INTRACOM SA

DEFENSE ELECTRONIC SYSTEMS

Financial Statements
in accordance with International Financial Reporting Standards
as adopted by the European Union

31 December 2006

These financial statements have been translated from the original statutory financial statements that have been prepared in the Greek language. In the event that differences exist between this translation and the original Greek language financial statements, the Greek language financial statements will prevail over this document.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
"INTRACOM DEFENSE ELECTRONICS"

Report on the Financial Statements

We have audited the accompanying financial statements of "INTRACOM DEFENSE ELECTRONICS", which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Greek Auditing Standards, which are based on the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ""INTRACOM DEFENSE ELECTRONICS", as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU).

Report on Other Legal and Regulatory Requirements

The content of the Report of the Board of Directors is consistent with the aforementioned financial statements.

Athens, May 15, 2007

ALEXANDROS E. TZIORTZIS **MARIA HARITOU**

Certified Public Accountant Auditors

SOEL Reg. No. 12371 **SOEL Reg. No. 15161**

SOL S.A. – Certified Public Accountants Auditors

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(All amounts in €'000)

Balance sheet

ASSETS	Note	31/12/2006	31/12/2005
Non-current assets			
Property, plant and equipment	5	43.475	56.230
Intangible assets	6	1.452	2.208
Investment property	7	11.989	664
Trade and other receivables	8	5	5
		56.922	**59.107**
Current assets			
Inventories	9	38.506	39.894
Trade and other receivables	8	36.012	58.836
Current income tax assets		878	-
Cash and cash equivalents	10	17.833	86
		93.230	**98.816**
Total assets		**150.151**	**157.923**
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	67.924	67.924
Reserves	12	9.213	9.128
Retained earnings		5.055	4.093
Total equity		**82.192**	**81.145**
LIABILITIES			
Non-current liabilities			
Borrowings	13	102	1.639
Deferred income tax liabilities	14	487	662
Retirement benefit obligations	15	404	396
Provisions for other liabilities and charges	16	218	267
		1.211	**2.964**
Current liabilities			
Trade and other payables	17	45.611	70.731
Current income tax liabilities		-	1.297
Borrowings	13	20.547	1.244
Provisions for other liabilities and charges	16	591	541
		66.748	**73.814**
Total liabilities		**67.959**	**76.778**
Total equity and liabilities		**150.151**	**157.923**

The notes on pages 8 to 36 are an integral part of these financial statements.

(All amounts in €'000)

Income statement

	Note	1/1 - 31/12/2006	1/1 - 31/12/2005
Sales	18	78.793	22.166
Cost of goods sold	19	(57.492)	(16.384)
Gross profit		**21.301**	**5.783**
Other operating income - net	21	836	23
Selling and research costs	19	(9.154)	(936)
Administrative expenses	19	(6.267)	(1.170)
Operating profit		6.715	3.699
Finance costs - net	22	(2.623)	(507)
Profit before income tax		**4.092**	**3.192**
Income tax expense	23	(1.444)	(1.495)
Profit for the year		**2.647**	**1.697**

The notes on pages 8 to 36 are an integral part of these financial statements.

(All amounts in €'000)

Statement of changes in equity

	Note	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2005		**60**	**1**	**(40)**	**20**
Profit for the year		-	-	1.697	1.697
Total recognised income and expense		-	-	1.697	1.697
Transfer due to spin-off		-	9.128	2.981	12.109
Issue of share capital	11	67.864	-	-	67.864
Expenses on issue of share capital (less tax €202 thousands)		-	-	(545)	(545)
Balance at 31 December 2005		**67.924**	**9.128**	**4.093**	**81.145**
Balance at 1 January 2006		**67.924**	**9.128**	**4.093**	**81.145**
Profit for the year		-	-	2.647	2.647
Total recognised income and expense		-	-	2.647	2.647
Transfer		-	85	(85)	-
Dividends relating to year 2005		-	-	(1.600)	(1.600)
Balance at 31 December 2006		**67.924**	**9.213**	**5.055**	**82.192**

The notes on pages 8 to 36 are an integral part of these financial statements.

