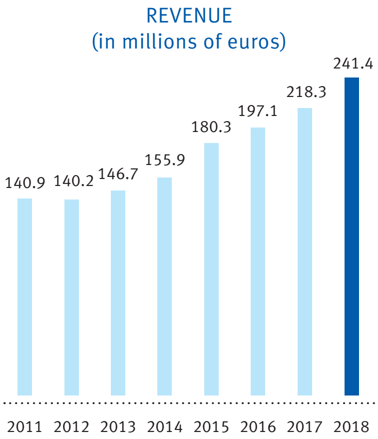
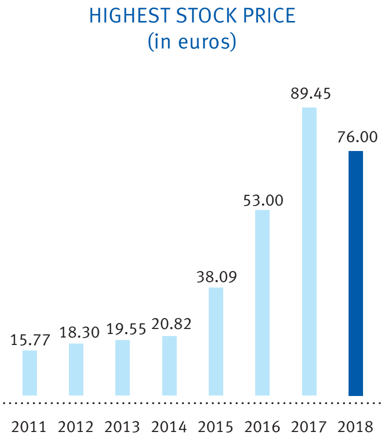
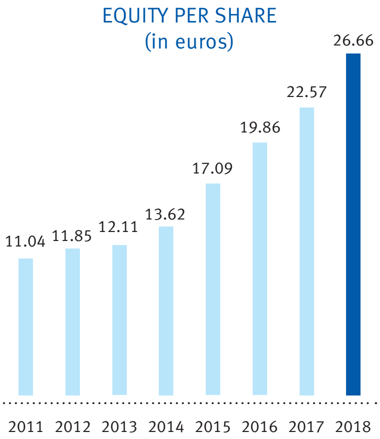
DATA MODUL

ANNUAL REPORT 2018

DATA MODUL AT A GLANCE







Group key figures per IFRS and alternative key performance indicators*

In KEUR	2018	2017	2016	2015	2014	2013	2012	2011
Revenue	241,417	218,256	197,079	180,300	155,915	146,706	140,245	140,870
EBITDA [1]	23,587	18,324	17,060	15,331	13,257	7,797	10,181	12,070
EBIT [2]	20,801	15,913	15,039	12,576	11,404	5,676	8,391	10,135
EBIT margin in % [3]	8.6	7.3	7.6	7.0	7.3	3.9	6.0	7.2
Net income	14,277	10,623	10,228	8,413	7,573	3,235	7,085	7,600
Shareholders' equity	94,006	79,571	70,027	60,246	48,036	42,131	41,774	38,918
Shareholders' equity ratio in %	70.1	71.8	68.0	66.6	60.0	50.5	56.2	55.6
Working capital [4]	63,039	56,193	52,854	44,691	39,543	41,218	37,894	35,831
Cash flow [5]	10,797	6,756	6,325	7,049	13,799	4,854	3,852	6,348
Capital expenditure [6]	5,638	4,427	4,031	2,719	2,471	2,226	3,029	1,697
Number of employees [7]	445	403	395	364	348	333	315	296
Revenue per employee	543	542	499	495	448	441	445	476
Earnings per share in euros	4.05	3.01	2.90	2.41	2.23	0.95	2.05	2.16
Cash flow per share in euros [8]	3.06	1.91	1.79	2.00	3.91	1.38	1.09	1.80
Dividend per share in euros [9]	2.00	0.12	0.12	0.12	0.12	0.60	0.60	0.60
Stock price at year end in euros	55.60	70.00	49.00	36.90	20.00	16.55	17.01	10.97
Highest stock price in euros	76.00	89.45	53.00	38.09	20.82	19.55	18.30	15.77
Lowest stock price in euros	55.60	49.00	35.01	19.91	16.31	12.70	10.76	10.38

1) EBITDA: EBITDA is an acronym for 'earnings before interest, taxes and depreciation'. This metric is calculated as EBIT after depreciation and amortization.

2) EBIT: EBIT is an acronym for 'earnings before interest and taxes'. This metric is calculated as gross profit less research and development expenses, selling and general administrative expenses.

3) EBIT margin : EBIT margin is calculated as EBIT relative to revenue.

4) Working capital: Working capital is a measure of operating liquidity and thus short-term financial health. This metric is calculated as trade receivables plus inventories less allowance for doubtful accounts and trade payables.

5) Cash flow: Cash flow refers to cash flow from operating activities. This metric is calculated as net income for the year less non-cash income plus non-cash expenses.

6) Investments: Investments are calculated as capitalized development costs and capex/investments in other intangible assets and property, plant and equipment

7) Number of employees: Average number of employees during the year excluding apprentices

8) Cash flow per share in euros: Cash flow per share means cash flow from operating activities per outstanding share.

9) Dividend per share in euros: The dividend amount proposed by management at the Annual Shareholders' Meeting in 2019

*The DATA MODUL Group utilizes alternative key performance indicators as part of its regular and mandatory reporting. These alternative performance indicators are in supplement to the ratios defined under IFRS and are not defined under International Financial Reporting Standards (IFRS). The alternative performance indicators utilized are listed and explained separately unless their meaning is obvious by the name.

DATA MODUL
2018 ANNUAL REPORT

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MANAGEMENT REPORTS

The fruits of systematic execution on the objectives established in the “Shape 2020” strategy program are seen in our recording the most successful results in company history in the fiscal year ended, underscoring our position as a world-leading provider of specialized industrial display, touch, embedded, monitor and panel PC solutions.

EXECUTIVE BOARD REPORT

Dear shareholders and friends of our Company,

"As for the future, your task is not to foresee it but to enable it." This quote by Antoine de Saint-Exupéry expresses a belief which DATA MODUL has acted on and has led the firm to post superb figures for a highly eventful fiscal year 2018. We made great progress toward becoming a leading global provider of visual system solutions, achieving all of the targets defined under the "Shape 2020" strategy ahead of schedule. Because of this, DATA MODUL concluded the strategy program in 2018, having recorded the best year in the company's history. DATA MODUL kept its promises and is now a much stronger and more globally oriented company operating in a more sustainable fashion than before execution of the strategy. It is now clear that the "Shape 2020" strategy has propelled our business into a new dimension.

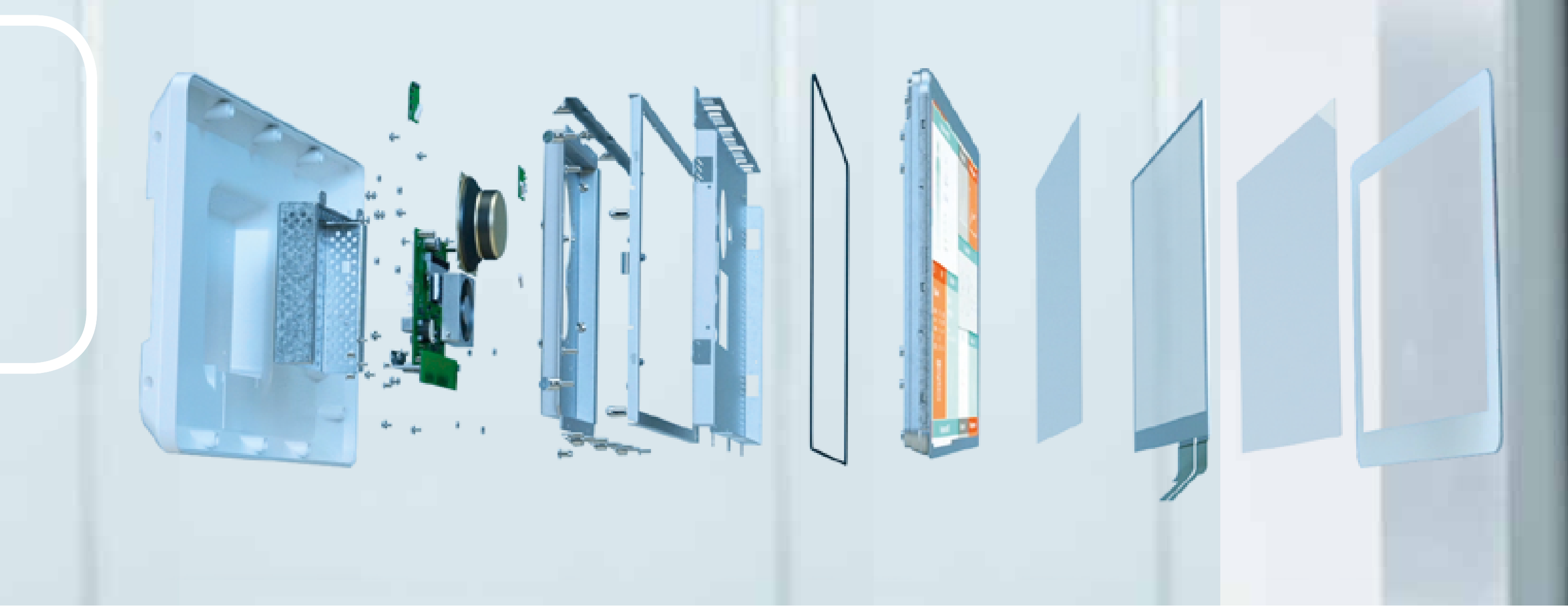
Fiscal 2018 was an outstanding year for the DATA MODUL Group We finished out the fiscal year with revenue of 241 million euros and EBIT of over 20 million euros. The decisions made in the last few years have made us stronger and increased our potential, propelling us to decisively exceed our targets for fiscal year 2018. And we did it despite rising uncertainty in the economic and political environments and intense competition in the world's displays markets.
Top-priority activities in 2018 included strengthening our global distribution network, building a new production site in Poland to further increase production and logistics capacity, exhibiting at embedded world 2018 and electronica 2018, which are our most important trade shows, and a number of organizational adjustments. We have moved closer to our overarching goal of becoming a leading global provider of visual system solutions by strengthening our Chinese subsidiaries and expanding a production line in the US. The financial success we have enjoyed in recent years enables us to invest further in our future. The innovative capability of our research and development departments is mission-critical to our enterprise. In 2018 we expended roughly 5.4 million euros on research and development as we invested in order to manufacture the products of the future.

In view of the Company's business results, the Executive and Supervisory Boards propose approval at the Annual Shareholders' Meeting to distribute a dividend of 2.00 euros per share for fiscal year 2018. 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 business success to our employees worldwide. Each individual's ability and performance has played a role in the overall success of the firm. I

would thus like to expressly thank our staff members. We also thank our business partners, and most of all our customers, whose confidence in our performance is the cornerstone of our business. Their satisfaction is our mission at all times.

Our experience and strengths form the foundation for our future. Yet we are aware that it is not past glories but rather the elements of our business we work hard on every day—like profitable growth, innovation and competitiveness—which are key for continuing success. DATA MODUL has shaped the display industry with its bold entrepreneurial and pioneering spirit. The company has continuously grown, and to achieve our aim of being the technology leader we have to be able to collaborate closely with our customers and suppliers as partners. The strategy agenda entitled "Touch Tomorrow 2023" is now the new roadmap to our staying on top as a manufacturer of premium products and provider of premium services going forward. Our strategy has always been and will always be the foundation upon which our success is built, and thus strategy will be guiding our business activities as we look ahead to the year 2023. We always act with the future in mind – even acting counter to current trends when necessary. And we have the courage to stay the course chosen when we believe we are on track for success.
The “Touch Tomorrow 2023” strategic initiative has been designed to guide the way for DATA MODUL to meet the challenges of digitalization and play an active role in shaping technological change in the displays industry in the years ahead. The starting point is a solid foundation of sound finances, innovative capability and profitability which can make further growth a reality for DATA MODUL. We intend to remain on this course. We continue in our efforts to ensure balanced diversification of our sales through further internationalization in the three major regions of the world to buffer against fluctuations in individual markets and avoid dependencies. Our slogan for the future will be "local for local" as we endeavor to substantially reduce time-to-market in our specific markets. The global displays market continues to grow. We aim to upgrade our product array to meet the new requirements associated with Industry 4.0 and the Internet of Things, and to keep growing in international markets as we have in recent years. In the process, we will remain committed to the three "I's" for success: Investment, Innovation and Internationalization.
In addition to strategy, in the coming years the viability of our products for the future will be key to our success. Today, displays are used in all areas of life, be it mechanical engineering, medical devices, transportation, automation technology, households or any number of other numerous areas where display units are used daily. Thus going forward we will 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 very well-positioned for the years ahead, having clearly defined the steps we must take for the successful future we intend within the “Touch Tomorrow 2023” framework. This includes expanding capacity at several locations and the further standardization of our production technology, which commenced last year in certain areas. We are optimistic with regard to fiscal year 2019, looking forward to the day-to-day work ahead at DATA MODUL to prove ourselves and exceed our goals.

In the myriad challenges for the displays industry of tomorrow we see opportunities for further growth and technological advances, which we will be moving forward to realize benefits for our customers. A new way of thinking will be behind these efforts, focused on operational excellence and profitability. EBIT margin has been above the lower end of the target range for five years now, at 7%. Linked to this, the equity ratio has been around 70%, indicating a strong financial position which will form the foundation for the investments in our future we will be making.

I would like to thank to all of our shareholders and financing partners. It is you, our shareholders and investors who will be our companions as the company enters a new era. We have presented to you the strategy we will pursue to ensure that the necessary measures are systematically implemented. Your backing reveals your esteem for us and your confidence in our organization. We will give our best to ensure that DATA MODUL remains an attractive investment as a reliable, future-oriented company that earns this trust.

Munich, March 2019

Dr. Florian Pesahl
Chief Executive Officer

SUPERVISORY BOARD REPORT

Dear Shareholders,

In the year under review the Supervisory Board addressed matters concerning the situation and growth of DATA MODUL AG in detail. The Board fulfilled the obligations incumbent upon it by law and by virtue of the Articles of Incorporation and code of procedure, advising and supervising the Executive Board in its work.

The Executive Board regularly informed the Supervisory Board both verbally and in writing regarding business developments at DATA MODUL AG. Reporting to the Supervisory Board focused in particular on the market and sales situation for the Company in relation to macroeconomic developments, on the financial position of the Corporation and its subsidiaries and on Group and Company-specific earnings. DATA MODUL Group sales and profits were presented in quarterly reporting, including a breakdown by business segment.

The current business situation was also discussed at Supervisory Board meetings, including revenues, earnings, planned longer-term capital expenditures and operational targets.

Principal discussion topics of the Supervisory Board

In the year under review the Supervisory Board convened for four meetings. The main issues addressed in these meetings are outlined below.

At the Supervisory Board meeting in March 2018, the Annual Financial Statements prepared by the Executive Board for DATA MODUL AG and for the Group for fiscal year 2017 were presented and discussed in detail. The Supervisory Board adopted the Annual Financial Statements of DATA MODUL AG and approved the Consolidated Financial Statements. Representatives of the auditor of the Separate and Consolidated Financial Statements, Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart, also attended the meeting. The Supervisory Board also reviewed the Dependent Company Report per Sec. 312 (1) of the German Stock Corporation Act (*Aktiengesetz*/AktG) on relations between DATA MODUL AG and its affiliated companies, which the Executive Board presented. The German Corporate Governance Code declaration per Sec. 161 of the German Stock Corporation Act (*Aktiengesetz*/AktG) and the Corporate Governance Declaration per Sec. 289f of German Commercial Code (HGB) were additionally discussed and adopted, among other Board activities. The Declaration of Compliance per § 161 AktG and the Declaration on Corporate Governance per § 289f HGB have been made publicly available on the company website at www.data-modul.com.

In addition, in ordinary meeting in 2018 the Supervisory Board addressed the agenda of the 2018 Annual Shareholders' Meeting in detail and the resolution proposals

for shareholders to vote on at the Meeting. Discussion focused as well on the business results for the current fiscal year.
At its meeting held in May 2018 the Supervisory Board extensively discussed plans to establish a new production site in Poland, approving the establishment of a subsidiary there, and the Executive Board reported on business results for the second quarter.

The Supervisory Board meeting in September 2018 was devoted principally to examining the business situation and outlook for the DATA MODUL Group. At the meeting, the Executive Board reported on the status quo regarding construction of the new production site in Lublin, Poland. A resolution was also passed to further develop the China location in order to continue expanding the China business.

At the Supervisory Board meeting in December 2018 the Executive Board reported on the Group's current business and financial situation, presenting its planned figures for fiscal years 2019 - 2021. The Supervisory Board approved these.

Audit of the Separate and Consolidated Financial Statements

At the Annual Shareholders' Meeting on May 8, 2018, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed as auditor of the Separate and Consolidated Financial Statements for fiscal year 2018. The DATA MODUL AG Separate Financial Statements and Management Report for fiscal year 2018 were prepared in accordance with German Commercial Code (HGB) accounting rules; the Consolidated Financial Statements and Group Management Report were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union and with the supplemental Commercial Code rules per Sec. 315e of German Commercial Code. The auditors Ernst & Young audited both sets of Financial Statements including Management Reports, thereupon issuing unqualified audit opinions. Ernst & Young also audited the Dependent Company Report for the period January 1, 2018 - December 31, 2018. The auditors Ernst & Young issued the following unqualified audit opinion regarding the Dependent Company Report:

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. there are no circumstances that would require a materially different assessment of the actions listed in the Report than that of the Executive Board."

At its March 2019 meeting, the Supervisory Board discussed in detail the Financial Statements for fiscal year 2018 and Dependent Company Report. Representatives of the auditing firm attended the meeting, reported on their audit findings and provided additional information. In their review, the auditors found no material weaknesses regarding the structure or effectiveness of the internal control and risk management system in place.

The Supervisory Board also reviewed the Separate Financial Statements and Management Report of DATA MODUL AG, the Consolidated Financial Statements and Group Management Report for fiscal year 2018 and the Dependent Company Report. This review by the Supervisory Board did not result in the noting of any reservations regarding the Separate Financial Statements, Consolidated Financial Statements, Dependent Company Report, the Executive Board's concluding declaration in the Dependent Company Report or the auditor's findings from auditing of the Dependent Company Report. The Supervisory Board approved the Financial Statements and concurred with the Executive Board's proposal for the appropriation of profits.

Supervisory Board members

The DATA MODUL AG Supervisory Board consists of three members. The Supervisory Board did not form 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.

Kristin Russell and Thomas Leffler were appointed as shareholder representatives on the Supervisory Board with effect from the end of the Annual Shareholders' Meeting on May 11, 2017. The resignation of Mr. Thomas Leffler became effective on December 4, 2018, concluding his term of office. Richard A. Seidlitz was appointed to replace Thomas Leffler on the Company's Supervisory Board by the Munich Local Court on December 18, 2018 in line with Sec. 104 (1) sentence 1 German Stock Corporation Act (AktG). Wolfgang Klein remains the employee representative on the Supervisory Board.

The Supervisory Board would like to thank and recognize the work of the Executive Board as well as the contributions of all DATA MODUL employees worldwide, whose dedication made 2018 a successful fiscal year.

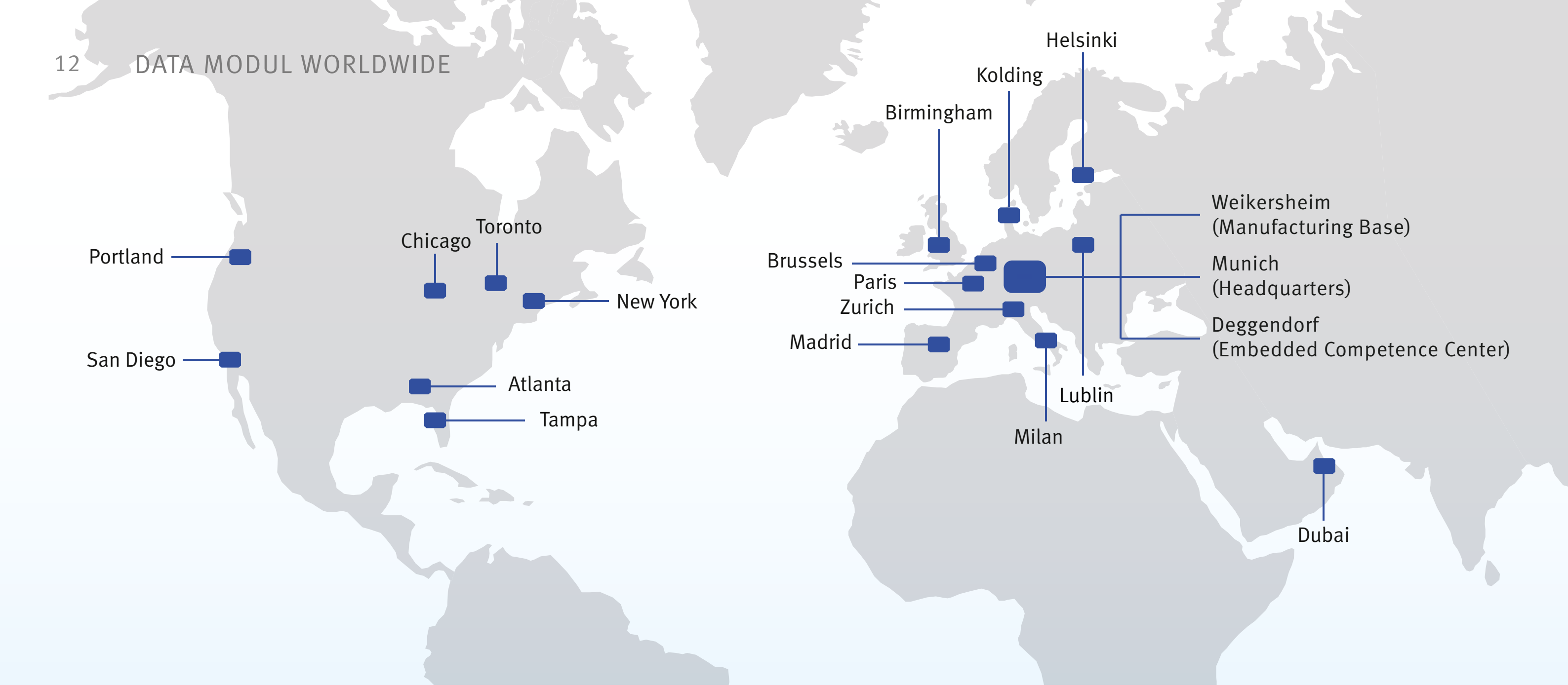
for the Supervisory Board

Kristin D. Russell, Supervisory Board Chair
Munich, March 2019

DATA MODUL GLOBALLY

DATA MODUL is a global player in all of the world's major growth markets—and hidden champion—with its headquarters in Munich, a production and logistics site in Weikersheim, Embedded Development Center in Deggendorf, two sales offices in Germany plus nine throughout Europe, four locations in Asia and two branch operations in the United States.

