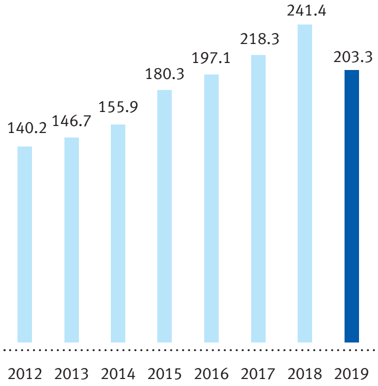
# DATA MODUL

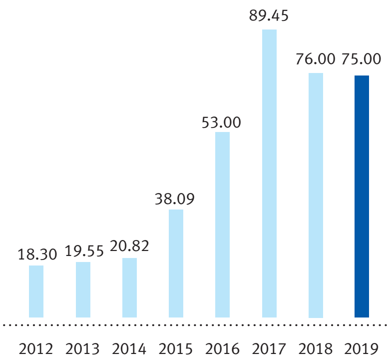
## ANNUAL REPORT 2019

# DATA MODUL AT A GLANCE

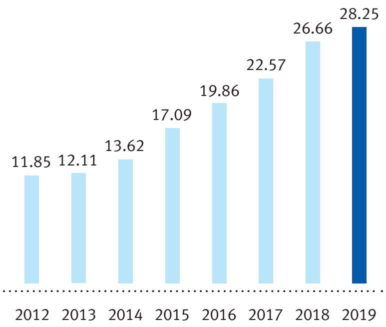
REVENUE
(in millions of euros)




HIGHEST STOCK PRICE
(in euros)




EQUITY PER SHARE
(in euros)




## Group key figures per IFRS and alternative key performance indicators*

| In KEUR | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 203,314 | 241,417 | 218,256 | 197,079 | 180,300 | 155,915 | 146,706 | 140,245 |
| EBITDA 1) | 15,644 | 23,587 | 18,324 | 17,060 | 15,331 | 13,257 | 7,797 | 10,181 |
| EBIT 2) | 10,194 | 20,801 | 15,913 | 15,039 | 12,576 | 11,404 | 5,676 | 8,391 |
| EBIT margin in % 3) | 5.0 | 8.6 | 7.3 | 7.6 | 7.0 | 7.3 | 3.9 | 6.0 |
| Net income | 6,507 | 14,277 | 10,623 | 10,228 | 8,413 | 7,573 | 3,235 | 7,085 |
| Shareholders' equity | 99,599 | 94,006 | 79,571 | 70,027 | 60,246 | 48,036 | 42,131 | 41,774 |
| Shareholders' equity ratio in % | 67.5 | 70.1 | 71.8 | 68.0 | 66.6 | 60.0 | 50.5 | 56.2 |
| Working capital 4) | 63,702 | 63,039 | 56,193 | 52,854 | 44,691 | 39,543 | 41,218 | 37,894 |
| Cash flow 5) | 10,447 | 10,797 | 6,756 | 6,325 | 7,049 | 13,799 | 4,854 | 3,852 |
| Capital expenditure 6) | 6,984 | 5,638 | 4,427 | 4,031 | 2,719 | 2,471 | 2,226 | 3,029 |
| Number of employees 7) | 489 | 445 | 403 | 395 | 364 | 348 | 333 | 315 |
| Revenue per employee | 416 | 543 | 542 | 499 | 495 | 448 | 441 | 445 |
| Earnings per share in euros | 1.85 | 4.05 | 3.01 | 2.90 | 2.41 | 2.23 | 0.95 | 2.05 |
| Cash flow per share in euros 8) | 2.96 | 3.06 | 1.91 | 1.79 | 2.00 | 3.91 | 1.38 | 1.09 |
| Dividend per share in euros 9) | 1.00 | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 | 0.60 | 0.60 |
| Stock price at year end in euros | 51.00 | 55.60 | 70.00 | 49.00 | 36.90 | 20.00 | 16.55 | 17.01 |
| Highest stock price in euros | 75.00 | 76.00 | 89.45 | 53.00 | 38.09 | 20.82 | 19.55 | 18.30 |
| Lowest stock price in euros | 45.00 | 55.60 | 49.00 | 35.01 | 19.91 | 16.31 | 12.70 | 10.76 |

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 2020

* 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
# 2019 ANNUAL REPORT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# MANAGEMENT REPORTS

*Altered market situations, economic turmoil and political uncertainties made for an eventful year in 2019. Thanks to quick reaction, however, to changing requirements and systematic execution of the Touch Tomorrow 2023 strategy, DATA MODUL can look forward to further success as one of the world-leading specialized providers of industrial display, touch, embedded, monitor and panel PC solutions.*

# EXECUTIVE BOARD REPORT

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

Charles Darwin's famous quote about species that survive resonated strongly with DATA MODUL this past fiscal year: "It is the one that is the most adaptable to change." With the challenges of 2019 now behind us, we look back on the major progress made in becoming one of the leading global providers of visual system solutions.

We finished out fiscal year 2019 with revenue of 203.3 million euros and EBIT of 10.2 million euros, thus it is apparent that we have not met the full-year targets initially set. Factors creating economic and political uncertainty had a major impact on us, including the US-China tensions, Brexit, the German mechanical engineering crisis and changes occurring in the automotive industry. Furthermore, the global display markets remain a theater of intense competition.

Our chief activities in 2019 included expansion of our supplier portfolio as part of the Touch Tomorrow 2023 strategy, keeping us aligned with megatrends to remain able to provide the display solutions needed in the various markets. Further expansion and commencement of production at sites in Poland and China was a high priority as part offering a global production and logistics concept that meets our customers' and suppliers' needs. We continued investing in new technologies and highly automated production lines at our plant in Weikersheim, Germany. In response to the difficult economic environment we implemented a cost reduction program reflecting the concept of "DATA MODUL Organization 4.0".

The financial success we have enjoyed in recent years enables us to continue making the necessary investments in our future. The innovative capability of our research and development department is mission-critical to our enterprise. In 2019 we expended 9.1 million euros on research and development – an investment allowing us 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 1.00 euro per share for fiscal year 2019. This represents a distribution ratio of approximately 50% of net income for the year.

We continued implementing the long-term decisions made in defining our strategy in fiscal year 2019. Yet difficult tasks await which will require daily motivation and dedication across all levels of the Company including our international employees in particular. Each individual's ability and performance has played a role in the overall success of the firm, thus I would like to expressly thank our employees, for the year certainly was not an

easy one. We also thank all of 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. 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 for 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 keep guiding our business activities on into 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 on the course chosen when we believe we are on track for success, even in a fiscal year with difficulties.

Financial strength, innovation and profitability are the levers for further growth 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 is "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 portfolio 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. We will thus remain focused on our Display, Touch and Embedded technologies. Satisfying customers is our calling, and we strive to offer innovative products and services.

We are 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 various locations and further standardizing our production technologies. We are optimistic regarding fiscal year 2020, 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 on to realize for the benefit of 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%, We managed 5.0% for fiscal year 2019, thus we are still highly profitable and are reiterating our target range for EBIT margin. This strong financial position will form the foundation for our investments in our future.

I would like to thank to all of our shareholders and debt capital financing partners. It is you, our shareholders and investors who will be our companions as the Company enters a new decade. 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 2020

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

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

At the Supervisory Board meeting in March 2019, the Annual Financial Statements prepared by the Executive Board for DATA MODUL AG and for the Group for fiscal year 2018 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 2019 the Supervisory Board addressed the agenda of the 2019 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 the Supervisory Board meeting in May 2019, the Supervisory Board addressed in detail the business results for the first and second quarters. Corporate acquisition possibilities for DATA MODUL were also studied and discussed.

The Supervisory Board met for a constituent meeting following the 2019 Annual Shareholder's Meeting. At this meeting, Kristin D. Russell was re-elected as Supervisory Board chair and Richard A. Seidlitz as deputy chair. Eberhard Kurz became a member of the Supervisory Board on May 9, 2019, serving as employee representative.

The Supervisory Board meeting in September 2019 was devoted principally to examining the business situation and outlook for the DATA MODUL Group. The Management Board also reported on a restructuring program designed in response to the troubled economic situation and on developments at the production sites in Poland and China.

At the Supervisory Board meeting in December 2019 the Executive Board reported on the Group's current business and financial situation, presenting its budget figures for fiscal years 2020 - 2022. The Supervisory Board approved these.

**Audit of the Separate and Consolidated Financial Statements**

At the Annual Shareholders' Meeting on May 9, 2019, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, was appointed as auditor of the Separate and Consolidated Financial Statements for fiscal year 2019. In 2020 the Executive Board prepared the DATA MODUL AG Separate Financial Statements and Management Report for fiscal year 2019 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, 2019 - December 31, 2019. The auditors Ernst & Young issued the following unqualified audit opinion regarding the Dependent Company Report:

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

1. the factual statements made in the report are correct,
2. the consideration paid by the Company for the legal transactions stated in the Report was not excessively high,
3. and there are no circumstances which would require an assessment of the actions outlined in the Report that is materially different from the assessment of the Executive Board."

At its March 2020 meeting, the Supervisory Board discussed in detail the Financial Statements for fiscal year 2019 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 2019 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 Consolidated Financial Statements, adopted the Separate Financial Statements and agreed to the Executive Board's proposal for the appropriation of accounting 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.

Richard A. Seidlitz was elected to the Supervisory Board at the Annual Shareholders' Meeting on May 9, 2019, who previously had been court-appointed. Kristin D. Russell has been a Supervisory Board member since 2016. The employees appointed Eberhard Kurz as as employee representative on the Supervisory Board of DATA MODUL AG on April 5, 2019, effective as of the conclusion of the Annual Shareholders' Meeting held May 9, 2019.

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 2019 a successful fiscal year.

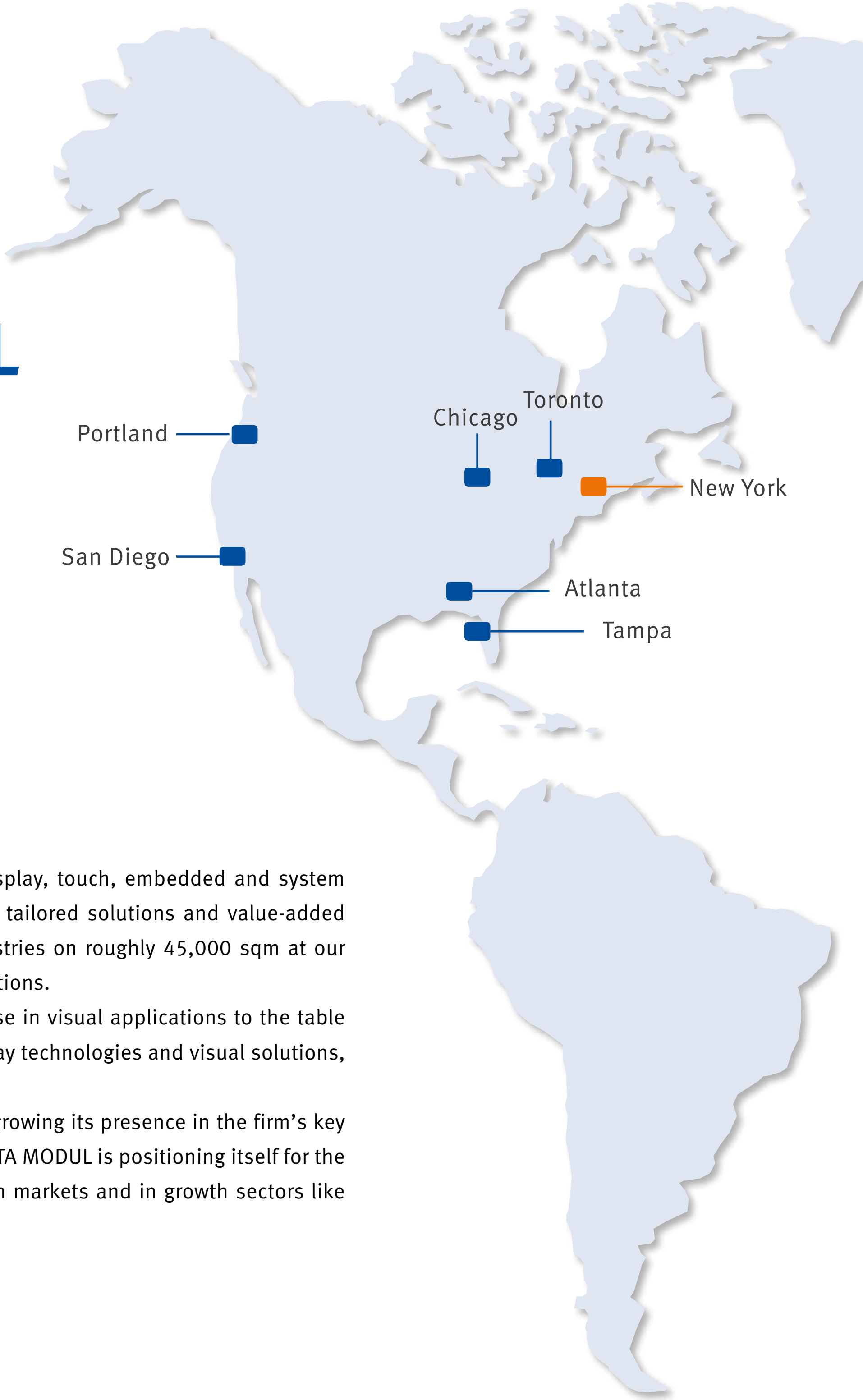
For the Supervisory Board

Kristin D. Russell, Supervisory Board Chair
Munich, March 2020

# DATA MODUL WORLDWIDE

*Since founding of the Company in 1972, DATA MODUL has been committed to a strategy of offering customers modern, custom-tailored end-to-end display technology solutions of the highest level of sophistication. Our production and logistics locations in Europe, Asia and the US and our sales offices in all relevant growth markets enable us to meet market requirements worldwide, both now and in future.*

# DATA MODUL WORLDWIDE




## THE DISPLAY EXPERTS

Drawing upon many years of experience in display, touch, embedded and system technologies, we realize proprietary products, tailored solutions and value-added services for customers in many different industries on roughly 45,000 sqm at our in-house development and manufacturing locations.
DATA MODUL thus brings unsurpassed expertise in visual applications to the table to meet customer expectations regarding display technologies and visual solutions, both today and tomorrow!
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 global growth markets and in growth sectors like automotive and industrial automation.

## FACTS & FIGURES

Last revised 12/31/2019

**~500**
EMPLOYEES WORLDWIDE

REVENUE IN MILLIONS OF EUROS
**203.3**

**>20**
DATA MODUL LOCATIONS WORLDWIDE


~50

YEARS' EXPERIENCE IN VISUAL SOLUTIONS

R&D EXPENSES IN MILLION EURO

9.1

EQUITY RATIO IN %

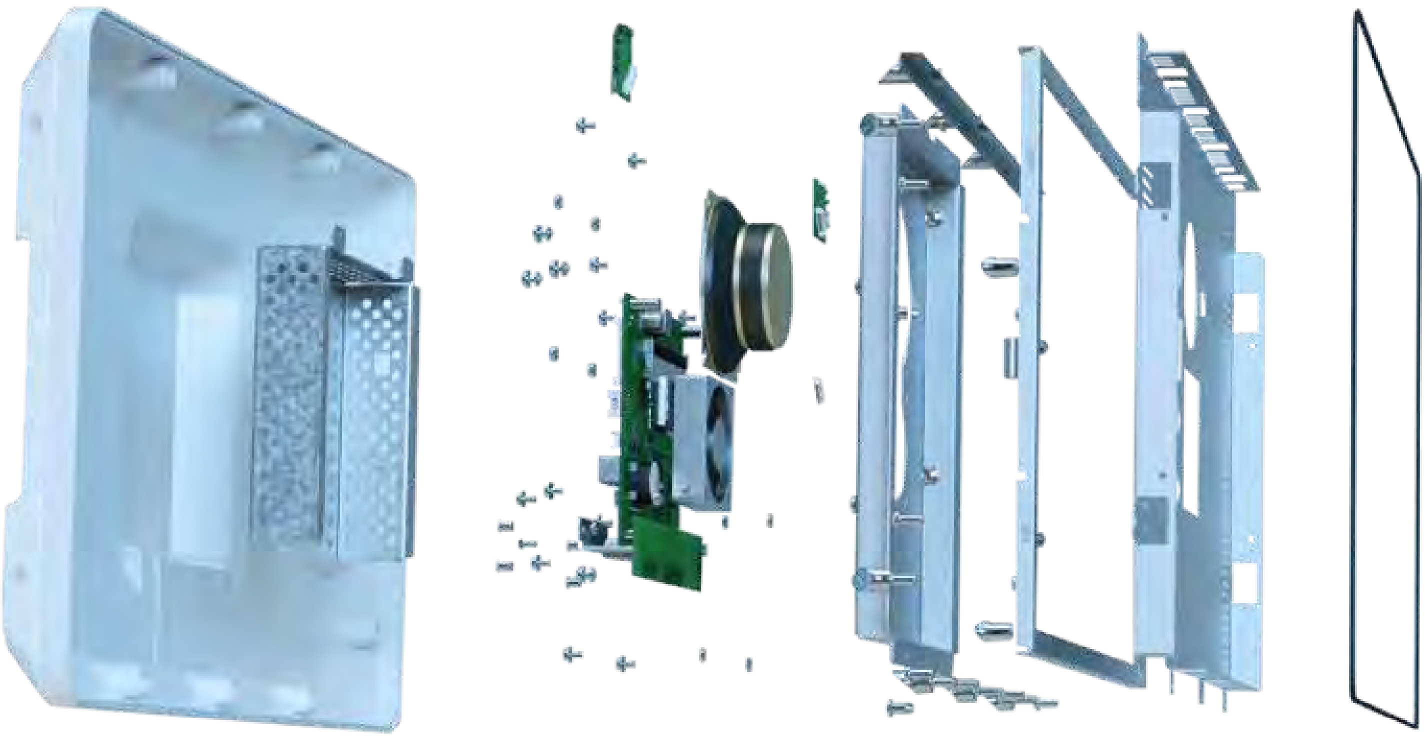
67.5

# DATA MODUL
## PRODUCT PORTFOLIO

*DATA MODUL is one of the world-leading display technology partner and the European market leader for industrial displays. Our extensive distribution portfolio of displays, touchscreens, embedded solutions and innovative proprietary products developed in-house make it possible to put together*

*an unique, modular product portfolio. This is addition to cutting-edge production methods, professional services and top-level consulting over the entire product life cycle. This forms the basis for successful realization of an portfolio of sophisticated, modern and tailored applications for a broad spectrum of industries.*