(All amounts in €'000)

Cash flow statement

	Note	1/1 - 31/12/2006	1/1 - 31/12/2005
Cash flows from operating activities			
Cash generated from operations	24	5.459	(4.353)
Interest paid		(2.627)	(517)
Income tax paid		(1.688)	(4)
Net cash from operating activities		**1.144**	**(4.874)**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(2.711)	(114)
Purchase of intangible assets	6	(325)	-
Proceeds from sale of PPE		39	
Interest received		41	
Cash transferred to segments due to spin-off		-	6.089
Net cash from investing activities		**(2.957)**	**5.976**
Cash flows from financing activities			
Expenses on issue of share capital		-	(747)
Proceeds from borrowings		52.375	-
Repayments of borrowings		(32.224)	(15)
Repayments of finance leases		(591)	(302)
Net cash from financing activities		**19.560**	**(1.064)**
Net increase in cash and cash equivalents		**17.748**	**38**
Cash and cash equivalents at beginning of year		86	48
Cash and cash equivalents at end of year	10	**17.833**	**86**

The notes on pages 8 to 36 are an integral part of these financial statements.

Notes to the financial statements in accordance with International Financial Reporting Standards

1. General information

Intracom SA Defense Electronics Systems ("Intracom Defense", "the Company") was founded in Greece and operates mainly in the design, development and manufacturing of defense electronic products, systems and applications and the provision of technical support services and maintenance.

The Company operates in Greece.

The Company's registered office is at 21 km Markopoulou Ave., Koropi Attikis, Greece.

The Company is 100% subsidiary of Intracom Holdings SA ("Intracom Holdings", "Intracom Holdings Group"). The annual consolidated financial statements of Intracom Holdings SA for the year ended 31 December 2006 have been published on its website at ***www.intracom.com***.

These financial statements have been approved for issue by the Board of Directors on 26/4/2007 and are subject to approval by the Annual General Meeting of the Shareholders.

2. Summary of significant accounting policies

Basis of preparation

These financial statements consist of the financial statements of Intracom Defense for the year ended 31 December 2006, in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union (EU).

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. Moreover, the use of estimates and assumptions is required that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of preparation of financial statements and the reported income and expense amounts during the reporting period. Although these estimates are based on the best possible knowledge of management with respect to the current conditions and activities, the actual results can eventually differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

New standards, interpretations and amendments to published standards

Standards effective in 2006

- **IAS 19 (Amendment), Employee Benefits**

  This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and as the Company does not participate in any multi-employer plans, the adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements.

Standards and interpretations effective in 2006 that are not relevant/ have no impact to the Company

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 21 (Amendment), Net Investment in a Foreign Operation
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmnetal Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Standards and interpretations that are not yet effective and have not been early adopted by the Company

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)**

  IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

- **IFRS 8, Operating Segments (effective from 1 January 2009)**

  This standard is effective for annual periods beginning on or after 1 January 2009 and supersedes IAS 14, under which segments were identified and reported based on a risk and return analysis. Under IFRS 8 segments are components of an entity regularly reviewed by the entity's chief operating decision maker and are reported in the financial statements based on this internal component classification. The Company will apply IFRS 8 from 1 January 2009.

- **IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006)**

  This interpretation is effective for annual periods beginning on or after 1 November 2006 and prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company will assess the impact of IFRIC 10 on its financial statements.

Interpretations that are not yet effective and are not relevant to the Company

- IFRIC 7, Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)

- IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006)

- IFRIC 9, Reassessment of embedded derivatives (effective from 1June 2006)

- IFRIC 11 – IFRS 2, Group and Treasury Share Transactions (effective from 1 March 2007)

- IFRIC 12, Service Concession Arrangements (effective from 1 January 2008)

Transfer of segment

The assets and liabilities acquired through the transfer by Intracom Holdings to the Company of the Defence Electronics Systems segment were included in the financial statements of the Company at their carrying amounts as at the date of the transfer. The Company did not apply the acquisition method, as per IFRS 3, since according to paragraph 11 of this standard, transactions involving entities under common control are outside the scope. The difference between the carrying amounts of the assets and liabilities acquired and the increase in the Company's share capital due to the transfer was recorded directly in shareholders' equity.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in Euros, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Investment property

Investment property, principally comprising land and buildings, is held by the Company for long-term rental yields. Investment property is measured at cost less depreciation. Land is not depreciated. Buildings are depreciated using the straight line method to allocate cost over their useful lives, estimated at 33-34 years.