SOLUTION PROVIDER



OUR LOCATIONS

DATA MODUL GERMANY

- Munich (corporate headquarters)
- Weikersheim (Service, Production, Logistics, R&D)
- Deggendorf (Research & Development)
- Düsseldorf (sales office)
- Hamburg (sales office)

DATA MODUL INTERNATIONAL

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

FACTS & FIGURES

Last revised 12/31/2018

NUMBER OF EMPLOYEES WORLDWIDE

484

DATA MODUL NUMBER OF LOCATIONS WORLDWIDE

24

SALES IN MILLION EURO

241

A SUCCESS STORY

In the course of the company's over 45-year history, DATA MODUL has grown to become a major technology partner in Europe and the European market leader in industrial display technology. A global specialist in display, touch, embedded, monitor and panel PC solutions, DATA MODUL AG has been increasingly focusing on in-house development, which now accounts for half of the company's revenues.

At our proprietary, 32,000+ sqm. development and production site in Weikersheim we manufacture products and develop custom solutions and value-added services in house for customers from a wide range of industries. DATA MODUL has expanded its competencies to include embedded technologies, thus providing an even broader spectrum of visual application know-how so as to meet customer expectations tomorrow as well as today. 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 is positioning itself for the future, strategically expanding in the growth markets of the US and Scandinavia and in growth sectors like medical technology.

R&D EXPENSES IN MILLION EURO

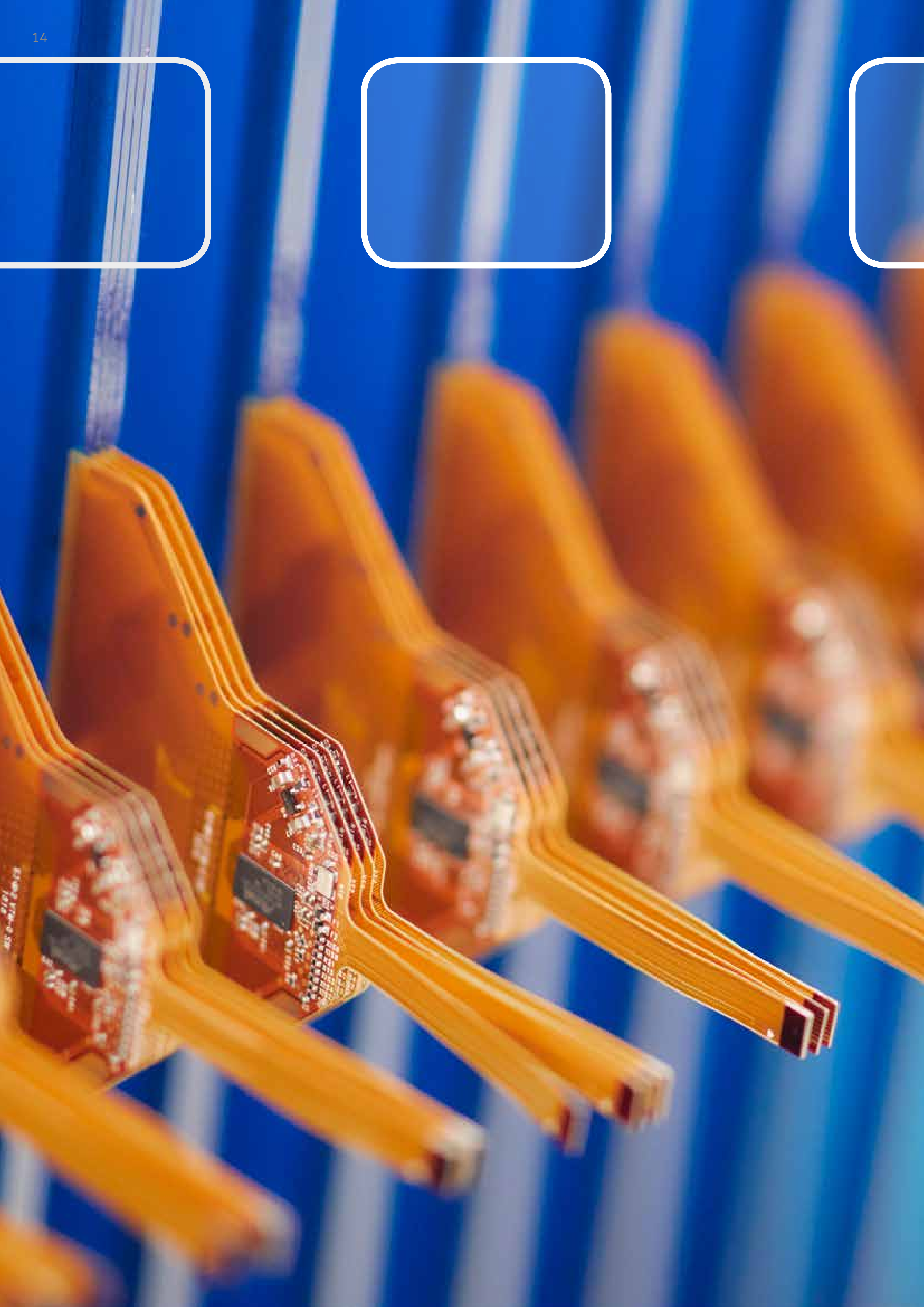
5.4

EQUITY RATIO IN %

70

YEARS OF EXPERIENCE IN VISUAL SOLUTIONS

>45



DATA MODUL
PRODUCT PORTFOLIO

DATA MODUL provides end-to-end system solutions for industrial and professional use. Our comprehensive product distribution portfolio comprising displays, touch screens and embedded solutions combined with innovative proprietary product development is based on a modular product portfolio that is quite unique 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 applications with extremely high quality standards. These visual applications are the most important man-machine interfaces, presenting appealing information displays for customers.

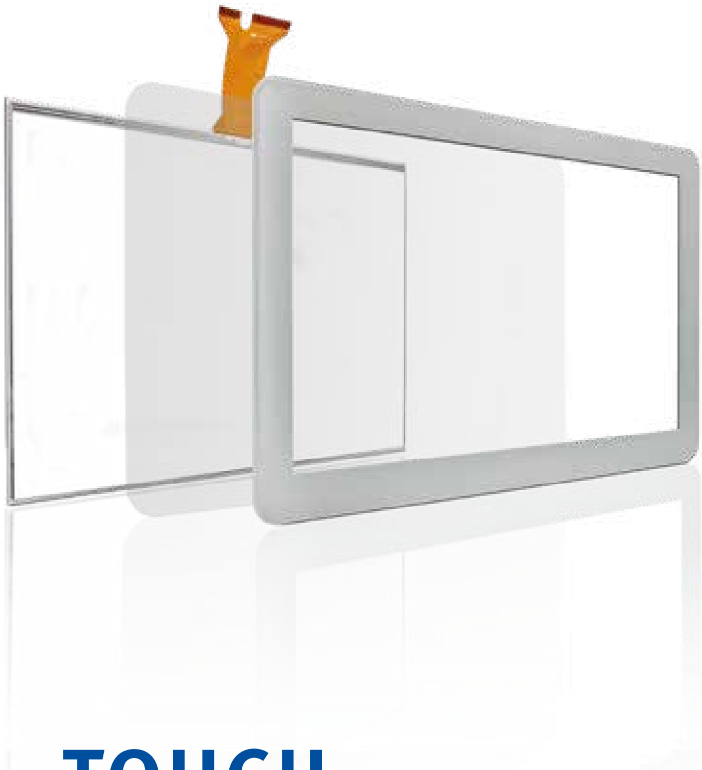
PRODUCTS AND COMPETENCIES

SYSTEM SOLUTIONS

DATA MODUL realizes custom monitor and panel PC system solutions for a variety of demanding applications by drawing upon the company's modular product portfolio, proprietary innovations and extensive manufacturing expertise. DATA MODUL system components and solutions are found worldwide in industrial applications and information systems requiring extremely high quality standards.

EMBEDDED SOLUTIONS

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.



DISPLAY SOLUTIONS

In addition to displays marketed under the proprietary Batron brand, DATA MODUL—Europe's largest TFT provider—also offers the 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 SOLUTIONS

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
D OF DISPLAYS

HIGHLIGHTS OF THE YEAR

The results for fiscal year 2018 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

2018

DATA MODUL – YOUR IDEAL SOLUTION PROVIDER FOR END-TO-END SYSTEMS

The DATA MODUL portfolio of monitors and panel PCs is virtually unrivaled in size. Offering diagonals ranging from 7” all the way up to large-format screens, stretched formats and IoT monitor solutions, the company is able to meet nearly any customer requirements. DATA MODUL is increasingly focusing on in-house development to be able to define its own standards and devise tailored solutions for customers. Proprietary embedded solutions like the eMotion series of controller allow designing monitors in optimal, application-oriented fashion. These meet the heightened expectations from the industry today to offer predictive maintenance, remote data retrieval, gesture control, facial recognition and other features.

ELECTRONICA 2018: THE ANNUAL HIGHLIGHT FOR THE ELECTRONICS INDUSTRY HELD IN MUNICH

In 2018 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.

FIT FOR THE FUTURE: EXPANDING PRODUCTION CAPACITY IN INDUSTRIAL BONDING

DATA MODUL continued to expand its product portfolio of PCAP touch solutions (easyTOUCH) in 2018, adding PET sensor sizes of 23.8", 27.0" and 32.0” to the broad PCAP product line as standard products. Rising demand from the fields of gaming and HMI for bonding of new PCAP sizes with customer-specific cover glass has meant that we need more bonding machines. DATA MODUL has expanded capacity by expanding the cleanroom area and introducing a new OCA lamination machine with autoclave.
With the introduction of gel bonding, DATA MODUL now offers four bonding technologies—continuously optimized—which allow the company to meet customers’ specific requirements in tailored fashion for the components selected.

NEW PRODUCTION SITE: PLANT IN LUBLIN

The establishment of DATA MODUL Polska Sp. Z o.o. will create further production and logistics capacity available for customers. The plant in Lublin is slated to commence production in the second quarter of 2019, which will enhance our competitiveness and support further growth.

SLIM FORMAT FOR EFFICIENCY AND DESIGN

DATA MODUL is responding to steadily rising demand for fast, efficient and attractively designed boards with a proprietary, ultra-flat SBC innovation: the eDM-SBC-iMX6-PPC. These SBCs are used particularly in highly sensitive fields of application like medical technology because they offer fundamentally better vibration and shock resistance than module-based systems. With the SBC form factor, especially designed for slim PPCs, DATA MODUL is standardizing ARM boards for the first time, as these allow the slim implementation of particularly popular display formats such as 7'', 10.1'' 12'' and 15.6''. In addition, standard kits consisting of display, proprietary easyTouch sensor, controller and cable set make it possible to keep lead times reliably short.

ON TRACK FOR FURTHER SUCCESS 2018—A RECORD YEAR

The key figures for 2018 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.

"Not to foresee the future ...
but to enable it."

TOUCH TOMORROW 2023

AN INTERVIEW WITH DR. FLORIAN PESAHL

1. Where does DATA MODUL see itself being five years from now and in ten years?

Inspired by the memorable quote from Antoine de Saint-Exupéry—"As for the future, your task is not to foresee it but to enable it"—we at DATA MODUL believe it is key to remain primarily focused on our day-to-day work. Any planning we do is based on a status quo analysis. For it is extremely difficult, particularly in the present age, to predict market changes and what risks may arise in the course of developments.

The effectiveness of previous DATA MODUL strategy programs has been evident in our revenue doubling and earnings tripling. Accordingly, we intend to adhere to and will systematically execute the newly adopted "Touch Tomorrow 2023" program. Further 'local for local' capacity expansion is part of this program as well as further investment in research and development and continuing efforts to grow our international business. We are looking to grow robustly and profitably in line with our results thus far, but are not interested in 'growth for growth's sake', as the interests of our customers, employees and shareholders are paramount. It's not difficult to project where DATA MODUL would be in five or ten years in terms of growth on the basis of our recent KPIs, and that is an outcome we would be highly satisfied with.

However, as an enterprise grows and becomes more complex, organizational management issues have to be dealt with in order to uphold consistently high quality standards. This means that there will be phases of consolidation in both the market and within DATA MODUL as an organization. One thing is certain however, it will be an exciting ride!

2. You refer to DATA MODUL as a 'visual solutions provider'. What exactly does that mean?

A visual solution provider is a company that has a range of capabilities for an industrial environment. As a leading display distributor, DATA MODUL can deliver a spectrum of TFTs of up to 100" in UHD resolution. With distribution as the backbone of its business model, DATA MODUL develops and produces solutions for that can meet nearly any customer needs for displays, with TFT displays forming the foundation for our PCAP Touch and embedded computing offerings as well as complete systems for OEM monitor solutions. Our know-how and expertise enable us to develop and produce ideal display systems for our customers in partnership with them, irrespective of application or environment.

3. What does it mean for DATA MODUL to be an end-to-end solution provider?

We offer customers optimal solutions, our work starting at the concept phase and continuing on up to serial

Dr. Florian Pesahl, DATA MODUL

production, tailored at all times to meet the customer's requirements. This may initially be "just" a TFT with a scaling card (eMotion Board). If the customer requires a modern, innovative user/application interface, we can provide standard or custom PCAP touch displays from our easyTOUCH Display range, the optical bonding for which we perform in-house. We have the most vertical integration in the area of monitors and panel PC solutions. TFTs, bonded PCAP Touches, controllers and embedded systems with OEM housing can be connected to a larger system with complete dust and water resistance. Because of our great flexibility, we are the ideal display integrator for end-to-end solutions in industrial settings. We aim to be a technology and consulting partner for our customers, offering unsurpassed solutions for their applications.

4. What does the strategy concept "Touch Tomorrow 2023" involve?

The overarching goal is still achieving profitable growth through high product quality in combination with strict cost controls. We have identified our growth drivers as a leading global providers of visual solutions and defined measures for leveraging these drivers. Specifically this means that we will be enlarging our global footprint by further internationalizing, moving into new geographic markets and industries. Internationalization means expanding our worldwide sales network and operating local production facilities in Asia, Europe and the United States—the three main global regions. This is part of our mission to be a global display integrator and global display technology partner for customers.

5. What countries and industries are of interest to you, looking ahead?

Germany will remain at the core for DATA MODUL as our home market. But as globalization progresses, we see China, the US, Eastern Europe and Scandinavia as the chief growth markets for us. DATA MODUL has been and still is highly interested in the German mechanical engineering and gaming industries, as well as medicine, avionics and automotive.

6. Will there be any new locations coming in 2019?

Yes there will, a new production site in Poland, which kicks off and represents the the first milestone in our "Global Footprint" project. This is a key project to ensure the competitiveness for DATA MODUL going forward, thus we have invested a lot of time in selecting the location. We evaluated several different options in Europe, and Lublin emerged as the most attractive. Further new locations will follow in China and the US in 2019 and 2020.

"The overarching goal is still achieving profitable growth through high product quality in combination with strict cost controls."

7. Why are you building a new plant, and what made you choose an Eastern European country?

We had no choice but to expand capacity due to the utilization level at our Weikersheim plant, and there were also risk management considerations—'second source'. Lublin is an ideal location for DATA MODUL because it has good infrastructure and available skilled labor, plus it affords a lot of flexibility and we are a first-mover in Lublin.

8. Will the production sites in Germany stay?

Oh yes, most definitely! The Germany locations, principally Weikersheim and Munich, will remain the backbone of the DATA MODUL Group and our centers for know-how and idea development. We want to further develop the Weikersheim location to be our flagship factory.

9. What new products are in planning for 2019?

As part of our display solutions, the first high-resolution UHD products with corresponding specifications for industrial and medical applications will be forthcoming. And in line with the market trend, we will also be offering curved screens. OLED, ePaper and MIP technologies will continue to be deployed in niche applications in 2019, but will not be replacing classic TFTs in our markets

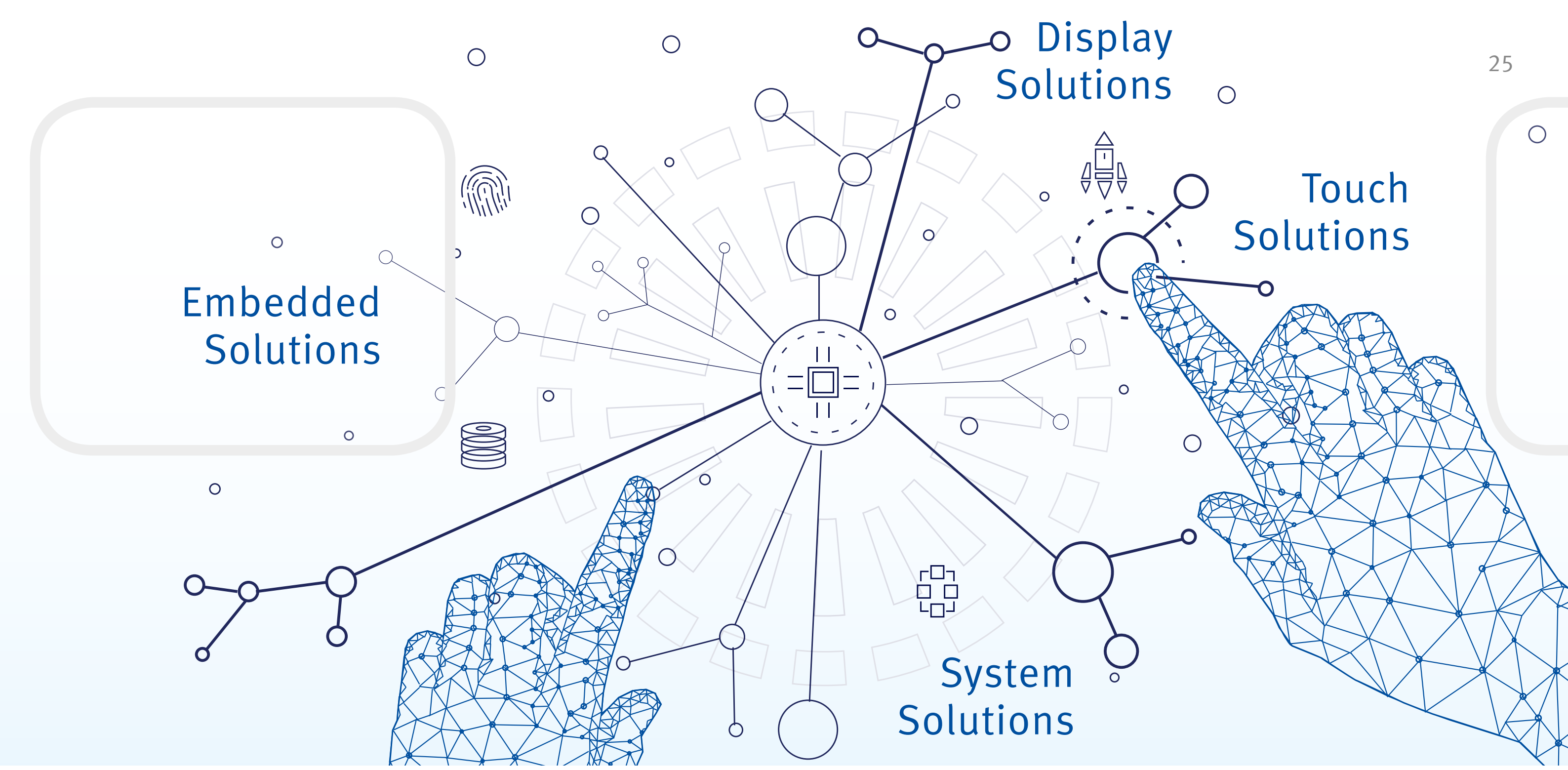
We will be marketing new input methods and improved touch functionality for our touch solutions products. The focus here is on gesture control, force touch and systems with haptic feedback and face recognition.

