# DATA MODUL
# ANNUAL REPORT 2017

# MANAGEMENT
## REPORTS

*The DATA MODUL figures for 2017 highlight the company's impressive results over recent years. Excellent performance on the strategic targets defined in the "Shape 2020" strategy is reflected in the most successful business year in the company's history and confirms the company's position as a leading specialist global provider of professional, industrial display, touch, embedded, monitor and panel PC solutions.*

# REPORT FROM THE EXECUTIVE BOARD

**Dear Shareholders and friends of our Company,**

in the year now ended, DATA MODUL AG celebrated 45 years in business. DATA MODUL completed its anniversary year with record results. We have taken a great step on the way to becoming one of the world's leading providers of visual system solutions. For the coming years, DATA MODUL AG has developed the "Shape 2020" strategy to rise to the challenges of digitization and play an active part in technological change in the display industry.

June 28, 2017 marked an historic milestone in the history of the company. Forty-five years of DATA MODUL AG and the sixtieth anniversary of DATA MODUL Weikersheim GmbH in 2016 reflect the achievements of all staff at the company from its foundation right up until today. Our experience and our strengths are the foundation for our future. Yet we also know that it is not past achievements, but factors that we work on each day such as profitable growth, innovation and competitiveness that decide our business success.

With an entrepreneurial spirit and constant innovation, DATA MODUL has shaped the display industry, and has continuously adapted and developed in the process. Our "Shape 2020" strategy has transformed us from a distribution company to a provider and producer of premium products and premium services. We want to be the technology leader, and this demands a strong partnership with our customers and suppliers.

We are building on firm foundations: DATA MODUL combines financial strength, innovation and profitability and is pursuing further growth. We want to continue on this route with "Shape 2020". We are seeking to maintain a balance of sales between the three main global regions to compensate for fluctuations on individual markets and avoid dependencies. The global display market continues to grow. We want to adapt our portfolio to the new demands of Industry 4.0 and the Internet of Things, and to pursue the growth of recent years on our foreign markets. We shall also remain true to our three "i" factors for success: investment, innovation and internationalization.

The 2017 business year was a very good year for the DATA MODUL group. We achieved records for key figures such as sales, consolidated sales and consolidated results. The implementation of our strategy bore fruit and DATA MODUL has seen the most successful business year in the company's history. The 2017 business year closed with sales of 218 million EUR and an increase in EBIT to ca. 16 million EUR. In short: the decisions taken over the past year have made us stronger and have increased our potential. We achieved our stated targets in the 2017 business year, and that despite increasing uncertainty in the economic and political environment and intense competition on the global display markets.

Our business environment, the market on which we operate, and overall economic conditions present us with new challenges every day. The speed of data and the complexity of processes continue to increase and – although this seems hardly conceivable – that change is accelerating. Smartphones and the Internet have become an inte-

gral part of our everyday lives. In the world of work, we have smart factories, networked computer systems and machines that communicate with each other. The boundaries between information technology, telecommunications and the manufacturing industry are disappearing. This development, slightly grandiloquently referred to as "Industry 4.0", has brought us to the threshold of the fourth industrial revolution. If factories of the future are to become more flexible, more efficient and more intelligent, machines, plants and products need to communicate with each other – over the "Internet of Things". The Internet, mobile computers and cloud computing are making it possible for products, machines and entire factories to exchange information autonomously. The industrial process is no longer organized centrally and manually from the factory, but is instead controlled locally, dynamically and with a high level of automation. In smart factories, people, machines and resources communicate with each other, keeping the increasing complexity manageable and allowing greater efficiency in production. That communication takes place through visual operating units – DATA MODUL's products and market.

Our main activities in 2017 included further strengthening our global sales network, further increasing our production and logistics capacity, and other organizational adjustments. We came a step closer to our overarching goal of becoming one of the leading global providers of visual system solutions by 2020 by strengthening our Chinese subsidiaries and developing a production line in the USA. The financial success of recent years has given us the freedom we need to continue investing in the future. Innovation by our research and development departments is ensuring the future of our company. We invested 5.4 million EUR in research and development in 2017. This primarily went to projects designed to secure our future.

In the light of business performance, the Executive Board and Supervisory Board propose to the General Meeting that a dividend of 1.50 EUR per share be distributed for the 2017 business year. This corresponds to a payout ratio of ca. 50% of the net income for the year.

Success in the business year now ended reflects the long-term decisions taken as part of our strategy. However, difficult tasks still lie ahead and will require motivation and commitment at all levels of the company. Our success is thanks to our staff. Our strong business performance is driven by ca. 400 employees around the world: each individual has contributed to the overall success of the business through his or her expertise and achievements. I would like to thank our staff for their commitment. Our thanks also goes to our business partners and above all our customers. Your confidence in our abilities is what spurs us on, and your satisfaction is the basis for our business success.

An important element in our success in the coming years, alongside our strategy, will be the desirability of our products. Mechanical engineering, medical devices, transport, automation and the household are just some of many examples: display units are now used in every

area of our daily lives. That is why we will in future continue to focus on display, touch and embedded technologies. We put our customers at the center of all we do, and offer innovative products and services.

We are in a strong position for the coming years and have defined clear steps to maintain our success in the future. These include increasing capacity at various sites and the ongoing standardization of our production technology, which we launched in some areas last year. We are approaching the 2018 business year with optimism. We are looking to the future – to the next 45 years of DATA MODUL. For us at DATA MODUL, each day is a new opportunity to challenge and to surpass ourselves.

In the many challenges of the display industry of tomorrow, we see opportunities for further growth and technological progress, which we are driving forward in the best interests of our customers. Our approach combines innovative thinking, operational excellence and profitability. For the past four years, the EBIT margin has been above our target threshold of 7%, resulting in an equity ratio of over 70%. This financial strength now forms the basis for our investment in the future.

I would like to thank all our shareholders and investors. You are accompanying our business into a new era. The measures mapped out in our strategy are now being put into practice. Through your commitment, you have shown us your appreciation and confidence in us. We are doing everything possible to ensure that DATA MODUL AG remains an attractive investment and a reliable, forward-looking business, and one that continues to merit your support.

Munich, March 2018

Dr. Florian Pesahl
Chief Executive Officer

# REPORT FROM THE SUPERVISORY BOARD

**Dear Shareholders,**

in the year under review, the Supervisory Board closely followed the situation and development of DATA MODUL AG. The Supervisory Board performed the tasks incumbent upon it as provided by applicable law, the articles of association and the rules of procedure, and advised and supervised the Management Board.

The Management Board provided the Supervisory Board on a regular basis with written and oral information on the business development of DATA MODUL AG. In particular, the market and sales situation of the Company against the background of the general economic development, the financial situation of the Company and its subsidiaries as well as earnings trends were presented to the Supervisory Board. In the context of the quarterly reporting, sales and earnings figures were presented for the DATA MODUL Group as a whole as well as broken down to business segments.
Furthermore, during the Supervisory Board meetings, the current business situation, the sales, results and capital expenditure planning, as well as the operative targets were discussed.

## Focus of consultations of the Supervisory Board

In the year under review the Supervisory Board convened for in total four meetings. Main topics are reported in the following.

At the ordinary meeting in March 2017, the financial statements of DATA MODUL AG and the Group (consolidated financial statements) for the fiscal year 2017, which were prepared by the Management Board, were presented and discussed in depth. The Supervisory Board adopted the annual financial statements of DATA MODUL AG and approved the consolidated financial statements. Representatives of the Auditor of the individual and the consolidated financial statements, Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, also attended the meeting. Furthermore, the Supervisory Board dealt with the dependent company report pursuant to Section 312 German Stock Corporation Act (Aktiengesetz, AktG), which was prepared by the Management Board. In addition to that, the declaration regarding the German Corporate Governance Code pursuant to Section 161 AktG, the Corporate Governance Statement pursuant to Section 289a German Commercial Code (Handelsgesetzbuch, HGB) and, in this context, the objectives for the composition of the Supervisory Board were discussed and adopted. The declaration regarding the German Corporate Governance Code pursuant to Section 161 AktG and the Corporate Governance Statement pursuant to Section 289a HGB have been published on the website of the Company under www.data-modul.com.

Moreover, at the meeting in March 2017, the Supervisory Board discussed the agenda of the 2017 Ordinary General Meeting in depth and approved the proposals for the General Meeting. Business in the first quarter was also discussed. At the constitutive Supervisory Board meeting in May 2017, Ms. Kristin Russell was elected Chairwoman and Mr. Thomas Leffler Deputy Chairman of the Supervisory Board. The main subject of the Supervisory Board meeting in November 2017 was the

economic situation and future business developments in the DATA MODUL group. At the meeting in December 2017, the Executive Board reported to the Supervisory Board on the current business situation and financial position of the group, and presented the planned budget for the years 2018 to 2020. The Supervisory Board gave its approval.

**Audit of the annual financial statements and of the consolidated financial statements**

On 11 May 2017 the General Annual Meeting appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as Auditor both for the annual financial statements and for the consolidated financial statements for the fiscal year 2017. The annual financial statements and the management report of DATA MODUL AG for the fiscal year 2017 were prepared in accordance with the provisions applicable under HGB, the consolidated financial statements and the Group management report were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and in accordance with the additional commercial law provisions under Section 315e HGB to be applied. The annual financial statements as well as the consolidated financial statements including the management reports were audited by the Auditor Ernst & Young, which issued an unqualified audit certificate for all documents. Furthermore, Ernst & Young audited the dependent company report. The report concerns the period from 1 January 2017 to 31 December 2017. The Auditor Ernst & Young issued the following unqualified audit opinion regarding the dependent company report:

1. the factual statements made in the report are correct,
2. the consideration paid by the Company for the legal transactions stated in the report was not excessively high,
3. there are no circumstances that would require a materially different assessment of the actions listed in the report than as assessed by the Executive Board.

At the meeting in March 2018, the Supervisory Board thoroughly reviewed the financial statements for the fiscal year 2017 as well as the dependent company report. The representatives of the Auditor attended the meeting, reported on the result of their audits and gave additional information. In the course of its audit, the Auditor did not find any material shortcomings in respect of the organization and effectiveness of the internal control and internal risk management system.

The Supervisory Board, for its part, also reviewed the annual financial statements and the management report of DATA MODUL AG, the consolidated financial statements and the Group management report for the fiscal year 2017 as well as the dependent company report. Given the final result of the review by the Supervisory Board, there are no objections to be raised against the annual financial statements, the consolidated financial statements, the dependent company report, the concluding declaration to the dependent company report by the Management Board and the result of the audit of the dependent company report by the Auditor. The Supervisory Board approves both financial statements and endorses the proposal of the Management Board for the appropriation of distributable profits.

### Composition of the Supervisory Board

The Supervisory Board of DATA MODUL AG consists of three members. The Supervisory Board did not establish any committees during the reporting period as this is not expected to yield efficiency gains in view of the Supervisory Board being constituted of three members.

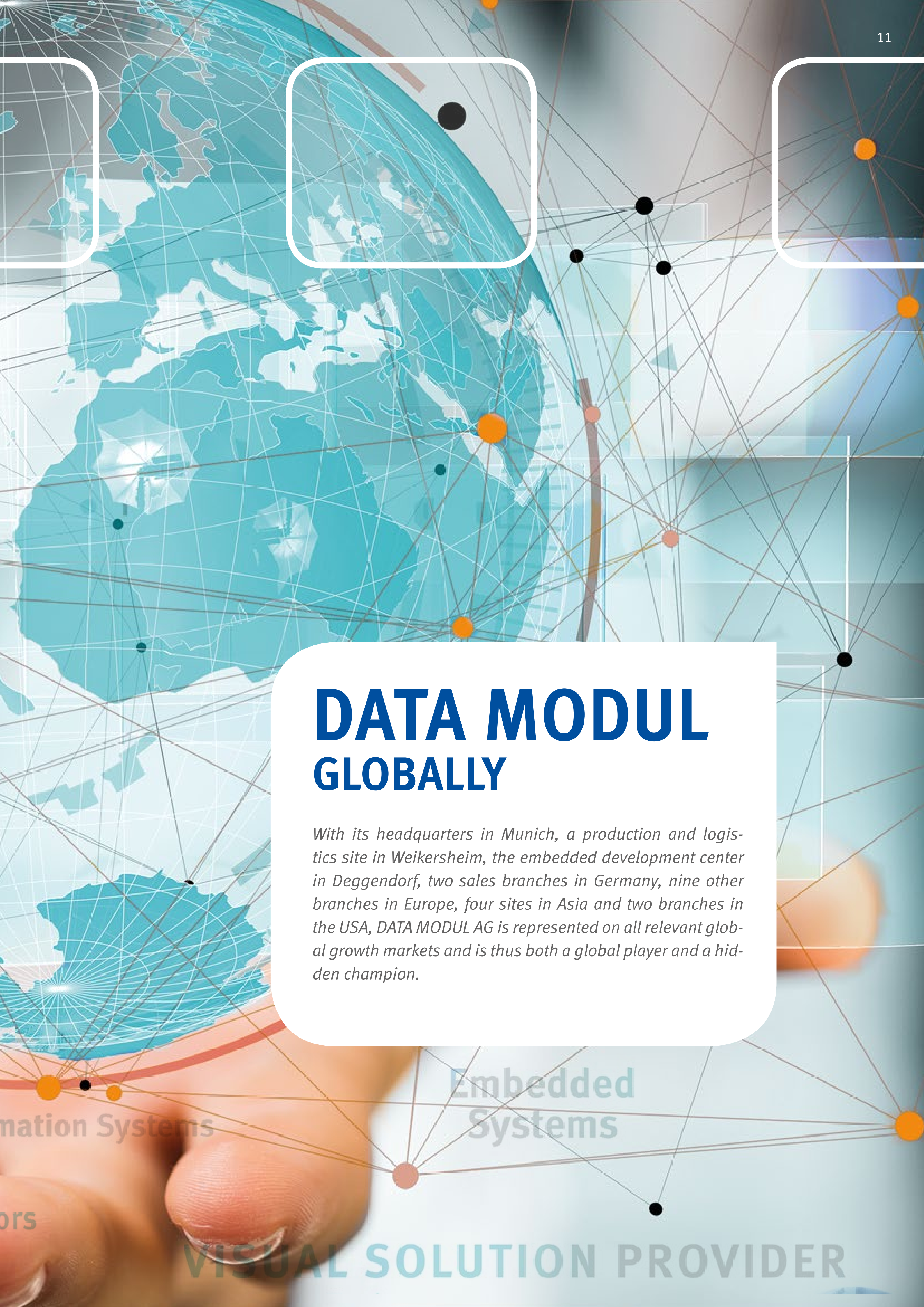
Ms. Kristin Russell and Mr. Thomas Leffler were elected to the Supervisory Board with effect from the end of the Ordinary General Meeting of the company on 11 May 2017 as representatives of the shareholders. The legal appointments of Ms. Kristin Russell and Mr. Jim Petrie as members of the Supervisory Board ceased to apply following the Supervisory Board elections pursuant to Section 104 par. 6 AktG [German Stock Corporation Act]. Mr. Wolfgang Klein remains on the Supervisory Board as an employee representative.

Finally, the Supervisory Board would like to express its thanks and appreciation to the Executive Board and to all employees of DATA MODUL globally for their commitment and achievements in the 2017 business year.

Munich, March 2018
On behalf of the Supervisory Board

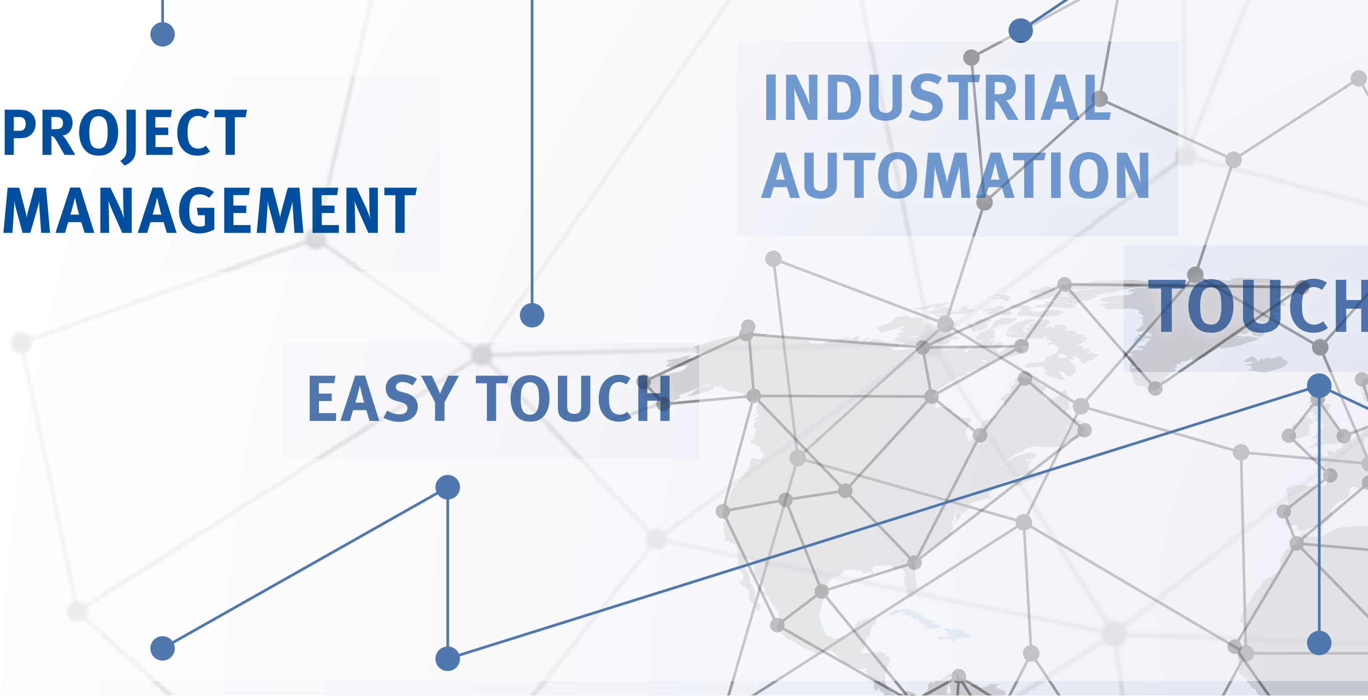
Kristin D. Russell
Chairwoman of the Supervisory Board


Monitors &
Panel PCs
Touch
Solutions
Computer-on-Module
Infor
Open Frame Monito
Optical Bonding




# DATA MODUL
## GLOBALLY

*With its headquarters in Munich, a production and logistics site in Weikersheim, the embedded development center in Deggendorf, two sales branches in Germany, nine other branches in Europe, four sites in Asia and two branches in the USA, DATA MODUL AG is represented on all relevant global growth markets and is thus both a global player and a hidden champion.*




# OUR LOCATIONS

### DATA MODUL GERMANY

- Munich (Corporate Headquarters)
- Weikersheim (Service, Production & Logistics)
- Deggendorf (Research & Development)
- Düsseldorf (Sales Office)
- Hamburg (Sales Office)

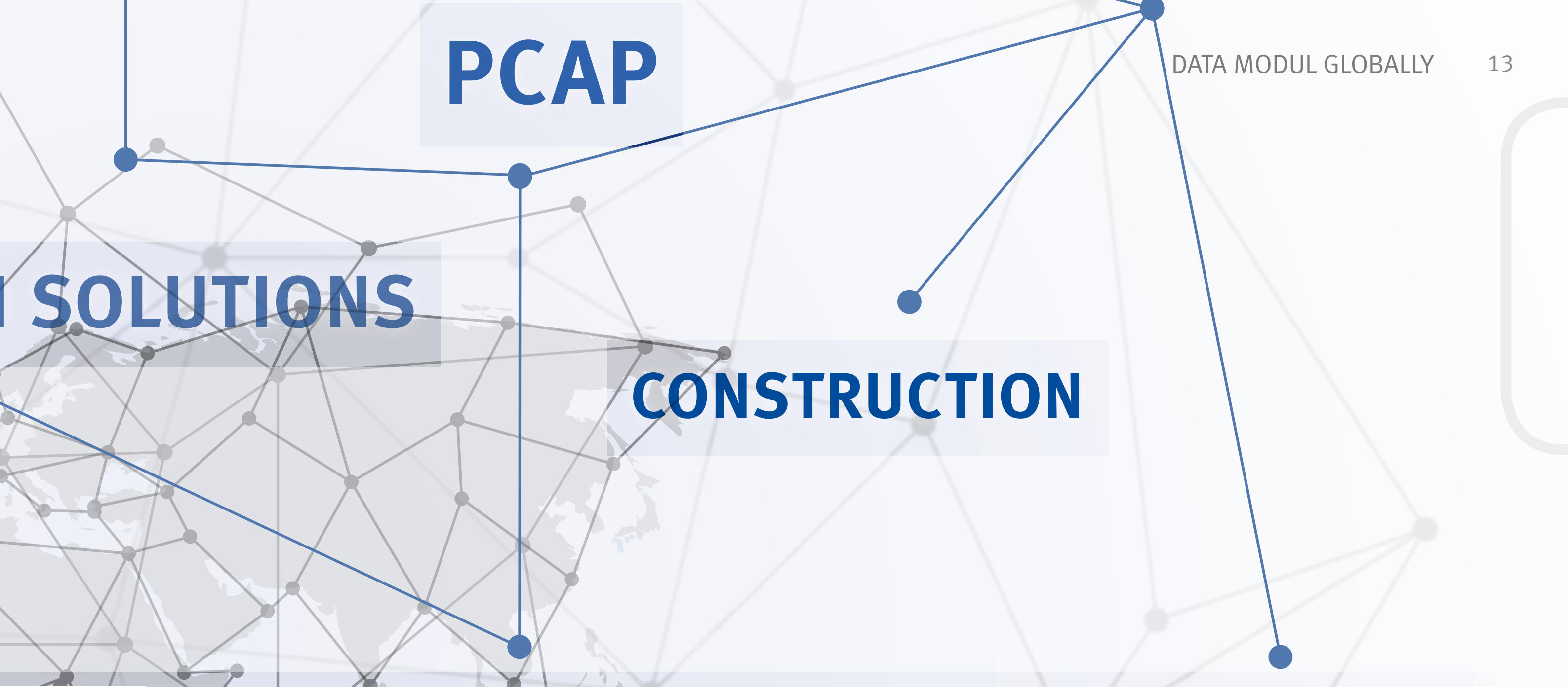
### DATA MODUL INTERNATIONAL

- Belgium
- China
- Denmark
- Dubai
- Finland
- France
- UK
- Italy
- Singapore
- Sweden
- Switzerland
- Spain
- USA

## FACTS AND FIGURES

Valid as of 12/31/2017

| EMPLOYEES WORLDWIDE | DATA MODUL LOCATIONS WORLDWIDE | REVENUE IN MILLION EUROS |
|---|---|---|
| 406 | 19 | 218 |




# SUCCESS STORY

Over the last 45 years, DATA MODUL has grown to become a major technology partner in Europe and the European market leader in display technology. As world-leading specialist supplier of display-, touch-, embedded-, monitor- and panel PC solutions, DATA MODUL is focusing increasingly on proprietary product development, which now accounts for half of the Company‘s.

At a 32,000 m² development and production site in Weikersheim, the Company realizes proprietary products, custom solutions and value-added services for customers from a wide range of different sectors. Embedded competencies give DATA MODUL broad expertise for visual applications to meet the customer expectations of tomorrow. DATA MODUL is a global business and is continuing to expand its network on the dominant markets, Europe, Asia and North America. DATA MODUL is fitting itself for the future through strategic expansion on the American and Scandinavian growth markets and by positioning itself in growth industries such as medical technology.

**R&D EXPENSES IN MILLION EUROS**

**5,4**

**EQUITY RATIO IN %**

**72**

**YEARS OF EXPERIENCE IN VISUAL SOLUTIONS**

**45**

# DATA MODUL
## PRODUCT PORTFOLIO

*DATA MODUL provides end-to-end system solutions for industrial and professional applications. Our comprehensive product distribution portfolio comprising displays, touch screens and embedded solutions combined with innovative proprietary product development is based on a modular concept and forms the basis for a wide range of sophisticated applications in various industries. In our age of information visualization, DATA MODUL products and solutions are found worldwide in professional applications with extremely high quality standards. These visual applications are the most important human machine interfaces, presenting appealing information displays for customers.*

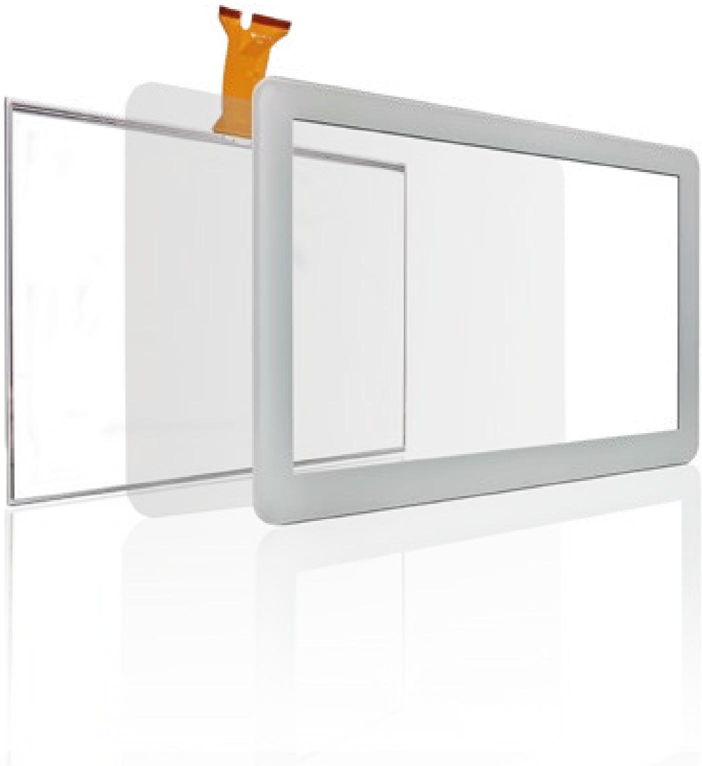
# PRODUCTS AND COMPETENCIES

## SYSTEMS

On the basis of a modular product portfolio, our in-house innovations and comprehensive production expertise, DATA MODUL creates customer-specific monitor and panel PC system solutions for a wide range of demanding applications. DATA MODUL system components and solutions can be found in industrial applications and information systems around the world with the highest quality standards.

