments made in an operational leasing relationship (net after taking into account incentive payments that are booked by the lessee) are booked linear in the profit and loss accounts for the duration of the leasing relationship.

## LEASING RELATIONSHIPS (4)

The intangible assets (commercial patents and software acquired for payment) are accounted at acquisition cost plus the additional acquisition costs and linear amortized with a useful service life from 4 to 10 years.

## INTANGIBLE ASSETS (5)

On the presentation of evidence for a loss of value a reduction is made on the sum obtained. Intangible assets with an unlimited useful service life are to be checked annually for their recoverability.

There are no intangible assets in stock with a useful service life that cannot be determined.

The investment assets are accounted at acquisition cost plus the additional acquisition costs. Insofar as these are not loans or accounts receivable from companies, these are to be classified at the time of their acquisition either as income statement-related to the fair value or as held until maturity or as available for sale. The classification made will be regularly checked. Shares in unconsolidated subsidiary or other companies and also securities are to be classified in their entirety as available for sale since these are neither held for commercial purposes, nor do they have a fixed maturity period. Insofar as there is no intention to sell these within the next twelve months, disclosure is made under long-term assets. The investment assets that are available for sale are valued at purchase price plus the additional acquisition charges on first booking. The subsequent evaluation is in accordance with fair values, whereby changes to the fair value are accounted as not affecting net income in equity capital. When there are indications of a depreciation of financial assets, a recoverability test will be performed. Insofar as depreciations occur, the cumulative value adjustments required will at all events be taken into account as affecting net income. Appropriate write-ups are to be made on the lapse of reasons for unscheduled exceptional depreciations and amortizations. Share in unconsolidated subsidiaries and are also valid as financial investment assets available for sale, but the evaluation is in principle at purchase cost, since no active market exists for these companies and the fair value in these cases cannot be established reliably with a reasonable amount of effort. Insofar as indicators exist for a lower fair value, this is booked.

## INVESTMENT ASSETS (6)

The profit or loss resulting from the outward movement of assets forming a part of the capital assets, that is shown as a difference between the net sale value and book value, this is booked as income or as expenditure in the profit and loss accounts.

#### (7) DEPRECIATION OF SPECIFIC LONG TERM ASSETS

In the case of long-term assets (except for latent tax assets) a check is made at the closing date as to whether there are indications for a depreciation. In the case of good will and intangible assets with an indefinite useful service life a check of this kind is made even when full evidence is not available shortly before the closing date. In the course of this check the GERICOM Group establishes the amount that can be obtained for the asset value. This is represented by the higher amount from either useful value or the net sales price minus sales costs. Should the sum that can be realised from sale be below the book value of the asset, the booking of a depreciation cost is made to the amount of this difference sum as affecting net income. The useful value of the asset represents the cash value of the estimated future cash flow from its continued use and from its sale at the end of its useful service life on the basis of a standard market value and an interest rate before tax and the specific risks of the asset. Should it not be possible to establish an independent cash flow for this asset, then the establishing of the useful value is made for the next largest unit of which this asset forms a part and for the independent cash flow that can be established (cash generating unit). The sales price represents the price of the object on the market and the proceeds that can be obtained independently from a third party minus the sales costs.

Should the cause of an exceptional depreciation made in the past, an appropriate booking is made with the exception of the company value and the subsidiary valued at acquisition cost.

#### (8) RESERVES

The reserves are set at the acquisition costs plus the additional acquisition costs or at the lower net sales value. The net sales value results from the expected net sales proceeds minus the production and distribution costs established on the basis of established values.

#### (9) RECEIVABLES AND OTHER ASSETS

Receivables from deliveries and services and other short-term assets are allocated as financial assets in the category "loans and receivables" in accordance with IAS 39.45. The evaluation is as fair values taking account of the cumulative value adjustments required for business. In the case of receivables in foreign currency these are assessed at the average exchange rate on the closing date.

Insofar as long term receivable mature twelve months after closing date disclosure is under the short-term assets.

#### (10) CURRENCY

The liquid assets comprise cash in hand and credit accounts at banks and financial institutions. Liquid assets in foreign currency are assessed at the average exchange rate on the closing date.

#### (11) RESERVES FOR SEVERANCE PAY

Reserves for severance pay refer mainly to obligations to employees under Austrian law and to a lesser extent to various local rules. Severance pay under Austrian law is a one-off payment that is made under the terms of employment law when an employee is made redundant by the employer or that must be paid when the employee goes into retirement. The amount of the severance pay is dependent on the last salary payments grading level and the number of service years. Direct obligations on the part of the company exist for employees who entered service up to and including 2002 to cover which reserves must be formed under IAS 19.

Since the beginning of 2003 an Austrian company has the obligation to pay 1.53 % of the current salary into an employee pension fund (MVK), the company no longer has any additional obligations. The claims that employees have for severance pay in these cases are against the appropriate MVK, while the contribution payments are accounted under staff costs in terms of a pension plan contribution.

#### (12) LIABILITIES

Liabilities are assessed accrual value or at a deviating repayment sum. Liabilities in foreign currency are assessed at the average exchange rate on the closing date. They are assessed subsequently at the continuing acquisition costs.

#### (13) RESERVES

The other reserves take into account uncertain obligations against third parties relating to business events or transactions in the past, the amounts and dates due of which are uncertain and that will lead to an outflow of funds. The amount of the reserves is established to a best possible estimate of the expenditure required for the fulfilment of the obligations, positive profit contributions are not counted as expenses. The reserves for warranty obligations and replacement vouchers are established on an all-inclusive calculation method basis for the improvement work and the vouchers to be expected in dependence on the turnover of goods with warranties. The percentages applied are independent of the relevant product groups. Since these are promissory guarantees within the scope of the current business activity, those portions of the reserves extending over a period longer than 12 months must also be regarded as short-term. In establishing the amount of the warranty reserves the risk derived from the established values is taken into account, differentiated by sales with and without service agreements with third parties.

Long-term reserves are accounted at their closing date reduced amount to be paid to the extent that a discount resultant interest effect is of significance.

#### (14) SALES REVENUES

Revenue from deliveries (product business) has been achieved when all the significant risks and opportunities derived from the delivered object have been transferred to the purchaser. In the case of warranty risk and doubtful



outstanding bills provisions will be taken into account on the basis of established values and taking account of the current business environment. Existing obligations to take back goods can only be implemented as turnover, insofar as the IAS 18 "revenue" criteria are fulfilled. Sales revenues are thus booked income statement-related at the time of the transfer of risk. Turnover is accounted minus returns, discounts and turnover-dependent bonuses or other reductions in the revenue.

The cost of borrowed capital is booked income statement-related in the period in which it occurs.

**BORROWING COSTS(15)**

The tax on profits is booked by cause and is based on the relevant profit during the business year.

**TAX ON PROFITS (16)**

Latent taxes are established as temporary differences between the tax value and the IFRS valuation rate for assets and deficits, on accumulated tax deficits as also on consolidation procedures. Active latent taxes that relate to accumulated tax deficits are only assessed to the extent that it can be assumed with sufficient certainty that adequate taxable profits including revenues from the reversal of temporary differences that are to be taxed are available within the planned period.

The GERICOM Group is subject to financial risk (liquidity risk, credit risk, currency risk, interest rate risk) to a varying extent.

**FINANCIAL RISK MANAGEMENT (17)**

The financial risk management is controlled centrally to Management Board specifications and has the objective of minimising the potentially negative effects on the financial situation of the Group.

#### LIQUIDITY RISK

Liquidity risk of being able to provide at all times the financing that is required for the payment of obligations received on time. The payment flows of the company are coordinated within the framework of liquidity controlling.

#### CREDIT RISK

This comprises in particular risk of default, or the risk that a contractual party will not fulfil its obligations and defaults on payment. A significant deterioration in the credit worthiness of a customer plays its part within the framework of this risk management.