We will be developing products under the SMARC standard to meet the diverse and complex requirements of our customers and for our own systems. We will be using SMARC modules with carrier board to bring the worlds of ARM and X86 ATOM closer together as part of a modular system concept. And we will be upgrading our eMotion scaler board family to have additional features based on a new scaler chip.

In the area of system solutions we will remain focused on our great capability and flexibility, which allow us to offer customers everything from components to monitor solutions that meet their needs.

10. In what areas does DATA MODUL still need to make improvements?

The platform was created for the strategic purpose of further growth. The rapid pace of development in the last 4 years however, during which our revenue and earnings have nearly doubled, has necessitated structural changes at some interfaces so as to make processes and internal workflows more efficient.



11. What do you think are the currently relevant display and technology trends?

The displays market is forecast to again grow at a rate of around 7% in 2019. Subsidized under China's 5-year plan, production capacity for LCD and OLED has significantly increased, which create a substantial oversupply and falling prices for LCDs in 2019. The trade war between the US and China will also be affecting and altering the supply chain.

We will continue to see flexible displays, OLED, ePaper and MIP in use in the high-end niche market, which will not likely manage a breakthrough into the industrial environment yet despite being increasingly mature technologies. TFT will thus remain the major trend in displays but with significantly better performance, simpler modification and greater availability due to oversupply.

Technical innovations like locally dimmable backlights and OLED-like contrast ratios combined with significantly lower power consumption will see a breakthrough in 2019. Quantum Dot and Micro-LED, the newest display technologies, made great strides in 2018, but are still a long way from mass production for industrial environments.

In view of the trends and an increased focus on the interaction of components around the display and interfaces, DATA MODUL will continue to enjoy major growth potential as a display integrator.

12. What was behind the success of the company in the last four years, what spurred the rapid growth?

'People, speed, quality'—that's what we focus on every day. Of course, DATA MODUL did benefit from the economic environment. The main reason however is the corporate culture in the DATA MODUL family, in which everyone's work and contributions to the overall success of the enterprise are valued. We want to be an employer who makes things possible, giving our employees career and skill development opportunities without losing our passion for the work, even in the face of challenges.

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. 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. We are dedicated to quality, innovation and customer satisfaction.


DATA MODUL
Munich
(Headquarters)
Deggendorf
(Embedded Competence Center)


DATA MODUL AS EMPLOYER

OUR EMPLOYEES

To continue growing into a world-leading provider of visual system solutions, we had to deliver in a number of key areas in the past fiscal year. These were: keeping up the outstanding results achieved in recent years while ensuring stability, growth and value creation for our business in a highly competitive environment. Systematically analyzing processes and further optimizing corporate structures were key to attaining our goals while minimizing human resource usage. Improving support to our international operations and focusing more on foreign markets to ensure continuing growth there in line with recent years. Further improving internal processes to optimally ensure that our products meet our customers' requirements. And last but not least, expanding our product range and optimizing the related processes by means of attaining ISO 13485 medical certification.
It was yet again our employees who were key to our success, as together we identified and leveraged synergies within the Group, standardized and optimized processes and conducted research and development that yielded results which will secure our future. This requires innovation, quality consciousness and know-how from every individual. With strong team spirit, unity and enjoyment of our work, together we have kept the enterprise on the same successful path of recent years. Systematically executing on strategy, looking forward at all times, refusing to glory in past achievements, steadily growing market share and exciting customers with our products—these things are mainly the contribution our employees, We thus extend our thanks and recognition to our employees.
Flexibility was another essential factor in achieving our shared goals, allowing us to view challenges as opportunities and change as holding potential for progress which can promote our growth in the kind of dynamic environment our business exists in. DATA MODUL encourages its employees to obtain a comprehensive overview of the company's business and to see themselves as entrepreneurs within the firm who are empowered to continuously optimize and improve their own work environments. We reward the great dedication of our employees with performance-based pay, flextime work schemes and an array of training and continuing education offerings in Germany and abroad. Ergonomic workstations, language courses and company sporting activities round out our offering for staff members as a matter of course. We see DATA MODUL as a family that holds together and moves forward towards our goals in unison, and when our employees have needs requiring an individual solution, it is important for us to find one, as we want to be distinguished in the industry as a reliable partner to our staff members.

We consulted with executives from all departments to be able to formulate with precision the objectives of the "Touch Tomorrow 2023" strategy program devel-

oped this year, which will guide our activities and provide a yardstick for our success through the year 2023. The Sales, Products, R&D, Finance, Sales Operations and Human Resources departments are the pillars of DATA MODUL—which closely interact and are each a key element of our joint success. We have been careful to ensure transparency and openness regarding the strategy program in order to preserve employee motivation, communicate that this is a roadmap and ensure a common understanding of the tasks and objectives involved.

The demands placed upon our organizational structures and employees will further increase as the DATA MODUL Group continues to grow and develop under the "Touch Tomorrow 2023" agenda. We rely on our senior management team, consisting of experienced executives who have been with the Group for a long time, to ensure continuing stability, continuity and dependability for the firm. Our second and third-tier management levels have been expanded, as we have given disciplinary and functional responsibility and decision-making authority to department heads and team leaders. This is to ensure a streamlined chain of command, have qualified contact persons in place for all employees, keep communication flows efficient and promote a productive work atmosphere.
To be an attractive employer within a demanding environment we will remain focused on teamwork, personal responsibility, a staff management culture characterized by openness and trust and flat hierarchies to minimize bureaucracy. Our preference is to develop employees over time from apprentice all the way up to know-how bearers and management to keep a healthy mix within the firm of experienced experts and fresh energy able to deliver innovative solutions for our various markets and make our enterprise future-proof.

GROUP MANAGEMENT REPORT

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GROUP MANAGEMENT REPORT

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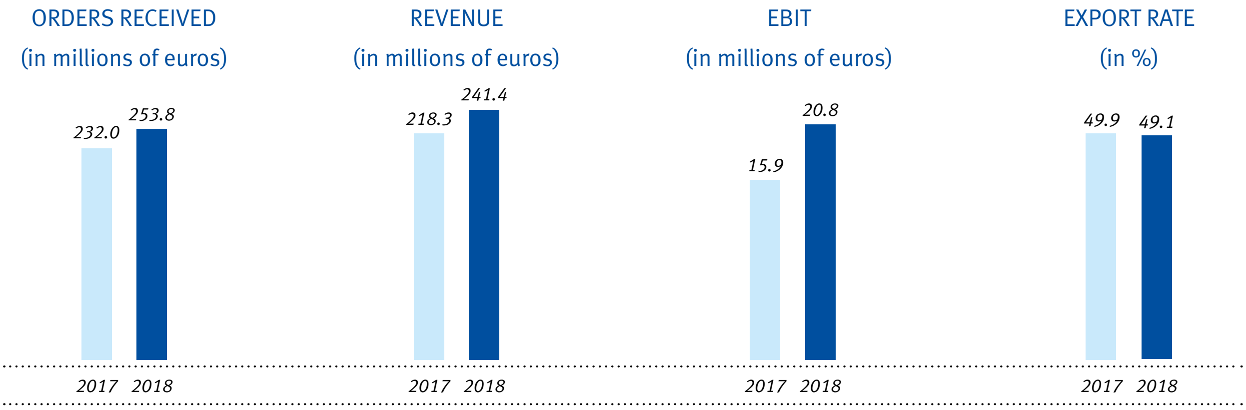
2018 GROUP MANAGEMENT REPORT



1. Basic principles of the Group

1.1 Business model

DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, Munich ("DATA MODUL"), claims to be the European market leader in display technology. DATA MODUL develops, manufactures and distributes innovative flatbed displays, monitors, electronic subassemblies and complete information systems. The Company is organized into two business segments: Displays and Systems. The Displays business primarily involves the purchasing 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. We are also dependent on customer activity due to steadily rising order volume and product complexity, as a result of which orders are increasingly turning into long-term projects in which we serve our customers as a long-term partner.
The DATA MODUL Group maintains regional offices in Germany, Spain, Italy, Switzerland, France, the UK, Poland, 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 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 indicators (KPI) 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. Expenses for internal and external research and development in fiscal year 2018 totaled 5,435 thousand euros (previous year: 5,368 thousand euros). In the year under review, assets were recognized derived from customer-specific development projects in the amount of 2,640 thousand euros (previous year: 2,286 thousand).

The average number of R&D employees during the year was 76 (previous year: 75 staff members). The R&D intensity metric (R&D expense/revenue) was 2.3% (previous year: 2.5%)

In fiscal year 2018, our R&D priorities were as follows:

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

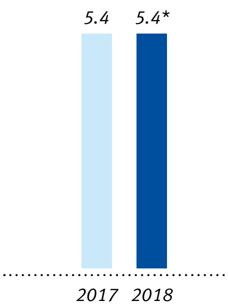
Our development projects are classified as either research, product-related development or custom development. The R&D department focuses its activities on next-generation products and solutions, and preparing these for successful market launch.

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

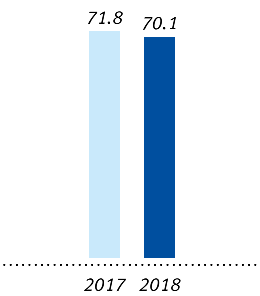
We capitalized development costs in the amount of 832 thousand euros, recognized as intangible assets (previous year: 675 thousand euros). This corresponds to a capitalization/R&D expense ratio of 15.3% (previous year: 12.6%). Amortization came to 824 thousand euros (previous year: 734 thousand euros), resulting in a net effect of 8 thousand euros (previous year: net effect of -59 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.

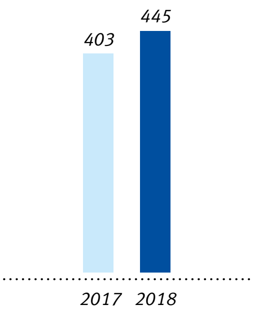
RESEARCH & DEVELOPMENT EXPENSE (in million euros)



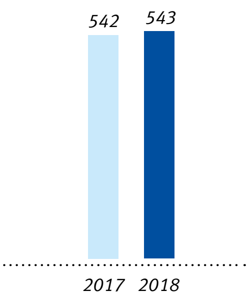
GROUP EQUITY RATIO (in %)



NUMBER OF EMPLOYEES (AVERAGE FOR THE YEAR)



REVENUE PER EMPLOYEE (AVERAGE FOR THE YEAR) (in KEUR)



*) Amortization in the amount of 0.6 million euros reported under cost of sales in fiscal year 2018

2. Economic Report

2.1 Business performance

Taking advantage of the favorable business environment, DATA MODUL achieved good results for fiscal year 2018, due in part to stringent implementation of the "Shape 2020" strategy program. Last year's primary goals and topics included:

- Implementation and completion of “Shape 2020” and development of the new strategy program “Touch Tomorrow 2023”
- Further increasing revenue
- Further expansion of our global distribution network
- Streamlining of our product portfolio
- Expansion and standardization of production capacity
- Trade fair appearances at embedded world and electronica 2018

We performed excellently, achieving all of our major targets and exceeding some of the forecast we stated in last year's annual report.

In millions of euros	Forecast for 2018	2018 Actual
Orders received	245.9 – 266.8	253.8
Order backlog	112.1 – 125.1	122.0
Revenue	229.2 – 251.0	241.4
EBIT	16.5 – 18.4	20.8
Net income	11.0 – 12.3	14.3
Return on equity	20 – 21%	22.1%

Orders rose in Germany, further boosting revenue. We also had outstanding results in Singapore and Italy. Our other subsidiaries fell short of our expectations, yet still achieved good results. We remain especially confident about the prospects in our target markets US and China. Our solid results affirm the correctness of the Executive Board's implementing the strategy program and that we have taken the right course in recent years. We thus ended fiscal year 2018 with a net profit of 14,277 thousand euros (previous year: 10,623 thousand euros).

Our forward-looking 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 2.00 euros per share at the Company's Annual Shareholders' Meeting. We firmly believe that we will see a lasting positive influence on our business, as can already be seen in new orders received and high order backlog.

In view of the above we are pleased with our 2018 results, having met our targets; DATA MODUL Group is thus well-positioned for continuing growth.

In summary, DATA MODUL had an outstanding fiscal year 2018. We attained all of our objectives, and kept our promises. Today, DATA MODUL is a much stronger company with a more global orientation and a more promising business than before implementation of this strategy. It is already clear that “Shape 2020” has propelled our business into a new dimension. DATA MODUL profited from the implemented productivity enhancement measures in 2018 and will continue to do so in the future. Barring another destabilization of the global economy, over the next two years, DATA MODUL will continue on the stable growth trajectory the Company's business model is designed to bring about. This means healthy, profitable growth.

2.2 Macroeconomic and industry-specific conditions[1)]

a) Macroeconomic conditions

The world economy expanded in fiscal year 2018, growing approximately 3.2%. In view of considerable political uncertainties, economic growth no longer appears as resilient to external influences right now as it once did. Results varied however in DATA MODUL's three key regions (Europe, America, Asia).

Recovery in Europe continued unabated in 2018, gaining somewhat in momentum due to fiscal stimuli and higher global demand, the factors likely responsible for 2.0% GDP growth. The economy lost substantial momentum in late summer of 2018, with export demand subsiding in particular and negative political factors weighing heavy on analysts’ minds like Brexit, the US-China trade war and Italy’s fiscal policy. In parallel to the refugee issue, Europe continued dealing with the sovereign debt crisis in several European countries in 2018, drawing further attention to the weaknesses of the monetary union.

[1)] Sources: IMF, Eurostat, BayernLB Research

On balance, Germany fared well in 2018, starting off the year strong before stagnation set in in the third quarter. The economic upturn in Germany is now only proceeding slowly, but capacity utilization continues to rise in terms of both human capital, with unemployment at historically low levels, and of production capacity. As a result, companies have a major incentive to invest so as to increase capacity. Alongside capital expenditure, private consumer spending and exports provided an important stimulus to the German economy, as in the previous year, enabling the country to record growth of around 1.6% for 2018.

The US economic recovery steadily gained momentum over the course of the year, yielding GDP growth of 2.9%. This result came about in part due to further job creation and declining unemployment, which aided the economy in 2018 by boosting private consumption. The tax reform package passed in the US will further stimulate the country's economic growth.

China, the world's second-largest national economy, recorded growth of 6.6% in 2018, whose growth rate continues to be supported by exports, consumer spending and broad-based capital expenditure. While enjoying a stable domestic situation, China will remain focused on ensuring that foreign policy conflicts in the region do not escalate so as to threaten trade, growth and prosperity.

b) Industry-specific conditions

Production figures are on track for Germany's electro-technology industry. It is benefiting from rising global investment in Industry 4.0 and the Internet of Things (IoT). Electronic components makers are benefiting from rising demand from manufacturers as electronic components are increasingly required in products and machines. The industrialization of emerging economies and increasing automation and digitalization of the economy are spurring global demand for technology products. The phenomena of Industry 4.0 and the Internet of Things (IoT) are creating additional sales potential for the tech sector.

DATA MODUL's markets are highly fragmented and subject to great competitive pressure. However, the expansion of our R&D resources and the resulting gains in flexibility, allowing us to respond quickly to market changes and to customer requirements, will give us an edge over competitors.

The global electro-technology market has been relatively stable, growing 5% in 2018, and 4% is projected for 2019 as well. The Asian market, which in 2017 accounted for roughly 50% of worldwide electro-technology sales, is a key growth driver. The industry association ZVEI projects the European electronics market to grow 1.4% in 2019, somewhat below the 2.6% rate for the Americas region.

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

The US and China are the largest export markets for the German electro-technology sector, accounting for roughly 18% of business. The EU, including the UK, remains however the most important region, accounting for 55% of sales volume.

Through the year 2020 the automation market is projected to grow at 4 - 6% annually, as only some 5% of factories worldwide have Internet-of-Things systems in place, a figure projected to rise to 75% by 2028. The German technology sector has good growth prospects in view of the boost in capital expenditure expected to accompany the Industry 4.0 trend. Germany with its mechanical engineering expertise is thus set to become the world's factory equipment source. Production processes will be further optimized through digitalization, opening up possibilities for small-run manufacturing in Germany again despite the country's high wage levels.

We perceive risks in the rapid pace of innovation and in cheap copycat products, primarily from Asia. Also, globalization has substantially increased pressure to ensure fast time to market so as to afford optimal market exploitation potential. R&D needs and the personnel requirements of technology firms are changing as digitalization proceeds and electronics and software increasingly converge. Employees are having to acquire more and more competency in software and solutions. The very export-heavy product portfolio of the German electro-technology sector is dependent on the GDP growth of its customer countries. Political and economic risks in Europe are expected to heavily influence corporate investment in 2019.

2.3 Group business situation

a) Results of operations

The Group recorded 253,836 thousand euros in new orders, again widely exceeding the previous year's level of 232,036 thousand euros. Strong order flow and a “book-to-bill” ratio above 1 boosted order backlog to EUR 122,034 thousand euros (previous year: 108,849 thousand euros).

Revenue increased significantly as well in fiscal year 2018 to 241,417 thousand euros (previous year: 218,256 thousand euros). DATA MODUL benefited again in 2018 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 steady export rate.

Revenue broke down by region as follows:

Revenue analysis in million euros	**2018**	**2017**
Germany	123.0	109.3
Europe	93.4	85.7
America	13.0	13.4
Asia/Pacific/Africa	11.9	9.6
Rest of World	0.1	0.3
Total	241.4	218.3
Export rate	49.1%	49.9%

The change in key expenses and income items in fiscal year 2018 is shown below:

- Cost of sales increased year-on-year to 187,622 thousand euros (previous year: 170,680 thousand euros), primarily reflecting higher materials expenses connected with the 10.6% increase in revenue. Gross profit increased for DATA MODUL due to favorable foreign exchange effects on purchasing prices and a greater percentage of proprietary products in overall sales. For fiscal year 2018 this figure was 22.3% (previous year: 21.8%). Also, additional investments were made to optimize logistics processes and quality control.

- Research and development expenses increased to 5,435 thousand euros from 5,368 thousand euros in the previous year. Due to a year-on-year increase in customer-specific development projects, capitalized development costs rose. We continued investing in 2018 to build up resources in our Research and Development department to promote greater innovation.

- Selling and general administrative expenses rose year-on-year to 27,559 thousand euros (previous year: 26,295 thousand euros). Selling expenses accounted for 18,494 thousand euros of total expenses reported (previous year: 16,751 thousand euros), and general administrative expenses came to 9,065 thousand euros (previous year: 9,544 thousand euros). Higher selling expenses were mainly due to rising trade show expenditures and staff costs. The decline in administrative expenses was due to a net foreign exchange gain of 815 thousand euros (previous year: net loss of 866 thousand euros).

The financial result of -73 thousand euros represents a slightly greater net interest expense than the previous year's value of -104 thousand euros. This was in consequence of declining interest expense on the short-term loans taken out during the year and the continuing favorable interest rate situation. Other interest expense also fell.

The Group recorded EBIT (earnings before interest and taxes) of 20,801 thousand euros, reflecting higher revenue (previous year: 15,913 thousand euros); the EBIT margin was 8.6% (previous year: 7.3%) A net pre-tax income was recorded of 20,728 thousand euros (previous year: 15,809 thousand euros). Net income changed in line with the pre-tax result, coming in at 14,277 thousand euros (previous year: 10,623 thousand euros). Earnings per share for 2018 came to 4.05 euros as compared to 3.01 euros for 2017 (based on a weighted aver-

age number of shares of 3,526,182).
The earnings increase is ultimately attributable to systematic execution on the “Shape 2020” strategy program, the overarching objective of which is to make us the world’s leading global visual solution provider by the year 2020. The now well-advanced transformation of DATA MODUL from a distributor into a manufacturer has positively impacted growth in the Systems segment, thus furthering the company’s ambitions of being a provider of complete solutions for industrial environments as a display integrator.

Displays segment

Revenue declined for the Displays segment down to 117,626 thousand euros (previous year: 122,584 thousand euros). This 4.0% decline was principally due to heightened competition in display distribution. EBIT of 8,316 thousand euros was recorded (previous year: 9,387 thousand euros). The segment generated net income for the year of 6,076 thousand euros (previous year: 6,849 thousand euros). Displays, which is the Group's core business segment, recorded also a decline in new orders, which fell 5.6% to 121,199 thousand euros (previous year: 128,375 thousand euros). Order backlog as of December 31, 2018 was 70,127 thousand euros (previous year: 65,928 thousand euros).