## EMBEDDED

DATA MODUL offers perfectly coordinated embedded computer systems based on x86 and ARM architectures. From pre-configured kits, complete custom baseboard design to professional embedded computing design – DATA MODUL provides the full range of embedded solutions. The key display control technology is offered in a wide variety of building blocks and solutions based on DATA MODUL's proprietary know-how.

# DISPLAYS

In addition to proprietary branded Batron displays, DATA MODUL, Europe's largest TFT provider, distributes product portfolios of all leading manufacturers. The wide range of display products satisfies all possible requirements and offers a platform for modern and innovative device design. Compactness, high contrast ratio and ultra-wide viewing angles are key aspects to consider in choosing the right displays for industrial applications. Long-term availability and value for money are crucial as well when it comes to choosing the right "face" for an operating unit.

# TOUCH

Touch solutions are an essential part of the DATA MODUL product portfolio and are available in a wide range of versions and sizes for any technological application. The focus is on the easyTOUCH projected capacitive (PCAP) series and easyTOUCH displays – specially developed for industrial applications. DATA MODUL provides proprietary touch sensors and controller boards enabling multi-touch and gesture control. The complete PCAP solution – consisting of touch sensor, controller, firmware, front glass and optical bonding – is inter-coordinated and delivered from a single source.


DATA MODU


# HIGHLIGHTS

*The results for fiscal year 2017 reflect DATA MODUL's willingness to change and embrace innovation, as well as an ability to act rapidly. Expanding production capabilities, investing in new technologies and optimizing processes were key activities that made for a successful year.*

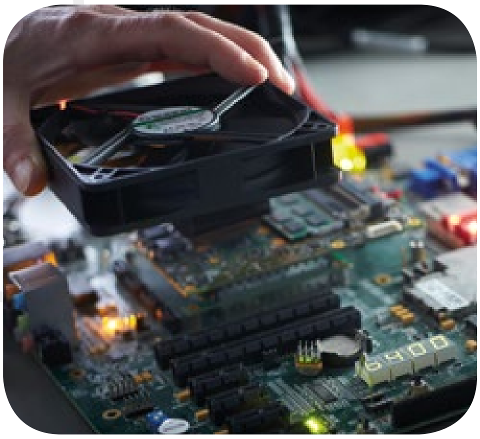
# HIGHLIGHTS 2017


## ONLINE PRODUCT CATALOG ON THE WEBSITE

As part of the increasingly global DATA MODUL operations, the new online product catalog went online in 2017 on the company website, which was relaunched in 2016. Potential B2B customers now have a clear and useful overview of all products, custom solutions and value-added services in seven product categories and how they can be combined. The online product catalog includes ca. 700 selected products for professional use, both in-house developments and products from all leading manufacturers of TFT displays, touch displays, touchscreens, CPU boards, LCD controller boards, box PCs, monitors and panel PCs.

## THE FUTURE OF TOUCH TECHNOLOGY

Through our own PCAP lines easyTOUCH and easyTOUCH DISPLAY and our core bonding competency at the Weikersheim site, DATA MODUL has continuously consolidated its position as a leading provider of industrial touch solutions. Force Touch is the next strategic step in PCAP touch technology development. Thanks to additional electronic evaluation systems – alongside capacitive coordinates – it can now also measure changes in the z-axis through pressure. This allows menu item expansion, for example. More importantly, it allows the creation of redundant systems which enable new, safe approaches for medical applications in particular.



## CONTINUOUS EXPANSION OF THE EMBEDDED PORTFOLIO

An industrial innovation was added to the LCD controller board range with the eMotion USB. This is the final step in DATA MODUL's single-cable solution for all interfaces for monitor solution control, thanks to a USB type C in alternate mode. The power supply and DP signal transfer in alternate mode over a single USB type C (Thunderbolt) standard cable allow much more compact and flatter device designs and models.

## EXPANSION OF THE EASYTOUCH RANGE

easyTOUCH DISPLAY was launched alongside easyTOUCH as a clear indication of the company's focus as a systems provider. easyTOUCH represents our range of assembled standard solutions, consisting of cover glass, touch sensors and controllers. Generally available in sizes up to 32“, easyTOUCH DISPLAY includes standardized and individual touch solutions with assembled industry TFT displays in the three categories Entry Level, Advanced Level and Professional Level. While the introductory models with AirGap Bonding are assembled specifically for industrial applications with medium-term availability (ca. 3 years) for best-value or price-sensitive applications, Advanced Level easyTOUCH displays are designed for applications to meet typical industrial requirements, such as ruggedness, a wide temperature range and an availability of five years or more. For individual, complete custom units consisting of easyTOUCH and industrial displays, we offer the Professional Level in which the customer chooses from our product and service portfolio for everything from display to assembly to suit their needs and application.


## EXPANSION OF THE WEIKERSHEIM PRODUCTION SITE

Following extensive investments in machinery and clean room capacity in Weikersheim in the past year, DATA MODUL expanded into the neighboring 5,000 m² site and added another 2,000 m² of facility space. This means the DATA MODUL Weikersheim GmbH logistics and production facility is now over 32,000 m². Integration into the plant structure began immediately, and facilities were available for part of warehouse logistics and for use as a temporary enterprise resource planning solution by the middle of the year.

# DATA MODUL IS CERTIFIED IN ACCORDANCE WITH ISO 13485

DATA MODUL works continuously on the expansion of its service portfolio and offers medical technology customers substantial added value in the development and production of professional control units for medical applications since 2017, with ISO 13485:2012 certification. In December 2015, the Munich specialist for visual solutions decided upon this step and already received the certification from the TÜV (Technical Control Board) only one year later. The rapid implementation of the certification requirements is also due to the strategic DATA MODUL development program „Shape 2020“.

The company is thus further sharpening its own profile as a specialist provider of display and system solutions for the rapidly growing medical market.

Medical technology customers have been supplied by DATA MODUL so far, however, system or system component deliveries had to withstand certain requirements, such as additional monitoring requirements and product testing by the customer. With ISO 13485:2012, the internationally recognized standard for quality management systems (QMS) for medical device manufacturers, and the related adjustments - in particular the value-adding processes - to the regulatory requirements of medical technology, DATA MODUL now fulfills all normative requirements for medical product systems throughout the whole product lifecycle.

The certification essentially led to the adaptation and redefining of communication structures and responsibilities within the value chain from sales, development, through production to service. With regard to the requirements in medical technology, procurement and supplier management in dealing with critical components has also been revised. The implementation of a software lifecycle process ensures complete risk management throughout the product lifecycle. For all medical devices, all procedures are documented and verified in a so-called Device Master Record.


### Added value for the customer

Transferring established standards into clear rules in the value creation process, defining standardized process steps for all process owners / partners / suppliers / companies, and finding an internationally valid understanding and a uniform language were the challenges. For the customer, this means less effort through monitoring requirements. He can rely on consistent and documented product quality and security (e.g. error prevention by systematic risk management) and also demand this. The determination and implementation of customer requirements is carried out by means of systematic process steps, especially through close communication with customers. In addition to constant risk and safety considerations, a systematic verification and document management in the development and production process is included throughout the product lifecycle. The implementation of the standard specifications took place in several steps across all areas and demanded not only temporal resources but also various investments:

From the process modeling and maintenance software via internal training, employee qualifications, etc. to the medical device consultant (Rights & Duties, Approval, Procedure), the installation of a qualification matrix for the evaluation of the employee skills up to towards setting up special workplaces, i.a. a decontamination place. With this certification, DATA MODUL creates enormous added value for the medical technology customer and the opportunity to substantially expand their own competence in the development and production of system solutions.

# CORPORATE RESPONSIBILITY

*DATA MODUL is committed to responsible management in the interests of shareholders, employees, customers, suppliers and all of the Company's business partners. Transparency, prudence and appropriate risk management are the key principles behind our decision-making. We achieve long-term success through sustainability along the value chain, and through a corporate culture that promotes diversity, trust and a shared commitment to improvement. We are dedicated to quality, innovation and customer satisfaction. Our planning and actions are characterized by dependability and a focus on future viability. Our success is founded upon expertise, enjoyment of our work and a receptive management culture.*

# DATA MODUL AS AN EMPLOYER

## OUR EMPLOYEES

The past business year was a successful but also a challenging year for the DATA MODUL group. On the way to becoming a leading global provider of visual system solutions, there were many requirements to fulfill: continuing the excellent development of recent years and ensuring stability, growth and increased value for the company in a highly competitive environment; systematically examining processes and further optimizing business structures to achieve our stated targets despite conservative personnel planning; improving support for our foreign branches and putting the focus on them to continue the growth of recent years on our markets abroad; strengthening the Quality Assurance, Service and Quality and Environmental Management departments to ensure they operate effectively and that our products best meet our customers' requirements. Last but not least, ISO 13485 medical device certification enabled us to widen our product range and put the relevant processes into practice.

The key to our success in this important business year was our staff. Together, we were able to identify and harness synergies within the group, simplify and optimize processes and step up research and development work to secure our future. This demanded innovation, quality awareness and expertise from each and every individual. With a strong team spirit, togetherness and enthusiasm, we together succeeded in continuing down the successful road of recent years. In the clear pursuit of our strategy to ensure effectiveness, further increase our market share and inspire customers with our proprietary products, the greatest contribution has once again come from our staff.

Flexibility was particularly important here. Only those who think and act flexibly are able to see challenges as opportunities for growth and to recognize the potential for progress in change can contribute to growth in such a dynamic environment as ours. DATA MODUL wants its staff to see the bigger picture; we invite our workforce to see themselves as entrepreneurs in our business, and constantly to develop and improve their own working environment. The large number of managers who have emerged from our own ranks is testimony to the success of this concept. Our employees' great commitment is rewarded with performance-based remuneration, flexible working hours, and a wide range of training and professional development courses both in Germany and abroad.

Ergonomic workstations, language courses and company sports are also an integral part of what we offer staff at DATA MODUL.

Demands on our organizational structure and on our staff will continue to increase as our group grows



and develops further. The Senior Management Team of long-serving and experienced staff continues to represent stability, continuity and reliability. The second and third operational management level has been expanded to allow disciplinary and professional responsibility and decision-making powers to be delegated to departmental managers and team leaders. This ensures rapid decisions, qualified contact people for all staff, efficient communication and a productive working environment.

To ensure we remain an attractive employer in a challenging environment, we will continue to focus on team-based collaboration, personal initiative and a close, open and human leadership culture with flat hierarchies and minimal bureaucracy. Ideally, staff start as apprentices, become experts and ultimately managers. This approach creates a healthy mix of experienced experts and fresh impetus that makes the company fit for the future on the various target markets with innovative solutions, and ensures that the company remains a reliable partner for staff, shareholders, customers and suppliers.

# GROUP MANAGEMENT REPORT

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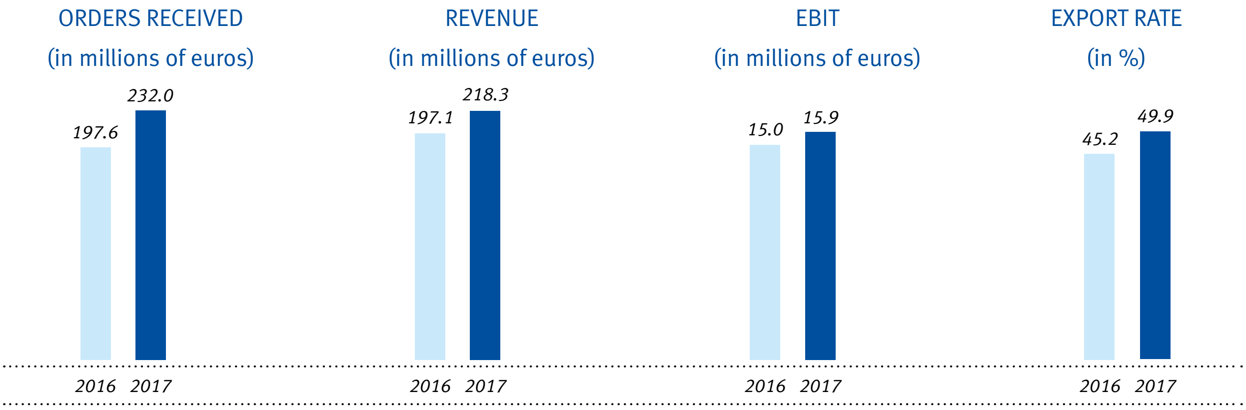
## GROUP MANAGEMENT REPORT

# GROUP MANAGEMENT REPORT FOR 2017




## 1. Basic principles of the Company

### 1.1 Business model

DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, Munich ("DATA MODUL"), claims to be the European market leader in display technology. DATA MODUL develops, manufactures and distributes innovative flatbed displays, monitors, electronic subassemblies and complete information systems. It is organized into two business segments: Displays and Systems. The Displays business primarily involves the purchase and distribution of DATA MODUL displays, easyTOUCH displays, electronic subassemblies and custom products for use in industrial applications and the automotive industry in particular. The Systems business segment comprises selling our easyPanel and easyEmbedded Solutions and special monitors for marine navigation and medical device applications, also targeting airport, rail and digital signage customers.

All of DATA MODUL's major markets have long-term growth potential, thus holding long-term growth prospects for the Group. We primarily serve customers in the mechanical engineering, medical device technology, automotive and gaming industries. DATA MODUL is thus influenced by the general economic environment and by developments in mechanical engineering, which is our primary industry. The Company is also impacted by changes in customer behavior, as order volume is steadily rising in parallel with product complexity, so that orders are with increasing frequency turning into long-term projects in which we act as long-term partners to our customers.

The DATA MODUL Group maintains regional offices in Germany, Spain, Italy, Switzerland, France, the UK, Dubai, Singapore, Hong Kong, Shanghai and the United States.

### 1.2 Control systems

DATA MODUL reflects the structure and philosophy of a classic small to medium-sized organization, yet has implemented additional processes and organizational directives which meet legal and other regulatory requirements for a publicly traded company. Management and controlling functions at DATA MODUL AG are structured in line with the German Stock Corporation Act, according to which company governance consists of three executive and supervisory bodies: shareholders, the Executive Board and the Supervisory Board. The Executive Board prepares monthly reports which are reviewed and monitored by the Supervisory Board and thoroughly discussed at Supervisory Board meetings. In addition, the Executive Board meets on a regular basis to discuss current events and strategies. Monthly Executive Board reports organized by business segment (Displays and Systems) serve as a basis for corporate decision-making, this structure being reflected in the Consolidated Financial Statements as well.

Key segment metrics employed are orders received, order backlog, revenue, EBIT and net income. EBIT margin and return on equity are the profitability KPIs. The Executive Board members are responsible for operational management.

### 1.3 Research and development

It is our goal to further strengthen our innovative capabilities. Our Company's success in the future highly depends on our ability to present customers with new products and solutions that meet their ever-changing requirements. Research and development expenses in fiscal year 2017 totaled 5,368 thousand euros (previous year: 5,919 thousand euros), which includes 734 thousand euros in amortization of capitalized development costs (previous year: 531 thousand euros). The amount of 2,286 thousand euros was capitalized in the fiscal year (previous year: 1,403 thousand) reflecting an increase in customer-specific development projects, resulting in decreased research and development expense.

On annual average, R&D employed 74 staff members (previous year: 75 staff members). The R&D intensity metric (R&D costs/revenue) was 2.5% (previous year: 3.0%).

In fiscal year 2017, our R&D priorities were as follows:

1. Safeguarding future business prospects
2. Enhancing technological competitiveness
3. Optimizing R&D resource allocation

Investment was made primarily in control electronics, industrial applications and OEM products, expansion of our production and R&D facility in Weikersheim We have great expectations as well in R&D projects concerning our Touch and Optical Bonding technology. These comprised the main focus of our R&D efforts in the reporting period.

Our development projects are classified as either research, product-related development or custom development. The R&D department focuses its activities on next-generation products and solutions, and preparing these for successful market launch.

We capitalized development costs in the amount of 675 thousand euros, recognized as intangible assets (previous year: 832 thousand euros). This corresponds to a capitalization/R&D expense ratio of 12.6% (previous year: 14.1%). Amortization came to 734 thousand euros (previous year: 531 thousand euros), resulting in a net loss of 59 thousand euros (previous year: net profit of 301 thousand euros). Research expenses are not capitalized.

Developing new products and solutions is only one part of our continuous improvement efforts. Ongoing quality enhancement is a key priority as well, alongside resource-efficient production to avoid and reduce waste and emissions.

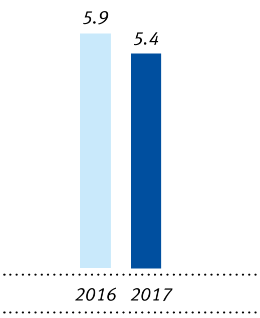
## 2. Economic report

### 2.1 Business performance

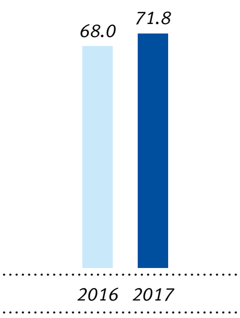
Taking advantage of the favorable business environment, DATA MODUL achieved good results for fiscal year 2017, due in part to stringent implementation of the "Shape 2020" strategy program. Last year's primary goals and topics included:

- Further increasing revenue
- Implementation of the “Shape 2020“ strategy
- Further expansion of our global distribution network
- Streamlining of our product portfolio

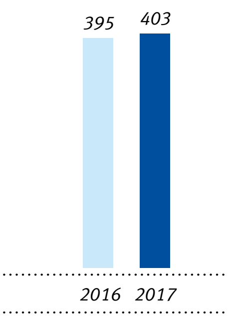
RESEARCH & DEVELOPMENT EXPENSES (in million euros)



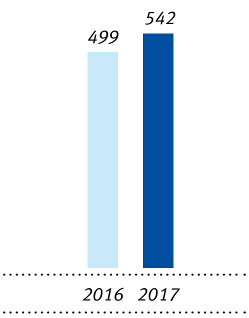

GROUP EQUITY RATIO (in %)




EMPLOYEES (average for the year)




SALES PER EMPLOYEE (average for the year in KEUR)



- Expansion and standardization of production capacity
- Updating of the DATA MODUL image externally

We performed excellently, achieving all of our major targets and exceeding some of our estimates.

| In millions of euros | Projections for 2017 | 2017 Actual |
|---|---|---|
| Orders received | 217.4 – 256.9 | 232.0 |
| Revenue | 210.9 – 232.6 | 218.3 |
| EBIT | 15.9 – 18.8 | 15.9 |

Orders rose in Germany, further boosting revenue. Year-on-year increases were seen in the US and UK, although outcomes in Switzerland, France and Singapore were below our expectations. Our results were outstanding however in Spain, China and Italy, affirming the Executive Board‘s implementation of the strategy program and how we have taken the right course in recent years.

We thus ended fiscal year 2017 with a net profit of 10,623 thousand euros (previous year: 10,228 thousand euros).

Our prudent financial policies have put our business on a highly stable footing for the future. The financial health of the Group in combination with a very sound balance sheet constitutes a quite solid foundation, even in today's turbulent times.
The Executive and Supervisory Boards have resolved to propose distribution of a dividend of 1.50 euros per share at the Company's Annual Shareholders' Meeting.

We firmly believe that this will have a lasting positive influence on our business, as can already be seen in new orders received and high order backlog. Considerable investment in R&D and additions to our product marketing staff have contributed as well to this situation.

In view of the above we are pleased with our 2017 results, having met our targets; DATA MODUL Group is thus well positioned for continuing growth.

In summary, fiscal year 2017 was a good one for DATA MODUL. We attained all of our objectives, and kept our promises. Today, DATA MODUL is a much stronger company with a more global orientation and a more promising business than before implementation of this strategy. It is already clear that the strategy has propelled our business into a new dimension. DATA MODUL profited from the implemented productivity enhancement measures in 2017 and will continue to do so in the future. Barring another destabilization of the global economy, over the next two years, DATA MODUL will continue on the stable growth trajectory the Company's business model is designed to bring about. This means healthy, profitable growth.

## 2.2 Macroeconomic and industry-specific conditions

### a) Macroeconomic conditions

The world economy expanded in fiscal year 2017, growing approximately 3.1%. In view of considerable political uncertainties, economic growth appears relatively resilient to external influences at this time. Results varied however in DATA MODUL's three key regions (Europe, America, Asia).

Recovery in Europe continued unabated in 2017, gaining somewhat in momentum due to fiscal stimuli and higher global demand, the factors likely responsible for 2.3% GDP growth. The upturn is increasingly broad based, and has become self-sustaining. Nearly all sentiment indicators were positive going into the new year, with lending regaining momentum. Also, employment rose in nearly all European countries. In parallel to the refugee issue, Europe continued dealing with the sovereign debt crisis in several European countries in 2017, drawing further attention to the weaknesses of the monetary union.

On balance, Germany fared well in 2017, starting off the year strong before stagnation set in in the third quarter. The German economy continues to expand at full throttle, boosting capacity utilization accordingly in terms of both human capital, with unemployment at historically low levels, and of production capacity. As a result, companies have a major incentive to invest so as to increase capacity. Alongside capital expenditure, private consumer spending and exports provided an important stimulus to the German economy, as in the previous year, enabling the country to record growth of around 2.3% for 2017.
The US economic recovery steadily gained momentum

over the course of the year, yielding GDP growth of 2.3%. This result came about in part due to further job creation and declining unemployment, which aided the economy in 2017 by boosting private consumption. The tax reform was passed shortly before Christmas will further boost growth in the US.

China, the world's second-largest national economy, recorded growth of 6.8% in 2017, whose growth rate continues to be supported by exports, consumer spending and broad-based capital expenditure. While enjoying a stable domestic situation, China will remain focused on ensuring that foreign policy conflicts in the region do not escalate so as to threaten trade, growth and prosperity.

**b) Industry-specific conditions**

Germany's electrical engineering industry is benefiting from rising global investment in Industry 4.0 and the Internet of Things (IoT). Electronic components makers are benefiting from rising demand from manufacturers as electronic components are increasingly required in products and machines. DATA MODUL's markets are highly fragmented and subject to great competitive pressure. However, the expansion of our R&D resources and the resulting gains in flexibility, allowing us to respond quickly to market changes and to customer requirements, will give us an edge over competitors.

The industrialization of emerging economies and increasing automation and digitalization of the economy are spurring global demand for technology products. The phenomena of Industry 4.0 and the Internet of Things (IoT) are creating additional sales potential for the tech sector.

The global electro-technology market has been relatively stable, growing 4% in 2017, and 4% is projected for 2018 as well. The Asian market, which in 2016 accounted for roughly 60% of worldwide electro-technology sales, is a key growth driver. For 2018 the European electro-technology market is expected to grow at 3% according to industry association ZVEI, at the same pace as the Americas region.

The German electrical and electronic sector, dominated by mid-market firms, is the source of one out of every three German industrial innovations. The product portfolio of the German electrical/electronics industry is well positioned to accommodate increasing automation and digitalization in industrialized nations and in China. The primary buyers of German electro-technology products are in the fields of automation, medical devices and automotive electronics.

The US and China are the largest export markets for the German electro-technology industry, accounting for roughly 10% of business. The EU, including the UK, remains however the most important region, accounting for 55% of sales volume.

Through the year 2020 the automation market is projected to grow at 4 - 6% annually, as only some 5% of factories worldwide have Internet-of-Things (IoT) systems in place, a figure projected to rise to 75% in ten years' time. The German technology sector has good growth prospects in view of the boost in capital expenditure expected to accompany the Industry 4.0 trend. Germany with its mechanical engineering expertise is thus set to become the world's factory equipment source. Production processes will be further optimized through digitalization, opening up possibilities for small-run manufacturing in Germany again despite the country's high wage levels.

We perceive risks in the rapid pace of innovation and in cheap copycat products, primarily from Asia. Also, globalization has substantially increased pressure to ensure fast time to market so as to afford optimal market exploitation potential. R&D needs and the personnel requirements of technology firms are changing as digitalization proceeds and electronics and software increasingly converge. Employees are having to acquire more and more competency in software and solutions. The very export-heavy product portfolio of the German electro-technology sector is dependent on the GDP growth of its customer countries. Political and economic risks in Europe are expected to heavily influence corporate investment in 2018.

## 2.3 Group business situation

### a) Earnings

The Group recorded 232,036 thousand euros in new orders, again widely exceeding the previous year‘s level of 197,576 thousand euros. Strong order flow and a „book-to-bill“ ratio above 1 boosted order backlog to 108,849 thousand euros (previous year: 102,965 thousand euros).

Revenue increased significantly as well in fiscal year 2017 to 218,256 thousand euros (previous year: 197,079 thousand euros). DATA MODUL benefited again in 2017 from growth among German mechanical engineering companies. The international positioning of DATA MODUL also had a positive impact on business performance. The fruits of further internationalization are seen in increased foreign sales and a higher export rate.

Revenue broke down by region as follows:

| **Revenue analysis** in millions of euros | 2017 | 2016 |
|---|---|---|
| Germany | 109.3 | 108.0 |
| Europe | 85.7 | 65.7 |
| America | 13.4 | 11.4 |
| Asia/Pacific/Africa | 9.6 | 10.6 |
| Rest of World | 0.3 | 1.4 |
| Total | 218.3 | 197.1 |
| Export rate | 49.9% | 45.2% |

The change in key expenses and income items in fiscal year 2017 is shown below.

