DATA MODUL

ANNUAL REPORT 2016

DATA MODUL AT A GLANCE

DATA MODUL Group financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).
For computation purposes, the tables and notes may include deviations from the accurately calculated amounts due to rounding.

Corporate Results in KEUR	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Revenue	197,079	180,300	155,915	146,706	140,245	140,870	119,083
EBITDA [1]	17,060	15,331	13,257	7,797	10,181	12,070	8,684
EBIT [2]	15,039	12,576	11,404	5,676	8,391	10,135	6,582
EBIT margin in %	7.6	7.0	7.3	3.9	6.0	7.2	5.5
Net income	10,228	8,413	7,573	3,235	7,085	7,600	3,782
Shareholders' equity	70,027	60,246	48,036	42,131	41,774	38,918	32,573
Shareholders' equity ratio in %	68.0	66.6	60.0	50.5	56.2	55.6	50.7
Working Capital [3]	52,854	44,691	39,543	41,218	37,894	35,831	31,338
Cash flow [4]	6,325	7,049	13,799	4,854	3,852	6,348	3,969
Capital expenditures [5]	4,031	2,719	2,471	2,226	3,029	1,697	1,418
Employees [6]	395	364	348	333	315	296	276
Revenue per employee	499	495	448	441	445	476	431
Earnings per share in euros	2.90	2.41	2.23	0.95	2.05	2.16	1.11
Cash flow per share in euros [4]	1.79	2.00	3.91	1.38	1.09	1.80	1.13
Dividend per share in euros [7]	1.50	0.12	0.12	0.60	0.60	0.60	0.40
Stock price at year end in euros	49.00	36.90	20.00	16.55	17.01	10.97	13.25
Highest stock price in euros	53.00	38.09	20.82	19.55	18.30	15.77	13.87
Lowest stock price in euros	35.01	19.91	16.31	12.70	10.76	10.38	8.29

[1] **EBITDA:** Earnings before interest, income taxes, depreciation and amortization
[2] **EBIT**: Earnings before interest and taxes
[3] **Working capital:** Working capital is the difference between trade receivables, including inventory, and accounts payable
[4] **Cash flow:** Cash flows from operating activities
[5] **Capital expenditures:** Capital expenditures in intangibles and property, plant and equipment
[6] **Employees:** Average annual number without apprentices
[7] **Dividend per share in euros:** To be proposed by the administration at the Annual Shareholders' Meeting 2017

DATA MODUL
ANNUAL REPORT 2016

MANAGEMENT REPORTING

The key figures of DATA MODUL for 2016 reflect the company's financial strength, innovation capability and profitability. While further developing the "Shape 2020" strategy program, DATA MODUL continues to pursue the goal of becoming a world-leading provider of visual system solutions.

MANAGEMENT BOARD REPORT

Dear Shareholders, and friends of our Company,

The past year 2016 was a very successful and important year for DATA MODUL. We mastered a big stage on our way to become one of the leading global suppliers of visual system solutions.

1st April 2016 marked a historic milestone in the Company`s history. 60 years DATA MODUL Weikersheim GmbH and the 45th anniversary of DATA MODUL AG in 2017 reflect the performance of all employees of the Company from its foundation until today. Our experience and our strength provide the basis for our future. We also know, however: not the historic achievement, but factors developed newly every day, like profitable growth, innovation and competitiveness decide on business success.

However, the Company`s strategic direction remains a long-term one. Therefore, the Management Board and the Supervisory Board developed the new strategy "Shape 2020" which pursues the overarching goal to become one of the leading global Visual Solutions Providers by 2020. We start from a solid basis: DATA MODUL successfully combines financial strength, innovation and profitability with sustainable growth. We want to continue on this course with "Shape 2020". We continue to strive for a balanced distribution of our sales in the three big world regions. Thus, we compensate single market fluctuations and avoid dependencies. The global display market is further expanding. We therefore want to customize our product range to the new requirements of industry 4.0 and to the Internet of Things as well as continue the growth of the last years in our foreign markets. We will also stick to our three success factors consisting of the three "I's": investment, innovation and internationalization.

The fiscal year 2016 was a very good one for the DATA MODUL group. Concerning key figures like sales, group sales, group result we achieved records. First decisions of our program "Shape 2020" have already made an impact and DATA MODUL was able to generate the best financial year in the Company`s history. The fiscal year 2016 ended with a revenue of 197 million euros and an EBIT increase to 15 million euros. In short: the decisions of the last year made us stronger and expanded our potential. It is therefore clear that we achieved our defined targets for the fiscal year 2016. We managed this in an environment characterized by a high intensity of competition as well as by volatile economic and political developments.

Our economic environment, the market in which we operate, but also the macroeconomic framework conditions present us with new challenges on a daily basis. The speed of the data and the complexity of the processes are increasing steadily and – hardly conceivable – even faster. Smartphones and internet have become a natural component of our everyday life. The working world knows smart factories, networked computer systems and machines which communicate with each other. Information technology, telecommunications and manufacturing industry merge. A little bit pompously referred to as "industry 4.0", we are on the cusp of the fourth industrial revolution. In order that the factory of the future becomes more flexible, more efficient and more intelligent, machines, systems

and products are supposed to communicate with each other – connected via the Internet of Things. With the help of the internet, mobile computers and cloud computing the possibility is opened up to let products, machines and whole factories exchange information independently. The industrial process is not any more organized centrally and manually from the factory, but is controlled decentralized in a dynamic and highly automated way. In a smart factory people, machines and resources communicate with each other whereby the rising complexity could be controlled and the production efficiency could be improved. This communication takes place via visual operating units, the product and the market of DATA MODUL.

The priority activities in 2016 comprised the further expansion of our global sales network, the further increase of our production and logistics capacities as well as further organizational adjustments. By strengthening our Chinese subsidiaries and the development of a production line in the USA, we came again a little closer to our overarching goal to become one of the leading global visual solutions providers by 2020. Our financial success of the past years provides us with the necessary freedom to further invest in the future. The innovation of our research and development department ensures the continuation of the Company. In 2016 our research and development performance increased to about 6 million euros. They mainly include projects which are supposed to ensure our future.

These developments confirm the Management Board in the implementation of the strategy program and show that we set the right course. We kept our promise. Today, DATA MODUL is a stronger, more global and more sustainable Company than it was at the beginning of the implementation of our strategy. Even now, it is already clear: with the strategy “Shape 2020” the Company entered into a new dimension. Our strategy remains the basis of our road to success. It remains the guard rail for our entrepreneurial action until 2020. We always act with foresight and, if necessary, also against the trend. And we have the courage to keep the course once taken if we are convinced by its success.

In view of the Company`s business results, the Management Board and the Supervisory Boards propose to the Annual Shareholders’ Meeting to distribute a dividend of 1.50 euros per share for the fiscal year 2016. This represents a distribution ratio of approximately 50% of net income for the year.

The past year`s success is the result of the long-term planning we have carried through on, in line with our strategy. Yet difficult tasks await, which will require daily motivation and dedication across all levels of the Company. We owe our success to our employees, who number over 400 worldwide. Each individual`s ability and performance has played a role in the overall success of the Company. I would thus like to expressly thank our staff members. Thanks are due as well to our business partners, and our customers in particular, whose trust in our capabilities guides us forward. Satisfied customers are the basis of our business success.

In addition to strategy, in the coming years will product attractiveness be important for our success. From machinery to medical device components, transportation and automation technology to household uses and a host of the other fields of application, display units are now in use in every area of daily life. We will thus remain focused on our Display, Touch and Embedded Technologies. Satisfying customers is our calling, and we strive to offer innovative products and services.

We are well-positioned for the future. We defined clear action which is supposed to contribute to our future success. This includes the capacity expansion of different locations and the further standardization of our production technology which we partly started last year. We also approach the fiscal year 2017 optimistically. We look to the future – to the next 60 years of DATA MODUL. For us at DATA MODUL each day is a new opportunity to challenge ourselves and to excel ourselves.

Last but not least – on behalf of the entire Company we would like to express our sincere gratitude to you, our shareholders, for your interest in our Company, your attentive following our activities, for the loyalty and for the trust you have extended to us by virtue of owning a share.

Munich, March 2017

Dr. Florian Pesahl
Chief Executive Officer

SUPERVISORY BOARD REPORT

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 six meetings, of which four were ordinary meetings. Main topics are reported in the following.

At the ordinary meeting in March 2016, the financial statements of DATA MODUL AG and the Group (consolidated financial statements) for the fiscal year 2016, 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/de/unternehmen/investoren/corporate-governance.html.

Moreover, at the ordinary meeting in March 2016, the Supervisory Board discussed in detail the agenda for the Annual General Meeting and adopted the resolution proposals for the Annual General Meeting. As a further main topic the expansion of the capacities of production and logistic site Weikersheim was discussed and the project was approved.

The main topic of the ordinary meetings of the Supervisory Board in September and November 2016 was the current financial situation and the further business development of the DATA MODUL Group.

At the ordinary meeting in December 2016 the Management Board reported to the Supervisory Board on the current business and financial situation of the Group. The Management Board presented the budget planning for the year 2017 to 2019 and the "Shape 2020" strategy. The Supervisory Board approved these.

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

On 19 May 2016 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 2016. The annual financial statements and the management report of DATA MODUL AG for the fiscal year 2016 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 315a 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 2016 to 31 December 2016. The Auditor Ernst & Young issued the following unqualified audit opinion regarding the dependent company 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 as assessed by the Management Board.

At the meeting in March 2017, the Supervisory Board thoroughly reviewed the financial statements 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 2016 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.

As of the close of the Annual General Meeting on 30 May 2016, the term of office of the shareholder representative on the Supervisory Board and chairman of the Supervisory Board, Mr. Amir Mobayen, ended because of his resignation from office. Ms. Kristin D. Russell has been appointed by resolution of the Local Court of Munich dated 15 June 2016 pursuant to Section 104 para. 1 sentence 1 AktG instead of Mr. Mobayen as a member of the Supervisory Board of the Company. Furthermore, Mr. Brian Armstrong served as a shareholder representative on the Supervisory Board during the fiscal year 2016. He resigned from office with effect as of the end of 31 December 2016. As his successor, Mr. Jim Petrie has been appointed by resolution of the Local Court of Munich dated 1 December 2016 pursuant to Section 104 para. 1 sentence 1 AktG with effect as of 1 January 2017. Mr. Wolfgang Klein remains the employee representative on the Supervisory Board.

Finally, the Supervisory Board would also like to express its gratitude and appreciation to the Management Board and to all employees of DATA MODUL worldwide for their commitment and successful work in the fiscal year 2016.

Munich, March 2017
On behalf of the Supervisory Board

Kristin D. Russell
Chairwoman of the Supervisory Board


Touch
Solutions
Computer-on-Module
Optical Bonding
Displays
OEM Solutions

DATA MODUL WORLDWIDE

Munich, which is now home to seven DAX corporations, is one of Germany's most dynamic major cities and a prominent economic center internationally. DATA MODUL – a global player and hidden champion among medium-sized firms – appreciates the optimal business conditions there, in line with the motto "At home in Munich, at home in the world."

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 12/31/2016

EMPLOYEES WORLDWIDE

404

DATA MODUL LOCATIONS WORLDWIDE

19

REVENUE IN MILLION EUROS

197

A 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. DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, a global company specializing in display and systems solutions, is focusing increasingly on proprietary product development, which now accounts for half of the Company's revenue.

At an 18,000 m² development and production facility in Weikersheim, the Company realizes proprietary products, custom solutions and value-added services for customers from a wide variety of industries, greatly shortening their time-to-market through optimized design cycles. DATA MODUL has expanded its embedded technology competencies to provide an even broader spectrum of know-how for visual applications, thus exceeding customers' expectations.

As a global player, DATA MODUL is constantly growing its presence in the firm's key markets of Europe, Asia and North America.

DATA MODUL has moved into the American and Scandinavian growth markets and now the Asia-Pacific region, enhancing its competencies and strategically expanding to benefit from geographic diversification.

R&D EXPENSES IN MILLION EUROS

6

EQUITY RATIO IN %

68

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 that is quite unique in Europe and forms the basis for a wide range of sophisticated applications. In our age of information visualization, DATA MODUL products and solutions are found worldwide in professional and industrial applications with extremely high quality standards. These visual applications are the most important man-machine interfaces in an industrial environment, presenting appealing information displays for customers.

PRODUCTS AND COMPETENCIES

SYSTEMS

DATA MODUL develops tailored system solutions for a wide range of sophisticated applications, employing a modular concept. DATA MODUL system components and solutions are found worldwide in industrial applications and information systems requiring extremely high quality standards. Combining industrially manufactured components from our product distribution portfolio and proprietary products allows DATA MODUL to guarantee long-term availability and significantly shorter time-to-market.

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 MODUL
Automotive
easy
display
custom
Embedded Systems
Touch Solutions
Displays
DATA MODUL

HIGHLIGHTS OF THE YEAR

The results for fiscal year 2016 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 2016

REVAMPED IMAGE FOR DATA MODUL

As the firm's operations have become increasingly global, DATA MODUL opted for a fundamental image revamp in 2016. The re-designed website is now oriented around market needs, and will be expanded in 2017 through the addition of a new online product catalog, reflecting how DATA MODUL is going with the customer trend of sourcing information online about complex technology products.