Systems segment

The Systems segment recorded revenue increase of 29.4% up to 123,791 thousand euros (previous year: 95,672 thousand euros), resulting in EBIT of 12,485 thousand euros (previous year: 6,526 thousand euros). Net income for the year thus came to 8,201 thousand euros (previous year: 3,774 thousand euros). Orders received increased again by 28.0% to 132,637 thousand euros (previous year: 103,661 thousand euros). Order backlog as of December 31, 2018 was 51,907 thousand euros (previous year: 42,920 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 70.1% (previous year : 71.8%), the debt ratio was 29.9% (previous year: 28.2%)
The Group’s leverage ratio was 42.7% (previous year: 39.3%—debt/equity).
Debt consists primarily of

· 4,200 thousand euros (previous year: 4,200 thousand euros) in liabilities due to financial institutions.

The maturities are as follows:

Liabilities due to financial institutions	< 1 year	1-5 years	> 5 years	Total
KEUR	4,200	0	0	4,200

· 18,787 thousand euros (previous year: 13,702 thousand euros) in trade accounts payable.

The maturities are as follows (in KEUR):

Trade accounts payable	< 1 year
EUR	5,174
USD (euro equivalent)	12,182
JPY (euro equivalent)	1,396
Other (euro equivalent)	35
Grand total	18,787

Guaranteed bills outstanding came to 1,375 thousand euros (previous year: 814 thousand euros).

The maturities are as follows (in KEUR):

Guaranteed bills outstanding	< 1 year	1-5 years	> 5 years	Total
EUR	0	497	878	1,375

In the fiscal year ended the Group took steps early to secure the financing 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 28,040 thousand euros at their disposal until further notice. As of the reporting date, the Group utilized 18.45% of these credit lines.

There are thus no going-concern risks relating to Group financing. Credit agreements with banks generally do not contain financial covenants apart from the usual quarterly reporting obligations. In the event of a future change of control, the Group will negotiate with lenders new arrangements going forward.
No special financing measures or projects were conducted in the period under review.

Capital expenditure

In the fiscal year ended we adjusted our capital expenditure in alignment with business changes and our strategy program. Capital expenditures were made to increase capacity, for rationalization purposes and related manufacturing productivity gains and to enhance innovation and quality in our displays and services. A major part of the investments made in 2018 went to expanding production and logistics capacity at the Weikersheim site. Investments were also made in IT infrastructure, logistics and workplace equipment. Capital expenditure in fiscal year 2018 totaled 5,638 thousand euros (previous year: 4,427 thousand euros).

The main capital expenditure items were:

· Additions to intangible assets in the amount of 1,152 thousand euros (previous year: 1,480 thousand euros).
· Additions to property, plant and equipment in the amount of 4,486 thousand euros (previous year: 2,947 thousand euros).

A breakdown of capital expenditure by segment is provided below:

· Capital expenditure Displays segment 3,022 thousand euros (previous year: 1,647 thousand euros).
· Capital expenditure Systems segment 2,616 thousand euros (previous year: 2,780 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 10,797 thousand euros (previous year: 6,756 thousand euros). Days sales outstanding (DSO) was 48.48 days as of December 31, 2018 (previous year: 47.98 days).

Investments in intangible assets and property, plant and equipment in fiscal year 2018 resulted in cash flow from investing activities of EUR -5,617 thousand euros (previous year: -4,421 thousand euros). With the dividend distribution for fiscal year 2017, cash flow from financing activities was -430 thousand euros (previous year: 657 thousand euros).
At the end of the year the Group held cash and cash equivalents totaling 24,956 thousand euros (previous year: 20,217 thousand euros). Net financial assets as of the reporting date were at 20,756 thousand euros (previous year: 16,017 thousand euros). All trade accounts payable can be setted with the cash and cash equivalents on hand.
The Group has not been rated by an external rating agency. In view of positive cash flows from operating activities and the credit lines available to us, we have not commissioned an agency to rate the Group's credit standing. Information available to DATA MODUL from various prominent credit institutions indicates that the Company enjoys a good credit rating. DATA MODUL's rating with banks declined however due to membership in the ARROW Group.

c) Net assets

The balance sheet total increased by 23,272 thousand euros versus the previous year to 134,124 thousand euros (previous year: 110,852 thousand euros). On the assets side, this rise is principally due to increased trade accounts receivable, inventories, contract assets (reportable for the first time under IFRS 15) and cash in consequence of operational performance. On the liabilities side, the increase in total assets was mainly due to the increase in equity resulting from net income for fiscal year 2018 and higher trade payables.

A dividend was distributed in the reporting period for fiscal year 2017 in the amount of 423 thousand euros (previous year: 423 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 70.1% (previous year: 71.8%).

2.4 Financial and non-financial performance indicators

a) Financial performance indicators

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

Financial performance indicators KEUR	2018	2017
Orders received	253,836	232,036
Order backlog	122,034	108,849
Revenue	241,417	218,256
EBIT	20,801	15,913
Net income	14,277	10,623
Return on equity	22.1%	20.0%
EBIT margin	8.6%	7.3%

b) Non-financial performance indicators

In addition to financial metrics, DATA MODUL also utilizes non-financial performance indicators including employee interests, long-term customer and supplier relationships, environmental considerations and ISO certifications. One positive indicator in the area of labor relations is the employee average of 7.4 years of service at DATA MODUL. This reflects our very special long-term working relationship with our employees, which we actively foster through internal training seminars and continuing education programs. Our remuneration structure, comprising fixed and in some cases variable salary components, ensures that individual employee performance is fairly compensated. As a result, we take pride in a high degree of employee satisfaction and correspondingly low staff turnover. At the 2018 reporting date DATA MODUL Group employed 484 staff, as compared to 406 in the previous year. The average workforce headcount for the year increased 10.4% to 445 staff members (previous year: 403 staff). The Group employed staff from more than 20 different nations at the various subsidiaries. In the fiscal year just ended, we again provided apprenticeships to many young people. At the balance sheet date, the Group employed 41 apprentices. In the recruitment of new employees, we greatly benefit from the city of Munich's reputation as a preferred business location, which heightens our appeal as an employer.

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

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

3. Risks and Opportunities; Forecast

3.1 Risk report

In fiscal year 2018, 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. Thus, an efficient management of these risks in the meaning of an early warning system, is key. In order to adapt to changes in our markets and address the challenges the Company faces we constantly upgrade our internal risk management system in response to changing conditions.

Risk management system

Strategic principles

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

Organization and responsibilities

The DATA MODUL Executive Board bears overall responsibility for effective risk management; the Board defines the Company's risk-bearing capacity levels and decides on actions to be taken in response to particularly significant, core risks. It also updates the Supervisory Board regularly concerning the Company's risk exposure. Risk management is the responsibility of the Group Controlling Department, which ensures that risk management is an integral part of regular business management rather than a mere response to specific risks. This function enables better identification of risks affecting the entire Group. The Group Controlling Department coordinates risk management processes, assists responsible staff with all risk management aspects, defines risk thresholds, and is responsible for adequate reporting.

Each department and business segment has been assigned a risk manager charged with identifying, analyzing and monitoring risks within his/her area of responsibility. This individual initiates risk response measures and their implementation after consultation with Risk Control or the Executive Board.

Our risk management manual, available to all staff, outlines all relevant risk management components.

Risk identification

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

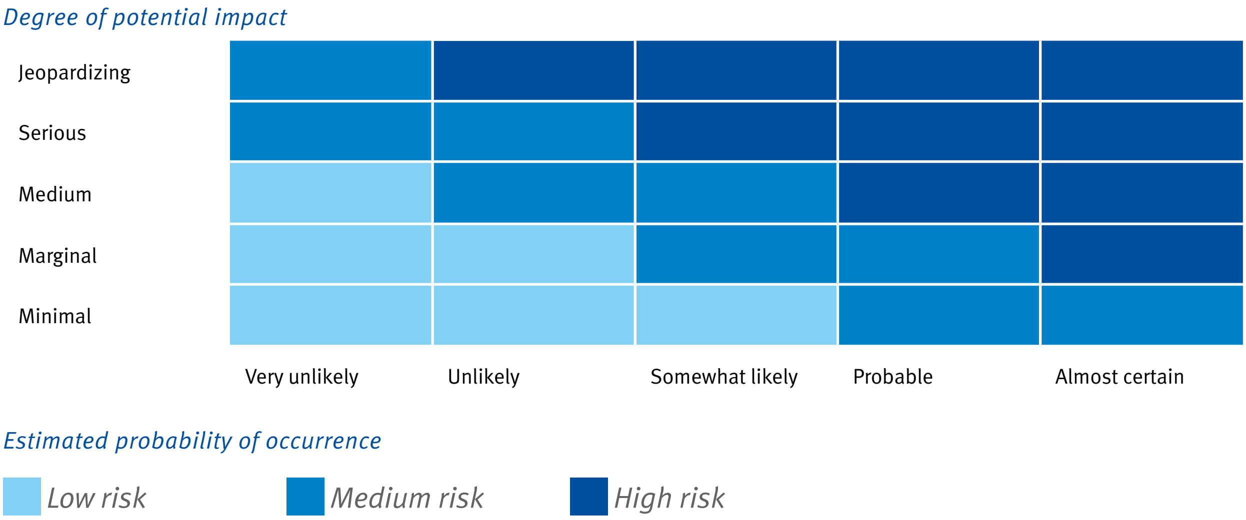
Risk assessment and risk management

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

Risk monitoring and reporting

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

Risk classification matrix



Additional ad-hoc risk reporting ensures that the Executive Board is always up to date regarding any significant newly arising risks. The risks outlined below could have an adverse effect on our business, financial resources and/or earnings in one or both segments. 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 and success. 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

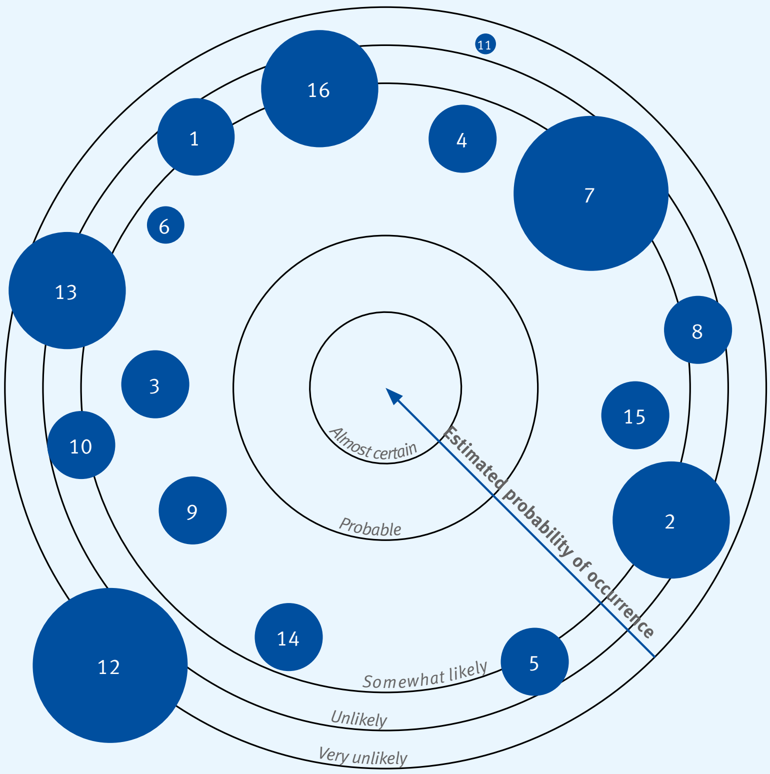
Demand for DATA MODUL products is in part cyclical and volatile to a degree. In addition, demand rises and falls in line with the economic cycles in our markets, and could continue declining in future. Economic analysts forecast growth of up to 1.3% for Germany in 2019, which is our biggest market. In 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, including particularly those resulting from instable international currency markets, may also affect our business. Economic trends in Germany and the US, our key markets, are of particular significance to our business. DATA MODUL primarily operates in markets characterized by a great deal of innovation and rapid technological change. Thus there is always a risk that the Company will not be able to adapt fast enough to new market trends or new technologies, and therefore lose market share to competitors. We maintain very close contact with leading display manufacturers and our customers in order to minimize this risk. Expanding our R&D resources has also laid a foundation for rapid response by adapting our products to market changes. It cannot be ruled out however that the strategic decision to realign the Company as an end-to-end system solutions provider could prove wrong if the market trends we have counted on prove to be unprofitable or without growth potential. The loss of key customers to competitors poses another substantial risk to DATA MODUL's business. Changes in legislation may affect sales in certain industries and target markets. DATA MODUL has been carefully monitoring and assessing the economic, political, legal and social environment in order to take account of any arising risks or opportunities in our decision-making processes at an early stage.

Procurement risks
The market for flatbed displays is dominated by a small number of manufacturers, almost all of which are based in Asia. Procurement risks could become manifest in times of high demand and product scarcity due to capacity bottlenecks, resulting in delayed deliveries to customers, cost increases and missed sales. We are countering these risks by means of 'second sourcing'. Similar effects could also become manifest from logistical risks associated with shipping merchandise from the East Asia to Europe. We contain these risks through proactive inventory management based on estimating demand and by choosing reliable suppliers and logistics providers upholding high safety and security standards. However, demand and inventory service level risks remain, as well as inventory risks connected with technological advancement. The risk of declining prices is taken into account when valuing inventories, in accordance with our accounting rules. The average inventory service level was 82 days during the reporting period, as compared to 80 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 val-

Risk portfolio:

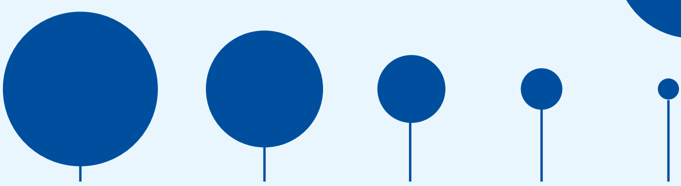


Explanatory notes:

Estimated probability of occurrence

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

Circle size = potential impact without risk management



› 10,000 KEUR › 5,000 KEUR › 2,000 KEUR › 500 KEUR ‹ 500 KEUR ue 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 quality assurance 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. The foreign currencies of greatest significance for the Group are the US dollar, pound sterling, Japanese yen, Hong Kong dollar and Singapore dollar. The Group is exposed to risk from foreign exchange rate movements, thus hedging is an integral part of our risk management strategy. We mainly use natural hedges to hedge against risks from foreign currency business transactions calculated in euros. Foreign exchange hedges are employed to secure our calculated margins, avoiding potential foreign exchange losses, which would increase the cost of purchased components. The credit facilities available for financing our global business operations are in part subject to interest rate risks. In certain cases, membership in the ARROW Group has been detrimental for DATA MODUL's rating with lenders.

The Group is currently analyzing the effects of various Brexit scenarios. The DATA MODUL Group has only minimal sales volume in GBP and in the UK in general, thus not significant effects are expected.

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

Liquidity and default risks

Currently the DATA MODUL Group has credit lines and bank guarantees totaling 28,040 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 financial 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 risk exists in that a contractual partner may be unable to fulfill or may be delayed in fulfilling obligations, causing DATA MODUL to suffer financial losses. In order to contain bad debt risks we verify our customers' credit standing and obtain trade credit insurance for trade accounts receivable. In some cases, precautionary/surety measures are agreed directly with the customer when deemed necessary. The average days sales outstanding (DSO) figure was 48.48 days in 2018.

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 2018, 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 companies of the DATA MODUL Group, or these companies may be held liable for damages. We have recorded provisions for warranty claims and legal disputes to the extent we believe such obligations will probably exist and the amount of damages can be adequately assessed. Certain legal risks are covered by appropriate insurance policies which are commonly used in the industry.

g) Personnel-related risks

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

h) Other operational risks

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

Internal controls and risk management system relevant for Group financial accounting process

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 internal 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 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. These elements include in particular:

- 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. The global displays market grew further in 2019, at a rate of 7% per year according to market analysts.

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

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

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

Acquisitions and competition

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

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

Adding value

Moving our value-adding activities to low-cost countries could save money. Establishing a new production site in Poland is part of these efforts. Transferring certain value-adding activities, such as procurement, production and maintenance to markets such as the BRIC countries or nations in the Near and Middle East would allow us to reduce costs and strengthen our global competitive standing, particularly with respect to competition from countries where cost structures are more favorable. Additionally, we are working to develop and implement cost-cutting initiatives, adjust capacity, improve processes and rebalance our portfolio constantly. In highly competitive markets, competitive cost structures enhance the competitive advantage of innovation capability. We have reaped sustainable value from stringent implementation of the Shape 2020 strategy program.
Nonetheless, uncertainties remain which could endanger any sustainable improvement in business conditions (see: 'General economic conditions' and 'Forecast').

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 [1)]

We expect the global economy to continue expanding, but at a more restrained pace than in the previous two years. Thus despite solid growth for the global economy,

[1)] Sources: IMF, Eurostat, BayernLB Research a slowing phase is likely to commence in 2019. The primary reasons for this are the expiration of the US fiscal stimulus package, deleterious trade restrictions and normalization of the Fed monetary policy which is undermining financing conditions worldwide. Consequently, analysts are forecasting slightly lower growth rates for the global economy in 2019 and 2020, at 2.9% and 2.6% respectively.

In addition to domestic political developments, decisions and developments on the European level will remain of foreground importance in 2019. Turbulent events are likely in store for the monetary union in 2019, there being a high risk of further electoral victories by populist political candidates. Economic concerns are raised by the Brexit process and the interest rises instigated in the US, which may hamper capital expenditure activity. As a result growth in the euro area is expected to slow to 1.4%. Low oil prices, expansive fiscal policy and the weak euro in particular will continue having a positive effect on exports, however.

The outlook for Germany, our primary market for sales, remains positive despite noticeably slowing momentum. The global factors outlined above are partly responsible for this, but German manufacturers are still seeing high capacity utilization. And capacity utilization is expected to continue rising, catalyzing capital expenditure and employment. However, rising production costs due to excessive wage demands are limiting export performance. Consumer spending remains the primary economic driver. The outlook is positive, thus analysts are projecting GDP growth of 1.3% for 2019 and 0.8% for 2020.

The United States, our largest foreign market, will keep up its dynamic pace of growth in 2019. The tax reform and a large-scale infrastructure program should continue delivering significant stimulus in the US next year, thus analysts are forecasting GDP growth of 2.6% there for 2019. The interest hike announced by the Fed does not pose a hurdle to reaching this figure.

In China analysts see growth slowing somewhat in 2019 and 2020. 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 analysts project GDP growth of 6.2% for 2019 and 6.0% for 2020.

DATA MODUL outlook for 2018

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

In addition to geopolitical risks, the trade war between China and the US and the global sovereign debt problem, which could significantly affect growth, are creating political uncertainty in Europe and will play a large role in 2019. The year 2019 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 2019, in Germany and other European countries.

The “Touch Tomorrow 2023” 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. Plans are in place to further develop sites in the US and China as part of efforts to expand capacity on a ‘local for local’ basis. The DATA MODUL Group will thus find growth opportunities in 2019 arising from the overall economic situation and from new products developed to market-readiness, despite fierce competition. We will nevertheless consequently pursue our strategic goals with a view to maintaining the growth trajectory of previous years.

In consequence of our strategic development program, and to avoid resource shortages as sales continue to rise, we will again be investing this year in our production and logistics center in Poland 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 2019, we will either invest the full amount or reserve part of the funds. Within the next two years, larger investments may also be made to acquire smaller firms. This will subsequently accelerate our organic growth while strengthening our product portfolio and our global presence. 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: 1.3%
- European economic growth: 1.4%
- US economic growth: 2.6%
- Global economic growth: 2.9%
- Stable USD and JPY exchange rates
- Commissioning of further machines at our production sites
- Planned expansion of production and logistics capacity.

Summary

We expect the upward trend of the macroeconomic situation to continue in fiscal year 2019 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 2019 revenue in the range of 248 - 287 million euros, aiming for an EBIT margin of over 7%. Both our business segments are expected to grow, although our highest expectations are for the Systems business segment. We have invested heavily in touch and embedded technologies in recent years, which will enhance revenue and earnings for the business segment.

Group objectives	Increase in 2019	Fiscal year 2018
Orders received	3 – 19%	253.8 million euros
Order backlog	4 – 15%	122.0 million euros
Revenue	3 – 19%	241.4 million euros
EBIT	1 – 20%	20.8 million euros
Net income	3 – 20%	14.3 million euros
Return on equity	0 – 5%	22.1%

4. Remuneration report

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

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

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

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

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

Multi-year performance-based variable remuneration as regulated by the executive bonus scheme depends on the attainment of certain targets specified in the employment contract. These 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 2018 was adopted at the Supervisory Board meeting held in December 2017.

The disclosures on compensation paid to the Executive Board member in fiscal year 2018 take into account the recommendations per German Corporate Governance Code (GCGC) in addition to applicable accounting principles (GAS 17, HGB/German GAAP, IFRS):

Compensation packages granted	**Dr. Florian Pesahl** *CEO* *Appointed: January 1, 2010*			
KEUR	**2017**	**2018** [3]	**2018 (min.)**	**2018 (max.)**
Fixed remuneration	230	230	230	230
Fringe benefits	16	31	31	31
Total	**246**	**261**	**261**	**261**
One-year variable compensation [1]	147	147	0	147
Multi-year variable compensation[2]	73	73	0	73
Executive bonus 2017	73	0	0	0
Executive bonus 2018	0	73	0	73
Total compensation (according to GCGC)	**466**	**481**	**261**	**481**
Service cost	0	0	0	0
Total compensation (according to GAS 17)	**466**	**481**	**246**	**481**

[1] Not taking into account any deferrals.