#### CURRENCY RISK

The risk of the fluctuation in the value of financial instruments or of other balance sheet items and/or payment flows resulting from exchange rate fluctuations is referred to as currency risk. The risk exists in particular where business events exist in a currency other than the local one of the company but can also arise in the planned course of business.

The GERICOM Group is not exposed to significant currency risk in its operative business. The turnover is largely within the Euro Zone countries.

A securing of foreign currency positions by means of derivative financial instruments was not made as of the closing date due to the insignificance of the risk level involved.

#### INTEREST RATE(CHANGES)RISK

Interest rate risk is the risk from the change of value fluctuations of financial instruments, other balance sheet items and/or interest contingent payment flows as the result of fluctuations in the market interest rates. Interest rate change risk comprises cash value risk for fixed interest balance sheet items and the payment flow risks for balance sheet items with variable interest.

In the case of financial instruments at a fixed interest rate a market interest rate is agreed for the entire term. The risk is that on a fluctuation of the interest rate the market value (the cash value of the future payments, these being the interest plus the repayment amount discounted to the closing date for the market interest rate for the remaining period ) of the financial instrument will change. The interest related rate risk will then lead to either a loss or a profit when the fixed interest financial instrument is sold before the maturity date. In the case of financial instruments with variable interest rates, the interest rate is adjusted on a real time basis and usually follows the market interest rate as it does so. The risk exists here that the market interest rate will fluctuate and that changed interest payments will be due.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The company is active globally and is thus subject to market risks as a result of exchange rate fluctuations.

The derivative financial instruments are set on the conclusion of contracts at the level of acquisition costs and subsequently accounted to fair value. Since all the derivative financial instruments were acquired exclusively for security purposes, the Gericom Group deals with all unrealised profits or losses from hedging transactions as follows:

If the secured asset or liability position is already included in the group consolidated accounts, the unrealised profits and losses from the hedging transaction are booked as having an effect on the balance sheet. The valuation rate for the secured item is established simultaneously independently of the basic evaluation method also to the fair value. The unrealised profits or losses are accounted with the unrealised income from the hedging transaction in the group profit and loss accounts, so that the non-effective part of the hedging transactions flows into the earnings result for the period.

When a planned future business event is secured, the booking of the closing date accumulated unrealised profits and losses up until the closing date is directly to the group equity capital. When the implementation of the business event leads to an asset or liability item in the corporate financial statement, the sum booked to the group equity capital is taken into account in establishing the valuation rate. Otherwise the sum booked to the group equity capital is accounted proportional to the effectiveness of the future business event or of the existing obligation income statement-related.

The fair value of a forward exchange operation results from its market value closing date.

**(18) UTILIZATION OF DISCRETIONARY  
LEEWAYS AND ASSESSMENTS**

The GERICOM Group has to a certain degree made future-related assumptions and assessments on cumulative value adjustments of amortizations and receivables and reserves in the application of the accounting and evaluation methods. The actual values can in reality deviate substantially from the assumptions and assessments that have been made.

**DEPRECIATIONS OF ACCOUNTS RECEIVABLE FROM DELIVERIES AND SERVICES**

The evaluation is made to the continued acquisition costs taking account of the cumulative value adjustments required for business. An increase in the cumulative value adjustments required for business of 10 % would lead to deterioration in the earnings situation of 330 kEUR.

**DEPRECIATIONS OF RESERVES**

The assessment of the reserves on the balance sheet closing date is based on the lower sum of the acquisition costs plus the additional acquisition costs and the net sales value. A reduction of the net sales value of 10 % would lead to deterioration in the earnings situation of 903 kEUR..

**GUARANTEES AND WARRANTIES RESERVES**

In establishing the amount of the warranty reserves the risk derived from the established values is taken into account, differentiated after sales WITH and without service agreements with third parties. An increase in the risk derived established values of 10 % would lead to deterioration in the earnings situation of 2,485 kEUR..

**OTHER BALANCE SHEET ITEMS**

There are no significant effects on assets, finances and profitability for the following business year for the other balance sheet items as a result of changes in the assessments or assumptions.

## NOTES ON THE INDIVIDUAL ITEMS OF THE CONSOLIDATED BALANCE SHEET

## Development of tangible fixed assets:

## TANGIBLE ASSETS (19)

	Real property, equivalent rights, and buildings incl. buildings on foreign estate *) EUR	Technical facilities and machinery EUR	Other facilities, fixtures and fittings EUR	Total EUR
Initial cost and/or production cost				
1.1.2006	3,970,503	2,848,962	2,637,106	9,456,571
Additions	4,313	9,744	189,851	203,908
Disposals	0	0	-106,874	-106,874
Initial cost and/or production cost 31.12.2006	3,974,816	2,858,706	2,720,083	9,553,605
Accumulated depreciation				
1.1.2006	1,589,180	2,660,091	2,141,301	6,390,572
Depreciation 2006	168,051	175,309	266,127	609,487
Disposals	0	0	-104,102	-104,102
Accumulated depreciation 31.12.2006	1,757,231	2,835,400	2,303,326	6,895,957
<b>Book values 31.12.2006</b>	<b>2,217,585</b>	<b>23,306</b>	<b>416,757</b>	<b>2,657,648</b>

\*) of which basic value EUR 35,771

	Real property, equivalent rights, and buildings incl. buildings on foreign estate *) EUR	Technical facilities and machinery EUR	Other facilities, fixtures and fittings EUR	Total EUR
Initial cost and/or production cost				
1.1.2005	3,958,104	2,848,962	2,577,857	9,384,923
Additions	12,399	0	172,428	184,827
Disposals	0	0	-113,179	-113,179
Initial cost and/or production cost 31.12.2005	3,970,503	2,848,962	2,637,106	9,456,571
Accumulated depreciation				
1.1.2005	1,415,144	2,319,095	1,805,553	5,539,792
Depreciation 2005	174,036	340,996	343,830	858,862
Disposals	0	0	-8,082	-8,082
Accumulated depreciation 31.12.2005	1,589,180	2,660,091	2,141,301	6,390,572
<b>Book values 31.12.2005</b>	<b>2,381,323</b>	<b>188,871</b>	<b>495,805</b>	<b>3,065,999</b>

\*) of which basic value EUR 35,771

## (20) INTANGIBLE ASSETS

Development of intangible assets:

	Intangible assets EUR
Initial cost and/or production cost 1.1.2006	435,496
Additions	8,461
Initial cost and/or production cost 31.12.2006	443,957
Accumulated depreciation 1.1.2006	357,166
Depreciation 2006	72,863
Accumulated depreciation 31.12.2006	430,029
<b>Book values 31.12.2006</b>	<b>13,928</b>
	Intangible assets EUR
Initial cost and/or production cost 1.1.2005 = 31.12.2005	435,496
Accumulated depreciation 1.1.2005	264,328
Depreciation 2005	92,838
Accumulated depreciation 31.12.2005	357,166
<b>Book values 31.12.2005</b>	<b>78,330</b>

(21) INTERESTS HELD IN  
AFFILIATED COMPANIES

In case of the affiliated companies the book values are equivalent, as in the previous year, to the initial cost of 122,046 EUR.

## (22) OTHER FINANCIAL ASSETS

The other financial assets consist of securities.

	Security investments EUR
Initial cost and/or production cost 1.1.2006 = 31.12.2006	59,400
Accumulated depreciation 1.1.2006 = 31.12.2006	11,418
<b>Book values 31.12.2006</b>	<b>47,982</b>
	Security investments EUR
Initial cost and/or production cost 1.1. 2005	76,098
Disposals	-16,698
Initial cost and/or production cost 31.12. 2005	59,400
Accumulated depreciation 1.1.2005 = 31.12.2005	11,418
<b>Book values 31.12.2005</b>	<b>47,982</b>

By 31 December 2006 the GERICOM group has tax loss carry-forwards amounting to kEUR 56,864 (31.12.2005: kEUR 29,954) available, for which no deferred taxes have been entered in the balance sheet (31.12.2005: kEUR 25,954), as the realisation of the tax loss carry-forwards is not expected for the near future.

