

GROUP MANAGEMENT REPORT

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1. Fundamentals of the Group

1.1 Business model of the Group

euromicron

Specialist for
digital infrastructures

Profile

The euromicron Group unites medium-sized technology companies that operate in the markets of “Digital Buildings”, “Smart Industry” and “Critical Infrastructures”. As German specialists for digital infrastructures, the companies in the euromicron Group enable their customers to network business and production processes and so successfully move to a digital future. Underpinned by its extensive experience and forward-looking technologies, euromicron’s solutions dovetail seamlessly into the innovative concepts for the “Internet of Things”.

From design and implementation, operation, to intelligent services – euromicron provides its customers with a one-stop shop for tailored IoT solutions, ranging from infrastructure to service.

Backed by a combination of technology, system integration and smart services, euromicron enables existing infrastructures to be migrated gradually to the digital age. Thanks to this expertise, the euromicron Group helps its customers increase their own company’s agility and efficiency, as well as develop new business models that lay the foundation for commercial success moving ahead.

The Group’s structure and locations

euromicron AG, Frankfurt/Main, is a strategic management holding that discharges cross-Group tasks. They include not only strategic controlling, but also assumption of cross-cutting functions such as financing, Group controlling and accounting, taxes, legal affairs, human resources, purchasing, IT, corporate marketing, investor relations corporate development and innovation management.

Alongside euromicron AG as the ultimate parent company, the euromicron Group’s operating business is conducted by the following Group companies:

The central controlling functions are pooled at euromicron AG.

The companies in the euromicron Group



In the course of fiscal year 2017, the euromicron Group undertook strategically important restructuring and reorganization measures and rigorously continued to develop the company's areas further.

In order to round out its competences, telent GmbH acquired 75% of the shares in KORAMIS GmbH, a service provider specializing in IT security, effective January 1, 2017. As a result, telent's value chain was expanded to include cybersecurity for critical infrastructures and industrial infrastructures. As a subsidiary of telent GmbH, KORAMIS GmbH was assigned to the "Critical Infrastructures" segment.

Establishment of ProCom Communication Systems Trading (Beijing) Co. Ltd., Beijing, China, was completed on February 23, 2017. It is a wholly-owned subsidiary of ProCom Professional Communication & Service GmbH, Essen, in which ProCom's activities in China to date are pooled. As a subsidiary of ProCom Professional Communication & Service GmbH, it is assigned to the "Critical Infrastructures" segment.

An agreement to sell the "Telecommunications" division of euromicron Deutschland GmbH was concluded on March 15, 2017. Under it, euromicron Deutschland GmbH transferred all customer, supplier and other agreements connected with this business to the purchaser as part of an asset deal. The "Telecommunications" division's employees were also transferred to the purchaser. The transaction was completed on April 30, 2017, after the conditions precedent specified in the purchase agreement had been fulfilled.

euromicron Deutschland GmbH acquired the business operations of Elektroanlagen GmbH Dollenchen & Co. KG, Sallgast-Dollenchen, by way of an asset deal under the purchase agreement dated September 1, 2017. This acquisition increased the Group's electrical-related expertise in the field of high-voltage current.

To underpin its strategic orientation toward the field of smart buildings, in 2017 MICROSENS GmbH & Co. KG founded a new business unit "Smart Building Solutions" that aims to digitize the intelligent building. With this new business unit, MICROSENS is applying its experience from 20 years of network technology to building automation. After celebrating successes in the field of automation with "Smart Lighting" and "Smart Office", MICROSENS has launched a division named "Smart Building Solutions" that picks up and consistently continues the concept of the intelligent building.

The division of RSR Datacom GmbH & Co. KG was discontinued at the end of fiscal year 2016. In line with the internal reporting structure, RSR Datacom GmbH & Co. KG is no longer assigned to the "Critical Infrastructures" segment as of fiscal year 2017, but instead to the "Non-strategic Business Segments". So as to enable better comparison, the previous year's figures have been accordingly adjusted in segment reporting.

In order to emphasize the further development of the solution portfolio in the area of "Smart Buildings" in its title as well, Stark- und Schwachstrom Montage GmbH was renamed ssm euromicron GmbH effective July 28, 2017. ssm euromicron caters for just about the whole range of high-voltage and low-voltage technology – from the business segments of data and security technology and electrical engineering to end-to-end solutions for the smart building. The company's headquarters are still in Hamburg; a further branch office is located in Berlin.

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associated companies are responsible for operating business.

Winding up of the companies in the “Non-strategic Business Segments” was continued as planned in fiscal year 2017. The business operations of euromicron NBG Fiber Optics GmbH and euromicron benelux S.A. had been discontinued effective December 31, 2015. The shares in euromicron NBG Fiber Optics GmbH were sold in the fourth quarter of 2017. Liquidation of euromicron benelux S.A was completed on December 22, 2017, and the company was deleted from the commercial register. Liquidation of Avalan GmbH (in liquidation) was continued in 2017.

To reflect its strategic alignment toward the future market of the Internet of Things, the Group’s internal and external reporting structure is geared toward operating business on a market-oriented basis. The euromicron Group’s segments in accordance with its internal reporting structure are as follows:



With its three segments, euromicron has a market-oriented setup.

All the activities of the euromicron Group in the markets of “Digital Buildings” and “Smart Industry” are pooled in the “Smart Buildings” segment. The “Critical Infrastructures” segment comprises the euromicron Group’s activities in the market of the same name. The “Distribution” segment groups consulting and supply of vendor-independent products relating to active and passive network components in the fiber-optic and copper arena.

The regional focus of the euromicron Group’s business operations remains on German-speaking countries. euromicron’s companies are represented at a total of 30 locations distributed throughout Germany. That enables ideal proximity to and intensive care and support for euromicron’s customers. Services are provided directly on-site or through the central Network Operation Center (NOC).

30 LOCATIONS

in Germany enable proximity to customers.

Sales by region

€ m.

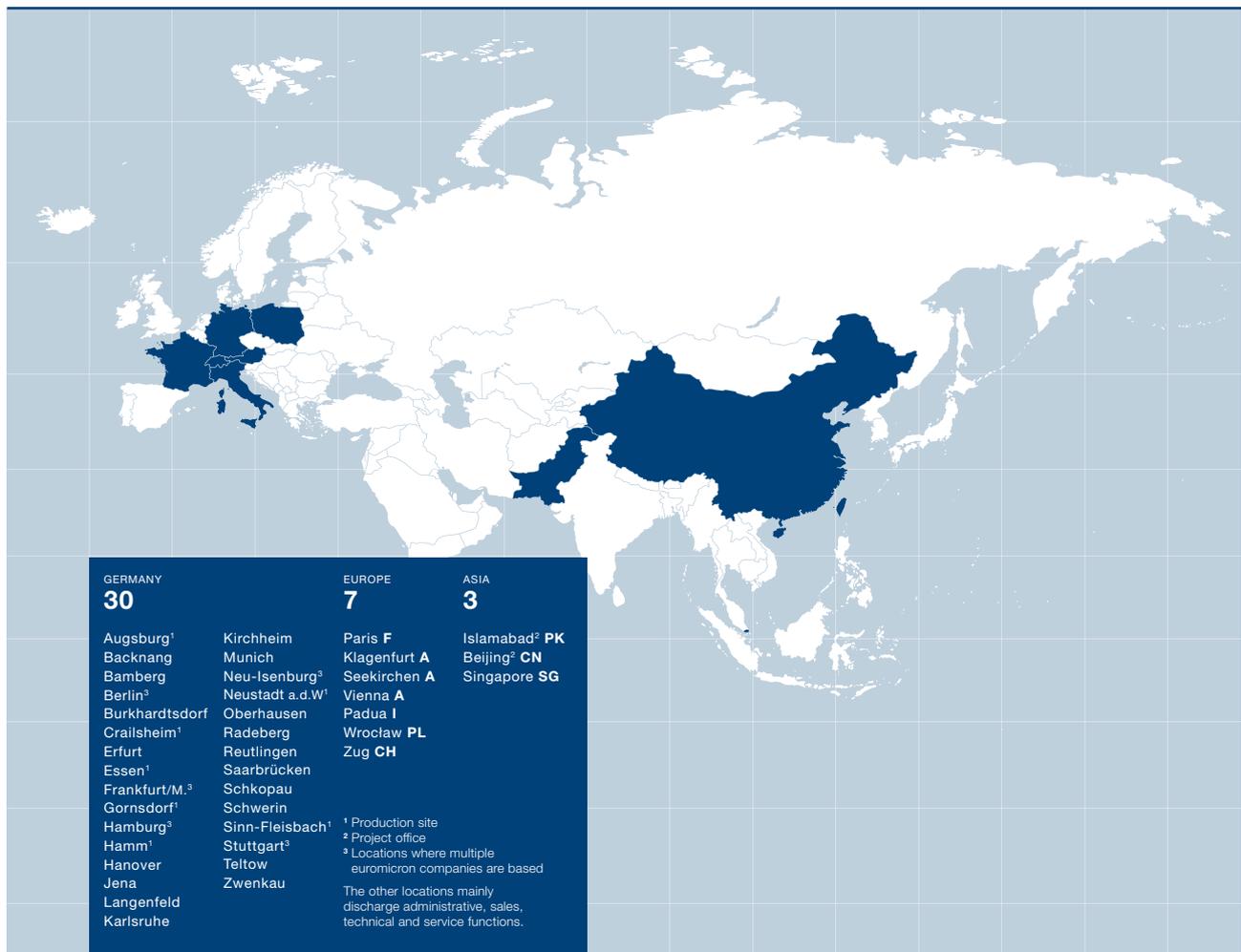


The companies in the euromicron Group are represented in other European countries with locations in Italy, Austria, France, Poland and Switzerland. Group companies are also based in some non-European countries in the shape of project offices so as to cater for country-specific market requirements there. Examples are Pakistan and Singapore, as well as (since 2017) the office of ProCom Communication Systems Trading (Beijing) Co., Ltd. in Beijing, China.

Our activities in emerging markets with their great demand, such as the United Arab Emirates, Turkey, Brazil or the former CIS countries, are growing in importance. We tap these markets through project and export business and intensified sales activities, with these operations usually being controlled from Germany. As part of its internationalization strategy, the euromicron Group permanently examines its opportunities for tapping interesting foreign markets by acquiring niche companies as a springboard for additional business activities.

The chart below shows the regional footprint of the euromicron Group's companies:

Main euromicron locations



Markets

The possibilities for digitization are innumerable and enable holistic technical solutions in all areas of life and business. The trend of networking holds out the promise of gains in quality, convenience and resource efficiency. The euromicron Group pools the know-how of different small and medium-sized enterprises for the Internet of Things, specifically for “Digital Buildings”, “Smart Industry” and “Critical Infrastructures”. In each of these markets, euromicron offers its customers tailored IoT solutions – from the infrastructure to services – with a combination of technology, system integration and smart services. There is significant market potential – now and down the road – for the euromicron Group with its 20 years of experience in view of the growing digitization and networking of infrastructures.



You can find out more about our expertise in the field of “Digital Buildings” at: www.euromicron.de/en/areas-of-expertise/digital-buildings

Digital Buildings/Smart Industry

Smart, digital buildings are an integral part of the Internet of Things. A digital building describes the automation and central operation of the technical equipment of office, commercial and industrial properties, such as train stations, airports or shopping malls. This interplay between all the disciplines creates an intelligent whole that enhances efficiency, security and convenience.