EUROPE'S LEADING PROVIDER FOR INDUSTRIAL BONDING

The Company has doubled its cleanroom space and introduced a liquid bonding machine, a film lamination device with autoclave and a fully automated glass cleaning machine as part of the efforts to position itself as Europe's leading optical bonding provider for displays, touch sensors and front glass. The Company is also growing its technological expertise and production capacity as a prompt response to huge demand and large production runs.

2016 – ANOTHER RECORD YEAR

The key figures for 2016 are the impressive fruit of our efforts and demonstrate how correct strategic decisions were made as part of our "Shape 2020" program. DATA MODUL lays the foundation for continuing rapid growth through extensive investment in development and production.

WEIKERSHEIM– A STRONG LOCATION

In 2016 DATA MODUL celebrated the 60th anniversary of the Weikersheim site, which has played a major role in the Company's business history and will continue to do so going forward. The employees at the site have always been the basis for success, whose dedication together with the Company's international orientation remain to this day the principal drivers behind DATA MODUL operations.

AT HOME IN MUNICH ... AT HOME IN THE WORLD

In 2016 DATA MODUL again exhibited at "electronica" in Munich, the preeminent trade fair for the global electronics industry. At this industry crossroads, DATA MODUL talked with customers and suppliers about the latest trends and market events while presenting the latest in-house developments, including new computer-on-modules, a 3D force touch and an ultra-thin 18.5" monitor.

STRENGTHENING OUR EMBEDDED COMPETENCIES

The opening of a new development office in Deggendorf and ongoing expansion of our development team are part of DATA MODUL's efforts to grow in the field of embedded computing with a core competency in modular embedded PC solutions.

The Company's tremendous expansion of the embedded product line met with great interest at the two major trade fairs "embedded world" in Nuremberg and "electronica" in Munich, with proprietary computer-on-modules, single-board computers, carrier boards, LCD controller boards and pre-configured embedded kits consisting of embedded board, display, modified cable set and specific OS image.

In the year under review DATA MODUL developed an extensive portfolio in the most common form factors and in a wide variety of performance classes, especially in the area of x86 and ARM-based CPU boards for embedded systems. The standard for reference designs is the globally leading modular form factor for modular embedded PC solutions: COM-Express. This form factor is used for performance classes ranging from low-power single core design to high-performance multi-core solutions. For the customer, the modular concept means validated core components, reduced development effort and less time to validate customer-specific products. Embedded customers benefit from a high level of standardization and the scalability of COM Express modules. For DATA MODUL, specification conformity and direct integration support from developer to developer are top priorities. The uniform proprietary embedded controller board DMEC (DATA MODULE Embedded Controller) is used on all modules. The feature set defined in the COM Express specifications is provided in this controller, among other things. Additional useful functionalities are realized that are essential for making a module an embedded module.

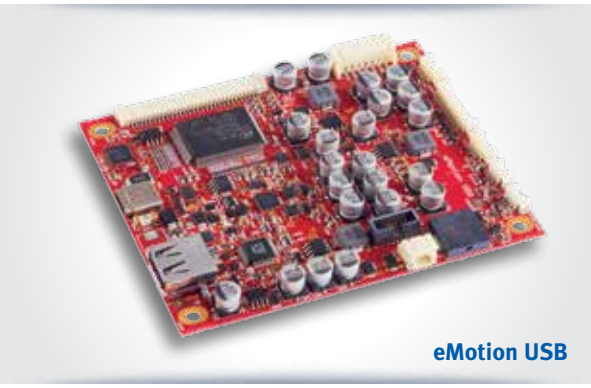
All new Intel processor platforms (following the Intel Roadmap IOTG) are implemented on the COM Express module standard. These reference modules can then be immediately used in series on baseboards or as a "building block" for custom single-board computers (ODM designs). Right

on time for "embedded world" in Nuremberg and "electronica" in Munich, additional modules were presented as building blocks for baseboards and custom ODM designs. DATA MODUL thus expanded its COM Express portfolio with perfect timing, in parallel with Intel's official launch of its Braswell and Skylake processor families.

Design requirements and display trends require embedded competency

A dramatic rise in demand for embedded applications has been seen in designer monitor solutions with few interfaces and simplified controls intended as a single-cable solution. The advantages are seen in simplified connectivity and in cost as only one single standard cable for display, touch, audio and power supply is required. Design considerations play a role as well, as miniaturized connectors enable thinner and more compact device designs and appropriate installation components. A type-C USB port allows transmission of display-port signals via alternate mode, and power supply via a single USB type-C standard cable creates a new transmission interface which DATA MODUL has adapted and made available for industrial applications in the new eMotion USB controller board. The eMotion USB has been realized in compact dimensions of 80 mm (L) x 100 mm (W) x 10 mm (H) to ensure the little plugs and ports take up as little space as possible.

There is also increasing interest in higher-resolution TFT displays in various industries due to their many advantages. DATA MODUL has further developed the eMotion LCD controller board series, adding a scaler card in response to increasing demand for displays with UHD/4K resolution and the requirement to be able to use these displays on the most common graphics and video interfaces. The eMotion UHD scaler card, available to customers since 2016, meets these requirements, and comes with cable, inverter/converter and modified firmware for the TFT. For DATA MODUL the key factors are long-term availability, product stability and quality.



eMotion USB

INVESTMENTS IN 2016

Display and touch systems continue to trend in the consumer electronics market and are in demand in professional applications as well. DATA MODUL is responding to growth in the market for more sophisticated display and touch solutions, further investing last year in development and production in line with the "Shape 2020" corporate strategy. DATA MODUL has invested in expanding production and cleanroom space, further enhancing job security at the site by enhancing business prospects. The 60th anniversary of the Weikersheim site and the doubling of employees within the last five years are compelling indicators of the Company's forward momentum.

Production under cleanroom conditions is essential in the optical bonding process and the assembly of display, touch and glass components to prevent impurities and inclusions in adhesive bonds. An extra 500 sqm was added on to the existing cleanroom, and both rooms have independent climate controls with humidity control, enabling the creation of a completely stable process environment. The new cleanroom was certified according to standard EN ISO 14644 class 7 in July 2016.

In addition to expanding the cleanroom, investment was made in production capacity and additional machinery to meet increased demand. DATA MODUL has been accomplished in the established practices of liquid bonding for glass-based sensor technology for over four years. In 2016 a third bonding machine was installed for fully automated bonding of displays and touch sensors, including front glass. An automated dual carriage allows simultaneous processing of two units, thereby doubling production capacity.

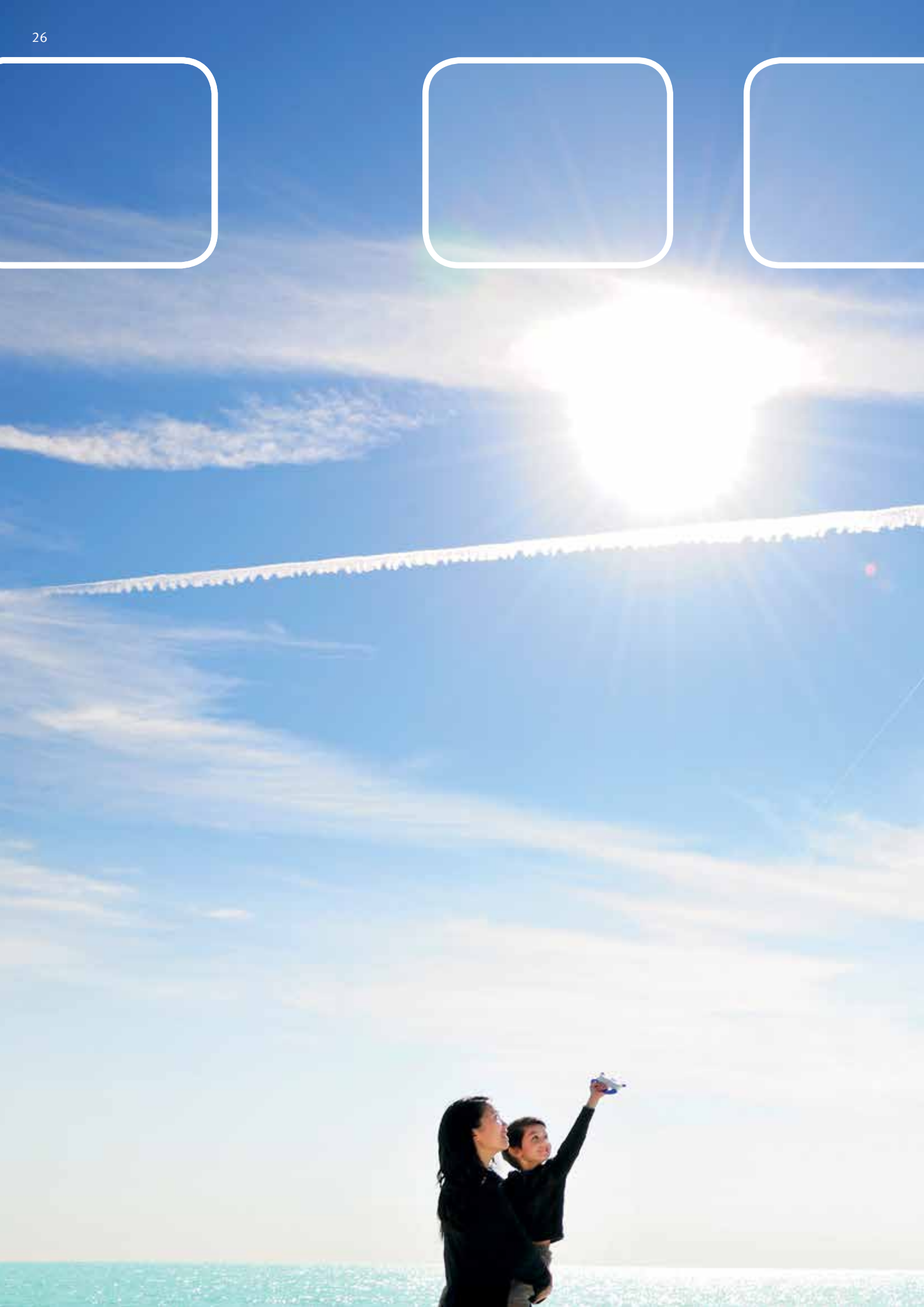
In addition to liquid bonding, DATA MODUL acquired OCA lamination process capability in 2016 for film-based touch

sensors. The roll laminator utilizes OCA technology (Optical Clear Adhesive), enabling fully automated processing of display sizes from 5” to 32”. DATA MODUL utilizes the OCA layer on film sensors. The associated pressure vessel (autoclave) allows the process-stable hardening of the layer bonds. Implementation of this process makes additional sensor and bonding technologies available to customers. DATA MODUL’s automated and semi-automated LOCA, OCA and tail bonding machines represent a unique capability in Europe, affording maximum quality and flexibility. The LOCA liquid optically clear adhesive method balances out irregularities on the component level, improving yield. The method can also be used without problem for full-surface direct/complete bonding of displays with a high metal frame (bezel).

The glass cleaning machine acquired in 2016 was specially made for DATA MODUL and is unique in Europe. The machine performs complete, fully automated cleaning of bonded units, improving product quality and stability. What was done manually not long ago is now done by the cleaning machine, saving time and optimizing processes and quality assurance.

The gap filling/robotic dispenser is another specially made machine that is unique worldwide, used for automated bonding, sealing and positioning of bonded touch units in a wide array of front frames. This new technology allows full process automation, thus reducing production time, materials costs and chemical resistance (via gap sealing) while improving optical properties.

In addition, seven new Jungheinrich shuttles have been integrated into the existing small parts warehousing system which further speed up and simplify storage logistics.



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 EMPLOYER

OUR EMPLOYEES

This past year we continued building on recent years' successes to ensure further growth and stability while increasing the value of our Company. We have always believed that staying in one place is the same as going backwards, and this orientation has successfully carried the Corporation forward in a hard-fought market environment. We remain alert to ways of improving our labor situation, processes and corporate structures, but also remain true to our principles, thus through innovation, commitment to quality and love of what we do we closed out a highly successful fiscal year.

Together with our employees we have achieved milestones on our path to an even better performance, one of which is receiving ISO 13485 medical certification on schedule. Additionally, we have identified and exploited further synergies within the Corporation, systematically pursued consolidation and selectively added jobs to achieve our growth objectives. Our employees have readily accepted and effectively met the challenges this has involved, which have included in particular process standardization and improving communication flows between locations as the number of our foreign subsidiaries continues to grow. Once more our employees played a vital role in the systematic execution of our strategy of ensuring efficiency, gaining market share and generating customer interest in our products and our business. We thus extend our thanks and recognition to our employees.