When the carrying amounts of the investment property exceed their recoverable amounts, the difference (impairment) is charged directly in the income statement.

Property, plant and equipment

All property, plant and equipment ("PPE") is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company higher than the initially expected according to the initial return of the financial asset and under the assumption that the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on PPE is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, in order to write down the cost in its residual value. The expected useful life of property, plant and equipment is as follows:

- Buildings	33 - 34	Years
- Machinery, installations and equipment	10	Years
- Motor vehicles	5 - 7	Years
- Other equipment	5 - 10	Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying amount of the asset is higher than its recoverable amount, the resulting difference (impairment loss) is recognized immediately as an expense in the income statement.

In case of sale of property, plant and equipment, the difference between the sale proceeds and the carrying amount is recognized as profit or loss in the income statement.

Finance costs are recognised in the income statement in the period in which they arise.

Leases

(a) Finance leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property, plant and equipment and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

(b) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Computer software

Software licenses are stated at historical cost less subsequent amortisation. Amortisation is calculated using the straight-line method over the useful economic lives, not exceeding a period of 3-5 years.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually and whenever events indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment at each balance sheet date and are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognised, as an expense immediately, for the amount by which the asset's carrying amount exceeds its recoverable amount.

Financial assets

The Company classifies its investments in the following categories. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category refers to financial assets acquired principally for the purpose of selling in the short term or if so designated by Management. Derivatives are also categorised as held for trading unless they are designated as hedges. If these assets are either held for trading or are expected to be realised within 12 months of the balance sheet date these assets are classified as current assets. During the year, the Company did not hold any investments in this category.

(b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. During the year, the Company did not hold any investments in this category.

(d) Available-for-sale financial assets

These are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the year, the Company did not hold any investments in this category.

Purchases and sales of investments are recognised on trade date, which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on year-end bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished and semi-finished goods, by-products and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown after the reduction of the relative income tax in reduction to the product of issue. Incremental costs directly attributable to the issue of new shares for the acquisition of other entities are included in the cost of acquisition of the new company.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs

All borrowing costs are recognized in the income statement as incurred.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date.

Employee benefits

(a) Pension obligations

The Company contributes to both defined benefit and defined contribution plans.

The regular contributions for defined contribution plans constitute net periodic costs for the year in which they are due and as such are included in staff costs.

The liability in respect of defined benefit pension or retirement plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets (where funded) together with adjustments for actuarial gains/ losses and past service cost. Independent actuaries using the projected unit credit method calculate the defined benefit obligation annually.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Where there is uncertainty about the number of employees who will accept an offer of termination benefits, the Company discloses information about the contingent liability.

Provisions

Provisions are recognized when:

i. There is present legal or constructive obligation as a result of past events
ii. It is probable that an outflow of resources will be required to settle the obligation
iii. The amount can be reliably estimated.

(a) Warranties

The Company recognizes a provision that represents the present value of the estimated liability for the repair or replacement of guaranteed products or concerning the delivery of projects / rendering of services at the balance sheet date. This provision is calculated on the basis of historical facts over repairs and replacements.

(b) Compensated absences

The claims over compensated absences are recognised as incurred. The Company recognises the expected cost of short-term employee benefits in the form of compensated absences based on their unused entitlement at the balance sheet date.

(c) Loss-making contracts

The Company recognizes a provision with an immediate charge to the income statement for long-term service contracts when the expected revenues are lower than the unavoidable expenses which are estimated to arise in order that the contract commitments are met.

Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Company. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognized when the Company has delivered products to the customer; the customer has accepted the products; and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognized in the accounting period in which the services are rendered, by reference to the stage of completion of the specific service. The stage of completion is assessed on the basis of the costs of the actual services provided until the balance sheet date as a proportion of the costs of the total estimated services to be provided under each contract. Costs of services are recognized in the period incurred. When the services to be provided under a contract cannot be reliably estimated, revenue is recognized only to the extent of costs incurred that are possibly recoverable.

(c) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate. Subsequently, interest is recognized on the impaired value.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Roundings

Differences between amounts presented in the financial statements and corresponding amounts in the notes result from rounding differences.