Services relating to building or process automation, access control, video surveillance, fire prevention or support services as part of efficient energy and building management are integrated in unified, highly available overall systems. Examples of that are intelligent access control or optimizing energy efficiency in running buildings so as to slash operating costs.

For “Digital Buildings”, euromicron delivers cross-industry, all-round solutions in the fields of innovative building, network and security technology, as well as complementary services. Application examples of that are the intelligent, energy-efficient room and lighting systems from MICROSENS (“Smart Office” and “Smart Lighting”). We offer our customers the advantages of digital buildings with their security, convenience and greater cost-effectiveness – and not only for new construction projects. Existing buildings can also be digitized subsequently with euromicron’s solutions, since modernization of the infrastructure can subsequently be carried out gradually, i.e. room by room or story by story.

This area also includes equipping data centers with high-performance cabling systems that have been developed by our technology companies and can also be installed by euromicron Deutschland GmbH.

The focus in “Smart Industry” is on digitizing and networking development, production and service processes in the SME sector. The euromicron Group develops holistic Smart Industry approaches for and with its customers and implements them in a forward-looking way that protects investments. Apart from intelligent data management, a highly available, fault-tolerant network infrastructure is a crucial success factor here.

In networking and automating digital business processes, the euromicron Group also sets store by comprehensive risk analysis. It offers integrated cybersecurity solutions that are compatible with “Smart Industry” so that production can be networked securely and with a high level of performance.



You can find out more about our expertise in the field of “Smart Industry” at: www.euromicron.de/en/areas-of-expertise/smart-industry

With its Smart Industry concept, ELABO GmbH offers a gradual introduction to digitized production. ELABO's Information Management System (EIM) is suitable as a big data solution, in particular to optimize small-series production where there is a large variety of variants.

All production-related information is available in real time at every workplace. Measurement and testing equipment is automatically parameterized. Apart from quality management, access control, video surveillance and light controlling are also integrated, as are intelligent material chutes and equipment storage facilities directly at the assembly line. Special IT security solutions from euromicron Deutschland GmbH protect processes and production data against external intrusion and round out the overall concept, meaning the technology companies and system integrators of the euromicron Group offer their customers a holistic solution here.

Critical Infrastructures

Critical infrastructures (KRITIS) are vital business infrastructures whose failure is highly problematic for a company and usually also for large sections of the public. That may be the digital mobile radio system at an airport or the communications network of Deutsche Bahn or a power utility, for example. Operators of critical infrastructures are also leveraging the technological possibilities now offered by automation and networking, as well as the opportunities the Internet of Things opens up, to optimize their processes, increase productivity and enhance customer loyalty.

Special availability, integrity and confidentiality requirements are demanded of these networks. They relate to security standards and the ability to repel attacks, as well as system solutions that are sufficiently fault-tolerant. The euromicron Group has intimate knowledge of the requirements, guidelines and standards to meet those demands and offers a legally secure overall package for operators of critical infrastructures.

telent GmbH is the nationally oriented system integrator within the euromicron Group here, boasting a broad customer base in the segments telecommunications, energy and transportation. telent has extensive practical experience as a specialist for planning, creating and operating secure networks and systems in the Critical Infrastructure arena. KORAMIS GmbH additionally contributes specialized expertise for holistic solutions relating to cybersecurity, automation, process control systems and power system control technology.



You can find out more about our expertise in the field of "Critical Infrastructures" at: www.euromicron.de/en/areas-of-expertise/critical-infrastructures

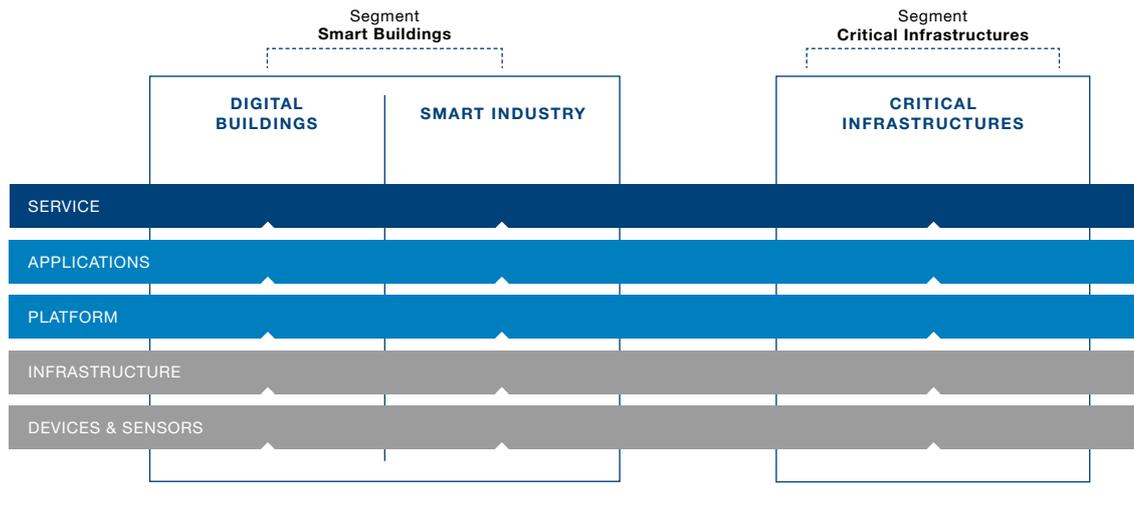
Critical infrastructures include:

- Energy
- Transportation
- IT and telecommunications
- Healthcare
- Water
- Food
- Finance and insurance
- Public administration
- Media and culture

Products and solutions

The euromicron Group offers customized, vertical IoT solution concepts for its markets. To achieve that, we combine the technically and economically most expedient solutions from the fields of terminal devices and sensors, infrastructure, platforms, applications and services.

Business model to the euromicron Group



The Group's technology suppliers develop and produce active and passive optical network components, high-quality fiber-optic cabling systems, public address systems, testing and inspection equipment, networked workplace systems and highly professional safety and security technology for special applications. Reliable delivery, professional training in how to use our products and comprehensive services round out the portfolio.

As a system integrator, euromicron takes care of management and handling of the entire project – from planning, consulting, selecting and installing the system technology to service, maintenance and network management. In doing so, it combines the most innovative internal and external technologies to suit customers' requirements in order to create best-in-class solutions. As a result of the ever-changing and in some cases very specific customer requirements, strategic partnerships with leading external technology suppliers are also key success criteria for supplying best-in-class solutions. Thanks to their many established partnerships with vendors from the fields of network, transmission and security technology, the companies in the euromicron Group are always able to deliver the ideal solution for the customer's specific needs. At the same time, they have the necessary certification to ensure top quality when it comes to planning, installing and maintaining the products used. Customer proximity by means of on-site service is crucial in the consulting-intensive solution business and euromicron achieves that with its comprehensive network of branch offices. Services are provided directly on-site or through the central Service and Network Operation Center (NOC).

1.2 Objectives and strategy

Building on the company's existing basic business, the Executive Board of euromicron AG has strategically aligned the euromicron Group with the focus on the growth market of the Internet of Things (IoT). The overriding objective is to position the company with a solution-oriented differentiation strategy in the IoT market in order to leverage the market's growth potential.

Technological developments, such as in the Internet of Things, Smart Industry, smart services or cloud services, pose new challenges for companies. Increasing networking and digitization of all conceivable information are impacting how existing and potential customers work and live to a greater and greater extent. Meeting rooms, along with the heating, lighting and WLAN, prepare themselves for the next meeting and its specific needs. Track points send status information to signal boxes. Industrial robots preventively report an impending failure of testing equipment or databases. Recommended actions for users are derived from the data that is gathered here.

This data is the "new gold" and embodies the resource for digital value creation and our economy's future engine. It is the basis for new business models and services. Yet the Internet of Things cannot work without fail-safe infrastructures and highly available networks. The euromicron Group has decades of experience in the networking arena. In the meantime, the Group is a specialist for the Internet of Things and unites know-how in secure infrastructures, intelligent processes and smart applications under one roof.

In the past years, customers mainly demanded individual communications and IT infrastructures or individual solutions for building technology, but now want complex, holistic solutions as a result of increasing digitization of processes – from sensors and infrastructure to software platforms, applications and services. Planning, implementing and operating such digital infrastructures is the focus of euromicron's business activity. euromicron is positioned here in a growth market.

Digitalization in the SME sector and related innovative transformation of business models at the euromicron Group offer great opportunities for development moving ahead. That is demonstrated by the Group's new projects, which leverage potential in the IoT market with predictive maintenance models or smart security concepts and can be developed into scalable solutions. The objective is a profitable growth model in a dynamic market of the future. To supplement that, we further envisage targeted, strategic M&A activities in order to expand the portfolio with complementary solutions and technologies and so continuously increase our own competitiveness in the IoT market.

Further reorganization measures were implemented in 2017 and were mainly accomplished at the operating companies by the end of fiscal year. This phase was flanked by a tactical M&A strategy aimed at further market development and building of expertise. One example is our complementing the portfolio to include cybersecurity solutions with our majority stake in KORAMIS GmbH, a service provider specializing in IT security.



You can find out more about our expertise in the field of “Smart Services” at: www.euromicron.de/en/areas-of-expertise/smart-services

The euromicron Group’s complete transformation into an IoT solution provider is to be completed in 2018. Core components of the strategy for the subsequent fiscal years are the issues of growth and innovation. By sticking unswervingly to our IoT strategy and inter-meshing collaboration between the technology and system integration companies and pooling know-how, euromicron will be able in future to offer a broad range of smart services for all strategic target markets in the IoT market. In this way, the Group differentiates itself clearly and lastingly from the competition.

As part of our focus on strategic areas of innovation, we also continuously examine divestments and acquisitions and seize the chance to make them if good opportunities arise. Our planning is based on the Group’s current structure and so may need to be adjusted if divestments or acquisitions are made.

euromicron’s extensive customer base, broad solution portfolio and enormous innovativeness in the areas of technology and system integration are the foundation for further growth. From 2019 onward, euromicron aims to grow further through rigorous continuation of the IoT strategy. The medium-term goal is profitable sales growth that, complemented by tactical M&A measures, will result in sales of around €400 million. The share of smart services as part of system integration sales is to increase to more than 10%.

1.3 Control system

Corporate controlling

euromicron AG with its two Executive Board members and implemented cross-cutting functions sees itself as a strategic management holding. Corporate controlling is geared toward liquidity and profitable growth. Securing competitiveness is based on innovativeness, a focus on solutions and proximity to our customers. The core aspect for us is not only to secure our basic business, but also to tap future markets in the growth market of the Internet of Things by means of a structured, Group-wide innovation process. The key success factor as part of that is our excellent employees.

Internal key control indicators

Our main financial control factors comprise key indicators for our business development, profitability, capital efficiency and liquidity controlling. At present, the operating EBITDA, the operating EBITDA margin, sales and the working capital ratio are the main key indicators used to control the Group.

Operating EBITDA and operating EBITDA margin

The factor for measuring operating results of the business units and Group and so the key earnings ratio for segment reporting is “earnings before interest, taxes, depreciation and amortization”. To permit better comparison over time, we look at EBITDA adjusted for reorganization costs (“operating EBITDA”). Another focus of the analysis is on return on earnings. The operating EBITDA margin (operating EBITDA relative to sales) is used as the key figure for return on earnings.