- Cost of sales increased year-on-year to 170,680 thousand euros (previous year: 151,340 thousand euros), primarily reflecting higher materials expenses connected with the 10.7% increase in sales revenue. Gross margin was smaller due adverse currency effects on DATA MODUL purchasing prices and intense competition in the distribution business, at 21.8% for fiscal year 2017 (previous year: 23.2%). Additional investments were made to optimize logistics processes and quality control.
- Research and development expenses declined to 5,368 thousand euros from 5,919 thousand euros in the previous year. Due to a year-on-year increase in customer-specific development projects, capitalized development costs rose. We continued investing in 2017 to build up resources in our Research and Development department to promote greater innovation. The net effect of capitalized development costs on fixed assets in 2017 was an expense of 59 thousand euros (the difference between capitalization and amortization).
- Selling and administrative expenses rose year-on-year to 26,295 thousand euros (previous year: 24,781). Selling expenses accounted for 16,751 thousand euros of total expenses reported (previous year: 17,487 thousand euros), and general administration expenses came to 9,544 thousand euros (previous year: 7,294 thousand euros). Lower selling expenses were mainly due to reduced trade show and consulting expenditures. The increase in administrative expenses resulted from higher personnel expenses and consulting fees. Administrative expenses also include a net foreign currency translation loss of 866 thousand euros (previous year: net gain of 293 thousand euros).

The financial result of TEUR -104 represents somewhat greater net interest expense than the previous year's value of TEUR -78, due to short-term loans taken out during the year. Some of this debt was repaid at the end of the fiscal year.

The Group recorded EBIT (earnings before interest and taxes) of 15,913 thousand euros, reflecting higher revenue (previous year: 15,039 thousand euros); the EBIT margin was 7.3% (previous year: 7.6%). A net pre-tax profit was recorded of 15,809 thousand euros (previous year: 14,961 thousand euros). Net income changed in line with the pre-tax result, coming in at 10,623 thousand euros (previous year: 10,228 thousand euros). Earnings per share for 2017 came to 3.01 euros as compared to 2.90 euros for 2016 (based on a weighted average number of shares of 3,526,182).

The earnings increase is ultimately attributable to systematic execution on the “Shape 2020“ strategy program, the overarching objective of which is to make us the world’s leading global visual solution provider by the year 2020.

*Displays segment*
Displays segment revenue rose to 122,584 thousand euros (previous year: 112,062 thousand euros). This 9.4% increase was principally the result of higher foreign demand. EBIT of 9,387 thousand euros was recorded (previous year: 9,373 thousand euros). The segment generated net income for the year of 6,849 thousand euros (previous year: 6,626 thousand euros). Displays, which is the Group's core business segment, again recorded a substantial increase in new orders, which rose 8.2% to 128,375 thousand euros (previous year: 118,644 thousand euros). Order backlog as of December 31, 2017 was 65,928 thousand euros (previous year: 65,561 thousand euros).

*Systems segment*
The Systems segment recorded another revenue increase of 12.5% up to 95,672 thousand euros (previous year: 85,017 thousand euros), resulting in EBIT of 6,526 thousand euros (previous year: 5,666 thousand euros). Net income for the year thus came to 3,774 thousand euros (previous year: 3,602 thousand euros). Orders received increased again by 31.3% to 103,661 thousand euros (previous year: 78,932 thousand euros). Order backlog as of December 31, 2017 was 42,921 thousand euros (previous year: 37,404 thousand euros). We thus view our decision to further expand the Systems business as the right move, and are optimistic about this business segment's future.

## b) Financial position

*Capital structure*
To the extent possible, DATA MODUL Group finances its operations from internal resources, supplemented by borrowings from financial institutions and trade credit when necessary. Currently, DATA MODUL Group generally uses natural hedges to protect against potential currency risks with respect to the US dollar, the Japanese yen and the British pound. No hedging instruments were held at the reporting date.

The equity ratio was 71.8% (previous year : 68.0%), the debt ratio was 28.2% (previous year: 32.0%).
The Group’s leverage ratio was 39.3% (previous year: 47.1%) (debt/equity).

Debt consists primarily of
- 4,200 thousand euros (previous year: 3,000 thousand euros) in liabilities due to financial institutions

The maturities are as follows:

| Liabilities due to financial institutions | ‹ 1 year | 1-5 years | › 5 years | Total |
|---|---|---|---|---|
| KEUR | 4,200 | 0 | 0 | 4,200 |

- 13,702 thousand euros (previous year: 14,215 thousand euros) in trade accounts payable.

The maturities are as follows (in KEUR):

| Trade accounts payable | ‹ 1 year |
|---|---|
| EUR | 5,875 |
| USD (euro equivalent) | 7,163 |
| JPY euro equivalent) | 648 |
| Other (euro equivalent) | 16 |
| Grand total | 13,702 |

Guaranteed bills outstanding came to 814 thousand euros (previous year: 880 thousand euros).
The maturities are as follows (in KEUR):

| Guaranteed bills outstanding | ‹ 1 year | 1-5 years | › 5 years | Total |
|---|---|---|---|---|
| EUR | 0 | 497 | 317 | 814 |

In the fiscal year ended the Group took steps early to secure the financing and refinancing necessary for further growth. This involved the renewal of short-term lines of credit and bank-guaranteed lines for working capital, allowing us to react quickly when business opportunities open up. Group companies have credit lines totaling 28,000 thousand euros at their disposal until further notice. As of the reporting date, the Group utilized 16.5% of these credit lines.

There are thus no going-concern risks relating to Group financing. Credit agreements with banks generally do not contain special covenants besides the usual quarterly reporting obligations. In the event of a future change of control, the Group will negotiate with lenders new arrangements going forward.

No special financing measures or projects were conducted in the period under review.

*Capital expenditure*

In the fiscal year ended we adjusted our capital expenditure in alignment with business changes and our strategy program. Capital expenditures were made to increase capacity, for rationalization purposes and related manufacturing productivity gains and to enhance innovation and quality in our displays and services. A major part of this investment went to the purchase of land and a building for expanding production and logistics capacity at the Weikersheim site. Investments were also made in IT infrastructure, logistics and workplace equipment. Capital expenditure in fiscal year 2017 totaled 4,427 thousand euros (previous year: 4,031 thousand euros).

The main capital expenditure items were:

· Additions to intangible assets in the amount of 1,480 thousand euros (previous year: 1,238 thousand euros).
· Additions to property, plant and equipment in the amount of 2,947 thousand euros (previous year: 2,793 thousand euros).

A breakdown of capital expenditure by segment is provided below:

· Capital expenditure Displays segment 1,647 thousand euros (previous year: 1,087 thousand euros).
· Capital expenditure Systems segment 2,780 thousand euros (previous year: 2,944 thousand euros).

There were no significant capital expenditure commitments as of the reporting date.

*Liquidity*

Cash flows from operating activities as of the reporting date came to 6,674 thousand euros (previous year: 6,325 thousand euros). Days sales outstanding (DSO) was 47.98 days as of 12/31/2017 (previous year: 43.87 days).

Cash flows from financing activities were at 738 thousand euros at year end (previous year: -4,423 thousand euros). Outflows occurred through dividend distributions totaling -423 thousand euros (previous year: -423 thousand euros) and new current financial liabilities totaling 1,200 thousand euros (previous year: -4,000 thousand euros).

At the end of the year the Group held cash and cash equivalents totaling 20,217 thousand euros (previous year: 17,193 thousand euros). Net assets as of the reporting date were at 16,017 thousand euros (previous year: 14,193 thousand euros). Cash is on hand to pay off all trade accounts payable.

The Group has not been rated by an external rating agency. In view of positive cash flows from operating activities and the credit lines available to us, we have not commissioned an agency to rate the Group's credit standing. Information available to DATA MODUL from various prominent credit institutions indicates that the Company enjoys a good credit rating. DATA MODUL's rating with banks declined however due to membership in the ARROW Group.

#### c) Financial status

The balance sheet total increased by 7,811 thousand euros versus the previous year to 110,852 thousand euros (previous year: 103,041 thousand euros). On the assets side, this rise is principally due to increased trade accounts receivable and cash in consequence of operational performance.

A dividend was distributed in the reporting period for fiscal year 2016 in the amount of 423 thousand euros (previous year: 423 thousand euros). Current liabilities due to financial institutions increased to 4,200 thousand euros through short-term borrowing (previous year: 3,000 thousand euros). At the balance sheet date the Company did not have any non-current bank liabilities.

As of the reporting date, the DATA MODUL Group equity ratio was 71.8% (previous year: 68.0%).

### 2.4 Financial and non-financial performance metrics

#### a) Financial performance metrics

The table below shows the relevant financial performance indicators for both the current and previous reporting years.

| Revenue Analysis KEUR | 2017 | 2016 |
|---|---|---|
| Orders received | 232,036 | 197,576 |
| Order backlog | 108,849 | 102,965 |
| Revenue | 218,256 | 197,079 |
| EBIT | 15,913 | 15,039 |
| Net income | 10,623 | 10,228 |
| Return on equity | 20.0% | 21.5% |
| EBIT margin | 7.3% | 7.6% |

### b) Non-financial performance metrics

In addition to financial metrics, DATA MODUL also utilizes non-financial performance indicators including labor relations, long-term customer and supplier relationships, environmental considerations and ISO certifications. One positive indicator in the area of labor relations is the average 9 years of service at DATA MODUL. This reflects our very special long-term working relationship with our employees, which we actively foster through internal training seminars and continuing education programs. Our remuneration structure, comprising fixed and in some cases variable salary components, ensures that individual employee performance is fairly compensated. As a result, we take pride in a high degree of employee satisfaction and correspondingly low staff turnover. At the 2017 reporting date DATA MODUL Group employed 406 staff, as compared to 404 in the previous year. The average workforce headcount for the year increased 2.0% to 403 staff members (previous year: 395 staff). The Group employed staff from more than 20 different nations at the various corporate subsidiaries. In the fiscal year just ended, we again provided apprenticeships to many young people. At the balance sheet date, the Group employed 35 apprentices. In the recruitment of new employees, we greatly benefit from the city of Munich's reputation as a preferred business location, which heightens our appeal as an employer.

Our long-term relationships with customers and suppliers add great value to our enterprise as well. Honesty and loyalty are of great importance to us with regard to both our staff and our customers, thus both tend to stay with us for a long time. High product quality yields lasting customer satisfaction. Long-term supplier relationships in place since the founding of the Company are another key aspect of our success. In addition, our energy-efficient products contribute to protecting the environment. Environmentally-friendly disposal of our waste products and environmental audits for ISO certification are standard practices at DATA MODUL. We continue to improve our processes and production technologies, taking regional conditions into account.

Resource-friendly planning avoids wastage of materials, while efficient logistics eliminates unnecessary transportation. For our organization, business success and environmental friendliness are not mutually exclusive goals.

## 3. Risks and rewards; forecast

### 3.1. Risk report

In fiscal year 2017, DATA MODUL continued to grow its core businesses. Global economic trends, exchange rate movements, rising commodity and energy prices and uncertainties regarding customer ordering behavior constitute risks which may have a lasting impact on our business. We are aware of these risks and carefully monitor their impact on our business operations. As a multinational enterprise, DATA MODUL Group is exposed to a number of risks which are inextricably linked to our business activities. Efficient management of these risks is of key importance as they serve as an early warning system. In order to adapt to changes in our markets and address the challenges the Company faces we constantly upgrade our internal risk management system in response to changing conditions.

### Risk management system

*Strategic principles*

The DATA MODUL Group risk management system is intended to render transparent and manageable any known and arising risks and opportunities in the daily business operations of all Group companies. We view risk management as an ongoing process of recording, analyzing and assessing whenever possible the complete spectrum of potential and actual developments, and managing these accordingly. Risk management is an integral part of our management system, allowing us to identify at an early stage any risks to the Company's growth or existence, and to contain potential negative business impact. These methods are not solely applied to risks, but also to identifying opportunities for DATA MODUL and exploiting these so as to enable sustainable growth and increase Company value. To achieve this, all our employees and our decision makers in particular must be aware of any existing and potential risks to which the Company is exposed. A wide array of instruments are integrated into business processes to achieve this goal, which facilitate management on all tiers of the Group's hierarchy.

*Organization and responsibilities*

The DATA MODUL Executive Board bears overall responsibility for effective risk management; the Board defines the Company's risk-bearing capacity levels and decides on actions to be taken in response to particularly significant, core risks. It also updates the Supervisory Board regularly concerning the Company's risk exposure. Risk management is the responsibility of the Group Controlling Department, which ensures that risk management is an integral part of regular business management rather than a mere response to specific risks. This function enables better identification of risks affecting the entire Group. The Group Controlling Department coordinates risk management processes, assists responsible staff with all risk management aspects, defines risk thresholds, and is responsible for adequate reporting.
Each department and business segment has been assigned a risk manager charged with identifying, analyzing and monitoring risks within his/her area of responsibility. This individual initiates risk response measures and their implementation after consultation with Risk Control or the Executive Board.
Our risk management manual, available to all staff, outlines all relevant risk management components.

*Risk identification*

At the start of every year we begin the risk management process by identifying key risk factors and risk sources in the respective operational and functional risk areas, using suitable tools such as checklists and questionnaires. We involve the individual departments in the risk inventory process so as to heighten risk awareness, which requires rendering emerging risks transparent. The goal is to identify risks before events occur causing damage to the Company. Risks must be classified according to defined risk categories, and their cause, the actual risk involved and impact on the Company must be comprehensively and transparently documented. All risks are recorded in a risk catalog, analyzed and assessed.

*Risk assessment and risk management*

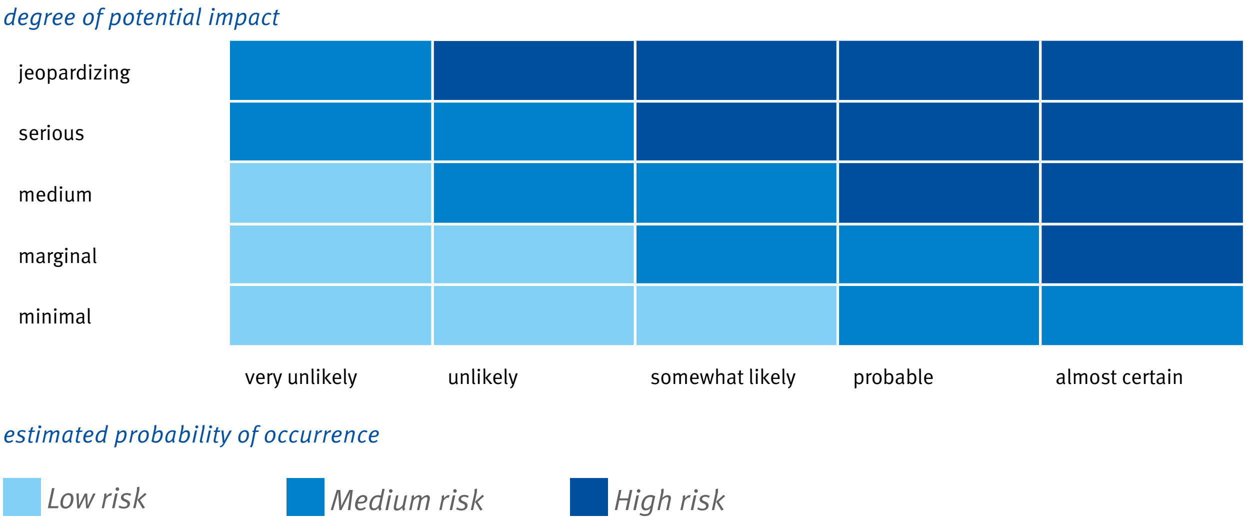
Risks are assessed with respect to their impact and likelihood of occurrence. The Group's key performance metrics for the current and future years serve as reference points. If quantitative risk assessment is not possible, a qualitative method is used to assess impact. The table above shows both the measurement scale for the two assessment factors (degree of impact and probability of occurrence) and the resulting risk classification matrix. Risk analysis results are presented within a risk portfolio. A given risk is classified as "high", "medium" or "low" depending on the degree of potential impact on the Company's business operations, financial position, financial performance and cash flows or reputation, and on the estimated probability of occurrence. Depending on the risk perception and position, the Company introduces different risk strategies and specific counter-measures. A staff member is then charged with implementation of these measures. Risk control measures are implemented based on our strategic risk principles.

*Risk monitoring and reporting*

Risks are subject to constant change, thus they are continuously monitored by the risk owners and risk officers as to changes and to the adequacy and efficiency of the risk strategy currently in place. Constant monitoring of proposed risk response measures and reporting on their status is an important risk control tool. A summary report on risk categories and sub-categories is always included in the monthly Executive Board report. Continuous risk reporting provides Company management a view of the overall risk status.

We thus prepare an annual risk report and discuss risks and rewards for the individual DATA MODUL business segments in monthly, quarterly and year-end meetings.
Additional ad-hoc risk reporting ensures that the Executive Board is always up to date regarding any significant newly arising risks. The following risks could have an adverse effect on our business, financial resources and/or earnings. These are not the only risks we are exposed to. Other risks not yet identified or considered minor could also have an impact on our business. We are not aware of any risks which could jeopardize the Group as a going concern.

## Risk classification matrix




### a) Corporate strategy risk

Our business strategy is about growth. All decisions regarding capital expenditures and investments in companies are made on this basis. Our successful Embedded and Touch Systems segment, with which we entered the market just a few years ago, has become an integral part of our business.

Corporate strategy risks may result from internal projects and strategic decisions which fail to meet expectations. In consequence, investments made may not pay off for example, or the decision to evolve into an end-to-end system solutions provider may prove inadvisable.

### b) Market risks

*General economic conditions and industry risks*

Demand for DATA MODUL products is subject to a certain amount of cyclical fluctuation and volatility. In addition, demand rises and falls in line with the economic cycles in our primary markets, and could continue declining in future. Economic analysts forecast growth of up to 2.1% for the German economy in 2018. In recent years however, similar forecasts have been somewhat unreliable. The risk of the economic recovery faltering due to certain countries' high sovereign debt levels could have a negative impact on our business. Other negative effects of the crisis, including particularly those resulting from instable international currency markets, may also affect our business. Economic trends in Germany and the US, our key markets, are of particular significance to our business. DATA MODUL primarily operates in markets characterized by a great deal of innovation and rapid technological change. Thus there is always a risk that the Company will not be able to adapt fast enough to new market trends or new technologies, and therefore lose market share to competitors. We maintain very close contact with leading display manufacturers and our customers in order to minimize this risk. Expanding our R&D resources has also laid a foundation for rapid response by adapting our products to market changes. It cannot be ruled out however that the strategic decision to realign the Company as an end-to-end system solutions provider could prove wrong if the market trends we have counted on prove to be unprofitable or without growth potential. The loss of key customers to competitors poses another substantial risk to DATA MODUL's business. Changes in legislation may affect sales in certain industries and target markets. DATA MODUL has been carefully monitoring and assessing the economic, political, legal and social environment in order to take account of any arising risks or opportunities in our decision-making processes at an early stage.

*Procurement risks*

The market for flatbed displays is dominated by a small number of manufacturers, almost all of which are based in Asia. Procurement risks could become manifest in times of high demand and product scarcity due to capacity bottlenecks, resulting in delayed deliveries to customers, cost increases and missed sales. We are countering these risks by means of 'second sourcing'. Similar effects could also become manifest from logistical risks associated with shipping merchandise from the East Asia to Europe. We contain these risks through proactive inventory management based on estimating demand and by choosing reliable suppliers and logistics providers upholding high safety and security standards. However, demand and inventory service level risks remain, as well as technical inventory risks. The risk of declining prices is taken into account when valuing inventories, in accordance with our accounting rules. The average inventory service level was 80 days during the reporting period, as compared to 85 days in the previous year.

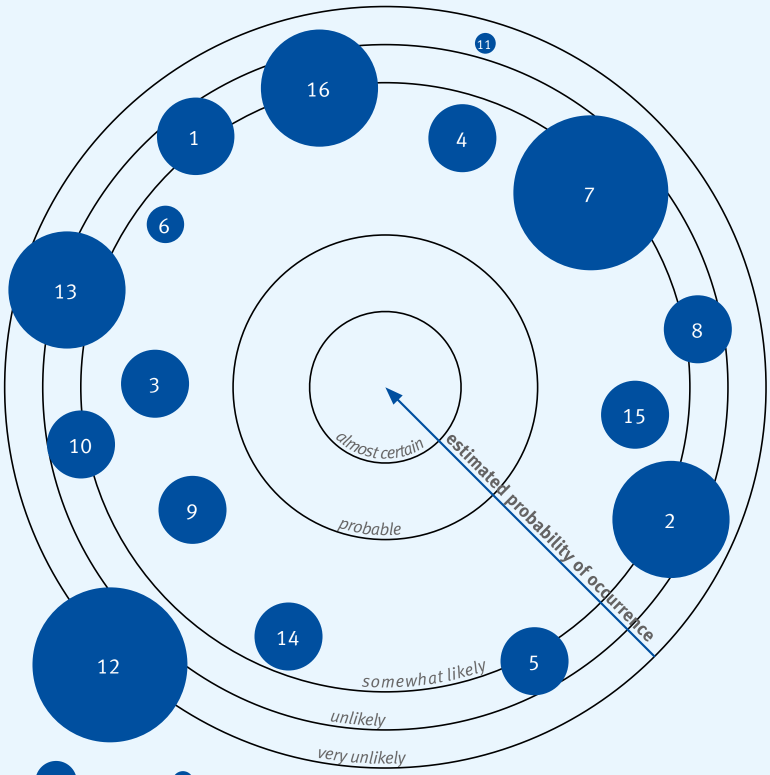
*Competitive and price risks*

We aim to be the innovation and technology leaders in our markets. This and the fact that we operate in markets driven by innovation pose particular challenges regarding our product portfolio and services. The flatbed displays business is highly competitive. Additionally, it is normal for prices of some of our products to fall during their life cycle. The ability to develop and successfully market new products that meet the market's needs will be of ever-greater significance in the future. We address these challenges by intensifying our research and development efforts and by striving to identify our customers' requirements early on and respond to their needs with appropriate products.

**c) Value chain risks**

DATA MODUL has increased vertical integration of production in order to add more value for customers. This involves product quality and customer satisfaction risks, however. Systematic quality assurance processes have thus been implemented which play a key role in our value chain, enabling us to meet customers' expectations. Because of increased production capacity, general risks related to production processes may arise which could jeopardize our product supply. Our QA department performs regular supplier audits, which are important for ensuring quality and reliable deliverability in our supply chain. Because we concentrate on a small number of suppliers and have to maintain inventories, impairment losses may have to be recorded on inventories if cus-

## Risk portfolio:

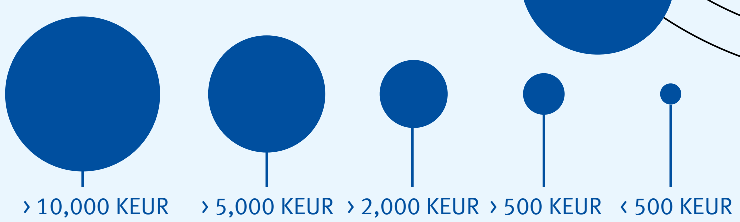



Explanatory notes:

**estimated probability of occurrence**

Very unlikely < 10%
Unlikely < 20%
Somewhat likely < 60%
Probable < 80%
Almost certain > 80%

**Circle size = potential impact**



tomers postpone delivery or cancel orders. Our product marketing personnel contain such risks through active inventory management.

### d) Financial risks

*Interest rate and currency risks*

Our global business activities result in many payment flows in various currencies. Foreign currencies having the greatest significance for the Group are the US dollar, pound sterling and Japanese yen. The Group is exposed to risk from foreign exchange rate movements, thus hedging is an integral part of our risk management strategy. We mainly use natural hedges to hedge against risks from foreign currency business transactions calculated in euros. Foreign exchange hedges are employed to secure our calculated margins, avoiding potential foreign exchange losses, which would increase the cost of purchased components. By nature, hedges also offer opportunities to realize exchange rate gains, but the Company does not enter into any speculative transactions involving foreign exchange derivatives, only employing derivatives to hedge underlying transactions. The credit facilities available for financing our global business operations are in part subject to interest rate risks. In certain cases, membership in the ARROW Group has been detrimental for DATA MODUL's rating with lenders.

| Risk category | No. | Substantial risks |
|---|---|---|
| Strategic risks | 1 | Challenges to our business model |
| Market risks | 2 | Economic shifts |
| | 3 | Non-identification of technology trends |
| | 4 | Competitive risks |
| | 5 | Dependency on certain industries |
| | 6 | Supplier dependencies |
| Value chain risks | 7 | Product quality issues |
| | 8 | Deliverability |
| Financial risks | 9 | Currency risk |
| | 10 | Credit risk |
| | 11 | Interest rate risk |
| | 12 | Liquidity risk |
| IT-related risks | 13 | Data and business systems availability |
| Legal risks | 14 | Compliance with statutory requirements |
| Personnel risks | 15 | Staff turnover |
| Other operational risks | 16 | Business disruption due to external causes |

*Liquidity and default risks*

Currently the DATA MODUL Group has credit lines and bank guarantees totaling 28,000 thousand euros. These credit facilities have been granted until further notice by various banks under bilateral agreements. Credit agreements with banks generally do not contain special covenants besides the usual quarterly reporting obligations. It is highly likely that we will continue to have these credit lines at our disposal in the same amounts or amounts which meet our requirements. The Group's liquidity situation continued to improve in the fiscal year ended, characterized by virtually no liquidity risk.

Default risks may arise should a contractual partner be unable to fulfill or should delay fulfilling its obligations, causing financial losses to the contract counterparty. In order to contain bad debt risks we verify our customers' credit standing and obtain trade credit insurance for trade accounts receivable. In some cases, precautionary/surety measures are agreed directly with the customer when deemed necessary. The average days sales outstanding (DSO) figure was 48 days in 2017.

### e) Information technology-related risks

These risks include unauthorized access to sensitive company data and information, and impaired system access resulting from service disruptions and disasters. Adequate approval procedures, access profiles and technologies are deployed to contain these risks. Critical data files are backed up on a daily basis, and back-up files stored in external locations. In addition, we perform regular disaster recovery testing. In 2017, external attacks were successfully repelled by the security measures in place, so that these did not cause any disruptions to our business. In addition, our protective measures are tested by external experts to verify their effectiveness and efficiency. Our IT systems are continuously checked and improved to ensure the security and efficiency of our business processes on an ongoing basis. Furthermore, employees are required to comply with our IT policies.