## DEFERRED TAXES (23)

Therefore, the deferred taxes activated in the financial year 2005 from loss carryforwards amounting to EUR 1,000,000 were dissolved through P&L for lack of sufficient taxable profit in the future.

The taxable loss can be carried forward for an indefinite period of time.

The inventories are composed of as follows:

## INVENTORIES (24)

	31.12.2006 kEUR	31.12.2005 kEUR
Raw materials and supplies	3	3
Commodities	12,919	26,251
Value adjustments	-5,940	-4,354
Total net inventories	6,982	21,900

Inventories with an above-average period of storage or limited usability are subject to depreciation according to empirical values.

The value adjustments for inventories will mainly refer to a depreciation for age caused by a fall in prices in case of the product groups "Home entertainment" and "Notebooks". The inventories are distributed to sales-related scopes of demand as follows:

	31.12.2006 kEUR	31.12.2005 kEUR
Home Entertainment	2,234	9,810
Notebooks	2,012	6,399
Various spare parts and component parts as well as items on loan or for testing purposes	1,621	2,549
Monitors	883	1,803
Goods on consignment	229	866
Goods in transit	0	470
Other	3	3
Total net inventories	6,982	21,900

In the year under report the value adjustments of inventories shown in the profit and loss account amounted to kEUR 5,940 (2005: kEUR 4,354).

The trade accounts receivable are composed of as follows:

## TRADE ACCOUNTS RECEIVABLE (25)

	31.12.2006 kEUR	31.12.2005 kEUR
Trade accounts receivable	14,543	28,610
less value adjustments	-5,237	-2,753
Net trade accounts receivable	9,306	25,857

Sufficient financial precautions have been made for the estimated default risk regarding the accounts receivable by establishing a value adjustment.

The other operating expenses include kEUR 5,661 (2005: kEUR 2,058) as expenditure for bad debts including value adjustments.

In case of the trade accounts receivable and other accounts receivable there are no significant differences between the book values shown in the balance sheet and the actual cash values, because of the short duration.

**(26) OTHER ACCOUNTS RECEIVABLE AND ASSETS**

The other accounts receivable and assets are composed of as follows:

	31.12.2006 kEUR	31.12.2005 kEUR
Accounts receivable from revenue boards, domestic	0	2,402
Accounts receivable from revenue boards, abroad	413	223
Items on loan and for testing purposes	167	0
Accounts receivable from services rendered	743	0
Accrued income	414	707
Accounts receivable from members of managing board and staff	160	95
Contingent assets	0	2,421
Other less than kEUR 150, each	171	694
	2,068	6,542

The accrued income includes prepaid expenses 2007 for advertising amounting to about kEUR 160, insurances amounting to about kEUR 177 as well as deferred royalties and other prepaid expenses amounting to about kEUR 77.

**(27) CASH AND CASH EQUIVALENTS**

The cash and cash equivalents are composed of as follows:

	31.12.2006 kEUR	31.12.2005 kEUR
Cash balance	7	28
Bank balances	15,309	19,663
	15,316	19,691

**(28) EQUITY**

The capital stock of GERICOM AG amounts to kEUR 10,900 and is divided into 10,900,000 no-par value shares, made out to holder.

The shares of the company are listed on the Xetra segment of the Prime Standard / Regulated Market on the FSE (Frankfurt Stock Exchange) in Frankfurt on Main, Germany.

The Managing Board is authorised to purchase own shares to the extent of 10 % at most of the no-par value shares of the company by December 6th, 2007 at the latest.

The Managing Board is authorised to increase, either once or several times, the capital stock upon approval by the Supervisory Board by a total of max. EUR 5,450,000.00 to max. EUR 16,350,000.00 by emitting up to 5,450,000 voting no-par value shares made out to holder against a cash contribution or against contribution in kind.

**(29) OTHER PROVISIONS FOR PERSONNEL**

As in the previous year, the provisions for dismissal indemnity were established applying an interest rate of 3.5 % considering a fluctuation reduction of 50 %.

The development of the provisions for dismissal indemnity is as follows:

	2006 kEUR	2005 kEUR
As of 1.1	126	188
Variance	34	-62
As of 31.12.	160	126

The expenditure shown in the profit and loss account is composed of as follows:

	2006 kEUR	2005 kEUR
Allocation / dissolution	39	-80
Dismissal indemnities paid	71	102
Payments to employee provision funds	15	21
As of 31.12.	125	43



The trade accounts payable are composed of the following items:

#### TRADE ACCOUNTS PAYABLE (30)

	31.12.2006 kEUR	31.12.2005 kEUR
Trade accounts payable, EU	2,439	4,059
Trade accounts payable, other foreign countries	1,181	1,212
Trade accounts payable, domestic	880	1,723
Customer's liabilities	148	3,805
Other trade accounts payable	674	4,337
	5,322	15,136

Development of accrued liabilities

#### ACCRUED LIABILITIES (31)

	As of 1.1.2006 kEUR	Allocation kEUR	Dissolution kEUR	Consumption kEUR	As of 31.12.2006 kEUR
Guarantees and warranties	7,260	4,771	3,356	0	8,675
Litigation costs, risks, lawsuits	3,000	439	0	0	3,439
Substitute credit notes	2,564	779	0	0	3,343
Litigious suppliers	330	473	0	0	803
Discounts	877	0	716	0	161
Obligations to repurchase	77	0	77	0	0
Other	532	0	227	31	274
	14,640	6,462	4,376	31	16,695

The risk of increased copyright fees on PCs and notebooks has been accounted for.

The provisions for guarantee and warranty are based on empirical values of the company, on calculated probabilities on the basis of the legal warranty claims of final customers. Supplementary provisions for substitute credit notes for complaints have been made.

Provisions have been made for prospective expenses from current or probable litigation as well as court procedures or arbitration procedures. The earmarked amounts were established on the basis of information and cost estimates of the group's lawyers and shall cover all estimated legal costs, fees, as well as costs for possible settlements.

The other provisions mainly include expenses for legal costs as well as provisions for personnel.

The other short-term liabilities mainly include accounts payable to tax authorities as well as liabilities from payroll accounting

#### OTHER SHORT-TERM LIABILITIES (32)

	31.12.2006 kEUR	31.12.2005 kEUR
Liabilities from taxes	529	3,019
Contingent assets and credit notes for customers	21	3,386
Accounts payable to staff members	23	25
Accounts payable within the scope of social security	4	96
Other less than kEUR 200, each	740	464
	1,317	6,990

There was no deduction of accrued interest in the financial year 2006 and in the previous financial years.

**(33) OTHER FINANCIAL LIABILITIES**

The other financial liabilities are composed of as follows:

Guarantees and other commitments

Guarantees and other commitments include the following circumstances not subject to be carried as liabilities:

	31.12.2006 kEUR	31.12.2005 kEUR
Letters of credit	527	1,770
Responsibilities, sureties and guarantees	869	3,393
	1,396	5,163

Accounts payable from rental, tenancy, leasing obligations

In the financial year 2007 the contractual commitments from tenancy as well as building lease for business and warehouse premises as well as the expenses resulting therefrom amount to kEUR 361 (2005: kEUR 361). The prospective contractual liabilities for the five years to come amount to kEUR 1,790 (2005: kEUR 1,790). There were no leasing arrangements.