Focus on liquidity and profitable growth.

Sales

Profitable organic sales growth is a key element of our strategy to increase the company's value. The development of sales is used as the factor for measuring that.

Working capital ratio

In addition, the working capital ratio (working capital deployed relative to sales) is used to control the Group so that the Group's tied-up capital and liquidity development can be systematically monitored and continuously optimized. Working capital is defined as the total of inventories, trade accounts receivable and the gross amount due from customers for contract work less trade accounts payable, the gross amount due to customers for contract work and prepayments.

All the euromicron Group's activities are controlled and monitored on a segment-oriented basis. Important key figures that are monitored regularly are shown in the table below:

TABLE 003

Key figures and control factors	2017	2016
	€ m.	€ m.
Sales	332.9	325.3
Operating earnings before interest, taxes, depreciation and amortization (operating EBITDA)*	13.5	13.2
Operating EBITDA margin*	4.1%	4.0%
Reorganization costs (with an impact on EBITDA)	-4.0	-5.8
Earnings before interest, taxes, depreciation and amortization (EBITDA)	9.5	7.4
EBITDA margin	2.9%	2.3%
Working Capital	43.0	38.5
Working Capital Ratio	12.9%	11.8%

* Adjusted for special effects of the reorganization

The development in these key figures is explained in sections 2.2 "Course of business" and 2.3 "Net assets, financial position and results of operations".

1.4 Research and development

Objectives

Research and development are a key pillar in our infrastructure-related IoT solutions and play a major part in helping us stand out from the competition. Our main goal is – from sensors and infrastructure to applications – to develop solutions that enable our customers to make their work processes more efficient and effective. In addition, our innovations should have unique technical selling points in order to safeguard our position in our basic business and profitable niche markets, as well as let us tap new markets of the future for our innovation business.

Significant projects and results

The focus of development activities at MICROSENS GmbH & Co. KG is on further development of its own software and hardware components and on development of new products and solutions. Technical challenges from customer projects are incorporated directly into product development. The result is IP-based automation solutions for state-of-the-art buildings, cost-effective network concepts for offices and workplaces, rugged, fault-tolerant solutions for industrial environments, optical transport systems for forward-looking wide area networks, and efficient linking of locations and data centers.

In order to address industrial application areas, the Profi Line Rack Switch from MICROSENS was expanded with special components and awarded approval for use in rail transport and power distribution systems. The new Profi Line Rack Switch with approval for railway use is especially resistant to vibrations, impacts and fluctuations in climatic conditions and works securely and reliably, even under extreme temperatures. It is also insensitive to fluctuations in the power supply and, thanks to its enormous electromagnetic immunity, is excellently protected against such influences. The new 10-Gigabit uplink module, with which MICROSENS expanded its tried-and-proven industrial switch series Profi Line Modular in 2017, offers maximum performance. Thanks to its high-performance switching chip set and two 10-Gigabit uplink ports, the new module is particularly suited for applications in industry and security technology. In the latter field, the increased use of high-definition video surveillance means a rapid increase in data volumes and requires terminal devices that deliver top performance and reliability.

The product innovations and further developments in the field of networking in buildings related in particular to the MICROSENS "Smart Lighting System" in 2017. The Smart Lighting System is a key pillar of MICROSENS' "Smart Building Solutions" division and the universal building automation solution via IP. In this decentralized approach, every room has an intelligent control instance, thus ensuring the greatest-possible scalability. The system is suitable for a single conference room as well as for large office buildings. Further sensors and actuators can be connected flexibly – by cable or wirelessly – to the system by means of appropriate gateways. The result is an extremely flexible, future-proof automation solution for modern buildings. In addition, the Smart Lighting System has been developed further specifically for hotel operators and optimized to meet the special requirements of the hotel industry. The demands placed on automation of buildings and services are high in this very dynamic sector: Alongside the building technology, it is necessary to integrate entertainment, the check-in and check-out process, room service and other, perhaps seasonally changing, offerings from third parties so that they can be called and used conveniently. Conventional automation systems are not designed and or not flexible enough to meet these requirements. To satisfy those demands, MICROSENS has developed a software platform that allows customized solutions to be implemented.

KORAMIS GmbH has been providing solutions for automation, process control systems and power system control technology since 1999. By pooling its competences in industrial automation and industrial software, taking into account industrial security requirements, and thanks to its own research activities, KORAMIS is able to deliver end-to-end solutions for Smart Industry and critical infrastructures. They have to be highly available and allow the exchange of data between different players in cyberspace (almost) in real time.

MICROSENS

"Smart Building Solutions" enables gentle migration to state-of-the-art building management.

KORAMIS

developed the data lock-keeper "InDEX" in 2017.

To cater for such application scenarios, KORAMIS developed the data lock-keeper “InDEx” further in 2017. InDEx is a sort of “digital doorman” that enables removable storage media to be scanned for malware before being connected to a network. InDEx scans connected data carriers or devices for malware using up to three virus scanners and cleans them if they are infected – before they come into contact with the IT infrastructure. A compulsory all-round service, comprising maintenance, monitoring, remote maintenance, patch management, signature updates and an on-site replacement service, rounds off the offering.

In 2017, telent GmbH – a euromicron Group company – teamed up with the companies metraTec GmbH and Cabka GmbH & Co. KG and the Fraunhofer Institute for Factory Operation and Automation (IFF) to develop an IoT solution for digitizing pallets. The aim is to make freight transportation in the logistics sector transparent and more efficient. Critical deliveries are protected and controlled better, the cycle times for pallet pools are minimized, and the foundation is created for establishing pools of high-quality reusable plastic pallets – key elements in data-driven value-added services in the Internet of Things. The load carrier is becoming smart: The IoT pallet unites various functionalities for capturing sensor data, analysis and communication on a load carrier used in logistics and allows them to be combined flexibly with each other. The basis for that is an intelligent terminal device that is integrated in the pallet and passes on various items of sensor data, such as the GPS position, via Netzikon’s LoRaWAN™ network to the relevant points, where the data is processed further.

Netzikon GmbH is a subsidiary of telent GmbH and was founded in 2016. Apart from tracking pallets, its technology enables a large number of other applications: The portfolio of sensor systems ranges from the simple temperature sensor, acceleration sensors that measure the freight’s weight or indicate when pallets are moving, to CO₂ sensors and hygrometers. Used in combination, they supply information on the current ambient situation at any time, as well as an overview on the history of a freight consignment. LPWANs, such as Netzikon’s network, are the basis for transporting IoT data in an energy-efficient way. That enables sensor data to be generated where it simply was not possible before or was possible only at great cost and effort.

The development activities of LWL-Sachsenkabel GmbH, one of Germany’s leading manufacturers of fiber-optic cabling systems, last year comprised not only further development of its own hardware components (such as innovative cable routing systems and various patch boxes for achieving higher port densities), but also new software developments. In 2017, it successfully completed in-house development of a smart service platform with various options for customers (such as a configurator, web shop, online complaint tool, digital product profiles), for instance. The platform gives customer maximum flexibility when ordering and ensures transparency in relation to orders and processes. Internal logistics and ordering processes were also improved significantly with the new service platform.

At Prolight + Sound, the trade show for event technology, LWL-Sachsenkabel presented its new brand fast.LANE® – a tailored range of products and services for reliable transfer of audio and video data in the fields of event technology, broadcasting and content delivery. Under this label, which has been specially designed to address the needs of the specific target group, LWL-Sachsenkabel is pooling its product portfolio and know-how for tailor-made fiber-optic cabling systems that are suitable for studio installations as well as harsh environments (such as the challenging ambiance of a festival).

TELENT

developed a solution for digitizing pallets in a cooperation project.

NETZIKON

LPWANs, such as that of Netzikon, are particularly energy-saving.

FAST.LANE®

The new brand from LWL-Sachsenkabel sets standards in the transfer of audio and video data in the field of event technology.

euromicron's subsidiary ELABO, a specialist for SME-driven Smart Industry solutions, has supported the initiative "InnoTruck – Technology and ideas for tomorrow" of the German Federal Ministry of Education and Research (BMBF) since 2017. The initiative promotes public dialog on the social importance of innovations, offering insights into the opportunities and risks of technological progress. The double-decker exhibition vehicle InnoTruck is at its core. A mobile event area of just over 100 m² there presents more than 80 high-tech exhibits from companies and research institutes from all over Germany, as well as state-of-the-art virtual and augmented reality applications. The slogan of the mobile exhibition is "See, touch and try out innovations". ELABO's contribution to the InnoTruck puts this idea in practice uncompromisingly. Visitors can assemble a watch on their own using digital worker guidance created by means of the Smart Industry software "Elution". The worker guidance is displayed on a tablet and guides visitors through the individual work steps in words and pictures. In the meantime, they even work together with a two-arm robot connected to the software via an interface. Thanks to the worker guidance's detailed instructions, they can accomplish the various assembly steps without any previous knowledge.

ELABO

The FIM (Flexible Innovated Mounting) system was developed further in 2017.

The focus of ELABO's development activities in 2017 was on further development of the FIM (FIM = Flexible Innovated Mounting) system. The innovative solution makes error-free work a reality and enhances agility in production. A special feature of the system is its ability to adapt to employees thanks to height-adjustable, mobile tables; the light settings adapt to the needs of the employee. ELABO's "Elution" software supports employees to suit their needs. That enables ergonomic work in which staff does not become fatigued; ideal tailored adaptation to the customer's needs and requirements is also possible thanks to optional features.

In 2017, EUROMICRON Werkzeuge GmbH expanded its product family for connection solutions in harsh environments. They include environments where a fiber-optic connection is exposed to crude oil, mud, extreme temperatures or strong vibrations. In addition to the familiar 2-, 4- and 8-channel variants of the EUROLENS family, the 12-channel variant was made ready for series production and successfully launched on the market. With its 8- and 12-channel variant, the EUROLENS family is the only one on the market to offer this packing density with a consistently small housing. In addition, a new modular structure was developed and implemented, enabling more flexible and fast delivery to customers coupled with less stocking.

R&D ratios

The continued investments in innovative and competitive new products and solutions are also reflected in the carrying amounts of capitalized development costs and self-developed software, which were €9.7 million at December 31, 2017 (previous year: €9.2 million); amortization of capitalized development costs and self-developed software was €2.3 million (previous year: €2.8 million). The newly capitalized costs in fiscal year 2017 totaled €2.9 million (previous year: €2.5 million).

€ **9.7** million

in capitalized development costs and self-developed software.

2. Economic report

2.1 General economic and industry-specific conditions

General economic conditions

According to the winter economic report of the Kiel Institute for the World Economy (IfW), just about all large economies performed positively in the course of 2017. The upward price trend in the advanced economies will only strengthen gradually, despite the lively level of economic activity. The low rate of core inflation is mainly due to structural factors. Risks to the global economy are seen in the financial environment: In the wake of the impending normalization of monetary policy, there may be sudden uncertainty on the capital markets, resulting in spasmodic corrections to asset prices, yields and exchange rates. The experts put growth in global domestic product (GDP) at 3.8% percent in 2017. The IfW's economists assume that GDP will grow by 3.9% in the current year. Economic growth will likely rise by 3.6% in 2019.

3.9%

The rate at which the IfW expects global GDP to increase by in 2018.