### f) Product liability and legal risks

Being the quality leader gives us an edge over our competition, and it is our goal to retain and widen that edge. This requires us, however, to rapidly identify and fix any product weaknesses, an ability we enhance through constant innovation and quality improvement. We are liable to our customers for the quality of our products. Quality management and quality assurance are thus essential to minimizing this risk. Nevertheless, experience has shown that a minor amount of risk remains. Legal disputes arise in connection with ordinary business activities, involving claims over improper product delivery or service provision, product liability, product defects, quality problems and title infringements. There is no guarantee that DATA MODUL's reputation will not suffer from these or other legal disputes. Defective products may lead to warranty claims against Group companies, or these companies may be held liable for damages. We have recorded provisions for warranty claims and legal disputes to the extent we believe such obligations will probably exist and the amount of damages can be adequately assessed. Certain legal risks are covered by appropriate insurance policies which are commonly used in the industry.

### g) Personnel-related risks

The success of DATA MODUL Group depends on our comprehensive skills and years of experience in the field, and on the high level of motivation and commitment our employees contribute. Our HR policy is thus about consistently acting upon our corporate mission statement of “Success based on competence and responsibility”. The Group is responding to ever-intensifying competition for highly qualified specialist personnel and managers, and the associated risks of losing know-how through staff turnover, by providing attractive training opportunities, targeted staff development offerings and performance-based pay components and remuneration schemes. DATA MODUL's flat hierarchical structure, open communication policy and continuous knowledge-sharing promote employee satisfaction. We secure new talent for the Company by regularly providing apprenticeships for many young people.

### h) Other operational risks

DATA MODUL is exposed to external risks such as natural disasters, fires and accidents. Property damage may occur in the form of damage to the Group's buildings, production facilities or warehouses or those of our suppliers, as well as damage to goods in transit, potentially causing business disruptions. We contain these risks in various ways. For instance, we select reliable suppliers and logistics providers which uphold high safety and security standards. In addition to insurance coverage, we have also implemented emergency procedures to mitigate potential negative effects.

### Internal controls and risk management with regard to Group financial accounting

Our internal control system comprises the standards, processes and measures introduced by Company management and aimed at organizational implementation of management decision-making to ensure efficient and cost-effective operations (including asset security and the prevention and discovery of pecuniary losses), correct and reliable internal and external invoicing, and compliance with legal requirements applicable to the Company.

DATA MODUL has Group-wide controlling instruments deployed as part of the internal control and risk management system and utilizes financial performance indicators. Target vs. actual comparisons of financial performance indicators are used principally to measure attainment of DATA MODUL objectives. Project cost control and the degree of deviation from planning are especially important performance indicators. Performance indicators are checked versus quantitative and qualitative non-financial indicators. DATA MODUL monitors these indicators as part of integrated project management and controlling. The DATA MODUL AG Executive Board receives periodic reports and ad-hoc reports as necessary. In the reporting, all projects are thoroughly analyzed, taking into consideration the complete set of performance indicators.

DATA MODUL AG monitors the enterprise value of its investments in subsidiaries as part of the control and risk management system, relying on both qualitative and quantitative variables.
Accounts receivable are regularly reviewed to ascertain any value impairment. The Company consults credit agencies to verify credit standing prior to the first-time customer delivery, and periodically thereafter. As soon

as there is any indication of a change in a customer's credit standing, a new credit check is performed. Corresponding impairment losses are recorded as necessary.
DATA MODUL AG ensures the correctness of its financial accounting through use of an internal control system. This ensures that transactions are accounted for and processes executed promptly, uniformly, correctly and completely, as well as ensuring compliance with legal requirements. The internal control system is structured with measures of an organizational and technical content, such as coordination processes, automated plausibility checking, segregation of functions and compliance with policies and requirements.

The Executive Board bears overall responsibility for the internal control and risk management system with respect to the financial accounting processes of consolidated companies and to Group consolidated accounting processes. A strictly defined management and reporting structure regulates the inclusion of all companies, strategic business segments and departments in the consolidated financial statements.

Business principles, organizational structures, workflows and accounting-related processes comprising the internal control and risk management system are documented in Group-wide organizational policies which are regularly updated in response to the latest external and internal developments.

With respect to the accounting processes of associated companies and Group accounting processes, we consider those aspects of the internal control and risk management system to be of material importance, which have a major impact on our business accounting and the overall view presented in the Consolidated Financial Statements and the Group Management Report. In particular, these are as follows:

- Identifying material risk and control areas relevant to Group-wide financial accounting
- Monitoring of Group accounting processes and their results on the levels of the Group Executive Board, strategic business segments and Group companies included in the consolidation
- Preventive control measures in Group finance and accounting and at the consolidated companies as well as operating, performance-related business processes, generating material information for inclusion in the consolidated financial statements including the Group management report, including segregating of functions and controlling of predefined approval processes in relevant areas
- Measures to ensure appropriate computer-aided processing of Group accounting-related issues and data
- Establishing an internal audit system, including regular visits to international and domestic subsidiaries with a view to monitoring the Group accounting-related internal control and risk management system.

### 3.2. Opportunities

Alongside risk factors, we also identify opportunities arising in the course of our business operations, which we analyze in order to take steps accordingly. The most significant opportunities are outlined below, prioritized by their current estimated significance for DATA MODUL. The opportunities outlined below are not necessarily the only ones perceived. Also, the estimated impact of these opportunities is subject to regular change due to the rapid developments constantly taking place within the Company and our markets as well as to technology in general. New opportunities may arise from such changes, and existing opportunities may become less or more pertinent. It is also possible that opportunities perceived today are never realized.

*Economic environment and product portfolio.*

We live in a world of fast information flows. Receiving, processing and responding to information from every corner of the world has become an important factor in everyday life. In the coming years, information will be increasingly communicated via displays. It is a world in which people's quality of life will be directly affected by technological progress. Our products are a meaningful, important contribution to that end, which is why we take care to offer the right products for each individual market.

Changes in general economic conditions present opportunities for DATA MODUL as well. In view of the overall improvement in the global economic situation, market research forecasts and increasing investment in modern communication media, we believe DATA MODUL will experience stable growth over the next two fiscal years (see forecast report).

We base these growth expectations on our heightened R&D efforts in the field of control electronics and in our industry-related business, in which we operate as OEM supplier of specially developed niche products. Our newly developed expertise in touch and optical bonding technologies and embedded systems opens up additional potential. Initial customer orders we have received are indicative of how much potential exists.

Another attractive growth opportunity lies in further globalization in order to gain exposure to the significant sales growth opportunities in emerging markets over the next several years. Expansion of our business activities in the US holds growth opportunities as well. We believe that this will enhance our enterprise value in a sustainable way.

*Acquisitions and competition*

We look out for acquisition, investment and partnership opportunities which could help us consolidate on our technology leadership, tap market potential and further optimize our product portfolio, and we continue observing the situation in our current markets with regard to opportunities for strategic partnerships and acquisitions augmenting our organic growth. Such activities can further efforts to strengthen our position in our current markets, enter new markets and add select areas of technology to our portfolio.

The intense competition in the markets in which we operate constantly challenges us and our customers to strive for innovation. The DATA MODUL business model provides a good basis for realizing these business opportunities. However, the present market situation holds opportunities as well for gaining market share through weaker competitors exiting the market. Because our business units operate in different market and industry segments, DATA MODUL has little dependence on particular industries.

*Adding value*

Moving our value-adding activities to low-cost countries could save money. Transferring certain value-adding activities, such as procurement, production and maintenance to markets such as the BRIC countries or nations in the Near and Middle East would allow us to reduce costs and strengthen our global competitive standing, particularly with respect to competition from countries where cost structures are more favorable. Additionally, we are working to develop and implement cost-cutting initiatives, adjust capacity, improve processes and rebalance our portfolio constantly. In highly competitive markets, competitive cost structures enhance the competitive advantage of innovation capability. We have reaped sustainable value from stringent implementation of the “Shape 2020“ strategy program.

Nonetheless, uncertainties remain which could endanger any sustainable improvement in business conditions (see: 'General economic conditions' and 'Forecast').

The Executive Board saw no individual risks which pose a going-concern threat to the DATA MODUL Group as of the reporting date, and does not foresee any arising in the near future, nor did risks in aggregate pose an evident going-concern threat to the DATA MODUL Group as of the reporting date.

## 3.3. Forecast

The statements made in the following regarding the future business results of DATA MODUL Group and assumptions regarding market and industry trends deemed material in relation thereto are based on opinions which we believe are realistic at this time given the information available. These assumptions and assessments are subject to uncertainty however, and involve an inevitable risk that developments may not occur as forecast, with regard to either trend direction or extent.

### General economic conditions

We expect expansion to continue, as the tax reform implemented in the US will provide additional stimulus for the economy. As inflation is likely to remain low, major central banks have no reason to put on the brakes, potentially halting the recovery. Consequently, we anticipate slightly higher growth rates for the global economy in 2018 and 2019, at 3.2% and 3.1% respectively.

In addition to domestic political developments, decisions and developments on the European level will remain of foreground importance in 2018. Turbulent events are likely in store for the monetary union in 2018, there being a high political risk of electoral victories by populist candidates. Economic concerns are raised by the Brexit process and the rate rises instigated in the US, which may hamper capital expenditure activity. As a result growth in the euro area is expected to slow to 1.9%. Low oil prices, expansive fiscal policy and the weak euro in particular will continue having a positive effect on exports, however.

The outlook remains favorable for Germany, our key sales market. Economic growth is still in full swing and expected to continue in 2018/2019. Capacity utilization is thus rising, catalyzing capital expenditure and employment. However, rising production costs due to excessive wage demands are limiting export performance. Consumer spending remains the primary economic driver. The outlook is positive, thus we are projecting GDP growth of 2.1% for 2018 and 1.9% for 2019.

The United States, our largest foreign market, will keep up its dynamic pace of growth in 2018. The planned tax reform and large-scale infrastructure program should deliver significant stimulus in the US, thus we are expecting GDP growth of 2.8% for 2018. The rate hike announced by the Fed does not pose a hurdle to reaching this figure.

In China we see growth slowing somewhat in 2018 and 2019. Transportation infrastructure investment under the five-year plan will continue to be the principal GDP growth driver. Downside risks in China lie in the reduction of excess capacity in the industrial sector and uncertainties concerning the new US administration with regard to protective tariffs on Chinese products. Growth is still more than twice the rates seen in established industrialized nations, thus we project GDP growth of 6.6% for 2018 and 6.4% for 2019.

**DATA MODUL outlook for 2018**

The outlook for the global economy and for DATA MODUL in particular is for further growth according to indications. Greater consumer spending and purchasing power brought about by low crude oil prices are key economic factors in our primary markets of Germany and the US. Thus we expect to continue on our growth trajectory in the years ahead.

In addition to geopolitical risks in the Middle East and the global sovereign debt problem, which could significantly affect growth, political uncertainty in Europe will play a large role in 2018. The year 2018 poses great challenges for Europe, and it remains to be seen how Europe will emerge from this political acid test. Still, DATA MODUL expects to remain on track for growth in 2018, in Germany and other European countries.

The “Shape 2020“ strategy program is aimed at further strengthening DATA MODUL's global competitiveness. We aim for balanced sales growth in Europe, the US and Asia, with Germany naturally forming the backbone of the Group’s business. The DATA MODUL Group will thus find growth opportunities in 2018 arising from the overall economic situation and from new products developed to market-readiness, despite fierce competition. We will nevertheless consequently pursue our strategic goals with a view to maintaining the growth trajectory of previous years.

In consequence of our strategic development program, we will again be investing this year in our production and logistics center to further increase production capacity. Currently the Group has plans for roughly 5.9 million euros in capital expenditure. Depending on the developments in fiscal year 2018, we will either invest the full amount or reserve part of the funds. In addition, major investment may be necessary within the next two years to expand alternative production and logistics sites to avoid resource shortages as sales continue to increase. We plan to finance these investments from operating cash flow and existing credit lines.

These projections are based on a number of assumptions, and particularly on our revenue estimates. A detailed, reliable forecast is not possible due to the inability to determine the extent to which stabilizing factors could compensate for uncertainties. Because of the aforementioned risks and opportunities, DATA MODUL's actual situation could differ from our projections either positively or negatively. Our projections are based on the following assumptions:

- German economic growth: 2.1%
- European economic growth: 1.9%
- US economic growth: 2.8%
- Global economic growth: 3.2%
- Stable USD and JPY exchange rates

- Operational start-up of additional machinery at our production facilities
- Planned expansion of production and logistics capacity.

*Summary*

We expect the upward trend of the macroeconomic situation to continue in fiscal year 2018 while the geopolitical environment remains complex. In view of the rather favorable market environment, the Executive Board expects DATA MODUL Group to grow its profits. The book-to-bill ratio is expected to remain above 1, thus our revenue growth will be secure long-term. We thus anticipate 2018 revenue in the range of 230 - 250 million euros, aiming for an EBIT margin of over 7%. Both our business segments are expected to grow, although our highest expectations are for the Systems business segment. We have invested heavily in touch and embedded technologies over the recent years, which will enhance revenue and earnings for the business segment.

| Group objectives | Growth for 2018 | Fiscal year 2017 |
|---|---|---|
| Orders received | 6 – 15% | 232.0 million euros |
| Order backlog | 3 – 15% | 108.8 million euros |
| Sales | 5 – 15% | 218.3 million euros |
| EBIT | 4 – 16% | 15.9 million euros |
| Net income | 4 – 16% | 10.6 million euros |
| Return on equity | 0 – 5% | 20.0% |

## 4. Remuneration report

The DATA MODUL AG Supervisory Board determines the overall remuneration packages for members of the Executive Board. It also reviews and adapts the remuneration scheme on a regular basis with a view towards appropriateness of the sole Executive Board member‘s remuneration, considering the principal contractual elements in place.

The remuneration packages of DATA MODUL AG Executive Board members are determined based on the size and the global activities of the Company, its business and financial position, profitability, prospects, and the amount and structure of remuneration packages of executives and directors of comparable companies in and outside Germany. In addition, the responsibilities and personal performance of the Executive Board member are taken into account.

Our remuneration structure is designed to be competitive in the international market for highly qualified executives, and incentivize hard work within a high-performance culture to successfully and sustainably grow the enterprise. DATA MODUL AG participates in comparative remuneration surveys of both the industry and of Prime Standard companies in general to ensure horizontal comparability of Executive Board remuneration. When determining Executive Board remuneration, pay scales and the remuneration scheme used throughout the DATA MODUL Group are taken into account as well for a vertical perspective.

Executive Board remuneration is performance-oriented. Pay packages are comprised of the following components:

- Fixed components (basic salary plus fringe benefits)
- Performance-based component (single-year and multi-year variable remuneration tied to the attainment of specific goals/targets)

Basic salary, fringe benefits and pension are the non-performance-linked remuneration components. Basic salary is paid in even monthly installments. Fringe benefits primarily consist of contributions to accident, life and health insurance and use of a company car. The Company has no pension commitments to Dr. Pesahl as sole Executive Board member.

Multi-year performance-based variable remuneration as regulated by the executive bonus scheme depends on the attainment of certain targets set in Executive Board members' respective employment contracts. The targets are based on Group EBIT. The executive bonus is staggered, depending on the degree to which targets are achieved, with a minimum threshold and a maximum amount when the targets are fully achieved. The earnings target for fiscal year 2017 was adopted at the Supervisory Board meeting held in December 2016.

The disclosures on compensation paid to the sole Executive Board member in fiscal year 2017 take into account the recommendations per German Corporate Governance Code (GCGC) in addition to applicable accounting principles (GAS 17, HGB/German GAAP, IFRS):

| **Compensation packages granted** | **Dr. Florian Pesahl** *CEO* *Appointed: January 1, 2010* | | | |
|---|---|---|---|---|
| KEUR | **2016** | **2017** | **2017 (min.)** | **2017 (max.)** |
| Fixed remuneration | 230 | 230 | 230 | 230 |
| Fringe benefits | 32 | 16 | 16 | 16 |
| **Total** | **262** | **246** | **246** | **246** |
| One-year variable compensation [1)] | 220 | 147 | 0 | 147 |
| Multi-year variable compensation [2)] | 0 | 73 | 0 | 73 |
| *Executive bonus 2016* | 0 | 0 | 0 | 0 |
| *Executive bonus 2017* | 0 | 73 | 0 | 73 |
| **Total compensation** (according to GCGC) | **482** | **466** | **246** | **466** |
| Service cost | 0 | 0 | 0 | 0 |
| **Total compensation (According to GAS 17)** | **482** | **466** | **246** | **466** |

[1)] Not taking into account any deferrals.

[2)] According to his employment contract, Dr. Pesahl's executive bonus package contains a long-term incentive by virtue of which only two-thirds of the accrued executive bonus is to be paid out upon adoption and approval of the consolidated financial statements, the third portion only being disbursable if the Group remains profitable in the fiscal year following

Compensation was paid to Executive Board members in fiscal year 2017 as follows:

| **Compensation** | **Dr. Florian Pesahl** *CEO* *Appointed: January 1, 2010* | |
|---|---|---|
| KEUR | **2016** | **2017 [4)]** |
| Fixed remuneration | 230 | 230 |
| Fringe benefits | 32 | 16 |
| **Total** | **262** | **246** |
| One-year variable compensation [3)] | 100 | 220 |
| Multi-year variable compensation | 50 | 50 |
| *Executive bonus 2014* | 50 | 0 |
| *Executive bonus 2015* | 0 | 50 |
| **Total compensation** | **412** | **516** |

[3)] Not taking into account any deferrals.

[4)] The Company has an agreement with Dr. Pesahl that he will remain on the Executive Board through the end of fiscal year 2016 and receive as compensation for not exercising his special termination right a one-time payment of 760 thousand euros in 2017. This was paid out in fiscal year 2017.

As of the reporting date, the Group had pension commitments for former members of the Executive Board as shown in the table below, indicating annual contributions to the pension plan:

| **Pensions** | **Peter Hecktor** | | **Walter Eichner** | |
|---|---|---|---|---|
| KEUR | **2017** | **2016** | **2017** | **2016** |
| Provisions recorded as of the reporting date | 267 | 267 | 265 | 270 |
| Allocations to pension provisions | 22 | 30 | 21 | 27 |
| Pensions paid | 22 | 21 | 26 | 25 |

In fiscal years 2016 and 2017, the Executive Board member did not receive any loans or similar benefits. Nor did the Executive Board member receive any remuneration for offices held at other Group companies.

There are no contractual agreements in place with the Executive Board member governing early termination of Board duties without due cause. The Supervisory Board believes that this is not appropriate due to the fact that the Executive Board member usually has no control over a decision to terminate agreements without due cause. The Executive Board member's contract contains a severance clause in the event of a change of control in the Company in the maximum amount of two years' remuneration.

## Supervisory Board remuneration

The amount of remuneration paid to Supervisory Board members is commensurate with the size of the company, the members' tasks and the responsibilities, and the Company's financial position and business outlook. The relevant provisions are set forth under Art. 8 of the Company's Articles of Incorporation. These provide that Supervisory Board members receive a fixed annual fee payable after the fiscal year has ended. This fee is 20,000 euros p.a.; the chairman receives twice this amount, and the deputy chairman receives 1.5 times this amount. The Company does not pay any fees for attending Supervisory Board meetings. Remuneration paid to individual Supervisory Board members is outlined below:

| **Annual remuneration** in KEUR | **2017** | **2016** |
|---|---|---|
| Kristin D. Russell | 40 | 21 |
| Thomas A. Leffler | 19 | 0 |
| Jim Petrie | 11 | 0 |
| Amir Mobayen | 0 | 17 |
| Brian Armstrong | 0 | 30 |
| Wolfgang Klein | 20 | 20 |
| **Grand total** | **90** | **88** |

Supervisory Board members are reimbursed for expenses incurred in connection with performing their office, and for any VAT charged on their remuneration. The Company does not grant loans to Supervisory Board members. DATA MODUL AG provides D&O insurance for Group board members. The insurance is taken out or renewed annually. The insurance covers personal liability in cases of pecuniary loss claims brought against directors/officers in connection with the performing of their duties. The policy for fiscal year 2017 stipulates a deductible for the Executive Board member in line with the German Stock Corporation Act and German Corporate Governance Code.

## 5. Control of capital

### a) Subscribed capital

DATA MODUL AG has capital stock of 10,578,546 euros, and has been listed as a technology firm on the Prime Standard in March 2003. Capital stock comprises 3,526,182 no-par bearer shares. Each share represents 3.00 euros of subscribed capital.

At the balance sheet date, DATA MODUL did not hold any treasury shares, thus the number of shares outstanding was 3,526,182.

### b) Significant shareholders

The disclosures per Sec. 315a (1) no. 3 of German Commercial Code (HGB) of direct and indirect holdings of share capital exceeding ten percent of voting rights are published in the Notes.

### c) Voting rights restrictions

The Executive Board is not aware of any restrictions on the transfer of shares such as rights of first refusal or lock-up clauses. Likewise, there are no restrictions on voting rights or controls, and no shareholders hold special rights of any kind.

Statutory provisions are observed when appointing and replacing members of the Executive Board. Changes in Executive Board composition are made in accordance with Secs. 84, 85 German Stock Corporation Law (AktG); changes to the Articles of Incorporation are made in accordance with Secs. 133, 179 German Stock Corporation Law.

The authority of the Executive Board with respect to the issuance and acquisition of new shares is as follows:

### d) Authorized capital 2015

Shareholders have authorized the Executive Board to increase the Company's share capital one or more times in the period through July 2, 2020 by a maximum total of 5,289,273 euros, subject to Supervisory Board approval, by offering and issuing new bearer shares for cash or non-cash contributions. The Executive Board makes the decision to issue new shares and decides on what rights are attached to the shares and on the terms of the share offering, subject to Supervisory Board approval. As a rule, new shares must be offered to existing shareholders for subscription. The Executive Board is authorized, subject to Supervisory Board approval, to exclude shareholder subscription rights (i) regarding fractional amounts, (ii) in share offerings for non-cash contributions, including particularly in connection with the acquisition of companies, business units, equity stakes and/or assets of companies and with business combinations, and (iii) in share offerings for cash if the share capital comprised by the new shares does not exceed 10% of total share capital; the stipulation applies that the issue price of the new shares may not be significantly lower than the market price of Company shares already trading on the stock market. The increase in authorized capital was recorded in the German commercial register (Handelsregister) on August 19, 2015.

## 6. Corporate governance declaration

Sec. 289f German Commercial Code (HGB) mandates a corporate governance declaration. This declaration is made available to the public on the Company website www.data-modul.com in the Corporate Governance section.

## 7. Closing statement of the Executive Board on relationships with affiliated companies

In fiscal year 2017 DATA MODUL AG was a controlled affiliate of Arrow Central Europe Holding Munich GmbH, Munich, Germany, according to Sec. 312 German Stock Corporation Act (AktG). The DATA MODUL AG Executive Board thus compiled an Executive Board report on relationships with affiliated companies in accordance with Sec. 312 (1) German Stock Corporation Act (AktG) containing the following closing statement:
The Company's Executive Board declares that DATA MODUL AG received consideration for all legal transactions stated in this Report on Relations with Affiliated Companies which was appropriate in light of the circumstances known to the Executive Board at the time the transactions were undertaken.
No other actions were undertaken or omitted under the direction or in the interest of the controlling company during the fiscal year under review."