# PRODUCTS AND COMPETENCIES

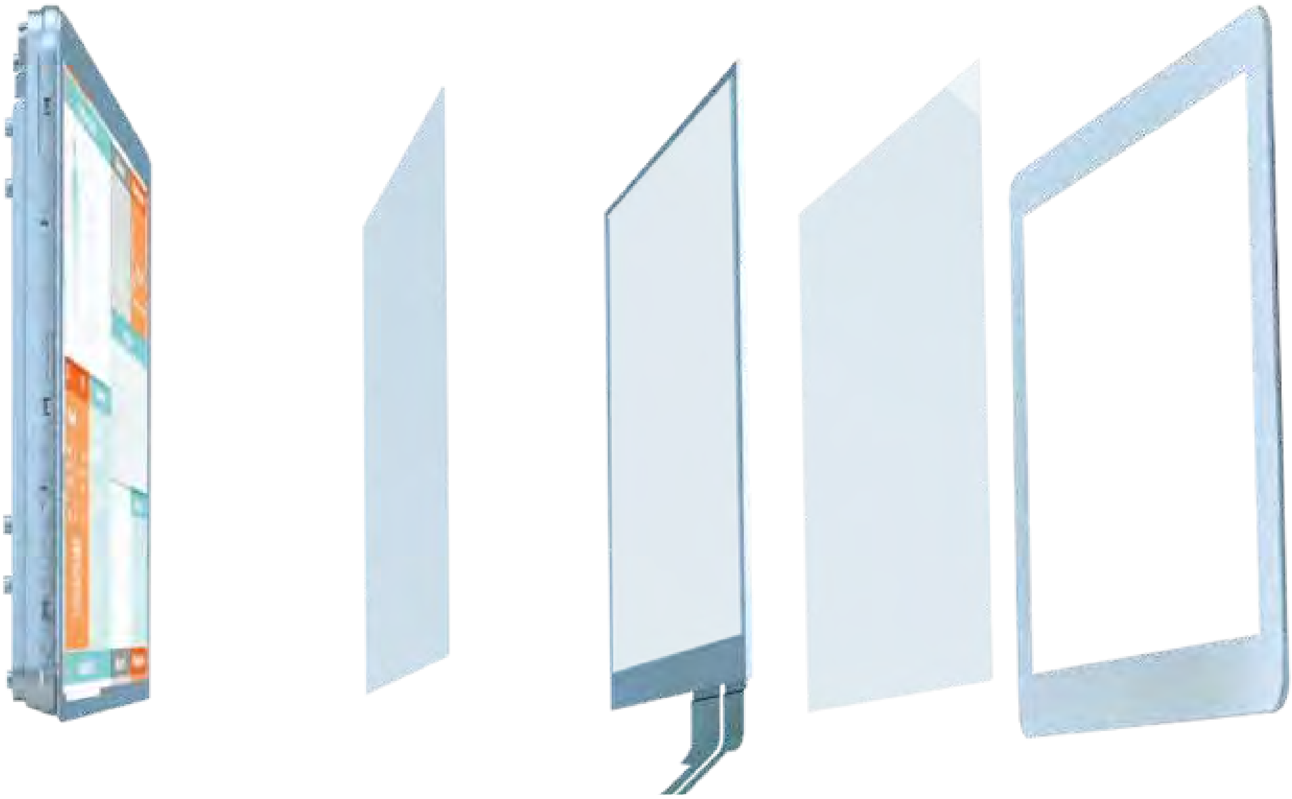


## SYSTEM SOLUTIONS

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 a wide range of ARM and x86 embedded CPU boards in many different sizes, form factors and performance classes.
The entire range of embedded solutions is available with preconfigured kits, customer-specific baseboards and professional embedded computing designs. In addition, experienced engineering teams provide support and advice on developing high-quality solutions for industrial applications.



# DISPLAY SOLUTIONS

As Europe's largest TFT provider, DATA MODUL offers an uncommonly extensive distribution portfolio of products from all leading manufacturers. The extensive variety of displays available today means that modern, innovative applications can be delivered to meet nearly any customer requirements. DATA MODUL offers a spectrum encompassing the latest technologies, custom design and a broad variety of sizes, formats and makes. Customers enjoy outstanding advice on selecting the right product for the application – one that offers long-term availability and good value for the money.

# TOUCH SOLUTIONS

Touch solutions and the bonding processes involved are an integral part of the DATA MODUL portfolio. The focus is on the easyTOUCH projected capacitive (PCAP) series and easyTOUCH displays— specially developed for industrial applications. DATA MODUL also provides proprietary touch sensors and controller boards enabling multi-touch and gesture control, for example. Complete PCAP solutions – consisting of touch sensor, controller, firmware, front glass and optical bonding – are perfectly inter-coordinated and delivered from a single source.

# HIGHLIGHTS OF THE YEAR

*The year 2019 was in large part about change and further development for DATA MODUL. New production technologies and systematic expansion of production capacity combined with further internationalization opened up new opportunities while consolidating our already strong positioning as a global solution provider for the industrial future.*

# HIGHLIGHTS 2019

## EMBEDDED WORLD 2019

The leading international trade fair for embedded technologies took place in February in Nuremberg, attended by over 31,000 industry professionals from 84 different countries. More than 1,100 companies exhibited their top products and innovative services relating to embedded technology, including DATA MODUL, for whom the fair was very successful. In addition to entirely positive feedback about our products, we generated significantly more contacts and leads than in the previous year at our stand area, which spanned nearly 145 sqm.



## ePAPER: BOTH ECOLOGICAL AND ECONOMICAL

ePaper displays are a smart alternative to conventional TFT displays to reduce power consumption to a minimum for high operating efficiency while still affording good readability. Because of technological improvements like the number of colors available and greater contrast levels, these displays are now also attractive for use in sophisticated applications like medical technology and portable measuring instruments. DATA MODUL offers tailored solutions for such applications, with display sizes ranging from 1.5” to 40" and additive components available like PCAP and frontlight.

## HYBRID BONDING AND AUTOMATED OPTICAL INSPECTION (AOI)

Demand for industrial touch displays continues to rise, and needs vary greatly in terms of unit quantities, diagonals, technologies, etc. DATA MODUL has thus added hybrid bonding to its portfolio of bonding technologies, a new process which DATA MODUL became the first provider in Europe to offer, in May 2019. In addition to a fully automated hybrid bonding machine and expanded clean room capacity, we also successfully commissioned an automated optical inspection (AOI) system. DATA MODUL is thus able to offer maximum production flexibility for industrial projects Europe-wide, further consolidating its position as a leader in bonding technology.

## MODERN OPERATING SYSTEMS: HAPTIC FEEDBACK AND GESTURE CONTROL

Haptic feedback and gesture control are just a few of the PCAP technologies now in demand for modern operation systems. In addition to the most commonly used touch input methods, DATA MODUL offers new systems that allow customer-specific and user-oriented virtual input options. This array of options, including for example control type, materials and components used, affords maximum freedom of design and customization possibilities to effectively cover the range of requirements for modern industrial applications.


## TOP MARKS FOR 55" MONITOR IN FIRE BEHAVIOR TEST

The 55" monitor in DATA MODUL's Narrow Bezel Protected series has earned the outstanding classification of "A2-s1, d0" in fire behavior testing conducted by construction materials testing institute MPA-BS based in Braunschweig. This qualification makes DATA MODUL monitors nearly unique in the market, entailing great cost-efficiency as well. For the results attained with DATA MODUL solutions mean that no additional fire protection housing will be required in many applications, unlike with standard monitors.

## GLOBAL PRODUCTION AND LOGISTICS CONCEPT

DATA MODUL has a global production and logistics concept in place and plans to further expand production and logistics capacity to be able to meet individual customer needs quickly and efficiently as a global partner. Following the successful commissioning of the production site in Lublin, Poland, the next step now is to expand the production facilities in Shanghai, China. Local assembly in accordance with German quality standards is to be introduced there to allow faster and more effective response in the Asian market.

# 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 AS EMPLOYER

## OUR STAFF – THE KEY TO OUR SUCCESS

DATA MODUL took systematic measures to meet the challenges and uncertainties encountered in the past fiscal year. The decisions necessitated by the deteriorating business environment were not easy for management to make, requiring cost-cutting which in part involved staffing reductions. Our employees demonstrated unsurpassed dedication, however, to ensuring that the Company remains viable going forward.

The business difficulties of the past fiscal year required an across-the-board response including the critical studying of corporate processes to identify potential for improvements and efficiency gains. Additionally, our production sites in Poland and China underwent further expansion and operation commenced accordingly. The supplier portfolio was expanded in line with trends and to better meet customers' requirements. Further investments were also made in future-proof technologies and highly automated production lines, laying the foundation for continuing growth. "DATA MODUL Organization 4.0" is the name of our initiative to streamline internal processes and structures, implement sound cost-saving programs and take the necessary steps in the area of staffing. The business results attained were nonetheless thanks in large part to our employees worldwide, and each individual's ability and performance played a role in the overall success of the firm. And this required willingness to change, quality consciousness and know-how from every individual. We continue to press forward with strong team spirit and unity while enjoying our work, endeavoring to steadily grow our market share rather than rest on our laurels, and seeking to get customers excited about our products. We would like to express our particular appreciation and thanks to our employees, whose loyalty and determination are crucial for us to meet the challenges we face.

Difficult tasks lie ahead of us yet which will require daily motivation and dedication across all levels of the Company. Aware of the challenges ahead, together we will be working together with determination to achieve the ambitious goals we have set within the framework of the Touch Tomorrow 2023 strategy, which clearly formulates the objectives our performance will be measured against. We have been careful to ensure transparency regarding our goals and targets in order to preserve



employee motivation, communicate that this is a roadmap and ensure a common understanding of the objectives involved. Actively promoting high-performing individuals and fostering a culture of open communication and direct feedback are just some of the levers we will continue utilizing in order to remain attractive as an employer in a demanding environment. We consider this our mission and obligation.

# GROUP MANAGEMENT REPORT

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## GROUP MANAGEMENT REPORT

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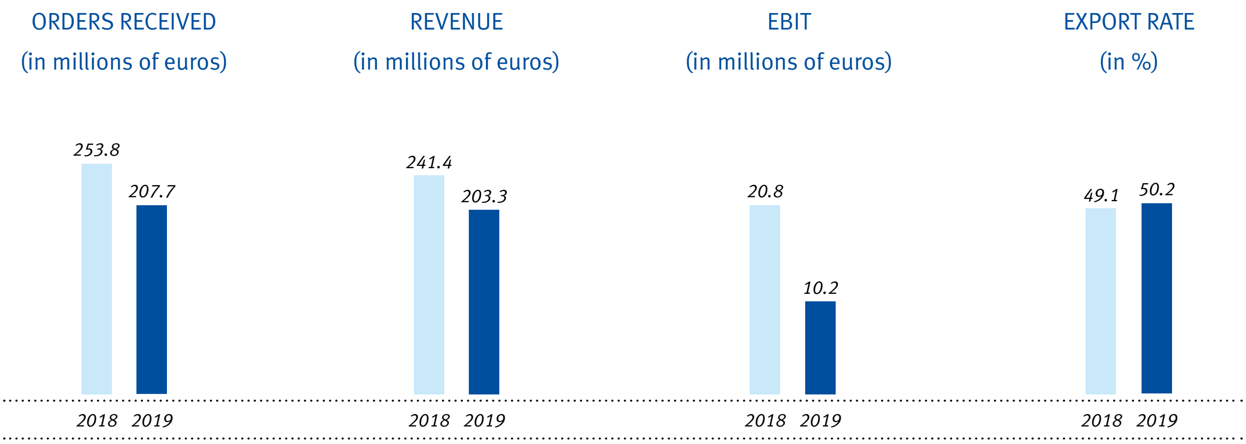
# 2019 GROUP MANAGEMENT REPORT




## 1. Basic principles of the Company

### 1.1 Business model

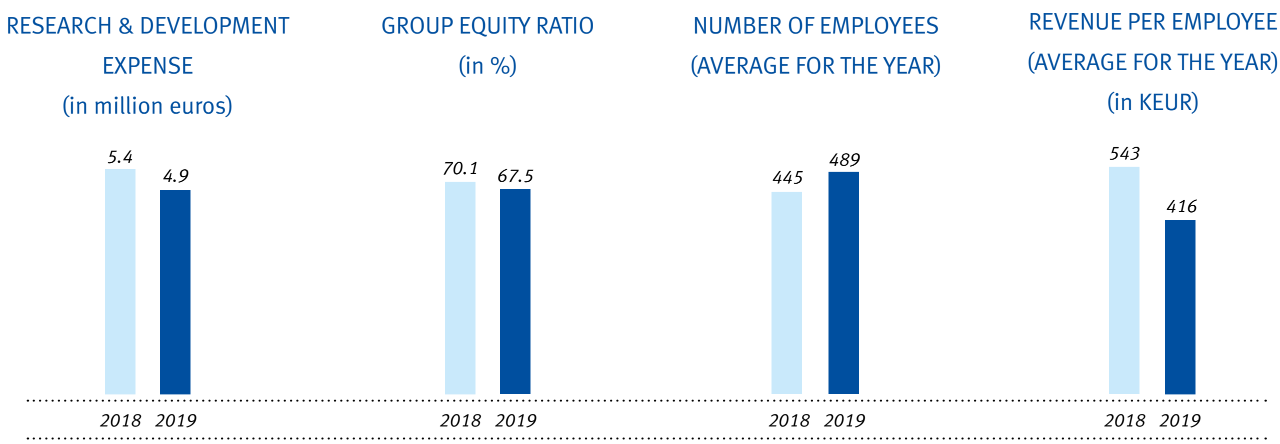
DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, Munich ("DATA MODUL" for short) develops, manufactures and distributes innovative flatbed displays, monitors, electronic subassemblies and complete information systems. The Company is organized into two business segments: Displays and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

We primarily serve customers in the mechanical engineering, medical device technology, automotive, industrial automation and gaming industries. DATA MODUL is thus influenced by the general economic environment and by developments in mechanical engineering, which is our primary industry. The Company is also impacted by changes in customer ordering behavior, as order volume is steadily rising in parallel with product complexity, so that orders are with increasing frequency turning into long-term projects in which we act as long-term partners to our customers.

The DATA MODUL Group maintains regional offices in Germany, Spain, Italy, Switzerland, France, the UK, Poland, 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.




Orders received, revenue and EBIT were the relevant key performance indicators for the 2019 fiscal year ended. 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 2019 totaled 4,927 thousand euros (previous year: 5,435 thousand euros). In the year under review, assets were recognized derived from customer-specific development projects in the amount of 3,427 thousand euros (previous year: 2,640 thousand euros).

The average number of R&D employees during the year was 77 (previous year: 76). The R&D intensity ratio (R&D expense/revenue) was 2.4% (previous year: 2.3%).

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 technologies. These comprised the main focus of our R&D efforts in the reporting period.

We capitalized development costs in the amount of 728 thousand euros, recognized as intangible assets (previous year: 832 thousand euros) This corresponds to a capitalization/R&D expense ratio of 14.8% (previous year: 15.3%). This was offset by amortization in the amount of 824 thousand euros (previous year: 824 thousand euros), resulting in a net effect of -96 thousand euros (previous year: 8 thousand euros net). 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.

## 2. Economic report

### 2.1 Business performance

DATA MODUL was able to record a profit despite the challenging business environment of fiscal year 2019 thanks to stringent implementation of the Touch Tomorrow 2023 strategy program. Last year's primary goals and topics included:

- Further expansion of our global distribution network
- Streamlining of our product portfolio
- Expansion and standardization of production capacity
- Operational start-up of our production site in Lublin
- Preparation of our production site in Shanghai
- Exploration of acquisition potential in the market
- Cost reduction program and re-organizing in line with Data Module 4.0

In the past financial year, DATA MODUL was unable to achieve the forecasts and planned figures due to the difficult market environment, mainly caused by a lower willingness to invest, competitive pressure and lower incoming orders in the electrical industry. These estimates were adjusted downward in an ad hoc press release of October 16, 2019. A target attainment breakdown is outlined below.

| In millions of euros | Forecast for 2019 | Forecast for 2019 Adjusted | 2019 Actual |
|---|---|---|---|
| Orders received | 261.4 – 302.0 | 205.0 – 225.0 | 207.7 |
| Order backlog | 130.7 – 144.6 | 128.2 – 144.6 | 131.6 |
| Revenue | 248.6 – 287.3 | 202.0 – 225.0 | 203.3 |
| EBIT | 21.0 – 25.0 | 9.0 – 14.0 | 10.2 |
| Net income | 14.7 – 17.2 | 6.0 – 9.4 | 6.5 |
| Return on equity | 22.1% – 23.2% | 9.7% – 15.0% | 10.2% |

DATA MODUL recorded lower revenue across nearly all industries and regions in the fiscal year ended, falling short of the estimates for 2019 which were based on results from fiscal year 2018. Orders declined in Germany, which was negative for revenue. We still recorded very good results in Italy and the US, however, and we are confident regarding the US and Chinese markets on a long-term basis.

General economic conditions had considerable negative impact for DATA MODUL's business in 2019. EBIT fell accordingly in line with the declining business trend. The estimates for 2019 were not achieved.

The Executive and Supervisory Boards have resolved to propose distribution of a dividend of 1.00 euros per share at the Company's Annual Shareholders' Meeting. Fiscal year 2019 was thus profitable for DATA MODUL overall despite the general economic situation and 15.8% lower revenue. DATA MODUL expects profitable results also in the next two years.

### 2.2 Macroeconomic and industry-specific conditions[1)]

#### a) Macroeconomic conditions

The world economy expanded in fiscal year 2019, growing approximately 2.5%. 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, North America and Asia).

On the level of the European economy, growth has slowed, and while the figure is significantly less than in the previous year, GDP still grew 0.9% in 2019. In the second half of the year the economy lost substantial momentum, with export demand subsiding in particular and negative political factors weighing heavy on analysts' minds like Brexit and the US-China trade war.

It was a mixed picture for the German economy in 2019, as the year started off strong before major slowing in the third and fourth quarters. The recovery is over in Germany, and the resulting fall in capacity utilization reduces incentives for companies to invest. 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 eke out a 0.5% growth approximately for 2019.

In course of the year the US economy lost momentum, leaving GDP growth at 2.3% for the year. This result came about in part due to further job creation and declining unemployment, which aided the economy in 2019 by boosting private consumption. The tax reform package passed in the US just before Christmas will further stimulate the country's economic growth.

China, the world's second-largest national economy, recorded growth of 6.1% in 2019, whose growth rate continues to be supported by exports, consumer spend-

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

ing and broad-based capital expenditure. Despite the unrest in Hong Kong, China enjoys a stable domestic situation, and the country will remain focused on ensuring that foreign policy conflicts in the region do not escalate so as to threaten trade, growth and prosperity. However, worries are manifesting over the impact of the coronavirus epidemic in China, with analysts revising their economic forecasts accordingly.