Trends in the Euro area

The IfW anticipates a sustained economic recovery for the Euro area. The economists predict that the European economy will grow by 2.2% in 2017 and that GDP in Europe will be 2.1% and 1.9% respectively in the subsequent years 2018 and 2019. In the Euro area excluding Germany, the political risks in the period covered by the forecast now seem less threatening in view of the election success of moderate candidates in the more recent past, dynamic economic activity and further falls in unemployment. Nevertheless, the upcoming negotiations with the United Kingdom on leaving the EU and the parliamentary elections in Italy in the spring of 2018, for example, harbor potential to put the breaks on the European economy.

The economic situation in the Federal Republic of Germany

The regional focus of the euromicron Group companies' business operations is on German-speaking countries. According to the Federal Statistical Office, the economic situation in Germany in 2017 was characterized by strong growth. All in all, the average increase in gross domestic product (GDP) for 2017 as a whole was 2.5% (after price and working-day adjustments). The IfW anticipates that gross domestic product will grow by 2.5% in 2018 and 2.2% the year after.

2.5%

growth in German GDP is forecast by the IfW for 2018.

The driving force is economic dynamism and Germany's upturn has a broad base. Apart from export business, there are also powerful boosts from the domestic economy. According to the forecast, investments by companies are increasing perceptibly, including in the international arena, due to the very good sales and earnings prospects. Construction investment will probably rise strongly again due to the extremely attractive financing conditions, the high demand for living space and high increases in government revenue.

The German ICT market

The German Association for Information Technology, Telecommunications and New Media (BITKOM) states that the German ICT market grew by 2.2% to €161.3 billion in the whole of 2017, compared with revenue of €157.8 billion the year before. Revenue in the information technology sector grew by 3.9% to €86.2 billion. According to the association, business in the software segment grew best: by 6.3% to €23.0 billion.

Revenue from IT services, which – alongside the software market – are an especially strong reflection of orders relating to digitization of companies, recorded a rise of 2.3% to €39.0 billion. The continuing high demand for software and IT services shows that digitization has reached all areas of the economy. Whereas cloud computing has now become established at the majority of companies as the basis for further digitization steps, there is still high growth potential in the market for big data and the Internet of Things (IoT), according to BITKOM's core statements.

1.7%

growth is expected by BITKOM for the ICT industry.

Outlook for 2018

BITKOM expects revenue in the overall ICT market to grow by 1.7% to €164.0 billion in 2018. As a result, the German ICT market will remain on a growth trajectory in 2018. The main growth driver is seen as information technology with its segments of software and IT services, which includes project business and IT consulting, for example.

The continuing high demand for software and IT services shows that digitization has reached all areas of the economy. The resultant boost to employment is also expected to continue in the current year: BITKOM anticipates the industry will add 42,000 jobs in 2018. That number could be even higher if there were more skilled workers available. In its forecast, EITO assumes that ICT revenue will increase by 3.3% to €3.2 trillion.

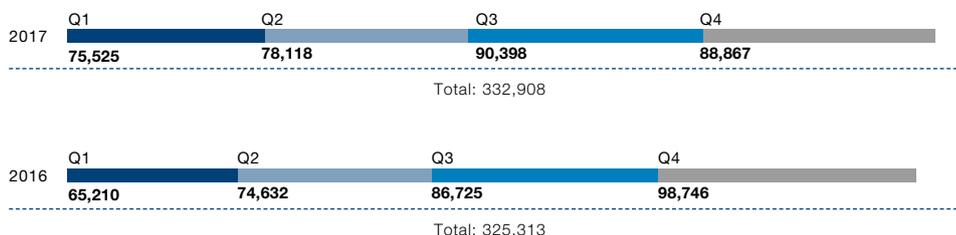
2.2 Course of business

General statement on the performance of the euromicron Group in fiscal year 2017

The euromicron Group closed fiscal year 2017 with sales of €332.9 million (previous year: €325.3 million), an increase of 2.3%. Consequently, sales in fiscal year 2017 were within the range of €330 million to €350 million that was forecast in the 2016 Annual Report. The €7.6 million rise in consolidated sales is mainly attributable to the €9.6 million increase in external sales in the "Critical Infrastructures" segment, underpinned not only by the positive sales performance of telent GmbH, but also the external sales of KORAMIS GmbH (€3.7 million), the company that was newly acquired in 2017. The "Distribution" segment increased its external sales by €1.8 million, in particular thanks to the positive trend in foreign distribution business. However, the "Non-strategic Business Segments" segment posted a €2.6 million decline in external sales, due to discontinuation of the business operations of the Group companies assigned to this segment. In addition, the external sales of the "Smart Buildings" segment fell by €1.2 million; however, a drop of around €8.2 million was attributable here solely to the sale of the "Telecommunications" division of euromicron Deutschland GmbH. After adjustment for that effect, the "Smart Buildings" segment posted an increase in external sales of around €7.0 in 2017. We refer to the presentation of the segments' development for an explanation of the individual segments' total sales.

Sales by quarter

€ thousand



The traditionally cyclical nature of business at the euromicron Group, which generates most of its sales and income in the second half of the year and in particular in the fourth quarter, was also noticeable in fiscal year 2017, albeit less substantially than in previous years. Around 53.8% of annual sales were achieved in the second half of 2017 (previous year: 57.0%). The sales generated in the traditionally weaker first half of the fiscal year accounted for 46.2% of the total figure, compared to 43.0% in the previous year.

The Group's adjusted total operating performance (sales from operations plus inventory changes) was €332.3 million, €7.9 up on the previous year (€324.4 million). The effect of the €7.9 million increase in the adjusted total operating performance on gross operating profit (adjusted total operating performance less cost of materials from operations) totaled €6.3 million. The volume-related effect from the increase in the adjusted total operating performance (€3.7 million) and the effect from the sharp improvement in the adjusted material usage ratio (cost of materials from operations relative to adjusted total operating performance) had a positive impact of €2.6 million on the gross operating profit. The adjusted material usage ratio improved by 0.8% from 52.7% to 51.9% in fiscal year 2017. That is attributable to discontinuation of the non-strategic business segments, which had an above-average material usage ratio. On the other, there was a more favorable margin mix compared with the previous year in parts of product and solution business.

Operating EBITDA (EBITDA before reorganization costs) was €13.5 million, €0.3 million above the level of the previous year (€13.2 million). The operating EBITDA margin (relative to sales) was 4.1%. It is therefore at the lower end of the target range of 4.0% to 5.0% forecast in the 2016 Annual Report.

Operating EBITDA was just €0.3 higher, despite an €6.3 million increase in gross operating profit and an €0.6 increase in own work capitalized, mainly due to the €2.3 decrease in other operating income, coupled with the fact that personnel costs from operations and other operating expenses increased by €3.5 million and €0.8 million respectively. In the previous year, the other operating income included non-recurring effects totaling €2.8 million from recognition of a receivable from reimbursement of legal and litigation costs (€1.4 million), income from claims from rights of recourse against former shareholders of ATECS AG due to payment of tax arrears from the period before the company was acquired by euromicron AG (€1.1 million) and recognition of a receivable from claims for damages against former board members of euromicron AG (€0.3 million).

€ **13.5** million
our operating EBITDA.

Reorganization costs with an impact on EBITDA totaled €4.0 million and reduced the EBITDA margin by 1.2%. Consequently, they were €1.0 million above the upper end of the range of €2.0 million to €3.0 million that was forecast in the 2016 Annual Report. The higher reorganization costs were incurred in particular at the level of euromicron AG ("Central Services" area) and resulted to an amount of €0.5 million from unplanned effects on earnings from a provision set up for litigation costs. Apart from that, the other legal and consulting costs connected with the reorganization and the costs of reorganization measures in the area of human resources at euromicron AG were slightly higher than planned.

The euromicron Group's working capital ratio (working capital relative to sales) rose slightly by 1.1 percentage points to 12.9% in 2017 and so was 2.9 percentage points above the figure of around 10.0% forecast in the 2016 Annual Report. This increase is attributable to the fact that the volume of factoring was lower year on year and compared to the planning, as is visible from the working capital ratio before factoring, which was 22.7% and so virtually at the level of the previous year (22.5%). Moreover, the up-front financing of project business at certain system house companies in the Group was slightly above the figure planned due to reporting date-related effects.

In summary, fiscal year 2017 was characterized by a slightly more even distribution of sales and income than the year before. Sales were increased, key earnings ratios improved and reorganization costs reduced in 2017.

The operating EBITDA was €13.5 million, €0.3 million above the previous year's figure. If the non-recurring effects of €2.8 million contained in the previous year's other operating income are also taken into account, operating EBITDA increased by €3.1 million, an improvement in earnings of around 30%.

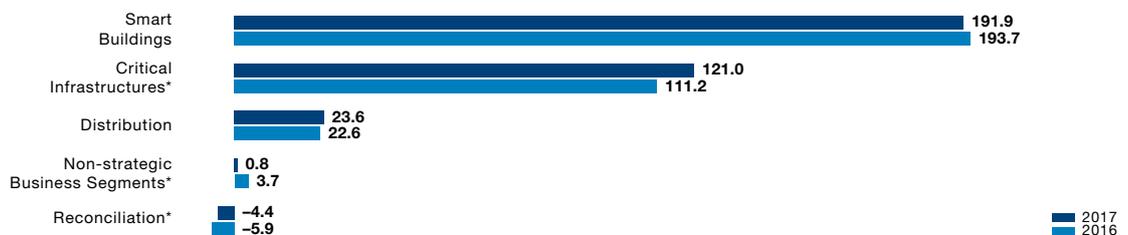
Following reporting of a negative EBIT of € -2.3 million in the previous year, a positive EBIT of €1.1 million was posted in 2017. The consolidated net loss for the year for euromicron AG shareholders was also reduced sharply to € -3.8 million from € -12.7 million the year before.

Development of the segments

The key figures for the individual segments of the euromicron Group changed as follows in fiscal year 2017:

Sales

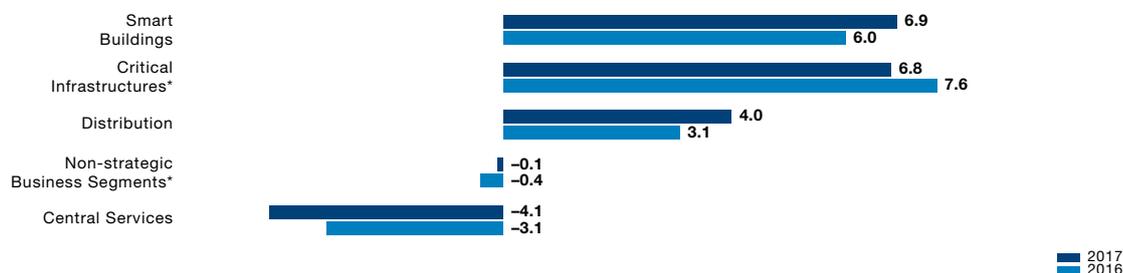
€ m.



* The previous year's figure has been adjusted.

Operating EBITDA

€ m.



* The previous year's figure has been adjusted.