Munich, March 21, 2018

Dr. Florian Pesahl
Chief Executive Officer

# CONSOLIDATED FINANCIAL STATEMENTS

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## CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2017

| ASSETS | Notes | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | [8] | 2,419 | 2,419 |
| Intangible assets | [8] | 3,064 | 2,494 |
| Property, plant and equipment | [8] | 12,982 | 11,562 |
| Deferred tax assets | [6] | 186 | 127 |
| Total non-current assets | | **18,651** | **16,602** |
| **Current assets** | | | |
| Inventories | [9] | 42,758 | 44,030 |
| Trade accounts receivable including allowance for doubtful accounts (2017: 184; 2016: 157) | [10] | 27,137 | 23,039 |
| Other current assets | [10] | 1,719 | 1,817 |
| Other current financial assets | [10] | 370 | 360 |
| Cash and cash equivalents | [11] | 20,217 | 17,193 |
| Total current assets | | **92,201** | **86,439** |
| **Total assets** | | **110,852** | **103,041** |

All figures in KEUR

| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Capital stock no-par-value bearer shares (authorized: 5,289 KEUR; shares issued and outstanding: 3,526,182 as of 12/31/2017 and 12/31/2016) | [12] | 10,579 | 10,579 |
| Capital reserves | [12] | 24,119 | 24,119 |
| Retained earnings | [12] | 46,536 | 36,390 |
| Other reserves | [12] | (1,663) | (1,061) |
| Total shareholders' equity | | **79,571** | **70,027** |
| **Non-current liabilities** | | | |
| Pensions and non-current personnel liabilities | [13] | 1,615 | 1,579 |
| Non-current provisions | [14] | 405 | 384 |
| Other non-current liabilities | [15] | 949 | 1,469 |
| Deferred tax liabilities | [6] | 797 | 679 |
| Total non-current liabilities | | **3,766** | **4,111** |
| **Current liabilities** | | | |
| Trade accounts payable | | 13,702 | 14,215 |
| Taxes payable | [16] | 1,618 | 1,308 |
| Current provisions | [14] | 1,298 | 2,437 |
| Liabilities due to financial institutions | [17] | 4,200 | 3,000 |
| Other current liabilities | [16] | 5,874 | 7,094 |
| Other current financial liabilities | [16] | 823 | 849 |
| Total current liabilities | | **27,515** | **28,903** |
| | | | |
| Total liabilities | | **31,281** | **33,014** |
| **Total liabilities and shareholders' equity** | | **110,852** | **103,041** |

All figures in KEUR

# CONSOLIDATED STATEMENT OF INCOME

## FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Revenue | [1] | 218,256 | 197,079 |
| Cost of sales | [2] | (170,680) | (151,340) |
| **Gross margin** | | **47,576** | **45,739** |
| | | | |
| Research and development expenses | [3] | (5,368) | (5,919) |
| Selling and general administrative expenses | [4] | (26,295) | (24,781) |
| **Earnings before interest and taxes (EBIT)** | | **15,913** | **15,039** |
| | | | |
| Interest income | [5] | 16 | 10 |
| Interest expense | [5] | (120) | (88) |
| **Earnings before taxes** | | **15,809** | **14,961** |
| | | | |
| Income tax expense | [6] | (5,186) | (4,733) |
| **Net income** | | **10,623** | **10,228** |
| | | | |
| Earnings per share – basic | [7] | 3.01 | 2.90 |
| Earnings per share – diluted | [7] | 3.01 | 2.90 |
| | | | |
| Weighted average of shares outstanding – basic | | 3,526,182 | 3,526,182 |
| Weighted average of shares outstanding – diluted | | 3,526,182 | 3,526,182 |

All figures in KEUR, except earnings per share and weighted average of shares outstanding.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | [7] | | |
| Net income | | 10,623 | 10,228 |
| Non-cash expenses and income: | | | |
| Income tax expense | | 5,185 | 4,706 |
| Depreciation, amortization and impairments | | 2,411 | 2,021 |
| Provisions for bad debts | | 31 | 129 |
| Gain from disposals of fixed assets | | (6) | (9) |
| Net interest | | 104 | 78 |
| Other non-cash expenses and income | | (7) | 0 |
| Changes: | | | |
| Trade accounts receivable, increase (-) / decrease (+) | | (4,131) | (5,345) |
| Inventories, increase (-) / decrease (+) | | 1,272 | (7,042) |
| Trade accounts payable, increase (+) / decrease (-) | | (505) | 4,096 |
| Other assets and liabilities, increase (+) / decrease (-) | | (3,403) | 1,718 |
| Income taxes paid | | (4,819) | (4,198) |
| Interest received (+) / paid (-) (net) | | (81) | (57) |
| **Cash flows from operating activities** | | **6,674** | **6,325** |
| **Cash flows from investing activities** | [7] | | |
| Proceeds from disposals of fixed assets | | 6 | 14 |
| Capital expenditures with capitalizable development cost | | (675) | (832) |
| Capital expenditures on other intangible assets and property, plant and equipment | | (3,752) | (3,199) |
| **Cash flows from investing activities** | | **(4,421)** | **(4,017)** |
| **Cash flows from financing activities** | [7] | | |
| Cash inflows (+) / outflows (-) from current financial liabilities | | 1,200 | (4,000) |
| Dividend paid | | (423) | (423) |
| Other financing activities | | (39) | 0 |
| **Cash flows from financing activities** | | **738** | **(4,423)** |
| Effects of exchange rate movements on cash & cash equivalents | | 33 | (26) |
| **Net change in cash and cash equivalents** | | **3,024** | **(2,141)** |
| Cash and cash equivalents at beginning of the fiscal year | | 17,193 | 19,334 |
| **Cash and cash equivalents at end of the fiscal year** | | **20,217** | **17,193** |

All figures in KEUR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Capital stock shares | Capital stock Amount | Capital reserves | Retained earnings | Other reserves | Total |
|---|---|---|---|---|---|---|
| BALANCE AS OF 1/1/2016 | 3,526,182 | 10,579 | 24,119 | 26,633 | (1,085) | 60,246 |
| Net income | | | | 10,228 | | 10,228 |
| Dividend | | | | (423) | | (423) |
| Other comprehensive income (loss) | | | | (48) | | (48) |
| Foreign currency translation adjustments | | | | | 24 | 24 |
| **BALANCE AS OF 12/31/2016** | 3,526,182 | 10,579 | 24,119 | 36,390 | (1,061) | 70,027 |
| | | | | | | |
| BALANCE AS OF 1/1/2017 | 3,526,182 | 10,579 | 24,119 | 36,390 | (1,061) | 70,027 |
| Net income | | | | 10,623 | | 10,623 |
| Dividend | | | | (423) | | (423) |
| Other comprehensive in-come (loss) | | | | (54) | (21) | (75) |
| Foreign currency translation adjustments | | | | | (581) | (581) |
| **BALANCE AS OF 12/31/2017** | **3,526,182** | **10,579** | **24,119** | **46,536** | **(1,663)** | **79,571** |

All figures in KEUR, except number of shares.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2017 | 2016 |
|---|---|---|
| Net income | 10,623 | 10,228 |
| Other comprehensive income (loss) | | |
| *Other comprehensive income (loss) to be reclassified and reported in profit or loss in subsequent reporting periods* | | |
| Adjustments from currency translation of foreign subsidiary results | (581) | 24 |
| Attributable tax effects | 0 | 0 |
| *Other comprehensive income (loss) not to be reclassified and reported in profit or loss in subsequent reporting periods* | | |
| Actuarial gains (losses) | (77) | (75) |
| Attributable tax effects | 23 | 27 |
| Deferred taxes recorded in equity | (21) | 0 |
| **Comprehensive income after tax** | **9,967** | **10,204** |

All figures in KEUR

# NOTES TO THE 2017 CONSOLIDATED FINANCIAL STATEMENTS

## 1. Description of Business

DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, Munich, claims to be the European market leader in display technology. DATA MODUL develops, manufactures and distributes innovative flatbed displays, monitors, electronic subassemblies and complete information systems. DATA MODUL displays and easyTOUCH displays, electronic subassemblies and custom products for use in industrial applications and the automotive industry comprise the Displays business segment.

The Systems business segment comprises selling our easyPanel and easyEmbedded Solutions and special monitors for marine navigation and medical device applications, also targeting airport, rail and digital signage customers.

The Company's main business address is Landsberger Strasse 322, 80687 Munich, Germany, registered in the Commercial Register Munich, No. HRB 85591. The Consolidated Financial Statements as of December 31, 2017 were prepared by the Executive Board in February 2018 and approved and endorsed for public disclosure in March 2018.

## 2. Summary of Significant Accounting Policies

### Basis and methods

The object of the Consolidated Financial Statements is DATA MODUL AG, having its registered office in Munich, as well as its subsidiaries.

The Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) outlined by the International Accounting Standards Board (IASB), as adopted by the EU, and in accordance with Sec. 315a (1) German Commercial Code (Handelsgesetzbuch [HGB]) and applicable provisions of German commercial law. Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) have been taken into account.

The Consolidated Financial Statements of DATA MODUL AG were prepared in accordance with standard accounting policies pursuant to IFRS 10 (Consolidated financial statements) and IAS 27 (Separate financial statements). The recognition and measurement methods we applied did not significantly change versus the previous year, except where changes in IFRS accounting procedures required application on and after January 1, 2017.

The Consolidated Financial Statements consist of the statement of financial position, the statement of income, the statement of cash flows, the statement of changes in equity, the statement of comprehensive income, and the Notes. The disclosures in the Notes include the Company's segment reporting. The Consolidated Financial Statements are prepared in euros (EUR). For presentation purposes, the euro amounts are rounded to thousands of euros (KEUR). For computation purposes, the tables and notes may include deviations from the accurately calculated amounts due to rounding. The fiscal year corresponds to the calendar year. The Consolidated Financial Statements are published in the German Federal Gazette (BAnz). The income statement was prepared using the cost-of-sales method. On the income statement and balance sheet, certain items are combined for clarification purposes; explanatory comments are provided in the Notes. A distinction is made on the balance sheet between current and non-current assets and liabilities in accordance with IAS 1 (Presentation of Financial Statements). Assets, provisions and liabilities are classified as current if they are realizable or fall due within one year.

### Adoption of new accounting standards

The Group has applied for the first time certain amendments to standards applicable to fiscal years commencing on or after January 1, 2017. The following accounting pronouncements issued by the IASB are not yet mandatory and have not been voluntarily applied by the Group. In July 2014, the IASB published IAS 9, Financial Instruments, which introduces a uniform approach to the classification and measurement of financial assets. As a result, the accounting rules per IAS 39, Financial Instruments: Recognition and Measurement, can now be completely replaced by the accounting rules per IAS 9. This new standard is to be applied for the first time in fiscal years beginning on or after January 1, 2018. DATA MODUL is currently studying the impact of initial application but does not expect any significant effects.

IFRS 15, Revenue from Contracts with Customers, was published by the IASB in May 2014. Under the new standard, revenue is to be recorded in the amount of the consideration the company expects to receive in exchange for agreed goods or services, reflecting the delivery of the agreed goods or services to the customer. Revenues are realized when the customer obtains power of disposal over the goods or services. IFRS 15 replaces IAS 11, Construction Contracts and IAS 18, Revenue and related interpretations. This standard is to be applied for the first time in fiscal years beginning on or after January 1, 2018. DATA MODUL will apply the standard for the first time in fiscal year2018; the comparison period will be presented in accordance with IFRS 15. The Group expects first-time application of IFRS 15 to impact the realization date of consignment warehouse revenues. A detailed review was conducted of all existing contracts, particularly to analyze the provisions contained therein on the passing of risk and control, on special acceptance obligations accruing to the customer and on product types, studying in particularly whether customer-specific solutions or standard goods are put in consignment which could potentially be sold to other customers. The point in time of passing of control was to be determined irrespective of the passing of risk under civil law, i.e. the time at which the supplier surrenders control over goods to the customer and no longer has access to the items. Pursuant to the review conducted, starting with fiscal year 2018 revenue recognition per IFRS 15 for customer-specific consignment stock items for which a purchase obligation exists will be changed from the point in time of delivery when control passes instead of the point in time of removal.

DATA MODUL intends to apply the standard retrospectively without adjusting the preceding period and anticipates the effect of initial application to range between 200 and 700 thousand euros, which will be shown under equity.

In January 2016 the IASB issued a draft of IFRS 16, Leases, to replace the currently valid IAS 17. The new standard provides that lessees no longer have to distinguish between operating leases and finance leases. Going forward, lessees will carry all lease contracts in a manner similar to today's finance lease accounting, recording a usage right and a liability on the balance sheet reflecting the present value of the minimum lease payment. In subsequent periods, for every lease contract recurring expenses are recorded to amortize the usage right and interest expense from continuation of the lease liability. The company is currently studying the impact of first-time application on the consolidated financial statements.

## 3. Consolidation

### Consolidation standards

The Consolidated Financial Statements comprise the separate financial statements of DATA MODUL AG and its subsidiaries as of December 31, 2017, prepared using the recognition and measurement methods applied uniformly throughout the Group. Subsidiaries whose finance and business policies DATA MODUL AG is capable of directly or indirectly influencing to derive benefit from their activities are fully consolidated. Companies are deconsolidated when the subsidiary is no longer controlled by the parent company.

Investments in subsidiaries controlled by DATA MODUL AG are consolidated by way of offsetting cost against the pro rata equity of the subsidiary at the time of initial consolidation. Any difference between fair value and carrying amount resulting from such offsetting is attributed to the identifiable assets and liabilities, as well as contingent liabilities. Any value exceeding the fair-value cost of acquired assets and assumed liabilities is recognized as goodwill. Any negative difference resulting from the acquisition price being lower than the fair values of the identifiable net assets is recognized through profit or loss in the fiscal year in which consolidation occurred.

All inter-company balances, income and expenses, as well as unrealized gains and losses and dividends from inter-company transactions are fully eliminated.

### Foreign currency translation

The Consolidated Financial Statements are prepared in euros, the functional currency of the parent company. The functional currency of foreign entities is determined by the primary economic environment in which these entities independently operate with respect to financial, economic and organizational considerations, and in which they predominantly earn and use their cash and cash equivalents. The functional currency of DATA MODUL Group subsidiaries is the respective local currency. The financial statement items of every subsidiary are recorded in the functional currency. Foreign currency transactions are first translated into the functional currency applying the transaction rate.

Monetary foreign currency assets and liabilities are translated into the functional currency applying the spot rate at the balance sheet date. Exchange gains or losses resulting from this currency translation are recorded in profit or loss under sales, general and administrative expenses. Non-monetary Consolidated Balance Sheet items in foreign currency are carried at historical exchange rates.

Assets, including goodwill, and liabilities of subsidiaries whose functional currency is not the euro are translated into euros applying the exchange rate at the reporting date; income statement items are translated applying annual average exchange rates.

Any differences arising from the translation of the income statement at annual average exchange rates and of the balance sheet at closing rates, and any difference resulting from the translation of assets and liabilities versus translation in the previous year, are recorded under equity as other comprehensive income in “Other reserves”, with no effect on the income statement. The exchange gains or losses resulting from currency translation of equity at historical rates, or at the reporting date rates in the scope of capital consolidation, were also recorded in “Other reserves”. These accumulated translation differences are recorded in profit or loss at the date on which the Group company ceases to be part of the Group.

Exchange rate trends for the major currencies included in the Consolidated Financial Statements as related to the euro are as follows:

| | 12/31/2017 | | 12/31/2016 | |
|---|---|---|---|---|
| Exchange rate | Balance sheet | P&L | Balance sheet | P&L |
| EUR / USD | 1.1988 | 1.1371 | 1.0560 | 1.1037 |
| EUR / GBP | 0.8874 | 0.8763 | 0.8586 | 0.8228 |
| EUR / SGD | 1.6012 | 1.5612 | 1.5259 | 1.5245 |
| EUR / AED | 4.4028 | 4.1764 | 3.8780 | 4.0536 |
| EUR / HKD | 9.3674 | 8.8641 | 8.1889 | 8.5663 |
| EUR / JPY | 134.8800 | 127.3142 | 123.5100 | 120.4308 |
| EUR / CHF | 1.1693 | 1.1161 | 1.0750 | 1.0911 |

### Scope of consolidation

Pursuant to IFRS 10, the Consolidated Financial Statements incorporate DATA MODUL AG and all its subsidiaries which DATA MODUL AG has a controlling influence.

The Consolidated Financial Statements as of December 31, 2017 include the following subsidiaries:

| Company name, registered office | Shareholding in % |
|---|---|
| DATA MODUL Weikersheim GmbH, Weikersheim, Germany | 100 |
| DATA MODUL France SARL, Baron, France | 100 |
| DATA MODUL Iberia S.L., Madrid, Spain | 100 |
| DATA MODUL Inc., New York, USA | 100 |
| DATA MODUL Italia S.r.l, Bolzano, Italy | 100 |
| DATA MODUL Ltd., Birmingham, United Kingdom | 100 |
| DATA MODUL Suisse GmbH, Zug, Switzerland | 100 |
| DATA MODUL Hong Kong Ltd., Hong Kong, China | 100 |
| DATA MODUL Electronic Technology (Shanghai) Co., Ltd., Shanghai, China | 100 |
| Conrac Asia Display Products PTE Ltd., Singapore | 100 |
| DATA MODUL FZE, Dubai, VAE | 100 |

## 4. Recognition and measurement methods

### Major discretionary decisions, estimates and assumptions

Preparation of the Consolidated Financial Statements pursuant to IFRS requires Company management to make discretionary decisions and assumptions as well as estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates and assumptions. The primary areas in which estimates are made concern allowances for doubtful accounts, inventory valuation, determination of the useful life of fixed assets, capitalization of development costs, carrying of deferred tax assets, impairment of assets, provisions, pensions and other post-employment benefits. Any change in these estimates could have a material adverse effect on the Company's financial position, results of operations and cash flows.

The most significant future-related assumptions and any other sources of uncertain assumptions existing on the balance sheet date that might lead to a significant risk involve the possibility that the carrying amount of assets and liabilities be materially adjusted. For further explanations see comments below.

*Impairment of non-financial assets*

Measurement of goodwill is based on medium-term corporate planning applying market and company-related discount rates, as well as projected growth rates and exchange rates. The assumptions made in this respect may be subject to changes which could result in impairment losses on those assets in future periods.

*Carrying of deferred tax assets*

Deferred taxes are calculated applying the tax rates of the individual countries (tax rates in effect or announced as of the reporting date) at the date at which the assets are realized or the liability settled, and on the estimates of the Group companies' future ability to generate taxable income. Any tax rate changes or any deviation of actual taxable income from estimates could result in deferred tax assets not being realized.
When determining the amount of the deferred tax asset, management must exercise a substantial amount of discretion in estimating the amount and timing of future taxable income, as well as future tax strategies.

*Pensions and other post-employment benefits*

The expenditure on post-employment defined benefit plans is determined based on actuarial calculations. Actuarial valuation is calculated based on assumptions regarding discount rates, mortality and future pension increases. All estimates are reviewed annually at the balance sheet date. These estimates are very uncertain due to the long-term nature of these plans. Management considers the yields of prime fixed income corporate bonds within the currency zone when estimating the appropriate discount rate. The mortality rate is based on published mortality tables; future wage and salary increases as well as expected inflation rates are also taken into consideration.

*Inventories*

Impairment losses recorded on the inventories are measured based on the inventory service level or the expected net income (expected sales price less estimated costs at completion and less estimated selling expenses). Future consumption, actual income and outstanding costs could differ from the expected amounts.

*Development costs*

The initial recognition of development costs is done in accordance with IAS 38.57, and is based in particular on the management's opinion that technical and economic feasibility is given; this is generally the case when a project development project reaches a certain milestone within the framework of an existing project management model. In order to calculate the capitalized amount, management makes assumptions concerning the amount of the expected cash flows to be generated by assets, the discount rate to be used, and the period in which future cash flows can be expected. Significant adjustments could become necessary if certain expectations are not realized and a value adjustment is then required.

*Measurement of fair value*

The Group measures derivatives and other financial instruments and investment properties and other non-financial assets at fair value as of the reporting date. Fair value is the price received in an orderly transaction between market participants at the measurement date for sale of an asset or the price paid for transferral of a liability. In measurement it is assumed that the transaction in which the sale of the asset or transferring of the liability is transacted either:

- in the primary market for the asset or liability, or
- in the most advantageous market for the asset or liability if no major market exists

The Group must have access to the primary or most advantageous market in question.

The fair value of an asset or liability is measured based on assumptions which market participants would apply in pricing the asset or liability. It is assumed that market participants act in their own best economic interest. In measuring the fair value of a non-financial asset, the ability of the market participant to derive economic benefit from the maximum and most optimal utilization of the asset or from its sale to another market participant who will maximize and optimize use of the asset.

**Recognition of revenue, income and expenses**

In accordance with IAS 18 (Revenue), revenue is recognized at transfer of risk at the time of delivery to the customer, or upon rendering of the service insofar as it is more likely than not that the economic benefits will actually flow to the Company and the amount of the revenue can be determined reliably. Revenue deductions resulting from rebates, cash discounts or bonuses, as well as sales tax and other charges are offset against revenues.

The Company records gains from the disposal of assets when the major risks and rewards are transferred to the customer and the Company can no longer dispose of or control the products sold.

Income from orders having multiple performance elements (such as product delivery, project management and additional significant product installation) is realized upon completion of the installation applying the fair value of consideration received, as long as no performance elements are left unfulfilled which are essential for the functionality of the ordered products/services provided. Service revenue is recognized at the time of performance.

In line with IAS 18.13, transactions are reviewed to identify distinct components so as to accurately reflect the economic content of the transaction. Extended warranties to customers have been identified as distinct components and recognized accordingly as deferred revenue on the balance sheet. An extended warranty is in evidence if warranty is granted beyond the statutory warranty period. Deferred revenue is reported as current or non-current other liabilities in accordance the period of its realization.

Income from disposals of assets is recorded after delivery and transfer of risks and rewards to the buyer, and in accordance with the mandatory criteria as per IAS 18.14. Interest is prorated on a time-period basis using the effective interest rate applicable to the asset. Income from license agreements is recorded according to the terms and conditions and the duration of the underlying agreement. Operating expenses are recorded in profit or loss either at the point in time of service utilization or at the point in time when they are incurred, applying the principle of accrual accounting.

### Intangible assets

Intangible assets that were not acquired in the course of business combinations are initially recognized at cost or cost of sales. In subsequent periods, the intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. With the exception of goodwill, intangible assets with a definite useful life are amortized as scheduled. Estimated useful life and remaining useful life are reviewed annually, as well as the method of depreciation. If necessary, useful life is adjusted based on the new assumptions. This adjustment of useful life or depreciation method is treated as a change in estimates. Amortization of intangible assets with finite lives is recorded in the appropriate expense item of the income statement that reflects the purpose of the asset. Intangible assets with indefinite useful lives are not amortized; however, they are subject to an impairment test at least once every year or if there is any indication that either the asset or the cash-generating unit are impaired.

Intangible assets (except for goodwill) include purchased software and capitalized development costs. Purchased software is capitalized and amortized over the estimated useful life of three to five years using the straight-line method.

Pursuant to IAS 38 (Intangible Assets), research and development costs must be treated separately. Research is defined as original and planned search efforts undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the technical and commercial usage of research results. Pursuant to IAS 38, development costs must be capitalized if certain criteria are met, while research costs must be expensed in the period in which they are incurred. Development costs must be capitalized as intangible assets when it is more likely than not that the development activities will result in future cash flows and the economic benefits embodied in those cash flows will exceed the development costs. In addition, the development project has to be technically feasible, technical and financial resources to complete the project must be available, and project-related costs incurred during the development must be reliably measured.

The capitalized development costs are amortized on a straight-line basis over a period of 12 - 36 months of future economic exploitation, beginning with the completion of the development phase and the time at which the product is ready for (serial) manufacturing. The intrinsic value of the development project is reviewed annually. Impairment losses on development projects recognized as intangible assets are presented in the income statement as research and development costs.

### Goodwill

Goodwill incurred during a company combination is recorded pursuant to IFRS 3 as the difference between the value of the transferred compensation at the time of acquisition and the identifiable assets and liabilities of the acquired company as measured pursuant to IFRS 3. Goodwill is subsequently measured at cost less cumulative impairment losses. The value assigned to goodwill is reviewed annually (as of December 31). This value is also reviewed if circumstances indicate that impairment may have occurred.

The impairment is calculated by determining the amount attainable from the cash generating entity to which the goodwill is allocated. If the attainable amount from the cash-generating unit is less than the carrying amount of this unit, impairment loss is recorded. Impairment losses recorded on goodwill may not be reversed in future periods.

Impairment testing was performed based on the three cash generating units: Line Management (Displays), Custom Solutions (Displays) and Systems.

The recoverable amount for each cash-generating unit was determined applying calculated value in use based on projected cash flows. The cash flows are based on a three-year projection (2018 – 2020) approved by management and the Supervisory Board. A growth rate of 1.0 - 2.5% is applied for estimating future net cash flows in the year 2021 and thereafter. These growth rates correspond to the long-term average growth rates of the display industry as well as the further concentration on the Systems business segment.

### Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated scheduled depreciation and/or accumulated impairment losses. In addition to the purchase price and the directly attributable costs for bringing the asset to the location and in a state ready for operation as intended by management, cost includes estimated costs for the demolition of the asset, as well as restoration of the location where the asset was situated. Maintenance and repair costs are expensed as incurred. Scheduled depreciation is recorded pro rata using the straight-line method and attributed to the individual functional areas. The depreciation period corresponds to the estimated economic life. Estimated useful life is 3 years for computer hardware, 5 to 10 years for machinery, office equipment and leasehold improvements, and up to 25 years for buildings.

The useful lives and the depreciation method for property, plant and equipment are reviewed periodically and adjusted as necessary to ensure that the depreciation period and method reflect the expected economic benefits embodied in the asset. If the estimates deviate from the previously made assumptions, the respective changes are recorded as changes in estimates in accordance with IAS 8 (Accounting policies, changes in accounting estimates and errors). In respect to any permanent impairment that exceeds reduction in value attributable to use, impairment losses are recorded pursuant to IAS 36 (Impairment of assets) when the recoverable amount of the asset falls below amortized cost. The recoverable amount is the higher of net realizable value and the value in use of the asset. If there are no longer any reasons for impairment losses recorded in previous years, impairment losses are reversed up to the recoverable amount or amortized cost, irrespective of past impairments recorded.

The historical cost and cumulative depreciation of assets that are sold or scrapped are derecognized. Fully depreciated fixed assets are reported at cost less cumulative depreciation until decommissioned. Gains and losses from the disposal of fixed assets are recorded in the respective cost accounts.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is primarily determined based on average batch cost or weighted average cost of the item. In addition to attributable direct costs, cost of sales includes appropriate material and production overheads to the extent that these relate to production of the items. The net realizable value is the estimated sales price during customary business operations less estimated costs of completion and estimated selling expenses.

Discounted net sales prices are applied as necessary to reflect shelf life and reduced usability risks. If the reasons for impairment losses recorded on inventories no longer exist, impairment losses are reversed accordingly.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits available on call and other current, highly liquid financial assets which have a maximum maturity of three months at the time of acquisition and are measured at cost.

### Impairment of intangible assets (excluding goodwill) and property, plant and equipment

The carrying amounts of intangible assets and of property, plant and equipment are subject to impairment testing on each balance sheet date, and whenever there are indications of potential impairment in accordance with IAS 36 (Impairment of Assets). To the extent the value of intangible assets or property, plant and equipment as determined according to the principles above exceeds the recoverable amount at the balance sheet date, impairment losses are recorded on the carrying amount of the assets. The recoverable amount is the higher of the fair value less selling costs of the asset and value in use. Impairment losses are reversed up to the amortized cost if the reason for their recording no longer applies.

### Embedded derivatives

Derivatives embedded in host contracts are accounted for separately and measured at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as held at fair value through profit or loss. These embedded derivatives are measured at fair value and changes in fair value are recorded in profit or loss. A reassessment is only made in case of a change in the terms of the contract if the change significantly impacts the cash flows that would otherwise have flowed from the contract, or if a financial asset is reclassified out of the category “at fair value through profit or loss”.

**Financial instruments**

A financial instrument is a contract under which a financial asset is created at one company and a financial liability or an equity instrument at another company. Financial assets consist primarily of cash and cash equivalents, trade accounts receivable, other loans and receivables, financial assets held to maturity, and primary and derivative financial assets held for trading. Financial liabilities generally create a claim to return in the form of cash or another financial asset. These include bonds and other guaranteed liabilities, trade payables, liabilities due to banks or from finance leases, as well as derivative financial liabilities. Financial assets and financial liabilities are generally not netted. They are only netted if the company has the right to offset the amounts at the current time and intends to settle the respective asset or liability at net amount.