## NOTES REGARDING THE INDIVIDUAL ITEMS OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

**(34) SALES REVENUES**

The sales revenues were gained on the following markets:

	2006 kEUR	2005 kEUR
European Union	65,925	202,976
Other countries	18	55
	65,943	203,031
Less:		
Turnover rebates and advertising contributions	-890	-4,283
Customer discounts and rebates	-1,362	-2,546
	-2,252	-6,829
	63,691	196,202

**(35) OTHER OPERATING INCOME**

The other operating income is composed of the following items:

	2006 kEUR	2005 kEUR
Barred trade accounts payable	188	0
Compensation from insurances	134	948
Other	1,760	1,196
	2,082	2,144

The cost of materials include expenses for the procurement and job order production of the goods sold within the scope of the projects in the areas PC/multimedia, consumer electronics, as well as communications technology including incidental acquisition expenses.

#### COST OF MATERIALS AND COST OF SERVICES PURCHASED (36)

The cost of materials and cost of services purchased are composed of the following items:

	2006 kEUR	2005 kEUR
Commodities	64,106	168,972
Freight inward	1,233	4,292
Guarantees	7,227	4,682
Legal production charges	1,039	1,666
Other	262	4,603
	73,867	184,215

The personnel expenses are composed of the following items:

#### PERSONNEL EXPENSES (37)

	2006 kEUR	2005 kEUR
Wages	336	640
Salaries	2,481	3,564
Expenses for dismissal indemnity and payments to occupational employee provision funds	125	43
Expenses for statutory social contributions as well as duties and compulsory contributions depending on remuneration	761	1,155
Other social expenses	5	13
	3,708	5,415

The expenses for scheduled depreciation are composed of as follows:

#### DEPRECIATION (38)

	2006 kEUR	2005 kEUR
Depreciation on tangible assets	609	859
Depreciation on intangible assets	73	93
	682	952

The other operating expenses are composed of the following items:

#### OTHER OPERATING EXPENSES (39)

	2006 kEUR	2005 kEUR
Freight outward	2,555	3,976
Advertising	1,354	1,662
Value adjustment of accounts receivable	5,662	2,058
Legal and consultation expenses	1,820	1,383
Maintenance and operating costs	788	608
Commissions to third parties	1,042	958
Other expenses	1,970	5,592
	15,191	16,237

The conversion of expenses and earnings shown in the profit and loss account including the overall result for the year was effected at the exchange rate applicable at the balance sheet date. There were no differences of exchange rate. Within the scope of debt consolidation exchange rate differences amounting to kEUR 48 were identified, which were included in the profit and loss account under item "Other operating expenses".

**(40) FINANCIAL RESULT**

The interest result is composed of as follows:

	2006 kEUR	2005 kEUR
Other interest and similar income	254	171
Interest and similar expenses	-61	-482
	193	-311

**(41) TAXES ON INCOME AND EARNINGS**

The taxes on income and earnings are composed of as follows:

The taxes on income are subdivided as follows:

	2006 kEUR	2005 kEUR
Current	-13	-5
Deferred	-1,000	-1,151
	-1,013	-1,156

The effective profit tax revenue/expenditure can be transferred as follows to the profit tax expenditure calculated for the result before taxes on the basis of the Austrian corporation tax rate of 25 % (previous year: 25 %):

	2006 kEUR	2005 kEUR
Profit tax revenue amounting to the legal tax rate	6,777	2,203
Value adjustment deferred taxes on tax loss carry-forwards	-7,720	-2,154
Variable tax rates of subsidiaries abroad	-67	-1,246
Other	-3	41
	-1,013	-1,156

At the balance sheet date GERICOM AG has a creditable balance from corporation tax not shown in the balance sheet amounting to kEUR 11 according to the Austrian Corporation Tax Law. Deferred taxes accrued within the scope of loss carryovers in the past were completely dissolved in the financial year 2006, since their realisation was not to be expected in the foreseeable future.

**OTHER NOTES****(42) SEGMENT INFORMATION**

In the period under report GERICOM AG was almost exclusively active in one line of business, that is the rendering and placement of services combined with the distribution of products from the areas PC/multimedia, consumer electronics as well as communications technology. The structure of the value-added processes of all product groups is basically similar, both in terms of the stages of performance and in terms of marketing methods and channels. Therefore, the organisational structure is coherently based on the typical project handling. The risk structure of the projects is largely identical over the various kinds of products. Due to the uniform project handling the profit structure is also largely identical on the various international markets. Therefore, the product groups need not be regarded as isolated segments for the purpose of IAS 14. Consequently, segment information acc. to IAS 14.50 to 67 is restricted to the breakdown of the most important items of the profit and loss account as well as that the breakdown of the balance sheet according to geographical aspects.

- The external sales are assigned with the regions where the sales revenues are realised (customers' locations).
- The intercompany sales of the segments are achieved on the basis of market prices. The elimination of intercompany sales is effected in the column "Consolidation".
- The operating result of the segment (EBIT) has been adjusted by intracompany accounting.
- The segment cash flow is calculated on the basis of the relevant operating results of the segment plus segment depreciation.
- The segment assets include the assets used for gaining the operating results of the relevant segment. The segment debts result from the respective debt capital. Intracompany asset and debt items are eliminated in the column "Consolidation".
- Under "Investments" the additions of the current financial year are shown as tangible assets and intangible assets.

Development of the individual items of segment reporting:

	Annual report European Union 1.1.2006 - 31.12.2006 EUR	Annual report Other countries 1.1.2006 - 31.12.2006 EUR	Annual report Consolidation 1.1.2006 - 31.12.2006 EUR	Annual report Group 1.1.2006 - 31.12.2006 EUR
External sales	63,596,787	93,816	0	63,690,603
Intercompany sales	0	66,841	-66,841	0
Net sales revenues = operating result	63,596,787	160,657	-66,841	63,690,603
EBIT	-26,924,304	-309,863	-47,597	-27,281,764
Gross cash flow	-26,241,952	-309,863	-47,597	-26,599,412
Segment assets	39,406,868	6,769,867	-6,800,015	39,376,720
Segment debts	30,018,222	522,038	-7,036,189	23,504,071
Investments	212,369	0	0	212,369
	Annual report European Union 1.1.2005 - 31.12.2005 EUR	Annual report Other countries 1.1.2005 - 31.12.2005 EUR	Annual report Consolidation 1.1.2005 - 31.12.2005 EUR	Annual report Group 1.1.2005 - 31.12.2005 EUR
External sales	196,121,615	80,203	0	196,201,818
Intercompany sales	0	4,202,163	-4,202,163	0
Net sales revenues = operating result	196,121,615	4,282,366	-4,202,163	196,201,818
EBIT	-8,332,551	-109,198	-61,236	-8,502,985
Gross cash flow	-7,384,164	-105,885	-61,236	-7,551,285
Segment assets	83,890,222	9,270,634	-8,638,971	84,521,885
Segment debts	47,721,141	2,660,701	-9,835,885	40,545,957
Investments	306,873	0	0	306,873

(43) RESULT PER SHARE	<p>The result per share results from the consolidated deficiency amount due to the shareholders divided by a weighted number of issued shares.</p> <p>The relevant information can be inferred from the profit and loss account.</p>
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(44) DIVIDENDS OR DISTRIBUTIONS	<p>By drawing up the financial statement the Managing Board has submitted a proposal for financial statement usage. The annual financial statement of the company as well as this proposal will be discussed in the meeting of the Supervisory Board on 22 May 2007. This proposal to be submitted together with the report of the Supervisory Board is subject to resolution by the Annual General Meeting, which is expected to take place on 13 June 2007.</p>
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(45) INFORMATION REGARDING RELATIONS TO AFFILIATED COMPANIES OR PERSONS	<p>In the ordinary course of business there are supply and service relationships with affiliated companies. There are contractual agreements. Consideration is invoiced at market prices. In the year under report the following business relationships are to be presented acc. to IAS 24.</p>
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	Accounts receivable 31.12.2006 EUR	Accounts payable 31.12.2006 EUR
GERICOM International SRL, Cluj Napoca, Romania	205,178	
GERICOM Service SRL, Cluj Napoca, Romania	253,515	
GERICOM Call Center SRL, Cluj Napoca, Romania	4,400	
Oberlehner Beteiligungsgesellschaft mbH, Linz	27,063	
GERICOM Taiwan Co., Limited, Kweishan Hsiang, Taiwan		121,854
S Co S Tschechische Republik, Budejovice, Czech Republic	1,100,141	
"World of Vision" Trading GmbH, Linz	461,068	
European Mobile Computer Service GmbH, Linz	393,852	
Oberlehner Privatstiftung, Linz	79,434	
GERICOM SVA SALES GmbH, Linz	3,628	
GERICOM USA, Inc., San Francisco, USA	81,974	
	2,610,253	121,854

The above mentioned companies are affiliated companies of Oberlehner Privatstiftung, the beneficiary of which, among others, is the Chief Executive Officer of GERICOM AG. These companies, which are not part of scope of consolidation of GERICOM AG with the exception of GERICOM SVA SALES GmbH, Linz, Austria, and GERICOM Taiwan Co., Limited, Kweishan Hsiang, Taiwan, are shown separately as affiliated companies.