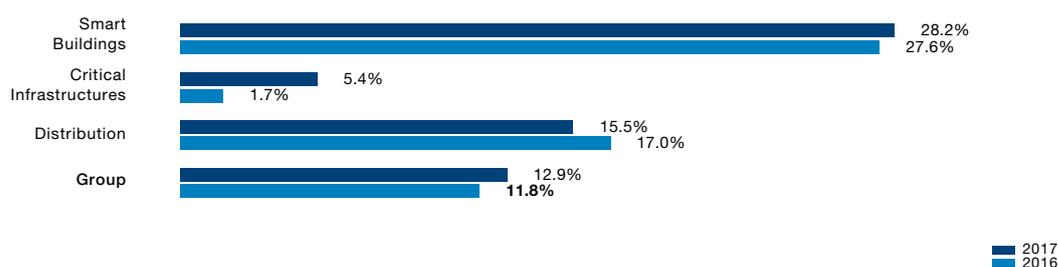
Reconciliation of the reported EBITDA with operating EBITDA/presentation of the reorganization costs

004

	2017			2016*		
	Reported EBITDA	Reorganization costs	Operating EBITDA	Reported EBITDA	Reorganization costs	Operating EBITDA
	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.
Smart Buildings	6.0	-0.9	6.9	4.2	-1.8	6.0
Critical Infrastructures*	6.8	0.0	6.8	7.1	-0.5	7.6
Distribution	4.0	0.0	4.0	3.1	0.0	3.1
Non-strategic Business Segments*	-0.5	-0.4	-0.1	-1.0	-0.6	-0.4
Central Services	-6.8	-2.7	-4.1	-6.0	-2.9	-3.1
Total EBITDA	9.5	-4.0	13.5	7.4	-5.8	13.2

* The previous year's figure has been adjusted.

Working capital ratio



Smart Buildings

Total sales in the "Smart Buildings" segment (external sales and sales within the Group) were €191.9 million, a slight fall of €1.8 million or 0.9% compared to the previous year's figure of €193.7 million. The decline in this segment's total sales is due to the fact that last year's figure still fully included sales from the "Telecommunications" division of euromicron Deutschland GmbH, which was disposed of effective April 30, 2017, whereas only sales for the first four months were included in the figure for fiscal year 2017. After adjustment for this effect of around €8.2 million, sales increased by €6.4 million or approximately 3.5%. This rise is due to higher sales in system house business and in the area of test systems and workplace solutions for the target market "Smart Industry". On the other hand, there were lower sales from the supply of components, in particular to international customers.

The forecast for the “Smart Buildings” segment envisaged sales growth in the medium single-digit percentage range. In addition to the previously explained causes for the year-on-year deviation in sales, the forecast growth in sales at euromicron Deutschland GmbH did not materialize to the planned extent in fiscal year 2017. Although sales were increased (after adjustment for the effects from the disposal of the “Telecommunications” division), the still high order books did not impact sales to the forecast extent, in particular due to postponements of orders. A further factor was that planned sales in the area of innovation “Smart Building Solutions” at MICROSENS GmbH & Co. KG were not realized in 2017, since there is a time delay of one year compared to planning before sales are achieved in this target market. Whereas the planning already included sales for this area of innovation for 2017, new orders that will only result in revenue in 2018 and beyond were actually recorded in 2017. **TABLE 004**

The operating EBITDA margin in the “Smart Buildings” segment rose to 3.6%.

Despite the slight fall in sales, operating EBITDA increased by €0.9 million from €6.0 million to €6.9 million, meaning the operating EBITDA margin also rose from 3.1% to 3.6%. This positive trend is mainly attributable to the improvement in earnings at euromicron Deutschland GmbH. There were also positive effects from the higher sales volume from test systems and workplace solutions for the target market “Smart Industry”. On the other hand, there were lower contribution margins due to the previously mentioned drop in sales from supplies of components in international business.

An operating EBITDA margin of 5.5% was forecast for 2017. The deviation in the EBITDA margin compared with the forecast is mainly due to a lack of contribution margins from sales that were below budgeted at euromicron Deutschland GmbH and the lack of sales from the area of innovation “Smart Business Solutions”.

Reorganization costs with an impact on EBITDA in the “Smart Buildings” segment totaled €0.9 million and so were half the figure of the previous year (€1.8 million). The forecast envisaged reorganization costs with an impact on EBITDA within a range of between €0.5 million and €0.7 million. The cause of this slight rise in reorganization costs was in particular higher costs for HR measures at euromicron Deutschland GmbH than envisaged in the planning.

The working capital ratio in this segment increased slightly by 0.6 percentage points to 28.2% in fiscal year 2017. The forecast target of reducing the working capital ratio by up to 4.0 percentage points was therefore not achieved. A particularly crucial factor in that was the higher level of tied-up capital at the system house companies.

We expect this segment to post sales growth in the low single-digit percentage range in 2018, in particular due to market development and expansion of innovation business. Operating EBITDA is expected to improve again moderately and so we anticipate an operating EBITDA margin in the medium single-digit percentage range. As a result of projects being billed and the continuation of the measures to optimize working capital, we expect a sharp reduction in the working capital ratio of up to 6.0 percentage points for the year after.

Critical Infrastructures

In analyzing the “Critical Infrastructures” segment, it is necessary to take into account that RSR Datacom GmbH & Co. KG – following discontinuation of its business operations at the end of fiscal year 2016 – is no longer assigned to the “Critical Infrastructures” segment, but instead to the “Non-strategic Business Segments”, as of fiscal year 2017 in line with the internal reporting structure. In this connection, the previous year’s figures have also been adjusted in segment reporting so as to enable better comparison.

The “Critical Infrastructures” segment posted total sales of €121.0 million, €9.8 million or 8.8% higher than in the previous year (€111.2 million¹). Apart from the positive sales performance, in particular of telent GmbH, sales from KORAMIS GmbH, which was newly acquired in 2017, also contributed to that (to an amount of €3.7 million). The forecast envisaged an increase in sales in the high single-digit percentage range for this segment.

The segment’s operating EBITDA (previous year: €7.6 million¹) fell by €0.8 million to €6.8 million. However, it should be taken into account that the previous year’s figure included €1.1 million in one-off proceeds from rights of recourse against former shareholders of ATECS AG due to payment of tax arrears from the period before the company was acquired by euromicron AG. After adjustment for these non-recurring effects, the segment’s operating EBITDA increased by €0.3 million. The operating EBITDA margin was 5.6% compared with 6.8%¹ the previous year.

The forecast envisaged an operating EBITDA margin at around the level of fiscal year 2016 (6.8%¹). The deviation of 1.2 percentage points in the operating EBITDA margin compared with the forecast is attributable in particular to the fact that the sales realized in 2017 contain a higher share of sales from system houses and a lower share of higher-margin product sales than envisaged in the planning. The operating EBITDA margin is also below the forecast figure as a result of this shift in the sales mix.

There were no reorganization costs with an impact on EBITDA in the “Critical Infrastructures” segment in fiscal year 2017 (previous year: €0.5 million). Reorganization costs within a range of between €0.1 million and €0.2 million were anticipated for 2017 in the forecast in the 2016 Annual Report. However, they were planned in connection with the closure of the “Fiber-optic Infrastructure” division of RSR Datacom GmbH & Co. KG, which is no longer allocated to this segment as of fiscal year 2017.

This segment’s working capital ratio increased from 1.7% to 5.4%, which is attributable in particular to the low volume of factoring in this segment. The forecast target of keeping the working capital ratio at below 5.0% was therefore not met by only a narrow margin.

Sales are to be increased by a figure in the medium single-digit percentage range next year. This is due in particular to rising sales in product business, which are also to be increased by the market launch of products developed in-house. In addition, an increase in sales in foreign system house business in this segment is expected. The anticipated operating EBITDA margin for 2018 is slightly above the level of 2017. Reorganization costs are not expected in this segment. A working capital ratio of below 7.0% is aimed for in this segment.

€ **9.8** million

increase in sales in the “Critical Infrastructures” segment.

¹ The previous year’s figure has been adjusted; Since 2017, RSR Datacom GmbH & Co. KG is carried under the “Non-strategic Business Segments” in segment reporting, with adjustment of the previous year’s figures

Distribution

The segment's sales were €23.6 million, €1.0 million or 4.2% above the level of the previous year (€22.6 million). The forecast for fiscal year 2017 envisaged sales growth in the medium single-digit percentage range; the forecast target was thus achieved.

The operating EBITDA margin was 16.9% and so well up on the previous year's 13.9%. The operating EBITDA was thus €4.0 million, €0.9 million above the previous year's figure. The operating EBITDA margin of around 9.0% forecast for 2017 was therefore far exceeded, in particular due to the sharp improvement in the gross profit margin for the sold product mix.

As in the previous year, reorganization costs were not incurred in this segment and were also not forecast.

The working capital ratio is 15.5% and so 1.5 percentage points lower than in the previous year and than forecast for 2017 (17.0%).

Sales at this segment are expected to grow in the low to medium single-digit percentage range in 2018. The operating EBITDA margin of around 11.5% forecast for 2018 is below the EBITDA margin for 2017. A slight price-related decline in the gross profit margin was assumed in the planning; in addition, costs for the planned further expansion of the sales organization were taken into account. For the subsequent year, we expect a working capital ratio slightly above the level of 2017.

Overall, the euromicron Group generated an operating EBITDA of €17.7 million (previous year: €16.7 million¹) from the reportable operating segments. The operating EBITDA margin was 5.3% compared with 5.1%¹ the previous year.

Non-strategic Business Segments

euromicron NBG Fiber Optics GmbH was sold and euromicron benelux S.A. was liquidated in the past fiscal year. Liquidation of Avalan GmbH (in liquidation) was continued as planned. In addition, RSR Datacom GmbH & Co. KG was assigned to the "Non-strategic Business Segments". We refer in this regard to the notes on the development of the "Critical Infra-structures" segment.

As a result of the allocation of RSR Datacom GmbH & Co. KG to the "Non-strategic Business Segments", sales of €0.8 million were – contrary to the forecast – generated in 2017 (previous year: €3.7 million¹); in addition, a negative operating EBITDA of € –0.1 million (previous year: € –0.4 million¹) was posted.

The reorganization costs incurred in 2017 (follow-up costs from the closures) totaled €0.4 million (previous year: €0.6 million) and were slightly above the forecast figure of €0.1 million to €0.2 million, which was mainly attributable to the fact that RSR Datacom GmbH & Co. KG was newly assigned to this division in 2017.

For 2018 further sales of around €0.6 million and follow-up costs from the closure totaling approximately €0.1 million are anticipated until the planned final liquidation of these companies.

¹ The previous year's figure has been adjusted; Since 2017, RSR Datacom GmbH & Co. KG is carried under the "Non-strategic Business Segments" in segment reporting, with adjustment of the previous year's figures

Central Services

The “Central Services” area mainly includes euromicron AG, the strategic management holding company responsible for central controlling functions for the euromicron Group.

The negative operating EBITDA for “Central Services” increased by € –1.0 million from € –3.1 million to € –4.1 million in 2017. The deviation is mainly attributable to the fact that earnings in the previous year were impacted to an amount of €1.7 million by positive non-recurring effects from recognition of a receivable from reimbursement of litigation and legal costs (€1.4 million) and recognition of a receivable from claims for damages against former board members of euromicron AG (€0.3 million), which were no longer incurred in 2017. On the other hand, other operating expenses in particular were lower than in the previous year as a result of savings in various cost items, such as advertising, operating, IT, legal and consulting costs.

However, the operating EBITDA is €1.2 million better than the forecast € –5.3 million. The positive deviation from the forecast figure is due in particular to savings on personnel costs (€0.5 million) and material costs (€0.6 million).