The assets are classified upon initial recognition; subsequent recognition is based on the classification upon initial recognition. Financial assets are classified upon initial recognition in line with IAS 39 (Financial Instruments, Recognition and Measurement) as follows:

*Financial assets and financial liabilities carried at fair value through profit or loss*

The group of financial assets and liabilities carried at fair value through profit or loss includes held-for-trading financial assets and liabilities, and financial assets and liabilities classified as carried at fair value upon initial recognition.

Financial assets and financial liabilities are classified as held-for-trading if they are acquired for the purpose of sale in the near future. Derivative financial instruments are also classified generally as financial assets or liabilities held for trading, unless they are intended for and effectively used as hedging instruments. Financial assets and liabilities recognized at fair value through profit or loss are carried at fair value on the balance sheet, any gains or losses are recognized through profit or loss. The fair value of financial instruments traded on organized markets is determined as the market price quoted on the balance sheet date. If no active market exists, fair value is determined applying generally accepted measurement methods.

*Financial investments held to maturity*

Non-derivative financial assets with fixed or measurable payments and fixed maturities are classified as held-to-maturity when the Company has a definite intention and the ability to hold the assets to maturity, with the exception of a) those that the Company, at initial measurement, considers measurable at fair value to be recorded in profit or loss, b) those that the Company considers assets for sale, and c) those that satisfy the definition of loans and receivables. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortized cost. Such amortized cost is determined as the amount initially recognized less repayments, plus or minus cumulative amortization applying the effective interest method of any difference between the initially recognized amount and the amount repayable when due. Calculation of the effective interest rate takes into account all fees paid or received by the contracting parties as well as any other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized through profit or loss when the investments are derecognized, impaired or amortized.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are carried at amortized cost applying the effective interest method less impairment. Appropriate impairment losses are recorded in profit or loss to account for all discernible risks. The Company performs ongoing credit checks of its customers. The Company records appropriate impairment losses on doubtful accounts resulting from the inability or unwillingness of its customers to effect the required payments. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations towards the Company, the Company records an appropriate itemized allowance on the amounts due to the Company, thereby reducing the net receivable to the amount that the Company reasonably believes can be collected.

For all other customers, the Company carries an allowance for bad debt. Value adjustments depend on the current business situation, the period of time the receivables are overdue as well as the industry and geographic concentration. In addition, past experience is taken into account when assessing receivables outstanding. The Company records its bad debt expenses and impairment losses as selling and general administrative expenses.

Any material change in the financial situation of one or a group of customers could have a material adverse effect on the Company's financial position, results of operations and cash flows. Although such losses have remained within management's expectations to-date, the Company cannot be certain that such impairment losses will remain adequate.

DATA MODUL Group holds a credit insurance policy to minimize risk of losses from doubtful accounts. In case of payment default, the credit insurance covers 90% of losses incurred within six months of the default date. The deductible amount remained unchanged versus the previous year at 10%.

To further minimize potential losses, the Company performs credit checks on new customers before accepting orders.

Gains or losses are recognized in profit or loss when loans or receivables are derecognized, impaired or amortized.

*Financial assets available for sale*

Assets available for sale are non-derivative assets that cannot be allocated to any of the three categories described above. After initial recognition, available-for sale financial assets are measured at fair value or amortized cost, with gains or losses being recognized as a separate portion of equity until the investment is derecognized or until the investment is determined to be impaired at which time the accumulated gains or losses previously reported in equity are recorded in profit or loss. The fair value of financial investments that are actively traded in organized financial markets is determined based on the quoted market prices at the close of the market at the balance sheet date. The fair value of investments for which there is no active market is determined using other measurement methods. A significant or continual reduction of the fair value below the carrying amount is an objective reason for impairment. When financial assets are sold, the difference between consideration received and carrying amount of the asset is recorded through profit or loss. In initial recognition, a financial asset is recognized at cost that equals the fair value of the consideration, including transaction costs.

Changes in the fair value of financial assets held for trading, except for impairment losses and foreign currency translation gains and losses, are reported in the Statements of Changes in Equity and recorded directly in equity until the financial asset is derecognized.

*Impairment of financial assets*

Financial assets are tested for impairment at each balance sheet date. If there are objective indications of an impairment of an asset recorded at amortized cost, the impairment losses to be recorded in profit or loss are calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the effective interest rate used in initial recognition. Company management includes in its assessment of a potential impairment all information available, particularly market and pricing conditions and the expected duration of the impairment. If there are new circumstances requiring reversal, impairment losses already recorded are reversed. Except for financial assets held for sale, such reversal is limited to the amortized cost at the time of reversal and recorded in profit or loss.

*Derivative financial instruments*

DATA MODUL Group uses derivative financial instruments solely for the purpose of hedging interest and currency exposures arising from business operations.

As of the balance sheet dates of December 31, 2017 and December 31, 2016 there were no outstanding contractual agreements for hedging interest rate or foreign currency risks.

*Derecognition of financial assets and liabilities*

A financial asset is derecognized when one of the following criteria has been met:

- Contractual rights to receive cash flows from a financial asset have expired
- The Group has transferred its contractual rights to receive cash flows from the financial asset to a third party or assumed a contractual obligation to immediately pay out the received cash flow to a third party, thereby either having essentially transferred all risks and rewards associated with the ownership of the financial asset, or having neither transferred nor withheld essentially all risks and rewards arising pertaining to the ownership of the financial asset but transferred rights of disposal over the asset.

A financial liability is derecognized when the underlying commitment has been fulfilled, canceled or extinguished for other reasons.

**Risks resulting from the Company's financial instruments**

The Company has various other financial assets and liabilities such as trade receivables and trade payables that directly result from its business operations. The Company also enters into derivative financial transactions, including interest rate swaps and currency forward contracts. The purpose of those transactions is to hedge interest and currency risks arising from the Company's business operations and secure financial resources. It is the Company's policy, and has been throughout the reporting year, that no financial instruments are held for trading. Long-term debt bears fixed interest; thus there is no interest rate risk for these items.

The primary risks connected with Company financial instruments are interest rate-based fair value risk, liquidity risk, currency risk and bad debt risk. The Executive Board reviews and adopts policies for managing these individual risks which are outlined below.

*Foreign currency risk*

As a result of major investments in the United States and the United Arab Emirates, fluctuations in the exchange rate of the US dollar to the euro (the AED is linked directly to the US dollar) have a major impact on the Company's financial position, financial performance and cash flows. The Group also makes transactions in GBP, SGD, HKD, CNY and JPY. The Company also has exposure to currency risk arising from processing transactions. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 62.3% (previous year 63.1%) of the Company's sales are denominated in currencies other than the functional currency of the operating unit, while approximately 63.4% (previous year: 61.6%) of costs are denominated in the unit's functional currency.

*Commodity price risk*

The Company's exposure to price risks is minor due to the fact that the majority of the raw materials are procured on an order-related basis.

*Default risk*

The Company trades only with customers having a good credit standing. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit checks. Trade receivables balances are constantly monitored and allowances made for possible value adjustment risks. Other than that there are no significant default risks connected with ongoing business activities. For additional minimization of risks related to bad debt, the Company has purchased credit insurance for some of its operations. In respect to other customers that are not covered by such insurance policies, their credit standing is assessed, special terms of payment and payment guaranties are agreed upon and securities or collaterals are stipulated.

*Liquidity risk*

The Company's objective is to maintain a balance between the continuity of funding and flexibility by way of current account credits, bank loans, finance leases and hire purchase contracts. The basis for decisions concerning financial strategies and ensuring sufficient liquidity is a short-term Company-wide cash management program, taking into account rolling liquidity forecasts, a strategic financial requirement analysis based on 1- and 3-year budgets, and working closely with external banks and investors as regards the review and adjustment of lines of credit.

### Pensions and non-current personnel liabilities

Pension and non-current personnel liabilities include retirement obligations under a defined benefit plan and long-term bonus obligations.

The provision amount is measured using the method, multiplying the net defined benefit pension liability (net asset value) recorded on the balance sheet by the discount rate applied in measuring the defined benefit obligation. Expected changes in the net liability (or net asset) during the year due to contributions and pension benefit payments are to be factored in. This net interest component replaces interest expense from applying an interest rate to the pension obligation and the projected return on plan assets. Revaluation effects connected with pension commitments such as actuarial gains and losses and any differences between actual return and the return on plan assets implicitly recognized in other net interest income are immediately recorded in equity as "Other comprehensive income". The amount of obligations for pension plans is calculated applying an annual actuarial report based on biometric parameters and current market interest rates. Individual pension commitments only exist for two former Executive Board members and three former managers.

### Provisions

Provisions are recorded when – due to a past event – the Company incurs a current legal or constructive obligation towards a third party, the outflow of resources embodying economic benefits in order to settle the obligation is probable, and the amount can be estimated reliably. If a reimbursement is expected to be paid, at least in part, for a provision recorded under liabilities (e.g. liabilities under an insurance policy), the reimbursement is classified as a separate asset if there is a high probability of reimbursement occurring. The expense for the recorded provision is shown on the income statement less any reimbursement. If the obligations fall due within more than one year and payment can be reliably estimated in terms of both amount and timing, the non-current portion of the obligation is measured at present value if the corresponding interest effect is material. Net present value is determined based on market interest rates commensurate with risk and the period until the settlement of the obligation. In case of discounting, the increase in the provision due to the passage of time is recorded as interest expense in the financial result.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Provisions for warranties related to delivered products are recorded in the amount required for meeting legal requirements. In individual cases, commitments can be made and obligations can be agreed upon in an amount exceeding the warranty or guarantee. In such case the corresponding future expenses are estimated and measured and a provision is recorded in that amount. After expiration or elapsing of the guarantee obligation, the provision is reversed.

### Income tax

Taxes on income and earnings comprise all actual taxes on current taxable income of the consolidated subsidiaries under the tax laws applicable in the respective countries, as well as deferred taxes. The current tax assets and liabilities for the current and previous periods are measured at the expected amount of refund from or payment to the tax authorities. The local tax rate and tax laws applicable at the balance sheet date are used as a basis to determine this amount.

Deferred tax assets and liabilities are reported applying the liability method as per IAS 12 (Taxes on income) for all temporary differences between carrying amounts in individual companies' tax reporting and carrying amounts shown on the consolidated financial statements applying IFRS, and factored in with regard to specific consolidation measures.

Deferred tax assets and deferred tax liabilities are measured based on the tax rate expected to be applicable in the period in which the temporary differences are expected to be reversed. The applicable or announced tax rates at the balance sheet date are used for this purpose. Deferred taxes that are directly related to equity items are also recorded directly in equity without any effect on profit or loss. Deferred tax assets and liabilities may be offset if and when the Group has an enforceable claim to offset the current tax assets against actual tax liabilities, and which are attributable to income taxes of the same taxable unit, and are imposed by the same tax authority.

### Contingent liabilities and contingent assets

According to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), contingent liabilities are not recorded on the balance sheet. Contingent liabilities are potential obligations whose actual existence depends on the occurrence of one or more uncertain future events which are not entirely within the Company's control. In addition, contingent liabilities are existing obligations that will probably not result in an outflow of assets, or any outflow of assets cannot be reliably determined. The Notes show all contingent liabilities of the Group such as bank guarantees, other guarantees, legal proceedings and other financial obligations. Obligations are measured at the higher of their nominal value or the amount required to settle the obligation. Contingent claims are disclosed in the Notes if an inflow of resources of economic benefit is probable.

### Leases

The decision whether an agreement is classified as a lease is made in accordance with IFRIC 4 (Determining whether an arrangement contains a lease) based on the economic substance of the agreement at the time of conclusion, and requires an estimate of whether fulfillment of the agreement depends on the use of a specific asset or assets and whether the agreement grants the right to use that/those asset/s. A subsequent assessment must be made after the commencement date of the lease agreement if one of the conditions listed in IFRIC 4.10 is met.

Finance leases in which essentially all risks and rewards related to the title of the transferred asset are transferred to the Group as lessee result in capitalization of the leased asset at the closing date of the lease. The asset is recognized at the lower of its fair value or the present value of the minimum lease payment stream. Lease payments are divided into finance expenses and repayments of principal in such manner that a non-variable interest rate applies to the remaining lease obligation over the lease term. Finance expenses are expensed directly. The depreciation methods and estimated useful lives correspond to those of similar acquired assets.

If transfer of the title to the asset to the Company is not sufficiently likely at the end of the lease, the lease will be fully amortized over the shorter of the estimated useful life of the asset or the term of the lease.

Payments for operating leases are recorded in profit or loss on a straight-line basis over the term of the lease agreement.

### Subsequent events

Events after the reporting date that provide additional information on the Company's situation at the reporting date (disclosable events) are reported in the Notes to the extent that they are material. Non-disclosable subsequent events of material significance are disclosed in the Notes.

## 5. Notes to the Statement of Income

### [1] Revenue

Revenue is classified by segment in line with the Executive Board's management reporting and realized in either Displays or Systems. Key segment metrics employed are orders received, order backlog, revenue, EBIT and net income.

Revenue broken down by segment:
For fiscal year 2017

| KEUR | Displays | Systems | Total |
|---|---|---|---|
| Revenue from product sales | 122,306 | 92,523 | 214,829 |
| Service revenue | 278 | 3,149 | 3,427 |
| Total revenue | 122,584 | 95,672 | 218,256 |

For fiscal year 2016

| KEUR | Displays | Systems | Total |
|---|---|---|---|
| Revenue from product sales | 111,708 | 80,698 | 192,406 |
| Service revenue | 354 | 4,319 | 4,673 |
| Total revenue | 112,062 | 85,017 | 197,079 |

A geographical breakdown of revenue is provided in the segment reporting section.

## [2] Cost of sales

The table below shows a breakdown of cost of sales.

| KEUR | 2017 | 2016 |
|---|---|---|
| Materials expenses | 155,893 | 138,066 |
| Other cost of sales | 14,787 | 13,274 |
| Total cost of sales | 170,680 | 151,340 |

Other cost of sales is comprised primarily of wages and salaries, and overhead for the manufactured products and services sold.

## [3] Research and development expenses

The Company distinguishes between research expenses and development expenses. Development projects are classified as either product development without a specific customer order, product development with a specific customer order and development of a product to market-readiness in connection with a customer order for a particular product.

In addition, general development costs not related to a specific product are recorded as research and development costs.

Product development projects without a specific customer order are recognized as intangible assets in fixed assets and amortized using the straight-line method over a period beginning at the time of serial production of the respective product or the rendering of the service to the customer until the estimated useful life of the product elapses. Depreciation expense is recorded as research and development costs in profit or loss.

Product development projects based on a specific customer order and development of a product to market-readiness under an existing customer order for a particular product are deemed expenses incurred in generating revenue, and therefore recorded as cost of sales in profit or loss. Product development projects of this type which have not been completed and for which revenues have not yet been realized are recorded as inventories at the reporting date and accrued.

Individual expense items for research and development and their impact on the income statement for the fiscal years 2017 and 2016 are presented below:

| KEUR | 2017 | 2016 |
|---|---|---|
| Development costs based on customer orders recorded as cost of sales | 1,400 | 957 |
| Research and development expenses | | |
| - Development expenses | 4,634 | 5,388 |
| - Amortization of development projects | 734 | 531 |
| Research and development expenses | 5,368 | 5,919 |
| Total research and development expenses | 6,768 | 6,876 |
| Carrying amount of capitalized development expenses | 1,818 | 1,877 |
| Development expenses recorded as inventory as of Dec. 31 | 1,535 | 649 |

## [4] Selling and general administrative expenses

The table below shows selling and general administrative expenses.

| KEUR | 2017 | 2016 |
|---|---|---|
| Selling expenses | 16,751 | 17,487 |
| General administrative expenses | 9,544 | 7,294 |
| Total expenses | 26,295 | 24,781 |

## Total expenses by type of cost

Research and development expenses, selling and general administrative expenses and production expenses include personnel and depreciation/amortization expenses.

The Company's total expenditure broken down by expense types is shown below.

*Personnel expenses*

The following table shows the personnel expenses:

| KEUR | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 24,056 | 23,436 |
| Social security contributions and old-age pensions | 4,372 | 4,160 |
| Total | 28,428 | 27,596 |

In fiscal year 2017 the Group employed an average 403 employees, as compared to an average 395 employees in the previous year.
The average annual number of employees breaks down by functional area as follows:

| Employees by functional area | 2017 | 2016 |
|---|---|---|
| Sales & Marketing | 110 | 109 |
| Development | 75 | 75 |
| Production | 95 | 86 |
| Services | 33 | 39 |
| Administration | 46 | 44 |
| Logistics | 29 | 28 |
| Materials requirement planning/ Procurement | 15 | 14 |
| Total | 403 | 395 |

The number of employees as of the reporting date is shown below broken down by functional area:

| Employees by functional area | 2017 | 2016 |
|---|---|---|
| Sales & Marketing | 108 | 111 |
| Development | 73 | 77 |
| Production | 101 | 88 |
| Services | 30 | 41 |
| Administration | 46 | 45 |
| Logistics | 32 | 28 |
| Materials requirement planning/ Procurement | 16 | 14 |
| Total | 406 | 404 |

*Significant expense items and depreciation/amortization*

Other significant expense items were as follows:

| KEUR | 2017 | 2016 |
|---|---|---|
| Legal and consulting fees | 3,332 | 3,313 |
| Depreciation/amortization | 2,412 | 2,021 |
| Rent and maintenance | 2,392 | 2,212 |
| Vehicle and travel expenses | 2,159 | 2,393 |
| Office and IT expenses | 1,024 | 919 |
| Gains (-)/losses (+) from foreign currency translation | 866 | (293) |
| Advertising and trade shows | 627 | 938 |
| Packaging material & freight costs | 618 | 605 |
| Insurance premiums | 528 | 473 |
| Additions (+)/reversals (-) to/of provisions for bad debts | 28 | (359) |
| Other | (775) | (35) |
| Total | 13,211 | 12,187 |

## [5] Interest income/expenses

The Company recorded interest income/expenses for the past two years as shown below:

| KEUR | 2017 | 2016 |
|---|---|---|
| Interest and similar income | 16 | 10 |
| Interest expense on current liabilities | (58) | (60) |
| Other interest-like expenses | (62) | (28) |
| Total | (104) | (78) |

## [6] Income tax expense

Income tax expense breaks down as outlined below.

| KEUR | 2017 | 2016 |
|---|---|---|
| Current tax expenses | | |
| Germany | 3,887 | 4,020 |
| Foreign | 1,238 | 560 |
| Deferred taxes | | |
| Germany | 120 | 238 |
| Foreign | (59) | (85) |
| Total | 5,186 | 4,733 |

Current tax expenses are taxes on income and earnings for the fiscal year recorded in profit or loss in the individual countries, as well as additional tax assessments and tax refunds for previous years. Current tax expenses in Germany decreased by 82 thousand euros through tax income from previous years. Foreign current tax expenses include 51 thousand euros in tax expenses from previous years. Deferred taxes result from timing differences between the tax bases of the consolidated companies.

The tax rate applicable in the individual countries is used as a basis for calculation of deferred taxes of the foreign operations.

The income tax rate on which computation of German deferred taxes is based was 32.28% for DATA MODUL AG, and 29.13% for DATA MODUL Weikersheim GmbH as of December 31, 2017.

Tax rates for 2017 and 2016 are determined as follows:

| | 2017 in % | 2016 in % |
|---|---|---|
| Corporate income tax | 15.00 | 15.00 |
| Solidarity surcharge | 0.825 | 0.825 |
| Trade tax | 16.45 and 13.30 respectively | 16.45 and 13.30 respectively |
| Income tax rate | 32.28 and 29.13 respectively | 32.28 and 29.13 respectively |

The table below shows a reconciliation of projected income tax expense versus actual income tax expense recorded in the consolidated financial statements applying the average German income tax rate of 32.28% for 2016 and 32.28% for 2017.

| KEUR | 2017 | 2016 |
|---|---|---|
| Earnings before taxes reported | 15,809 | 14,961 |
| | | |
| Projected income tax expense | 5,103 | 4,829 |
| Non-deductible expenses | 74 | 33 |
| Tax reductions resulting from tax-free income | (12) | (10) |
| Actuarial gains / (losses) from pension commitments recorded in equity | 0 | 27 |
| Difference amount at local tax rates | (95) | (204) |
| Tax expense for/from foreign operating locations, miscellaneous | 50 | 15 |
| Taxes from previous years | 43 | 60 |
| Other | 23 | (17) |
| Reported income tax expense | 5,186 | 4,733 |

Deferred taxes consist of the following material balance sheet items:

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| KEUR | 2017 | 2016 | 2017 | 2016 |
| Current assets | | | | |
| Trade receivables and other assets | 64 | 17 | (23) | (19) |
| Inventories | 0 | 0 | (12) | (21) |
| Non-current assets | | | | |
| Intangible assets | 131 | 184 | (585) | (589) |
| Property, plant and equipment | 6 | 7 | (631) | (621) |
| Current liabilities | | | | |
| Trade payables & other liabilities | 2 | 29 | (50) | (9) |
| Other provisions | 124 | 204 | 0 | 0 |
| Non-current liabilities | | | | |
| Provisions for pensions and similar obligations | 177 | 180 | 0 | 0 |
| Total | 504 | 621 | (1,301) | (1,259) |

Deferred income tax assets and liabilities as of the reporting date break down as follows:

| KEUR | | 2017 | 2016 |
|---|---|---|---|
| Deferred tax assets from tax loss carry-forwards | Germany | 0 | 0 |
| | Foreign | 145 | 86 |
| Deferred tax assets from temporary differences | Germany | 504 | 580 |
| | Foreign | 41 | 41 |
| Total deferred tax assets | | 690 | 707 |
| Total deferred tax liabilities | Germany | (1,301) | (1,259) |
| Deferred tax assets (+)/liabilities (-), net | | (611) | (552) |

As of December 31, 2017 and 2016, the corporate income tax loss carry-forwards in Germany totaled 0 thousand euros and 0 thousand euros respectively, while trade tax carry-forwards totaled 0 thousand euros and 0 thousand euros respectively. The subsidiaries DATA MODUL Suisse GmbH, Zug, Switzerland and DATA MODUL Electronic Technology (Shanghai) Co. Ltd., Shanghai, China, had usable tax loss carry-forwards in the respective amounts of 99 thousand euros and 523 thousand euros as of December 31, 2017. These are measured at the income tax rates of 15% for Switzerland and 25% for China, and shown as deferred tax assets.

Deferred tax assets arising from actuarial gains and losses on pension commitments recorded directly in equity increased equity by 23 thousand euros (previous year: 27 thousand euros). Deferred tax liabilities were not recognized for temporary differences in connection with investments in subsidiaries in the amount of 13,205 thousand euros, as it was not likely that these temporary differences would reverse in the foreseeable future. If this were the case, 5% of those temporary differences would be subject to tax.

### [7] Earnings per share

Undiluted earnings per share are calculated by dividing annual income accruing to common shareholders by the weighted average number of common shares outstanding during the year under review.
Diluted earnings per share are calculated applying the weighted average number of common shares outstanding after potentially diluting events during the period under review.
Potential dilution of common shares results primarily from employee stock options. In the fiscal years ended December 31, 2017 and December 31, 2016, no shares were deemed dilutive applying the treasury stock method (stock redemption method).