**b) Industry-specific conditions**

In a long-term view, production figures are on track for Germany's electro-technology industry, which 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 prevalent 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 technologies in the near future 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 year 2019 was challenging for Germany's mechanical engineering and electronics industries, The German electronics industry recorded a 11.9% decline in orders through November 2019, and production was down 8.8% on a price-adjusted basis. DATA MODUL was not insulated from these developments. Mechanical engineering and electronics will however remain the backbone of German manufacturing. The USA and China are the most important export countries for both mechanical engineering and the electronics, but roughly half of all exports now go to the EU. Current political issues and continuing uncertainty regarding the spread of the coronavirus in those regions has undermined the mood in their markets.

Back in the summer the global electronics market was forecast to be relatively stable at 4% growth for full-year 2019, with further growth of 3% anticipated by the industry association in 2020. The latest developments regarding the coronavirus epidemic however have demonstrated there is considerably more downside risk than in the earlier baseline scenarios for 2020, so that growth prospects for the global electronics market will have to be adjusted accordingly. However, the forecast growth rates for the global market cannot at this time be accurately adjusted to reflect the impact of the coronavirus, as this is not yet quantifiable.

The fact is unchanged in any case that the German electrical and electronic sector, dominated by mid-market firms, is still the originator 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. In January 2020 the German electronics industry had already seen orders fall by 7.7%, representing a continuation of a trend started in 2019 with orders down 3.2%. It remains to be seen what further effects the corona crisis will have in terms of economic impact on the primary buyers of German electronics products: automation, medical technology, smart home and vehicle electronics providers and manufacturers of electronic components.

The US and China are the largest export markets for the German electro-technology sector, accounting for roughly 19% of business. The EU, including the UK, remains however the most important region in terms of sales volume. 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 2020.

### 2.3 Group business situation

#### a) Results of operations

The Group was unable to match the previous year's level of 253,836 thousand euros in new orders, which came in at a value of 207,688 thousand euros. Lower revenue combined with positive order flow and a "book-to-bill" ratio above 1 resulted in order backlog of EUR 131,601 thousand euros (previous year: 122,034 thousand euros).

At fiscal year-end, revenue totaled 203,314 thousand euros (previous year: 241,417 thousand euros). DATA MODUL was affected by the challenging economic environment in 2019, seeing revenue decline across nearly all industries and regions. The fruits of further internationalization are seen in a continuing high level of foreign revenue and a relatively steady export rate.

Revenue broke down by region as follows:

| **Revenue analysis** in millions of euros | 2019 | 2018 |
|---|---|---|
| Germany | 101.3 | 123.0 |
| Europe | 67.6 | 93.4 |
| America | 17.8 | 13.0 |
| Asia/Pacific/Africa | 16.4 | 11.9 |
| Rest of World | 0.2 | 0.1 |
| Total | 203.3 | 241.4 |
| Export rate | 50.2% | 49.1% |

The change in key expenses and income items in fiscal year 2019 is shown below.

- Cost of sales declined year-over-year to 159,394 thousand euros (previous year: 187,622 thousand euros), due mainly to lower cost of materials in connection with a 15.8% fall in revenue. Gross margin for fiscal year 2019 was 21.6% (previous year: 22.3%) This narrowing primarily reflected start-up costs for the new production plant in Poland and costs connected with staffing reductions.

- Research and development expenses declined to 4,927 thousand euros from 5,435 thousand euros in the previous year. Due to a year-on-year increase in customer-specific development projects, capitalized development costs rose.

- Selling and administrative expenses rose to 28,799 thousand euros year-on-year (previous year: 27,559 thousand euros). Selling expenses accounted for 19,337 thousand euros of total expenses reported (previous year: 18,324 thousand euros), and general administration expenses came to 9,462 thousand euros (previous year: 9,235 thousand euros). The increase in selling, general and administrative expenses resulted primarily from the restructuring measures taken. Administrative expenses include net foreign exchange gains from currency translation in the amount of 206 thousand euros (previous year: 815 thousand euros).

In line with the change in revenue, EBIT (earnings before interest and taxes) came at 10,194 thousand euros (previous year: 20,801 thousand euros), with an EBIT margin of 5.0% (previous year: 8.6%). DATA MODUL earnings were impacted in 2019 by one-time expenses of 3.5 million euros in connection with staff reduction measures.

The financial result of -586 thousand euros was lower than the previous year's figure of -73 thousand euros due to the recognition of interest expense connected with the lease liability recorded under the new IFRS 16 accounting rules.
A net pre-tax profit was recorded of 9,608 thousand euros (previous year: 20,728 thousand euros) Net income changed in line with the pre-tax result, coming in at 6,507 thousand euros (previous year: 14,277 thousand euros). First-time application IFRS 16 in fiscal year 2019 negatively impacted earnings, reducing EBIT by 333 thousand euros and net income for the period by 672 thousand euros. Earnings per share for 2019 came

to 1.85 euros as compared to 4.05 euros for 2018 (based on a weighted average number of shares of 3,526,182).

*Displays segment*

As a result of the challenging market environment, sales in the Displays business segment decreased by 6.4% to 135,869 thousand euros (previous year: 145,177 thousand euros). EBIT of 4,565 thousand euros was recorded (previous year: 9,641 thousand euros). The segment generated net income for the year of 2,416 thousand euros (previous year: 6,610 thousand euros). Displays, which is the Group's core business segment, recorded another decline in new orders, which fell 10.8% to 137,725 thousand euros (previous year: 154,470 thousand euros)[1]. Order backlog as of December 31, 2019 was 88,849 thousand euros (previous year: 86,482 thousand euros)[1].

*Systems segment*

Revenue in the Systems segment also fell, down 29.9% to 67,444 thousand euros (previous year: 96,240 thousand euros) for EBIT of 5,629 thousand euros (previous year: 11,160 thousand euros). Net income for the year thus came to 4,091 thousand euros (previous year: 7,667 thousand euros). Orders received fell 29.6% to 69,963 thousand euros (previous year: 99,365 thousand euros). Order backlog as of December 31, 2019 was 42,752 thousand euros (previous year: 35,552 thousand euros).

## 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 67.5% (previous year: 70.1%), and the debt ratio 32.5% (previous year: 29.9%). The leverage ratio (debt/equity) was 48.2% (previous year: 42.7%).

[1] The previous-year figures have been adjusted to reflect the change in segmentation implemented to reflect internal reorganization and reporting structure modifications.

Debt consists primarily of:

- 16,148 thousand euros (previous year: 0 thousand euros) in leasing liabilities recognized for the first time in accordance with IFRS 16.

The maturity breakdown of the undiscounted expected cash flows is shown below.

| Lease liabilities | ‹ 1 year | 1-5 years | › 5 years | Total |
|---|---|---|---|---|
| KEUR | 2,136 | 8,240 | 8,523 | 18,899 |

- Liabilities due to financial institutions in the amount of 4,200 thousand euros (previous year: EUR 4,200 thousand euros).

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 |

- Trade accounts payable of 9,206 thousand euros (previous year: 18,787 thousand euros).

The maturities are as follows (in KEUR):

| Trade accounts payable | ‹ 1 year |
|---|---|
| EUR | 4,516 |
| USD (euro equivalent) | 4,229 |
| JPY (euro equivalent) | 340 |
| Other (euro equivalent) | 121 |
| Grand total | 9,206 |

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

The maturities are as follows (in KEUR):

| Guaranteed bills outstanding | ‹ 1 year | 1-5 years | › 5 years | Total |
|---|---|---|---|---|
| KEUR | 400 | 97 | 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, these credit lines had been 18.45% utilized.

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

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

*Capital expenditure*

In the fiscal year ended we adjusted our capital expenditure in alignment with business changes and our strategy program. Capital expenditures were made to increase capacity, for rationalization purposes and related manufacturing productivity gains and to enhance innovation and quality in our displays and services. A major part of investment in 2019 went to expanding production and logistics capacity at the sites in Weikersheim and Lublin. Investments were also made in IT infrastructure, logistics and workplace equipment. Capital expenditure (excluding IFRS 16 right-of-use assets) in fiscal year 2019 totaled 6,984 thousand euros (previous year: 5,683 thousand euros).

The main capital expenditure items were:

- Additions to intangible assets in the amount of 1,150 thousand euros (previous year: 1,152 thousand euros).
- Additions to property, plant and equipment in the amount of 5,834 thousand euros (previous year: 4,486 thousand euros).

A breakdown of capital expenditure by segment is provided below:

- Capital expenditure Displays segment 3,429 thousand euros (previous year: 3,566 thousand euros).
- Capital expenditure Systems segment 3,555 thousand euros (previous year: 2,072 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 10,447 thousand euros (previous year: 10,797 thousand euros). The negative effect of lower net income versus the previous year was partially offset by lower inventories. Days sales outstanding (DSO) was 49.73 days as of 12/31/2019 (previous year: 48.48).

Investments in intangible assets and property, plant and equipment in 2019 resulted in cash flow from investing activities of EUR -6,968 thousand euros (previous year: -5,617 thousand euros). As a result of changing over to IFRS 16, lease payments previously recorded exclusively under operating cash flow were reclassified to financing cash flow. With the dividend distribution for fiscal year 2019, cash flow from financing activities came to -2,006 thousand euros (previous year: -430 thousand euros).

At the end of the year the Group held cash and cash equivalents totaling 26,421 thousand euros (previous year: 24,956 thousand euros). Net assets as of the reporting date were at 22,220 thousand euros (previous year: 20,756 thousand euros). Cash is on hand to pay off all trade accounts payable.

### c) Net assets

The balance sheet total increased by 13,456 thousand euros year-over-year to 147,580 thousand euros (previous year: 134,124 thousand euros). On the assets side of the balance sheet, this increase was largely attributable to the initial application of IFRS 16 to reporting of right-of-use-assets. Property, plant and equipment also increased through the investments made during the fiscal year. Inventories and trade receivables declined. On the liabilities side, the increase in total assets was mainly due to the increase in equity resulting from net income for fiscal year 2019 and the initial application of IFRS 16, requiring presentation of non-current versus current lease liabilities. Trade payables declined due to sharply restrained purchasing in the fourth quarter.

Dividends for fiscal year 2018 were distributed during the reporting period 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 67.5% (previous year: 70.1%).

### 2.4 Financial and non-financial performance indicators

#### a) Financial performance indicators

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

| Financial performance indicators<br>In KEUR | 2019 | 2018 |
|---|---|---|
| Orders received | 207,688 | 253,836 |
| Order backlog | 131,601 | 122,034 |
| Revenue | 203,314 | 241,417 |
| EBIT | 10,194 | 20,801 |
| Net income | 6,507 | 14,277 |
| Return on equity | 10.2% | 22.1% |
| EBIT margin | 5.0% | 8.6% |

DATA MODUL was unable to reach its earnings targets for fiscal year 2019 because of the difficult market environment. The investments we have made, however, in our production sites in Germany, Poland and China put us in a strong position to meet future challenges in the marketplace. The Group remains very solid financially, having sufficient liquidity.

#### b) Non-financial performance indicators

In addition to financial metrics, DATA MODUL also utilizes non-financial performance indicators including labor relations, long-term customer and supplier relationships, environmental considerations and ISO certifications. One positive indicator in the area of labor relations is the employee average of 8.1 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 2019 reporting date DATA MODUL Group employed 447 staff, as compared to 484 in the previous year. The average workforce headcount for the year increased 9.9% to 489 staff members (previous year: 445). The Group employed staff from more than 28 different nations at the various corporate subsidiaries. In the fiscal year just ended, we again provided apprenticeships to many young people. At the balance sheet date, the Group employed 39 apprentices.

## 3. Risks and Opportunities; Forecast

### 3.1 Risk report

Global economic trends, exchange rate movements, rising commodity and energy prices and uncertainties regarding customer ordering behavior constitute risks which may have a lasting impact on our business. We are aware of these risks and carefully monitor their impact on our business operations. As a multinational enterprise, DATA MODUL Group is exposed to a number of risks which are inextricably linked to our business activities. Efficient management of these risks is of key importance as they serve as an early warning system.

#### Risk management system

*Strategic principles*

The DATA MODUL Group risk management system is intended to render transparent and manageable any known and arising risks and opportunities in the daily business operations of all Group companies.

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

*Organization and responsibilities*

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

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

*Risk identification*

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

*Risk assessment and risk management*

Risks are assessed with respect to their impact and likelihood of occurrence. The Group's key performance metrics for the current and future years serve as reference points. If quantitative risk assessment is not possible, a qualitative method is used to assess impact. The table above shows 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, cash flows or reputation, and on the estimated probability of occurrence. Depending on the risk perception and position, the Company introduces different risk strategies and specific counter-measures. A staff member is then charged with implementation of these measures. Risk control measures are implemented based on our strategic risk principles.

*Risk monitoring and reporting*

Risks are subject to constant change, thus they are continuously monitored by the risk owners and risk officers as to changes and to the adequacy and efficiency of the risk strategy currently in place. Constant monitoring of proposed risk response measures and reporting on their status is an important risk control tool. A summary report on risk categories and sub-categories is always included in the monthly Executive Board report. Continuous risk reporting provides Company management a view of the overall risk status. We thus prepare an annual risk report and discuss risks and rewards for the individual DATA MODUL business segments in monthly, quarterly and year-end financial statement meetings.

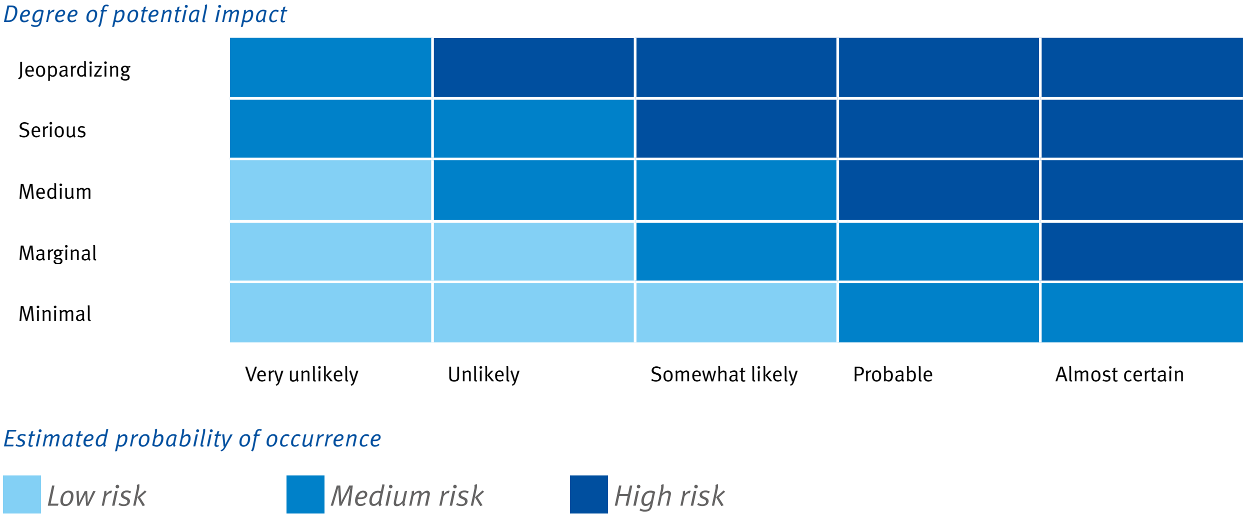
Additional ad-hoc risk reporting ensures that the Executive Board is always up to date regarding any significant newly arising risks. The following risks could have an adverse effect on our business, financial resources and/or earnings in either or both segments. These are not the only risks we are exposed 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. All decisions regarding capital expenditures and investments in companies are made on this basis. Our portfolio of embedded and touch systems successfully introduced in the marketplace a few years ago has become integral to our business activities.

Corporate strategy risks may result from internal projects and strategic decisions which fail to meet expectations.

## Risk classification matrix




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. We regularly conduct minute risk analyses in order to manage such risks in the Systems segment.

### b) Market risks[1)]

*General economic conditions and industry risks*

Demand for DATA MODUL products is subject to a certain amount of cyclical fluctuation and volatility. In addition, demand rises and falls in line with the economic cycles in our primary markets, and could continue declining in future. Economic analysts are forecasting weaker growth for the global economy in 2020 because of the coronavirus pandemic. Both production and demand will be negatively affected, and a recession is anticipated for many regions of the world in the first half of 2020. There is furthermore heightened risk of a major recession and possibly even a financial markets crisis due to the pandemic. Reliably predicting either the spread of the virus or its economic consequences is impossible however because too many unknowns are involved. There will also likely be further easing of European fiscal policy in an effort to aid affected businesses, following the Fed's move to cut interest rates in March. 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. 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. Losing key customers to competitors represents 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. Additionally, the outbreak of the coronavirus threatens to paralyze Chinese manufacturing for an unknown period of time, affecting worldwide supply chains on a sustained basis.

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

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 112 days during the reporting period, as compared to 82 days in the previous year.

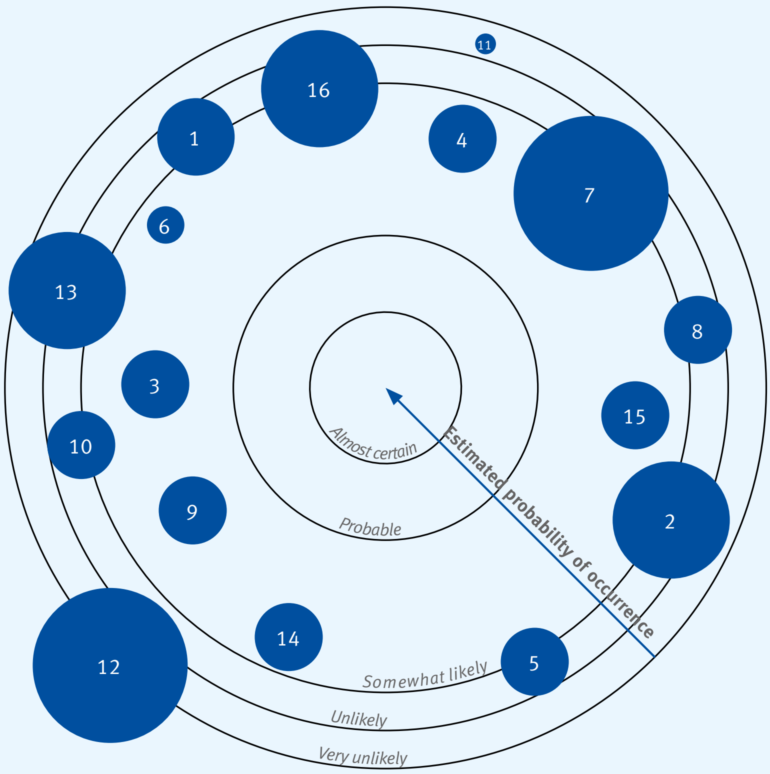
*Competitive and price risks*

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 and innovations.