The demands placed upon our organizational structures and employees have increased as the DATA MODUL Group has grown and developed. The senior management team, consisting of experienced executives who have been with the Group for a long time, oversees day-to-day operations and the corporate departments, providing stability, continuity and reliability. There have been internal additions to our second and third-tier management levels, as we have given disciplinary and functional responsibility and decision-making authority to department heads and team leaders from our own ranks. This serves to streamline decision-making processes, promotes efficient communication flows and contributes to a more productive and teamwork-oriented work atmosphere. The hard work of our employees is rewarded through performance-related pay packages, bonuses and profit sharing, flexible work hours schemes and an array of continuing education offerings and training seminars. Ergonomic workstations, language courses and company sporting activities round off our offering for staff members as a matter of course.

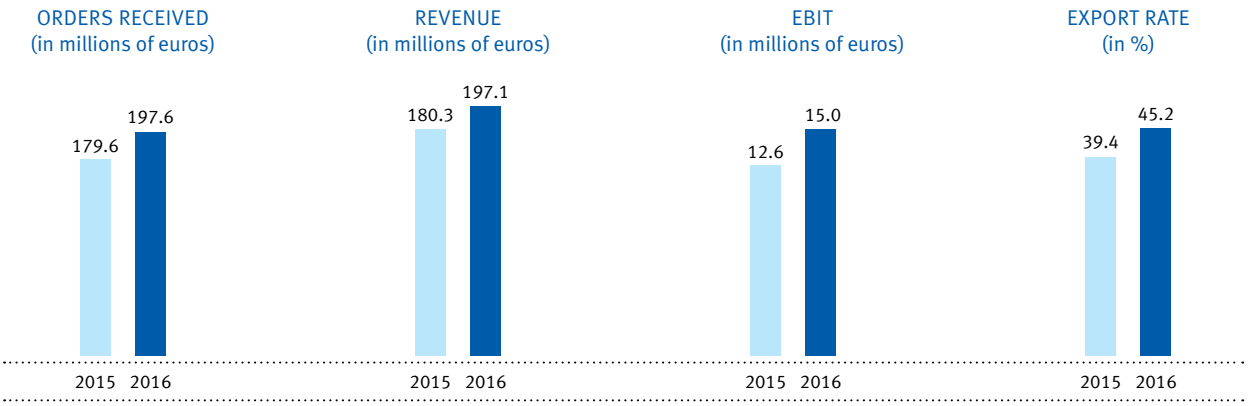
Aware of the challenges ahead, together we will be working to achieve the ambitious goals we have set within the framework of the "Shape 2020" strategy program, which clearly formulates the objectives our performance will be measured against. Remaining a high-appeal employer in a high-tech environment, cultivating our corporate culture by soliciting employee feedback and offering attractive career advancement programs are among the elements we rely on for continuing success and reliability as a partner to our employees. We consider this our mission and obligation.

GROUP MANAGEMENT REPORT

CONTENTS

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT FOR 2016



1. Basic principles of the Company

1.1 Business model

DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, Munich (hereinafter "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. 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 2016 totaled 5,919 thousand euros (previous year: 6,517 thousand euros), which includes 531 thousand euros in amortization of capitalized development costs (previous year: 1,327 thousand euros).

In 2015, development costs were affected by a one-time impairment charge of 900 thousand euros taken on a development project.
Hiring of additional personnel caused an increase in expenses. On annual average, R&D employed 75 staff members (previous year: 66). The R&D intensity metric (R&D costs/revenue) was 3.0% (previous year: 3.6%).

In fiscal year 2016, our R&D priorities were as follows:

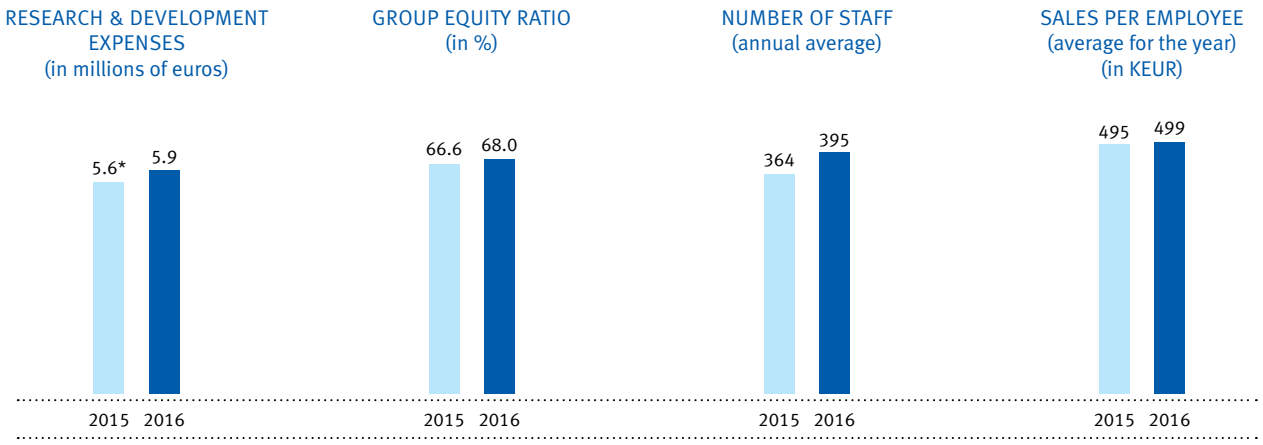
1. Safeguarding future business prospects
2. Enhancing technological competitiveness
3. Optimizing R&D resource allocation

Investment was made primarily in control electronics, industrial applications and OEM products, and the 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 832 thousand euros, recognized as intangible assets (previous year: 1,018 thousand euros). This corresponds to a capitalization/R&D expense ratio of 14.1% (previous year: 15.6%). Amortization came to 531 thousand euros (previous year: 1,327 thousand euros), resulting in a net profit of 301 thousand euros (previous year: net loss of 309 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.



* 2015 value adjusted by one-time effect of 900 thousand euros

2. Economic report

2.1 Business performance

Taking advantage of the favorable business environment, DATA MODUL achieved good results for fiscal year 2016, due in part to stringent implementation of the "Shape 2020" strategy program. Last year's primary goals and focuses included:

- Further increasing revenue
- Developing the “Shape 2020” strategy
- Integration of OEM sales and expansion of our global distribution network
- Concentration on our product portfolio
- Expansion and standardization of production capacity
- Updating of the DATA MODUL image externally

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

In millions of euros	Projections for 2016	2016 Actual
Orders received	188.6 - 199.4	197.6
Revenue	185.7 - 200.1	197.1
EBIT	13.0 - 13.9	15.0

Orders rose in Germany, further boosting revenue. Business in Italy improved again year-on-year, although Switzerland and France remained below our expectations. Results were outstanding in the US, UK, Singapore and Spain however, delivering an encouraging affirmation of 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 2016 with a net profit of 10,228 thousand euros (previous year: 8,413 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 sales staff have contributed as well to this situation.

We are pleased with our 2016 results, having met our ambitious targets; DATA MODUL Group is thus well positioned for continuing growth.

In summary, DATA MODUL had an outstanding fiscal year 2016. 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 model than before implementation of this strategy. It is quite clear today that the strategy has propelled our business into a new dimension. DATA MODUL profited from the implemented productivity enhancement measures in 2016 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 single-digit growth.

2.2 Macroeconomic and industry-specific conditions

a) Macroeconomic conditions

World economy expanded in fiscal year 2016, growing approximately 2.5%. Results varied however in DATA MODUL's three key regions (Europe, America, Asia).

Recovery in Europe continued unabated in 2016, gaining somewhat in momentum due to fiscal stimuli and rising global demand, the factors likely responsible for 1.6% GDP growth. Geopolitical risks did affect last year's growth however. The conflict between Ukraine and Russia in particular and instability in the Middle East with the ensuing refugee crisis burdened European Union economies. Europe faces its biggest challenge of its post-war history. Never before has the number of refugees around the globe been greater than in 2016, with Europe being the favored destination for many people from troubled regions. Dealing with the refugees crisis has created major political tensions and pointed out fundamental flaws in the EU's political construct. The sovereign debt crisis in some European countries is still unresolved as well, which has revealed weaknesses in the monetary union.

On balance, Germany fared well in 2016, starting off the year strong before stagnation set in during the summer. Brexit-related uncertainties, a weaker economy in some of the emerging countries and China and the VW emissions

scandal have impacted corporate investment and exports. With private consumer spending and exports providing key impetus to the German economy, as in the previous year, the country recorded growth of around 1.8% for 2016.

The US economic recovery steadily gained momentum over the course of the year, yielding GDP growth of 1.6%. This was in part due to further job creation and declining unemployment, which aided the economy in 2016 by boosting private consumption. A significant rise in industrial output also contributed to GDP growth in 2016.

Even the growth engine China began to sputter a bit in the course of global financial and economic crises. Growth of 6.7% was recorded in 2016 for the world's second-largest national economy.

b) Industry-specific conditions

The markets in which DATA MODUL operates 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 technology sector.

The global electro-technology market has been relatively stable, growing 3% in 2016 with 4% projected for 2017. The Asian market, which in 2015 accounted for roughly 60% of worldwide electro-technology sales, is a key growth driver. For 2017 the European electro-technology market is expected to grow at the same pace as the Americas region, at 3% according to industry association ZVEI.

The German electrical and electronic sector, dominated by medium-sized firms, is the source of one out of every three German industrial innovations. The product portfolio of the German electrical/electronic 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 sector, accounting for roughly 10% of business. The EU, including the UK, remains however the most important sales region, accounting for 55%.

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-batch 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 2017.

2.3 Group business situation

a) Earnings

The Group recorded 197,576 thousand euros in new orders, widely exceeding the previous year's level of 179,581 thousand euros. Strong order flow and a "book-to-bill" ratio above 1 boosted order backlog to 102,965 thousand euros (previous year: 102,432 thousand euros).

Revenue increased significantly as well in fiscal year 2016 to 197,079 thousand euros (previous year: 180,300 thou-

sand euros). DATA MODUL benefited again in 2016 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	**2016**	**2015**
Germany	108.0	109.3
Europe	65.7	51.9
America	11.4	10.9
Asia/Pacific/Africa	10.6	7.1
Rest of World	1.4	1.1
Total	197.1	180.3
Export rate	45.2%	39.4%

The change in key expenses and income items in fiscal year 2016 is shown below.

- Cost of sales increased year-on-year to 151,340 thousand euros (previous year: 135,798), primarily reflecting higher materials expenses connected with the 9.3% increase in sales revenue. Gross margin was slightly smaller due adverse currency effects on DATA MODUL purchasing prices and intense competition in the distribution business, at 23.2% for fiscal year 2016 (previous year: 24.7%). Additional investments were made to optimize logistics processes and quality control.

- Research and development expenses declined slightly to 5,919 thousand euros from 6,517 thousand euros in the previous year. An increase in customer-specific development projects versus the previous year allowed more development costs to be passed on to customers. In 2015, development costs were affected by a one-time impairment charge of 900 thousand euros taken on a development project. We continued investing in 2016 to build up resources in our Research and Development department to promote greater innovation. The net effect capitalizing development costs in 2016 was 301 thousand euros (= difference between capitalization and amortization).

- Selling and administrative expenses declined year-on-year to 24,781 thousand euros (previous year: 25,409). Selling expenses accounted for 17,487 thousand euros of total expenses reported (previous year: 16,948 thousand euros), and general administration expenses came to 7,294 thousand euros (previous year: 8,461 thousand euros). Increased selling expenses resulted chiefly from higher performance-linked bonus and commission payments and increased trade show costs. Lower administrative costs reflected the previous year's high figure which resulted from Executive Board member severance packages. Administrative expenses include a net foreign currency translation gain of 293 thousand euros (previous year: 620 thousand euros).

As financing conditions remained quite favorable for the Group, the financial result improved to -78 thousand euros from the previous year's -170 thousand euros, due also to further loan repayments.
The Group recorded EBIT (earnings before interest and taxes) of 15,039 thousand euros, reflecting higher revenue and efficiency gains (previous year: 12,576 thousand euros); the EBIT margin was 7.6% (previous year 7.0%). Low financing costs contributed to a net pre-tax profit of 14,961 thousand euros (previous year: 12,406 thousand euros).

Net income changed in line with the pre-tax result, coming in at 10,228 thousand euros (previous year: 8,413 thousand euros). Earnings per share thus came to 2.90 euros for 2016 (based on a weighted average of 3,526,182 shares outstanding), as compared to 2.41 euros in 2015 (based on a weighted average of 3,487,629 shares outstanding).

The good earnings result is thanks to systematic execution on the new "Shape 2020" strategy program, the overarching objective of which is to make us one of the world's leading global visual solution provider by the year 2020.

Displays segment

Displays segment revenue rose to 112,062 thousand euros (previous year: 109,516 thousand euros). This 2.3% increase was in part the result of greater focus on our product portfolio. EBIT of 9,373 thousand euros was recorded (previous year: 8,539 thousand euros). The segment generated net income for the year of 6,626 thousand

euros (previous year: 6,602 thousand euros). The Displays segment, the Group's business backbone, again recorded a substantial increase in new orders of 7.7%, amounting to 118,644 thousand euros (previous year: 110,212 thousand euros). Order backlog as of December 31, 2016 was 65,561 thousand euros (previous year: 57,861 thousand euros).