3. Financial risk management

Financial risk factors

Intracom Defense is exposed to a variety of financial risks, including market risk (the effects of changes in foreign currency exchange rates, interest rates and debt and equity market prices), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Company's risk management operates under the guidelines set by the overall risk management programme of Intracom Holdings which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group as a whole. Intracom Holdings Group makes use of derivative financial instruments, such as futures, forwards and interest rate swaps for hedging purposes.

Risk management is carried out by the Company's Treasury Department, under policies approved by the Board of Directors of Intracom Holdings.

(a) Market risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and assets and liabilities in foreign currency.

The Company trades mainly in EUR and USD. The foreign exchange risk management is achieved through the maximization of natural hedge of assets-liabilities and inflow-outflow denominated in USD.

In addition, on a cash flow level, the Company identifies possible exposure risk to currencies other than the USD, using the 18monthly cash flow projections. In such cases, the exposure is dealt with on a case-by-case basis. Intracom Holdings' policy is to maintain only such amounts in foreign currency as necessary to carry on its normal trading activities.

Price risk

The Company is exposed to changes in the value of raw materials. The transfer of costs to the final price of products manages part of this risk.

(b) Credit risk

The Company has no significant exposure to credit risk. Sales of products, goods and services are made to customers with an appropriate credit history. In cases credit is given to customers with unassessed credit history, the Company obtains bank guarantees or other form of insurance.

(c) Liquidity risk

Liquidity risk is kept low, by maintaining sufficient cash and unused credit facilities.

(d) Cash flow and fair value interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates, as cash held for investment purposes and interest-bearing assets are dependent on the EURO, which shows historically low fluctuations.

Fair value estimation

The nominal values less any estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- The Company is subject to income tax in Greece. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

(All amounts in €'000)

5. Property, plant and equipment

	Land - buildings	Machinery	Vehicles	Furniture & other equipment	Prepayments and assets under construction	Total
Cost						
Balance at 1 January 2005	-	-	-	-	-	-
Transfers due to spin - off	54.799	18.884	65	2.229	180	76.158
Additions	19	44	-	41	9	114
Transfer to investment property	(557)	-	-	-	(190)	(746)
Balance at 31 December 2005	**54.261**	**18.928**	**65**	**2.270**	**-**	**75.525**
Balance at 1 January 2006	54.261	18.928	65	2.270	-	75.525
Additions	2.017	1.051	88	1.063	-	4.219
Disposals	(1.507)	(6.549)	-	(25)	-	(8.081)
Transfer to investment property	(11.886)	-	-	-	-	(11.886)
Balance at 31 December 2006	**42.885**	**13.430**	**154**	**3.308**	**-**	**59.777**
Accumulated depreciation						
Balance at 1 January 2005	-	-	-	-	-	-
Transfers due to spin - off	5.098	11.913	65	1.545	-	18.621
Depreciation charge	186	513		55	-	753
Transfer to investment property	(80)	-	-	-	-	(80)
Balance at 31 December 2005	**5.204**	**12.426**	**65**	**1.599**	**-**	**19.295**
Balance at 1 January 2006	5.204	12.426	65	1.599	-	19.295
Depreciation charge	653	1.450	7	244	-	2.354
Disposals	-	(4.872)	-	(24)	-	(4.897)
Transfer to investment property	(450)	-	-	-	-	(450)
Balance at 31 December 2006	**5.407**	**9.004**	**72**	**1.819**	**-**	**16.302**
Net book amount at 31 December 2005	**49.057**	**6.502**	**1**	**671**	**-**	**56.230**
Net book amount at 31 December 2006	**37.478**	**4.426**	**82**	**1.489**	**-**	**43.475**

The above table includes machinery held under finance lease as follows:

	31/12/2006	31/12/2005
Cost	2.838	9.348
Accumulated depreciation	(2.392)	(6.695)
Net book amount	**446**	**2.653**

(All amounts in €'000)