**c) Value chain risks**

DATA MODUL has increased its vertical production integration in a move to add more value for customers. This involves product quality and customer satisfaction risks, however. Systematic quality assurance processes have thus been implemented which play a key role in our value chain, enabling us to meet customers' expectations. Because of increased production capacity, general risks related to production processes may arise which could jeopardize our product supply. Our QA department per-

**Risk portfolio:**

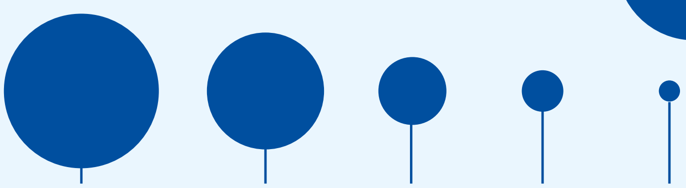



*Explanatory notes:*

**Estimated probability of occurrence**

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

**Circle size = potential impact without risk management measures**



› 10,000 KEUR › 5,000 KEUR › 2,000 KEUR › 500 KEUR ‹ 500 KEUR forms regular supplier audits, which are important for ensuring quality and reliable deliverability in our supply chain. Because we concentrate on a small number of suppliers and have to maintain inventories, impairment losses may have to be recorded on inventories if customers postpone delivery or cancel orders. Our product management and purchasing departments conduct active inventory management to contain such risks.

### 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.

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 no significant effects are expected.

*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 49.73 days in 2019.

### 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 2019, 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

| 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 | Procurement risks |
| 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 |

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 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 hears periodic reports and ad-hoc reports as necessary. In such reporting, all projects are thoroughly analyzed, taking into consideration the complete set of performance indicators.

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 a Group-wide internal control system. The internal control system is structured with measures of an organizational and technical content, such as coordination processes, automated plausibility checking and segregation of functions.

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

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

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

- Identifying material risk and control areas relevant to Group-wide financial accounting
- Monitoring of Group accounting processes and accounting results on the levels of the Group Executive Board, the strategic business segments and the Group companies included in the scope of consolidation.
- Preventive control measures in Group finance and accounting, at the consolidated companies and in operating, performance-related business processes; generating the information necessary for preparation of the consolidated financial statements including the Group management report, including segregation 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.

### 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 contribution to that end, which is why we take care to offer the right products for each individual market.[1)]

Changes in general economic conditions present opportunities for DATA MODUL as well. We believe DATA MODUL will experience stable growth over the next two fiscal years (see Forecast Report). This view is based on the moderate recovery of the global economy forecast for the medium term despite the uncertainties connected with the coronavirus pandemic, market analysts' projections and the fact of our increasing investment in modern communication media.

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

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.

Attractive growth opportunities for DATA MODUL also lie in further globalization of our business. We want to participate in the growth opportunities in emerging markets over the next several years, increasing our sales. Expansion of our business activities in the US and China opens up growth opportunities as well. We believe that this will enhance our enterprise value in a sustainable way on a long-term basis.

*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 to augment 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 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 our strategy program.

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

### 3.3 Forecast[1)]

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[2)]**

The world economy finds itself mired in a deep recession, triggered by the coronavirus outbreak and aggravated by second-round effects on the financial markets: the analysts' forecast is that global GDP will fall by more than 1% over the course of 2020. The simultaneous demand-side and supply-side shock which we are facing is therefore going to easily dwarf the decline in global aggregate economic output sustained during the financial crisis. At present, virtually all countries and sectors around the world are being buffeted by the crisis. In spite of the major uncertainty surrounding the spread of the virus, we think that it will prove possible to contain the pandemic by means of additional steps in the second quarter, with a massive raft of monetary and fiscal-policy measures helping to spark a recovery in economic activity during the second half of the year.

In view of recent developments, the European economy can be expected to be massively impacted by the coronavirus pandemic due to its major dependency on China,

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

[2)] The statements made here are based on the state of knowledge as of 03/23/2020.

where factories have been idle for weeks and production is only now gradually starting up again. Intermediate goods imported into Europe for processing are available in lower quantities than is usually the case, affecting the electro-technology industry particularly. Furthermore infection numbers in Europe are rising rapidly, especially in Italy, causing the governments of European countries to respond with increasingly restrictive measures. In some European countries, people are only allowed to leave their homes for important reasons, such as to go to work. The negative effects of the pandemic are thereby only worsened, as consumer demand is falling. Furthermore, the supply is dwindling due to plant closures, which have already been implemented nationwide in Italy and sporadically in other European countries. Despite the anticipated fiscal countermeasures and expectations of a positive effect occurring in the second half of the year, current developments have led to lowering of the estimated GDP. Strong nerves are required to avoid overreaction worldwide to the uncertainty. Brexit, will also have a slowing effect on the UK and Europe, which has now been signed into law. Analysts are forecasting an economic slump of -4.5% for the euro zone in 2020 and a growth of 1.2% for 2021. Low oil prices, expansive fiscal policy and the weak euro in particular will continue having a positive effect on exports, however.

We are facing another difficult year in Germany – our most important market. The German economy is also feeling the effect of the coronavirus because China is a key buyer and a supplier of intermediate goods. Germany is one of the countries most affected by disruptions of global value chains. Electrical equipment manufacturers depend very heavily on Chinese suppliers. The quarantine measures imposed due to the spread of the virus are at the same time causing a drop in consumer demand. To protect jobs and companies of all sizes and industries, Germany's Federal Ministry of Finance has rolled out a multi-billion aid package with tax policy measures. It is unknown at this time to what extent this will prove effective as a protective shield for the economy. Analysts expect a temporary deep recession for Germany and predict a GDP decline of -4.6% for 2020 and a growth of 0.9% for 2021.

The coronavirus outbreak will have economic consequences in the United States as well – our biggest international market. Initial expectations of only modest impact have now been dashed in the US, which has seen a dramatic rise in infection numbers. In March US President Donald Trump declared a national emergency over the spreading coronavirus in the US, approving up to 50 billion US dollars in additional federal funds to address the situation. Furthermore, the Fed cut its benchmark rate by 150 basis points to 0.0 - 0.25%. A further 50 basis point rate cut is expected to be announced after the upcoming meeting. It is impossible to say right now how effective the measures taken by the US will be in easing market anxiety. Analysts are currently forecasting a GDP decline of -2.3% in 2020 and a growth of 1.5% in 2021 for the USA.

The coronavirus pandemic is substantially cutting into growth for China, where it is believed to have originated. The strict measures implemented to contain spreading have brought the Chinese economy practically to a standstill since late January. Factories and companies are only slowly resuming operations. The production outages mean that Chinese industrial manufacturing sector will go into recession in the first quarter. Analysts project GDP growth of only 4.5% for 2020 coming after 6.1% for 2019, followed by a positive rebound effect up to 6.5% in 2021. A skeptical view must be taken toward these projections however, as they are contingent upon the virus containment measures being effective.

### DATA MODUL outlook for 2020

The spread of the coronavirus beyond Chinese borders has made the global economy unwell, as many countries will likely be dipping into deep recession in the first half of 2020. We believe the many measures taken worldwide will succeed in getting the spreading of the virus under control within the next few months. Fiscal and monetary countermeasures will likely soften the economic blow as well, facilitating normalization of business once the epidemic subsides. On the global level we are forecasting a fall in GDP of more than 1% in 2020. This will significantly contribute to lower global GDP growth for the third year in a row in 2020, down to 1.9% – the lowest level seen since the financial crisis. We foresee a moderate recovery for the global economy in the second half of the year after coronavirus infection numbers decline in the warmer temperatures of summer and fiscal and monetary policy measures have taken hold. Accordingly, we see the Company resuming its growth trajectory in the years ahead.

In addition to geopolitical risks, the economic impact of the coronavirus, 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 2020. Elections in Italy, Spain and possibly Germany as well mean major challenges are again ahead in 2020 , and it remains to be seen how Europe will withstand the political pressures threatening to tear apart the Union. Still, DATA MODUL expects to get back on track for growth in 2020, 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. Thus with new products being developed to market-readiness, DATA MODUL Group will face a challenging environment ahead in 2020 due to the overall economic situation. We will nevertheless consequently pursue our strategic goals with a view to maintaining the growth trajectory of previous years.

In consequence of our strategic development program, we will again be investing this year in our production and logistics center in China to progressively increase production capacity. Currently the Group has plans for approximately 5-9 million euros in total capital expenditure. Depending on the developments in fiscal year 2020, 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, actual circumstances for DATA MODUL could differ from our projections, either positively or negatively. Our projections are based on the following assumptions:

- German economic growth: -4.6%
- European economic growth: -4.5%
- US economic growth: -2.3%
- Global economic growth down by more than 1%
- Stable USD and JPY exchange rates
- Fiscal, monetary and quarantine measures taken to contain the virus will be in place until the summer of 2020
- Stable USD and JPY exchange rates
- Operational start-up of additional machinery at our production sites
- Planned expansion of our production and logistics concept.

*Summary*

We foresee a weaker first half of 2020 for the global economy due to the spread of the coronavirus, followed by a moderate recovery in the second half. Based on a view that fiscal and monetary policy measures will effectively mitigate the economic consequences of the coronavirus, leading to normalization and an economic rebound, the Executive Board expects that the DATA MODUL Group will continue growing steadily. The book-to-bill ratio is expected to remain above 1, thus our revenue growth will be secure long-term. Both segments will likely see growth. Despite lessened growth expectations we project revenue to rise thanks to expansion of our business activities in the US and China and to our newly developed expertise in touch, optical bonding and embedded technologies. The global digitalization trend is also favorable for the Displays business.
The Executive Board does not rule out the possibility of key performance indicators going slightly negative if the coronavirus pandemic is not contained by the summer of 2020 as expected and countermeasures to cushion the economic consequences prove ineffective.

| Group objectives[1] | Increase in 2020 | Fiscal year 2019 |
|---|---|---|
| Orders received | -10 – 17% | 207.7 million euros |
| Revenue | -10 – 12% | 203.3 million euros |
| EBIT | -10 – 72% | 10.2 million euros |

[1] The scope of key performance indicators was reduced in camparison to the previous year.

## 4. Remuneration report

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

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

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

Executive Board remuneration is performance-oriented. Pay packages are comprised of the following components:
· Fixed components (basic salary plus fringe benefits)
· Performance-based 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 2019 was adopted at the Supervisory Board meeting held in December 2018.

The disclosures on compensation paid to the Executive Board member in fiscal year 2019 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 | **2018** | **2019**[3] | **2019 (min.)** | **2019 (max.)** |
| Fixed remuneration | 230 | 230 | 230 | 230 |
| Fringe benefits | 31 | 17 | 17 | 17 |
| **Total** | **261** | **247** | **247** | **247** |
| One-year variable compensation[1] | 147 | 73 | 0 | 147 |
| Multi-year variable compensation[2] | 73 | 73 | 0 | 73 |
| *Executive bonus 2017* | 0 | 0 | 0 | 0 |
| *Executive bonus 2018* | 73 | 73 | 0 | 73 |
| **Total compensation** (according to GCGC) | **481** | **393** | **247** | **467** |
| Service cost | 0 | 0 | 0 | 0 |
| **Total compensation** (according to GAS 17) | **481** | **393** | **247** | **467** |

[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] An additional performance bonus in the amount of 50 thousand euros was approved for Dr. Pesahl in 2019 based on his contract, payable for performance in 2019.

Compensation paid to Executive Board members in fiscal year 2019 breaks down as follows:

| Compensation | Dr. Florian Pesahl<br>*CEO*<br>*Appointed: January 1, 2010* | |
|---|---|---|
| KEUR | 2019 | 2018[5)] |
| Fixed remuneration | 230 | 230 |
| Fringe benefits | 17 | 31 |
| **Total** | **247** | **261** |
| One-year variable compensation[4)] | 147 | 147 |
| Multi-year variable compensation | 0 | 0 |
| Executive bonus 2017 | 73 | 0 |
| **Total compensation** | **467** | **408** |

[4)] Not taking into account any deferrals.

[5)] Additional bonuses were approved in 2018 for Dr. Pesahl based on his contract for the amounts of 119 thousand euros for performance in 2017 and 83 thousand euros for performance in 2018. The total amount paid out in 2019 was 202 thousand euros.

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 | 2019 | 2018 | 2019 | 2018 |
| Provisions recorded as of the reporting date | 295 | 267 | 277 | 264 |
| Allocations to pension provisions | 51 | 23 | 42 | 25 |
| Pensions paid | 23 | 22 | 27 | 27 |

In fiscal years 2018 and 2019, the Executive Board member was not granted 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 | 2019 | 2018 |
|---|---|---|
| Kristin D. Russell | 40 | 40 |
| Thomas A. Leffler | 0 | 30 |
| Rick Seidlitz | 30 | 0 |
| Wolfgang Klein | 7 | 20 |
| Eberhard Kurz | 13 | 0 |
| **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 2019 stipulates a deductible for the Executive Board member in line with the German Stock Corporation Act and German Corporate Governance Code.

## 5. Control of capital

### a) Subscribed capital

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

The 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 and 85 German Stock Corporation Law (AktG); changes to the Articles of Incorporation are made in accordance with Secs. 133 and 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 2019 DATA MODUL AG was a controlled affiliate within the meaning of § 312 German Stock Corporation Act (AktG) of Arrow Central Europe Holding Munich GmbH, Munich, Germany. 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 26, 2020

Dr. Florian Pesahl
Chief Executive Officer

# CONSOLIDATED FINANCIAL STATEMENTS

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## CONSOLIDATED FINANCIAL STATEMENTS


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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS OF DECEMBER 31, 2019

| ASSETS | Notes | 12/31/2019 | 12/31/2018 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | [8] | 2,419 | 2,419 |
| Intangible assets | [8] | 3,001 | 3,100 |
| Property, plant and equipment | [8] | 19,353 | 15,799 |
| Right-of-use assets | [9] | 14,424 | 0 |
| Capitalized costs to fulfil a contract[1] | [10] | 3,813 | 1,941 |
| Deferred tax assets | [6] | 534 | 280 |
| Total non-current assets | | **43,544** | **23,539** |
| **Current assets** | | | |
| Inventories | [11] | 41,512 | 50,924 |
| Trade accounts receivable including impairments (2019: 76; 2018: 167) | [12] | 27,907 | 28,961 |
| Contract assets | [12] | 4,096 | 3,945 |
| Tax receivables[2] | [12] | 2,369 | 487 |
| Other current assets[2] | [12] | 1,291 | 673 |
| Other current financial assets | [12] | 440 | 639 |
| Cash and cash equivalents | [13] | 26,421 | 24,956 |
| Total current assets | | **104,036** | **110,585** |
| **Total assets** | | **147,580** | **134,124** |

All figures in KEUR

[1] We have adjusted the previous-year figures accordingly for the initial reporting of capitalized costs to fulfil a contract. See Note [10] for further explanations.

[2] We have adjusted the previous-year figures and reclassified tax receivables from Other Current Assets accordingly for the initial reporting of tax receivables.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | 12/31/2019 | 12/31/2018 |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Share capital: no-par-value bearer shares (authorized: KEUR 5,289; shares issued and outstanding: 3,526,182 as of 12/31/2019 and 12/31/2018) | [14] | 10,579 | 10,579 |
| Capital reserves | [14] | 24,119 | 24,119 |
| Retained earnings | [14] | 63,994 | 58,556 |
| Other reserves | [14] | 907 | 752 |
| Total shareholders' equity | | **99,599** | **94,006** |
| **Non-current liabilities** | | | |
| Pensions and non-current personnel liabilities | [15] | 1,600 | 1,567 |
| Non-current provisions | [16] | 242 | 303 |
| Non-current contract liabilities | [17] | 1,861 | 722 |
| Non-current lease liabilities | [9] | 14,045 | 0 |
| Deferred tax liabilities | [6] | 911 | 1,158 |
| Total non-current liabilities | | **18,659** | **3,750** |
| **Current liabilities** | | | |
| Trade accounts payable | | 9,206 | 18,787 |
| Current contract liabilities | [17] | 606 | 546 |
| Current lease liabilities | [9] | 2,103 | 0 |
| Taxes payable | [18] | 2,603 | 3,366 |
| Current provisions | [16] | 1,743 | 2,423 |
| Liabilities due to financial institutions | [19] | 4,200 | 4,200 |
| Other current liabilities | [18] | 7,917 | 6,072 |
| Other current financial liabilities | [18] | 944 | 974 |
| Total current liabilities | | **29,322** | **36,368** |
| Total liabilities | | **47,981** | **40,118** |
| **Total liabilities and shareholders' equity** | | **147,580** | **134,124** |

All figures in KEUR

# CONSOLIDATED STATEMENT OF INCOME

## FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Revenue | [1] | 203,314 | 241,417 |
| Cost of sales | [2] | (159,394) | (187,622) |
| **Gross margin** | | **43,920** | **53,795** |
| | | | |
| Research and development expenses | [3] | (4,927) | (5,435) |
| Selling and general administrative expenses | [4] | (28,799) | (27,559) |
| **Earnings before interest and taxes (EBIT)** | | **10,194** | **20,801** |
| | | | |
| Interest income | [5] | 5 | 1 |
| Interest expense | [5] | (591) | (74) |
| **Earnings before taxes** | | **9,608** | **20,728** |
| | | | |
| Income tax expense | [6] | (3,101) | (6,451) |
| **Net income for the year** | | **6,507** | **14,277** |
| | | | |
| Earnings per share – basic | [7] | 1.85 | 4.05 |
| Earnings per share – diluted | [7] | 1.85 | 4.05 |
| | | | |
| 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, 2019

| | 2019 | 2018 |
|---|---|---|
| Net income | 6,507 | 14,277 |
| 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 | 155 | 192 |
| *Other comprehensive income not to be reclassified and reported in profit or loss in subsequent reporting periods* | | |
| Actuarial gains (losses) | (132) | (86) |
| Attributable tax effects | 41 | 26 |
| Deferred taxes recorded in equity | 0 | 0 |
| Total other comprehensive income not to be reclassified and reported in profit or loss | (91) | (60) |
| Total other comprehensive income | 64 | 132 |
| **Comprehensive income after tax** | **6,571** | **14,409** |

All figures in KEUR

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | [7] | | |
| Net income | | 6,507 | 14,277 |
| Non-cash expenses and income: | | | |
| Income tax expense | | 3,101 | 6,416 |
| Depreciation, amortization and impairments | | 5,450 | 2,786 |
| Provisions for bad debts | | 58 | 33 |
| Gain from disposals of fixed assets | | (3) | (13) |
| Net interest | | 585 | 73 |
| Other non-cash expenses and income | | (122) | (8) |
| Changes: | | | |
| Change in inventories | | 9,413 | (12,513) |
| Change in trade receivables and contract assets | | 845 | (2,703) |
| Change in other assets | | (829) | 248 |
| Change in trade payables | | (9,504) | 5,094 |
| Change in other liabilities and contract liabilities | | 1,015 | 1,587 |
| Income taxes paid | | (6,069) | (4,480) |
| **Cash flows from operating activities** | | **10,447** | **10,797** |
| **Cash flows from investing activities** | [7] | | |
| Proceeds from disposals of fixed assets | | 17 | 21 |
| Capital expenditures with capitalizable development cost | | (728) | (832) |
| Capital expenditures on other intangible assets and property, plant and equipment | | (6,257) | (4,806) |
| **Cash flows from investing activities** | | **(6,968)** | **(5,617)** |
| **Cash flows from financing activities** | [7] | | |
| Outflows for the redemption portion of lease liabilities | | (1,196) | 0 |
| Dividend paid | | (423) | (423) |
| Interest received (+) / paid (-) (net) | | (342) | (53) |
| Other financing activities | | (45) | 46 |
| **Cash flows from financing activities** | | **(2,006)** | **(430)** |
| Effects of exchange rate movements on cash & cash equivalents | | (8) | (11) |
| **Net change in cash and cash equivalents** | | **1,465** | **4,739** |
| Cash and cash equivalents at beginning of the fiscal year | | 24,956 | 20,217 |
| **Cash and cash equivalents at end of the fiscal year** | | **26,421** | **24,956** |

All figures in KEUR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

| | Share capital No. of shares | Share capital Amount | Capital reserves | Retained earnings | Other reserves | Total |
|---|---|---|---|---|---|---|
| BALANCE AS OF 1/1/2018 | 3,526,182 | 10,579 | 24,119 | 44,313 | 560 | 79,571 |
| Initial application effects of 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 for the year | | | | 14,277 | | 14,277 |
| Dividend | | | | (423) | | (423) |
| Other comprehensive income (loss) | | | | (60) | | (60) |
| Foreign currency translation | | | | | 192 | 192 |
| **BALANCE AS OF 12/31/2018** | 3,526,182 | 10,579 | 24,119 | 58,556 | 752 | 94,006 |
| | | | | | | |
| BALANCE AS OF 1/1/2019 | 3,526,182 | 10,579 | 24,119 | 58,556 | 752 | 94,006 |
| Initial application effects of IFRS 16 | | | | (555) | | (555) |
| BALANCE AS OF 1/1/2019 adjusted | 3,526,182 | 10,579 | 24,119 | 58,001 | 752 | 93,451 |
| Net income for the year | | | | 6,507 | | 6,507 |
| Dividend | | | | (423) | | (423) |
| Other comprehensive income (loss) | | | | (91) | | (91) |
| Foreign currency translation | | | | | 155 | 155 |
| **BALANCE AS OF 12/31/2019** | **3,526,182** | **10,579** | **24,119** | **63,994** | **907** | **99,599** |

All figures in KEUR, except number of shares.