Systems segment

The Systems segment recorded another revenue increase of 20.1% up to 85,017 thousand euros (previous year: 70,784 thousand euros), resulting in EBIT of 5,666 thousand euros (previous year: 4,037 thousand euros). Net income for the year thus came to 3,602 thousand euros (previous year: 1,811 thousand euros). Orders received increased again by 13.8% to 78,932 thousand euros (previous year: 69,369 thousand euros). Order backlog as of December 31, 2016 was 37,404 thousand euros (previous year: 44,572 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 68.0% (previous year : 66.6%), the debt ratio was 32.0% (previous year: 33.4%).
The Group's leverage ratio was 47.1% (previous year: 50.0%) (debt/equity).

Debt consists primarily of:

- 3,000 thousand euros (previous year: 7,000 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	3,000	0	0	3,000

- 14,215 thousand euros (previous year: 10,119 thousand euros) in trade accounts payable.

The maturities are as follows (in KEUR):

Trade accounts payable	< 1 year
EUR	5,167
USD (euro equivalent)	7,714
JPY (euro equivalent)	1,281
AED (euro equivalent)	34
Other (euro equivalent)	19
Grand total	14,215

Guaranteed bills outstanding came to 880 thousand euros (previous year: 1,453 thousand euros).
The maturities are as follows (in KEUR):

Guaranteed bills outstanding	< 1 year	1 - 5 years	> 5 years	Total
EUR	412	0	317	729
USD (euro equivalent)	86	0	0	86
AED (euro equivalent)	65	0	0	65
Grand total	563	0	317	880

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, utilization of these lines came to 13.9%.
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. Investments were also made in IT infrastructure, logistics and workplace equipment. Capital expenditure in fiscal year 2016 totaled 4,031 thousand euros (previous year: 2,719 thousand euros).

The main capital expenditure items were:

- Additions to intangible assets in the amount of 1,238 thousand euros (previous year: 1,215 thousand euros).
- Additions to property, plant and equipment in the amount of 2,793 thousand euros (previous year: 1,504 thousand euros).

A breakdown of capital expenditure by segment is provided below:

- Capital expenditure Displays segment 1,087 thousand euros (previous year: 630 thousand euros).
- Capital expenditure Systems segment 2,944 thousand euros (previous year: 2,089 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 6,325 thousand euros (previous year: 7,049 thousand euros). This was mainly due to increased inventories and trade receivables in connection with higher sales revenue. Days sales outstanding (DSO) was 43.87 days as of 12/31/2016 (previous year: 43.16 days).

Cash flows from financing activities were at -4,423 thousand euros at year end (previous year: -1,840 thousand euros). Outflows occurred through dividend distributions totaling 423 thousand euros (previous year: 423 thousand euros) and redemptions of current financial liabilities totaling 4,000 thousand euros (previous year: 5,050 thousand euros).

At the end of the year the Group held cash and cash equivalents totaling 17,193 thousand euros (previous year: 19,334 thousand euros). Net assets as of the reporting date were at 14,193 thousand euros (previous year: 12,334 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 in the year under review due to membership in the ARROW Group.

c) Financial status

The balance sheet total increased by 12,647 thousand euros versus the previous year to 103,041 thousand euros (previous year: 90,394 thousand euros). The increase in assets is principally the result of higher trade accounts receivable and inventories.

The dividend distribution in the reporting period was 423 thousand euros (previous year: 423 thousand euros). Current liabilities due to financial institutions decreased to 3,000 thousand euros through repayment of short-term debt (previous year: 7,000 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 68.0% (previous year: 66.6%).

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.

Financial performance metrics In KEUR	**2016**	**2015**
Orders received	197,576	179,581
Order backlog	102,965	102,432
Revenue	197,079	180,300
EBIT	15,039	12,576
Net income	10,228	8,413
Return on equity	21.5%	20.9%
EBIT margin	7.6%	7.0%

b) Non-financial performance metrics

In addition to financial metrics, DATA MODUL also utilizes key 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 employees' average of eight 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 pay 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. As of December 31, 2016 DATA MODUL Group employed 404 staff, as compared to 378 in the previous year. The average annual headcount increased by 8.5% to 395 staff members (previous year: 364 staff). This staffing increase was in response to higher demand for our products, necessitating additions to our sales staff and heightened R&D activity. 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 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 the environment are not mutually exclusive goals.

3. Risks, rewards, forecast

3.1. Risk report

In fiscal year 2016, 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.

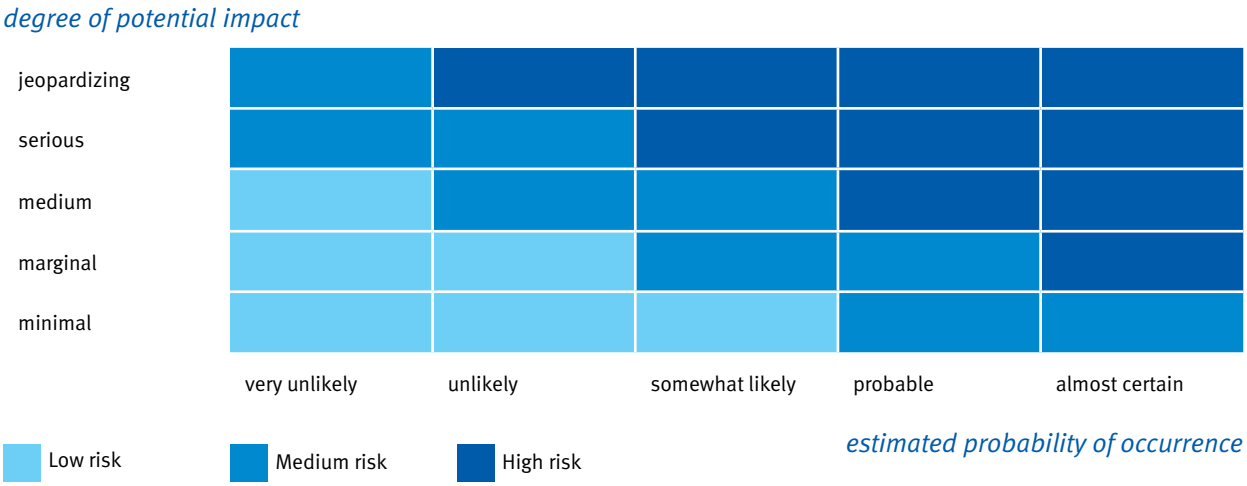
Risk management system

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 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 extent 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.

Risk classification matrix



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, 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. Risk strategies are devised based on risk perception and positioning which involve the designing of specific countermeasures and the appointment of individuals responsible for their implementation. 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.

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 1.2% for the German economy in 2017. 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 this risk 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 85 days during the reporting period, as compared to 88 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 delivery capability 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 customers 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 and the 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

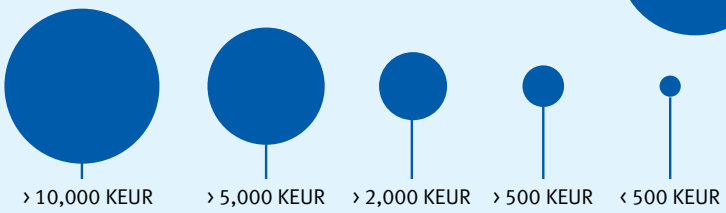
Risk portfolio:

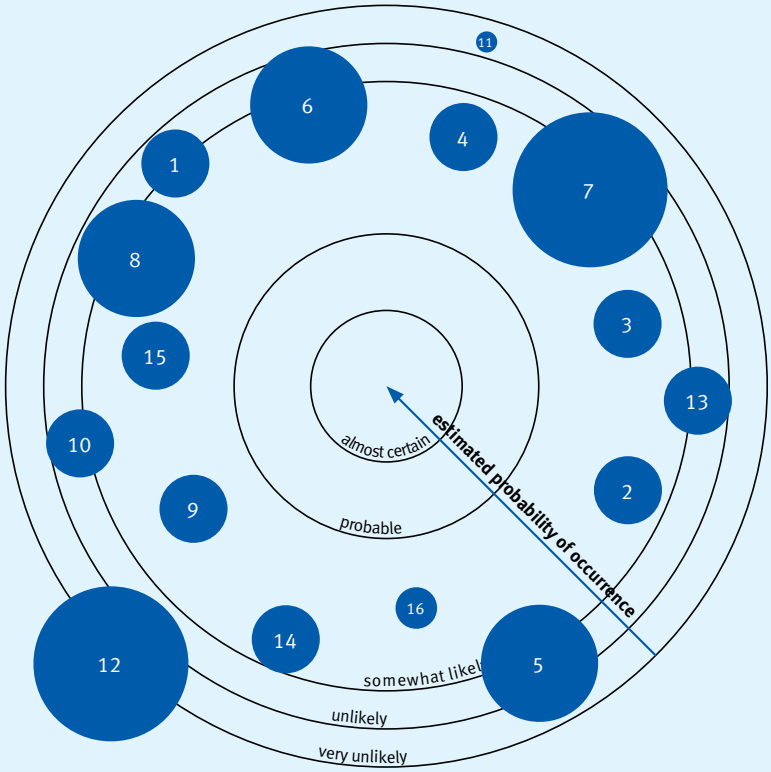
Explanatory notes:

estimated probability of occurrence

Very unlikely ‹ 10%
Unlikely ‹ 20%
Somewhat likely ‹ 60%
Probable ‹ 80%
Almost certain › 80%

Circle size = potential impact





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.

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 days sales outstanding (DSO) figure was 43.87 days in 2016.

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	Delivery capability
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

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 2016, 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 estimated. 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 key 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. There is additional potential in the Embedded sector through our newly developed expertise in the field of touch and optical bonding technology. 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

We could move our value-adding activities to low-cost countries to save cost. 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 sustained 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

The outlook for the global economy has not substantially changed since the election of Donald Trump as US president, thus we are projecting 2.7% growth for the global economy in 2017 and a slight rise to 3.0% for 2018. Despite predominantly lax monetary policies, inflation rates in most of the industrialized countries remain low, while sharply falling commodity prices are increasing purchasing power in many countries. There is increased uncertainty however, as political developments in Europe and the United States can strongly influence financial markets and dramatically impact the business cycle. A chief concern is how much interest rates will rise through the expected fiscal policy changes and what negative effect this could have on emerging economies.

In addition to domestic political developments, decisions and developments on the European level will remain of foreground importance in 2017. Turbulent events are likely in store for the monetary union in 2017, with a high political risk of electoral victories by populist candidates. Economic concerns are posed 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 0.8%. 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. While corporate spending is expected to stall in 2017 in the run-up to Brexit negotiations, affecting the economy, stimulus measures introduced in the US by the Trump administration should have a positive impact on the German economy in the second half of the year. Consumer spending remains the primary economic driver.

Public expenditure is up in areas including refugee handling, thanks to the solid financial situation the government enjoys, while private consumption is buoyed by the continuing strength of the labor market. The outlook is positive, thus we are projecting GDP growth of 1.2% for 2017 and 1.5% for 2018.

The United States, our largest foreign market, will keep up its dynamic pace of growth in 2017. The measures announced by Donald Trump in his campaign will likely only partly be implemented. There will be a focus on economic stimulus measures, thus we project GDP growth of 2.2% for the 2017. The rate hike announced by the Fed does not pose a hurdle to reaching this figure.

In China we see growth slowing somewhat in 2017 and 2018. 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 6.3% for 2017 and 6.1% for 2018.

DATA MODUL outlook for 2017

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 stemming from the Middle East and the rise of the so-called IS, which could significantly affect growth, political uncertainties in Europe will play a key role in 2017. The formation of new governing coalitions could influence the future of Europe. Political risks in Europe are on the increase, and will no doubt be felt in the financial markets. The year 2017 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 2017, 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 2017 arising from the overall economic situation and from new products developed to market-readiness, despite fierce competition. We will nonetheless 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 2017, 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 production and logistics capabilities at the Weikersheim location 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: 1.2%
- European economic growth: 0.8%
- US economic growth: 2.2%
- Global economic growth: 2.7%
- Stable USD and JPY exchange rates
- Operational start-up of additional machinery at our production facilities
- Planned expansion of our production and logistics capacity.

Summary

We expect the upward trend in the macroeconomic situation to continue in fiscal year 2017 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 revenue in 2017 in the range of 204 - 225 million euros, aiming for an EBIT margin of over 8%. Both our business segments are expected to grow, although our highest expectations are for the Systems business. We have invested heavily over the past two years in touch and embedded technologies, as reflected in increased R&D expenses; this is anticipated to enhance revenue and earnings for the segment.

Group objectives	Targets for 2017	Fiscal year 2016
Orders received	+ 4 - 15%	197.6 million euros
Order backlog	+ 3 - 15%	103.0 million euros
Increase in sales	+ 3 - 14%	197.1 million euros
EBIT	+ 3 - 10%	15.0 million euros
Net income	+ 3 - 10%	10.2 million euros
Return on equity	+ 0 - 5%	21.5%

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 Executive Board remuneration scheme on a regular basis with a view towards appropriateness of individual Executive Board member 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 respective Executive Board member are taken into account.