In the last financial year payments amounting to EURO 479,655 (2005: kEUR 531) were made to the members of the Managing Board.

(46) INFORMATION REGARDING EMPLOYEES	<p>On average, the following persons were employed in the GERICOM Group: 102 employees (previous year: 151) and 19 blue-collar workers (previous year: 35); of which employees abroad 16 (previous year: 16).</p>
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(47) RESULTS AFTER THE BALANCE SHEET DATE	<p>By virtue of the resolution of the Supervisory Board dated 27 March 2007, the interests held in GERICOM Far East Ltd., Hongkong, China, were disposed.</p>
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(48) RELEASE FOR PUBLICATION	<p>The consolidated financial statement in hand was prepared and released by the Managing Board with the date of signing. On 22 May 2007 the individual financial statement of the parent company, which is included in the consolidated financial statement after transfer to the applicable standards of accounting, is submitted, together with the consolidated financial statement, to the Supervisory Board for examination, and, as regards the individual financial statement, for approval. The Supervisory Board and, in case of submission to the General Assembly, the shareholders may revise the individual financial statement in a way that may also affect the presentation of the consolidated financial statement.</p>
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**Members of the Managing Board and the Supervisory Board**

In the period under report the following gentlemen were members of the Managing Board:

Oberlehner Hermann, Mag., Linz, representing together with another member of the Managing Board or an authorised signatory, Chairman

Wiesbauer Helmut, Dr., Wallern an der Trattnach, representing since April 7th, 2006 together with another member of the Managing Board or an authorised signatory, Member

Hummel Martin, Munich, Germany (until 30 June 2006)

Starch Klaus, Munich, Germany (until 7 June 2006)

In the year under report the following gentlemen were members of the Supervisory Board of the company:

Bauer Georg, Dr., Linz, Chairman (since 7 June 2006); Member (until 7 June 2006)

Hasch Alexander, DDr., Linz, Vice Chairman (since 7 June 2006)

Eder Johann, Mag., Schärding, Member (since 7 June 2006)

Pierer Stefan, DI, Wels, Chairman (until 7 June 2006)

Martens Michael, Düsseldorf, Germany (until 7 June 2006)

Linz, 16 May 2007

The Managing Board:



Mag. Hermann Oberlehner



Dr. Helmut Wiesbauer

## CERTIFICATION OF FINANCIAL STATEMENT

We have audited the group consolidated accounts of GERICOM AG, Linz, for the business year from 1 January to 31 December 2006 taking into account the company's entity accounting. The Entity accounting, the production and content of the group annual consolidated accounts in compliance with the International Financial Reporting Standards, as applicable in the EU, and with the addition of the commercial regulations to § 245a HGB as also the Consolidated Annual Situation Report produced to the terms of Austrian commercial law are the responsibility of the legal representatives of the company. Our responsibility consists in the filing of an auditing assessment on these group consolidated accounts on the basis of our audit and a statement on whether the Consolidated Annual Situation Report is consistent with the group consolidated accounts.

We have performed our audit taking into account the statutory regulations and principles in Austria for a proper annual audit. These principles require that the audit is to be planned and carried out in such a manner that an adequately secure assessment can be made as to whether the group consolidated accounts are adequately free from significant misrepresentations, and that a statement can be made as to whether the Consolidated Annual Situation Report is consistent with the group consolidated accounts. Knowledge of the business activities and of the business and legal environment of the company together with expectations of potential errors have been taken into account in establishing the auditing procedures. During the course of the audit the verifications for sums and other data given in the entity accounting and in the group consolidated accounts were largely assessed on the basis of random sampling. The audit comprises in addition an assessment of the accounting principles applied and the assessments of significance made by the statutory representatives together with an appraisal of the overall financial statement made in the group consolidated accounts. We are of the view that our audit forms an adequately secure basis for our auditing assessment.

Our audit has not resulted in any objections being raised. In accordance with the knowledge gained during the audit the group consolidated accounts comply in our view with the statutory regulations and present a view of the assets and the financial situation of the company as of 31 December 2006 as also of the profitability of the company for the business year from 1 January to 31 December 2006 that is as faithful as is possible and in compliance with the International Financial Reporting Standards, as these are applicable within the EU. The Consolidated Annual Situation Report is consistent with the group consolidated accounts.