The reorganization costs were €2.7 million, €0.2 lower than in the previous year. They were €0.8 million above the upper end of the forecast range of €1.7 million to €1.9 million. This is attributable in particular to unplanned effects on earnings from a provision set up for litigation costs and higher legal and consulting costs related to the reorganization. In addition, the costs for reorganization measures in the area of human resources were slightly above the planned figures.

Negative operating EBITDA of around € –5.4 million is anticipated for the subsequent year. € –0.6 million of the increase in the planned negative operating EBITDA of € –1.3 million from € –4.1 million to € –5.4 million is due to higher personnel costs. These will be incurred in connection with the further planned expansion of euromicron AG as a strategic management holding company; a rise in costs for bonuses is also anticipated. In particular, higher material costs of € –0.5 million have also been planned; they mainly result from higher legal and consulting costs, costs for advertising and trade fairs, and IT costs. In addition, special costs with an impact on EBITDA and totaling €1.7 million to €1.9 million are anticipated for “Central Services” in fiscal year 2018, in particular legal and consulting costs and costs connected with the Group’s financing.

2.3 Net assets, financial position and results of operations

Net assets

The table below presents the asset and equity structure of the euromicron Group:

TABLE 005

Asset and equity structure	Dec. 31, 2017		Dec. 31, 2016	
	€ m.	%	€ m.	%
	Noncurrent assets	146.8	58.2	141.2
Current assets	100.4	39.8	96.5	39.5
Cash and cash equivalents	5.0	2.0	6.9	2.8
Assets	252.2	100.0	244.6	100.0
Equity	78.6	31.1	82.4	33.7
Noncurrent liabilities	30.7	12.2	48.2	19.7
thereof financial liabilities	21.7	8.6	39.3	16.1
Current liabilities	142.9	56.7	114.0	46.6
thereof financial liabilities	72.6	28.8	40.3	16.5
Equity and liabilities	252.2	100.0	244.6	100.0

The euromicron Group's total assets at December 31, 2017, increased by 3.1% to €252.2 million compared with €244.6 million in the previous year.

The increase in noncurrent assets by €5.6 million to €146.8 million (previous year: €141.2 million) is mainly due to the investment-related rise of €3.5 million in property, plant and equipment and the company acquisitions in the fiscal year, which resulted in an increase of €2.3 million in goodwill.

Capital spending in fiscal year 2017 totaled €14.5 million (previous year: €8.9 million). That figure includes additions from company acquisitions totaling around €2.7 million (previous year: €0.1 million). The remaining investments of €11.8 million (previous year: €8.8 million) include €2.8 million (previous year: €2.3 million) on capitalized development costs, €1.6 million (previous year: €1.3 million) on other intangible assets and €7.4 million (previous year: €5.2 million) on property, plant and equipment.

The ratio of equity and long-term liabilities to noncurrent assets is 74.4% (previous year: 92.4%).

Current assets increased by €3.9 million to €100.4 million.

€3.1 million of that increase is due to the rise in inventories. Due to the amount of required stocking of products, there was in particular an increase in the inventories of the system houses in the "Critical Infrastructures" segment and of the technology companies in the "Smart Buildings" segment by €2.1 million and €1.0 million respectively.

In addition, gross amounts due from customers for contract work increased by €11.8 million, whereas trade receivables fell by € –9.2 million. The result was a net rise of €2.6 million, mainly due to the higher volume of business. The shift between these two balance sheet items is attributable in particular to the order and project structure.

On the other hand, there was a reduction of € –1.6 million in other financial assets. € –1.4 million of this decline is due to receipt of payment in fiscal year 2017 of the receivable from reimbursement of litigation and legal costs that was capitalized in the previous year.

Apart from that, cash and cash equivalents fell by € –1.9 million. We refer in this regard to the consolidated statement of cash flows and the comments on the Group's financial situation. The assets held for sale also declined by € –0.7 million, due to disposal of the "Telecommunications" division of euromicron Deutschland GmbH effective April 30, 2017.

Working capital (trade accounts receivable, gross amount due from customers for contract work and inventories less trade accounts payable, gross amount due to customers for contract work and prepayments) was €43.0 million at the balance sheet date, an increase of €4.5 million over the previous year (€38.5 million). €2.2 million of the rise is attributable to the reduction in the volume of factoring and €2.3 million to the increase in working capital as part of operational business. The latter is a result in particular of adjustment of working capital to the higher volume of sales. In addition, there were reporting date-related effects for individual items of the working capital at the end of fiscal year 2017, resulting in an increase in working capital. The Group's working capital ratio (working capital relative to sales) thus increased slightly by 1.1 percentage points to 12.9% in 2017.

Equity at December 31, 2017, was €78.6 million, below the level of the previous year (€82.4 million). The equity ratio is 31.1% (previous year: 33.7%) and therefore still at a high level. The decline in equity by €3.8 million is mainly due to an amount of €3.5 million to the consolidated net loss in fiscal year 2017. In addition, lower revaluation effects from pensions, which had to be recognized directly in equity, reduced equity by €0.2 million. Other effects also reduced equity by an amount of €0.1 million.

Noncurrent liabilities fell by € –17.5 million to €30.7 million in fiscal year 2017. € –18.5 million of this decline is due to the reclassification of liabilities from long-term to short-term liabilities to banks due to the length of time in which they are due.

On the other hand, short-term liabilities rose by €28.9 million to €142.9 million. €32.5 million of this rise is due to higher short-term liabilities to banks; of this, an amount of €18.5 million is the result of the above-mentioned reclassification from long-term liabilities to banks.

31.1%

equity ratio – still at a high level.

The Group's net financial debt (the total of liabilities to banks and from finance leases less cash and cash equivalents) at December 31, 2017, totaled €87.3 million (previous year: €71.0 million). The increase in net financial debt of €16.3 thousand is attributable in particular to the fact that while there was a sharp increase in net cash used in investing activities (€13.5 million) – also for acquisition-related reasons – in fiscal year 2017, the net cash provided by operating activities totaled just €0.4 million after adjustment for factoring effects. In addition, effects from the euromicron Group's factoring program contributed €1.9 million to the increase in net financial debt; in particular, the lower volume of sold receivables had an impact here.

Trade accounts payable at the key date increased slightly by €2.5 million to €47.0 million compared to €44.5 million in the previous year due to reporting date-related effects.

There were counter-effects among the current liabilities, in particular due to a € –2.1 million drop in liabilities from current income taxes, a € –3.3 million decrease in other tax liabilities (mainly from value-added tax) and a € –1.8 million decline in other liabilities. The decline in other liabilities is attributable to lower prepayments.

Financial position

The Group is largely financed centrally through euromicron AG. This is done through a central cash pooling system to which all Group companies are linked in principle. Internal financial equalization as part of a cash management system of the individual companies reduces the volume of outside funding at the Group. Centralization of financing makes a contribution to optimizing the costs of capital and the opportunities for obtaining and investing capital. Apart from financing through euromicron AG, individual Group companies have a number of smaller lines of funding, which are however insignificant in terms of volume.

At December 31, 2017, unutilized promised credit lines of €23.5 million (previous year: €37.5 million) were available to the Group.

The Group's cash funds changed in fiscal year 2017 as follows: [TABLE 006](#)

Statement of cash flows of the euromicron Group		006
for the period January 1 to December 31, 2017 (IFRS)	2017	2016
	€ thou.	€ thou.
Net cash used in operating activities	–1,560	–7,140
Net cash used in investing activities	–13,471	–7,770
Net cash provided by financing activities	13,141	11,032
Net change in cash funds	–1,890	–3,878
Cash funds at start of period	6,844	10,722
Cash funds at end of period	4,954	6,844

The reported net cash used in operating activities in fiscal year 2017 was € –1.6 million (previous year: € –7.1 million). However, the reported cash flow figures from operating activities are mainly impacted by effects resulting from the Group's factoring program.

In order to obtain comparable cash flow figures that permit a statement to be made on the development of cash flows from operating activities, the figure was therefore adjusted to take into account the factoring effects.

This involves the following:

- Elimination of the effect from the change in the volume of factoring used between the balance sheet date and the respective balance sheet date for the previous period. This resulted in a negative cash flow effect to be eliminated of € –2.3 million at December 31, 2017, due to the lower volume of factoring compared with at December 31, 2016 (previous year: a positive cash flow effect of €14.4 due to the higher volume of factoring).
- Where Group companies received monies from customers resulting from receivables sold as part of factoring shortly before the balance sheet date and the Group companies were not able to pay these monies over to the factoring company, this results in a liability from customer monies to be passed on, which is carried under “Other financial liabilities”. The effect on liquidity from the change in these liabilities between the respective balance sheet date and the balance sheet date of the previous period is eliminated for the purposes of analyzing the cash flow from operating activities. However, that did not result in any cash flow effect to be eliminated in 2017 (previous year: € –21.8 million), since the change in practice (customer payments are now transferred directly to the factoring company) means that such liabilities can only arise in exceptional cases. Before this change was made in the first quarter of 2016, customer payments from sold receivables were held in trust in local accounts and passed on to the factoring company at regular times, which is why there was a sharp decline in liabilities from customers’ monies to be passed on in 2016; this had to be eliminated as part of determining the cash flow adjusted for factoring effects.
- The full amount of the receivable offered for sale is initially not paid out by the factoring company, but a blocked amount is withheld. Some of the sold receivables were also still being examined and so had not been paid out by the factoring company. The resultant receivable due from the factoring company is carried under “Other financial assets”; here too, the change in the balance sheet item has to be eliminated for the purposes of analyzing the cash flow from operating activities. This positive cash flow effect to be eliminated was €0.3 million in 2017 (previous year: negative cash flow effect to be eliminated of € –1.0 million).

All in all, reconciliation of these three factors results in cash flows from operating activities after adjustment for factoring effects as summarized in the table below: **TABLE 007**

Adjusted cash flow		007		
	Cash flow from operating activities acc. to statement of cash flows	Effects from factoring and customers’ monies to be passed on	Adjusted cash flow	
	€ m.	€ m.	€ m.	
2016	–7.1	8.4	1.3	
2017	–1.6	2.0	0.4	

The described factoring effects meant there was a negative cash flow effect of € –2.0 million in fiscal year 2017, which resulted correspondingly in a greater need for external financing and so an increase in the euromicron Group’s net debt.

After adjustment for factoring effects, there is net cash provided by operating activities totaling €0.4 million in fiscal year 2017 compared with €1.3 million in the previous year. As a result, the cash flow from operating activities after adjustment for the effects of factoring fell slightly by €0.9 million in fiscal year 2017.

Coupled with an increase in EBITDA of €2.1 million and a €1.2 million lower cash outflow from the balance of paid and received income taxes and interest, this is attributable to an amount of € -4.2 million to cash effects from the change in working capital: Whereas the reduction in working capital resulted in positive cash flow effects of €1.7 million in 2016, the cash flow for 2017 was negatively influenced to an amount of € -2.5 million by the slight increase in working capital, especially due to the Group's growth.

Net cash used in investing activities is derived from the net cash from the disposal of assets and the net cash used for investments in property, plant and equipment and intangible assets, as well as company acquisitions. The net cash used in the fiscal year was € -13.5 million or € -5.7 million higher than in the previous year (€ -7.8 million). This is mainly the result of higher net cash used in purchasing property, plant and equipment (€ -2.6 million) and in purchasing intangible assets (€ -1.0 million). Apart from that, the year-on-year increase of € -1.4 million in net cash used in company acquisitions (mainly as a result of the acquisition of KORAMIS GmbH) and the effects from the disposal of subsidiaries and other business units (€ -0.7 million; mainly in connection with disposal of the "Telecommunications" division of euromicron Deutschland GmbH) led to an increase in net cash used in investing activities.