Our remuneration structure is designed to be competitive in the international market for highly qualified executives, and incentivizes 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 four 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 business 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 2016 was adopted at the Supervisory Board meeting held in December 2015.

The disclosures on compensation paid to Executive Board members in fiscal year 2016 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 Joining date: January 1, 2010				Total	
KEUR	2015[3]	2016	2016 (min.)	2016 (max.)	2015[4]	2016
Fixed remuneration	230	230	230	230	355	230
Fringe benefits	11	32	32	32	20	32
Total	**241**	**262**	**262**	**262**	**375**	**262**
One-year variable compensation [1]	100	220	0	220	100	220
Multi-year variable compensation [2]	50	0	0	0	50	0
Executive bonus 2015	*50*				*50*	*0*
Executive bonus 2016		*0*	*0*	*0*	*0*	*0*
Total compensation (according to GCGC)	**391**	**482**	**262**	**482**	**525**	**482**
Service cost	0	0	0	0	0	0
Total compensation (According to GAS 17)	**391**	**482**	**262**	**482**	**525**	**482**

[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 for the past fiscal year, the third portion only being disbursable if the Group remains profitable in the fiscal year following.

[3] 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.

[4] The data include emoluments to former Executive Board member Mr. Walter King.

Compensation paid to Executive Board members in fiscal year 2016 breaks down as follows:

Compensation paid	Dr. Florian Pesahl CEO Joining date: January 1, 2010		Total	
KEUR	2015	2016	2015[6]	2016
Fixed remuneration	230	230	355	230
Fringe benefits	11	32	20	32
Total	**241**	**262**	**375**	**262**
One-year variable compensation [5]	100	100	200	100
Multi-year variable compensation	50	50	100	50
Executive bonus 2013	*50*		*100*	*0*
Executive bonus 2014		*50*	*0*	*50*
Total compensation	**391**	**412**	**675**	**412**

[5] Not taking into account any deferrals.

[6] The data include emoluments to former Executive Board member Mr. Walter King.

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	2016	2015	2016	2015
Provisions recorded as of the reporting date	267	258	270	268
Allocations to pension accruals	30	18	27	17
Pensions paid	21	20	25	24

In fiscal years 2015 and 2016, 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	**2016**	**2015**
Kristin D. Russell	21	0
Amir Mobayen	17	24
Brian Armstrong	30	15
Wolfgang Klein	20	20
Grand total	88	87[7]

[7] The amount includes compensation paid to additional former members of the Supervisory Board.

Supervisory Board members are reimbursed for expenses incurred in connection with performing their office, and for any VAT charged on their remuneration elements. 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 2016 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. 289 (4) no. 3 and Sec. 315 (4) no. 3 of German Commercial Code (HGB) on direct and indirect capital investment exceeding ten percent of voting rights are provided 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 Act (AktG); changes to the Articles of Incorporation are made in accordance with Secs. 133 and 179 of German Stock Corporation Act.

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

d) Authorized capital 2015

By way of resolution at the Annual Shareholders' Meeting, the Executive Board was authorized – with Supervisory Board approval – to increase the Company's capital stock through the date July 2, 2020 by issuing non-par bearer shares for cash or stock one or more times by a total of 5,289 thousand euros (authorized capital). The Executive Board is also authorized – subject to Supervisory Board approval – to exclude existing shareholders' subscription rights to shares issued for non-cash assets. The Executive Board – with Supervisory Board approval – is furthermore authorized to exclude existing shareholders' subscription rights to new shares sold for cash at a price not substantially below market price, or if the shares are issued for the purpose of acquiring companies or investments in companies. The increase in authorized capital was recorded in the German commercial register (Handelsregister) on August 19, 2015.

6. Corporate governance declaration

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

7. Concluding declaration

Closing statement of the Executive Board on relationships with affiliated companies

In fiscal year 2016 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 23, 2017

Dr. Florian Pesahl
Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

ASSETS	Notes	12/31/2016	12/31/2015
Non-current assets			
Goodwill	[8]	2,419	2,419
Intangible assets	[8]	2,494	2,028
Property, plant and equipment	[8]	11,562	10,017
Other non-current assets	[9]	0	105
Deferred tax assets	[6]	127	68
Total non-current assets		**16,602**	**14,637**
Current assets			
Inventories	[10]	44,030	36,988
Trade accounts receivable net of allowance for doubtful accounts (2016: 157; 2015: 445)	[11]	23,039	17,822
Other current assets*	[11]	2,177	1,613
Cash and cash equivalents	[12]	17,193	19,334
Total current assets		**86,439**	**75,757**
Total assets		**103,041**	**90,394**

All figures in KEUR

* Other current assets include financial assets. See Notes 6.11.

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	12/31/2016	12/31/2015
Shareholders' equity			
Capital stock no-par-value bearer shares (authorized: KEUR 5,289; shares issued and outstanding: 3,526,182 as of 12/31/2016 and as of 12/31/2015)	[13]	10,579	10,579
Capital reserves	[13]	24,119	24,119
Retained earnings	[13]	36,390	26,633
Other reserves	[13]	(1,061)	(1,085)
Total shareholders' equity		**70,027**	**60,246**
Non-current liabilities			
Pensions and non-current personnel liabilities	[14]	1,579	2,482
Non-current provisions	[15]	384	79
Other non-current liabilities	[16]	1,469	1,107
Deferred tax liabilities	[6]	679	494
Total non-current liabilities		**4,111**	**4,162**
Current liabilities			
Trade accounts payable		14,215	10,119
Taxes payable	[17]	1,308	776
Current provisions	[15]	2,437	2,173
Liabilities due to financial institutions	[18]	3,000	4,000
Current portion of non-current borrowings	[19]	0	3,000
Other current liabilities*	[17]	7,943	5,918
Total current liabilities		**28,903**	**25,986**
Total liabilities		**33,014**	**30,148**
Total liabilities and shareholders' equity		**103,041**	**90,394**

All figures in KEUR

* Other current liabilities include financial liabilities. See Notes, 6.17.

CONSOLIDATED STATEMENT OF INCOME

	Notes	2016	2015
Revenue	[1]	197,079	180,300
Cost of sales	[2]	(151,340)	(135,798)
Gross margin		**45,739**	**44,502**
Research and development expenses	[3]	(5,919)	(6,517)
Selling and general administrative expenses	[4]	(24,781)	(25,409)
Earnings before interest and taxes (EBIT)		**15,039**	**12,576**
Interest income	[5]	10	15
Interest expense	[5]	(88)	(185)
Earnings before taxes		**14,961**	**12,406**
Income tax expense	[6]	(4,733)	(3,993)
Net income		**10,228**	**8,413**
Earnings per share – basic	[7]	2.90	2.41
Earnings per share – diluted	[7]	2.90	2.41
Weighted average of shares outstanding – basic		3,526,182	3,487,629
Weighted average of shares outstanding – diluted		3,526,182	3,487,629

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016	2015
Cash flows from operating activities	[7]		
Net income		10,228	8,413
Non-cash expenses and income:			
Income tax expense		4,706	3,974
Depreciation, amortization and impairment		2,021	2,755
Provisions for bad debts		129	(9)
Result from disposals of fixed assets		(9)	32
Net interest		78	170
Other non-cash expenses and income		0	(56)
Changes in:			
Trade accounts receivable, increase (-) / decrease (+)		(5,345)	527
Inventories, increase (-) / decrease (+)		(7,042)	(8,089)
Trade accounts payable, increase (+) / decrease (-)		4,096	2,477
Other assets and liabilities, increase (+) / decrease (-)		1,718	1,051
Income taxes paid		(4,198)	(4,048)
Interest received (+) / Interest paid (-) (net)		(57)	(148)
Cash flows from operating activities		**6,325**	**7,049**
Cash flows from investing activities	[7]		
Proceeds from disposals of fixed assets		14	11
Outflows from capitalized development costs		(832)	(1,018)
Capital expenditures on other intangible and fixed assets		(3,199)	(1,701)
Cash flows from investing activities		**(4,017)**	**(2,708)**
Cash flows from financing activities	[7]		
Repayment of current borrowings		(4,000)	(5,050)
Inflow from sale of treasury shares		0	3,635
Dividend paid		(423)	(423)
Other financing activities		0	(2)
Cash flows from financing activities		**(4,423)**	**(1,840)**
Effects of exchange rate movements on cash & cash equivalents		(26)	14
Change in cash and cash equivalents		**(2,141)**	**2,515**
Cash and cash equivalents at beginning of period		19,334	16,819
Cash and cash equivalents at end of period		**17,193**	**19,334**

All figures in KEUR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital Stock No. of shares	Capital Stock Amount	Capital reserves	Retained earnings	Other reserves	Total
BALANCE AS OF 1/1/2015	3,394,000	10,182	22,367	17,104	(1,617)	48,036
Net income				8,413		8,413
Dividend				(423)		(423)
Sale of treasury shares	132,182	397	1,752	1,486		3,635
Other comprehensive income (loss)				53	(6)	47
Foreign currency translation adjustments					538	538
BALANCE AS OF 12/31/2015	**3,526,182**	**10,579**	**24,119**	**26,633**	**(1,085)**	**60,246**
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**

All figures in KEUR, except number of shares.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
Net income	10,228	8,413
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	24	538
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)	(75)	26
Attributable tax effects	27	28
Deferred tax liabilities recorded in equity	0	(6)
Comprehensive income after tax	**10,204**	**8,999**

All figures in KEUR

NOTES TO THE 2016 CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

The 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 Landsbergerstrasse 322, 80687 Munich, Germany. The Consolidated Financial Statements as of December 31, 2016 were prepared by the Executive Board in February 2017 and approved and endorsed for public disclosure in March 2017.

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, 2016.

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 complied with the following changes or new amendments of IFRS standards and interpretations in fiscal year 2016, if they are applied Group-wide in general.

Mandatory first-time application as of 12/31/2016 (endorsed by the EU)	Applicable as of
Amended IAS 1 – Disclosure Initiative	1/1/2016
Amended IFRS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	1/1/2016
Improvements to IFRS (2012 - 2014)	1/1/2016
IFRS 11 – Joint Arrangements: Accounting for the acquisition of shares in joint ventures	1/1/2016

The following new and amended standards and interpretations have no material impact on the consolidated financial statements:

IAS 1 – Information Initiative

The IAS 1 amendments serve to clarify or specify the following:

- Materiality rules per IAS 1
- Breakdowns of certain items on the income statement, statement of comprehensive income and balance sheet
- Order sequence of disclosures in the Notes freely selectable
- The portion of other comprehensive income derived from associated companies and joint ventures measured via the equity method is to be recorded as a single respective item broken down according to whether or not these items are reclassified on the income statement in subsequent periods.
- Clarification of rules for presenting subtotals on the balance sheet, income statement and on other comprehensive income.

The changes have no effect on the consolidated financial statements.

IFRS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization

The amendments clarify that sales revenue reflects the operations of the company, not consumption of the economic utility of an asset. Therefore, a sales revenue-based method cannot be used for depreciating property, plant and equipment. In a very limited number of cases this method could be deemed appropriate for amortization of intangible assets.

The changes have no effect on the consolidated financial statements, as a sales revenue-based method for asset depreciation is not employed.

Improvements to IFRS (2012 - 2014)

The IFRS Improvements of 2012 - 2014 are also an omnibus standard containing amendments to various IFRS rules. The Group has not yet applied the following revised standards:

- IFRS 5 – Asset disposals generally occur via sale or distribution to owners. The amendment clarifies that the switching from one of these disposal methods to another cannot be seen as a new sale option, but rather as a continuation of the original plan.
- IFRS 7 – a) Clarification that a service contract involving a fee may represent a continuing commitment to a financial asset. IFRS 7 requires companies to decide whether a continuing commitment is in place and what disclosure if any is thereby entailed; b) elimination of disclosure requirements on netting of financial assets and liabilities for interim reports in the absence of no significant developments since the last annual report.
- IAS 19 – Clarification that the prime fixed-rate corporate bonds referenced to determine the discount rate for post-employment benefits must be issued in the currency in which the benefits are to be paid.
- IAS 34 – Clarification that the disclosure requirements per IAS 34 either may be fulfilled in the interim report itself or by stating a reference to the place in the interim report where the disclosures can be made (e.g. management report).

The changes have no effect on the consolidated financial statements.

IFRS 11 – Joint Arrangements: Accounting for the acquisition of shares in joint ventures

IFRS 11 is amended to the effect that the acquirer of shares in a joint venture that qualifies as a business within the meaning of IFRS 3 must apply all accounting rules pertinent to business combinations under IFRS 3 and other IFRS as long as these are not in conflict with the guidelines per IFRS 11.

The changes have no effect on the consolidated financial statements.

Future changes to accounting standards

Application of the following accounting rules and accounting standard changes published by the IASB is mandatory for reporting periods beginning on or after January 1, 2017. DATA MODUL has opted against early application of these standards.

