

## Report of the Executive Board and Supervisory Board on Corporate Governance (Corporate Governance Report)

### 1. Corporate Governance

As in the previous year, in fiscal year 2016 the DATA MODUL AG Executive and Supervisory Boards closely monitored compliance with the requirements as per the May 5, 2015 version of the German Corporate Governance Code.

Having management and management monitoring in place and geared toward adding value in a responsible, sustained and transparent fashion is a foundation for the success of DATA MODUL AG. Corporate governance has been a central element in running the Company for years. The Executive and Supervisory Boards have submitted the Declaration of Compliance as per Sec. 161 of the German Stock Corporation Act (AktG), according to which DATA MODUL AG is in compliance with all German Corporate Governance Code guidelines, barring the exceptions stated therein. The Executive and Supervisory Boards monitor compliance with the Code. The Declaration of Compliance is submitted annually and posted on the website, permanently accessible to all shareholders. It is available on the website of DATA MODUL AG at <http://www.data-modul.com> under “Company › Investors › Corporate Governance“.

The DATA MODUL AG management and supervisory functions are guided by the German Stock Corporation Act, according to which company governance consists of three executive and supervisory bodies: the Annual Shareholders' Meeting, the Executive Board and the Supervisory Board. An external annual audit constitutes another statutory corporate control.

Executive Board and Supervisory Board members cooperate in a spirit of good faith. The Executive Board informs the Supervisory Board on a regular basis and in a timely and comprehensive manner about any and all aspects relevant to the Company with regard to strategy, corporate planning and business results. Constructive ongoing dialog is conducted as well regarding risk exposure, risk management and compliance. The Supervisory Board convened four ordinary and two special meetings last year. For more information see the Supervisory Board Report.

The DATA MODUL AG Corporate Governance meets the legal requirements and corresponds to the largest extent possible to the recommendations of the May 5, 2015 version of the German Corporate Governance Code. We have also implemented various suggestions stated in the Code.

### 2. Transparency, compliance, risk management and annual audit

We provide detailed documentation and information on our website to ensure timely and open communication with the shareholders of DATA MODUL AG and with the public.

On December 31, 2016, neither Dr. Pesahl – the sole Executive Board member of DATA MODUL AG – nor the members of the DATA MODUL AG Supervisory Board (then in office) held DATA MODUL shares or subscription rights to DATA MODUL shares.

Diligent management in compliance with applicable laws is essential for ensuring quality, profitability and sustainable growth for DATA MODUL AG. The Executive Board thus sees compliance as a prime managerial duty, and is committed to upholding not only the law but also social responsibilities and ethical standards.

Having an effective risk management system in place is prerequisite for prudent corporate governance. At DATA MODUL AG, risk management activities are oriented around practical business requirements. The risk management system is in place to facilitate prompt identification of risks and helps avoid or contain any resulting impact. Details are provided in the Risk Report within the Group Management Report.

The DATA MODUL AG consolidated financial statements dated December 31, 2016 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, additionally applying the requirements as per Sec. 315a, para. 1, German Commercial Code (HGB). Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the consolidated financial statements and issued an unqualified audit opinion.

### **3. Declaration on compliance with the Corporate Governance Code (Compliance Statement as per Sec. 161 AktG)**

The Executive Board and Supervisory Board of DATA MODUL AG declare past and future compliance with all but the following recommendations for appropriate corporate management and oversight (governance) set forth by the Government Commission on the German Corporate Governance Code as amended May 5, 2015 and published in the official section of the *Bundesanzeiger* (German Federal Gazette) by the Federal Ministry of Justice:

#### **- Art. 3.8**

The Company has taken out D&O insurance for Executive and Supervisory Board members. Members of the Supervisory Board are not required to pay a deductible however, as the Company does not consider a deductible to be a positive control instrument which would further the proper execution of the Supervisory Board's mandate.

#### **- Art. 5.1.2**

No age limit has been set for members of the Executive Board in order to not restrict the selection of qualified candidates for this position.

#### **- Art. 5.3.1**

The Supervisory Board has not formed any additional committees, performing the listed duties itself as this is just as expedient for a Supervisory Board consisting of three members only.

#### **- Art. 5.3.2**

The Supervisory Board has not formed a separate audit committee but performs this function itself. For a Supervisory Board consisting of only three members, this is just as expedient.

#### **- Art. 5.3.3**

The Supervisory Board has not formed a separate nomination committee, performing the listed activities itself as this is just as expedient for a Supervisory Board consisting of three members only.

#### **- Art. 5.4.1**

No age limit has been set for members of the Supervisory Board in order to not restrict the selection of candidates qualified for this position. The same applies regarding the setting of a limit for Supervisory Board tenure, as such a limit would undermine Supervisory Board continuity, which the Company is in favor of.