The table below shows the computation of earnings per share (diluted and undiluted):

| | 2017 | 2016 |
|---|---|---|
| Net income for the year in KEUR | 10,623 | 10,228 |
| Denominator (thousands of shares): | | |
| Denominator for undiluted earnings per share – weighted average number of shares | 3,526 | 3,526 |
| Denominator for diluted earnings per share – adjusted weighted average shares | 3,526 | 3,526 |
| Undiluted earnings per share | 3.01 euros | 2.90 euros |
| Diluted earnings per share | 3.01 euros | 2.90 euros |

## 6. Notes to the Statement of Financial Position

### [8] Fixed assets 2017

| | ACQUISITION EXPENSES | | | | | |
|---|---|---|---|---|---|---|
| | Balance as of 1/1/2017 | Currency translation | Additions | Disposals | Reclassifications | Balance as of 12/31/2017 |
| Intangible assets/Goodwill | | | | | | |
| Goodwill | 3,112 | 0 | 0 | 0 | 0 | 3,112 |
| Software | 3,173 | 0 | 118 | (500) | 0 | 2,790 |
| Development projects | 7,029 | 0 | 675 | (276) | 0 | 7,428 |
| Prepayments | 148 | 0 | 687 | 0 | 0 | 835 |
| **Total** | **13,461** | **0** | **1,480** | **(776)** | **0** | **14,165** |
| Property, plant and equipment | | | | | | |
| Land and buildings | 12,868 | (29) | 1,202 | (26) | 91 | 14,106 |
| Technical equipment | 2,779 | (1) | 107 | (14) | 556 | 3,428 |
| Other equipment, fixtures and fittings, and office equipment | 5,873 | (38) | 982 | (441) | 24 | 6,400 |
| Assets under construction | 174 | 0 | 655 | 0 | (671) | 158 |
| **Total** | **21,694** | **(68)** | **2,947** | **(481)** | **0** | **24,092** |
| **Total** | **35,155** | **(68)** | **4,427** | **(1,257)** | **0** | **38,257** |

### Fixed assets 2016

| | ACQUISITION EXPENSES | | | | | |
|---|---|---|---|---|---|---|
| | Balance as of 1/1/2016 | Currency translation | Additions | Disposals | Reclassifications | Balance as of 12/31/2016 |
| Intangible assets/Goodwill | | | | | | |
| Goodwill | 3,112 | 0 | 0 | 0 | 0 | 3,112 |
| Software | 2,991 | 0 | 103 | (79) | 158 | 3,173 |
| Development projects | 6,849 | 0 | 832 | (652) | 0 | 7,029 |
| Prepayments | 2 | 0 | 304 | 0 | (158) | 148 |
| **Total** | **12,954** | **0** | **1,238** | **(731)** | **0** | **13,461** |
| Property, plant and equipment | | | | | | |
| Land and buildings | 12,188 | 7 | 263 | (2) | 413 | 12,868 |
| Technical equipment | 1,913 | 0 | 210 | (20) | 676 | 2,779 |
| Other equipment, fixtures and fittings, and office equipment | 5,300 | 6 | 1,134 | (608) | 40 | 5,873 |
| Assets under construction | 118 | 0 | 1,185 | 0 | (1,129) | 174 |
| **Total** | **19,519** | **13** | **2,793** | **(630)** | **0** | **21,694** |
| **Total** | **32,473** | **13** | **4,031** | **(1,361)** | **0** | **35,155** |

All figures in KEUR

| | DEPRECIATION | | | | | | CARRYING AMOUNT |
|---|---|---|---|---|---|---|---|
| | Balance as of 1/1/2017 | Currency translation | Additions | Disposals | Reclassifica-tions | Balance as of 12/31/2017 | Balance as of 12/31/2017 |
| | | | | | | | |
| | 693 | 0 | 0 | 0 | 0 | 693 | 2,419 |
| | 2,703 | 0 | 176 | (500) | 0 | 2,379 | 411 |
| | 5,152 | 0 | 734 | (276) | 0 | 5,610 | 1,818 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 835 |
| | **8,548** | **0** | **910** | **(776)** | **0** | **8,682** | **5,483** |
| | | | | | | | |
| | 5,365 | (15) | 617 | (26) | 18 | 5,959 | 8,146 |
| | 1,416 | 0 | 272 | (14) | 0 | 1,675 | 1,753 |
| | 3,350 | (27) | 611 | (442) | (18) | 3,475 | 2,925 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 158 |
| | **10,131** | **(42)** | **1,501** | **(481)** | **0** | **11,110** | **12,982** |
| | **18,680** | **(42)** | **2,411** | **(1,257)** | **0** | **19,792** | **18,465** |

| | DEPRECIATION | | | | | | CARRYING AMOUNT |
|---|---|---|---|---|---|---|---|
| | Balance as of 1/1/2016 | Currency translation | Additions | Disposals | Reclassifica-tions | Balance as of 12/31/2016 | Balance as of 12/31/2016 |
| | | | | | | | |
| | 693 | 0 | 0 | 0 | 0 | 693 | 2,419 |
| | 2,541 | 0 | 242 | (79) | 0 | 2,703 | 469 |
| | 5,273 | 0 | 531 | (652) | 0 | 5,152 | 1,877 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 148 |
| | **8,507** | **0** | **773** | **(731)** | **0** | **8,548** | **4,913** |
| | | | | | | | |
| | 4,824 | 4 | 541 | (2) | (1) | 5,365 | 7,503 |
| | 1,367 | 0 | 165 | (20) | (95) | 1,416 | 1,362 |
| | 3,311 | 3 | 542 | (602) | 96 | 3,350 | 2,522 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 174 |
| | **9,502** | **7** | **1,248** | **(625)** | **0** | **10,131** | **11,562** |
| | **18,009** | **7** | **2,021** | **(1,356)** | **0** | **18,680** | **16,475** |

Goodwill having an indefinite useful life acquired in business combinations was allocated across multiple cash-generating units for impairment testing. The carrying amount of goodwill for the fiscal years ending December 31, 2017 and December 31, 2016 is shown below broken down by reportable segments and cash-generating units.

| KEUR | Displays | | Systems | Total |
|---|---|---|---|---|
| *Cash-generating unit* | *Line Management* | *Custom Solutions* | *Systems* | |
| Balance as of 1/1/2016 | 123 | 909 | 1,387 | 2,419 |
| *Goodwill acquired during the period* | 0 | 0 | 0 | 0 |
| *Impairment during the period* | 0 | 0 | 0 | 0 |
| Balance as of 12/31/2016 | 123 | 909 | 1,387 | 2,419 |
| *Goodwill acquired during the period* | 0 | 0 | 0 | 0 |
| *Impairment during the period* | 0 | 0 | 0 | 0 |
| Balance as of 12/31/2017 | 123 | 909 | 1,387 | 2,419 |

Goodwill was impairment tested on December 31, 2017. The recoverable amount for each cash-generating unit was determined applying calculated value in use based on projected cash flows.

The cash flow projections for all cash-generating units are based on a three-year forecast (2018 – 2020) approved by management and the Supervisory Board, extrapolated for 2021 and years thereafter.

The before-tax discount rates used for cash flow projections and revenue growth rates starting in 2021 (for 2016 in 2020) are shown in the table below.

| Cash-generating unit | Before-tax discount rates | | Revenue growth rates | |
|---|---|---|---|---|
| in % | 2017 | 2016 | 2017 | 2016 |
| Line Management | 7.38 | 8.65 | 2.5 | 2.5 |
| Custom Solutions | 8.00 | 8.79 | 1.0 | 1.0 |
| Systems | 7.38 | 8.48 | 2.5 | 2.5 |

Fair value is primarily determined by the final value (perpetuity), which is particularly sensitive to changes in growth rate assumptions and discount rates.
Goodwill impairment testing for fiscal years 2017 and 2016 yielded no indication of impairment losses.

## Basic assumptions for calculating value in use

The following assumptions applied in calculating value in use of the cash-generating units are subject to particular uncertainty:

- Gross profit margins
- Discount rates
- Growth rates during the projection period

### *Gross profit margins*

These margins are calculated based on average profit for the fiscal years prior to the projection period. The gross profit margin is adjusted during the projection period based on expected efficiency increases and corresponding risks.

### *Discount rates*

Discount rates reflect current market estimates pertaining to specific risks attributable to the respective cash-generating units. The discount rate is estimated based on the average weighted cost of capital which is common in the industry.

### *Estimated growth rates*

The growth rates are based on historical data from preceding years. Revenue growth rates of 1.0% (Custom Solutions) to 2.5% (Line Management and Systems) were applied for the cash-generating units starting in 2021.
The 2.5% revenue growth rates used for the cash flow projections for the segments Line Management and Systems reflect the projected growth rates of the respective markets and product revenue growth projected by the DATA MODUL Group in the respective markets on the basis of a market analysis.

### *Assumption sensitivity*

The management board is of the opinion that no changes appearing reasonably possible to basic assumptions made in order to determine value in use of cash-generating units would cause the carrying amount of a cash-generating unit to substantially exceed its recoverable amount.

### [9] Inventories

Inventories as of the reporting date break down as follows:

| KEUR | 2017 | 2016 |
|---|---|---|
| Raw materials, consumables and supplies | 6,064 | 5,103 |
| Work in progress | 5,027 | 3,257 |
| Finished goods and merchandise | 33,553 | 37,349 |
| Impairment | (1,886) | (1,679) |
| Total | 42,758 | 44,030 |

Reductions in the net realizable value of inventory levels are recorded as cost of sales on the income statement.

### [10] Trade receivables and other current assets and other current financial assets

Trade receivables and other current assets broke down as follows as of the reporting date:

| KEUR | 2017 | 2016 |
|---|---|---|
| Trade receivables, including allowance for doubtful accounts | 27,137 | 23,039 |
| Other current assets: | | |
| Tax refund claims and tax prepayments | 754 | 788 |
| Other assets | 965 | 1,029 |
| Other current financial assets: | | |
| Suppliers with credit balances | 70 | 19 |
| Other financial assets | 300 | 341 |
| Total | 29,226 | 25,216 |

Trade receivables are not discounted and are usually due within 30 - 90 days. As of December 31, 2017 and December 31, 2016, an allowance for bad debts was recorded in the amount of 184 thousand euros and 157 thousand euros respectively.

The financial assets are primarily security deposits in the amount of 155 thousand euros (previous year: 173 thousand euros), other receivables of 145 thousand euros (previous year: 163 thousand euros) and supplier debit balances of 70 thousand euros (previous year: 19 thousand euros). These other current financial liabilities will in total generate a cash inflow for the Group at a future point in time.

Identifiable impairment losses are first recorded against a value adjustment account and are only written off after final clarification. The change in the value adjustment account for doubtful accounts as of the reporting date was as follows:

| KEUR | 2017 | 2016 |
|---|---|---|
| Balance as of January 1 | 157 | 445 |
| Additions recorded in profit or loss | 31 | 2 |
| Utilization | (4) | (279) |
| Reversals | 0 | (1) |
| Effects from foreign currency translation adjustments | 0 | (10) |
| Balance as of December 31 | 184 | 157 |

The aging of trade receivables as of the reporting date was as follows:

| KEUR | 2017 | 2016 |
|---|---|---|
| Total | 27,137 | 23,039 |
| Amounts neither overdue nor impaired | 22,117 | 18,428 |
| ‹ 30 days overdue, not impaired | 3,915 | 3,968 |
| Overdue 30 - 60 days, not impaired | 486 | 488 |
| Overdue › 60 days | 619 | 155 |

With regard to default risk, please refer to the credit risk disclosures under "Supplementary Disclosures" in chapter 8.

### [11] Cash and cash equivalents

Cash and cash equivalents held as of December 31, 2017 totaled 20,217 thousand euros (previous year: 17,193 thousand euros) and comprise cash on hand and bank balances.

### [12] Shareholders' equity

*Capital Stock*

DATA MODUL AG has capital stock of 10,578,546 euros, and has been listed as a technology firm on the Prime Standard since March 2003. Capital stock comprises 3,526,182 no-par bearer shares which are fully paid-in. Each share represents 3.00 euros of subscribed capital.

At the balance sheet date, DATA MODUL AG held no treasury shares, thus the number of shares outstanding was 3,526,182.

*Dividend*

For fiscal year 2017 the Executive and Supervisory Boards will recommend at the Annual Shareholders' Meeting payment of a cash dividend of 1.50 euros for a total distribution of 5,289 thousand euros to holders of the outstanding dividend-entitled shares.

*Authorized capital 2015*

Shareholders have authorized the Executive Board to increase the Company's share capital one or more times in the period through July 2, 2020 by a maximum total of 5,289,273 euros, subject to Supervisory Board approval, by offering and issuing new bearer shares for cash or non-cash contributions. The Executive Board makes the decision to issue new shares and decides on what rights are attached to the shares and on the terms of the share offering, subject to Supervisory Board approval. As a rule, new shares must be offered to existing shareholders for subscription. The Executive Board is authorized, subject to Supervisory Board approval, to exclude shareholder subscription rights (i) regarding fractional amounts, (ii) in share offerings for non-cash contributions, including particularly in connection with the acquisition of companies, business units, equity stakes and/or assets of companies and with business combinations, and (iii) in share offerings for cash if the share capital comprised by the new shares does not exceed 10% of total share capital; the stipulation applies that the issue price of the new shares may not be significantly lower than the market price of Company shares already trading on the stock market. The increase in authorized capital was recorded in the German commercial register (Handelsregister) on August 19, 2015.

*Other reserves*

Other reserves as of the reporting date break down as follows:

| KEUR | 2017 | 2016 |
|---|---|---|
| Adjustments due to first-time application of IFRS | (2,223) | (2,201) |
| Foreign currency adjustment | 560 | 1,140 |
| Total | (1,663) | (1,061) |

## [13] Pensions and non-current personnel liabilities

The Company maintains a non-contributory defined benefit plan that covers certain former Executive Board members. The Company has purchased life insurance policies to cover the actuarial net present value of pension obligations.

The redemption value of these insurance policies as of the reporting date totaled 189 thousand euros (previous year: 198 thousand euros). The pledged reinsurance policies are netted out as plan assets in "Pensions and non-current personnel liabilities". The pension provisions as of December 31, 2017 and December 31, 2016 were calculated in December of the respective year. The mortality rates are based on the tables of Prof. Dr. Klaus Heubeck (2005 G). There were no changes to the defined benefit plan in the fiscal year ended.

The table below shows the capitalized amounts related to pension commitments.

| KEUR | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Present value of deferred pension obligations | 1,690 | 1,715 | 1,734 | 1,851 | 1,609 |
| Fair value of the plan assets | 189 | 198 | 206 | 215 | 224 |
| Funding status | 1,501 | 1,517 | 1,528 | 1,636 | 1,385 |

Taking into account the principles of computation set forth in IAS 19, the current funding status of the pension obligations is as follows:

| KEUR | 2017 | 2016 |
|---|---|---|
| Changes in the present value of pension obligations: | | |
| Pension obligations forecast at beginning of year | 1,715 | 1,734 |
| Interest accrual on projected pension obligations | 23 | 28 |
| Actuarial profit or loss recorded in other comprehensive income resulting from changed interest and trend assumptions | 28 | 50 |
| Actuarial gain/loss recorded in other comprehensive income resulting from funding level changes | 49 | 25 |
| Pensions paid | (125) | (122) |
| Present value of pension obligations at year end | 1,690 | 1,715 |
| Plan assets | (189) | (198) |
| Pension obligations | 1,501 | 1,517 |

| KEUR | 2017 | 2016 |
|---|---|---|
| The net pension expenditure breaks down as follows: | | |
| Accruing interest on expected pension obligations | 23 | 28 |
| Net periodic pension cost | 23 | 28 |

Expenses are recorded in profit or loss under net interest.

The following average factors were used as basis for calculating pension obligations as of the reporting date:

| in % | 2017 | 2016 |
|---|---|---|
| Weighted average assumptions: | | |
| Discount rate | 1.23 | 1.37 |
| Growth rate in future benefit payments | 1.6 – 3.0 | 1.5 – 3.0 |

The duration is ten years, unchanged versus the previous year. The Company has pension plan benefit payment obligations as outlined below for respective fiscal years ending December 31:

| | KEUR |
|---|---|
| 2018 | 128 |
| 2019 | 130 |
| 2020 | 133 |
| 2021 | 136 |
| 2022 | 139 |
| Cumulative 2023 through 2027 | 740 |

The sensitivity analysis provided below shows changes in carrying amounts resulting from changes in the parameters for calculating pension obligations.

| KEUR | 12/31/2017 |
|---|---|
| Discount rate increase by 1.0% | (138) |
| Discount rate decrease by 1.0% | 160 |
| Pension trend rise by 1.0%* | 83 |
| Pension trend decline by 1.0%* | (74) |

* Pension trend sensitivity applies only to those portions of the pension obligations which have not been contractually agreed.

There were other long-term personnel obligations in addition to pension obligations as of the reporting date.

| KEUR | 2017 | 2016 |
|---|---|---|
| Pension provisions | 1,501 | 1,517 |
| Long-term bonus claims | 73 | 0 |
| Other non-current personnel obligations | 41 | 62 |
| Amount reported on consolidated balance sheet | 1,615 | 1,579 |

## [14] Provisions

Quantifying warranty provisions are inherently subject to uncertainty regarding amount and due dates. The amount of provisions is calculated based on historical data. Except for risks for which provisions have been recorded, Company management is unaware of any matters potentially creating liabilities for the Company which could have a major adverse impact on the Company's balance sheet or earnings.

| KEUR | Warranties | Personnel | Other | Total |
|---|---|---|---|---|
| Balance as of 1/1/2017 | 2,183 | 74 | 564 | 2,821 |
| Currency translation | 0 | 0 | (7) | (7) |
| Additions | 803 | 9 | 81 | 893 |
| Utilization | (823) | 0 | (334) | (1,156) |
| Reversals | (841) | 0 | (6) | (848) |
| **Balance as of 12/31/2017** | **1,322** | **83** | **298** | **1,703** |
| Of which, non-current | 405 | 0 | 0 | 405 |
| Of which, current | 917 | 83 | 298 | 1,298 |

## [15] Other non-current liabilities

Other non-current liabilities include 949 thousand euros in deferred revenue for contractually agreed guarantees for customers beyond statutory warranty protections (previous year 1,469 thousand euros).

### [16] Other current liabilities, other current financial liabilities and tax liabilities

Other current liabilities and other current financial liabilities consisted of the following items as of the reporting date:

| KEUR | 2017 | 2016 |
|---|---|---|
| Taxes payable | 1,618 | 1,308 |
| | | |
| Other current liabilities: | | |
| Personnel-related liabilities | 3,194 | 3,732 |
| Value-added tax payable | 1,598 | 2,207 |
| Social security and payroll taxes | 505 | 846 |
| Deferred revenue | 495 | 309 |
| Other liabilities | 82 | 0 |
| | 5,874 | 7,094 |
| Other current financial liabilities: | | |
| Outstanding invoices | 785 | 734 |
| Customers with credit balances | 36 | 115 |
| Other liabilities | 2 | 0 |
| | 823 | 849 |
| Total | 8,315 | 9,251 |

### [17] Current borrowings from financial institutions

Utilization of short-term credit facilities as of the reporting date is shown in the table below:

| KEUR | 2017 | 2016 |
|---|---|---|
| Deutsche Bank, Munich | 1,000 | 0 |
| Commerzbank, Munich | 1,000 | 1,000 |
| Sparkasse Tauberfranken, Tauberbischofsheim | 1,200 | 1,000 |
| Bayer. Landesbank, Munich | 1,000 | 1,000 |
| Total | 4,200 | 3,000 |

As of the reporting date, the Company had the following bank credit facilities at its disposal (including guaranteed bills outstanding and letters of credit):

| KEUR | 2017 | 2016 |
|---|---|---|
| Commerzbank, Munich | 7,000 | 7,000 |
| Sparkasse Tauberfranken, Tauberbischofsheim | 7,000 | 7,000 |
| Bayer. Landesbank, Munich | 7,000 | 7,000 |
| Deutsche Bank, Munich | 7,000 | 7,000 |
| Total | 28,000 | 28,000 |

In addition to these credit facilities, DATA MODUL has bank guarantees which it can use in lieu of rent deposits or supplier guarantees. These bank guarantees are equivalent to letters of credit. Instead of receiving a cash deposit, the bank guarantees for example the deposit amount without actually depositing assets. These guarantees affect the total amount of cash the Company can borrow, as the guarantees pose a potential risk to the issuing banks. As of December 31, 2017 DATA MODUL had drawn on bank guarantees for the amount of 814 thousand euros (previous year: 880 thousand euros).

## 7. Notes to the Statement of Cash Flows

The Statement of Cash Flows comprises inflow and outflow of funds from ordinary operations, and investment and financing activities. Effect from changes in the scope of consolidation and currency fluctuations are eliminated on the respective line item and reported separately.

Cash flows from operating activities include all cash flows from ongoing operating activities and are presented using the indirect method. All non-cash income and expense items are adjusted based on net income for the year. Primarily due to the net profit for the year of 10,623 thousand euros (previous year: 10,228 thousand euros), cash flow from operating activities came to 6,674 thousand euros. Interest income, interest payments and income taxes paid in the total amount of -4,900 thousand euros (previous year: -4,255 thousand euros) resulted from Group operating activities.

Cash flows from investing activities reflect the capital outflow related to capitalized development costs and to other asset additions, and the cash inflows from the disposal of assets (including consolidated investments in subsidiaries). Net cash flow from investing activities was -4,421 thousand euros in 2017 and -4,017 thousand euros in 2016.

Cash flow from financing activities in fiscal year 2017 was 738 thousand euros (previous year -4,423 thousand euros). With the currently low interest levels and the Company's good credit standing, the Group satisfied its short-term ongoing working capital financing requirements mainly with current borrowings from financial institutions in order to respond quickly and flexibly to changes in the business environment. Dividend distribution resulted in a liquidity outflow of 423 thousand euros in 2017 (previous year: 423 thousand euros). The dividend distribution in 2017 was 0.12 euro per share for fiscal year 2016 (previous year: 0.12 euros).

Cash and cash equivalents comprise current bank deposits, checks and cash on hand.

Effects of exchange rate fluctuations on cash and cash equivalents are presented in a separate line item.

### Reconciliation of debt movements to cash flows from financing activities

The reconciliation statement of debt to cash flow from financing activities required pursuant to IAS 7.44 is shown below.

| Change in financing debt<br>KEUR | Statement of financial position on 12/31/2016 | Affecting cash flow | Not affecting cash flow | | | Reclassification | Statement of financial position on 12/31/2017 |
|---|---|---|---|---|---|---|---|
| | | | Additions/ disposals | FX | Fair value | | |
| Liabilities due to financial institutions | 3,000 | 1,200 | 0 | 0 | 0 | 0 | 4,200 |
| Total | 3,000 | 1,200 | 0 | 0 | 0 | 0 | 4,200 |

## 8. Supplementary Disclosures

### Related party disclosures

According to IAS 24 (Related Party Disclosures), transactions with persons and entities that are controlled by the reporting entity or could control the reporting entity are to be disclosed unless these have already been included in the Consolidated Financial Statements as consolidated entities.

### Current shareholdings in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen

Sec. 160 (1) No. 8, German Stock Corporation Act (AktG) requires reporting of any changes in voting rights disclosed to DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen („DATA MODUL AG“) in accordance with Sec. 33 (1) or (2) of the German Securities Trading Act (formerly Sec. 21 (1) and (1a) of the German Securities Trading Act/WpHG).

In fiscal year 2017 DATA MODUL AG received disclosures of shareholdings. The disclosable shareholdings are documented in the most recent disclosures received and published by DATA MODUL AG in fiscal year 2017, as outlined below.

Scherzer & Co. Aktiengesellschaft, Cologne, Germany, informed DATA MODUL AG in accordance with Sec. 21 (1) WpHG (now Sec. 33 (1) WpHG) that on February 20, 2017 its voting rights percentage fell below the 5% and 3% thresholds to a current level of 0% (equals 0 voting rights) from a previous voting rights percentage of 6.07%.

HANSAINVEST Hanseatische Investment GmbH, Hamburg, Germany, informed DATA MODUL AG in accordance with Sec. 21 (1) WpHG (now Sec. 33 (1) WpHG) that on November 16, 2017 its voting rights percentage exceeded the 3% threshold, increasing to a current level of 3.15% (equals 111,229 voting rights) from a previous voting rights percentage of 2.80%. Pursuant to Sec. 22 WpHG (now Sec. 34 WpHG) 3.15% of voting rights (equals 111,229 voting rights) are attributable to HANSAINVEST Hanseatische Investment GmbH.

All disclosures communicated to and published by DATA MODUL AG in the 2017 financial year are available on the Company‘s website. Navigation: https://www.data-modul.com › Company › Investors › Financial news › Announcements of Voting Rights .

Reportable shareholdings are also documented in the most recent disclosures received by DATA MODUL AG in fiscal year 2015, reproduced below.

"Correction of the Publication pursuant to Article 26 Section 1 WpHG [the German Securities Trading Act] on April 23, 2015

1) Arrow Central Europe Holding Munich GmbH, Munich, Germany has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).

2) Arrow Electronics GmbH & Co. KG, Neu-Isenburg, Germany has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).
53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders which hold at least 3 percent of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen:
Arrow Central Europe Holding Munich GmbH

3) Verwaltungsgesellschaft Arrow Electronics GmbH, Neu-Isenburg, Germany has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).
53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with

Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH

4) B.V. Arrow Electronics DLC, Venlo, The Netherlands has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).
53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
Verwaltungsgesellschaft Arrow Electronics GmbH
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH

5) Arrow Electronics EMEASA S.r.l., Milano, Italy has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).
53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
B.V. Arrow Electronics DLC
Verwaltungsgesellschaft Arrow Electronics GmbH
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH

6) Arrow Electronics Holdings Asset Management, Kft, Budapest Hungary has informed us in accordance with Sec. 21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).
53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
Arrow Electronics EMEASA S.r.l.
B.V. Arrow Electronics DLC
Verwaltungsgesellschaft Arrow Electronics GmbH
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH

7) Arrow International Holdings, L.P., Grand Cayman, Cayman Islands has informed us in accordance with Sec. 21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).
53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
Arrow Electronics Holdings Asset Management, Kft,
Arrow Electronics EMEASA S.r.l.
B.V. Arrow Electronics DLC
Verwaltungsgesellschaft Arrow Electronics GmbH
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH

8) Arrow Holdings (Delaware), Centennial, CO, USA has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich,

Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).

53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
Arrow International Holdings, L.P.
Arrow Electronics Holdings Asset Management, Kft,
Arrow Electronics EMEASA S.r.l.
B.V. Arrow Electronics DLC
Verwaltungsgesellschaft Arrow Electronics GmbH
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH

9) Arrow Electronics (UK), Inc., Centennial, CO, USA, has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).

53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
Arrow Holdings (Delaware), LLC
Arrow International Holdings, L.P.
Arrow Electronics Holdings Asset Management, Kft,
Arrow Electronics EMEASA S.r.l.
B.V. Arrow Electronics DLC
Verwaltungsgesellschaft Arrow Electronics GmbH
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH
10) Arrow Electronics Inc., Centennial, CO, USA, has informed us in accordance with Sec.21 (1) WpHG that its voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen, Munich, Germany, exceeded the 50% voting rights threshold on April 16, 2015, on that day amounting to 53.37% (equals 1,881,986 voting rights).

53.37% of voting rights (equals 1,881,986 voting rights) are attributable to the company in accordance with Sec. 22 (1), Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of the voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen amounts to 3 percent or more:
Arrow Electronics (UK) Inc.
Arrow Holdings (Delaware), LLC
Arrow International Holdings, L.P.
Arrow Electronics Holdings Asset Management, Kft,
Arrow Electronics EMEASA S.r.l.
B.V. Arrow Electronics DLC
Verwaltungsgesellschaft Arrow Electronics GmbH
Arrow Electronics GmbH & Co. KG
Arrow Central Europe Holding Munich GmbH"

For information purposes, we note that Arrow Central Europe Holding Munich GmbH notified DATA MODUL AG on April 11, 2017 provided notice that Arrow owns 69.2% of the share capital of DATA MODUL AG in the context of notification of the former's intention at that time to conclude a control and profit transfer agreement per Sec. 291 (1) Sentence 1 German Stock Corporation Act (AktG) with Arrow Central Europe Holding Munich GmbH as controlling company and DATA MODUL AG as dependent company. DATA MODUL AG published this disclosure as insider information in accordance with Article 17 of the Market Abuse Regulation (MAR).

Please note that all of the above disclosures state shareholding percentages and numbers of voting rights may no longer be accurate.

Business transactions with the Arrow Group in fiscal 2017 included 136 thousand euros in purchases (previous year: 419 thousand euros) and 76 thousand euros in sales (previous year: 54 thousand euros). As of the reporting date, unsecured liabilities due to the ARROW Group totaled 3 thousand euros (previous year 27 thousand euros), while receivables from the

ARROW Group totaled 15 thousand euros (previous year: 0 thousand euros).