Voluntary first-time application permitted as of December 31, 2016	Time periods for application
EU endorsement issued prior to date of release:	
IFRS 9 – Financial instruments	1/1/2018
IFRS 15 – Revenue from contracts with customers	1/1/2018
EU endorsement pending	
IFRS 16 – Leases	1/1/2019
Amended IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate or joint venture	[1]
Amended IAS 12 – Recognition of deferred tax assets for unrealized losses	1/1/2017
Amended IAS 7 – Disclosure Initiative	1/1/2017
Clarifications to IFRS 15 – Revenue from contracts with customers	1/1/2018
Amended IFRS 2 – Classification and measurement of share-based payment transactions	1/1/2018
Amended IFRS 4 – Insurance Contracts	1/1/2018
Improvements to IFRS (2014 - 2016)	01/01/2018 / 01/01/2017
IFRIC 22 - Foreign Currency Transactions and Advance Consideration	1/1/2018
Amended IAS 40 - Investment Property	1/1/2018

[1] The IASB decided to move back the effective date of this standard change to an unspecified point in time.

Except as outlined below regarding IFRS 15 and IFRS 16, the other standards and standard revisions specified here are not expected to cause any material change in current DATA MODUL accounting recognition or measurement policies.

IFRS 15 – Revenue from contracts with customers

The standard IFRS 15 – Revenue from Contracts with Customers – issued by the IASB in May 2014 is applicable for the first time to fiscal years commencing on or after January 1, 2018. The standard provides for a five-step model for evaluating contracts with customers. Revenue is recorded on the date of assignment of promised goods or services to the customer in the amount corresponding to the consideration the company is expected to receive in exchange for those goods or services. IFRS 15 was adopted by the European Union in October 2016, and will replace IAS 11 – Construction Contracts – and IAS 18 – Revenue – and their interpretations. The standard provides for significantly more extensive application rules and notes disclosures than the rules currently in effect. DATA MODUL intends to apply IFRS 15 to the consolidated financial statements as of December 31, 2018, exercising the retrospective option. The Group will therefore apply the IFRS 15 requirements to every comparison period presented and adjust the consolidated financial statements. DATA MODUL is currently conducting a qualitative assessment of the effect of IFRS 15 on the consolidated financial statements. The DATA MODUL business model chiefly involves the sale of standardized products, thus DATA MODUL does not expect any substantial changes to the recording of sales revenue over time. In addition, sales revenue for contractual warranty services beyond the statutory warranty scope are to be deferred and recognized through profit or loss over the contract term and recorded on the income statement. New products or services offered as the DATA MODUL business model evolves are evaluated at the respective applicable point in time as to proper revenue recognition under the standards in effect at that time.

IFRS 16 – Leases

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, recurring expenses are recorded for every lease contract to amortize the usage right and interest expense from continuation of the lease liability. The Company is currently reviewing what effects initial application will have on the Consolidated Financial Statements.

3. Consolidation

Consolidation standards

The Consolidated Financial Statements comprise the separate financial statements of DATA MODUL AG and its sub-

sidiaries as of December 31, 2016, 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 intercompany balances, income and expenses, as well as unrealized gains and losses and dividends from intercompany 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:

Foreign currency translation

	12/31/2016		12/31/2015	
Exchange rate	Balance sheet	P&L	Balance sheet	P&L
EUR / USD	1.0560	1.1037	1.0892	1.1044
EUR / GBP	0.8586	0.8228	0.7351	0.7240
EUR / SGD	1.5259	1.5245	1.5397	1.5219
EUR / AED	3.8780	4.0536	4.0003	4.0558
EUR / HKD	8.1889	8.5663	8.4426	8.5594
EUR / JPY	123.5100	120.4308	131.1200	133.5808
EUR / CHF	1.0750	1.0911	1.0823	1.0641

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, 2016 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, U.S.A.	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 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.

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 assigned 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 deferrable components so as to accurately reflect the economic content of the transaction. Extended warranties to customers have been identified as having a deferrable component 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 with 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 using the principle of accrual accounting when they are incurred or when the service is accepted.

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. The estimated useful life, or remaining useful life, as well as the method of depreciation are reviewed annually. 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 (2017 – 2019) approved by management and the Supervisory Board. A growth rate between 1.0% and 2.5% is applied for estimating future net cash flows in the year 2020 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 non-current assets are recorded as selling and general administrative expenses.

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.

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.

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 usually not netted. They are not netted unless 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 can not 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, 2016 and December 31, 2015, there were no contractual agreements for hedging interest rate or foreign currency risk.

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 eliminated 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, and has been throughout the reporting year, the Company's policy that no financial instruments should be 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, commodity price 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 faces currency risks 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 63.1% (previous year: 60.4%) of the Company's sales are denominated in currencies other than the functional currency of the operating unit, while approximately 61.6% (previous year: 64.1%) 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 one- and three-

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.

Calculation of respective accruals are based on a net interest which is calculated by multiplying the net defined benefit pension liability (or net asset) recorded on the balance sheet by the discount rate used 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 an accrued liability is expected to be paid at least in part (e.g. liabilities under an insurance policy), the reimbursement is classified as a separate asset, provided there is a high probability of the reimbursement occurring. Expense for provision accrual 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] Revenues

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 segments:
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

For fiscal year 2015

KEUR	Displays	Systems	Total
Revenue from product sales	108,861	67,925	176,786
Service revenue	655	2,859	3,514
Total revenue	109,516	70,784	180,300

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

[2] Cost of sales

The table below provides a breakdown of cost of sales:

KEUR	2016	2015
Material expenses	138,066	123,594
Other cost of sales	13,274	12,204
Total cost of sales	151,340	135,798

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 and development costs. 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 non-current 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 2016 and 2015 are presented below:

KEUR	2016	2015
Development costs based on customer orders recorded as cost of sales	957	552
Research and development expenses		
- Development expenses	5,388	5,190
- Amortization of development projects	531	427
- Impairment on development project	0	900
Research and development expenses	5,919	6,517
Total research and development expenses	6,876	7,069
Carrying amount of capitalized development expenses	1,877	1,576
Development expenses recorded as inventory as of Dec. 31	649	203

[4] Selling and general administrative expenses

The table below shows selling and general administrative expenses:

KEUR	2016	2015
Selling expenses	17,487	16,948
General administrative expenses	7,294	8,461
Total expenses	24,781	25,409

Total expenses by type of cost

Research and development expenses, selling and general administration 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	2016	2015
Wages and salaries	23,436	24,113
Social security contributions and old-age pensions	4,160	3,838
Total	27,596	27,951

In fiscal year 2016 the Group employed an average 395 employees, as compared to an average 364 employees in the previous year.

The average annual number of employees breaks down by functional area as follows:

Employees by functional area	2016	2015
Sales & Marketing	109	107
Development	75	66
Production	86	73
Services	39	35
Administration	44	42
Logistics	28	28
Materials requirement planning/ Procurement	14	13
Total	395	364

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

Employees by functional area	2016	2015
Sales & Marketing	111	106
Development	77	68
Production	88	78
Services	41	40
Administration	45	45
Logistics	28	28
Materials requirement planning/ Procurement	14	13
Total	404	378

Major expense items and depreciation/amortization

Other material expense items were as follows:

KEUR	2016	2015
Legal and consulting fees	3,313	(*)3,216
Vehicle and travel expenses	2,393	(*)2,152
Rent and maintenance	2,212	2,603
Depreciation/amortization	2,021	2,755
Advertising and trade shows	938	(*)710
Office and IT expenses	919	826
Packaging material & freight costs	605	328
Insurance premiums	473	426
Other	(35)	(*)67
Foreign currency translation gains (-)/losses (+)	(293)	(620)
Additions to (+)/reversals of (-) provisions for bad debts	(359)	(12)
Total	12,187	12,451

(*) adjusted presentation of various items for fiscal year 2016; previous-year items were adjusted accordingly to afford better comparability.

[5] Interest income/expenses

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

KEUR	2016	2015
Interest and similar income	10	15
Interest expense on current liabilities	(60)	(91)
Interest expense on non-current financing	0	(42)
Other interest-like expenses	(28)	(52)
Total	(78)	(170)

[6] Income tax expense

Income tax expense breaks down as outlined below.

KEUR	2016	2015
Current tax expenses		
Germany	4,020	4,297
Foreign	560	(253)
Deferred taxes		
Germany	238	(52)
Foreign	(85)	1
Total	4,733	3,993

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 increased by 112 thousand euros through tax expenses from previous years. Foreign current tax expenses include 47 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, 2016.

Tax rates for 2016 and 2015 are determined as follows:

	2016 in %	2015 in %
Corporate income tax	15.00	15.00
Solidarity surcharge	0.825	0.825
Trade tax	16.45 and 13.30 respectively	17.15 and 12.25 respectively
Income tax rate	32.28 and 29.13 respectively	32.98 and 28.08 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 32.98% for 2015 and 32.28% for 2016.

KEUR	2016	2015
Earnings before taxes reported	14,961	12,406
Projected income tax expense	4,829	4,091
Non-deductible expenses	33	515
Tax reductions resulting from tax-free income	(10)	(4)
Actuarial gains / (losses) from pension commitments recorded in equity	27	(7)
Unrecognized tax loss carry-forwards	0	0
Difference amount to local tax rates	(204)	314
Tax expense for/from foreign operating locations, audits, miscellaneous	15	96
Taxes from previous years	60	(1,010)
Other	(17)	(2)
Reported income tax expense	4,733	3,993

The refund claim of German companies discounted long-term arising from the corporate income tax credit as per Sec. 37 of the German Corporate Income Tax Act (KStG) is reported under other current assets (see note [11], Other current assets).

Income from compounding is included in the financial result, as this income is not tax income. Deferred taxes consist of the following material balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
KEUR	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Current assets				
Trade receivables and other current assets	17	0	(19)	(5)
Inventories	0	0	(21)	(39)
Non-current assets				
Intangible assets	184	308	(589)	(468)
Property, plant and equipment	7	0	(621)	(628)
Current liabilities				
Trade payables & other current liabilities	29	0	(9)	(12)
Other provisions	204	244	0	0
Non-current liabilities				
Provisions for pensions & similar obligations	180	174	0	0
Total	621	726	(1,259)	(1,152)

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

KEUR		2016	2015
Deferred tax assets from tax loss carry-forwards	Germany	0	0
	Foreign	86	0
Deferred tax assets from temporary differences	Germany	580	685
	Foreign	41	41
Total deferred tax assets		707	726
Total deferred tax liabilities	Germany	(1,259)	(1,152)
Deferred tax assets (+)/ liabilities (-), net		552	(426)

As of December 31, 2016 and 2015, 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.

Deferred tax assets arising from actuarial gains and losses on pension commitments recorded directly in equity increased equity by 27 thousand euros (previous year: 7 thousand euros). Deferred tax liabilities were not recognized for temporary differences in connection with investments in subsidiaries in the amount of 11.474 million 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, 2016 and December 31, 2015, 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):

	2016	2015
Net income for the year in KEUR	10,228	8,413
Denominator (thousands of shares):		
Denominator for undiluted earnings per share – weighted average number of shares	3,526	3,488
Denominator for diluted earnings per share – adjusted weighted average shares	3,526	3,488
Undiluted earnings per share	2.90 euros	2.41 euros
Diluted earnings per share	2.90 euros	2.41 euros

6. Notes to the Statement of Financial Position

[8] Fixed assets 2016

	ACQUISITION EXPENSES					
	Balance as of 1/1/2016	Currency translation	Additions	Disposals	Reclassifi-cations	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, fittings & 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**

Fixed assets 2015

	ACQUISITION EXPENSES					
	Balance as of 1/1/2015	Currency translation	Additions	Disposals	Reclassifi-cations	Balance as of 12/31/2015
Intangible assets/Goodwill						
Goodwill	3,112	0	0	0	0	3,112
Software	2,578	0	195	(7)	225	2,991
Development projects	6,901	0	1,018	(1,070)	0	6,849
Prepayments	225	0	2	0	(225)	2
Total	**12,816**	**0**	**1,215**	**(1,077)**	**0**	**12,954**
Property, plant and equipment						
Land and buildings	11,970	23	214	(176)	157	12,188
Technical equipment	1,819	0	85	(10)	19	1,913
Other equipment, fixtures, fittings & office equipment	4,474	36	910	(160)	40	5,300
Assets under construction	39	0	295	0	(216)	118
Total	**18,302**	**59**	**1,504**	**(346)**	**0**	**19,519**
Total	**31,118**	**59**	**2,719**	**(1,423)**	**0**	**32,473**

All figures in KEUR

	DEPRECIATION						CARRYING AMOUNT
	Balance as of 1/1/2016	Currency translation	Additions	Disposals	Reclassifi-cations	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**

	DEPRECIATION						CARRYING AMOUNT
	Balance as of 1/1/2015	Currency translation	Additions	Disposals	Reclassifi-cations	Balance as of 12/31/2015	Balance as of 12/31/2015
	693	0	0	0	0	693	2,419
	2,219	0	329	(7)	0	2,541	450
	4,982	0	1,327	(1,036)	0	5,273	1,576
	0	0	0	0	0	0	2
	7,894	**0**	**1,656**	**(1,043)**	**0**	**8,507**	**4,447**
	4,500	11	489	(176)	0	4,824	7,364
	1,243	0	134	(10)	0	1,367	546
	2,964	10	476	(139)	0	3,311	1,989
	0	0	0	0	0	0	118
	8,707	**21**	**1,099**	**(325)**	**0**	**9,502**	**10,017**
	16,601	**21**	**2,755**	**(1,368)**	**0**	**18,009**	**14,464**

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 ended December 31, 2016 and 2015 is shown below, broken down by reportable segment and cash-generating unit.