#### 4. Remuneration report

The DATA MODUL AG Supervisory Board determines the overall remuneration packages for Executive Board members. It also reviews and adapts the Executive Board remuneration scheme on a regular basis with a view towards appropriateness in terms of both overall remuneration and 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 components:

- Fixed components (basic salary plus fringe benefits)
- Performance-based components (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, currently the 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 members' respective employment contracts. The targets are based on Group EBIT. The executive bonus is staggered based on the degree of target attainment, with a minimum threshold and cap on fully attaining set targets. The earnings target for fiscal year 2016 was adopted at the Supervisory Board meeting in December 2015.

All activities of Group Executive Board members are compensated through either performance-based or non-performance-based components.

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, German Commercial Code [HGB], IFRS):

Compensation packages granted	Dr. Florian Pesahl <i>CEO</i> <i>Joining date: January 1, 2010</i>				TOTAL		
	thousand euros	2015 <sup>3)</sup>	2016	2016 (Min)	2016 (Max)	2015 <sup>4)</sup>	2016
Fixed remuneration		230	230	230	230	355	230
Fringe benefits		11	32	32	32	20	32
<b>Total</b>		<b>241</b>	<b>262</b>	<b>262</b>	<b>262</b>	<b>375</b>	<b>262</b>
One-year variable compensation <sup>1)</sup>		100	220	0	220	100	220
Multi-year variable compensation <sup>2)</sup>		50	0	0	0	50	0
<i>Executive bonus 2015</i>		<i>50</i>				<i>50</i>	<i>0</i>
<i>Executive bonus 2016</i>			<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Total compensation (according to GCGC)</b>		<b>391</b>	<b>482</b>	<b>262</b>	<b>482</b>	<b>525</b>	<b>482</b>
Service cost		0	0	0	0	0	0
<b>Total compensation<sup>3)</sup> (according to GAS 17)</b>		<b>391</b>	<b>482</b>	<b>262</b>	<b>482</b>	<b>525</b>	<b>482</b>

<sup>1)</sup> Not taking into account any deferrals.

<sup>2)</sup> 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 executive bonus are to be paid out after adoption of the annual financial statement and after the approval of the consolidated financial statements of the Group for the last fiscal year, the third portion only being disburseable if the Company remains profitable in the following fiscal year.

<sup>3)</sup> 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.

<sup>4)</sup> The information include compensation to the former member of the Executive Board Mr. Walter King

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

Pensions	Peter Hecktor		Walter Eichner	
	2015	2016	2015	2016
thousand euros				
Provisions recorded as of the reporting date	258	267	268	270
Allocation to (+) / utilization of (-) pension provisions	18	30	17	27
Pensions paid	20	21	24	25

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

Inflow	Dr. Florian Pesahl CEO Joining date: January 1, 2010		TOTAL	
	2015	2016	2015 <sup>6)</sup>	2016
thousand euros				
Fixed remuneration	230	230	355	230
Fringe benefits	11	32	20	32
<b>Total</b>	<b>241</b>	<b>262</b>	<b>375</b>	<b>262</b>
One-year variable compensation <sup>5)</sup>	100	100	200	100
Multi-year variable compensation	50	50	100	50
<i>Executive bonus 2013</i>	<i>50</i>		<i>100</i>	<i>0</i>
<i>Executive bonus 2014</i>		<i>50</i>	<i>0</i>	<i>50</i>
<b>Total compensation</b>	<b>391</b>	<b>412</b>	<b>675</b>	<b>412</b>

<sup>5)</sup> Not taking into account any deferrals.

<sup>6)</sup> The information include inflows to the former member of the Executive Board Mr. Walter King.

The Company's Executive Board members were not granted any loans or similar emoluments in fiscal years 2015 or 2016. Members of the Company's Executive Board did not receive any remuneration for offices held at other Group companies.

### The remuneration system of the Supervisory Board

The remuneration system of the Supervisory Board depends on the company size, the tasks and the responsibility of the members of the Supervisory Board as well as the economic situation and the future prospects of the Company. It is governed by Sec. 8 of the Company's Articles of Incorporation. The Members of the Supervisory Board receive a fixed remuneration on an annual basis, payable after the end of the fiscal year. The remuneration amounts to 20.000 euros p.a., the chairman receives twice this amount, and the deputy chairman one-and-a-half times this amount. Attendance fees are not paid for the Supervisory Board Meetings. The remuneration of individual members of the Supervisory Board is presented in the following table:

Annual compensation in thousand euros	2015	2016
Kristin D. Russell	0	21
Amir Mobayen	24	17
Brian Armstrong	15	30
Wolfgang Klein	20	20
<b>Total</b>	<b>87<sup>1)</sup></b>	<b>88</b>

<sup>1)</sup> The amount includes the compensation of further former Members of the Supervisory Board.