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

[3] Additional bonuses were approved in 2018 for Dr. Pesahl based on his contract in the amount of 119 thousand euros for performance in the year 2017, and 83 thousand euros for the year 2018.

Compensation was paid to the Executive Board member in fiscal year 2018 as follows:

Compensation	**Dr. Florian Pesahl** *CEO* *Appointed: January 1, 2010*	
KEUR	**2018**	**2017** [5]
Fixed remuneration	230	230
Fringe benefits	31	16
Total	**261**	**246**
One-year variable compensation [4]	147	220
Multi-year variable compensation	0	50
Executive bonus 2015	0	50
Total compensation	**408**	**516**

[4] Not taking into account any deferrals.

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

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

Pensions	**Peter Hecktor**		**Walter Eichner**	
KEUR	**2018**	**2017**	**2018**	**2017**
Provisions recorded as of the reporting date	267	267	264	265
Allocations to pension provisions	23	22	25	21
Pensions paid	22	22	27	26

In fiscal years 2017 and 2018, 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	**2018**	**2017**
Kristin D. Russell	40	40
Thomas A. Leffler	30	19
Jim Petrie	0	11
Wolfgang Klein	20	20
Grand total	**90**	**90**

Supervisory Board members are reimbursed for expenses incurred in connection with performing their office, and for any VAT charged on their remuneration. The Company does not grant loans to Supervisory Board members. DATA MODUL AG provides D&O insurance for Group board members. The insurance is taken out or renewed annually. The insurance covers personal liability in cases of pecuniary loss claims brought against directors/officers in connection with the performing of their duties. The policy for fiscal year 2018 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 share capital of 10,578,546 euros, and has been listed as a technology firm on the Prime Standard since March 2003. The company's share capital consists of 3,526,182 no-par bearer shares. Each share represents 3.00 euros of subscribed capital.
At the balance sheet date, DATA MODUL AG held no treasury shares, thus the number of shares outstanding was 3,526,182.

b) Significant shareholders

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

c) Voting rights restrictions

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

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

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

d) Authorized capital 2015

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

6. Corporate Governance Declaration

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

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

In fiscal year 2018 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 13, 2019

Dr. Florian Pesahl
Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018

ASSETS	Notes	12/31/2018	12/31/2017
Non-current assets			
Goodwill	[8]	2,419	2,419
Intangible assets	[8]	3,100	3,064
Property, plant and equipment	[8]	15,799	12,982
Deferred tax assets	[6]	280	186
Total non-current assets		**21,598**	**18,651**
Current assets			
Inventories	[9]	52,865	42,758
Trade accounts receivable Including impairments (2018: 167; 2017: 184)	[10]	28,961	27,137
Contract assets	[10]	3,945	0
Other current assets	[10]	1,160	1,719
Other current financial assets	[10]	639	370
Cash and cash equivalents	[11]	24,956	20,217
Total current assets		**112,526**	**92,201**
Total assets		**134,124**	**110,852**

All figures in KEUR

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	12/31/2018	12/31/2017[1]
Shareholders' equity			
Share capital: no-par-value bearer shares (authorized: KEUR 5,289; shares issued and outstanding: 3,526,182 as of 12/31/2018 and 12/31/2017)	[12]	10,579	10,579
Capital reserves	[12]	24,119	24,119
Retained earnings	[12]	58,556	44,313
Other reserves	[12]	752	560
Total shareholders' equity		**94,006**	**79,571**
Non-current liabilities			
Pensions and non-current personnel liabilities	[13]	1,567	1,615
Non-current provisions	[14]	303	405
Other non-current liabilities	[15]	0	949
Non-current contract liabilities	[15]	722	0
Deferred tax liabilities	[6]	1,158	797
Total non-current liabilities		**3,750**	**3,766**
Current liabilities			
Trade accounts payable		18,787	13,702
Current contract liabilities	[15]	546	0
Taxes payable	[16]	3,366	1,618
Current provisions	[14]	2,423	1,298
Liabilities due to financial institutions	[17]	4,200	4,200
Other current liabilities	[16]	6,072	5,874
Other current financial liabilities	[16]	974	823
Total current liabilities		**36,368**	**27,515**
Total liabilities		**40,118**	**31,281**
Total liabilities and shareholders' equity		**134,124**	**110,852**

[1] Adjusted previous-year figures, see remarks on note [12]

All figures in KEUR, except number of shares.

CONSOLIDATED STATEMENT OF INCOME

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

	Notes	2018	2017
Revenue	[1]	241,417	218,256
Cost of sales	[2]	(187,622)	(170,680)
Gross profit		**53,795**	**47,576**
Research and development expenses	[3]	(5,435)	(5,368)
Selling and general administrative expenses	[4]	(27,559)	(26,295)
Earnings before interest and taxes (EBIT)		**20,801**	**15,913**
Interest income	[5]	1	16
Interest expense	[5]	(74)	(120)
Earnings before taxes		**20,728**	**15,809**
Income tax expense	[6]	(6,451)	(5,186)
Net income for the year		**14,277**	**10,623**
Earnings per share – basic	[7]	4.05	3.01
Earnings per share – diluted	[7]	4.05	3.01
Weighted average of shares outstanding – basic		3,526,182	3,526,182
Weighted average of shares outstanding – diluted		3,526,182	3,526,182

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

	2018	2017
Net income	14,277	10,623
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	192	(581)
Attributable tax effects	0	0
Other comprehensive income not to be reclassified and reported in profit or loss in subsequent reporting periods		
Actuarial gains (losses)	(86)	(77)
Attributable tax effects	26	23
Deferred taxes recorded in equity	0	(21)
Comprehensive income after tax	**14,409**	**9,967**

All figures in KEUR

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

	Notes	2018	2017[2]
Cash flows from operating activities	7.		
Net income for the year		14,277	10,623
Non-cash expenses and income:			
Income tax expense		6,416	5,185
Depreciation, amortization and impairments		2,786	2,411
Provisions for bad debts		33	31
Gain from disposals of fixed assets		(13)	(6)
Net interest		73	104
Other non-cash expenses and income		(8)	(7)
Changes:			
Change in inventories		(12,513)	1,272
Change in trade receivables and contract assets		(2,703)	(4,131)
Change in other assets		248	(241)
Change in trade payables		5,094	(505)
Change in other liabilities and contract liabilities		1,587	(3,161)
Income taxes paid		(4,480)	(4,819)
Cash flows from operating activities		**10,797**	**6,756**
Cash flows from investing activities	7.		
Proceeds from disposals of fixed assets		21	6
Capital expenditures with capitalizable development cost		(832)	(675)
Capital expenditures on other intangible assets and property, plant and equipment		(4,806)	(3,752)
Cash flows from investing activities		**(5,617)**	**(4,421)**
Cash flows from financing activities	7.		
Cash inflows (+) / outflows (-) from current financial liabilities		0	1,200
Dividend paid		(423)	(423)
Interest received (+) / paid (-) (net)		(53)	(81)
Other financing activities		46	(39)
Cash flows from financing activities		**(430)**	**657**
Effects of exchange rate movements on cash & cash equivalents		(11)	33
Net change in cash and cash equivalents		**4,739**	**3,024**
Cash and cash equivalents at beginning of the fiscal year		20,217	17,193
Cash and cash equivalents at end of the fiscal year		**24,956**	**20,217**

[2] Adjusted previous-year figures, see remarks in section 7.

All figures in KEUR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

	Share capital No. of shares	Share capital Amount	Capital reserves	Retained earnings	Other reserves	Total
BALANCE AS OF 1/1/2017	3,526,182	10,579	24,119	36,390	(1,061)	70,027
Reclassification of initial application effects				(2,223)	2,223	0
BALANCE AS OF 1/1/2017 adjusted	3,526,182	10,579	24,119	34,167	1,162	70,027
Net income for the year				10,623		10,623
Dividend				(423)		(423)
Other comprehensive income (loss)				(54)	(21)	(75)
Foreign currency adjustment					(581)	(581)
BALANCE AS OF 12/31/2017	3,526,182	10,579	24,119	44,313	560	79,571
BALANCE AS OF 1/1/2018	3,526,182	10,579	24,119	44,313	560	79,571
Initial application effects IFRS 9 and IFRS 15				449		449
BALANCE AS OF 1/1/2018 adjusted	3,526,182	10,579	24,119	44,762	560	80,020
Net income				14,277		14,277
Dividend				(423)		(423)
Other comprehensive income (loss)				(60)		(60)
Foreign currency adjustment					192	192
BALANCE AS OF 12/31/2018	**3,526,182**	**10,579**	**24,119**	**58,556**	**752**	**94,006**

All figures in KEUR, except number of shares.

NOTES TO THE 2018 CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, Munich, claims to be the European market leader in display technology. DATA MODUL develops, manufactures and distributes innovative flatbed displays, monitors, electronic subassemblies and complete information systems. DATA MODUL displays and easyTOUCH displays, electronic subassemblies and custom products for use in industrial applications and the automotive industry comprise the Displays business segment.
The Systems business segment comprises selling our easyPanel and easyEmbedded Solutions and special monitors for marine navigation and medical device applications, also targeting airport, rail and digital signage customers.

The main business address of the company is Landsberger Strasse 322, 80687 Munich, Germany, registered in the Munich Commercial Register under record number HRB 85591. The Consolidated Financial Statements as of December 31, 2018 were prepared by the Executive Board in February 2019 and approved and endorsed for public disclosure in March 2019.

2. Summary of Significant Accounting Policies

Basis and methods

The object of the Consolidated Financial Statements is DATA MODUL AG with registered office in Munich, and 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. 315e (1) German Commercial Code (Handelsgesetzbuch [HGB]) and applicable provisions of German commercial law.

The Consolidated Financial Statements of DATA MODUL AG were prepared in accordance with standard accounting policies pursuant to IFRS 10 (Consolidated 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, 2018.
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

DATA MODUL applied IFRS 9 and IFRS 15 for the first time in fiscal year 2018. The nature and impact of the changes resulting from initial application of these new accounting standards are outlined below. Certain other changes and interpretations are mandatory to be initially applied in 2018 but have no impact on the consolidated financial statements. DATA MODUL has not early adopted any standards, interpretations or changes which have been published but are not yet effective.

IFRS 15 – Revenue from contracts with customers

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and the relevant interpretations, and applies to all revenues from contracts with customers, with a few exceptions. The standard introduces a five-step model for accounting for revenue from contracts with customers. Revenue is recognized in the amount of the consideration a company is expected to receive in exchange for goods or services offered to a customer.

IFRS 15 requires companies to make discretionary decisions in applying each stage of the model to contracts with their customers, taking all relevant facts and circumstances into consideration. The standard also regulates accounting for the additional costs in pursuit of a contract and costs directly related to contract performance. Furthermore, the standard outlines extensive disclosure requirements.

DATA MODUL opted for the modified retrospective approach for initial application of IFRS 15 on January 1, 2018 (date of initial application). Thereafter, the standard may be applied either to all contracts existing at the time of initial application or only to contracts not yet fulfilled at that time. The Group has decided to apply the standard only to contracts not yet fulfilled as of the date January 1, 2018.
The cumulative effect of initial application of IFRS 15 is recorded on the initial application date as an adjustment to the opening balance of retained earnings. The comparison data thus was not adjusted, and will continue to be reported in accordance with IAS 11, IAS 18 and the related interpretations.

Initial application of IFRS 15 has caused significant changes for DATA MODUL, particularly with regard to the timing of the recognition of revenue in transactions with consignment warehouse customers.
Under IFRS 15 for example, in contrast to the replaced IAS 18, revenues from transactions with consignment warehouse customers whose contracts provide for the delivery of customer-specific items subject to an acceptance obligation are not recognized when the customer retrieves the goods from the consignment warehouse, but rather already at the time of delivery to the consignment warehouse.

Thus revenue for consignment stock held for such customers as of December 31, 2017 was already recognized as a sale upon initial application of IFRS 15 on January 1, 2018. A one-time adjustment amount resulted from application of the cumulative method in accordance with IFRS 15 C3 (b) for contract assets, inventories and deferred tax liabilities which was recorded in retained earnings. This resulted in an increase of 3,099 thousand euros in contract assets, an increase of 224 thousand euros in deferred tax liabilities and a decrease of 2,406 thousand euros in inventories as of January 1, 2018. In consequence, a net adjustment of 469 thousand euros was recorded in retained earnings.

The effects of initial application of IFRS 15 as of 1 January 2018 were as follows:

Effects of IFRS 15 on the Consolidated Statement of Financial Position as of January 1, 2018

	Change
Assets	
Inventories	(2,406)
Contract assets	3,099
Total assets	**693**
Liabilities and shareholders' equity	
Retained earnings	469
Deferred tax liabilities	224
Total liabilities and shareholders' equity	**693**

All figures in KEUR

The application of IFRS 15 in fiscal year 2018 had the effects on the statement of income outlined below, which would not have occurred under the IAS 18 rules in place until December 31, 2017. Reportable revenue increased by 554 thousand euros. Cost of sales increased by 386 thousand euros. As a result, gross profit improved by 168 thousand euros. The FX effects resulting from application of IFRS 15 caused a decrease of 291 thousand euros in selling and general administrative expenses. Earnings before interest and taxes (EBIT) and earnings before taxes rose by 459 thousand euros, factoring in all effects. Tax expense increased by 147 thousand euros, including deferred taxes recorded through profit or loss. As a result, the application of IFRS 15 resulted in higher net income of 312 thousand euros on the income statement for fiscal year 2018. This effect increased earnings per share by 0.09 euros.

Effects of IFRS 15 on the Consolidated Statement of Income for Fiscal Year 2018

	Change
Revenue	554
Cost of sales	(386)
Gross profit	**168**
Selling and general administrative expenses	291
Earnings before interest and taxes (EBIT)	**459**
Annual result before income taxes	**459**
Income tax expense	(147)
Net income for the year	**312**

All figures in KEUR

The application of IFRS 15 in fiscal year 2018 had the effects on the statement of financial position, which would not have occurred under the IAS 18 rules in place until December 31, 2017. On the assets side, inventories decreased by 2,792 thousand euros and contract assets in the amount of 3,945 thousand euros were recorded for the first time. On the liabilities and equity side, deferred tax liabilities increased by 372 thousand euros. Equity increased by 781 thousand euros. The change in equity resulted in part from the previously disclosed adjustment amount of 469 thousand euros recorded in retained earnings as of January 1, 2018. In addition, retained earnings increased by 312 thousand euros due to the earnings effect of IFRS 15 on the income statement for fiscal year 2018.

Effects of IFRS 15 on the Consolidated Statement of Financial Position as of December 31, 2018

	Change
Assets	
Inventories	(2,792)
Contract assets	3,945
Total assets	**1,153**
Liabilities and shareholders' equity	
Retained earnings	781
Deferred tax liabilities	372
Total liabilities and shareholders' equity	**1,153**

All figures in KEUR

In addition, deferred revenue from extended warranties was reclassified from other non-current liabilities to non-current contract liabilities in the amount of 949 thousand euros, and from other current liabilities to current contract liabilities in the amount of 495 thousand euros. The initial application of IFRS 15 had no significant impact on other comprehensive income or cash flows from the Group's operating, investing or financing activities.

IFRS 9 – Financial instruments

IFRS 9 (Financial Instruments) replaces IAS 39 (Financial Instruments: Recognition and Measurement) for fiscal years commencing on or after January 1, 2018. The new standard combines all three aspects of accounting for financial instruments: classification, measurement, impairments and hedge accounting.

DATA MODUL prospectively applied IFRS 9 as of the initial application date of January 1, 2018. The company has not adjusted the comparison data, which is still reported under application of IAS 39. Differences resulting from initial application of IFRS 9 were recorded directly in retained earnings.

The initial application of IFRS 9 resulted in the following specific changes for DATA MODUL:

Financial assets and financial liabilities

IFRS 9 introduced a uniform model for classifying financial assets into three categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss.

Two criteria apply for classification: the DATA MODUL business model for managing assets and whether the contractual cash flows on the instruments are solely payments of principal and interest on the principal amount outstanding. The Group's business model was evaluated as of January 1, 2018, which was the date of initial application. The assessment of whether contractual cash flows from financial assets exclusively represent principal redemption and interest payments was made on the basis of the facts and circumstances extant at the time of initial recognition of the assets.

Financial assets held within a business model which provides that the asset is held for the purpose of collecting the contractual cash flows are measured at amortized cost.
If the business model does provide in principal for both the holding and the sale of assets if necessary to meet a specific liquidity need, for example, the assets are measured at fair value through other comprehensive income.
Financial assets which exclusively involve principal redemption and interest payments but are not held as part of one of the two business models are measured at fair value through profit or loss.
Financial assets with cash flows which are not exclusively principal redemption and interest payments, such as money market fund shares and derivatives, including separated embedded derivatives, are measured at fair value on the income statement.

The classification and measurement requirements per IFRS 9 had no material effect on the Group's accounting. Nor did the change have any material impact on the Group's financial liabilities and cash flows from operating, investing or financing activities or on earnings per share.
Trade receivables, other financial assets and cash and cash equivalents were classified as loans and receivables under IAS 39 and measured at amortized cost. All of these instruments are also classified as measured at amortized cost under IFRS 9, and are subject to the effective interest method.

Impairment model based on expected credit losses

IFRS 9 introduced an impairment model based on expected credit losses which applies to all financial assets (debt instruments) which are either measured at amortized cost or at fair value through other comprehensive income. While under IAS 39 only losses incurred were recognized as impairments on financial assets, under the new method, expectations are also factored in.

The expected credit losses method is a three-stage approach to allocating impairments:

Stage 1: Expected credit losses within the next 12 months

Included in step 1 are all contracts which have not had a significant increase in credit risk since initial recording, thus new contracts typically and contracts with payments less than 31 days past due. The portion of the expected credit losses over the term of the instrument which results from a default within the next twelve months is recorded.

Stage 2: Expected credit losses over the entire term—credit quality not impacted

Financial assets are classified to stage 2 which have had a significant increase in credit risk but their credit quality has not been impacted. Impairment losses are recorded for expected credit losses over the entire term of the financial asset.

Stage 3: Expected credit losses over the entire term—credit quality is impacted

If the credit quality of a financial asset is impacted or it is in default, it is classified to stage 3. Impairment losses are recorded for expected credit losses over the entire term of the financial asset. Objective indications that the credit quality of a financial asset is impacted include payments being 91 days overdue and other information indicative of significant financial difficulties on the part of the debtor.
The determination of whether a financial asset has incurred significantly heightened credit risk is made on the basis of a quarterly assessment of default probability in which both external rating information and internal information about the credit quality of the financial asset are taken into account.
A financial asset is moved into stage 2 if credit risk has significantly increased in relation to the credit risk exposure at the time of initial recognition.
The simplified method is applied for trade receivables and contractual assets, which means these receivables are already classified to stage 2 upon initial recognition. Accordingly, there is no need to assess whether there has been a significant heightening of credit risk.
DATA MODUL applies the exemption of the three-stage approach for debt instruments with an investment grade rating and allocates these financial assets with low credit risk to stage 1. This applies to any credit balances with banks which had an investment grade rating throughout all of fiscal year 2018.

In stages 1 and 2, effective interest income is calculated based on gross book value. As soon as the credit quality of a financial asset is impacted and it is classified to stage

3, the effective interest income is calculated based on net book value (gross book value less risk provisioning).

Expected credit losses are calculated as the probability-weighted present value of all defaults over the expected term of the financial asset.
For trade receivables and contract assets, DATA MODUL calculates expected default on the basis of historical default rates, applying an impairment matrix. The expected default rates are calculated based on the respective period overdue of the receivables. In addition, the values determined may also be adjusted to reflect available information of relevance to the future value/recoverability of customer receivables.

A financial instrument is derecognized if on the basis of a reasonable assessment it cannot be expected that it is fully or partially realizable, e.g. after ending of insolvency proceedings or following a court decision.

Upon initial application of IFRS 9 on January 1, 2018, DATA MODUL recorded an additional impairment charge on trade receivables in the amount of EUR 31 thousand, which reduced retained earnings.