6. Intangible assets

	Trademarks and licences	Software	Total
Cost			
Balance at 1 January 2005	-	-	-
Transfers due to spin - off	40	3.752	3.792
Balance at 31 December 2005	**40**	**3.752**	**3.792**
Balance at 1 January 2006	40	3.752	3.792
Additions	-	325	325
Balance at 31 December 2006	**40**	**4.076**	**4.117**
Accumulated depreciation			
Balance at 1 January 2005	-	-	-
Transfers due to spin - off	30	1.288	1.318
Amortisation charge	2	264	266
Balance at 31 December 2005	**32**	**1.552**	**1.584**
Balance at 1 January 2006	32	1.552	1.584
Amortisation charge	8	1.072	1.080
Balance at 3 1December 2006	**40**	**2.624**	**2.664**
Net book amount at 31 December 2005	**8**	**2.200**	**2.208**
Net book amount at 31 December 2006	**-**	**1.452**	**1.452**

(All amounts in €'000)

7. Investment property

Cost	
Balance at 1 January 2005	-
Transfer from property, plant and equipment	746
Balance at 31 December 2005	**746**
Balance at 1 January 2006	746
Transfer from property, plant and equipment	11.886
Balance at 31 December 2006	**12.632**
Accumulated depreciation	
Balance at 1 January 2005	-
Transfer from property, plant and equipment	80
Depreciation charge	3
Balance at 31 December 2005	**82**
Balance at 1 January 2006	82
Transfer from property, plant and equipment	450
Depreciation charge	110
Balance at 31 December 2006	**643**
Net book amount at 31 December 2005	**664**
Net book amount at 31 December 2006	**11.989**

Rental income for 2006 amounted to €597 (2005: €8).

(All amounts in €'000)

8. Trade and other receivables

	31/12/2006	31/12/2005
Trade receivables	28.782	57.983
Less: provision for impairment	-	(3.923)
Trade receivables - net	28.782	54.060
Prepayments	1.835	4.409
Receivables from related parties (note 28)	105	22
Other receivables	5.296	350
Total	**36.017**	**58.841**

Non-current assets	5	5
Current assets	36.012	58.836
	36.017	**58.841**

The fair value of receivables approximates their carrying amounts.

As most of the receivables relates to a small number of customers, there is concentration of credit risk. These customers, however, including the public sector, are customers of high credit quality.

9. Inventories

	31/12/2006	31/12/2005
Raw materials	21.910	25.339
Semifinished goods	8.251	9.009
Finished goods	7.130	3.992
Work in progress	1.549	2.313
Merchandise	149	54
Total	**38.991**	**40.707**
Less: Provisions for obsolete inventories		
Raw materials	353	689
Semifinished goods	131	115
Finished goods	-	9
	484	**812**
Net realisable value	**38.506**	**39.894**

(All amounts in €'000)

10. Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	31/12/2006	31/12/2005
Cash at bank and in hand	457	86
Short-term bank deposits	17.377	-
Total	**17.833**	**86**

Cash and cash equivalents are analysed in the following currencies:

	31/12/2006	31/12/2005
Euro	337	73
US Dollar	2.394	-
Japanese Yen	15.100	-
Other	3	12
	17.833	**86**

11. Share capital

	Number of ordinary shares	Share capital
Balance at 1 January 2005	20.445	60
Increase of share capital	23.082.860	67.864
Balance at 31 December 2005	**23.103.305**	**67.924**
Balance at 1 January 2006 and 31 December 2006	**23.103.305**	**67.924**

As at 31 December 2006 the Company's share capital was divided into 23.103.305 ordinary shares of €2,94 each.

(All amounts in €'000)

12. Reserves

	Statutory reserves	Tax free reserves	Total
Balance at 1 January 2005	1	-	1
Changes during the year	-	9.128	9.128
Balance at 31 December 2005	**1**	**9.128**	**9.128**
Balance at 1 January 2006	1	9.128	9.128
Transfer from retained earnings	85	-	85
Balance at 31 December 2006	**86**	**9.128**	**9.213**

(a) Statutory reserve

A legal reserve is created under the provisions of Greek law (Law 2190/20, articles 44 and 45) according to which, an amount of at least 5% of the profit (after tax) for the year must be transferred to the reserve until it reaches one third of the paid share capital. The legal reserve can only be used, after approval of the Annual General meeting of the shareholders, to offset accumulated losses and therefore cannot be used for any other purpose.