# NOTES TO THE 2019 CONSOLIDATED FINANCIAL STATEMENTS

## 1. Description of Business

DATA MODUL AG, Produktion und Vertrieb von elektronischen Systemen, Munich, 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, recorded in the Munich Commercial Register under record number HRB 85591. The Consolidated Financial Statements as of December 31, 2019 were prepared by the Executive Board in March 2020 and approved and endorsed for public disclosure.

## 2. Summary of Significant Accounting Policies

### Basis and methods

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

The Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) outlined by the International Accounting Standards Board (IASB), as adopted by the EU, and in accordance with Sec. 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, 2019.

The Consolidated Financial Statements consist of the statement of financial position, the statement of income, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity 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 statement of income was prepared using the cost-of-sales method. Certain items on the statement of income and statement of financial position are combined for clarification purposes; explanatory comments are provided in the Notes. The balance sheet is organized to recognize current versus 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 16 and IFRIC 23 for the first time in fiscal year 2019. The nature and impact of the changes resulting from initial application of these new accounting standards are outlined below. A few other changes and interpretations are mandatory to initially apply in 2019 but have no impact on the consolidated financial statements.

DATA MODUL has not applied any standards, interpretations or changes which have been published but are not yet effective.

*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 usage right to the leased 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 to use the leased asset.

IFRS 16 will not mean any significant changes for lessors versus the currently valid 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.

DATA MODUL retroactively applied IFRS 16 in modified form as of the initial application date of January 1, 2019. The company has not adjusted the comparison data, which is still reported under application of IAS 17 and IFRIC 4. Differences resulting from initial application of IFRS 16 were recorded directly in retained earnings. The Group applied this new standard to contracts previously classified as leases under IAS 17 and IFRIC 4. The standard thus did not apply to contracts previously not treated as leases under IAS 17 and IFRIC 4.

Additionally, the Group used following practical expedients when applying this Standard retrospectively in accordance with the modified approach:

- In measuring right-of-use assets, the Group has chosen to recognize the carrying amount as if the Standard has been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application.
- The Group applied the short-term lease exception to leases expiring within 12 months of initial application.
- In measuring the right-of-use asset at the date of initial application, the Group did not include the initial direct costs.
- The Group has used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

This resulting in the following adjustments being made to the statement of financial position dated December 31, 2018:

- Right-of-use assets for real estate and motor vehicles were recognized in the amount of 8,784 thousand euros, and
- Lease liabilities were recognized in the amount of 9,598 thousand euros.
- Deferred tax assets increased by 260 thousand euros due to changes in assets and liabilities recordable for deferred taxes.
- The net effect of these adjustments was 555 thousand euros, recorded in earnings retained earnings.

Lease liabilities existing as of January 1, 2019 are reconcilable to the operating lease obligations reported as of December 31, 2018 as follows:

| KEUR | 2019 |
|---|---|
| Lease and rental contract obligations as of December 31, 2018 | 19,592 |
| Less | |
| Short-term lease obligations | 177 |
| Obligations under low-value asset leases | 32 |
| Non-lease components | 204 |
| Lease for the new production site in Poland with commencement date of January 15, 2019 (not included in liabilities as of January 1, 2019) | 8,638 |
| Plus | |
| Reasonably certain extension and termination options not factored into the operating lease obligations as of December 31, 2018. | 151 |
| Adjusted lease obligations as of December 31, 2018 (undiscounted) | 10,691 |
| Weighted average incremental borrowing rate as of January 1, 2019 | 2.25% |
| Lease liabilities as of January 1, 2019 | 9,598 |

*IFRIC 23 Uncertainty Over Income Tax Treatments*

The IASB issued IFRIC 23, Uncertainty Over Income Tax Treatments, in May 2017. This interpretation clarifies the requirements for the recognition and measurement of uncertain income tax items. In assessing uncertainty, a company must evaluate whether it is likely that the tax authority with jurisdiction will accept the income tax treatment. DATA MODUL applied IFRIC 23 as of the initial application date of January 1, 2019. The Group does not expect any significant uncertainties regarding income taxes, which is why no uncertain tax values are recognized.

**Standards issued, but not yet effective**

*Changes to IAS 1 and IAS 8 – Definition of materiality*

In October 2018, the IASB published amendments to IAS 1, Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The changes were aimed at achieving a uniform definition of the term “materiality” across all standards as well as clarifying certain aspects of this definition. Under the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group believes that the change in the definition of “materiality” will have no significant effect on the consolidated financial statements.

*Amendment to IAS 1 – Classification of Liabilities as Current or Non-current*

In January 2020 the IASB published an amendment to IAS 1, Presentation of Financial Statements, that clarifies that existing rights of the Company as of the balance sheet date (e.g. with regard to early repayment or a loan extension) are to be applied in order to classify debts as current or non-current. Management expectations and intentions as to whether such a right is to be actually exercised or whether early repayment is intended are not taken into account. The changes apply to fiscal years starting on or after January 1, 2022.

*Amendment to IFRS 3 – Definition of a Business*

The IASB published an amendment to IFRS 3, Business Combinations in October 2018 redefining the term “business”. The definition had led to problems in determining whether a company has acquired a business or a group of assets. The changes apply to fiscal years starting on or after January 1, 2020.

## 3. Consolidation

**Consolidation standards**

The Consolidated Financial Statements comprise the separate financial statements of DATA MODUL AG and its subsidiaries as of December 31, 2019, 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 intercompany balances, income and expenses, as well as unrealized gains and losses and dividends from intercompany transactions are fully eliminated.

**Foreign currency translation**

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

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

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 items 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. Exchange gains or losses resulting from currency translation of equity items at historical or reporting-date rates were also recorded under “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:

| | 12/31/2019 | | 12/31/2018 | |
|---|---|---|---|---|
| Exchange rate | Balance sheet | P&L | Balance sheet | P&L |
| EUR / USD | 1.1228 | 1.1197 | 1.1453 | 1.1792 |
| EUR / GBP | 0.8501 | 0.8757 | 0.8971 | 0.8862 |
| EUR / SGD | 1.5105 | 1.5258 | 1.5595 | 1.5901 |
| EUR / AED | 4.1242 | 4.1126 | 4.2068 | 4.3312 |
| EUR / HKD | 8.7427 | 8.7708 | 8.9698 | 9.2431 |
| EUR / JPY | 121.9300 | 121.9792 | 125.9600 | 129.9983 |
| EUR / CHF | 1.0856 | 1.1113 | 1.1266 | 1.1517 |

## Scope of consolidation

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

The Consolidated Financial Statements as of December 31, 2019 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 | 100 |

## 4. Recognition and measurement methods

### Significant judgments, estimates and assumptions

Preparation of the Consolidated Financial Statements pursuant to IFRS requires Company management to make judgments 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 judgments and estimates are made concern the impairment of goodwill and other non-financial assets, valuation of inventories, capitalization of development expenses and recognition of deferred tax assets. Judgments and estimates are also in connection with IFRS 15, Revenue From Contracts With Customers, and IFRS 16, Leases. Any change in these discretionary judgments could have a material adverse effect on the Company's financial position, results of operations and cash flows.

The most significant future-relevant assumptions, other main causes of estimation uncertainty extant as of the balance sheet date and discretionary judgments made which entail a significant risk of having to materially adjust the carrying amount of assets and liabilities are discussed 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 inventory service level or the expected net income (expected sales price less estimated costs at completion and less estimated selling expenses). Future consumption, actual income and outstanding costs could differ from the expected amounts.

*Development costs*

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

*Revenue from contracts with customers*

Estimates and judgments are made regarding the recognition of revenue from development services provided in connection with customer-specific development projects and the associated capitalization of costs to fulfil a contract and their amortization. The first step required is to verify whether the development work constitutes a good or service identifiable as discrete (discrete performance obligation) or whether it is closely connected with subsequent serial production, thus representing a fulfillment activity for such production (rather than a discrete performance obligation). A number of factors are to be considered in making this assessment. All such factors are taken into account as time of signing of the development and serial production contracts, handover of work results and the customer’s interest in independently using and right to use the development results. Upon weighing all of the relevant facts and circumstances in a given case, the decision will in many cases involve a certain degree of discretion, even if a uniform group-wide evaluation procedure is employed. In general, customer-specific development projects conducted by DATA MODUL are classifiable as as a fulfillment activity for serial production of the respective end product, despite a sometimes large degree of complexity of the work required, because the development results are not handed over to the customer—even if the customer pays for the development work separately. Development-related costs are deferred as costs to fulfil a contract and amortized starting on the commencement date of production of the end product, calculated applying to the projected sales volume for the serial products. Sales volume is projected based on the agreement in place with the customer, which may however provide for fluctuation. Changes in Management estimates may result in differences regarding the amount and timing of expenses in subsequent periods.

In the next step, it must be reviewed whether the performance obligation identified in the contract with the customer for serial production of the end product is satisfied over a defined period of time or at a specific point in time. Fulfillment of a performance obligation over a defined period of time is only in evidence if DATA MODUL creates an asset which does not have any possible alternative uses and is entitled to payment for the work already performed (cost plus an appropriate profit margin). DATA MODUL reviews all relevant facts and circumstances in a given case and then makes a decision as to the period over which revenue would be recognizable, which can involve a degree of discretion. Serial production generally relates a performance obligation which is satisfied at a point in time. Accordingly, revenue is usually recognized when the serial products are delivered. This does not apply to individual contracts with consignment warehouse customers.

DATA MODUL also makes discretionary decisions in deferring consignment warehouse revenues. As a rule, revenue is recognized at the point in time when the customer removes the goods from the consignment warehouse. For consignment warehouse customers under contracts requiring the delivery of customer-specific items subject to an acceptance obligation, revenue is recognized at the time of delivery to the consignment warehouse. All facts and circumstances are reviewed which are relevant to the case at hand in order to make a decision, which involves a certain degree of discretion. Indicators taken into consideration include current claims to payments, significant risks and opportunities, customer acceptance clauses, property rights and physical possession of the customer-specific items.

Measuring deferred revenue for extended warranties also involves judgment and estimates. DATA MODUL exercises discretion in measuring the consideration we are likely to receive in exchange for granting warranty to a customer. The transaction price is determined on a percentage basis determined by Management. In exercising such judgment, DATA MODUL takes into account previous experiences had with the customer in question and factors beyond the scope of the relationship with the individual customer. Revenue is distributed over the contractually agreed extended warranty period starting from the effective date. Costs connected with the warranty are generally distributed evenly, and benefits for the customer are also distributed evenly over the contractually agreed term due to the nature of the warranty obligation, thus Management has decided to recognize revenue in linear form, accordingly. Changes to the above assumptions can affect the recording of revenue in future periods.

*Leases*

The Group determines the lease term based on the non-terminatable base term plus possible periods under a lease extension option as long as it is reasonably certain that the option will be exercised, or taking into consideration periods resulting from a lease termination option if it is reasonably certain that the Group will not exercise that option. DATA MODUL has concluded several lease contracts which have extension and termination options, and makes discretionary judgments in assessing whether there is sufficient certainty that the lease extension or termination option will or will not be exercised. This means that all relevant factors are considered which represent an economic incentive to exercise the renewal or termination option. DATA MODUL reassesses the lease term after the commencement date in case of a significant event or change in circumstances. For the lease term of buildings, the extension option was taken into account in most cases because lease extension option is usually exercised with such contracts. This assumption is based on Management's current position that no shifting production or distribution to different facilities is planned for the near future. Motor vehicle lease renewal options are not included in the lease term because the Group generally leases vehicles for a maximum of two years, and therefore typically does not exercise a renewal option.

Additionally, periods following a termination option are only factored in as part of the lease term if it is reasonably certain that the termination option will not be exercised. See Note 9 for details regarding potential future lease payments for periods after the exercise date of extension and termination options which were not factored into the lease term.

DATA MODUL cannot determine the interest rate implicit in the lease without additional information. The lessee's incremental borrowing rate is thus applied to measure lease liabilities. The incremental borrowing rate is the interest rate which the Company would pay if borrowing funds over a comparable term in a comparable economic environment for an asset of a value comparable to the right-of-use asset. The incremental borrowing rate has to be estimated if a monitorable interest rate cannot be referenced (e.g. for subsidiaries which do not conclude financing transactions). DATA MODUL estimates the incremental borrowing rate based on available, monitorable input factors (such as market interest rates), and has to make certain company-specific estimates (regarding for example any company-specific premium for credit and country risks).

**Revenue from contracts with customers and costs to fulfil a contract**

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.

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 (see Note 4, Significant judgments, estimates and assumptions). Development work is generally not a performance obligation but rather a necessary fulfillment activity leading to the serial production contract. Through development work, products are modified to meet customer requirements, which can be of a highly specific nature, but the development results are not transferred to the customer because the customer is solely interested in the end product which has been modified to meet his requirements. A transaction price is thus generally not referenceable to customer-specific development work, thus revenue is not recorded for it. The conditions for capitalization as costs to fulfil a contract are met because development work is performed under a concluded or an anticipated customer contract, lead to the creation or improvement of resources of DATA MODUL and compensation for the costs incurred for such under the serial production contract has either been explicitly agreed with the customer or at a minimum is expected. The conditions for revenue recognition over time per IFRS 15 are not met in most cases, thus development costs accruing for product customizing are capitalized as costs to fulfil a contract and recorded as production expenses under cost of sales when the products are sold. Amounts are for the most part expensed based on the contractually binding sales volume.

Compensation payable by the customer for development work represents a non-refundable upfront fee as payment for the activities necessary for fulfillment of the contract (in this case: development work). Because development work is not a performance obligation, this fee must be allocated to those goods which have been identified as a separate performance obligation (in this case: delivery of the end product). Revenue is thus recognized in a procedure similar to how costs to fulfil a contract are amortized based on sales volume, via a mark-up on the corresponding unit price.

Effective of December 31, 2019, DATA MODUL adjusted its accounting of customer-specific development work in view of the materiality of the position in 2019, and now shows costs for such development work as costs to fulfil a contract – a separate balance sheet item. The previous-year figures were adjusted so that costs to fulfil a contract of 1,941 thousand euros were reportable as of December 31, 2018, and inventories decreased by the same amount as of December 31, 2018.

Revenues from DATA MODUL's consignment customers are in 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 and recorded as contract assets (see Note 4, Significant judgments, estimates and assumptions).

If a contract involves multiple specifiable goods or services, the transaction price is allocated across the performance obligations on the basis of the relative standalone selling prices. If individual sale prices are not directly observable, an appropriate estimated amount is applied (see Note 4, Significant judgments, estimates and assumptions). Revenues from each performance obligation are either recognized at a specific point in time or during a specific period.

Revenue recognition over time is required if the customer realizes ongoing benefit from the work products of DATA MODUL and simultaneously consumes these, if DATA MODUL creates or processes an asset controlled by the customer or if DATA MODUL creates an asset without alternative usages for its own benefit and is legally entitled to payment for the products/services provided.

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 requiring estimates to be made for allocation of the transaction price for these (see Note 4, Significant judgments, estimates and assumptions). 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 the period of its realization.

Advance payments from customers are usually short-term in horizon, thus they do not entail a significant financing component. These are likewise shown as a contract liability.

Operating expenses are recorded in profit or loss either at the point in time of service utilization or at the point in time when they are incurred, applying the principle of accrual accounting.

### Intangible assets

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

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

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

The capitalized development costs are amortized on a straight-line basis over a period of 12 - 36 months of future economic exploitation, beginning with the completion of the development phase and the time at which the product is mature, i.e. 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 production costs.

### Goodwill

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

The impairment is measured based on the recoverable amount of the cash generating entity to which the goodwill was 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 scheduled accumulated 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, cost of sales includes appropriate material and production overheads to the extent that these relate to production of the items. The net realizable value is the estimated sales price during customary business operations less estimated costs of completion and estimated selling expenses. Discounted net sales prices are applied as necessary to reflect shelf life and reduced usability risks. If the reasons for impairment losses recorded on inventories no longer exist, impairment losses are reversed accordingly.