KEUR	Displays		Systems	Total
Cash-generating unit	Line Management	Custom Solutions	Systems	
Balance as of 1/1/2015	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 12/31/2015	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 was impairment tested on December 31, 2016. 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 (2017 – 2019) approved by management and the Supervisory Board, extrapolated for 2020 and years thereafter.

The before-tax discount rates used for cash flow projections and revenue growth rates starting in 2020 (for 2015 in 2019) are shown in the table below.

Cash-generating unit	Before-tax discount rates		Revenue growth rates	
in %	2016	2015	2016	2015
Line Management	8.65	9.57	2.5	2.5
Custom Solutions	8.79	10.06	1.0	1.0
Systems	8.48	9.67	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 2016 and 2015 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 2020.
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] Other non-current assets

Other non-current assets as of the reporting date break down as follows:

KEUR	2016	2015
Other non-current assets	0	105

In the previous year, non-current other assets consisted exclusively of corporate income tax credits most recently measured on December 31, 2006 which have been/will be paid out to the entitled companies in ten equal annual installments in the payout period from 2008 to 2017.

[10] Inventories

Inventories as of the reporting date break down as follows:

KEUR	2016	2015
Raw materials, consumables and supplies	5,103	5,366
Work in progress	3,257	3,198
Finished goods and merchandise	37,349	29,866
Impairment	(1,679)	(1,442)
Total	44,030	36,988

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

[11] Trade receivables and other current assets

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

KEUR	2016	2015
Trade receivables, net of doubtful accounts	23,039	17,822
Other current assets		
Tax claims and prepayments	788	627
Suppliers with credit balances	19	29
Other assets, net of doubtful accounts	1,370	957
Total	25,216	19,435

Trade receivables are not discounted and are usually due within 30 - 90 days. The allowance for bad debt as of Saturday, December 31, 2016 and Thursday, December 31, 2015 was 157 thousand euros and 445 thousand euros respectively.

Other current assets include financial assets per IAS 32 in the amount of 360 thousand euros. These are primarily security deposits in the amount of 173 thousand euros (previous year: 203 thousand euros), other receivables of 163 thousand euros (previous year: 240 thousand euros) and supplier debit balances of 19 thousand euros (previous year: 29 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	2016	2015
Balance as of January 1	445	434
Additions recorded in profit or loss	2	24
Utilization	(279)	(3)
Reversals	(1)	(33)
Effects from foreign currency translation adjustments	(10)	23
Balance as of December 31	157	445

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

KEUR	2016	2015
Total	23,039	17,822
Amounts neither overdue nor impaired	18,428	14,960
‹ 30 days overdue, not impaired	3,968	2,403
30 - 60 days overdue, not impaired	488	211
Overdue › 60 days	155	248

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

[12] Cash and cash equivalents

Cash and cash equivalents held as of December 31, 2016 totaled 17,193 thousand euros (previous year: 19,334 thousand euros) and comprise cash on hand and bank balances.

[13] 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.

On February 10, 2012 the DATA MODUL AG Executive Board resolved to exercise, with the Supervisory Board's approval, the authorization approved at the Annual Shareholders' Meeting on May 11, 2010 to acquire stock to

treasury through the date May 10, 2015, in accordance with Sec. 71 (1) No. 8, German Stock Corporation Act (AktG).

In 2012, the Company acquired 132,182 shares to treasury on the stock exchange (Xetra), reducing the number of shares outstanding to 3,394,000 as of December 31, 2012. In fiscal year 2015 the Company resold treasury shares, the resulting number of shares outstanding being 3,526,182 as of December 31, 2015. As a result of the share sales, subscribed capital stock increased by 397 thousand euros, the capital reserve by 1,752 thousand euros and other retained earnings by 1,486 thousand euros.

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 2016 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

By way of resolution at the Annual Shareholders' Meeting, the Executive Board was authorized – with Supervisory Board approval – to increase the Company's capital stock through the date July 2, 2020 by issuing non-par bearer shares for cash or stock one or more times by a total of 5,289 thousand euros (authorized capital). The Executive Board is also authorized – subject to Supervisory Board approval – to exclude existing shareholders' subscription rights to shares issued from authorized capital if the shares are issued for non-cash assets. The Executive Board – with Supervisory Board approval – is furthermore authorized to exclude existing shareholders' subscription rights for the issuance of shares from authorized capital if the new shares are sold for cash at a price not substantially below market price, or if the shares are issued for the purpose of acquiring companies or investments in companies. 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	2016	2015
Adjustments due to first-time application of IFRS	(2,201)	(2,201)
Foreign currency adjustment	1,140	1,116
Total	(1,061)	(1,085)

[14] 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 198 thousand euros (previous year: 206 thousand euros). The pledged reinsurance policies are netted out as plan assets in "Pensions and non-current personnel liabilities". The pension accruals as of Saturday, December 31, 2016 and Thursday, December 31, 2015 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	2016	2015	2014	2013	2012
Present value of deferred pension obligations	1,715	1,734	1,851	1,609	1,559
Fair value of the plan assets	198	206	215	224	234
Funding status	1,517	1,528	1,636	1,385	1,325

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

KEUR	2016	2015
Changes in the present value of pension obligations:		
Pension obligations forecast at beginning of year	1,734	1,851
Accruing interest on expected pension obligations	28	30
Actuarial profit or loss recorded in other comprehensive income resulting from changed interest and trend assumptions	50	(44)
Actuarial gain/loss recorded in other comprehensive income resulting from funding level changes	25	18
Pensions paid	(122)	(121)
Present value of pension obligations at year end	1,715	1,734
Plan assets	(198)	(206)
Pension obligations	1,517	1,528

KEUR	2016	2015
The net pension expenditure breaks down as follows:		
Accruing interest on expected pension obligations	28	30
Net periodic pension cost	28	30

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 %	2016	2015
Weighted average assumptions:		
Discount rate	1.37	1.70
Growth rate in future benefit payments	1.5 - 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
2017	125
2018	127
2019	130
2020	133
2021	136
Cumulative 2022 through 2026	722

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

KEUR	12/31/2016
Discount rate increase by 1.0%	(144)
Discount rate decrease by 1.0%	168
Pension trend rise by 1.0%*	87
Pension trend decline by 1.0%*	(77)

* 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	2016	2015
Pension accruals	1,517	1,528
Other non-current personnel obligations	62	954
Amount reported on consolidated balance sheet	1,579	2,482

[15] Accruals

Quantifying warranty accruals are inevitably subject to uncertainty regarding amount and due dates. The amount of the accrual is calculated based on historical data. Except for risks for which accruals have been recorded, Company management is unaware of any matters potentially creating liabilities for the Company which could have a significant adverse impact on the Company's financial position, financial performance or cash flows.

KEUR	Warranty accruals	Personnel-related accruals	Other accruals	Total
Balance as of 1/1/2016	1,702	66	484	2,252
Currency translation	0	0	1	1
Additions	1,874	8	233	2,115
Utilization	(498)	0	(141)	(639)
Reversals	(895)	0	(13)	(908)
Balance as of 12/31/2016	**2,183**	**74**	**564**	**2,821**
Of these, non-current	384	0	0	384
Of these, current	1,799	74	564	2,437

[16] Other non-current liabilities

Other non-current liabilities include 1,469 thousand euros in deferred revenue for contractually agreed guarantees for customers beyond statutory warranty protections (previous year: 1,107 thousand euros).

[17] Other current liabilities and tax liabilities

Other current liabilities as of the reporting date comprise the following items:

KEUR	2016	2015
Taxes payable	1,308	776
Personnel-related liabilities	3,732	2,678
Social security and payroll taxes	847	562
Value-added tax payable	2,207	1,312
Customers with credit balances	114	472
Annual audit and tax consultancy	246	168
Deferred revenue	309	0
Shipping expenses	106	98
Other liabilities	382	628
	7,943	5,918
Total	9,251	6,694

Other current liabilities include financial liabilities as per IAS 32 in the amount of 849 thousand euros (prior year: 1,350 thousand euros). These are primarily outstanding invoices totaling 734 thousand euros (previous year: 878 thousand euros) and customer credit balances of 114 thousand euros (previous year: 472 thousand euros). These other current financial liabilities will cause cash outflows for the Group at a future point in time.

[18] Current borrowings from financial institutions

Short-term credit facilities are summarized in the following table as of the reporting date:

KEUR	2016	2015
Deutsche Bank, Munich	0	1,000
Commerzbank, Munich	1,000	1,000
Sparkasse Tauberfranken, Tauberbischofsheim	1,000	1,000
Bayer. Landesbank, Munich	1,000	1,000
Total	3,000	4,000

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	2016	2015
Commerzbank, Munich	7,000	10,000
Sparkasse Tauberfranken, Tauberbischofsheim	7,000	7,000
Bayer. Landesbank, Munich	7,000	12,000
Deutsche Bank, Munich	7,000	11,000
Total	28,000	40,000

In addition to these credit facilities, the Company 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 from the Company, 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, 2016 the Company had drawn on bank guarantees for the amount of 880 thousand euros (previous year: 1,453 thousand euros).

[19] Current portion of non-current borrowings

The amount of 3,000 thousand euros reported in the previous year was fully redeemed with Sparkasse Tauberfranken on April 30, 2016.

7. Notes to the statement of cash flows

The statement of cash flows is comprised of 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 10,228 thousand euros (previous year: 8,413 thousand euros), cash flow from operating activities came to 6,325 thousand euros (previous year: 7,049 thousand euros). Interest income,

interest payments and income taxes paid in the amount of -4,255 thousand euros (previous year: -4,196 thousand euros) are classified as relating to operating activities due to their operating nature for the Group.

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 -4,017 thousand euros in 2016 and -2,708 thousand euros in 2015.

Cash flow from financing activities in fiscal year 2016 was -4,423 thousand euros (previous year: -1,840 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. In addition to further redemptions of current financial liabilities resulting in outflows of 4,000 thousand euros (previous year: 5,050 thousand euros), the 2016 dividend distribution of 423 thousand euros (previous year: 423 thousand euros) was another significant cash outflow. The dividend distribution in 2016 was 0.12 euro per share for fiscal year 2015 (previous year: 0.12 euros). In fiscal year 2015 cash flow was also increased by an inflow of 3,635 thousand euros from the sale of treasury stock.

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.

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 of the German Stock Corporation Act (AktG) requires disclosure of shareholdings in companies of which DATA MODUL AG has been notified in accordance with Article 21 Section 1 or 1a of the German Securities Trading Act (WpHG).

In fiscal year 2016 DATA MODUL AG received no notifications of shareholdings. The reportable shareholdings are documented in the most recent notifications received by DATA MODUL AG in fiscal year 2015, outlined below. The published content of the most recent notification per Article 26 Section 1 WpHG sent to DATA MODUL AG was as follows:

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

1) Arrow Central Europe Holding Munich GmbH, Munich, Germany has informed us according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).

2) Arrow Electronics GmbH & Co. KG, Neu-Isenburg, Germany has informed us according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 3 percent or more:
Arrow Central Europe Holding Munich GmbH

3) Verwaltungsgesellschaft Arrow Electronics GmbH, Neu-Isenburg, Germany has informed us according to Article 21, Section 1 of the WpHG that via shares 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 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 according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 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 according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 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 according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 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 according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion

und Vertrieb von elektronischen Systemen is 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 according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 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 according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 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 according to Article 21, Section 1 of the 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 and on that day amounted to 53.37% (this corresponds to 1,881,986 voting rights).
53.37% of voting rights (this corresponds to 1,881,986 voting rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed voting rights are held by the following shareholders, whose share of voting rights in DATA MODUL Aktiengesellschaft Produktion und Vertrieb von elektronischen Systemen is 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

Business transactions with the Arrow Group in fiscal 2016 were comprised of 419 thousand euros in purchases (previous 333 thousand euros and sales of 54 thousand euros (previous year: 611 thousand euros). As of the reporting date, unsecured liabilities due to the ARROW Group totaled 27 thousand euros (previous year: 0 thousand euros).
In addition, DATA MODUL AG conducted arm's length transactions with companies of the Varitronix Group, which held 19.99% of voting rights until April 14, 2015. As of the disclosure date of April 14, 2015, Varitronix Group companies no longer held any shares of DATA MODUL AG. Business transactions with the Arrow Group in fiscal 2015

comprised 6,841 thousand euros in purchases, 58 thousand euros for services and 0 thousand euros in sales. As of December 31, 2015 there were unsecured payables to the Varitronix Group totaling 978 thousand euros. This disclosure is omitted for fiscal year 2016 because the Varitronix Group is no longer considered a related party.