The table below shows the effects of the transition from IAS 39 to IFRS 9 on the carrying amounts as of December 31, 2017 for the respective financial instrument categories:

Reconciliation of financial asset carrying amounts

	Valuation categories under IAS 39	Valuation categories under IFRS 9	Book values under IAS 39 as of 12/31/2017	Change in book values	Book values under IFRS 9 as of 01/01/2018
Trade receivables	Loans and receivables	amortized cost	27,137	(31)	27,106
Other current financial assets	Loans and receivables	amortized cost	370	0	370
Cash and cash equivalents	Loans and receivables	amortized cost	20,217	0	20,217
Total financial assets			**47,724**	**(31)**	**47,693**

All figures in KEUR

The first-time effects on Group equity were as follows:

Effects of initial application IFRS 9 on Group equity

Effect on retained earnings

Retained earnings on 12/31/2017 (prior to adoption of IFRS 9)	44,313
Change in default risk for financial instruments	(31)
Deferred taxes on initial application effect	10
Retained earnings on 1/1/2018 (after introduction of IFRS 9)	**44,292**

All figures in KEUR

IFRIC 22 Foreign Currency Transactions and Advance Considerations

When a non-monetary asset or liability resulting from a consideration paid or received in advance in foreign currency is derecognized, the interpration clarifies which date of transaction is to be used in determining the relevant exchange rate for initial recognition of the related asset, expense or income. If there were multiple advance cash inflows or outflows, the entity must determine the transaction date of every payment of advance consideration. This interpretation has no material effect on the consolidated financial statements.

Standards issued, but not yet effective

The following IASB accounting pronouncements which impact the presentation of balance sheet and earnings and/or the notes to the consolidated financial statements are not yet mandatory and have not been voluntarily adopted by the Group on an early basis.

IFRIC 23 Uncertainty Over Income Tax Treatments

IFRIC 23, Uncertainty Over Income Tax Treatments, was issued by the IASB in May 2017. This interpretation clarifies the requirements for the recognition and measurement of uncertain income tax items. In assessing uncertainty an entity has to assess whether it is likely that the tax jurisdiction will accept the income tax treatment. IFRIC 23 is effective for fiscal years commencing on or after January 1, 2019. Early application is allowed. The Group does not expect application of the interpretation to have any material effects.

IFRS 16 – Leases

IFRS 16 was published in January 2016 and replaces IAS 17 (Leases), IFRIC 4 (Determining Whether an Arrangement Contains a Lease), SIC-15 (Operating Leases—Incentives) and SIC-27 (Evaluating the Substance of Transactions in the Legal Form of a Lease).

IFRS 16 outlines the principles for the recognition, measurement and presentation of leases and related disclosures, requiring that lessees recognize all leases on the basis of a single model, in similar fashion as accounting for finance leases under IAS 17.
The new standard features two exceptions from the recognition obligation for lessees: leases for low-value assets with an acquisition value of less than 5,000 euros and short-term leases (maximum twelve-month term).

At lease inception the lessee recognizes a liability to make lease payments (i.e. the lease liability) and an asset for the granted right to use the leased asset during the lease term (i.e. right-of-use asset). Lessees must separately recognize interest expense for the lease liability and depreciation expense for right-of-use asset.
Lessees are also required to remeasure the lease liability upon the occurrence of certain events, such as a changes in the lease maturity or in future lease payments based on a change in the index or interest rate applicable for determining the lease payment amounts. Lessees will generally record the remeasured lease liability amount as an adjustment to right-of-use asset.

IFRS 16 will not mean any significant changes for lessors in contrast to today's accounting under IAS 17. Lessors will continue classifying all leases applying the classification principles per IAS 17, distinguishing between operating and finance leases as the two lease types.

IFRS 16 is applicable for fiscal years commencing on or after January 1, 2019, requiring lessees and lessors to provide more detailed information than under IAS 17.
DATA MODUL will apply the standard for the fiscal year commencing January 1, 2019 in modified retrospective form, i.e. without adjusting the previous-year figures. The cumulative effect of initial application of IFRS 16 is recorded on the initial application date as an adjustment to the opening balance of retained earnings. The company will apply this standard to contracts previously classified as leases under IAS 17 and IFRIC 4. The standard thus will not apply to contracts previously treated not as leases under IAS 17 and IFRIC 4.
DATA MODUL will apply the lease exemptions provided for in this standard to leases which will expire within twelve months of the initial application date and to leases for low-value assets. The company has leased certain office equipment items (such as PCs, printers and photocopiers) which are classified as low-value assets if the acquisition cost was less than 5,000 euros.

The usage right is carried at the book value which would have been calculated under application of IFRS 16 since the start of the lease term, discounted applying the incremental borrowing rate applicable at the date of initial application. DATA MODUL conducted a first assessment of the effects of IFRS 16 in fiscal year 2018.

In summary, on the initial application date of January 1, 2019, a right-of-use asset valued at 8.5 to 9.5 million euros, deferred tax assets of 0.3 to 0.5 million euros and lease liabilities of 9.0 to 11.0 million euros were expected. Including deferred taxes, the cumulative adjustment effect will be between -0.3 and -0.5 million euros, recorded in retained earnings.
Due to initial application of IFRS 16 in 2019, EBIT is expected to increase from 30 to 50 thousand euros, with interest expense increasing from 190 to 230 thousand euros. Net profit for the year will be reduced from 110 to 150 thousand euros due to the additional effect of recognizing deferred taxes.

3. Consolidation

Consolidation standards

The Consolidated Financial Statements comprise the separate financial statements of DATA MODUL AG and its subsidiaries as of December 31, 2018, 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.
All inter-company balances, income and expenses, as well as unrealized gains and losses and dividends from inter-company transactions are fully eliminated.

Foreign currency translation

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

Monetary foreign currency assets and liabilities are translated into the functional currency applying the spot rate at the balance sheet date. Exchange gains or losses resulting from this currency translation are recorded in profit or loss under sales, selling and general administrative expenses. Non-monetary Consolidated Balance Sheet items in foreign currency are carried at historical exchange rates.
To determine the exchange rate applied for initial recognition of the associated asset, expense or income when derecognizing a non-monetary asset or liability arising from prepaid consideration, the date of the transaction is the date of initial recognition of the non-monetary asset or liability arising from the advance payment.

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

Any differences arising from the translation of the income statement at annual average exchange rates and of the balance sheet at closing rates, and any difference resulting from the translation of assets and liabilities versus translation in the previous year, are recorded under equity as other comprehensive income in "Other reserves", with no effect on the income statement. The exchange gains or losses resulting from currency translation of equity at historical rates, or at the reporting date rates in the scope of capital consolidation, were also recorded in "Other reserves". These accumulated translation differences are recorded in profit or loss at the date on which the Group company ceases to be part of the Group.
Exchange rate trends for the major currencies included in the Consolidated Financial Statements as related to the euro are as follows:

	12/31/2018		12/31/2017	
Exchange rate	Balance sheet	P&L	Balance sheet	P&L
EUR / USD	1.1453	1.1792	1.1988	1.1371
EUR / GBP	0.8971	0.8862	0.8874	0.8763
EUR / SGD	1.5595	1.5901	1.6012	1.5612
EUR / AED	4.2068	4.3312	4.4028	4.1764
EUR / HKD	8.9698	9.2431	9.3674	8.8641
EUR / JPY	125.9600	129.9983	134.8800	127.3142
EUR / CHF	1.1266	1.1517	1.1693	1.1161
EUR / PLN	4.2981	4.3003	n/a	n/a

Scope of consolidation

Pursuant to IFRS 10, the Consolidated Financial Statements include /comprise DATA MODUL AG and all its subsidiaries over which DATA MODUL AG exercise control.

The Consolidated Financial Statements as of December 31, 2018 include the following subsidiaries:

Company name, registered office	Shareholding in %
DATA MODUL Weikersheim GmbH, Weikersheim, Germany	100
DATA MODUL France SARL, Baron, France	100
DATA MODUL Iberia S.L., Madrid, Spain	100
DATA MODUL Inc., New York, USA	100
DATA MODUL Italia S.r.l, Bolzano, Italy	100
DATA MODUL Ltd., Birmingham, United Kingdom	100
DATA MODUL Suisse GmbH, Zug, Switzerland	100
DATA MODUL Hong Kong Ltd., Hong Kong, China	100
DATA MODUL Electronic Technology (Shanghai) Co., Ltd., Shanghai, China	100
Conrac Asia Display Products PTE Ltd., Singapore	100
DATA MODUL FZE, Dubai, VAE	100
DATA MODUL Polska Sp. z o.o., Warsaw, Poland (company established in fiscal year 2018)	100

4. Recognition and measurement methods

Major discretionary decisions, estimates and assumptions

Preparation of the Consolidated Financial Statements pursuant to IFRS requires Company management to make discretionary decisions and assumptions as well as estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates and assumptions. The primary areas in which estimates are made concern allowances for impairment for expected credit losses of trade receivables and contract assets, inventory valuation, determination of the useful life of fixed assets, capitalization of development costs, accounting for 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. Significant discretionary judgments are made in the area of revenue recognition. In determining the point in time of revenue recognition for deliveries to the consignment warehouse, Management applies as criterion whether or not the items delivered are customer-specific in nature. For customer-specific items which the customer is obligated to accept, revenue is recognized at the time of delivery to the consignment warehouse, not upon retrieval by the customer. A linked performance obligation generally applies to development projects connected with customer projects that lead to the production of customer-specific items. In most cases this does not meet the requirements for period-specific recognition of revenue.

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

Impairment of goodwill and other 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.

Inventories

Impairment losses recorded on the inventories are measured based on the range of inventories or the expected net income (expected sales price less estimated costs for 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 development project reaches a certain milestone within the framework of an existing project management model. In order to calculate the capitalized amount, management makes assumptions concerning the amount of the expected cash flows to be generated by assets, the discount rate to be used, and the period in which future cash flows can be expected. Significant adjustments could become necessary if certain expectations are not realized and a value adjustment is then required.

Measurement of fair value

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

- in the primary market for the asset or liability, or
- in the most advantageous market for the asset or liability if no major market exists The Group must have access to the primary or most advantageous market in question.

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

Recognition of revenue, income and expenses

In accordance with IFRS 15, Revenue from Contracts with Customers, revenue is recognized when the disposal over specifiable goods or services is transferred to the customer, i.e. when the customer is capable of determining usage of the transferred goods or services and of deriving most of the residual benefit of these. The conditions for this include that a contract with enforceable rights and obligations must be in place and receipt of the consideration is probable in view of the customer's credit standing.

Revenue deductions resulting from rebates, cash discounts or bonuses, as well as sales tax and other charges are offset against revenues.

Regarding DATA MODUL's consignment stock customers, revenues are general recognized at the time of customer retrieval of the goods from the consignment warehouse. However, revenues from consignment customers whose contracts provide for customer-specific products under a purchase obligation are already recognized at the time of delivery to the consignment warehouse.

Revenues from services are recognized on a straight-line basis over a specific period of time, or as the services are provided if the services are not rendered on a straight-line basis.

Revenue from customer-specific development projects is recognized based on a case-by-case assessment depending on the contractual agreement in place with the customer. As a rule, the development results and subsequent sale of the product constitute a single performance obligation. Through the development work the products are modified to meet customer-specific requirements, the two performance obligations are highly inter-related and the company does not sell the performance obligations separately. The conditions for period-specific revenue recognition per IFRS 15 are not met in most cases, thus development costs are capitalized as work in progress up until the point of serial production and recorded as a production expense under production costs when the products are sold. The expense is recognized over the period of sale of the binding sale volume.

If a contract involves multiple specifiable goods or services, the transaction price is distributed across the performance obligations on the basis of the relative individual sale prices. If individual sale prices are not directly observable, a reasonable price estimate is made. Revenues from each performance obligation are either recognized at a specific point in time or during a specific period.

Invoices are issued in accordance with the contractual terms. The payment terms generally require payment within 30 days of invoicing.

In line with IFRS 15, transactions are reviewed to identify deferrable commitments so as to accurately reflect the economic content of the transaction. Extended warranties granted to customers have been classified as deferred commitments 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 contract liabilities in accordance of the period of its realization.

Interest is prorated on a time-period basis using the effective interest rate applicable to the asset. Advance payments from customers are atypical and short-term in horizon, thus they do not have a significant financing element. Operating expenses are recorded in profit or loss either at the point in time of service utilization or at the point in time when they are incurred, applying the principle of accrual accounting.

Revenues from service-type warranties from customers who have purchased an extended warranty that exceeds the statutory framework are deferred as contract liabilities and recognized over the period in which these commitments are fulfilled on the basis of the period of time elapsed.

Intangible assets

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

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

The capitalized development costs are amortized on a straight-line basis over a period of 12 - 36 months of future economic exploitation, beginning with the completion of the development phase and the time at which the product is ready for (serial) manufacturing. The intrinsic value of the development project is reviewed annually. Impairment losses on development projects recognized as intangible assets are presented in the income statement as cost of sales (previously as research and development costs through 2017).

Goodwill

Goodwill acquired in a business 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. Goodwill is reviewed for impairment 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 recoverable amount attainable from the cash generating entity to which the goodwill is allocated. If the realizable amount from the cash-generating unit is less than the carrying amount of that unit, an impairment loss is recorded. Impairment losses recorded on goodwill may not be reversed in future periods.

Property, plant and equipment

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

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

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is primarily determined based on average batch cost or weighted average cost of the item.

The cost of inventories includes the purchase price, import duties and other taxes, transport and processing costs and other costs directly attributable to the purchase. Discounts, rebates and similar amounts are deducted when calculating purchase cost.

In addition to attributable direct costs, production costs include 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.

Contract assets, contract liabilities and receivables

If one party to the contract with the customer has fulfilled its contractual obligations, a contract asset, contract liability or receivable is recognized depending on the relation between service performance and the customer's payment. Receivables are recognized if the right to receive the consideration is no longer in any way conditional.

Claims arising from the provision of services by DATA MODUL to customers are generally reported as trade receivables. However, claims against consignment customers whose contracts provide for customer-specific products under a purchase obligation are shown as contract assets on the statement of financial position. These are reported as current because they accrue within the ordinary business cycle.

Impairments on contract assets and receivables recorded to reflect credit risk exposures are measured using the method for financial assets measured at amortized cost. The Group utilizes an impairment matrix to calculate expected credit losses on trade receivables and contract assets. Impairment percentages vary based on days overdue and any relevant information indicating potential credit losses expectable in future.

Cash and cash equivalents

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

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

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

Embedded derivatives

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

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.
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 IFRS 9 (Financial Instruments) as follows:

Financial assets measured at amortized cost

DATA MODUL recognizes financial assets at amortized cost when these are debt instruments and the following two conditions are met:

- The financial asset is held under a business model the objective of which is to hold financial assets in order to realize contractual cash flows, and
- the contractual terms of the financial asset give rise to cash flows at fixed times which exclusively represent principal redemption and interest payments on the outstanding capital amount.

In subsequent periods, financial assets measured at amortized cost are measured applying the effective interest method and are subject to impairment testing. Gains and losses are recorded in profit or loss when the asset is derecognized, modified or impaired.
The financial assets measured at amortized cost held by the Group include trade receivables, contract assets, other financial assets and cash and cash equivalents.

Financial assets measured at fair value through other comprehensive income

The Group measures debt instruments at fair value through other comprehensive income if the following two conditions are met:

- The financial asset is held under a business model the objectives of which are to realize contractual cash flows and sell the financial assets, and
- the contractual terms of the financial asset give rise to cash flows at fixed times which exclusively represent principal redemption and interest payments on the outstanding capital amount.

For debt instruments measured at fair value through other comprehensive income, interest income, remeasurements of foreign exchange gains and losses, impairment losses and impairment loss reversals are recorded on the income statement and their amount calculated as for financial assets measured at amortized cost. The remaining changes in fair value are recorded in other comprehensive income. Upon derecognition, the cumulative gain or loss from changes in fair value recorded in other comprehensive income is reclassified to profit or loss.
As of December 31, 2018, no financial assets meassured at fair value through other comprehensive income were held.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include financial assets held for trading, financial assets designated at fair value through profit or loss upon initial recognition and financial assets which are required to be measured at fair value.
Financial assets are classified as held for trading which are acquired for the purposes of sale or repurchase in the near future. Derivatives, including separately recognized embedded derivatives, are also classified as held for trading, except for derivatives which are designated as and effectively are hedging instruments.
Financial assets with cash flows which do not exclusively represent principal redemption and interest payments are classified as designated at fair value through profit or loss irrespective of business model and measured accordingly.
Financial assets measured at fair value through profit or loss are carried at fair value on the balance sheet, and changes in fair value are reccorded net in profit and loss.

Impairment of financial assets

The new IFRS 9 governs accounting for impairment losses on financial assets. For further information please see our comments under "Impairment Model based on Expected Credit Losses".

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.

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, 2018 and December 31, 2017 there were no outstanding contractual agreements for hedging interest rate or foreign currency risk.

Derecognition of financial assets

A financial asset is derecognized when one of the following conditions is 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.

Offsetting/netting

Financial assets and financial liabilities are generally not netted. They are only netted if the company has the right to offset the amounts at the current time and intends to settle the respective asset or liability at net amount.

Financial liabilities

Upon initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss, as loans, liabilities or derivatives which have been designated as and effectively are hedging instruments.

All financial liabilities are initially measured at fair value, and loans and liabilities are shown after deduction of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other liabilities and liabilities due to financial institutions, including overdrafts.

The subsequent measurement of financial liabilities depends on their classification, as follows:

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and other financial liabilities initially recognized at fair value through profit or loss.

Financial liabilities are classified as held for trading which are acquired for the purpose of a repurchase in the near future. Also included in this category are derivative financial instrument contracts entered into by the Group which are not designated as hedging instruments in hedge accounting in accordance with IFRS 9. Separately recognized embedded derivatives are also classified as held for trading, except for derivatives which are designated as and effectively are hedging instruments.

Gains and losses on financial liabilities held for trading are recorded in profit or loss.

Financial liabilities held at fair value through profit or loss are classified at the time of initial recognition if the criteria per IFRS 9 are met. DATA MODUL does not have any financial liabilities classified as measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

This category is of the greatest significance for the DATA MODUL consolidated financial statements. Following initial recognition, interest-bearing loans are measured at amortized cost applying the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, also through amortization applying the effective interest method.

Derecognition of financial assets

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

Risks resulting from the Company's financial instruments

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

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

Foreign currency risk

DATA MODUL conducts a substantial portion of its business in US dollars, thus fluctuations in the US dollar/euro exchange rate could significantly impact the Company's balance sheet and earnings. The Group also makes transactions in GBP, SGD, HKD and JPY. The Company also has exposure to currency risks in its business 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: 62.3%) of the Company's sales are denominated in currencies other than the functional currency of the operating unit, while approximately 62.7% (previous year: 63.4%) 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 known and anticipated 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 Group-wide cash management program, taking into account rolling liquidity forecasts, a strategic financial requirement analysis based on 1-year and 3-year projections, and working closely with external banks and investors as regards the reviewing and adjustment of lines of credit.

Pensions and non-current personnel liabilities

Non-current personnel liabilities include long-term bonuses and statutory severance payments to employees of subsidiaries of DATA MODUL AG.

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

Provisions

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

Provisions for warranty obligations

DATA MODUL provides the typical statutory warranties for remedying of defects extant at the time of sale. These assurance-type warranties are recorded in accordance with IAS 37. Provisions for warranties related to delivered products are recorded in the amount required for meeting legal requirements. After expiration or elapsing of the guarantee obligation, the provision is reversed.

Personnel provisions

Personnel provisions are recorded for existing claims of employees against DATA MODUL. These include bonus and incentives, commissions, performance bonuses, severance, travel expenses, vacation and Christmas supplements and accrued vacation and overtime.

Other provisions

Other provisions consist primarily of outstanding invoices for auditing of the annual financial statements, tax accounting services and other services not yet billed including transport, provision of temporary staff and services to be expensed in fiscal year 2018.

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 (Income taxes) 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

Pursuant 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.

5. Notes to the Statement of Income

[1] Revenue

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

Concerning the transaction price allocated to the outstanding performance obligations connected with extended warranties, please refer to the contract liabilities shown on the statement of financial position. The non-current contract liabilities will be recognized as revenue within the next five years. Other outstanding performance obligations arise from contracts with an expected original term of less than one year, thus DATA Modul has opted against stating the transaction price applied for these outstanding benefit obligations.
Revenue broken down by segment:
For fiscal year 2018

KEUR	Displays	Systems	Total
Revenue from product sales	117,454	122,001	239,455
Service revenue	172	1,790	1,962
Total revenue	117,626	123,791	241,417

For fiscal year 2017

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

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

[2] Cost of sales

The table below shows a breakdown of cost of sales:

KEUR	2018	2017
Materials expenses	167,471	155,893
Other cost of sales	20,151	14,787
Total cost of sales	187,622	170,680

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

[3] Research and development expenses

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

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

Product development projects without a specific customer order are recognized as intangible assets in fixed assets and amortized using the straight-line method over a period beginning at the time of serial production of the respective product or the rendering of the service to the customer until the estimated useful life of the product elapses. Through fiscal year 2017, depreciation expense was recorded as research and development costs in profit or loss. Now since fiscal year 2018 these are shown under cost of sales.

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 2018 and 2017 are presented below:

KEUR	2018	2017
Order-related development expenses and depreciation on development projects under cost of sales	2,837	1,400
Research and development expenses		
- Development expenses	5,435	4,634
- Amortization of development projects	*	734
Sum research and development expenses	5,435	5,368
Total research and development expenses	8,272	6,768
Carrying amount of capitalized development expenses	1,826	1,818
Development expenses recorded as inventory as of Dec. 31	1,941	1,535

* Depreciation in the amount of 603 thousand euros reported under cost of sales in fiscal year 2018

[4] Selling and general administrative expenses

The table below shows selling and general administrative expenses.