**Contract assets and liabilities, 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 provision and the customer's payment. Receivables are recognized if the claim 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 if the items have not been removed from the consignment warehouse. 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 at measured 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 off 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 carries financial assets which are debt instruments at amortized cost when 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 Group include trade receivables, 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, 2019, no financial assets were held which are recognized in other comprehensive income at fair value.

*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 shown offset/netted out on the income statement.

*Impairment of financial assets*

The new IFRS 9 governs accounting for impairment losses on financial assets. Accordingly, an impairment model for projected credit losses must be applied to all financial assets (debt instruments) that are measured at either amortized cost or at fair value through comprehensive income.

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 exception option to stage classification for financial assets with low credit when debt instruments are concerned which are rated as investment grade. These are always classified as stage 1 debt. 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.

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, 2019 and December 31, 2018 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 criteria has been met:
- Contractual rights to receive cash flows from a financial asset have expired
- The Group has transferred its contractual rights to receive cash flows from the financial asset to a third party or assumed a contractual obligation to immediately pay out the received cash flow to a third party, thereby either having essentially transferred all risks and rewards associated with the ownership of the financial asset, or having neither transferred nor withheld essentially all risks and rewards arising pertaining to the ownership of the financial asset but transferred rights of disposal over the asset.

*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 do 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. Roughly 60.9% of the Company's revenue (previous year: 63.1%) is denominated in a currency other than the functional currency of the sub-unit, while roughly 60.1% of costs are denominated in a currency other than the functional currency of the sub-unit (previous year: 62.7%).

*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, leases and hire purchase contracts. The basis for decisions concerning financial strategies and ensuring sufficient liquidity is a short-term Company-wide cash management program, taking into account rolling liquidity forecasts, a strategic financial requirement analysis based on 1-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 bonus claims and statutory severance pay claims accruing 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 allocated for existing claims of employees against DATA MODUL. These include premiums, 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 2019.

**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. Management regularly assesses individual tax issues to determine whether there room for interpretation under the applicable tax regulations in question. Tax liabilities are recognized as necessary.

Unless the initial recognition exemption applies or there are outside basis differences for subsidiaries, deferred tax assets and liabilities are reported applying the liability method as per IAS 12 (Taxes on Income) for temporary differences between carrying amounts in individual companies' tax reporting and carrying amounts shown on the consolidated financial statements applying IFRS, and these are also 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 Group assesses at inception of the contract whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*The Group as lessee*

The Group utilizes one single model for the recording and measurement of all leases (except short-term leases and leases with a low-value underlying asset). The model is used to record lease payment liabilities and right-of-use assets.

*Right-of-use asset*

The Group records rights of use as of the commencement date (i.e. the point in time when the underlying leased asset is available for use). Right-of-use assets are recognized at acquisition cost less all cumulative depreciation and cumulative impairment losses, and are adjusted for any revaluation of the lease liabilities.

The cost of the right-of-use asset comprises the amount of the recognised lease liability, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the projected useful life of the leases, as follows:

· Real estate 1 - 10 years
· Motor vehicles 1 - 3 years

If ownership of the leased asset is transferred to the Group at the end of the lease term or an exercised purchase option is included in cost, depreciation is measured based on the projected useful life of the leased asset. Right-of-use assets are also tested for impairment.

*Lease liabilities*

The Group records lease liabilities at the present value of the lease payments to be made over the lease term as of the commencement date. Lease payments include fixed payments (including de facto fixed payments) less any lease incentives to be received, variable lease payments linked to an index or interest rate or other rate, and amounts expected to be paid under a residual value guarantee. Lease payments also include the purchase option exercise price if it is reasonably certain that the Group will actually exercise the option, and include lease termination penalties if it is taken into account in the term that the Group will exercise the termination option. Variable lease payments not linked to an index or interest rate or other rate are expensed in the period in which the event triggering the payment occurs or triggering condition is met.

The Group determines the lease term based on the non-terminatable base lease term plus possible periods under a lease extension option as long as it is reasonably certain that the option will be exercised, or taking into consideration periods resulting from a lease termination option if it is reasonably certain that the Group will not exercise that option. Management has to make significant judgments in assessing whether there is sufficient certainty that renewal and/or termination options will be exercised, (see Note 4, Significant judgments, estimates and assumptions).

In calculating the present value of the lease payments, the Group applies its incremental borrowing rate as of the commencement date because the interest rate implicit in the lease cannot be determined without additional information. The incremental borrowing rate is the interest rate which the Group would pay if borrowing funds over a comparable term in a comparable economic environment for an asset of a value comparable to the right of use. After the commencement date, the lease liability amount is adjusted upward to reflect increased interest expense and downward to reflect the lease payments made. In addition, the carrying amount of lease liabilities is adjusted when there are changes to the lease, including changes in lease term and lease payments (e.g. changes in future lease payment amounts due to a change in the index or interest rate applied to determine the payment amounts), and when there are changes in the evaluation of an option to purchase the underlying asset.

*Short-term leases and leases with an underlying low-value asset*

The Group applies the short-term lease recognition exemption for current lease contracts for real estate and motor vehicles (i.e. leases without a purchase option maturing in twelve months or less from the commencement date). The Group also applies the low-value lease recognition excemption for low-value underlying assets to leases for office equipment classified as low-value. Lease payments for short-term leases and for leases for a low-value underlying asset are expensed over the lease term on a straight-line basis.

*The Group as lessor*

Leases in which the Group does not transfer all material risks and opportunities associated with ownership of an asset are classified as operating leases. Any resulting lease income is recorded over the lease term on a straight-line basis. Initial direct costs incurred to negotiate and conclude an operating lease contract are added to the carrying amount of the leased asset and expensed over the lease term in the same procedure as recognition of lease income. Contingent rent payments are recognized as income in the period in which they are generated.

## 5. Notes to the Statement of Income

### [1] Revenues

Concerning the transaction price allocated to the outstanding performance obligations connected with extended warranties and customer-specific development projects, 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 is classified by segment in line with the Executive Board's management reporting and realized in either Displays or Systems.

Revenue broken down by segment:

For fiscal year 2019:

| KEUR | Displays | Systems | Total |
|---|---|---|---|
| Revenue from product sales | 135,023 | 65,067 | 200,090 |
| Service revenue | 847 | 2,377 | 3,224 |
| Total revenue | 135,870 | 67,444 | 203,314 |

For fiscal year 2018[1]:

| KEUR | Displays | Systems | Total |
|---|---|---|---|
| Revenue from product sales | 144,466 | 94,906 | 239,372 |
| Service revenue | 711 | 1,334 | 2,045 |
| Total revenue | 145,177 | 96,240 | 241,417 |

[1] The previous-year figures have been adjusted to reflect the change in segmentation implemented to reflect internal re-organization and reporting structure modifications.

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 | 2019 | 2018 |
|---|---|---|
| Materials expenses | 139,641 | 167,471 |
| Other cost of sales | 19,753 | 20,151 |
| Total cost of sales | 159,394 | 187,622 |

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 non-current assets and amortized using the straight-line method over a period beginning at the time of serial production of the respective product or the rendering of the service to the customer until the estimated useful life of the product elapses. 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 costs in this category are capitalized as costs to fulfil a contract and deferred as as of the reporting date.

Individual expense items for research and development and their impact on the income statement for the fiscal years 2019 and 2018 are presented below:

| KEUR | 2019 | 2018 |
|---|---|---|
| Order-related development expenses and depreciation on development projects under cost of sales | 2,571 | 2,837 |
| Research and development expenses | 4,927 | 5,435 |
| Total research and development expenses | 7,498 | 8,272 |
| Carrying amount of capitalized development expenses | 1,730 | 1,826 |
| Development expenses recorded as capitalized costs to fulfil a contract as of Dec. 31 | 3,813 | 1,941[2] |

[2] Capitalized costs to fulfil a contract in the amount of 1,941 thousand euros shown under inventories in fiscal year 2018.

### [4] Selling and general administrative expenses

The table below shows selling and general administrative expenses:

| KEUR | 2019 | 2018 |
|---|---|---|
| Selling expenses | 19,337 | 18,324 |
| General administrative expenses | 9,462 | 9,235 |
| Total expenses | 28,799 | 27,559 |

### 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*

Personnel expenses are shown in the table below:

| KEUR | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 30,172 | 27,909 |
| Social security | 5,038 | 4,817 |
| Total | 35,210 | 32,726 |

Pension costs totaled 2,289 thousand euros in fiscal year 2019 (previous year: 2,254 thousand euros). In fiscal year 2019 the Group employed an average 489 employees, as compared to an average 445 employees in the previous year.

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

| Employees by functional area | 2019 | 2018 |
|---|---|---|
| Sales & Marketing | 116 | 112 |
| Development | 77 | 76 |
| Production | 150 | 127 |
| Services | 30 | 31 |
| Administration | 55 | 46 |
| Logistics | 39 | 35 |
| Materials requirement planning/Procurement | 22 | 18 |
| Total | 489 | 445 |

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

| Employees by functional area | 2019 | 2018 |
|---|---|---|
| Sales & Marketing | 113 | 115 |
| Development | 75 | 76 |
| Production | 128 | 152 |
| Services | 29 | 30 |
| Administration | 52 | 50 |
| Logistics | 30 | 39 |
| Materials requirement planning/ Procurement | 20 | 22 |
| Total | 447 | 484 |

### *Significant expense items and depreciation/amortization*

Other significant expense items were as follows:

| KEUR | 2019 | 2018 |
|---|---|---|
| Legal, consulting and project costs | 3,700 | 4,254 |
| Depreciation/amortization | 2,696 | 2,565 |
| Vehicle and travel expenses | 2,105 | 2,275 |
| Rent and maintenance | 1,798 | 2,607 |
| Office and IT expenses | 1,648 | 1,235 |
| Advertising and trade shows | 867 | 1,062 |
| Packaging material & freight costs | 865 | 692 |
| Insurance premiums | 570 | 533 |
| Additions (+)/reversals (-) to/of Provisions for bad debts | 58 | (12) |
| Gains (-)/losses (+) from Foreign currency translation | (206) | (815) |
| Other | (2,025) | (440) |
| Total | 12,076 | 13,956 |

After factoring in the IFRS reclassification accounts for other expenses, this item came to -2,025 thousand euros (previous year: -440 thousand euros).

## [5] Interest income/expenses

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

| KEUR | 2019 | 2018 |
|---|---|---|
| Interest and similar income | 5 | 1 |
| Interest expense from lease liabilities | (525) | 0 |
| Interest expense on current liabilities | (42) | (46) |
| Other interest-like expenses | (24) | (28) |
| Total | (586) | (73) |

## [6] Income tax expense

Income tax expense breaks down as outlined below.:

| KEUR | 2019 | 2018 |
|---|---|---|
| Current tax expenses | | |
| Germany | 2,102 | 5,818 |
| Foreign | 1,197 | 555 |
| Deferred taxes | | |
| Germany | (230) | 173 |
| Foreign | 32 | (95) |
| Total | 3,101 | 6,451 |

Current tax expenses are taxes on income and earnings for the fiscal year recorded in profit or loss in the individual countries, as well as additional tax assessments and tax refunds for previous years. Current tax expenses in Germany decreased by 57 thousand euros (previous year: 35 thousand euros) through tax income from previous years. Foreign current tax expenses include 121 thousand euros (previous year: 79 thousand euros) in tax expenses from previous years. Deferred taxes result from timing differences between the tax bases of the consolidated companies. The tax rate applicable in the individual countries is used as a basis for calculation of deferred taxes of the foreign operations.

The income tax rate on which computation of German deferred taxes is based was 32.28% for DATA MODUL AG, and 29.13% for DATA MODUL Weikersheim GmbH as of December 31, 2019. Tax rates for 2019 and 2018 are determined as follows:

| in % | 2019 | 2018 |
|---|---|---|
| Corporate income tax | 15.00 | 15.00 |
| Solidarity surcharge | 0.825 | 0.825 |
| Trade tax | 16.45 and 13.30 respectively | 16.45 and 13.30 respectively |
| Income tax rate | 32.28 and 29.13 respectively | 32.28 and 29.13 respectively |

The table below shows a reconciliation of projected income tax expense versus actual income tax expense recorded in the consolidated financial statements applying the average German income tax rate of 32.28% for 2018 and 32.28% for 2019.

| KEUR | 2019 | 2018 |
|---|---|---|
| Earnings before taxes reported | 9,608 | 20,728 |
| Projected income tax expense | 3,101 | 6,690 |
| Non-deductible expenses | 245 | 147 |
| Tax reductions resulting from tax-free income | (18) | (92) |
| Difference amount at local tax rates | (328) | (260) |
| Tax expense for foreign operations, foreign/ other tax losses | (45) | 65 |
| Taxes from previous years | 176 | (97) |
| Other | (30) | (2) |
| Reported income tax expense | 3,101 | 6,451 |

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

| KEUR | | 2019 | 2018 |
|---|---|---|---|
| Deferred tax assets from tax loss carry-forwards | Foreign | 33 | 240 |
| Deferred tax assets from temporary differences | Foreign | 228 | 40 |
| Total deferred tax assets | Foreign | 261 | 280 |
| Deferred tax assets for temporary differences | Germany | 274 | 1,375 |
| Deferred tax liabilities for temporary differences | Germany | (912) | (2,533) |
| Total deferred tax liabilities | Germany | (638) | (1,158) |
| Total balance of deferred tax assets (+) / liabilities (-) (of which 301 thousand euros recorded as other comprehensive income in 2019) | | (377) | (878) |

Deferred taxes consist of the following balance sheet items:

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| KEUR | 2019 | 2018 | 2019 | 2018 |
| Current assets | | | | |
| Trade receivables and other assets | 38 | 21 | (25) | (25) |
| Contract assets | 0 | 0 | (435) | (372)[1] |
| Inventories | 78 | 37[1] | (72) | 0 |
| Non-current assets | | | | |
| Intangible assets | 148 | 159 | (558) | (590) |
| Property, plant and equipment | 4 | 5 | (619) | (625) |
| Capitalized costs to fulfil a contract | 0 | 0 | (405) | 0 |
| Current liabilities | | | | |
| Lease liabilities | 447 | 0 | 0 | 0 |
| Trade payables and other liabilities | 0 | 0 | (20) | (20) |
| Other provisions | 362 | 115 | 0 | 0 |
| Non-current liabilities | | | | |
| Provisions for pensions and similar obligations | 194 | 177 | 0 | 0 |
| Contract liabilities | 453 | 0 | 0 | 0 |
| Total | 1,724 | 514 | (2,134) | (1,632) |

[1] For better comparability, previous year's values were shown netted.

The adjustment made pursuant to IFRS 15 as of December 31, 2019 resulted in deferred tax liabilities of -387 thousand euros (previous year: -372 thousand euros). The adjustment made pursuant to IFRS 16 caused recognition of deferred tax assets in the amount of 447 thousand euros (previous year: 0 thousand euros). Deferred tax accounting based on initial application of IFRS 16 during the year under review required the recognition of deferred tax assets in the amount of 260 thousand euros and a reduction in retained earnings in the amount of 555 thousand euros as of January 1, 2019.

The subsidiaries DATA MODUL Polska sp.z.o.o., Lublin, Poland and DATA MODUL Electronic Technology (Shanghai) Co. Ltd., Shanghai, China, have usable tax loss carryforwards in the respective amounts of 19 thousand euros and 120 thousand euros as of December 31, 2019. These are measured at the income tax rates of 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 41 thousand euros (previous year: 31 thousand euros). Deferred tax liabilities were not recognized for temporary differences in connection with investments in subsidiaries in the amount of 16,923 thousand euros, as it was not likely that these temporary differences would reverse in the foreseeable future. If this were the case, 5% of those temporary differences would be subject to tax.

### [7] Earnings per share

Undiluted earnings per share are calculated by dividing annual income accruing to common shareholders by the weighted average number of common shares outstanding during the year under review. Diluted earnings per share are calculated applying the weighted average number of common shares outstanding after potentially diluting events during the period under review.

For the fiscal years ended December 31, 2019 and December 31, 2018, 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).

| | 2019 | 2018 |
|---|---|---|
| Net income for the year in KEUR | 6,507 | 14,277 |
| 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 | 1.85 euros | 4.05 euros |
| Diluted earnings per share | 1.85 euros | 4.05 euros |

## 6. Notes to the Statement of Financial Position

### [8] Fixed assets 2019

| | HISTORICAL COST | | | | | |
|---|---|---|---|---|---|---|
| | Balance as of 1/1/2019[1)] | Currency translation | Additions | Disposals | Reclassifications | Balance as of 12/31/2019 |
| **Intangible assets/Goodwill** | | | | | | |
| Goodwill | 3,112 | 0 | 0 | 0 | 0 | 3,112 |
| Software | 2,216 | 0 | 375 | 2 | 47 | 2,636 |
| Development projects | 8,260 | 0 | 728 | 0 | 0 | 8,988 |
| Prepayments | 78 | 0 | 47 | 0 | (47) | 78 |
| **Total** | **13,666** | **0** | **1,150** | **2** | **0** | **14,814** |
| **Property, plant and equipment** | | | | | | |
| Land and buildings | 14,799 | 6 | 1,477 | 59 | 612 | 16,835 |
| Technical equipment | 3,486 | 0 | 192 | 0 | 2,966 | 6,644 |
| Other equipment, fixtures and fittings, and office equipment | 6,608 | 6 | 1,928 | 350 | 498 | 8,690 |
| Assets under construction | 2,436 | 11 | 2,237 | 8 | (4,076) | 600 |
| Right-of-use assets | 8,783 | 34 | 7,544 | 9 | 0 | 16,352 |
| **Total** | **36,112** | **57** | **13,378** | **426** | **0** | **49,121** |
| **Total** | **49,778** | **57** | **14,528** | **428** | **0** | **63,935** |

### Fixed assets 2018

| | HISTORICAL COSTS | | | | | |
|---|---|---|---|---|---|---|
| | Balance as of 1/1/2018 | Currency translation | Additions | Disposals | Reclassifications | 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** |

All figures in KEUR

1) Adjusted previous-year figures, see remarks in the Note [9].

| DEPRECIATION AND IMPAIRMENTS | | | | | | CARRYING AMOUNT |
|---|---|---|---|---|---|---|
| **Balance as of 1/1/2019** | **Currency translation** | **Additions** | **Disposals** | **Reclassifica-tions** | **Balance as of 12/31/2019** | **Balance as of 12/31/2019** |
| | | | | | | |
| 693 | 0 | 0 | 0 | 0 | 693 | 2,419 |
| 1,020 | 0 | 424 | 2 | 0 | 1,442 | 1,194 |
| 6,434 | 0 | 824 | 0 | 0 | 7,258 | 1,730 |
| 0 | 0 | 0 | 0 | 0 | 0 | 78 |
| **8,147** | **0** | **1,248** | **2** | **0** | **9,393** | **5,421** |
| | | | | | | |
| 6,601 | 4 | 791 | 58 | 0 | 7,338 | 9,497 |
| 1,559 | 1 | 557 | 0 | 0 | 2,117 | 4,527 |
| 3,369 | 6 | 931 | 344 | 0 | 3,962 | 4,728 |
| 0 | 0 | 0 | 0 | 0 | 0 | 600 |
| 0 | 5 | 1,923 | 0 | 0 | 1,928 | 14,424 |
| **11,529** | **16** | **4,202** | **402** | **0** | **15,345** | **33,776** |
| **19,676** | **16** | **5,450** | **404** | **0** | **24,738** | **39,197** |

| 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** |

Many of the additions to intangible assets and property, plant and equipment reported for the year under review reflect investments to expand of production and logistics capacity at the plants in Weikersheim (1,881 thousand euros) and Lublin (2,715 thousand euros).