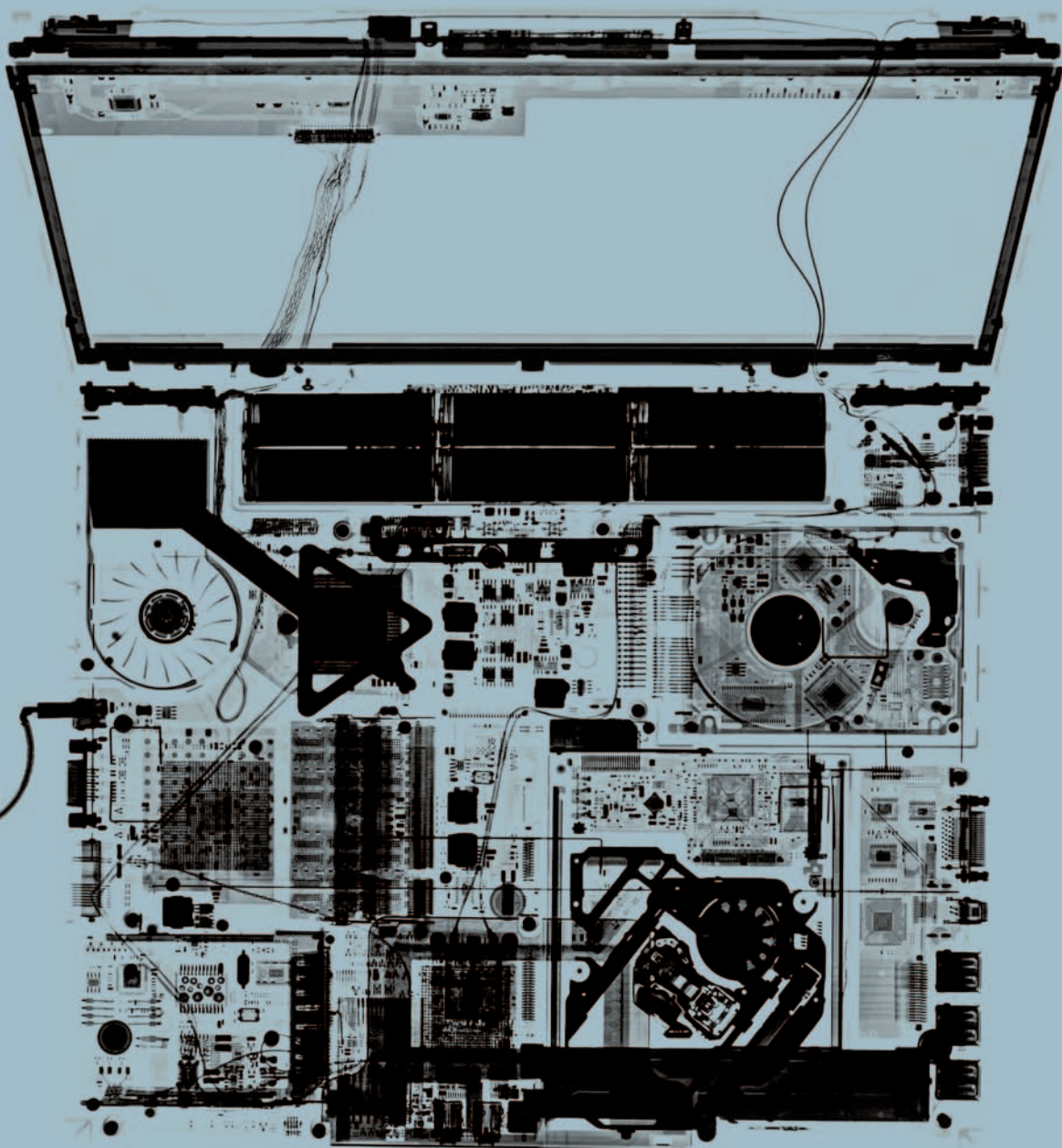
Linz, 16 May 2007

PwC Oberösterreich  
Wirtschaftsprüfung und  
Steuerberatung GmbH

Mag. Gerhard Prachner  
Auditor

Disclosure, publication or duplication in deviation from the statutory regulations to § 281 para. 2 HGB of the Austrian Commercial Code in a form differing from the allowed version with our confirmation is not permitted. Our prior written consent is required for a mere reference to our audit.





INDIVIDUAL ACCOUNTS 2006

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## BALANCE SHEET AS OF 31 DECEMBER 2006

ASSETS	31.12.2006 EUR	31.12.2005 kEUR
<b>A. Fixed assets</b>		
I. Intangible assets		
Licences, industrial property rights and similar rights and assets as well as licences derived therefrom	13,927.82	78
II. Tangible assets		
1. Real property, equivalent rights and buildings, including buildings on foreign estate	2,217,584.05	2,381
2. Technical facilities and machinery	23,304.53	189
3. Other facilities, fixtures and fittings	364,263.12	419
	<b>2,605,151.70</b>	<b>2,989</b>
III. Financial assets		
1. Interests held in affiliated companies	64,302.85	64
2. Security investments	47,982.00	48
	112,284.85	112
	<b>2,731,364.37</b>	<b>3,179</b>
<b>B. Current assets</b>		
I. Inventories		
1. Raw materials and supplies	3,120.83	3
2. Commodities	6,969,808.17	21,869
	6,972,929.00	21,872
II. Accounts receivable and other assets		
1. Trade accounts receivable	8,294,348.86	26,090
2. Accounts receivable from affiliated companies	2,872,146.79	6,947
3. Other accounts receivable and assets	1,662,438.74	5,170
	12,828,934.39	38,207
III. Cash balance, bank balances	15,097,581.88	19,014
	<b>34,899,445.27</b>	<b>79,093</b>
<b>C. Prepaid expenses</b>	413,988.32	708
<b>Total assets</b>	<b>38,044,797.96</b>	<b>82,980</b>



## BALANCE SHEET AS OF 31 DECEMBER 2006

	31.12.2006 EUR	31.12.2005 kEUR	LIABILITIES
<b>A. Equity</b>			
I. Capital stock	10,900,000.00	10,900	
II. Capital reserves, tied up	25,062,767.45	25,063	
III. Net loss	-27,571,591.60	0	
	<b>8,391,175.85</b>	<b>35,963</b>	
<b>B. Accrued liabilities</b>			
1. Provisions for dismissal indemnity	160,000.00	126	
2. Other provisions	16,650,384.62	15,095	
	<b>16,810,384.62</b>	<b>15,221</b>	
<b>C. Accounts payable</b>			
1. Trade accounts payable	5,090,644.95	12,953	
2. Accounts payable to affiliated companies	6,691,328.98	12,167	
3. Other accounts payable, of which from taxes EUR 505,626.50 (previous year: kEUR 3,092), of which within the scope of social security EUR 4,170.16 (previous year: kEUR 96)	1,061,263.56	6,676	
	<b>12,843,237.49</b>	<b>31,796</b>	
<b>Total liabilities</b>	<b>38,044,797.96</b>	<b>82,980</b>	
<b>Guarantees and other commitments</b>	<b>1,395,990.23</b>	<b>5,163</b>	

## PROFIT AND LOSS ACCOUNT FOR THE FINANCIAL YEAR 2006

	2006 EUR	2005 kEUR
1. Sales revenues	63,603,624.82	196,219
2. Other operating income		
a) Proceeds from retirement of and write-ups to plant and equipment, except for financial assets	11,320.00	7
b) Proceeds from the dissolution of provisions	4,972,323.03	38
c) Other	1,404,933.34	6,724
	6,388,576.37	6,769
3. Cost of materials and other production services purchased		
a) Cost of materials	-59,655,011.51	-171,529
b) Costs of services purchased	-13,577,344.56	-10,079
	-73,232,356.07	-181,608
4. Personnel expenses		
a) Wages	-345,554.77	-641
b) Salaries	-2,158,903.00	-3,215
c) Expenses for dismissal indemnity and payments to occupational employee provision funds	-124,638.69	-43
d) Expenses for statutory social contributions as well as duties and compulsory contributions depending on remuneration	-690,235.11	-1,091
e) Other social expenses	-3,897.14	-13
	-3,323,228.71	-5,003
5. Depreciation		
a) on intangible items of plant and equipment and tangible assets	-636,289.33	-890
b) on items of current assets as far as these exceed the depreciation usual for the enterprise	-5,695,327.94	0
	-6,331,617.27	-890
6. Other operating expenses		
Other	-14,895,948.11	-17,262
<b>7. Subtotal from Z 1 to 6 (Operating results)</b>	<b>-27,790,948.97</b>	<b>-1,775</b>
8. Other interest and similar income, of which from affiliated companies		
EUR 34,823.79 (previous year: kEUR 0)	252,131.40	70
9. Proceeds from write-ups to financial assets	1.00	0
10. Interest and similar expenses, of which in connection with affiliated companies EUR 0 (previous year: kEUR 54)	-29,275.03	-536
<b>11. Subtotal from Z 8 to 10 (financial income)</b>	<b>222,857.37</b>	<b>-466</b>
<b>12. Profit or loss on ordinary activities</b>	<b>-27,568,091.60</b>	<b>-2,241</b>
13. Taxes on income and on earnings	-3,500.00	-4
<b>14. Net loss for the year</b>	<b>-27,571,591.60</b>	<b>-2,245</b>
15. Dissolution of capital reserves	0.00	2,245
<b>16. Net loss for the year</b>	<b>-27,571,591.60</b>	<b>0</b>



## APPENDIX ON THE BUSINESS YEAR 2006 OF GERICOM AG, LINZ

### THE APPLICATION OF THE TERMS OF COMMERCIAL LAW

The accounts for 2006 have been made according to the regulations of the Austrian Commercial Code in the currently applicable amendment. The company is a large-scale limited liability company to the terms of § 221 HGB.

The annual financial statement was produced taking account of proper accounting as also the general accepted standard providing a view of the assets and the financial situation of the company that is as faithful as possible.

The principle of completeness was maintained in producing the annual financial statement.

A continuation of the company was assumed in the assessment.

The principle of individual evaluation was applied for the assets and liabilities.

The cautionary principle was given full account, in particular in the declaration of profits achieved on the balance sheet closing date.