KEUR	2018	2017
Selling expenses	18,324	16,751
General administrative expenses	9,235	9,544
Total expenses	27,559	26,295

Total expenses by type of cost

Research and development expenses, selling and general administrative expenses and production expenses include personnel expenses, among others.

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

Personnel expenses

The following table shows the personnel expenses:

KEUR	2018	2017
Wages and salaries	27,909	24,056
Social security	4,817	4,372
Total	32,726	28,428

The expenses for pensions were 2,254 thousand euros (previous year: 1,965 thousand euros) in 2018. In fiscal year 2018 the Group employed an average 445 employees, as compared to an average 403 employees in the previous year.

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

Employees by functional area	2018	2017
Sales & Marketing	112	110
Development	76	75
Production	127	95
Services	31	33
Administration	46	46
Logistics	35	29
Materials requirement planning/ Procurement	18	15
Total	445	403

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

Employees by functional area	2018	2017
Sales & Marketing	115	108
Development	76	73
Production	152	101
Services	30	30
Administration	50	46
Logistics	39	32
Materials requirement planning/ Procurement	22	16
Total	484	406

Significant expense items and depreciation/amortization

Other significant expense items were as follows:

KEUR	2018	2017
Legal, consulting and project expenses	4,254	3,332
Depreciation/amortization	2,565	2,412
Rent and maintenance	2,607	2,392
Vehicle and travel expenses	2,275	2,159
Office and IT expenses	1,235	1,024
Advertising and trade shows	1,062	627
Packaging material & freight costs	692	618
Insurance premiums	533	528
Additions (+)/reversals (-) to/of Provisions for bad debts	(12)	28
Other	(440)	(775)
Gains (-)/losses (+) from Foreign currency translation	(815)	866
Total	13,956	13,211

[5] Interest income/expenses

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

KEUR	2018	2017
Interest and similar income	1	16
Interest expense on current liabilities	(46)	(58)
Other interest-like expenses	(28)	(62)
Total	(73)	(104)

[6] Income tax expense

Income tax expense breaks down as outlined below.

KEUR	2018	2017
Current tax expenses		
Germany	5,818	3,887
Foreign	555	1,238
Deferred taxes		
Germany	173	120
Foreign	(95)	(59)
Total	6,451	5,186

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 35 thousand euros through tax expenses from previous years. Foreign current tax expenses include 79 thousand euros in tax income 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, 2018.

The tax rates for the years 2018 and 2017 broke down as follows:

in %	2018	2017
Corporate income tax	15.00	15.00
Solidarity surcharge	0.825	0.825
Trade tax	16.45 and 13.30 respectively	16.45 and 13.30 respectively
Income tax rate	32.28 and 29.13 respectively	32.28 and 29.13 respectively

The table below shows a reconciliation of expected income tax expense versus actual income tax expense recorded in the consolidated financial statements applying the average German income tax rate of 32.28% for 2017 and 32.28% for 2018.

KEUR	2018	2017
Income before taxes reported	20,728	15,809
Expected income tax expense	6,690	5,103
Non-deductible expenses	147	74
Tax reductions resulting from tax-free income	(92)	(12)
Difference versus local tax rates	(260)	(95)
Tax expense for/from foreign operating locations	65	50
Taxes from previous years	(97)	43
Other	(2)	23
Reported income tax expense	6,451	5,186

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

KEUR		2018	2017
Deferred tax assets from tax loss carry-forwards	Foreign	240	145
Deferred tax assets from temporary differences	Foreign	40	40
Total deferred tax assets	Foreign	280	186
Deferred tax assets from temporary differences	Germany	1,375	504
Deferred tax liabilities from temporary differences	Germany	(2,533)	(1,301)
Total deferred tax liabilities	Germany	(1,158)	(797)
Deferred tax assets (+) / liabilities (-) (of which -188 thousand euros recorded through other comprehensive income in 2018)		(878)	(611)

Deferred taxes consist of the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
KEUR	2018	2017	2018	2017
Current assets				
Trade receivables and other assets	21	64	(25)	(23)
Contract assets	0	0	(1,273)	0
Inventories	938	0	0	(12)
Non-current assets				
Intangible assets	159	172	(590)	(585)
Property, plant and equipment	5	6	(625)	(631)
Current liabilities				
Trade payables and other liabilities	0	2	(20)	(50)
Other provisions	115	124	0	0
Non-current liabilities				
Provisions for pensions and similar obligations	177	177	0	0
Total	1,415	545	2,533	(1,301)

In connection with the adjustment pursuant to IFRS 15, deferred tax assets of 901 thousand euros were recognized as of December 31, 2018 due to lower inventories, and deferred tax liabilities in the amount of -1,273 thousand euros were recognized due to an increase in contract assets. The IFRS 9 adjustment resulted in lower trade receivables as of the balance sheet date, and in consequence deferred tax assets of 2 thousand euros. Initial application of IFRS 15 and IFRS 9 and the subsequent recognition of deferred taxes in the year under review caused a 214 thousand euro decrease in retained earnings as of January 1, 2018.

The subsidiaries DATA MODUL Suisse GmbH, Zug, Switzerland and DATA MODUL Polska sp.z.o.o., Lublin, Poland and DATA MODUL Electronic Technology (Shanghai) Co. Ltd., Shanghai, China, had usable tax loss carryforwards in the respective amounts of 88 thousand euros, 88 thousand euros and 841 thousand euros as of December 31, 2018. These are measured at the income tax rates of 15% for Switzerland, 19% for Poland and 25% for China, and shown as deferred tax assets.

Deferred tax assets arising from actuarial gains and losses on pension commitments recorded directly in equity increased equity by 31 thousand euros (previous year: 23 thousand euros). Deferred tax liabilities were not recognized for temporary differences in connection with investments in subsidiaries in the amount of 14,521 thousand euros, as it was not likely that these temporary differences would reverse in the foreseeable future. If this were the case, 5% of those temporary differences would be subject to tax.

[7] Earnings per share

Undiluted earnings per share are calculated by dividing net income of the year attributable 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, 2018 and December 31, 2017, 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):

	2018	2017
Net income for the year in KEUR	14,277	10,623
Denominator (thousands of shares):		
Denominator for undiluted earnings per share – weighted average number of shares	3,526	3,526
Denominator for diluted earnings per share – adjusted weighted average shares	3,526	3,526
Undiluted earnings per share	4.05 euros	3.01 euros
Diluted earnings per share	4.05 euros	3.01 euros

6. Notes to the Statement of Financial Position

[8] Fixed assets 2018

	HISTORICAL COST					
	Balance as of 1/1/2018	Currency translation	Additions	Disposals	Reclassifica-tions	Balance as of 12/31/2018
Intangible assets/Goodwill						
Goodwill	3,112	0	0	0	0	3,112
Software	2,790	1	153	1,652	925	2,216
Development projects	7,428	0	832	0	0	8,260
Prepayments	835	0	168	0	(925)	78
Total	**14,165**	**1**	**1,152**	**1,652**	**0**	**13,666**
Property, plant and equipment						
Land and buildings	14,106	10	579	39	143	14,799
Technical equipment	3,428	1	66	424	415	3,486
Other equipment, fixtures and fittings, and office equipment	6,400	14	1,005	811	0	6,608
Assets under construction	158	0	2,836	0	(558)	2,436
Total	**24,092**	**25**	**4,486**	**1,274**	**0**	**27,329**
Total	**38,257**	**25**	**5,638**	**2,926**	**0**	**40,994**

Fixed assets 2017

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

All figures in KEUR

DEPRECIATION AND IMPAIRMENTS						CARRYING AMOUNT
Balance as of 1/1/2018	Currency translation	Additions	Disposals	Reclassifica-tions	Balance as of 12/31/2018	Balance as of 12/31/2018
693	0	0	0	0	693	2,419
2,379	0	293	1,652	0	1,020	1,196
5,610	0	824	0	0	6,434	1,826
0	0	0	0	0	0	78
8,682	**0**	**1,117**	**1,652**	**0**	**8,147**	**5,519**
5,959	7	674	39	0	6,601	8,198
1,675	0	308	424	0	1,559	1,927
3,475	10	687	803	0	3,369	3,239
0	0	0	0	0	0	2,436
11,110	**17**	**1,669**	**1,266**	**0**	**11,530**	**15,799**
19,792	**17**	**2,786**	**2,918**	**0**	**19,677**	**21,318**

DEPRECIATION AND IMPAIRMENTS						CARRYING AMOUNT
Balance as of 1/1/2017	Currency translation	Additions	Disposals	Reclassifica-tions	Balance as of 12/31/2017	Balance as of 12/31/2017
693	0	0	0	0	693	2,419
2,703	0	176	(500)	0	2,379	411
5,152	0	734	(276)	0	5,610	1,818
0	0	0	0	0	0	835
8,458	**0**	**910**	**(776)**	**0**	**8,682**	**5,483**
5,365	(15)	617	(26)	18	5,959	8,146
1,416	0	272	(14)	0	1,675	1,753
3,350	(27)	611	(442)	(18)	3,475	2,925
0	0	0	0	0	0	158
10,131	**(42)**	**1,501**	**(481)**	**0**	**11,110**	**12,982**
18,680	**(42)**	**2,411**	**(1,257)**	**0**	**19,792**	**18,465**

Goodwill 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, 2017 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 1/1/2017	123	909	1,387	2,419
Goodwill acquired during the period	0	0	0	0
Impairment during the period	0	0	0	0
Balance as of 12/31/2017	123	909	1,387	2,419

Starting with the fiscal year commencing January 1, 2019, DATA MODUL will utilize a new item structure which caused a change in allocation among cash-generating units. This involved and adjustment to the allocation of the acquired goodwill which was factored into impairment testing accordingly.
The carrying amount of goodwill for the fiscal year ended December 31, 2018 is thus shown below, broken down by reportable segment and cash-generating unit.

KEUR	Displays	Systems	Total
Cash-generating unit	*Display Solutions*	*System Solutions*	
Balance as of 1/1/2018	1,032	1,387	2,419
Goodwill acquired during the period	0	0	0
Impairment during the period	0	0	0
Balance as of 12/31/2018	1,032	1,387	2,419

Goodwill was tested for impairment on December 31, 2018. 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 (2019 – 2021) approved by management and the Supervisory Board, extrapolated for 2022 and years thereafter.

The before-tax discount rates used for cash flow projections and revenue growth rates starting in 2022 (for 2017 in 2021) are shown in the table below.

Cash-generating unit	Before-tax discount rates	Revenue growth rates
in %	**2017**	**2017**
Line Management	7.38	2.5
Custom Solutions	8.00	1.0
Systems	7.38	2.5
in %	**2018**	**2018**
Display Solutions	8.88	2.0
System Solutions	8.82	2.5

The recoverable amount is primarily determined by the terminal value (perpetuity), which is particularly sensitive to changes in growth rate assumptions and discount rates.

Goodwill impairment testing for fiscal years 2018 and 2017 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 and in perpetuity

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. For fiscal year 2017, revenue growth rates ranging from 1.0% (Custom Solutions) to 2.5% (Line Management and Systems) were applied for the cash-generating units for 2021 and thereafter. In fiscal year 2018, revenue growth rates ranging from 2.0% (Display Solutions) to 2.5% (System Solutions) were applied for 2022 and thereafter.

The revenue growth rates used for the cash flow projections reflect the projected growth rates of the respective markets and product revenue growth projected by the DATA MODUL Group in the respective markets on the basis of a market analysis.

Assumption sensitivity

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

[9] Inventories

Inventories as of the reporting date break down as follows:

KEUR	2018	2017
Raw materials, consumables and supplies	6,874	6,064
Work in progress	7,186	5,027
Finished goods and merchandise	41,105	33,553
Impairment	(2,301)	(1,886)
Total	52,865	42,758

Write-downs in the amount of 1,607 thousand euros (previous year: 1,514 thousand euros) on the net realizable value of inventories were recorded under costs of sales on the 2018 statement of income.

In fiscal year 2018, inventories in the amount of 175,107 thousand euros (previous year: KEUR 161,856) were included as cost of materials on the statement of income.

[10] Trade receivables, contract assets, other current assets and other current financial assets

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

KEUR	2018	2017
Trade receivables, including impairments	28,961	27,137
Contract assets including impairments	3,945	0
Other current assets:		
Tax refund claims and tax prepayments	487	754
Other assets	673	965
Other current financial assets:		
Suppliers with credit balances	12	70
Other financial assets	627	300
Total	34,705	29,226

Trade receivables are not discounted and are usually due within 30 - 90 days. The allowance for expected credit losses as of December 31, 2018 and December 31, 2017 was 167 thousand euros and 184 thousand euros respectively.

Other assets consist primarily of 360 thousand euros (previous year: 623 thousand euros) in deferred expenses and 235 thousand euros (previous year: 0 thousand euros) in advance payments.

Other financial assets consist of other receivables in the amount of 488 thousand euros (previous year: 145 thousand euros) and security deposits in the amount of 139 thousand euros (previous year: 155 thousand euros) and supplier debit balances of 12 thousand euros (previous year: 70 thousand euros). These other current financial liabilities will in total generate a cash inflow for the Group at a future point in time.

Expected impairments on trade receivables are charged to impairment allowance accounts. Receivables are only derecognized after final clarification of the collection prospects. The change in the value adjustment accounts for expected bad debts as of the reporting date was as follows:

KEUR	2018	2017
Balance as of January 1	184	157
Initial application of IFRS 9	31	0
Adjusted balance as of January 1	214	0
Additions recorded in profit or loss	16	31
Utilization	(36)	(4)
Reversals	(28)	0
Effects from foreign currency translation adjustments	0	0
Balance as of December 31	167	184

No impairments on contract assets or any other financial instruments had to be recorded for expected credit losses in fiscal year 2018.

Please see the comments on credit risk in the Supplementary Disclosures (Chapter 8) regarding default risk and the presentation of the impairment matrix applied to determine expected credit losses on trade receivables.

[11] Cash and cash equivalents

Cash and cash equivalents as of December 31, 2018 in the amount of 24,956 thousand euros (previous year: 20,217 thousand euros) are held in bank accounts with an amount of 24,949 thousand euros (previous year: 20,210 thousand euros) and 7 thousand euros in cash on hand (previous year: 7 thousand euros).

[12] Shareholders' equity

Share capital

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

As in the previous year, 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 2018 the Executive and Supervisory Boards will recommend at the Annual Shareholders' Meeting payment of a cash dividend of 2.00 euros for a total distribution of 7,052 thousand euros to holders of the outstanding dividend-entitled shares.

Authorized capital 2015

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

Retained earnings

Because of the initial application effects of IFRS 9 and IFRS 15 on retained earnings as of January 1, 2018, we consider it appropriate to present the “Adjustments from initial application of IFRS” likewise under retained earnings, previously shown under “Other reserves”.
We thus reclassified the amount of -2,223 thousand euros to retained earnings as of December 1, 2017 and adjusted the previous-year figures to afford better comparability. After this reclassification, retained earnings broke down as follows as of December 31, 2017 and 2018 respectively:

KEUR	2018	2017
Retained earnings	46,751	36,551
Net income for the year	14,277	10,623
Other comprehensive income (loss)	(698)	(638)
Adjustments from first-time application of IFRS	(1,774)	(2,223)
Total	58,556	44,313

Other reserves

Other reserves consist exclusively of reserves for currency differences in the amount of 752 thousand euros (previous year: 560 thousand euros).

[13] Pension and non-current personnel liabilities

The Company has a non-contributory defined benefit plan in place 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 182 thousand euros (previous year: 189 thousand euros). The pledged reinsurance policies are netted as plan assets in "Pensions and non-current personnel liabilities". The pension liability as of December 31, 2018 and December 31, 2017 were calculated in December of the respective year. The mortality rates are based on the 2018 G tables of Prof. Dr. Klaus Heubeck (previous year: 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	2018	2017	2016	2015	2014
Present value of defined pension obligations	1,669	1,690	1,715	1,734	1,851
Fair value of the plan assets	181	189	198	206	215
Funding status	1,488	1,501	1,517	1,528	1,636

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

KEUR	2018	2017
Changes in the present value of pension obligations:		
Pension obligations forecast at beginning of year	1,690	1,715
Interest accrual on expected pension obligations	20	23
Actuarial gains and losses recorded in other comprehensive income due to changes in interest rate and trend assumptions	19	28
Actuarial profit or loss recorded in other comprehensive income resulting from changed demographic assumptions	36	0
Actuarial gain/loss recorded in other comprehensive income resulting from funding level changes	31	49
Pensions paid	(127)	(125)
Present value of pension obligations at year end	1,669	1,690
Plan assets	(181)	(189)
Pension obligations	1,488	1,501

KEUR	2018	2017
The net pension expenditure breaks down as follows:		
Accruing interest on expected pension obligations	20	23
Net periodic pension cost	20	23

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

in %	2018	2017
Weighted average assumptions:		
Discount rate	1.25	1.23
Growth rate in future benefit payments	1.9 – 3.0	1.6 – 3.0

The duration is 9 years (previous year : 10 years). The Company has pension plan benefit payment obligations as outlined below for respective fiscal years ending December 31:

	KEUR
2019	130
2020	133
2021	136
2022	139
2023	142
Cumulative 2024 through 2028	762

Expenses are recorded in profit or loss under net interest.

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

KEUR	12/31/2018
Discount rate increase by 1.0%	(132)
Discount rate decrease by 1.0%	152
Pension trend rise by 1.0%*	79
Pension trend decline by 1.0%*	(71)

* Pension trend sensitivity applies only to the portion of the pension obligations which have not been contractually fixed.

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

KEUR	2018	2017
Pension liabilities	1,488	1,501
Long-term bonus claims	73	73
Other non-current personnel obligations	6	41
Amount reported on consolidated balance sheet	1,567	1,615

[14] Provisions

Quantifying warranty provisions are inherently subject to uncertainty regarding amount and due dates. The amount of the provision is calculated based on historical data. Employment anniversary supplement obligations are reported under personnel provisions. Other provisions consist primarily of other liabilities, the amount of which is uncertain. The change in non-current and current provisions in fiscal year 2018 was is outlined below.

KEUR	Warranties	Personnel	Other	Total
Balance as of 1/1/2018	1,322	83	298	1,703
Currency translation	0	0	3	3
Additions	1,894	2	244	2,140
Utilization	(806)	0	(150)	(956)
Reversals	(14)	0	(150)	(164)
Last revised 12/31/2018	**2,396**	**85**	**245**	**2,726**
Of which, non-current	303	0	0	303
Of which, current	2,093	85	245	2,423

Except for risks for which provisions have been recorded, Company management is unaware of any matters potentially creating liabilities for the Company which could have a major adverse impact on the Company's financial position, financial performance and cash flows.

[15] Non-current and current contract liabilities

As of the reporting date, contract liabilities included deferred revenue for contractually agreed guarantees for customers exceeding the scope of statutory warranty.

On last year's financial statements this deferred revenue was reported under 'Other non-current liabilities' in the amount of 949 thousand euros and under 'Other current liabilities' in the amount of 495 thousand euros.

Now on the annual financial statements dated December 31, 2018 this deferred revenue is shown as a non-current contract liability in the amount of 722 thousand euros and a current contract liability in the amount of 546 thousand euros pursuant to IFRS 15. In 2018, EUR 499 thousand in revenue from the granting of the extended warranty was recognized.

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

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

KEUR	2018	2017
Taxes payable	3,366	1,618
Other current liabilities:		
Personnel-related liabilities	3,595	3,194
Social security and payroll taxes	1,019	505
Other liabilities	912	82
Value-added tax payable	546	1,598
Deferred revenue	0	495
	6,072	5,874
Other current financial liabilities:		
Outstanding invoices	907	785
Customers with credit balances	61	36
Other liabilities	6	2
	974	823
Total	10,412	8,315

[17] Current borrowings from financial institutions

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

KEUR	2018	2017
Deutsche Bank, Munich	1,000	1,000
Commerzbank, Munich	1,000	1,000
Sparkasse Tauberfranken, Tauberbischofsheim	1,200	1,200
Bayer. Landesbank, Munich	1,000	1,000
Total	4,200	4,200

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	2018	2017
Commerzbank, Munich	7,000	7,000
Sparkasse Tauberfranken, Tauberbischofsheim	7,000	7,000
Bayer. Landesbank, Munich	7,000	7,000
Deutsche Bank, Munich	7,000	7,000
Hypovereinsbank, Munich	40	0
Total	28,040	28,000

As of the reporting date, credit facilities were unutilized in the amount of 22,865 thousand euros (previous year: 23,386 thousand euros).
In addition to these credit facilities, DATA MODUL has bank guarantees which it can use in lieu of rent deposits or supplier guarantees. These bank guarantees are equivalent to letters of credit. Instead of receiving a cash deposit, the bank guarantees for example the deposit amount without actually depositing assets. These guarantees affect the total amount of cash the Company can borrow, as the guarantees pose a potential risk to the issuing banks. As of December 31, 2018, DATA MODUL had utilized bank guarantees in the amount of 1,375 thousand euros (previous year: 814 thousand euros).