The change over to IFRS 16 as of January 1, 2019 resulted in the initial recognition of right- of-use assets in the amount of 8,784 thousand euros. For further information regarding the new accounting standard see Note [9], Leases.

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, 2019 is shown below, broken down by reportable segment and cash-generating unit.

| KEUR | Displays | Systems | Total |
|---|---|---|---|
| *Cash-generating unit* | *Display Solutions* | *Systems 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 acquired during the period* | 0 | 0 | 0 |
| *Impairment during the period* | 0 | 0 | 0 |
| Balance as of 12/31/2019 | 1,032 | 1,387 | 2,419 |

Goodwill was impairment tested on December 31, 2019. 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 (2020 - 2022) approved by management and the Supervisory Board, extrapolated for 2023 and years thereafter.

The before-tax discount rates used for cash flow projections and revenue growth rates starting in 2023 (for 2018 in 2022) are shown in the table below.

| Cash-generating unit | Before-tax discount rates | | Revenue growth rates | |
|---|---|---|---|---|
| in % | 2019 | 2018 | 2019 | 2018 |
| Display Solutions | 7.44 | 8.88 | 2.0 | 2.0 |
| System Solutions | 7.23 | 8.82 | 2.5 | 2.5 |

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

Goodwill impairment testing for fiscal years 2019 and 2018 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 2018, revenue growth rates ranging from 2.0% (Display Solutions) to 2.5% (System Solutions) were applied for the cash-generating units for 2022 and thereafter. In fiscal year 2019, revenue growth rates ranging from 2.0% (Display Solutions) to 2.5% (System Solutions) were applied for 2023 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] Leases**

The Group has leases for real estate, motor vehicles and operating and office equipment which are utilized in business operations. Real estate leases usually have terms of 1 - 10 years. Lease terms for vehicles and operating and office equipment are usually 1-5 years in duration. The Group's obligations under lease contracts are secured by the leased assets owned by the lessor. Numerous lease contracts feature extension and termination options, which are discussed in greater detail below.

The Group also has real estate and motor vehicle leases with a term of twelve months or less, and for low-value office equipment. The Group applies the simplification options available for its short-term leases and leases with a low-value underlying asset.

The table below shows the carrying amounts of recognized right-of-use assets and the change therein during the period under review:

| | Real estate | Vehicles | Total |
|---|---|---|---|
| Balance as of 1/1/2019 | 8,460 | 324 | 8,784 |
| Additions | 7,125 | 420 | 7,565 |
| Depreciation expense | 1,601 | 327 | 1,928 |
| Balance as of 12/31/2019 | 13,984 | 417 | 14,401 |

The table below shows the carrying amounts of lease liabilities and the change therein during the period under review:

| KEUR | 2019 |
|---|---|
| Balance as of 1/1/2019 | 9,598 |
| Additions | 7,523 |
| Accrued interest | 223 |
| Redemptions | (1,196) |
| Balance as of 12/31/2019 | 16,148 |
| Of which, non-current | 2,103 |
| Of which, current | 14,045 |

The maturity breakdown of lease liabilities is shown in the Supplementary Disclosures (Chapter 8).

The amounts below were recorded in profit or loss in the period under review:

| KEUR | 2019 |
|---|---|
| Depreciation expense for right-of-use-assets | 1,923 |
| Interest expenses for lease liabilities | 525 |
| Income (-)/expense (+) from deferred taxes | (185) |
| Foreign currency translation gains (-) / losses (+) | (45) |
| Expenses from short-term lease liabilities | 411 |
| Expenses from low-value asset leases | 41 |
| Total expense recorded through profit or loss | 2,670 |

The Group recorded cash outflows of 1,500 thousand euros for leases in 2019. The Group also reported non-cash additions to the right- of-use assets and lease liabilities in the amount of 7,534 thousand euros in 2019.

The Group has concluded a number of lease contracts which feature extension and termination options. Management negotiates to have such options to be able to more flexibly manage the portfolio of leased assets to meet the Group's various business requirements. Management has to make significant judgment in assessing whether there is sufficient certainty that renewal and/or termination options will be exercised, (see Note[4], Recognition and Measurement Methods).

The table below shows the undiscounted potential future lease payments for periods not factored into the lease term which apply in case of exercise of extension and termination options.

| KEUR | Within five years | More than five years | Total |
|---|---|---|---|
| Extension options not expected to be execised | 0 | 10,530 | 10,530 |
| Termination options expected to be exercised | 0 | 0 | 0 |
| | 0 | 10,530 | 10,530 |

The Group holds no significant leases as lessor.

### [10] Capitalized costs to fulfil a contract

As of the reporting date, capitalized costs to fulfil a contract include costs for development work for specific customer development projects which are capitalized up until serial production and recorded as cost of sales when the products are sold. These costs in the amount of 3,813 thousand euros shown as capitalized costs to fulfil a contract, in line with IFRS 15. These were shown under Inventories on the previous-year financial statements. The previous-year figures were adjusted to afford comparability. Capitalized costs to fulfil a contract were amortized in the amount of 1,555 thousand euros in fiscal year 2019. No impairments were recorded in 2019.

### [11] Inventories

Inventories as of the reporting date break down as follows:

| KEUR | 2019 | 2018[1] |
|---|---|---|
| Raw materials, consumables and supplies | 7,567 | 6,874 |
| Work in progress | 5,041 | 5,246 |
| Finished goods and merchandise | 31,648 | 41,105 |
| Impairment | (2,744) | (2,301) |
| Total | 41,512 | 50,924 |

[1] Previous-year figures adjusted. For further information in this regard, see under Chapter 4, Revenue from contracts customers and capitalized cost to fulfil a contract.

The net realizable value of inventories was depreciated by 1,435 thousand euros, recorded under cost of sales on the 2019 Statement of Income (previous year: 1,607 thousand euros).

In fiscal year 2019, inventories in the amount of 148,104 thousand euros were recorded as cost of materials on the Statement of Income (previous year: 175,107 thousand euros).

### [12] Trade receivables, contract assets, tax receivables other current assets and other current financial assets

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

| KEUR | 2019 | 2018 |
|---|---|---|
| Trade receivables, including impairments | 27,907 | 28,961 |
| Contract assets including impairments | 4,096 | 3,945 |
| Other current assets: | | |
| Tax refund claims and tax prepayments | 2,369 | 487 |
| Other assets | 1,291 | 673 |
| Other current financial assets: | | |
| Suppliers with credit balances | 48 | 12 |
| Other financial assets | 392 | 627 |
| Total | 36,103 | 34,705 |

Trade receivables are not interested-bearing, and are generally due within 30 - 90 days. The allowance for expected bad debts as of December 31, 2019 and December 31, 2018 was 76 thousand euros and 167 thousand euros respectively.

Contract assets in the amount of 4,096 thousand euros (previous year: 3,945 thousand euros) consist exclusively of receivables from sales to consignment warehouse customers under contracts for the supplying of customer-specific items. Under IFRS 15, revenue is recognizable upon delivery of such items to the consignment warehouse, giving rise to the corresponding receivables.

Other assets consist primarily of 705 thousand euros in VAT (previous year: 74 thousand euros), deferred assets in the amount of 461 thousand euros (previous year: 360 thousand euros) and prepayments of 122 thousand euros (previous year 235 thousand euros).

Other financial assets consist of other receivables in the amount of 227 thousand euros (previous year: 488 thousand euros), security deposits in the amount of 166 thousand euros (previous year: 139 thousand euros) and credit balances with suppliers in the amount of 48 thousand euros (previous year: 12 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 | 2019 | 2018 |
|---|---|---|
| Balance as of 1/1/2019 | 167 | 184 |
| Initial application of IFRS 9 | 0 | 31 |
| Adjusted as of 1/1/2019 | 167 | 214 |
| Additions recorded in profit or loss | 62 | 16 |
| Utilization | (149) | (36) |
| Reversals | (4) | (28) |
| Effects from foreign currency translation adjustments | 0 | 0 |
| Balance as of 12/31/2019 | 76 | 167 |

No impairments on contract assets or any other financial instruments had to be recorded for expected bad debts in fiscal year 2019.

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 gauge expected bad debts on trade receivables.

### [13] Cash and cash equivalents

Cash and cash equivalents held as of December 31, 2019 in the amount of 26,421 thousand euros (previous year: 24,956 thousand euros) consist of 26,417 thousand euros in bank balances (previous year: 24,949 thousand euros) and cash on hand of 4 thousand euros (previous year: 7 thousand euros).

### [14] Shareholders' equity

*Share capital*

DATA MODUL AG has capital stock of 10,578,546 euros, and has been listed as a technology firm on the Prime Standard since March 2003. Capital stock comprises 3,526,182 no-par bearer shares which are fully paid-in. Each share represents 3.00 euros of subscribed capital. 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 2019 the Executive and Supervisory Boards will recommend at the Annual Shareholders' Meeting payment of a cash dividend of 1.00 euro per share for a total distribution of 3,526 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*

The change over to IFRS 16 required an adjustment to retained earnings in the amount of 555 thousand euros (see Chapter 2, adaption of new accounting standards). Retained earnings as of December 31, 2018 and December 31, 2019 broke down as follows:

| KEUR | 2019 | 2018 |
|---|---|---|
| Retained earnings | 60,605 | 46,751 |
| Net income for the year | 6,507 | 14,277 |
| Other comprehensive income (loss) | (790) | (698) |
| Adjustments from first-time application of IFRS | (2,328) | (1,774) |
| Total | 63,994 | 58,556 |

*Other reserves*

Other reserves consist exclusively of reserves for currency differences in the amount of 907 thousand euros (previous year: 752 thousand euros).

### [15] Pension and non-current personnel liabilities

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

The redemption value of these insurance policies as of the reporting date totaled 175 thousand euros (previous year: 182 thousand euros). The pledged reinsurance policies are netted out as plan assets in "Pensions and non-current personnel liabilities". The pension accruals as of December 31, 2019 and December 31, 2018 were calculated in December of the respective year. The mortality rates are based on the 2018 G tables of Prof. Dr. Klaus Heubeck. 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 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Present value of deferred pension obligations | 1,694 | 1,669 | 1,690 | 1,715 | 1,734 |
| Fair value of the plan assets | 175 | 181 | 189 | 189 | 206 |
| Funding status | 1,519 | 1,488 | 1,501 | 1,517 | 1,528 |

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

| KEUR | 2019 | 2018 |
|---|---|---|
| Changes in the present value of pension obligations: | | |
| Pension obligations forecast at beginning of year | 1,669 | 1,690 |
| Interest accrual on expected pension obligations | 20 | 20 |
| Actuarial gains and losses recorded in other comprehensive income due to changes in interest rate and trend assumptions | 103 | 19 |
| Actuarial profit or loss recorded in other comprehensive income resulting from changed demographic assumptions | 0 | 36 |
| Actuarial gain/loss recorded in other comprehensive income resulting from funding level changes | 30 | 31 |
| Pensions paid | (128) | (127) |
| Present value of pension obligations at year end | 1,694 | 1,669 |
| Plan assets | (175) | (181) |
| Pension obligations | 1,519 | 1,488 |

| KEUR | 2019 | 2018 |
|---|---|---|
| The net pension expenditure breaks down as follows: | | |
| Accruing interest on expected pension obligations | 20 | 20 |
| Net periodic pension cost | 20 | 20 |

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

| in % | 2019 | 2018 |
|---|---|---|
| Weighted average assumptions: | | |
| Discount rate | 0.29 | 1.25 |
| Growth rate for future benefit payments | 1.5 – 3.0 | 1.9 – 3.0 |

The average duration is 8 years (previous year: 9 years). The Company has pension plan benefit payment obligations as outlined below for respective fiscal years ending December 31:

| | KEUR |
|---|---|
| 2020 | 131 |
| 2021 | 133 |
| 2022 | 136 |
| 2023 | 139 |
| 2024 | 142 |
| Cumulative 2025 through 2029 | 757 |

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 | 12/31/2019 |
|---|---|
| Discount rate increase by 1.0% | (134) |
| Discount rate decrease by 1.0% | 154 |
| Pension trend rise by 1.0%[1] | 77 |
| Pension trend decline by 1.0%[1] | (69) |

[1] 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 | 2019 | 2018 |
|---|---|---|
| Pension liabilities | 1,520 | 1,488 |
| Long-term bonus claims | 73 | 73 |
| Other non-current personnel obligations | 7 | 6 |
| Amount reported on consolidated balance sheet | 1,600 | 1,567 |

## [16] Provisions

Quantifying warranty provisions are inherently subject to uncertainty regarding amount and due dates. The amount of the accrual 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 2019 is outlined below.

| KEUR | Warranties | Personnel | Other | Total |
|---|---|---|---|---|
| Balance as of 1/1/2019 | 2,396 | 85 | 245 | 2,726 |
| Currency translation | 0 | 0 | 3 | 3 |
| Additions | 1,025 | 7 | 253 | 1,285 |
| Utilization | (898) | 0 | (158) | (1,056) |
| Reversals | (973) | 0 | 0 | (973) |
| Balance as of 12/31/2019 | 1,550 | 92 | 343 | 1,985 |
| Of which, non-current | 242 | 0 | 0 | 242 |
| Of which, current | 1,308 | 92 | 343 | 1,743 |

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

## [17] Non-current and current contract liabilities

As of the reporting date, contract liabilities included deferred revenue for contractually agreed warranty benefits for our customers beyond the scope of statutory warranty and for upfront payments from customers for customer-specific development projects.

Non-current contract liabilities existed as of the reporting date in the amount of 1,861 thousand euros (previous year: 722 thousand euros) and current contract liabilities existed in the amount of 606 thousand euros (previous year: 546 thousand euros). The significant increase in contract liabilities in 2019 resulted from the long-term advance payments received from customers for development projects in the amount of 1,432 thousand euros. Revenue from extended warranties was recognized in the amount of 604 thousand euros in 2019 (previous year: 499 thousand euros), and revenue from development projects was recognized in the amount of 95 thousand euros (previous year: 0 thousand euros).

## [18] 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 | 2019 | 2018 |
|---|---|---|
| Taxes payable | 2,508 | 3,366 |
| | | |
| Other current liabilities: | | |
| Personnel-related liabilities | 5,761 | 3,595 |
| Social security and payroll taxes | 621 | 1,019 |
| Other liabilities | 324 | 912 |
| Value-added tax payable | 1,210 | 546 |
| Deferred revenue | 0 | 0 |
| | 7,916 | 6,072 |
| Other current financial liabilities: | | |
| Outstanding invoices | 879 | 907 |
| Customers with credit balances | 63 | 61 |
| Other liabilities | 2 | 6 |
| | 944 | 974 |
| Total | 11,368 | 10,412 |

### [19] Current borrowings from financial institutions

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

| KEUR | 2019 | 2018 |
|---|---|---|
| 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 |

These are exclusively money market loans with a term of three months and an interest rate between 0,86% – 1.20%.

| KEUR | 2019 | 2018 |
|---|---|---|
| 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 | 40 |
| Total | 28,040 | 28,040 |

As of the reporting date, credit facilities were unutilized in the amount of 21,865 thousand euros (previous year: 22,865 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, 2019 DATA MODUL had utilized 1,375 thousand euros in bank guarantees (previous year: 1,375 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. Cash flow from operating activities came to 10,447 thousand euros (previous year: 10,797 thousand euros), related primarily to the net profit for the year of 6,507 thousand euros (previous year: 14,277 thousand euros) and lower inventories. Additionally, as a result of the change over to IFRS 16, lease payments in the amount of 1,500 thousand euros previously recorded in full as cash flow from operating activities are now classified as cash flow from financing activities. Lower trade payables was the primary factor reducing cash flow from operating activities.

Cash flows from investing activities reflect the capital outflow related to capitalized development costs and to other asset additions, and the cash inflows from the disposal of assets. Net cash flow from investing activities was -6,968 thousand euros in 2019 and -5,617 thousand euros in 2018.

Cash flow from financing activities in fiscal year 2019 was -2,006 thousand euros (previous year: -430 thousand euros). The increase resulted principally from the reclassification of lease payments in the amount of 1,500 thousand euros from operating cash flow. These payments are shown broken down into lease liability redemption amount and interest paid amount. 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 2019 (previous year: 423 thousand euros). The dividend distribution in 2019 was 0.12 euros per share for fiscal year 2018 (previous year: 0.12 euros).

Cash and cash equivalents comprise current bank deposits 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 | | | Not affecting cash flow | | | | | |
|---|---|---|---|---|---|---|---|---|
| KEUR | Statement of financial position as of 1/1/2019[1] | Affecting cash flow | Additions/ disposals | Interest accrued but not yet paid | FX | Fair value | Reclassifications | Statement of financial position on 12/31/2019 |
| Liabilities due to financial institutions | 4,200 | 0 | 0 | 0 | 0 | 0 | 0 | 4,200 |
| Lease liabilities | 9,598 | (1,196) | 7,534 | 223 | (11) | 0 | 0 | 16,148 |
| Total | 13,798 | (1,196) | 7,534 | 223 | (11) | 0 | 0 | 20,348 |

| Change in financing debt | | | Not affecting cash flow | | | | | |
|---|---|---|---|---|---|---|---|---|
| KEUR | Statement of financial position on 1/1/2018 | Affecting cash flow | Additions/ disposals | Interest accrued but not yet paid | FX | Fair value | Reclassifications | Statement of financial position on 12/31/2018 |
| Liabilities due to financial institutions | 4,200 | 0 | 0 | 0 | 0 | 0 | 0 | 4,200 |
| Total | 4,200 | 0 | 0 | 0 | 0 | 0 | 0 | 4,200 |

[1] Adjusted previous-year figures, see remarks in the Note [9].