(b) Tax free reserve

Tax-free reserves under special laws

This account includes reserves created from profits, which were used for the acquisition of new fixed assets employed in the production process and are therefore regarded as tax-free under special provisions of development laws in force each time. In other words, this reserve is created from profits for which no tax is calculated or paid.

(All amounts in €'000)

13. Borrowings

	31/12/2006	**31/12/2005**
Non-current borrowings		
Finance lease liabilities	102	1.639
Total non-current borrowings	**102**	**1.639**
Current borrowings		
Bank loans	20.151	-
Finance lease liabilities	396	1.244
Total current borrowings	**20.547**	**1.244**
Total borrowings	**20.649**	**2.883**

The Company's borrowings are denominated in Euro.

The weighted average interest rate for the Company's borrowings for the year 2006 was around 4,67%.

	31/12/2006	**31/12/2005**
Finance lease liabilities- minimum lease payments		
Not later than 1 year	410	1.356
Between 2 and 5 years	103	1.694
Total	**513**	**3.050**
Less: Future finance charges on finance leases	(16)	(167)
Present value of finance lease liabilities	**497**	**2.883**
Present value of finance lease liabilities		
Not later than 1 year	396	1.244
Between 2 and 5 years	102	1.639
Total	**497**	**2.883**

(All amounts in €'000)

14. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	31/12/2006	31/12/2005
Deferred tax assets:		
To be recovered after more than 12 months	426	601
To be recovered within 12 months	407	-
	832	**601**
Deferred tax liabilities		
To be settled after more than 12 months	(1.085)	(1.192)
To be settled within 12 months	(235)	(71)
	(1.320)	**(1.263)**
	(487)	**(662)**

The gross movement on the deferred income tax account is as follows:

	31/12/2006	31/12/2005
Balance at the beginning of the year	(662)	-
Transfer due to spin-off	-	(670)
Charged / (credited) to the income statement (note 23)	174	(194)
Credited directly to equity	-	202
Balance at the end of the year	**(487)**	**(662)**

The credit to equity in the year 2005 relates to share capital expenses.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

Deferred tax assets:

	Provision for obsolete inventories	Other provisions	Accrued expenses	Other	Total
Balance at 1 January 2005	-	-	-	-	-
Transfer due to spin off	-	422	-	-	422
Charged / (credited) to the income statement	-	(103)	-	80	(22)
Credited directly to equity	-	-	-	202	202
Balance at 31 December 2005	**-**	**319**	**-**	**282**	**601**
Balance at 1 January 2006	-	319	-	282	601
Charged / (credited) to the income statement	121	(22)	219	(87)	231
Balance at 31 December 2006	**121**	**298**	**219**	**195**	**832**

(All amounts in €'000)

Deferred tax liabilities:

	Accelerated tax depreciation	Provision for bad debts	Other	Total
Balance at 1 January 2005	-	-	-	-
Transfer due to spin off	(1.038)	-	(53)	(1.092)
Charged to the income statement	(154)	-	(18)	(171)
Balance at 31 December 2005	**(1.192)**	**-**	**(71)**	**(1.263)**
Balance at 1 January 2006	(1.192)	-	(71)	(1.263)
Charged / (credited) to the income statement	42	(73)	(26)	(57)
Balance at 31 December 2006	**(1.150)**	**(73)**	**(97)**	**(1.320)**

15. Retirement benefit obligations

	31/12/2006	31/12/2005
Balance sheet obligations for		
Pension benefits	404	396
Total	**404**	396
Income statement charge		
Pension benefits	244	36
Total	**244**	36

The amounts recognized in the balance sheet are determined as follows:

	31/12/2006	31/12/2005
Present value of unfunded obligations	1.471	915
Unrecognised actuarial losses	(1.067)	(519)
Liability on the balance sheet	**404**	**396**

The amounts recognised in the income statement are as follows:

	1/1-31/12/2006	1/1-31/12/2005
Current service cost	101	19
Interest cost	43	7
Net actuarial losses recognised during the year	99	9
Total, included in staff costs (note 20)	**244**	**36**

(All amounts in €'000)

The movement in the liability recognised on the balance sheet is as follows:

	31/12/2006	31/12/2005
Balance at the beginning of the year	396	-
Transfer due to spin-off	-	486
Total expense charged in the income statement	244	36
Contributions paid	(236)	(126)
Balance at the end of the year	**404**	**396**