The obligatory disclosures regarding relations between Executive and Supervisory Board members and the Company are included in the Supplementary Disclosures.

**Objectives and methods of financial risk management**
Business operations inevitably result in liquidity, credit and market risks. Market risks are effects from market price changes on fair value and future cash flows from financial instruments. Market risks include in particular interest-related cash flow risks, foreign currency and other price risks.

Strategies and control mechanisms for specific risks arising from the Group's use of financial instruments are outlined below. The Company has no significant concentration of credit risk.

*Interest rate risk*
The table below shows a sensitivity risk analysis of Group earnings before taxes and equity to interest rate changes in variable-rate current borrowings.

| KEUR | 2017 | 2016 |
|---|---|---|
| Impact on earnings before taxes | | |
| Interest rate change | | |
| Increase by 1% | (42) | (30) |
| Decrease by 1% | 42 | 30 |

*Currency risk*
Currency fluctuations may materially affect the Group's balance sheet due to the Company's significant foreign currency investments.

The Group is also subject to foreign currency exposure in individual transactions. Risk exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 62.3% (previous year: 63.1%) of Group revenue was generated in currencies other than the functional currency of the operating unit that generated the revenue, and 63.4% (previous year: 61.6%) of costs were incurred in a currency other than the functional currency of the operating unit to which they accrued. The Group may employ a range of hedging instruments such as currency futures contracts and options to minimize price and currency risks. Currency futures contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into currency hedges until a fixed obligation has been agreed on. It is the Company's policy to negotiate the terms of hedge derivatives to correspond to those of the hedged item in order to maximize hedge effectiveness. As of December 31, 2017, no hedging instruments were held.

The table below shows a sensitivity analysis of Group earnings before taxes to exchange rate fluctuations in all key foreign currencies which are deemed reasonably possible on the basis of prudent business judgment. The most impact is seen from exchange rate fluctuations versus the USD and JPY. The impact on earnings before taxes due to an exchange rate increase or decrease relative to the average foreign exchange rate for the respective fiscal years was calculated. All other factors remain unchanged.

| KEUR | 2017 | 2016 |
|---|---|---|
| Impact on earnings before taxes | | |
| Exchange rate change | | |
| Increase by 5% | 405 | 636 |
| Decrease by 5% | (366) | (584) |

*Credit risk*
Credit risks arise from the potential of business partners not meeting their obligations in operating business and financial transactions. Risk related to credit standing is minimized by means of an efficient credit and collections management system.

The Group only enters into transactions with third parties which have good credit standing. It is the Company's policy that all customers who wish to trade on credit are subject to verification of creditworthiness. Trade receivables balances are constantly monitored and allowances made for possible value adjustment risks. Other than that there are no significant default risks connected with ongoing business activities. Additionally, credit sale insurance policies have been taken out to minimize risk. The average default risk rate in recent years has been below 3%.

In transactions not conducted in the country of the respective operating unit, the Company does not offer credit terms without a credit check. The Group thus does not face a major concentration of credit risks.
With other Group financial assets such as cash and cash equivalents and certain derivate financial instruments, the maximum credit risk exposure through counterparty default equals the carrying amount of these instruments.

*Liquidity risk*

The Group constantly monitors liquidity risk, employing a liquidity planning tool. This tool takes into account the maturities of both the financial investments and the financial assets, as well as projected cash flows from business operations.

The Company's objective is to meet liquidity requirements at all times while maintaining flexibility through the utilization of overdraft facilities, bank loans, and finance leases. As of December 31, 2017, 59.9% of the Company's debt reported on the Consolidated Financial Statements was due within one year (previous year: 54.7%).

The table below shows the maturity structure of contractual, undiscounted and expected cash flows from financial liabilities. The cash flows consist of redemption payments and related interest. The previous-year table has been adjusted accordingly with regard to cash flows.

| 12/31/2017 KEUR | ‹ 12 months | 1 - 5 years | › 5 years | Total |
|---|---|---|---|---|
| Liabilities due to financial institutions | 4,211 | 0 | 0 | 4,211 |
| Trade accounts payable | 13,702 | 0 | 0 | 13,702 |
| Other financial liabilities | 823 | 0 | 0 | 823 |
| Total | 18,736 | 0 | 0 | 18,736 |

| 12/31/2016 KEUR | ‹ 12 months | 1 - 5 years | › 5 years | Total |
|---|---|---|---|---|
| Liabilities due to financial institutions | 3,003 | 0 | 0 | 3,003 |
| Trade accounts payable | 14,215 | 0 | 0 | 14,215 |
| Other financial liabilities | 849 | 0 | 0 | 849 |
| Total | 18,067 | 0 | 0 | 18,067 |

## Capital management

The main objective behind the Company's capital management activities is to maintain a high credit rating and good equity ratio to support business operations and maximize shareholder value. The Company manages and adjusts its capital structure taking into account any changes to the general economic conditions. In order to maintain or adjust its capital structure, the Company may adjust dividend payments to shareholders, make share repurchases or issue new shares. No changes had been made to the objectives or policies as of December 31, 2017, nor in the previous year.

The Company monitors its capital levels with respect to a capital management ratio which is the ratio of net debt to total equity plus net debt. The Company's net debt is its interest-bearing loans and borrowings and trade and other payables less cash and cash equivalents and current assets. Shareholders' equity is the equity shown on the balance sheet.

| KEUR | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Current borrowings | 4,200 | 3,000 |
| Trade accounts payable | 13,702 | 14,215 |
| Other liabilities | 13,380 | 15,799 |
| minus cash and cash equivalents and other current assets | (22,306) | (19,370) |
| Net debt | 8,976 | 13,644 |
| Total shareholders' equity | 79,571 | 70,027 |
| Shareholders' equity and net financial debt | 88,547 | 83,671 |
| Capital management ratio in % | 10.14 | 16.31 |

### Fair value

The carrying amounts of the financial instruments the Group holds essentially correspond to their fair values.

### Hedging activities

*Cash flow hedges*

As of December 31, 2017, there were no financial instruments classifiable as hedges for projected sales to customers or purchases from suppliers for which these fixed obligations existed. As of the December 31, 2017 reporting date there were no hedged net investments in foreign business operations.

### Contingent liabilities, contingencies and other financial obligations

*Contingent liabilities and litigation*

The Group may be subject to litigation from time to time as part of the ordinary course of business. The Group's Executive Board and its legal advisors are not aware of any claims that could have a material adverse effect on the Company's business, balance sheet or earnings.

Contingencies from guarantees and warranties as of the balance sheet date totaled 814 thousand euros (previous year: 880 thousand euros).

*Lease agreements*

The Group has entered into certain operating lease and rental agreements for office space, vehicles and IT equipment. During the reporting periods, the Group incurred lease and rental expenses as follows:

| KEUR | 2017 | 2016 |
|---|---|---|
| Rent of office space | 1,231 | 1,222 |
| Operating leases for vehicles | 605 | 612 |
| Total lease and rental expenses | 1,836 | 1,834 |

Financial liabilities for the years following the balance sheet date from future minimum rental obligations under current contracts were as follows:

| KEUR | 12/31/2017 |
|---|---|
| Rents and leases 2018 | 1,703 |
| Rents and leases 2019 | 1,492 |
| Rents and leases 2020 | 1,274 |
| Rents and leases 2021 | 1,261 |
| Rents and leases 2022 | 1,272 |
| Rents and leases 2023 and after | 1,285 |
| Total | 8,287 |

The rental lease obligations primarily relate to the office buildings in Munich and the offices in Hamburg, Deggendorf, Düsseldorf, Hauppauge, Portland, Baron, Milan, Madrid, Birmingham, Dubai and Singapore. Lease payments are mostly related to corporate vehicles.

At the reporting date, 69,174 thousand euros in orders placed with suppliers were still outstanding (previous year: 64,746 thousand euros).

### Segment reporting

In accordance with IFRS 8 (Operating Segments), segments are defined using the „management approach". Segments are defined and information on these segments is thus disclosed according to internal criteria used by Company management to allocate resources and evaluate segment performance. The segment reports below were prepared in accordance with this definition, using as key indicators orders received, order backlog, revenue, EBIT and net income for the year.

DATA MODUL is, in the company's own assessment, the European market leader in display technology. DATA MODUL develops, manufactures and distributes innovative flatbed displays, monitors, electronic subassemblies and complete information systems.

DATA MODUL displays and easyTOUCH displays, electronic subassemblies and custom products for use in industrial applications and the automotive industry comprise the Displays business segment.

The Systems business segment comprises our easyBoard, easyPanel and easyEmbedded solutions as well as special monitors for applications in marine navigation and medical devices. This business segment also serves customers in the airport, rail and digital signage industries.

## Business segments

| Segment results | Fiscal year 2017 | | | Fiscal year 2016 | | |
|---|---|---|---|---|---|---|
| KEUR | Displays | Systems | Group total | Displays | Systems | Group total |
| Revenue from sales of goods and services | 122,306 | 92,523 | 214,829 | 111,708 | 80,698 | 192,406 |
| Service revenue | 278 | 3,149 | 3,427 | 354 | 4,319 | 4,673 |
| Total revenue | 122,584 | 95,672 | 218,256 | 112,062 | 85,017 | 197,079 |
| | | | | | | |
| Research and development expenses | (1,963) | (3,405) | (5,368) | (2,277) | (3,642) | (5,919) |
| Selling and general administrative expenses | (14,182) | (12,113) | (26,295) | (12,832) | (11,949) | (24,781) |
| Amortization of intangible assets and depreciation on property, plant and equipment | (676) | (1,735) | (2,411) | (675) | (1,346) | (2,021) |
| Segment results (EBIT) | 9,387 | 6,526 | 15,913 | 9,373 | 5,666 | 15,039 |
| | | | | | | |
| Interest income | 4 | 12 | 16 | 2 | 8 | 10 |
| Interest expense | (72) | (48) | (120) | (62) | (26) | (88) |
| | | | | | | |
| Income tax | (2,471) | (2,715) | (5,186) | (2,687) | (2,046) | (4,733) |
| | | | | | | |
| Net income for the year | 6,849 | 3,774 | 10,623 | 6,626 | 3,602 | 10,228 |
| | | | | | | |
| Investments in intangible assets, property, plant and equipment, and financial assets | 1,647 | 2,780 | 4,427 | 1,087 | 2,944 | 4,031 |

## Breakdown by geographical region

*Revenue*

*Displays segment*

| KEUR | 2017 | 2016 |
|---|---|---|
| Domestic | 64,310 | 63,434 |
| Foreign | 58,274 | 48,628 |
| Total | 122,584 | 112,062 |

*Systems segment*

| KEUR | 2017 | 2016 |
|---|---|---|
| Domestic | 44,981 | 44,486 |
| Foreign | 50,691 | 40,531 |
| Total | 95,672 | 85,017 |

## Supplementary Disclosures

### Corporate Governance

DATA MODUL AG is the only listed company of the Group to provide shareholders online access to disclosures stipulated under Sec. 161 of German Stock Corporation Act (Aktiengesetz, [AktG]) and in Sec. 289f German Commercial Code (HGB) on the Company website www.data-modul.com, in the Corporate Governance section.

### Related and affiliated companies

The DATA MODUL consolidated financial statements include all subsidiaries in which the parent company, DATA MODUL AG, holds an indirect or direct majority of voting rights.

### Affiliated companies

| Company name, registered office | Shareholding | IFRS equity | Net profit |
|---|---|---|---|
| | in % | KEUR | KEUR |
| DATA MODUL Weikersheim GmbH, Weikersheim, Germany | 100 | 8,178 | 758 |
| DATA MODUL France SARL, Baron, France | 100 | 1,275 | 246 |
| DATA MODUL Iberia S.L., Madrid, Spain | 100 | 2,258 | 1,011 |
| DATA MODUL Inc., New York, USA | 100 | 2,907 | 865 |
| DATA MODUL Italia S.r.l., Bolzano, Italy | 100 | 835 | 178 |
| DATA MODUL Ltd., Birmingham, United Kingdom | 100 | 1,296 | 211 |
| DATA MODUL Suisse GmbH, Zug, Switzerland | 100 | (125) | (2) |
| DATA MODUL Hong Kong Ltd., Hong Kong, China | 100 | 298 | 408 |
| DATA MODUL Electronic Technology (Shanghai) Co., Ltd., Shanghai, China | 100 | 138 | (284) |
| Conrac Asia Display Products PTE Ltd., Singapore | 100 | 981 | 88 |
| DATA MODUL FZE, Dubai, VAE | 100 | 1,258 | (218) |

### Remuneration report

The remuneration structures for the Executive and Supervisory Boards is elaborated in the Group Management Report in the section "Remuneration report".

### Executive Board member remuneration

The disclosures on compensation paid to the Executive Board member in fiscal year 2017 take into account the recommendations per German Corporate Governance Code (GCGC) in addition to applicable accounting principles (GAS 17, HGB/German GAAP, IFRS):

| Compensation package granted | Dr. Florian Pesahl *CEO* *Appointed: January 1, 2010* | | | |
|---|---|---|---|---|
| KEUR | 2016 | 2017 | 2017 (min.) | 2017 (max.) |
| Fixed remuneration | 230 | 230 | 230 | 230 |
| Fringe benefits | 32 | 16 | 16 | 16 |
| **Total** | **262** | **246** | **246** | **246** |
| One-year variable compensation [1] | 220 | 147 | 0 | 147 |
| Multi-year variable compensation [2] | 0 | 73 | 0 | 73 |
| *Executive bonus 2016* | 0 | 0 | 0 | 0 |
| *Executive bonus 2017* | 0 | 73 | 0 | 73 |
| **Total compensation** (according to GCGC) | **482** | **466** | **246** | **466** |
| Service cost | 0 | 0 | 0 | 0 |
| **Total compensation** (according to GAS 17) | **482** | **466** | **246** | **466** |

[1] Not taking into account any deferrals.

[2] According to his employment contract, Dr. Pesahl's executive bonus package contains a long-term incentive by virtue of which only two-thirds of the accrued executive bonus is to be paid out upon adoption and approval of the consolidated financial statements, the third portion only being disbursable if the Group remains profitable in the fiscal year following.

Compensation of Executive Board member paid in fiscal year 2017 breaks down as follows:

| Compensation | Dr. Florian Pesahl *CEO* *Appointed: January 1, 2010* | |
|---|---|---|
| KEUR | 2016 | 2017[4] |
| Fixed remuneration | 230 | 230 |
| Fringe benefits | 32 | 16 |
| **Total** | **262** | **246** |
| One-year variable compensation [3] | 100 | 220 |
| Multi-year variable compensation | 50 | 50 |
| *Executive bonus 2014* | 50 | 0 |
| *Executive bonus 2015* | 0 | 50 |
| **Total compensation** | **412** | **516** |

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[3] Not taking into account any deferrals.

[4] The Company has an agreement with Dr. Pesahl that he will remain on the Executive Board through the end of fiscal year 2016 and receive as compensation for not exercising his special termination right a one-time payment of 760 thousand euros in 2017. This was paid out in fiscal year 2017.

As of the reporting date, the Group had pension commitments for former members of the Executive Board as shown in the table below, indicating annual contributions to the pension plan:

| Pensions | Peter Hecktor | | Walter Eichner | |
|---|---|---|---|---|
| KEUR | 2017 | 2016 | 2017 | 2016 |
| Provisions recorded as of the reporting date | 267 | 267 | 265 | 270 |
| Allocations to pension provisions | 22 | 30 | 21 | 27 |
| Pensions paid | 22 | 21 | 26 | 25 |

In fiscal years 2017 and 2016, the Executive Board members did not receive any loans or similar benefits. Nor did the Executive Board members receive any remuneration for offices held at other Group companies.

### Supervisory Board member remuneration

| **Annual remuneration** in KEUR | 2017 | 2016 |
|---|---|---|
| Kristin D. Russell | 40 | 21 |
| Thomas A. Leffler | 19 | 0 |
| Jim Petrie | 11 | 0 |
| Amir Mobayen | 0 | 17 |
| Brian Armstrong | 0 | 30 |
| Wolfgang Klein | 20 | 20 |
| **Grand total** | **90** | **88** |

## Membership of the Executive and Supervisory Boards

*Executive Board member:*
Dr. Florian Pesahl, Munich, CEO

*Supervisory Board members:*
Kristin D. Russell, Chairwoman
Jim Petrie, Deputy Chairman
(January 1, 2017 - May 10, 2017)
Thomas A. Leffler, Deputy Chairman
(since May 11, 2017)
Wolfgang Klein (non-executive employee),
Employee Representative

### Auditors' fees

The Company recorded fees for auditing services in the amount of 155 thousand euros in accordance with Sec. 314 (1) No. 9a of German Commercial Code (previous year: 150 thousand euros). Tax consultancy expenses as per Sec. 314 (1) No. 9c German Commercial Code in the amount of 0 thousand euros (previous year: 0 thousand euros) were recorded through profit or loss, as well as other services as per Sec. 314 (1) No. 9d German Commercial Code in the amount of 15 thousand euros (previous year: 4 thousand euros).

### Subsequent events

We are not aware of any significant events that have occurred after the end of the fiscal year, which would have had a major influence or impact on the Company's financial position, financial performance and/or cash flows.

# INDEPENDENT AUDITOR'S REPORT

**To DATA MODUL Aktiengesellschaft, Produktion und Vertrieb von Elektronischen Systemen**

Report on the audit of the consolidated financial statements and of the group management report

*Opinions*
We have audited the consolidated financial statements of DATA MODUL AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the consolidated statement of comprehensive income for the fiscal year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DATA MODUL AG for the fiscal year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

· the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017, and the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

*Basis for the opinions*
We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

*Key audit matters in the audit of the consolidated financial statements*
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

**1. Recognition and measurement of development projects**

**Reasons why the matter was determined to be a key audit matter:** The capitalization and measurement of development costs without a specific customer agreement is based on the estimates and assumptions by the executive directors of DATA MODUL AG, which mainly pertain to the technical and economic feasibility, the amount and the period of the expected net cash flow generated from the development projects. Impairments are recognized if they do not meet certain expectations or have been re-assessed. The recognition and measurement of capitalized development projects were of particular importance because it requires a great deal of judgment, estimates and assumptions on behalf of the executive directors.

**Auditor's response:** As part of our audit of the recognition and measurement of development projects without a specific customer agreement, we examined the processes and internal controls implemented by DATA MODUL AG. We also performed substantive audit procedures. This involved inter alia a review of the preparation of all capitalized development projects and separate reviews on a sample basis of projects capitalized in the fiscal year in terms of the ability to recognize development costs, the executive directors' assumptions in determining useful lives and in deciding when to begin write-downs. We reperformed the calculation of the hourly rate and compared it with the personnel expenses used in the measurement of development projects and reconciled the supporting documentation for the hours worked. To identify indications of a potential impairment of existing development projects, we interviewed the executive directors and the employees responsible and analyzed project-related margins for products developed in house. Our audit procedures did not lead to any reservations regarding the recognition and measurement of development projects without a specific customer agreement.

**Reference to related disclosures:** As regards the accounting policies applied, we refer to the disclosures in section 4 Recognition and measurement methods "Intangible assets" and section 5 Notes to the statement of income "Research and development expenses" in the notes to the consolidated financial statements.

**2. Measurement of embedded derivatives**

**Reasons why the matter was determined to be a key audit matter:** DATA MODUL AG sells products and services and purchases goods. Some of these transactions are carried out in foreign currency (e.g., USD). As the operating currency with European customers and suppliers is usually the euro and the products, services and purchased merchandise are traded in euro, the transactions carried out in foreign currency with these customers and suppliers usually include embedded derivatives that are recognized separately from the underlying contract of sale and procurement.

Their measurement is largely dependent on the average exchange rates used due to the fact that the calculation is not performed at the individual contract level. The high volume of foreign currency contracts with European customers and suppliers and the simplified valuation process carry the risk that the embedded derivatives could have a significant impact on the consolidated financial statements that is not accounted for. For this reason, the measurement of the embedded derivatives was a key audit matter.

**Audit approach:** To assess the appropriateness of the calculations performed by the executive directors of the fair value of the embedded derivatives contained in customer and supplier orders we analyzed the underlying process of DATA MODUL AG and performed substantive audit procedures. In particular, we also reperformed the method and calculation of the underlying valuation model as well as the calculation of the average exchange rates used. We also assessed the underlying assumptions and the scope of the customer and supplier orders. Furthermore, we analyzed the existing binding customer and supplier orders with embedded derivatives that were used as a basis for the calculation by comparing them to the system and on a sample basis to the underlying contracts. We also made a comparison with the methodology used by DATA MODUL AG in the prior year to assess the consistency of the measurement. We evaluated the sensitivity analysis prepared by the Company in terms of the scope of customer and supplier orders used to calculate the average exchange rates. Our audit procedures did not lead to any reservations relating to the measurement and recognition of embedded derivatives in customer and supplier orders.

**Reference to related disclosures:** We refer to the disclosures in section 4 Recognition and measurement methods "Derivative financial instruments" as regards the measurement policies used for derivatives.

**3. Recognition of warranty obligations**

**Reasons why the matter was determined to be a key audit matter:** The recognition of warranty obligations was a key audit matter, in particular the general warranty provisions for the warranty period required by law, obligations from warranties for individual claims and revenue recognition associated with warranty obligations that extend beyond the statutory warranty period. The assessment of warranty claims is exceptionally uncertain and requires estimates by the executive directors that could significantly influence the recognition and amount of each of the provisions and thus the financial position and financial performance as well.

**Auditor's response:** In the course of our audit of the accounting treatment of warranty claims, we examined the processes and internal controls set up by the Group to identify, assess and account for warranty claims and performed analytical audit procedures and tests of details. To determine the potential significant individual warranty provisions for a specific claim or claims asserted and whether the estimates of the executive directors regarding the expected cash outflows are appropriate, our audit procedures included interviewing the executive directors and other persons from the Group that are familiar with these matters, obtaining confirmations from external legal advisors and assessing the internal statements on the accounting presentation in the annual financial statements. We reperformed the calculations of the general warranty provisions and compared the significant assumptions made with the internal reporting. We also analyzed changes to the carrying amounts compared to the prior period and interviewed the executive directors. In checking the completeness of warranty provisions, we examined the warranty expenses for any indication of circumstances not yet taken into account. Our audit procedures pertaining to revenue recognition on account of extended warranty periods also comprised the review of the underlying agreements for the contractual warranty periods. Furthermore, the carrying amounts from previous periods were compared and this analysis was discussed with the employees tasked with this by the Company. The estimates made for previous fiscal years were also compared with actual developments. Our audit procedures did not lead to any reservations as regards the recognition of warranty obligations.

**Reference to related disclosures:** We refer to the disclosures in section 4 Recognition and measurement methods "Provisions" and "Revenue recognition, income and expenses" and section 6 Notes to the statement of financial position Note 14 "Provisions" and Note 15 "Other non-current liabilities" as regards the measurement policies used for derivatives.

**Other information**

The Supervisory Board is responsible for the supervisory board report. In all other respects, the executive directors are responsible for the other information. The other information comprises reporting sections in the annual report; DATA MODUL at a glance, Executive Board Report, DATA MODUL Worldwide, DATA MODUL Product Portfolio, Highlights, Corporate Governance Declaration, Corporate Responsibility, German Corporate Governance Code Declaration and Management Representation and Supervisory Board Report. We received a copy of this 'Other information' by the time this auditor’s report was issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

*Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report*

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the group management report.

*Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial

Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report 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 these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

*Other legal and regulatory requirements*

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 11 May 2017. We were engaged by the Supervisory Board on 26 September 2017. We have been the group auditor of DATA MODUL AG without interruption since fiscal year 2002.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

*German Public Auditor responsible for the engagement*

The German Public Auditor responsible for the engagement is Peter von Wachter.

Munich, March 21, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gallowsky
Wirtschaftsprüfer
[German Public Auditor]

von Wachter
Wirtschaftsprüfer
[German Public Auditor]

# CLOSING REMARK AND AUDITOR'S REPORT

We provide this report in accordance with the provisions of Sec. 313 AktG and conclude that the report of the Executive Board of DATA MODUL Aktiengesellschaft, Produktion und Vertrieb von Elektronischen Systemen, Munich, for the fiscal year from 1 January 2017 to 31 December 2017 on relationships with affiliates, which is attached as exhibit 1, complies with the requirements of Sec. 312 AktG.
The Executive Board provided us with all the explanations and supporting documentation requested.
The dependent company report complies with the principles of a true and fair view.
In accordance with Sec. 312 (3) Sentence 3 AktG, the concluding statement of the dependent company report has been included in the management report (Sec. 289 HGB).
Based on the definitive findings of our audit, the dependent company report does not give rise to any reservations. We have therefore issued the following auditor's report:

Based on our audit performed in accordance with professional standards and our professional judgment, we confirm that

1. the factual statements made in the report are correct
2. the consideration paid by the Company for the legal transactions stated in the report was not excessively high.
3. there are no circumstances that would require a materially different assessment of the actions listed in the report than that of the Executive Board.

Munich, March 21, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gallowsky
Wirtschaftsprüfer
[German Public Auditor]

von Wachter
Wirtschaftsprüfer
[German Public Auditor]

# MANAGEMENT REPRESENTATION

I represent, to the best of my knowledge and in accordance with the applicable accounting principles for consolidated financial statements, that the Consolidated Financial Statements present a true and fair view of the Group's financial position, financial performance and cash flows, and that the Group Management Report describes fairly, in all material respects, the Group's business performance, results and financial position, as well as significant risks and opportunities of relevance to the Group during the remainder of the fiscal year.

Dr. Florian Pesahl
Chief Executive Officer

# FINANCIAL CALENDAR 2018

| | |
|---|---|
| Quarterly report as of March 31, 2018 | May 8, 2018 |
| Annual General Meeting | May 8, 2018 |
| Half-year Financial report as of June 30, 2018 | August 10, 2018 |
| Quarterly report as of September 30, 2018 | November 9, 2018 |

**The DATA MODUL 2017 Annual Report is available in German and English.**

**Further information about DATA MODUL:**

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