## 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 risk and 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 | 2019 | 2018 |
|---|---|---|
| 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 60.9% (previous year: 63.1%) of Group revenues are denominated in currencies other than the functional currency of the operating unit making the sale, while 60.1% (previous year: 62.7%) of costs are denominated in currencies other than the functional currency of the operating unit. 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, 2019, 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 2019 earnings before taxes**

| | Exchange rate change | |
|---|---|---|
| KEUR | Increase by 5% | Decrease by 5% |
| USD | 181 | (164) |
| JPY | (13) | 12 |
| GBP | 14 | (12) |
| Total | 182 | (164) |

**Impact on 2018 earnings before taxes**

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

*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 12/31/2019 for calculating impairment (in %)

| | Not overdue | Overdue 1 - 30 days | Overdue 31 - 60 days | Overdue 61 - 90 days | Overdue > 90 days |
|---|---|---|---|---|---|
| Data Modul AG | 0.0000 | 0.0403 | 1.5864 | 3.3129 | 6.1377 |
| Data Modul France | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Data Modul Italia | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 7.7682 |
| Data Modul Iberia | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Data Modul Ltd. | 0.0000 | 0.0025 | 0.4583 | 0.4832 | 14.0625 |
| Data Modul Inc. | 0.0419 | 0.0885 | 0.4173 | 0.7885 | 16.7944 |
| Data Modul Hong Kong | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Data Modul Shanghai | 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 | 0.0000 |

### Gross carrying amounts of trade receivables as of 12/31/2019 (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 | 12,620 | 2,235 | 748 | 16 | 38 | 15,657 | EUR |
| Data Modul France | 1,350 | 66 | 0 | 0 | 0 | 1,416 | EUR |
| Data Modul Italia | 1,800 | 767 | 119 | 32 | 33 | 2,751 | EUR |
| Data Modul Iberia | 1,970 | 442 | 123 | 35 | 0 | 2,570 | EUR |
| Data Modul Ltd. | 1,117 | 335 | 119 | 65 | 8 | 1,644 | GBP (in EUR) |
| Data Modul Inc. | 2,657 | 879 | 51 | 10 | 0 | 3,597 | USD (in EUR) |
| Data Modul Hong Kong | 256 | 14 | 0 | 0 | 0 | 270 | HKD (in EUR) |
| Data Modul Shanghai | 0 | 147 | 147 | 0 | 0 | 294 | CNY (in EUR) |
| Data Modul Suisse | 84 | 0 | 0 | 0 | 0 | 84 | CHF (in EUR) |
| Data Modul FZE | 0 | 0 | 0 | 0 | 43 | 43 | AED (in EUR) |
| Conrac Asia | 114 | 33 | 0 | 55 | 0 | 202 | SGD (in EUR) |
| | | | | | | **28,528** | **Total in EUR** |

### Impairments as of 12/31/2019 (in EUR)

| | Not overdue | Overdue 1 - 30 days | Overdue 31 - 60 days | Overdue 61 - 90 days | Overdue > 90 days | Total | Currency |
|---|---|---|---|---|---|---|---|
| Data Modul AG | 0.00 | 900.63 | 11,872.83 | 539.94 | 2,330.30 | 15,643.70 | 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 | 2,567.04 | 2,567.04 | EUR |
| Data Modul Iberia | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | EUR |
| Data Modul Ltd. | 0.00 | 8.42 | 543.91 | 316.01 | 0.00 | 868.34 | GBP (in EUR) |
| Data Modul Inc. | 1,113.36 | 777.73 | 214.38 | 81.54 | 0.00 | 2,187.01 | USD (in EUR) |
| Data Modul Hong Kong | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | HKD (in EUR) |
| Data Modul Shanghai | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | CNY (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) |
| | | | | | | **21,266.09** | **Total in EUR** |

[1)] Invoiced, unimpaired receivables

### 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 55 thousand euros (previous year: 156 thousand euros) were recorded on trade receivables (gross book value 80 thousand euros (previous year: 163 thousand euros)) on the basis of past default experiences rather than on the historical default rates per the impairment matrix.

It was not necessary to present the impairment matrix 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 2019. 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 of default.

For transactions not conducted in the country of the respective operating unit, the Company does not extend credit without an advance credit check. The Group thus does not face a major concentration of credit risks. With other financial assets of the Group, such as cash and cash equivalents, the maximum credit risk exposure through counterparty default is equal to the carrying amount of those 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, 2019, 34.4% of the Company's debt reported on the Consolidated Financial Statements was due within one year (previous year: 59.7%)

The table below shows the maturity structure of contractual, undiscounted and expected cash flows from financial liabilities. The cash flows consist of redemption payments and related interest. The previous-year table has been adjusted accordingly with regard to cash flows. Lease liabilities per IFRS 16 are shown broken down by maturity for the first time in fiscal year 2019.

| **12/31/2019** KEUR | **< 12 months** | **1 - 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|
| Liabilities due to financial institutions | 4,203 | 0 | 0 | 4,203 |
| Trade accounts payable | 9,206 | 0 | 0 | 9,206 |
| Lease liabilities | 2,136 | 8,240 | 8,523 | 18,899 |
| Other financial liabilities | 944 | 0 | 0 | 944 |
| Total | 16,489 | 8,240 | 8,523 | 33,252 |

| **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 |

### 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 to the general economic conditions. In order to maintain or adjust its capital structure, the Company may adjust dividend payments to shareholders, make share repurchases or issue new shares. No changes had been made to the objectives or policies as of December 31, 2019, nor in the previous year.

The Company monitors its capital levels by referencing a capital management ratio; this ratio is net debt relative to the total of equity plus net debt. The Company's net debt is its interest-bearing loans and borrowings, trade payables, lease liabilities, contract liabilities and other liabilities less cash and cash equivalents and current assets. Shareholders' equity is the equity shown on the balance sheet.

| KEUR | 12/31/2019 | 12/31/2018 |
|---|---|---|
| Current borrowings | 4,200 | 4,200 |
| Trade payables and contract liabilities | 11,673 | 20,055 |
| Lease liabilities | 16,148 | 0 |
| Other liabilities | 15,960 | 15,864 |
| minus Cash and cash equivalents and other current assets | (30,521) | (26,754) |
| Net debt | 17,460 | 13,365 |
| Total shareholders' equity | 99,599 | 94,006 |
| Shareholders' equity and net financial liabilities | 117,059 | 107,371 |
| Capital management ratio in % | 14.92 | 12.45 |

### 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 of December 31, 2019, there were no financial instruments classifiable as hedges for projected sales to customers or purchases from suppliers for which these fixed obligations existed. There were no hedged net investments in foreign business operations as of the reporting date of December 31, 2019.

### 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: 1,375 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 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 2019 | | | Fiscal year 2018[1] | | |
|---|---|---|---|---|---|---|
| KEUR | Displays | Systems | Group total | Displays | Systems | Group total |
| Revenue from product sales | 135,022 | 65,068 | 200,090 | 144,466 | 94,906 | 239,372 |
| Service revenue | 847 | 2,377 | 3,224 | 711 | 1,334 | 2,045 |
| Total revenue | 135,869 | 67,445 | 203,314 | 145,177 | 96,240 | 241,417 |
| | | | | | | |
| Research and development expenses | (1,496) | (3,431) | (4,927) | (1,525) | (3,910) | (5,435) |
| Selling and general administrative expenses | (18,119) | (10,680) | (28,799) | (15,742) | (11,817) | (27,559) |
| Amortization of intangible assets and depreciation on property, plant and equipment | (2,337) | (1,190) | (3,527) | (1,966) | (820) | (2,786) |
| Segment results (EBIT) | 4,565 | 5,629 | 10,194 | 9,641 | 11,160 | 20,801 |
| | | | | | | |
| Interest income | 1 | 4 | 5 | 1 | 0 | 1 |
| Interest expense | (292) | (298) | (590) | (44) | (30) | (74) |
| | | | | | | |
| Income tax | (1,858) | (1,244) | (3,101) | (3,743) | (2,708) | (6,451) |
| | | | | | | |
| Net income for the year | 2,354 | 4,153 | 6,507 | 5,854 | 8,423 | 14,277 |
| | | | | | | |
| Investments in intangible assets, property, plant and equipment, and financial assets | 3,429 | 3,555 | 6,984 | 3,567 | 2,071 | 5,638 |

[1] The previous-year figures have been adjusted to reflect the change in segmentation implemented to reflect internal re-organization and reporting structure modifications.

### 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 accounted for at the location of the asset in question. 'Domestic' refers to the headquarters of the parent company DATA MODUL AG located in Germany.

*Revenue[1)]*

*Displays segment*

| KEUR | 2019 | 2018 |
|---|---|---|
| Domestic | 66,232 | 76,564 |
| Foreign | 69,637 | 68,613 |
| Total | 135,869 | 145,177 |

*Systems segment*

| KEUR | 2019 | 2018 |
|---|---|---|
| Domestic | 35,104 | 46,402 |
| Foreign | 32,341 | 49,838 |
| Total | 67,445 | 96,240 |

*Non-current assets*

| KEUR | 2019 | 2018 |
|---|---|---|
| Domestic | | |
| Intangible assets | 5,325 | 5,518 |
| Property, plant and equipment | 15,820 | 15,521 |
| Total domestic | 21,145 | 21,039 |
| Foreign | | |
| Intangible assets | 95 | 1 |
| Property, plant and equipment | 3,533 | 278 |
| Total foreign | 3,628 | 279 |
| Total | 24,773 | 21,318 |

[1)] The previous-year figures have been adjusted to reflect the change in segmentation implemented to reflect internal re-organization and reporting structure modifications.

## 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 controlled by the reporting entity or could control the reporting entity are to be disclosed unless these have already been included in the Consolidated Financial Statements as consolidated entities.

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 2019 were comprised of 202 thousand euros in purchases (previous year: 109 thousand euros) and sales of 3 thousand euros (previous year 0 thousand euros). As of the reporting date, unsecured liabilities were owed to the ARROW Group in the amount of 1 thousand euros (previous year: 11 thousand euros) and the value of receivables from the Group was 0 thousand euros (previous year: 0 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 | Share-holding | IFRS equity | Net profit for the year |
|---|---|---|---|
| | in % | KEUR | KEUR |
| DATA MODUL Weikersheim GmbH, Weikersheim, Germany | 100 | 9,998 | 901 |
| DATA MODUL France SARL, Baron, France | 100 | 1,573 | 633 |
| DATA MODUL Iberia S.L., Madrid, Spain | 100 | 2,859 | 367 |
| DATA MODUL Inc., New York, USA | 100 | 4,879 | 1,479 |
| DATA MODUL Italia S.r.l., Bolzano, Italy | 100 | 1,362 | 221 |
| DATA MODUL Ltd., Birmingham, United Kingdom | 100 | 980 | 331 |
| DATA MODUL Suisse GmbH, Zug, Switzerland | 100 | (99) | 24 |
| DATA MODUL Hong Kong Ltd., Hong Kong, China | 100 | (140) | (1,010) |
| DATA MODUL Electronic Technology (Shanghai) Co., Ltd., Shanghai, China | 100 | 551 | 737 |
| Conrac Asia Display Products PTE Ltd., Singapore | 100 | 966 | 206 |
| DATA MODUL FZE, Dubai, VAE | 100 | 143 | (105) |
| DATA MODUL Polska sp. z o.o, Warsaw, Poland | 100 | 3,067 | 80 |

## 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 2019 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 | 2018 | 2019[3] | 2019 (min.) | 2019 (max.) |
| Fixed remuneration | 230 | 230 | 230 | 230 |
| Fringe benefits | 31 | 17 | 17 | 17 |
| **Total** | **261** | **247** | **247** | **247** |
| One-year variable compensation[1] | 147 | 73 | 0 | 147 |
| Multi-year variable compensation[2] | 73 | 73 | 0 | 73 |
| *Executive bonus 2017* | 0 | 0 | 0 | 0 |
| *Executive bonus 2018* | 73 | 73 | 0 | 73 |
| **Total compensation** (according to GCGC) | **481** | **393** | **247** | **467** |
| Service cost | 0 | 0 | 0 | 0 |
| **Total compensation** (according to GAS 17) | **481** | **393** | **247** | **467** |

[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] An additional performance bonus in the amount of 50 thousand euros was approved for Dr. Pesahl in 2019 based on his contract, payable for performance in 2019.

Compensation paid to the Executive Board member in fiscal year 2019 breaks down as follows:

| Compensation | Dr. Florian Pesahl *CEO* *Appointed: January 1, 2010* | |
|---|---|---|
| KEUR | 2019 | 2018[5] |
| Fixed remuneration | 230 | 230 |
| Fringe benefits | 17 | 31 |
| **Total** | **247** | **246** |
| One-year variable compensation[4] | 147 | 147 |
| Multi-year variable compensation | 0 | 0 |
| *Executive bonus 2017* | 73 | 0 |
| **Total compensation** | **467** | **408** |

[4] Not taking into account any deferrals.

[5] 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. The total amount paid out in 2019 was 202 thousand euros.

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 | **2019** | **2018** | **2019** | **2018** |
| Provisions recorded as of the reporting date | 295 | 267 | 277 | 264 |
| Allocations to pension provisions | 51 | 23 | 42 | 25 |
| Pensions paid | 23 | 22 | 27 | 27 |

In fiscal years 2019 and 2018, the Executive Board member was not granted 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 | **2019** | **2018** |
|---|---|---|
| Kristin D. Russell | 40 | 40 |
| Thomas A. Leffler | 0 | 30 |
| Richard A. Seidlitz | 30 | 0 |
| Wolfgang Klein | 7 | 20 |
| Eberhard Kurz | 13 | 0 |
| **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
Thomas A. Leffler, Deputy Chair
Wolfgang Klein (employee), Employee Representative (January 1, 2019 - May 8, 2019)
Eberhard Kurz (employee), Employee Representative (starting May 9, 2019)

### Auditors' fees

The Company recorded fees for auditing services in the amount of 195 thousand euros (previous year: 177 thousand euros) in accordance with Sec. 314 (1) No. 9a of German Commercial Code (HGB). Tax consultancy expenses as per Sec. 314 (1) No.9c German Commercial Code in the amount of 0 thousand euros (previous year: 11 thousand euros) were recorded through profit or loss, as well as other services as per 314 (1) No. 9d of German Commercial Code in the amount of 5 thousand euros (previous year: 0 thousand euros).

### Subsequent events

The effects of the coronavirus epidemic will have an impact on the global economy and thus on DATA MODUL's business. Economic researchers currently expect the global economy to decline. However, it can be assumed that the fiscal and monetary policy measures taken will contribute to an economic recovery.

We are not aware of any further significant events occurring 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 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 2019, 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 2019 to 31 December 2019, 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 2019 to 31 December 2019. We have not audited the content of those components of the group management report mentioned in the attachment to the auditor's report or the Company information listed there outside of the annual report which is referred to in the group management report. 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 2019, and of its financial performance for the fiscal year from 1 January 2019 to 31 December 2019, 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. Our opinion on the group management report does not extend to the content of the components of the group management report named in the attachment to the auditor's report.

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 2019 to 31 December 2019. 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, measurement and amortization of development costs as part of customer-specific development projects**

**Reasons why the matter was determined to be a key audit matter:** Revenue from contracts with customers is based on various agreements that also contain development services. The recognition, measurement and amortization of development costs as part of revenue recognition of customer-specific development projects is necessarily based on judgment and estimates made by the Company's executive directors. It has to be assessed whether the development services represent a distinct performance obligation, a performance obligation to be bundled with series production or an activity to fulfill an order for series production. In addition, the measurement and amortization of capitalized development costs are based on estimates of the expected sales volume and whether revenue is to be recognized at a point in time or over time. In light of the above, the recognition, measurement and amortization of development costs as part of revenue recognition of customer-specific development projects was a key audit matter in our audit.

**Auditor's response:** We verified whether the Company's accounting principles provide a suitable basis for the IFRS consolidated financial statements regarding development costs in the recognition of revenue from customer-specific development projects. We analyzed the recognition and amortization of development costs for customer-specific development projects during the year. We compared the capitalized costs, time and amortization of selected projects with the customer contracts, product planning and other project documents of the Company. We interviewed the executive directors and other responsible officers regarding the status and measurement of revenue from customer-specific development projects. We also reconciled the capitalized costs to the time sheets and hourly rates. We compared the planned margins of the selected projects with the margins of similar products. Furthermore, we reviewed the completeness of the disclosures pursuant to IFRS 15 in the notes to the consolidated financial statements. Our audit procedures did not lead to any reservations regarding the recognition and amortization of development costs within the framework of the recognition of revenue from customer-specific development projects.

**Reference to related disclosures:** For further information on the recognition and measurement policies applied regarding the recognition and measurement of development projects, please refer to the disclosures in the notes to the consolidated financial statements in section 4. Recognition and measurement methods "Significant judgments, estimates and assumptions - revenue from contracts with customers", "Revenue from contracts with customers and costs to fulfill a contract" as well as section 5. Notes to the Statement of Income "Revenues" and section 6. "Capitalized costs to fulfil a contract" and "Contract liabilities".

**2. Recognition and measurement of development projects without a specific customer order**

**Reasons why the matter was determined to be a key audit matter:** The recognition and measurement of development costs for products without a specific customer agreement is based on the estimates and assumptions by the executive directors of the Company, 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. Moreover, impairments are 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 agreement, we examined the processes implemented by the Company. We also performed substantive audit procedures. This involved inter alia a review of the list of all capitalized development projects and substantive 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 amortization should commence. 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 Statement of Income “Research and development expenses” in the notes to the consolidated financial statements.

**Other information**

The Supervisory Board is responsible for the Supervisory Board Report. Otherwise, the executive directors are responsible for other information. The other information includes the components of the annual report mentioned in the attachment to the auditor‘s 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 9 May 2019. We were engaged by the Supervisory Board on 21 October 2019. 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, 26 March 2020
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Horbach | von Wachter |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

## Attachment to the auditor's report:

**1. Components of the group management report that were not included in the audit**

We have not audited the content of the following components of the group management report that are included in "Other information":

· The statement on corporate governance that was made publicly accessible.

**2. Further other information**

The other information comprises the prescribed components of the Annual Report, which were provided to us prior to us issuing this auditor's report, including, but not limited to the following sections:

· „Executive Board Report"
· „Supervisory Board Report"
· „DATA MODUL Worldwide"
· „DATA MODUL Product Portfolio"
· „Highlights"
· „Highlights 2019"
· „Corporate Responsibility"
· „DATA MODUL as employer" and
· „Management Representation"

but excluding the consolidated financial statements, those disclosures in the group management report that lie within the scope of our audit, and our associated auditor's report.

**3. Company information that lies outside the annual report but that is referred to in the group management report**

The cross-reference under www.data-modul.com under the category "Company/Corporate Governance" refers to the Company information that lies outside the annual report.

# 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 2020

| | |
|---|---|
| Quarterly financial report dated March 31, 2020 | May 12, 2020 |
| Annual Shareholders' Meeting | May 12 Mai 2020 |
| Half-year financial report dated June 30, 2020 | August 7, 2020 |
| Quarterly financial report dated September 30, 2020 | November 6, 2020 |

**The DATA MODUL 2019 Annual Report is available in German and English.**

**Further information about DATA MODUL:**

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