The net cash provided by financing activities in fiscal year 2017 was €13.1 million (previous year: €11.0 million). This is due to an amount of €13.9 million (previous year: €11.7 million) to the raising of new financial loans that exceeded the net cash used to repay loans. On the other hand, there were cash repayments of liabilities from finance leases totaling € -0.5 million (previous year: € -0.5 million) and distributions to non-controlling shareholders and from profit shares of minority interests totaling € -0.3 million (previous year: € -0.2 million).

Cash and cash equivalents of the euromicron Group at December 31, 2017, were thus €5.0 million (previous year: €6.9 million). [TABLE 008](#)

Results of operations

008

Income statement of the euromicron Group for the period January 1 to December 31, 2017 (IFRS)	2017 incl. reorganiza- tion costs	Reorganiza- tion costs	2017 operational*	2016 incl. reorganiza- tion costs	Reorganiza- tion costs	2016 operational*
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Sales	332,908	- 12	332,920	325,313	2	325,311
Inventory changes	-612	0	-612	-863	0	-863
Own work capitalized	3,389	0	3,389	2,808	0	2,808
Other operating income	2,190	7	2,183	4,499	42	4,457
Cost of materials	-172,432	-25	-172,407	-171,506	-629	-170,877
Personnel costs	-112,551	-826	-111,725	-109,057	-787	-108,270
Other operating expenses	-43,389	-3,127	-40,262	-43,809	-4,390	-39,419
Earnings before interest, taxes, depreciation and amortization (EBITDA)	9,503	-3,983	13,486	7,385	-5,762	13,147
Amortization and depreciation	-8,405	0	-8,405	-9,649	-979	-8,670
Impairment of goodwill	0	0	0	0	0	0
Earnings before interest and taxes (EBIT)	1,098	-3,983	5,081	-2,264	-6,741	4,477
Interest income	313	0	313	152	0	152
Interest expenses	-4,943	-120	-4,823	-5,439	-591	-4,848
Other financial income	200	0	200	0	0	0
Other financial expenses	-219	0	-219	-73	0	-73
Income before income taxes	-3,551	-4,103	552	-7,624	-7,332	-292
Income taxes	45	0	45	-4,845	0	-4,845
Consolidated net loss/ income for the year	-3,506	-4,103	597	-12,469	-7,332	-5,137
Thereof for euromicron AG shareholders	-3,769	-4,103	334	-12,655	-7,332	-5,323
Thereof for non-controlling interests	263	0	263	186	0	186
(Un)diluted earnings per share in €	-0.53	-0.57	0.05	-1.76	-1.02	-0.74

*Adjusted for special effects of the reorganization

As in previous years, consolidated earnings for 2017 are reduced by reorganization costs incurred as part of the strategic realignment. However, they have already fallen sharply compared to the previous year. The reorganization costs are distributed over the individual companies of the euromicron Group as follows: **TABLE 009**

Reorganization costs		009
	2017	2016
	€ thou.	€ thou.
Reorganization costs (with an impact on EBITDA)		
euromicron AG	-2,727	-2,937
euromicron Deutschland GmbH	-910	-1,774
Secure Information Management GmbH	0	-385
Avalan GmbH (in liquidation)	-204	-342
RSR Datacom GmbH & Co. KG	-40	-125
ATECS AG	0	-95
euromicron NBG Fiber Optics GmbH	-84	-89
euromicron benelux S.A.	-14	-12
WCS Fiber Optic B.V.	0	-2
(liquidation completed in 2016)	-4	0
ssm euromicron GmbH	-3,983	-5,762
Total reorganization costs with an impact on EBITDA		
Reorganization costs	0	-490
(amortization and depreciation)	0	-489
euromicron Deutschland GmbH	-3,983	-6,741
Secure Information Management GmbH		
Total reorganization costs with an impact on EBIT	-120	-591
Reorganization costs (net financial result)	-4,103	-7,332
euromicron AG		
Total reorganization costs		

€ **4.1** million

reduction in the costs of Group-wide reorganization measures in 2017.

The reorganization costs of euromicron AG (totaling €2.8 million) are mainly due to costs for legal advice, costs for financial advice, other consulting costs, costs of for personnel measures, court and litigation costs, costs for interim managers and costs in connection with restructuring of funding.

At euromicron Deutschland GmbH, the lion's share of the reorganization costs totaling €0.9 million result from costs to optimize the personnel structure (€0.6 million) and the additional need for write-downs in connection with disposal of the "Telecommunications" division (€0.2 million).

The reorganization costs of Avalan (in liquidation), euromicron NBG Fiber Optics GmbH, euromicron benelux S.A. and RSR Datacom GmbH & Co. KG (totaling €0.3 million) result from follow-up costs from the closure of these companies, whose business operations were discontinued at the end of 2015 and 2016 respectively.

Hereafter the year-on-year changes in the results of operations of the euromicron Group after adjustment for the effects of the reorganization are presented.

The euromicron Group generated sales of €332.9 million in fiscal year 2017 and so €7.6 million or 2.3% above the previous year's figure of €325.3. We refer to the presentation of the segments' development for an explanation of the increase in sales.

A breakdown by the various regions shows that most sales were generated within Germany, as in previous years. The sales generated in Germany in fiscal year 2017 were €277.8 million (previous year: €274.3 million) or a share of 83.4% (previous year: 84.3%). Foreign sales increased slightly in 2017 from €51.0 million to €55.1 million, with the result that international sales contributed around 16.6% (previous year: 15.7%) to the euromicron Group's total volume of sales.

€ **277.8** million

in sales in Germany.

The euromicron Group's total operating performance (sales plus inventory changes) was €332.3 million, up €7.9 million or 2.4% on the previous year (€324.4 million).

Own work capitalized totaled €3.4 million, €0.6 million above the level of the previous year (€2.8 million). The euromicron Group continues to invest in developing new products to expand its market position and increase its innovativeness. As in the previous year, the focus of development activities in 2017 was at MICROSENS GmbH & Co. KG, where own work capitalized totaled €1.8 million (previous year: €1.7 million).

Other operating income was €2.2 million, a sharp drop of €2.3 million over the previous year (€4.5 million). That is due in particular to the fact that the other operating income in the previous year contained non-recurring effects totaling €2.8 million. These resulted from recognition of a receivable from reimbursement of legal and litigation costs (€1.4 million), income from claims from rights of recourse against former shareholders of ATECS AG due to payment of tax arrears from the period before the company was acquired by euromicron AG (€1.1 million) and recognition of a receivable from claims for damages against former board members of euromicron AG (€0.3 million).

As in the previous year, the cost of materials is the largest expense item in the euromicron Group's income statement. The (adjusted) cost of materials in fiscal year 2017 was €172.4 million (previous year: €170.9 million); its (adjusted) ratio to total operating performance (material usage ratio) improved by 0.8 percentage points from 52.7% to 51.9%. On the one hand, the improvement in the adjusted material usage ratio is attributable to discontinuation of the business operations of the non-strategic business segments, which had a high material usage ratio. On the other, there was a more favorable margin mix compared with the previous year in parts of product and solution business.

(Adjusted) personnel costs increased in fiscal year 2017 by €3.5 million from €108.3 million to €111.8 million, a rise of 3.2%. The average headcount (excluding trainees) in the reporting period rose by 1.5% from 1,742 to 1,768. Apart from effects from the higher workforce and pay adjustments, the increase in personnel costs is also attributable in particular to the hiring of staff with higher qualifications, in particular in the euromicron Group's areas of innovation.

1,768

employees (excluding trainees) worked at euromicron as an average in 2017.

(Adjusted) other operating expenses in the fiscal year were €40.3 million, €0.9 million above the comparative figure for the previous year of €39.4 million. The largest items in the (adjusted) other operating expenses were still vehicle and travel expenses (€12.5 million; previous year: €12.4 million), rent/room costs (€6.1 million; previous year: €5.8 million) and legal and consulting costs (€3.1 million; previous year: €2.9 million).

Operating earnings before interest, taxes, depreciation and amortization (operating EBITDA) totaled €13.5 million (previous year: €13.2 million). The operating EBITDA margin was 4.1% (previous year: 4.0%).

(Adjusted) amortization and depreciation totaled €8.4 million, a slight fall of €0.3 million compared with the previous year (€8.7 million). This is due in particular to lower amortization of intangible assets disclosed as part of capital consolidation.

After allowing for amortization and depreciation, operating EBIT was €5.1 million, an improvement of €0.6 million over the previous year (€4.5 million).

The (adjusted) net financial result was € -4.5 million, a slight €0.3 million up on the previous year (€ -4.8 million).

The tax ratio in the reporting period was 1.3% after -63.5% in the previous year. The tax income was €45 thousand (previous year: tax expense of €4.8 million). The deviation from the anticipated tax ratio of 30% (expected tax income: €1.1 million) is attributable to an amount of €0.6 million to the fact that, as a result of the tax losses made by a number of companies, no deferred tax assets were recognized on tax losses incurred in fiscal year 2017 in accordance with IFRS regulations, which resulted in a negative impact on the tax ratio. In addition, the additional utilization of corporation income tax and trade tax loss carryforwards in the aftermath of the tax audits for the years 2010–2012 at euromicron AG resulted in a non-cash charge from the reduction in deferred tax assets of €1.7 million. On the other hand, there were effects on income from the reversal of tax liabilities and recognition of tax receivables totaling €1.6 million, likewise resulting from completion of the tax audit for the years 2010–2012 at euromicron AG. We refer in this regard to the tax reconciliation in section 20 of the notes on the consolidated income statement.

Positive (adjusted) consolidated net income for the year.

The (adjusted) consolidated net income for shareholders of euromicron AG was €0.3 million (previous year: net loss of € -5.3 million). (Adjusted) undiluted earnings per share were €0.05 versus € -0.74 in the previous year.

Without adjustment for the effects of the reorganization, the consolidated net loss for shareholders of euromicron AG for fiscal year 2017 was € -3.8 million (previous year: € -12.7 million) and the undiluted earnings per share were € -0.53 (previous year: € -1.76).

New orders and order books

New orders at the euromicron Group in fiscal year 2017 were €341.2 million (previous year: €346.0 million), a decline of €4.8 million or 1.4%. Order books at December 31, 2017, were €127.1 million or €3.8 million above the previous year's €123.3 million.

It should be noted in this regard that the above figures for fiscal year 2017 and the previous year still contain new orders and order books from the divisions that have been discontinued or sold in the meantime.

New orders from continuing core business totaled €333.4 million (previous year: €329.4 million), an increase of €4.0 million or 1.2%.

Orders books from continuing core business totaled €126.5 million (previous year: €116.8 million), an increase of €9.7 million or 8.3% and a good springboard for fiscal year 2018.

€ **4.0** million

increase in new orders from continuing core business.

2.4 Non-financial performance indicators

As a German specialist for the Internet of Things, not only key economic ratios are important for us, but also the sustainability of our activities. That is also reflected in our performance indicators. Competent and motivated employees, sparing use of the natural resources available to us, increasing and preserving the value of our brand value, our customers' satisfaction and social responsibility are preconditions for our Group's sustainability. We endeavor to increase and improve them at all times.