All recognisable risks and threatening losses in the business year 2006, or incurred in an earlier business year were taken into account.

The evaluation methods as applied until now have very largely been retained.

Insofar as separate items have been summarized in the balance sheet and in the profit and loss accounts in the interests of a clear representation, these items are individually accounted for in the Appendix.

Additional data is provided in the Appendix insofar as this is required for the provision of a view of the assets, financial and profitability situation of the company that is as faithful as possible

The profit and loss accounting is provided in a step-down report form to the total expenditure format.

The previously maintained form of the presentation has also been maintained in the production of the present annual financial statement.

The company is the parent company with the consolidation obligation for GERICOM.

### ACCOUNTING AND EVALUATION METHODS

#### 1. CAPITAL ASSETS

The intangible assets insofar as these have been obtained against payment, are assessed as acquisition costs, reduced by planned depreciations to the linear amortization method. A period of 4 to 10 years is set as the useful service life.

The tangible fixed assets is assessed at purchase or production costs, reduced by planned or exceptional depreciations.

The useful service life for buildings on land owned by others is 10 to 25 years, 4 to 5 years for machines and mechanical plant and 4 to 8 years for tools, operational and business equipment.

Low value assets with a purchase cost of below 400 euros are fully written off in the year of purchase and represented in the assets analysis as inward and outward movements.

Exceptional depreciations have been made insofar as an approach with a lower value is required, or is permissible in accordance with special taxation regulations.

The investment assets have been assessed at acquisition cost or, in cases where a lower value is to be set, at this value.

#### 2. CIRCULATING ASSETS

##### STOCKS

The stocks are assessed at acquisition or manufacturing costs or the lower value as of the closing date.

Taking into account the principle of the lower of cost and market appropriate depreciations are made on account of an above-average service life, of limited utility or an onward sale without losses.

## RECEIVABLES AND OTHER ASSETS

Receivables and other assets are assessed at nominal value. Foreign currency receivables are assessed at the average exchange rate on the closing date. Allowance losses are made for foreseeable recognisable risks.

All recognisable risks and threatening losses are taken into account in the assessment of the reserves in accordance with the statutory requirements.

The risk derived from established values is taken into account in the establishing of the warranty reserves.

the reserves for severance pay are made on the basis of a financial mathematics calculation(interest rate 3.5 %; previous year: 3.5 %) taking account of the current expert opinion KFS/RL 2 of the Senate for Commercial Law and the revisions made by the Accountancy Association. the reserves required for employment jubilee years are made on the basis of a financial mathematics calculation based on a calculated interest rate of 3.5 % (previous year: 35 %) and a fluctuation deduction of 50 % (previous year: 50 %).

Liabilities are assessed at their repayment amount. Foreign currency receivables are assessed at the average exchange rate on the closing date.

## 3. RESERVES

## 4. LIABILITIES

## ANNOTATIONS ON THE BALANCE SHEET

## ASSETS

The breakdown of the capital assets and their development in the reporting year is applied in the assets analysis (compare supplement to the Appendix).

## 1. CAPITAL ASSETS

An obligation of 345,605.16 (previous year: 305 kEUR) results for the business year 2007 from the use of fixed assets that are not accounted in the balance sheet as a result of long term rental contracts. The total sum of the obligations for the next 5 years amounts to 1,728,025.80 (previous year: 1,523 kEUR).

## DISTRIBUTION OF OWNERSHIP

The direct shareholdings of Gericom AG are given in the following in accordance with § 228 Z 2 HGB:

Partly owned subsidiaries	Currency	Capital share %	Equity capital	Result of the last business year
GERICOM Schweiz GmbH, Kreuzlingen, Switzerland	CHF	100	-328,129.00	4,807.51 <sup>2)</sup>
GERICOM Deutschland GmbH, Munich, Germany	EUR	100	28,751.00	-129,610.00 <sup>2)</sup>
GERICOM Far East Limited, Hong Kong, China	EUR	100	6,817,119.00	-63,451.00 <sup>2)</sup>
GERICOM SVA SALES GmbH, Linz, Austria	EUR	100	14,425.03	-3,074.97 <sup>1)</sup>

1) for the business year 2005

2) for the business year 2006

## RECEIVABLES AND OTHER ASSETS

## 2. CIRCULATING ASSETS

All receivables, apart from an advance in the other receivables amounting to 50 kEUR, have a maturity of up to one year as was the case in the previous year.

The receivables over and against associated companies are principally receivables from deliveries and services.

## LIABILITIES

## PRINCIPAL

## 1. EQUITY CAPITAL

The equity capital was 10,900,000 EUR as of 31.12.2006 and is in 10,900,000 owner named shares each with a nominal value of 1 EUR.

The Managing Board has not availed itself of its right to purchase own stock during the business year 2006.

The Managing Board is empowered in accordance with company bylaws to increase the equity capital with the approval of the Supervisory Board once or several times up until and including the 29 April 2010 by a total of

5.450.000,00 kEUR to 16.350.000,00 kEUR at the most through the issue of up to 5,450,000 named shares with voting rights against payment in cash or in kind.

**2. OTHER RESERVES** The other reserves amounting to 16,650,384.62 (previous year: 15,095 kEUR) are very largely represented by:

	31.12.2006 EUR	31.12.2005 kEUR
Provisions for guarantee and warranty services	8,675,980.00	7,660
Reserves for replacement vouchers	3,343,497.83	2,564
Reserves for legal costs and disputes	3,438,513.70	2,600
discounts	160,601.47	877

**3. LIABILITIES**

All liabilities have a maturity of up to one year as in the previous year.

The item "other liabilities" contains expenditure amounting to 551,658.47 euros (previous year: 1,249 K euros), only affecting payment after the closing date closing date.

The liabilities in respect to associated companies relate to liabilities from deliveries and services.

**4. CONTINGENT LIABILITIES**

	31.12.2006 EUR	31.12.2005 EUR
Credits	526,980.27	1,769,982.06
Guarantees	869,009.96	3,392,839.35
	1,395,990.23	5,162,821.41

**5. DERIVATIVE FINANCIAL INSTRUMENTS**

No derivative financial instruments were used until 31.12.2006. these were as follows up until 31.12.2005:

	Nominal sum USD	Nominal sum EUR	Market value EUR
Forward exchange operations	10,102,400.00	8,484,306.33	22,295.39

ANNOTATIONS ON PROFIT AND LOSS ACCOUNTING

**1. SALES REVENUES**

	2006 EUR	2005 EUR
Revenues from third parties:		
Gross domestic revenues	31,580,446.26	47,070,058.06
Gross foreign revenues	34,190,761.93	154,835,421.96
	65,780,208.19	201,905,480.02
Corporate revenues	2,998.72	311,810.56
minus:		
Turnover bonuses and grants towards advertising costs	-889,967.70	-4,282,993.45
Customer discounts and rebates	-1,289,614.39	-1,715,421.13
	-2,179,582.09	-5,998,414.58
	63,603,624.82	196,218,876.00

The income deductions include advertising contributions to customers amounting to EUR 819,002.91 (previous year: kEUR 1,817).

Moreover, advertising contributions received from suppliers amounting to EUR 973,056.41 (previous year: kEUR 1,337) were deducted from the cost of materials.

Income from the dissolution of accrued liabilities concern other accrued liabilities.

The remaining other operating income includes, in particular, indemnification, personnel expenses passed on, barred trade accounts payable as well as income from insurances.

## 2. OTHER OPERATING INCOME

The expenses for dismissal indemnity and contributions to occupational employee provision funds include expenses for dismissal indemnity amounting to EUR 110,248.97 (previous year: kEUR 22).