In fiscal year 2015 the Group incurred expenses through payments connected with hiring and personnel departures in the Group; this involved significant holdings of DATA MODUL AG shares by related parties through April 2015, and concerned a Supervisory Board member who was a related party until July 2015. The remuneration amount paid in 2015 was 325 thousand euros. Such payments were not made in the 2016 reporting year.

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	2016	2015
Impact on earnings before taxes		
Interest rate change		
Increase by 1%	(30)	(40)
Decrease by 1%	30	40

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 subjected to foreign currency exposures from individual transactions. Risk exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 63.1% (previous year: 60.4%) of Group sales are denominated in currencies other than the functional currency of the operating unit making the sale, while 61.6% of the costs are denominated in currencies other than the functional currency of the operating unit (previous year: 64.1%). 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, 2016, 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	2016	2015
Impact on earnings before taxes		
Exchange rate change		
Increase by 5%	636	104
Decrease by 5%	(584)	(31)

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 with 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 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, 2016, 87.9% of the Company's debt reported on the consolidated financial statements falls due within one year (previous year: 86.2%).

The maturities of the Group's financial liabilities are shown below as of December 31, 2016. The figures are based on contractual, undiscounted payments.

12/31/2016 KEUR	< 12 months	1 - 5 years	> 5 years	Total
Interest bearing borrowings	3,000	0	0	3,000
Other liabilities				
Pensions and non-current personnel obligations	125	587	867	1,579
Provisions	2,437	384	0	2,821
Trade accounts payable	14,215	0	0	14,215
Other financial liabilities	9,251	2,148	0	11,399
Total	29,028	3,119	867	33,014

12/31/2015 KEUR	< 12 months	1 - 5 years	> 5 years	Total
Interest bearing borrowings				
Non-current	3,014	0	0	3,014
Current	4,003	0	0	4,003
Other liabilities				
Pensions and non-current personnel obligations	123	1,474	885	2,482
Provisions	2,173	79	0	2,252
Trade accounts payable	10,119	0	0	10,119
Other financial liabilities	7,188	1,107	0	8,295
Total	26,620	2,660	885	30,165

Capital management

The main objective of the Company's capital management is to maintain a potentially 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, 2016, 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	12/31/2016	12/31/2015
Current borrowings	3,000	7,000
Trade accounts payable	14,215	10,119
Other liabilities	15,799	13,029
minus Cash and cash equivalents and other current assets	(19,370)	(20,947)
Net debt	13,644	9,201
Total shareholders' equity	70,027	60,246
Shareholders' equity and net financial debt	83,671	69,447
Capital management ratio in %	16.31	13.25

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, 2016, 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 reporting date, December 31, 2016 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, its financial position, financial performance and cash flows.

Contingencies from guarantees and warranties as of the balance sheet date totaled 880 thousand euros (previous year: 1,453 thousand euros).

Lease agreements

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

KEUR	2016	2015
Rent of office space	1,222	1,149
Operating leases for vehicles	612	580
Total lease and rental expenses	1,834	1,729

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

KEUR	12/31/2016
Rents and leases 2017	1,728
Rents and leases 2018	1,430
Rents and leases 2019	1,304
Rents and leases 2020	1,268
Rents and leases 2021	1,280
Rents and leases 2022 and after	2,165
Total	9,175

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

At the reporting date, 64,746 thousand euros in orders placed with suppliers were still outstanding (previous year: 45,451 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 2016			Fiscal year 2015		
KEUR	Displays	Systems	Group total	Displays	Systems	Group total
Revenue from sales of goods and services	111,708	80,698	192,406	108,861	67,925	176,786
Service revenue	354	4,319	4,673	655	2,859	3,514
Total revenue	112,062	85,017	197,079	109,516	70,784	180,300
Research and development expenses	(2,277)	(3,642)	(5,919)	(2,621)	(3,896)	(6,517)
Selling and general administrative expense	(12,832)	(11,949)	(24,781)	(13,041)	(12,368)	(25,409)
Amortization of intangible assets and depreciation of property, plant and equipment	(675)	(1,346)	(2,021)	(878)	(1,877)	(2,755)
Segment results (EBIT)	9,373	5,666	15,039	8,539	4,037	12,576
Interest income	2	8	10	2	13	15
Interest expense	(62)	(26)	(88)	(119)	(66)	(185)
Income tax	(2,687)	(2,046)	(4,733)	(1,820)	(2,173)	(3,993)
Net income for the year	6,626	3,602	10,228	6,602	1,811	8,413
Investments in intangible assets, property, plant and equipment, and financial assets	1,087	2,944	4,031	629	2,090	2,719

Breakdown by geographical region

Revenue

Displays segment

KEUR	2016	2015
Domestic	63,434	66,292
Foreign	48,628	43,224
Total	112,062	109,516

Systems segment

KEUR	2016	2015
Domestic	44,486	42,979
Foreign	40,531	27,805
Total	85,017	70,784

The Group does not currently have customers which individually account for more than 10% of Company revenue.

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. 289a German Commercial Code (HGB) in the Corporate Governance section of the Company website www.data-modul.com.

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	Share-holding	IFRS equity	Net profit
	in %	KEUR	KEUR
DATA MODUL Weikersheim GmbH, Weikersheim, Germany	100	7,457	717
DATA MODUL France SARL, Baron, France	100	1,029	225
DATA MODUL Iberia S.L., Madrid, Spain	100	1,247	132
DATA MODUL Inc., New York, U.S.A.	100	2,968	278
DATA MODUL Italia S.r.l., Bolzano, Italy	100	657	135
DATA MODUL Ltd., Birmingham, United Kingdom	100	1,151	693
DATA MODUL Suisse GmbH, Zug, Switzerland	100	(132)	(97)
DATA MODUL Hong Kong Ltd., Hong Kong, China	100	(101)	49
DATA MODUL Electronic Technology (Shanghai) Co., Ltd., Shanghai, China	100	234	(252)
Conrac Asia Display Products PTE Ltd., Singapore	100	1,264	149
DATA MODUL FZE, Dubai, VAE	100	1,664	268

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

Disclosure of the compensation packages granted to Executive Board members in fiscal year 2016 are in accordance with applicable accounting principles (GAS 17 and IFRS) and the German Corporate Governance Code provisions (GCGC):

Compensation packages granted	Dr. Florian Pesahl *CEO* *Joining date: January 1, 2010*				Total	
KEUR	2015[3]	2016	2016 (min.)	2016 (max.)	2015[4]	2016
Fixed remuneration	230	230	230	230	355	230
Fringe benefits	11	32	32	32	20	32
Total	**241**	**262**	**262**	**262**	**375**	**262**
One-year variable compensation [1]	100	220	0	220	100	220
Multi-year variable compensation [2]	50	0	0	0	50	0
Executive bonus 2015	*50*				*50*	*0*
Executive bonus 2016		*0*	*0*	*0*	*0*	*0*
Total compensation (according to GCGC)	**391**	**482**	**262**	**482**	**525**	**482**
Service cost	0	0	0	0	0	0
Total compensation (according to GAS 17)	**391**	**482**	**262**	**482**	**525**	**482**

[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 for the past fiscal year, the third portion only being disbursable if the Group remains profitable in the fiscal year following.

[3] 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.

[4] The data include emoluments to former Executive Board member Mr. Walter King.

Compensation of Executive Board members paid in fiscal year 2016 breaks down as follows:

Compensation paid	Dr. Florian Pesahl *CEO* *Joining date: January 1, 2010*		Total	
KEUR	2015	2016	2015[6]	2016
Fixed remuneration	230	230	355	230
Fringe benefits	11	32	20	32
Total	**241**	**262**	**375**	**262**
One-year variable compensation [5]	100	100	200	100
Multi-year variable compensation	50	50	100	50
Executive bonus 2013	*50*		*100*	*0*
Executive bonus 2014		*50*	*0*	*50*
Total compensation	**391**	**412**	**675**	**412**

[5] Not taking into account any deferrals.

[6] The data include emoluments to former Executive Board member Mr. Walter King.

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	2016	2015	2016	2015
Provisions recorded as of the reporting date	267	258	270	268
Allocations to pension accruals	30	18	27	17
Pensions paid	21	20	25	24

In fiscal years 2016 and 2015, 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.

Supervisory Board member remuneration

Annual remuneration KEUR	2016	2015
Kristin D. Russell	21	0
Amir Mobayen	17	24
Brian Armstrong	30	15
Wolfgang Klein	20	20
Grand total	**88**	**87**[7]

[7] The amount includes compensation paid to additional former members of the Supervisory Board.

Membership of the Executive and Supervisory Boards

Executive Board members:

- Dr. Florian Pesahl, Munich, CEO

Supervisory Board members:

- Kristin D. Russell, Chairwoman (member since June 15, 2016, Chairwoman since June 27, 2016)
- Brian Armstrong, Deputy Chairman (until 31 December 2016)
- Wolfgang Klein (non-executive employee), Employee Representative
- Amir Mobayen, former Chairman (until May 30, 2016)
- Jim Petrie, Deputy Chairman (effective January 1, 2017)

Auditors' fees

The Company recorded fees for auditing services in the amount of 150 thousand euros (previous year: 138 thousand euros) in accordance with Sec. 314 (1) No. 9a of German Commercial Code (HGB). An additional 36 thousand euros was expensed in 2016 for audit services performed in 2015. 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 314 (1) No. 9d German Commercial Code in the amount of 4 thousand euros (previous year: 1 thousand euros).

Subsequent events

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

AUDITOR'S OPINION

We have issued the following unqualified opinion on the Consolidated Financial Statements and Group Management Report:

"We have audited the Consolidated Financial Statements prepared by DATA MODUL Aktiengesellschaft, Produktion und Vertrieb von Elektronischen Systemen, Munich, comprising the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Consolidated Financial Statements, together with the Group Management Report for the fiscal year January 1, 2016 to December 31, 2016. The preparation of the Consolidated Financial Statements and the Group Management Report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) German Commercial Code (Handelsgesetzbuch, HGB): is the responsibility of the parent company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Group Management Report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Sec. 317 HGB and generally accepted German standards for financial statement auditing as outlined by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit so as to reasonably ensure that the Consolidated Financial Statements and the Group Management Report are free of any misstatements materially affecting the presentation therein of the Company's net assets, financial position and results of operations in accordance with the applicable financial reporting framework. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to the potential for misstatements are taken into account in determining audit procedures. The effectiveness of the accounting-related internal control system and documentation supporting the disclosures in the Consolidated Financial Statements and the Group Management Report are examined primarily on a sample basis within the audit framework. The audit includes assessing the annual financial statements of the entities included in consolidation, the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Group Management Report. We believe the audit we conducted provides a reasonable basis for our opinion.

The audit did not lead to the noting of any reservations.

In our opinion, based on the audit findings, the Consolidated Financial Statements comply with IFRS as adopted by the EU and the additional requirements under German commercial law pursuant to Sec. 315a (1) German Commercial Code, and present a true and fair view of the net assets, financial position and results of operations of the Group in accordance with said requirements. The Group Management Report is consistent with the Consolidated Financial Statements, conforms with legal requirements, and as a whole provides an accurate view of the Group's position and accurately presents pertinent business opportunities and risks going forward."

Munich, March 23, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gallowsky
Wirtschaftsprüfer (German Public Auditor)

Hohenegg
Wirtschaftsprüfer (German Public Auditor)

CONCLUDING REMARKS AND AUDITOR'S OPINION

The above report is given in accordance with Sec. 313 German Stock Corporation Act (AktG); in conclusion we note that the Executive Board Report of DATA MODUL Aktiengesellschaft, Produktion und Vertrieb von Elektronischen Systemen, Munich on relations with affiliated companies – attached as Appendix 1 – conforms with the provisions per Sec. 312 German Stock Corporation Act (AktG) for the fiscal year January 1, 2016 to December 31, 2016.
The Executive Board provided all information and documentation requested.
The Dependency Report conforms with the principles of conscientious and proper disclosure.
The concluding declaration in the Dependent Company Report was incorporated into the Management Report (according to Sec. 289 German Commercial Code) in accordance with Sec. 312 (3) sentence 3 German Stock Corporation Act (AktG).

No reservations were noted pursuant to the completed audit regarding the Dependency Report. We therefore issue the following opinion:

Having performed diligent auditing and assessment, 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. and that no circumstances are evident indicating that a materially different view to the view expressed by the Executive Board regarding the activities in the Report would be justified.

Munich, March 23, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gallowsky
Wirtschaftsprüfer (German Public Auditor)

Hohenegg
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 2017

Quarterly report as per March 31, 2017	May 10, 2017
Annual Shareholders' Meeting	May 11, 2017
Half-Yearly Financial Report	August 11, 2017
Quarterly report as per September 30, 2017	November 10, 2017

The DATA MODUL 2016 Annual Report is available in German and English.

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