Members of the Supervisory Board are reimbursed expenses arising in connection with the exercise of the mandate as well as VAT payable on the compensation. Members of the Supervisory Board are not granted any loans by the Company.

## **5. Supervisory Board objectives regarding Board composition and implementation status Remuneration report**

Pursuant to Art. 5.4.1 on page 6 of the German Corporate Governance Code, the corporate governance report should outline the specific objectives behind the composition of the Supervisory Board in view of the Company's situation with respect to international operations, potential conflicts of interest, the Supervisory Board's opinion as to a reasonable number of independent board members and to diversity, and disclose the status of related implementation measures. The same applies regarding the setting of targets for female representation on the Supervisory Board.

The DATA MODUL AG co-determined Supervisory Board is constituted of two shareholder representatives and one labor representative. The Supervisory Board labor representative was elected on March 11, 2014 without influence by the Supervisory Board or the Company on nominations; this elected labor representative's tenure ends upon conclusion of the 2019 Annual Shareholders' Meeting. The Supervisory Board may only influence the election of the two shareholder representatives on the Supervisory Board by nominating individuals at the Annual Shareholders' Meeting.

### **I. Objective:**

The specific objectives behind the composition of the DATA MODUL AG Supervisory Board are thus relevant in relation to the two shareholder representatives on the Supervisory Board.

#### **a) Board composition relating to international operations**

The international operations of DATA MODUL AG have been specifically considered in selecting the Supervisory Board shareholder representatives, and will be considered in future in nominations for Supervisory Board membership at the Annual Shareholders' Meeting. Nomination prerequisites include adequate English speaking and writing skills, experience on management or supervisory boards at German or foreign companies of comparable size with international operations, and an understanding of global business in contexts such as manufacturing, sales or service providing. The internationality factor does not necessarily require having a Supervisory Board member with foreign citizenship, as German nationals can also have the desired experience, having for example worked abroad for an extended period. Fluency in spoken and written English at negotiation level is a requirement, however.

#### **b) Avoiding potential conflicts of interest**

Potential conflicts of interest are avoided through careful nomination at the Annual Shareholders' Meeting of individuals for election to the Supervisory Board. None of the shareholder representatives on the Supervisory Board were previously members of the DATA MODUL AG Executive Board.

To avoid conflicts of interest from the outset, particular attention is given in nominations for approval at the Annual Shareholders' Meeting to ensuring that candidates are not involved in governance or as consultants for competitor firms, suppliers, lenders or customers. If conflicts of interest arise during the tenure of a Supervisory Board member, the Supervisory Board member concerned must disclose this accordingly to the Supervisory Board chairperson, and resign from the Board if the conflict of interest is material or non-temporary. The Supervisory Board provides information in its report at the Annual Shareholders' Meeting about conflicts of interest which have arisen and how these have been addressed.

### **c) Number of independent Supervisory Board members deemed appropriate by the Supervisory Board**

In particular, a Supervisory Board member cannot be considered independent according to Code guidelines who has a personal or business relationship with the Company, its governance bodies, a controlling shareholder or an associate firm which could constitute a material, non-temporary conflict of interest. This does not apply to DATA MODUL AG; thus in the opinion of the Supervisory Board, the shareholder representatives on the Board can be considered independent within the meaning of Art. 5.4.2 on pages 1 and 2 of the German Corporate Governance Code. Supervisory Board independence is thus in evidence.

### **d) Diversity considerations**

Diversity considerations are to be taken into account as well with respect to Supervisory Board composition.

Diversity is reflected in the varied professional backgrounds and fields of activity of DATA MODUL AG Supervisory Board members and their varying, international experiences.

### **e) Targets for female representation on the Supervisory Board**

In accordance with regulations, the DATA MODUL AG Supervisory Board has defined a target for female representation on the Supervisory Board and a deadline for its achievement. The Supervisory Board is presently constituted of three male members. The target percentage for female representation on the Supervisory Board in future is 0%. The deadline for the Supervisory Board to achieve this target is June 30, 2017. The background of the determination of the target to 0% was that the Supervisory Board then consisted of three male members and there were no plans for adding seats to or changing the membership of the Supervisory Board either.

As the Supervisory Board of DATA MODUL AG meanwhile consists of one female and two male members, the determined target was achieved during the period under review and even exceeded. The female representation in the Supervisory Board is currently 33.33%.

## **II. Implementation status:**

The implementation status regarding the Supervisory Board composition objectives outlined above under items a) through e) is as follows:

The objectives above have already been met in the view of the Supervisory Board. The Supervisory Board will continue its efforts to facilitate attainment and realization of these objectives. The Supervisory Board will furthermore continue considering factors relevant to the diversity of the composition of the Supervisory Board in evaluating potential candidates.

Munich, March 2017

The Executive Board of DATA MODUL AG  
The Supervisory Board of DATA MODUL AG