## 3. EXPENSES FOR DISMISSAL INDEMNITY AND CONTRIBUTIONS TO OCCUPATIONAL EMPLOYEE PROVISION FUNDS

The other operating expenses shown include, in particular, damage events, writing-off of doubtful debts and provisions for known or possible loss of value, insurance premiums, charges for monetary transactions, legal and consultancy fees, expenses for information, expenses for freight outward, commissions as well as advertising and travel expenses.

## 4. OTHER OPERATING EXPENSES

The amount carried as assets for active deferred taxes not specifically shown in the balance sheet pursuant to Sect. 198, para 10 of the Commercial Code is not essential.

## 5. TAXES ON INCOME AND ON EARNINGS

## SUPPLEMENTARY INFORMATION

### EMPLOYEES (ANNUAL AVERAGE)

### MANDATORY INFORMATION ON BODIES AND EMPLOYEES

	2006	2005
Blue-collar workers	19	35
White-collar workers	86	135
Total	105	170

### BODIES

#### a) Advance payments, credits, guarantees and other commitments

There are accounts receivable from a member of the Managing Board amounting to EUR 145,696.25 (previous year: kEUR 57).

#### b) Total earnings of Managing / Supervisory Board

In the period under report the total earnings of the Managing Board amounted to EUR 479,655.00 (previous year: kEUR: 530).

For Supervisory Board emoluments provisions amounting to EUR 4,250.00 (previous year: kEUR 4) were established.

#### c) Composition of the Managing Board

**In the financial year 2006 the following gentlemen were members of the Managing Board of the company:**

Mr. Ing. Mag. Hermann Oberlehner, Linz (Chairman of the Managing Board)

Mr. Dr. Helmut Wiesbauer, Wallern (since 7.4.2006)

Mr. Martin Hummel, Munich, Germany (until 30.6.2006)

Mr. Klaus Starch, Munich, Germany (until 7.6.2006)



d) Composition of the Supervisory Board

**In the financial year 2006 the following gentlemen were members of the Supervisory Board of the company:**

Mr. Dr. Georg Bauer, Chairman

Mr. DDr. Alexander Hasch, Vice Chairman (since 7.6.2006)

Mr. Mag. Johann Eder, Member (since 7.6.2006)

Mr. Dipl.-Ing. Stefan Pierer, Chairman (until 7.6.2006)

Mr. Michael Martens (until 7.6.2006)

Linz, 16 May 2007

The Managing Board:

A handwritten signature in black ink, featuring a large, stylized 'O' followed by several loops and a final horizontal stroke.

Mag. Hermann Oberlehner

A handwritten signature in black ink, starting with a large 'H' and ending with a long, sweeping horizontal stroke.

Dr. Helmut Wiesbauer



## DEVELOPMENT OF FIXED ASSETS

Initial cost / Production cost				
	As of 1.1.2006 EUR	Additions EUR	Disposals EUR	As of 31.12.2006 EUR
<b>I. Intangible assets</b>				
Licences, industrial property rights and similar rights and assets as well as licences derived therefrom	435,495.73	8,461.00	0.00	443,956.73
<b>II. Tangible assets</b>				
1. Real property, equivalent rights and buildings, including buildings on foreign estate	3,970,503.13	4,313.00	0.00	3,974,816.13
2. Technical facilities and machinery	2,848,961.87	9,744.00	0.00	2,858,705.87
3. Other facilities, fixtures and fittings *)	2,172,000.47	165,797.32	89,200.81	2,248,596.98
	<b>8,991,465.47</b>	<b>179,854.32</b>	<b>89,200.81</b>	<b>9,082,118.98</b>
<b>III. Financial assets</b>				
1. Interests held in affiliated companies	77,317.79	0.00	0.00	77,317.79
2. Security investments	59,400.00	0.00	0.00	59,400.00
3. Other loans	57,038.59	0.00	0.00	57,038.59
	<b>193,756.38</b>	<b>0.00</b>	<b>0.00</b>	<b>193,756.38</b>
	<b>9,620,717.58</b>	<b>188,315.32</b>	<b>89,200.81</b>	<b>9,719,832.09</b>
*) of which low-value assets pursuant to § 13 Income Tax Act		17,811.12	17,811.12	

## DEVELOPMENT OF FIXED ASSETS

	Accumulated depreciation EUR	Residual book values as of 31.12.2006 EUR	Residual book values as of 31.12.2005 EUR	Depreciation of current financial year EUR	Write-ups of current financial year EUR
<b>I. Intangible assets</b>					
Licences, industrial property rights and similar rights and assets as well as licences derived therefrom	430,028.91	13,927.82	78,329.96	72,863.14	0.00
<b>II. Tangible assets</b>					
1. Real property, equivalent rights and buildings, including buildings on foreign estate	1,757,232.08	2,217,584.05	2,381,322.89	168,051.84	0.00
2. Technical facilities and machinery	2,835,401.34	23,304.53	188,871.37	175,310.84	0.00
3. Other facilities, fixtures and fittings *)	1,884,333.86	364,263.12	418,529.31	220,063.51	0.00
	<b>6,476,967.28</b>	<b>2,605,151.70</b>	<b>2,988,723.57</b>	<b>563,426.19</b>	<b>0.00</b>
<b>III. Financial assets</b>					
1. Interests held in affiliated companies	13,014.94	64,302.85	64,301.85	0.00	1.00
2. Security investments	11,418.00	47,982.00	47,982.00	0.00	0.00
3. Other loans	57,038.59	0.00	0.00	0.00	0.00
	<b>81,471.53</b>	<b>112,284.85</b>	<b>112,283.85</b>	<b>0.00</b>	<b>1.00</b>
	<b>6,988,467.72</b>	<b>2,731,364.37</b>	<b>3,179,337.38</b>	<b>636,289.33</b>	<b>1.00</b>
*) of which low-value assets pursuant to § 13 Income Tax Act				17,811.12	

## CERTIFICATION OF FINANCIAL STATEMENT

We have audited the group consolidated accounts of GERICOM AG, Linz, for the business year from 1 January to 31 December 2006 in reference to the books. The accounting books, the production and content of this annual financial statement together with the annual situation report in compliance with the terms of Austrian commercial law are the responsibility of the statutory representatives of the company. Our responsibility consists in the filing of an auditing assessment on this annual financial statement on the basis of our audit and a statement on whether the Annual Situation Report is consistent with the annual financial statement.

We have performed our audit taking into account the statutory regulations and principles in Austria for a proper annual audit. These principles require that the audit is to be planned and carried out in such a manner that an adequately secure assessment can be made as to whether the annual financial statement is adequately free from significant misrepresentations, and that a statement can be made as to whether the Annual Situation Report is consistent with the annual financial statement. Knowledge of the business activities and of the business and legal environment of the company together with expectations of potential errors have been taken into account in establishing the auditing procedures. During the course of the audit the verifications for sums and other data given in the entity accounting and in the annual financial statement were largely assessed on the basis of random sampling. The audit comprises in addition an assessment of the accounting principles applied and the assessments of significance made by the statutory representatives together with an appraisal of the overall financial statement contained in the annual financial statement. We are of the view that our audit forms an adequately secure basis for our auditing assessment.

Our audit has not resulted in any objections being raised. In accordance with the knowledge gained during the audit the annual financial statement was found to comply in our view with the statutory regulations and present a view of the assets and the financial situation of the company as of 31 December 2006 as also of the profitability of the company for the business year from 1 January to 31 December 2006 that is as faithful as is possible in compliance with the International Financial Reporting Standards, as applicable in the EU. The Annual Situation Report is consistent with the annual financial statement.

Linz, 16 May 2007

PwC Oberösterreich  
Wirtschaftsprüfung und  
Steuerberatung GmbH

Mag. Gerhard Prachner  
Auditor

Disclosure, publication or duplication in deviation from the statutory regulations to § 281 para. 2 HGB of the Austrian Commercial Code in a form differing from the allowed version with our confirmation is not permitted. Our prior written consent is required for a mere reference to our audit.

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