7. Notes to the Statement of Cash Flows

The Statement of Cash Flows comprises inflow and outflow of funds from ordinary operations, and investment and financing activities.

Exchange rate changes are eliminated in the relevant line and presented 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 14,277 thousand euros (previous year: 10,623 thousand), cash flow from operating activities came to 10,797 thousand euros (previous year: 6,756 thousand euros). We have reclassified cash inflows and outflows representing interest payments in the amount of -53 thousand euros (previous year: -81 thousand euros) which were shown as cash flow from operating activities on last year's financial statements as cash flow from financing activities and adjusted the previous-year figure accordingly to afford better comparability. Income taxes paid in the total amount of -4,480 thousand euros (previous year: -4,819 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. Net cash flow from investing activities was -5,617 thousand euros in 2018 and -4,421 thousand euros in 2017.

Cash flow from financing activities in fiscal year 2018 was -430 thousand euros (previous year: 657 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. The dividend distribution resulted in a cash outflow of 423 thousand euros in 2018 (previous year: 423 thousand euros). The dividend distribution in 2018 was 0.12 euro per share for fiscal year 2017 (previous year: 0.12 euros).

Cash and cash equivalents comprise current bank deposits, checks and cash on hand.
Effects of exchange rate fluctuations on cash and cash equivalents are presented in a separate line item.

Reconciliation of debt movements to cash flows from financing activities

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

Change in financing debt KEUR	Statement of financial position on 12/31/2017	Affecting cash flow	Not affecting cash flow			Re-classifications	Statement of financial position on 12/31/2018
			Additions/ disposals	FX	Fair value		
Liabilities due to financial institutions	4,200	0	0	0	0	0	4,200
Total	4,200	0	0	0	0	0	4,200

8. 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	2018	2017
Impact on earnings before taxes		
Interest rate change		
Increase by 1%	(42)	(42)
Decrease by 1%	42	42

Currency risk

Currency fluctuations may materially affect the Group's balance sheet due to the significant volume of transactions in foreign currency. 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: 62.3%) of Group revenue was generated in currencies other than the functional currency of the operating unit that generated the revenue, and 62.7% (previous year: 63.4%) of costs were incurred in a currency other than the functional currency of the operating unit to which they accrued. The Group may employ a range of hedging instruments such as currency futures contracts and options to minimize price and currency risks. Currency futures contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into currency hedges until a fixed obligation has been agreed on. It is the Company's policy to negotiate the terms of hedge derivatives to correspond to those of the hedged item in order to maximize hedge effectiveness. As of December 31, 2018, no currency forwards 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, GBP 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.

Impact on 2018 earnings before taxes

KEUR	Exchange rate change Increase by 5%	Decrease by 5%
USD	448	(405)
JPY	(68)	62
GBP	45	(41)
Total	**425**	**(384)**

Impact on 2017 earnings before taxes

	Exchange rate change	
KEUR	Increase by 5%	Decrease by 5%
USD	265	(240)
JPY	(157)	142
GBP	71	(64)
Total	**179**	**(162)**

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 known and anticipated value adjustment risks.

For trade receivables and contract assets, DATA MODUL calculates expected default on the basis of historical default rates, applying an impairment matrix. The expected default rates are calculated based on the respective period overdue of the receivables. In addition, the values determined may also be adjusted to reflect available information of relevance to the future value/recoverability of customer receivables.

Impairments on trade receivables were calculated as follows:

Default rates as of 12/31/2018 for calculating impairment (in %)

	Not overdue	Overdue 1 - 30 days	Overdue 31 - 60 days	Overdue 61 - 90 days	Overdue › 90 days
Data Modul AG	0.0070	0.0412	1.6160	3.4942	7.7815
Data Modul France	0.0000	0.0000	0.0000	0.0000	0.0000
Data Modul Italia	0.0000	0.0000	0.0000	0.0000	13.3107
Data Modul Iberia	0.0004	0.0027	0.0079	0.0121	0.0000
Data Modul Ltd.	0.0010	0.0025	0.4583	0.4832	42.5422
Data Modul Inc.	0.0419	0.0885	0.4173	0.7885	19.5827
Data Modul Hong Kong	0.0000	0.0000	0.0000	0.0000	0.0000
Data Modul Suisse	0.0000	0.0000	0.0000	0.0000	0.0000
Data Modul FZE	0.0000	0.0000	0.0000	0.0000	0.0000
Conrac Asia	0.0000	0.0000	0.0000	0.0000	2.7778

Gross carrying amounts of trade receivables as of 12/31/2018 (in KEUR)[1)]

	Not overdue	Overdue 1 - 30 days	Overdue 31 - 60 days	Overdue 61 - 90 days	Overdue › 90 days	Total	Currency
Data Modul AG	13,260	4,275	146	35	16	17,732	EUR
Data Modul France	475	103	40	18	0	636	EUR
Data Modul Italia	2,364	521	183	21	0	3,088	EUR
Data Modul Iberia	2,042	648	44	2	0	2,737	EUR
Data Modul Ltd.	1,046	381	238	56	0	1,721	GBP (in EUR)
Data Modul Inc.	1,655	529	57	6	2	2,248	USD (in EUR)
Data Modul Hong Kong	252	467	0	0	0	719	HKD (in EUR)
Data Modul Suisse	0	0	0	0	0	0	CHF (in EUR)
Data Modul FZE	0	0	42	0	0	42	AED (in EUR)
Conrac Asia	266	7	21	12	0	305	SGD (in EUR)
						29.227	**Total in EUR**

Impairments as of 12/31/2018 (in EUR)

	Not overdue	Overdue 1 - 30 days	Overdue 31 - 60 days	Overdue 61 - 90 days	Overdue › 90 days	Total	Currency
Data Modul AG	932.58	1,761.35	2,351.60	1,224.83	1,252.78	7,523.14	EUR
Data Modul France	0.00	0.00	0.00	0.00	0.00	0.00	EUR
Data Modul Italia	0.00	0.00	0.00	0.00	0.00	0.00	EUR
Data Modul Iberia	7.50	17.63	3.44	0.30	0.00	28.87	EUR
Data Modul Ltd.	10.93	9.57	1,092.01	271.28	0.00	1,383.79	GBP (in EUR)
Data Modul Inc.	693.41	467.79	237.93	43.97	327.84	1,770.95	USD (in EUR)
Data Modul Hong Kong	0.00	0.00	0.00	0.00	0.00	0.00	HKD (in EUR)
Data Modul Suisse	0.00	0.00	0.00	0.00	0.00	0.00	CHF (in EUR)
Data Modul FZE	0.00	0.00	0.00	0.00	0.00	0.00	AED (in EUR)
Conrac Asia	0.00	0.00	0.00	0.00	0.00	0.00	SGD (in EUR)
						10,706.74	**Total in EUR**

[1] Invoiced, unimpaired receivables

Additional impairments in the amount of 156 thousand euros have been recorded on trade receivables due to past default events which did not affect the historical default rates on which the impairment matrix is based.
It was not necessary to present the impairment matrix for contract assets because in the last three years no bad debts were recorded from customers whose receivables were reported under contract assets for the first time in fiscal year 2018.
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.

In transactions not conducted in the country of the respective operating unit, the Company does not offer credit terms without a credit check. Thus, the Group 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 and bank loans. As of December 31, 2018, 59.7% (previous year: 59.9%) of the Company's debt reported on the Consolidated Financial Statements was due within one year.

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

12/31/2018 KEUR	**‹ 12 months**	**1 - 5 years**	**› 5 years**	**Total**
Liabilities due to financial institutions	4,203	0	0	4,203
Trade accounts payable	18,787	0	0	18,787
Other financial liabilities	974	0	0	974
Total	23,964	0	0	23,964

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

Capital management

The main objective behind the Company's capital management activities is to maintain a high credit rating and a good equity ratio to support business operations and maximize shareholder value. The Company manages and adjusts its capital structure taking into account any changes in 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, 2018, 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, trade payables, contract liabilities and other liabilities less cash and cash equivalents and current assets. Shareholders' equity is the equity shown on the balance sheet.

KEUR	12/31/2018	12/31/2017
Current borrowings	4,200	4,200
Trade payables and contract liabilities	20,055	13,702
Other liabilities	15,864	13,380
Minus cash and cash equivalents and other current assets	(26,754)	(22,306)
Net debt	13,365	8,976
Total shareholders' equity	94,006	79,571
Shareholders' equity and net financial liabilities	107,371	88,547
Capital management ratio in %	12.45	10.14

Fair value

The carrying amounts of the financial instruments the Group holds mostly correspond to their fair values because of their short term to maturity.

Hedging activities

Cash flow hedges

As at 31 December 2018, there are no financial instruments classifiable as hedges for projected sales to customers or purchases from suppliers for which these fixed obligations existed. As of the December 31, 2018 reporting date there were no hedged net investments in foreign business operations.

Contingent liabilities, contingencies and other financial obligations

Contingent liabilities and legal disputes

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

Contingencies from guarantees and warranties totaled 1,375 thousand euros as of the balance sheet date (previous year: 814 thousand euros).

Lease agreements

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

KEUR	2018	2017
Rent of office space	1,281	1,231
Operating leases for vehicles	592	605
Total lease and rental expenses	1,873	1,836

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

KEUR	12/31/2018
Rents and leases 2019	2,228
Rents and leases 2020	2,026
Rents and leases 2021	1,863
Rents and leases 2022	1,874
Rents and leases 2023	1,858
Rents and leases 2024 and after	9,742
Total	19,594

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

At the reporting date, 76,799 thousand euros in orders placed with suppliers were still outstanding (previous year: 69,174 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 2018			Fiscal year 2017		
KEUR	Displays	Systems	Group total	Displays	Systems	Group total
Revenue from product sales	117,454	122,001	239,455	122,306	92,523	214,829
Service revenue	172	1,790	1,962	278	3,149	3,427
Total revenue	117,626	123,791	241,417	122,584	95,672	218,256
Research and development expenses	(2,200)	(3,235)	(5,435)	(1,963)	(3,405)	(5,368)
Selling and general administrative expenses	(14,164)	(13,395)	(27,559)	(14,182)	(12,113)	(26,295)
Amortization of intangible assets and depreciation on property, plant and equipment	(977)	(1,809)	(2,786)	(676)	(1,735)	(2,411)
Segment results (EBIT)	8,316	12,485	20,801	9,387	6,526	15,913
Interest income	0	1	1	4	12	16
Interest expense	(32)	(42)	(74)	(72)	(48)	(120)
Income tax	(2,208)	(4,244)	(6,451)	(2,471)	(2,715)	(5,186)
Net income for the year	6,076	8,201	14,277	6,849	3,774	10,623
Investments in intangible assets, property, plant and equipment, and financial assets	3,022	2,616	5,638	1,647	2,780	4,427

Breakdown by geographical region

Regarding the geographical region data, revenues are allocated to countries applying to the country of destination principle. Non-current assets are allocated to the location of the respective asset. 'Domestic' refers to the headquarters of the parent company Data Modul AG located in Germany.

Revenue

Displays segment

KEUR	2018	2017
Domestic	61,761	64,310
Foreign	55,865	58,274
Total	117,626	122,584

Systems segment

KEUR	2018	2017
Domestic	61,205	44,981
Foreign	62,586	50,691
Total	123,791	95,672

Non-current assets

KEUR	2018	2017
Domestic		
Intangible assets	5,518	5,481
Property, plant and equipment	13,377	10,583
Total domestic	18,895	16,064
Foreign		
Intangible assets	1	2
Property, plant and equipment	2,421	2,400
Total foreign	2,422	2,402
Total	21,318	18,465

Supplementary Disclosures

Corporate governance

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

Related and affiliated companies

According to IAS 24 (Related Party Disclosures), transactions with persons and entities that are influenced 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.

On April 23, 2015, Arrow Central Europe Holding Munich GmbH notified the Company that its shareholding in DATA MODUL AG had exceeded the 50% threshold. Since that date, Arrow Central Europe Holding Munich GmbH has been the controlling company of DATA MODUL AG within the meaning of Sec. 17 AktG.

DATA MODUL AG in turn is a dependent company of Arrow Central Europe Holding Munich GmbH, Fürstenfeldbruck, and of the Arrow Group parent company Arrow Electronics Inc., Centennial, CO, USA.

Business transactions with the Arrow Group in fiscal 2018 included 109 thousand euros in purchases (previous year: 136 thousand euros) and 0 thousand euros in sales (previous year: 76 thousand euros). As of the reporting date, unsecured liabilities due to the ARROW Group totaled 11 thousand euros (previous year: 3 thousand euros), while receivables from the ARROW Group totaled 0 thousand euros (previous year: 15 thousand euros).

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

Affiliated companies

Company name, registered office	Shareholding	IFRS equity	Net income for the year
	in %	KEUR	KEUR
DATA MODUL Weikersheim GmbH, Weikersheim, Germany	100	9,137	998
DATA MODUL France SARL, Baron, France	100	958	183
DATA MODUL Iberia S.L., Madrid, Spain	100	2,494	236
DATA MODUL Inc., New York, USA	100	3,317	845
DATA MODUL Italia S.r.l., Bolzano, Italy	100	1,147	311
DATA MODUL Ltd., Birmingham, United Kingdom	100	1,734	455
DATA MODUL Suisse GmbH, Zug, Switzerland	100	(119)	11
DATA MODUL Hong Kong Ltd., Hong Kong, China	100	849	521
DATA MODUL Electronic Technology (Shanghai) Co., Ltd., Shanghai, China	100	(186)	(325)
Conrac Asia Display Products PTE Ltd., Singapore	100	1,214	209
DATA MODUL FZE, Dubai, VAE	100	248	(167)
DATA MODUL Polska sp. z o.o., Warsaw, Poland	100	937	(88)

Remuneration report

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

Executive Board member remuneration

The disclosures on compensation paid to the Executive Board member in fiscal year 2018 take into account the recommendations per German Corporate Governance Code (GCGC) in addition to applicable accounting principles (GAS 17, HGB/German GAAP, IFRS):

Compensation packages granted	Dr. Florian Pesahl *CEO* *Appointed: January 1, 2010*			
KEUR	2017	2018[3]	2018 (min.)	2018 (max.)
Fixed remuneration	230	230	230	230
Fringe benefits	16	31	31	31
Total	**246**	**261**	**261**	**261**
One-year variable compensation [1]	147	147	0	147
Multi-year variable compensation[2]	73	73	0	73
Executive bonus 2017	73	0	0	0
Executive bonus 2018	0	73	0	73
Total compensation (according to GCGC)	**466**	**481**	**261**	**481**
Service cost	0	0	0	0
Total compensation (according to GAS 17)	**466**	**481**	**261**	**481**

[1] Not taking into account any deferrals.

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

[3] Bonuses were approved in 2018 for Dr. Pesahl based on his contract in the amount of 119 thousand euros for performance in the year 2017, and 83 thousand euros for the year 2018.

Compensation paid to the Executive Board member in fiscal year 2018 breaks down as follows:

Compensation	Dr. Florian Pesahl *CEO* *Appointed: January 1, 2010*	
KEUR	2018	2017[5]
Fixed remuneration	230	230
Fringe benefits	31	16
Total	**261**	**246**
One-year variable compensation [4]	147	220
Multi-year variable compensation	0	50
Executive bonus 2015	0	50
Total compensation	**408**	**516**

[4] Not taking into account any deferrals.

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

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

Pensions	Peter Hecktor		Walter Eichner	
KEUR	2018	2017	2018	2017
Provisions recorded as of the reporting date	267	267	264	265
Allocations to pension provisions	23	22	25	21
Pensions paid	22	22	27	26

In fiscal years 2018 and 2017, the Executive Board member did not receive any loans or similar benefits. Nor did the Executive Board member receive any remuneration for offices held at other Group companies.

Supervisory Board member remuneration

Annual remuneration in KEUR	2018	2017
Kristin D. Russell	40	40
Thomas A. Leffler	30	19
Jim Petrie	0	11
Wolfgang Klein	20	20
Grand total	**90**	**90**

Membership of the Executive and Supervisory Boards

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

Supervisory Board members:
Kristin D. Russell, Chair
Jim Petrie, Vice-Chair
(January 1, 2017 - May 10, 2017)
Thomas A. Leffler, Deputy Chairman
(May 11, 2017 - December 4, 2018)
Richard A. Seidlitz (starting December 18, 2018)
Wolfgang Klein (non-executive employee),
Employee Representative

Auditors' fees

The Company recorded fees for auditing services in the amount of 177 thousand euros in accordance with Sec. 314 (1) No. 9a of German Commercial Code (previous year: 155 thousand euros). Tax consultancy expenses as per Sec. 314 (1) No.9c German Commercial Code in the amount of 11 thousand euros (previous year: 0 thousand euros) were recorded through profit or loss, as well as other services as per Sec. 314 (1) No. 9d German Commercial Code in the amount of 0 thousand euros (previous year: 15 thousand euros).

Subsequent events

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

INDEPENDENT AUDITOR'S REPORT

To DATA MODUL Aktiengesellschaft, Produktion und Vertrieb von Elektronischen Systemen

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

Opinions

We have audited the consolidated financial statements of DATA MODUL AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DATA MODUL AG for the fiscal year from 1 January 2018 to 31 December 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the opinions

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

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1. Recognition and measurement of development projects

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

Auditor's response: As part of our audit of the recognition and measurement of development projects without a specific customer order, we examined the processes and internal controls implemented by DATA MODUL AG. We also performed substantive audit procedures. This included a review of the preparation of all capitalized development projects and separate reviews on a sample basis of projects capitalized in the fiscal year in terms of the ability to recognize development costs, the executive directors' assumptions in determining useful lives and in deciding when to commence depreciation. Through inquiries of persons entrusted with the matter and the examination of project documents, we verified the eligibility for capitalization of the development costs based on the criteria defined in IAS 38. We reperformed the calculation of the hourly rate and compared it with the personnel expenses used in the measurement of development projects and reconciled the supporting documentation for the hours worked. To identify indications of a potential impairment of existing development projects, we interviewed the executive directors and the employees responsible and analyzed project-related margins for products developed in house. Our audit procedures did not lead to any reservations regarding the recognition and measurement of development projects without a specific customer agreement.

Reference to related disclosures: For further information on the accounting policies applied for the recognition and measurement of development projects, we refer to the disclosures in section 4. Recognition and measurement methods "Intangible assets" and section 5. Notes to the income statement "Research and development expenses" in the notes to the consolidated financial statements.

2. Recognition of warranty obligations

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

Auditor's response: In the course of our audit of the completeness and measurement of provisions for warranty obligations, we carried out analytical audit procedures and substantive testing.
To determine the potential significant individual warranty provisions for a specific claim or claims asserted and whether the estimates of the executive directors regarding the expected cash outflows are appropriate, our audit procedures included interviewing the executive directors and other persons within the Group entrusted with these matters, obtaining confirmations from external legal advisors and assessing the internal statements on the recognition and measurement of warranty provisions in the consolidated financial statements.
We reperformed the calculations of the general warranty provisions and compared the significant assumptions made with the internal reporting. We also analyzed changes to the carrying amounts compared to the prior period and interviewed the executive directors. To review the completeness of warranty provisions, we examined the warranty expenses for any indication of circumstances not yet taken into account.
Our audit procedures with regard to revenue recognition for extended warranty periods also comprised the review of the underlying agreements for the agreed warranty commitments and warranty periods. Furthermore, the carrying amounts were compared with those from pre-

vious periods and this analysis was discussed with the employees tasked with this by the Company; the relevant assumptions made for revenue recognition were also compared with actual developments.
Our audit procedures did not lead to any reservations as regards the recognition of warranty obligations.

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

Other information

The Supervisory Board is responsible for the Supervisory Board Report. Otherwise, the executive directors are responsible for other information. The other information comprises the following components designated for the 2018 annual report: DATA MODUL at a glance, Executive Board Report, DATA MODUL Worldwide, DATA MODUL Product Portfolio, Highlights, Corporate Governance Declaration, Corporate Responsibility, Corporate Governance Code Declaration of Conformity and Management Representation and Supervisory Board Report. We received a copy of this 'Other information' by the time this auditor's report was issued.
Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.
In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

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

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.
Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.
The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

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

evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor of the consolidated financial statements by the Annual General Meeting on 8 May 2018. We were engaged by the Supervisory Board on 25 September 2018. We have been the group auditor of DATA MODUL AG without interruption since fiscal year 2002.

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

German Public Auditor responsible for the engagement

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

Munich, 13 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

von Wachter	Timphaus-Möller
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(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 2019

Quarterly financial report dated March 31, 2019	May 9, 2019
Annual Shareholders' Meeting	May 9, 2019
Half-year financial report dated June 30, 2019	August 9, 2019
Quarterly financial report dated September 30, 2019	November 8, 2019

The DATA MODUL 2018 Annual Report is available in German and English.

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