The principal actuarial assumptions used were as follows:

	31/12/2006	31/12/2005
Discount rate	4,10%	3,70%
Future salary increases	4,50%	4,50%

16. Provisions for other liabilities and charges

	Warranties	Unused compensated absences	Other	Total
Balance at 1 January 2005	-	-	-	-
Transfer due to spin off	784	32	22	838
Unused amounts reversed	(30)	-	-	(30)
Balance at 31 December 2005	**754**	**32**	**22**	**808**
Balance at 1 January 2006 και 31 December 2006	**754**	**32**	**22**	**808**

Analysis of total provisions:

	31/12/2006	31/12/2005
Current liabilities	591	541
Non- current liabilities	218	267
Total	**808**	**808**

(All amounts in €'000)

17. Trade and other payables

	31/12/2006	31/12/2005
Trade payables	4.948	16.379
Prepayments from customers	31.082	10.205
Amounts due to related parties (note 28)	6.687	43.685
Accrued expenses	1.769	446
Social security and other taxes	1.095	2
Other liabilities	30	14
Total	**45.611**	**70.731**

18. Sales by nature

	1/1 - 31/12/2006	1/1 - 31/12/2005
Sales of goods	614	44
Sales of products	66.313	19.786
Revenue from services	11.866	2.336
Total	**78.793**	**22.166**

	1/1 - 31/12/2006	1/1 - 31/12/2005
Domestic Sales	25.513	7.897
Sales in European Union	37.060	9.952
Sales in Rest Europe	22	4
Sales in Other Countries	16.197	4.313
Total	**78.793**	**22.166**

(All amounts in €'000)

19. Expenses by nature

	Note	1/1 - 31/12/2006	1/1 - 31/12/2005
Employee benefit expense	20	16.984	5.148
Inventory cost recognised in cost of goods sold		32.982	9.812
Depreciation of PPE			
-Freehold property	5	1.786	453
-Leasehold property	5	568	300
Depreciation of investment property	7	110	3
Amortisation of intangible assets	6	1.080	266
Impairment of inventories		432	243
Repairs and maintenance		464	52
Operating lease payments			
-Land and buildings		-	3
-Vehicles		173	29
-Furniture and other equipment		2	4
Advertising costs		286	-
Debit balances writen off		542	-
Net losses from exchange differences		13	-
Third party fees		11.521	1.710
Impairment of receivables		302	-
Other		5.667	467
Total		**72.913**	**18.490**
Split by function:			
Cost of goods sold		57.492	16.384
Selling costs		9.154	936
Administrative expenses		6.267	1.170
		72.913	**18.490**
Split of depreciation by function:			
Cost of goods sold		1.907	565
Selling costs		1.202	149
Administrative expenses		436	309
		3.545	**1.023**

20. Employee benefits

	1/1 - 31/12/2006	1/1 - 31/12/2005
Wages and salaries	13.226	4.338
Social security costs	3.167	694
Other employers' contributions and expenses	348	81
Pension costs - defined benefit plans	244	36
Total	**16.984**	**5.148**

Company occupied at the end of the current period 534 employees.

(All amounts in €'000)

21. Other operating income - net

	1/1 - 31/12/2006	1/1 - 31/12/2005
Rental income	597	8
Profit from exchange differences	90	-
Other	148	15
Total	**836**	**23**

22. Finance costs - net

	1/1 - 31/12/2006	1/1 - 31/12/2005
Interest expense		
- Bank borrowings	2.108	457
- Finance leases	35	60
- Other	483	-
	2.627	517
Interest income	(41)	(0)
Net foreign exchange losses/ (gains)	37	(9)
Total	**2.623**	**507**

23. Income tax expense

	1/1 - 31/12/2006	1/1 - 31/12/2005
Current tax	1.619	1.301
Deffered tax (note 14)	(174)	194
Total	**1.444**	**1.495**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the company as follows:

(All amounts in €'000)

	1/1 - 31/12/2006	1/1 - 31/12/2005
Profit before tax	4.092	3.192
Tax calculated at tax rates applicable to Greece	1.187	1.021
Income not subject to tax	(150)	-
Expenses not deductible for tax purposes	473	474
Differences in tax rates	(65)	-
Tax charge	**1.444**	**1.495**

(All amounts in €'000)

24. Cash generated from operations

	Note	1/1 - 31/12/2006	1/1 - 31/12/2005
Profit for the year		2.647	1.697
Adjustments for:			
Tax		1.444	1.495
Depreciation of PPE	5	2.354	753
Amortisation of intangible assets	6	1.080	266
Depreciation of investment property	7	110	3
Interest income	22	(41)	(0)
Interest expense	22	2.627	517
		10.222	**4.731**
Changes in working capital			
Inventories		1.388	691
Trade and other receivables		20.718	16.136
Trade and other payables		(26.877)	(25.792)
Provisions for other liabilities and charges		-	(30)
Retirement benefit obligations		8	(90)
		(4.763)	**(9.084)**
Cash generated from operations		**5.459**	**(4.353)**

25. Transfer of segment

In the last quarter of 2005, the Extraordinary General Meeting of the shareholders of the parent company Intracom Holdings approved the spin-off of the Defense Electronic Systems segment and its transfer to the 100% subsidiary of Intracom Holdings, Intracom Defense. The balance sheet date for the spin-off was 30/09/2005 and the relevant approval by the authorities was anounced on 29/12/2005.

The balance sheet date for the restructuring as mentioned above was deemed to be the critical dates of the spin-off under IFRS given that the segment was under the control of Intracom Holdings SA at 30/09/2005. Consequently, all transactions that took place from this balance sheet date henceforth were on behalf of the new segment and therefore of Intracom Defense. Taking into consideration that the year of 2005 includes only the last trimester of the transferred segment operations, the amounts of 2006 are not comparable to the equivalent amounts of the year 2005.

(All amounts in €'000)

26. Commitments

Capital commitments

There are no capital commitments contracted for, but not yet incurred, by the balance sheet date.

Operating lease commitments

The future aggregate minimum lease payments under operating leases of the Company are as follows:

	31/12/2006	31/12/2005
No later than 1 year	131	128
Later than 1 year and no later than 5 years	84	141
	215	**269**

27. Contingencies

The Company has contingent liabilities in respect of banks and other matters arising in the ordinary course of business as follows:

	31/12/2006	31/12/2005
Guarrantees for advance payments	35.359	-
Guarrantees for good performance	13.046	-
Guarrantees for participation in contests	859	-
	49.264	**-**

28. Related party transactions

The following transactions are carried out with related parties:

(All amounts in €'000)

	1/1 - 31/12/2006	1/1 - 31/12/2005
Sales of goods / services:		
To other related parties	**2.169**	**8**
Purchases of goods / services:		
From parent company	3.371	0
From other related parties	5.207	450
	8.579	**450**
Rental income:		
From other related parties	**560**	**-**

	1/1 - 31/12/2006	1/1 - 31/12/2005
Purchases of fixed assets:		
From parent company	151	-
From other related parties	3.526	29
	3.676	**29**
Disposals of fixed assets:		
To other related parties	**1.546**	**-**

Services from and to related parties, as well as sales and purchases of goods take place on the basis of the price lists in force with non-related parties. Other related parties are companies within the Intracom Holdings Group, as well as companies in which the major shareholder of Intracom Holdings Group holds an interest share.

Year-end balances arising from transactions with related parties are as follows:

	31/12/2006	31/12/2005
Receivables from related parties:		
From parent company	85	-
From other related parties	19	22
	105	**22**
Payables to related parties		
To parent company	4.060	39.100
To other related parties	2.627	4.585
	6.687	**43.685**

The amount shown as payable to the parent company for the year 2005 includes an amount of €34.550 which relates to the net difference between the bank overdrafts and the cash of the Company, due to the spin-off. The bank accounts as at 31 December 2005 were held by the parent company.

29. Dividends

The Directors propose a dividend of € 0,074 per share (totalling €1.700 thousands) for the year 2006. The proposed dividend will be submitted for formal approval at the shareholders' Annual General Meeting. This dividend will be accounted for as an appropriation of retained earnings in the following year.

The Annual General Meeting approved on 27/6/2006 a dividend of € 0,069 per share (totalling €1.600 thousands). As at 31/12/2006 the dividend had not been paid.

30. Events after the balance sheet date

There are no significant events after the balance sheet date.