Employee development and loyalty

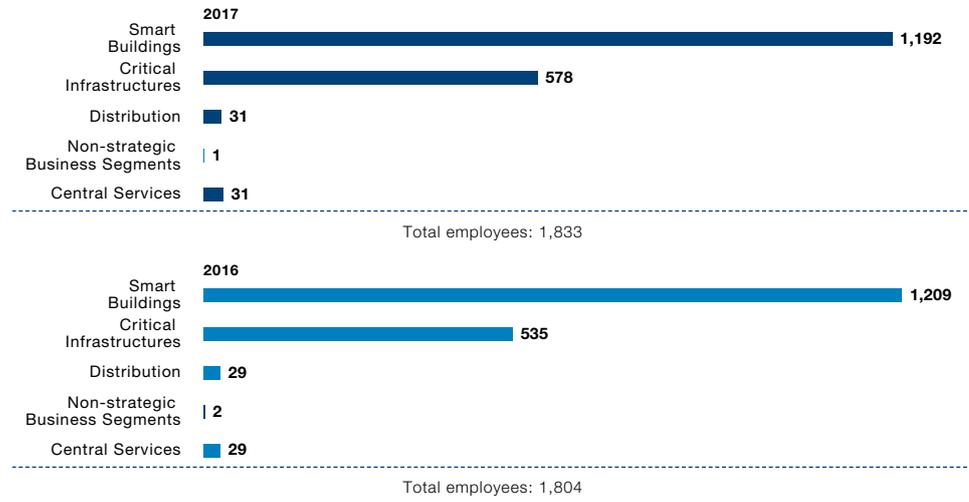
The euromicron Group's success is founded on the skills and commitment of its employees. Our focus as part of that is on close cooperation with the HR departments at our locations and strategic further development and implementation of the Group-wide HR strategy. Organizational and personnel development and employer branding are also important focal areas.

Personnel loyalty thanks to professional and personal further development

As part of the HR strategy, our HR tools such as performance and career reviews, agreements on objectives and development plans are to be constantly developed further and communication between the team and managers optimized actively.

The euromicron Group aims to employ qualified and committed employees at all times and to offer them attractive working conditions and prospects. The average headcount in fiscal year 2017 increased slightly from 1,804 to 1,833 or by 1.6 percentage points. The average number of employees (excluding trainees) was 1,768, a slight increase of 1.5% over the previous year (1,742).

Employees by segment



Personnel costs in fiscal year 2017 were €112.6 million compared with €109.1 million in the previous year. After adjustment for reorganization costs, personnel costs were €111.8 million (previous year: €108.3 million). As a result, personnel costs adjusted for reorganization costs increased by €3.5 million or 3.2%, which is attributable to the effects from the larger workforce and pay adjustments, as well as in particular the hiring of staff with higher qualifications, especially in the euromicron Group's areas of innovation.

Enhancing the loyalty of our employees to the company remains of major importance for us, since they and their expertise and dedication are the main guarantee of our Group's sustainable success in the coming years. Especially in times of a shortage of skilled workers and demographic change, it is vital for us to ensure their long-term loyalty.

Employee development

Vocational training is changing as a result of digital media. Further training is interfacing more and more closely with organizational and corporate development. Moreover, training and management have the same requirements, namely efficiency, sustainability and ensuring that what is learned is applied in practice. So that we meet those requirements, we understand personnel development to be a system of coordinated measures that challenge and encourage our employees so that they gain extensive qualifications to achieve their personal goals.

Trainee ratio

As always, training of new employees is of particular importance to euromicron. The euromicron Group's trainee ratio was again at a good level in the reporting period: 4.0% compared with 3.4% in the previous year. The goal for fiscal year 2018 is to increase the trainee ratio again.

Under the program "For our future! For our trainees!", trainees at the euromicron Group are given support when they start their job, while collaboration and dialog with each other is strengthened. The trainee program contains modules such as "Business etiquette and a visit to the Smart Factory" and "Job rotation". The program is rounded out by an annual meeting of all trainers in the euromicron Group so that they can share notes.

New offerings for trainees:
Job rotation, business etiquette,
a visit to the Smart Factory and
a Training Day.

Responsible use of natural resources

euromicron and its subsidiaries predominantly operate in the service sector. Consequently, the details on resource consumption mainly relate to operation of its own buildings (energy, water, waste) and indirectly to processes at customers that are impacted by euromicron's products and services. In operating its headquarters and own buildings, euromicron ensures the use of smart technologies and control systems to minimize consumption.

As part of moving to new locations, we also ensured that the new buildings meet the latest environmental protection guidelines. The existing and new offices and workplaces have been equipped with energy-efficient equipment whose individual components are predominantly recyclable. All in all, euromicron makes a major contribution to achieving green IT by using hardware that has low power consumption.

The production operations of euromicron's technology companies are also geared to energy-saving processes. These include, for example, computer-aided control of the standby switches or the continuous review and rollout of electric motors with higher efficiency classes. Although none of the Group's companies is subject to special environmental protection guidelines, euromicron nevertheless aims to live up to its responsibility for society as a whole and so attaches great importance to complying with environmental protection regulations.

In procuring new vehicles for its fleet, whether by leasing or other means of expanding it, the companies in the euromicron Group consciously attach importance to economical vehicles with low CO₂ emissions. The existing Car Policy was revised and updated in December 2017 with a focus on reducing CO₂ and has been in force since January 1, 2018. For the first time, a limit to the maximum CO₂ emission figures for vehicles that can be chosen has been defined: They are between 150-170g CO₂/km depending on the user group

In the case of existing vehicles, we ensure that they are passed on internally. In order to enhance preventive healthcare among employees, the cars used in the fleet also have ergonomic seats as minimum equipment. euromicron is also examining the possibility of converting the fleet to electric vehicles or ones with alternative drives.

Consequently, euromicron's corporate philosophy, which is geared toward sustainability, is not only manifested in its commercial operations, but also in sparing use of natural resources.

Established brands and growing visibility

Under the umbrella brand "euromicron", the Group and its technology companies have corporate brands that in some cases have been established in their specific market segment for more than 40 years. These brands include LWL-Sachsenkabel, telent GmbH, MICROSENS and ELABO, for example. All of them have a high reputation and so a brand value in their segment due to the fact that they have operated so long and successfully in the market. Preserving and increasing the value of our brands will continue to be a key element of our corporate strategy in future: Continuous investments in product innovations, modern manufacturing methods, patent applications and appropriate sales and marketing activities help entrench our brands lastingly in their special segments.

At this year's Prolight + Sound in Frankfurt in April 2017, LWL-Sachsenkabel presented its new brand fast.LANE® – a tailored range of products and services for reliable transfer of audio and video data in the fields of event technology, broadcasting and content delivery. Under this label, LWL-Sachsenkabel is pooling its product portfolio and know-how for tailor-made fiber-optic cabling systems that are suitable for studio installations as well as harsh environments (such as the challenging ambiance of a festival).

Strategic partnerships with leading technology suppliers are also key success criteria in rapidly changing markets. Apart from successful partnerships with Cisco Systems or Axis, the cooperation with Extreme Networks in 2017 deserves special mention. Extreme Networks presented euromicron Deutschland GmbH with the "Deal of the Year" award for the acquisition and successful accomplishment of a joint WLAN project for a high-ranking federal state authority. The network solution provider also bestowed the title "Ultimate Warrior Partner of the Year" on the five authorized channel reseller partners who succeeded in meeting the extremely demanding criteria for this contest, which was initiated in 2017. euromicron Deutschland was the first partner worldwide to receive this accolade. To win this award, the company had to achieve defined growth and sales targets, as well as prove a high level of customer satisfaction.

Strategic partnerships with leading technology vendors.

We still keep on striving to enhance the visibility and image of our umbrella brand. Following our extensive transformation, positioning of the euromicron brand is especially important so that in particular the realignment can be presented understandably and in detail on the capital market. We aim to increase the value of the euromicron brand on the capital market, as well as ensure transparent, clear reporting as the basis of a trusted relationship with our investors. As part of that, we conduct active investor and public relations work. In the reporting period, we presented our company in a raft of investor conferences and roadshows, as well as in programs and articles in various media. We demonstrated the innovativeness and high performance of the euromicron Group at prestigious international trade shows, such as "E-world energy & water", the leading trade fair in the energy industry, and at "productronica", the world's leading trade fair for electronics development and production. The focus of our appearance at the "E-world" trade show was on telent's system integration solutions for energy companies and public utilities. At "productronica", ELABO presented how it optimizes the efficiency of key company processes using the Smart Industry software EIM it has developed itself.

Customers and quality

Apart from our employees and our visibility as a brand, another aspect of great importance to us is to ensure the products and services we offer give our customers maximum satisfaction. That demands the very highest standards as regards the quality of our processes, our products and services and our employees.

We measure customer satisfaction and incorporate the results into our improvement process.

We gauge our customers' satisfaction at our large system houses by means of standardized customer satisfaction surveys and analyses. We thus use customer feedback to actively achieve potentials for improvement and optimization.

Our product quality is certified.

To meet the very highest demands made of the quality of our products and services, some of euromicron's companies are certified in accordance with ISO 9001. In the production arena, we also hold certification, for example for making and assembling certain products, as well as approvals to supply specific products and solutions.

3. Forecast, Opportunity and Risk Report

3.1 Explanation of deviations from the previous year's forecast

The previous year's forecast envisaged a sales target of €330 million to €350 million and an operating EBITDA margin between 4.0% and 5.0% for fiscal year 2017. It was also anticipated that reorganization costs would reduce EBITDA in fiscal year 2017 by around €2.0 million to €3.0 million.

Sales in fiscal year 2017 were €332.9 million and so within the forecast range of €330 million to €350 million. The operating EBITDA margin was 4.1% and so likewise with the target range of 4.0% to 5.0% in the forecast.

Reorganization costs reduced EBITDA by €4.0 million in fiscal year 2017 and so were higher than expected in the forecast. For the purpose of explaining the deviation in reorganization costs with an impact on EBITDA from the forecast, the actual figure for fiscal year 2017 is compared with the upper threshold from the forecast:

Deviation of total reorganization costs with an impact on EBITDA from the forecast

	010
	€ m.
Forecast reorganization costs with an impact on EBITDA for 2017 (upper end of the forecast range)	–3,0
Actual reorganization costs with an impact on EBITDA for 2017	–4,0
Deviation from the forecast	–1,0

The deviation of € –1.0 million from the forecast is due in particular to euromicron AG ("Central Services"). € –0.5 of the expenses result from unplanned effects on earnings from a provision set up for litigation costs. Apart from that, the other legal and consulting costs connected with the reorganization and the costs of reorganization measures in the area of human resources at euromicron AG were slightly higher than planned.

As regards working capital, we set ourselves the objective of reducing the working capital ratio (defined as working capital relative to sales) by around 10% by continuing our working capital program. However, the working capital ratio rose slightly in 2017 by 1.1 percentage points to 12.9% and so was 2.9% above the forecast figure. The increase is attributable to a lower volume of factoring than expected, as well as the fact that tied-up capital – in particular in relation to contracts where there is a gross amount due from customers – was higher than forecast due to reporting date-related effects.

We refer to the section "Development of the segments" in 2.2 "Course of business" as regards segment-specific reporting on the forecasts.

3.2 Risk report and salient features of the risk management system

euromicron AG and its subsidiaries have an established risk management system based on statutory stipulations and that also includes analysis of opportunities. The risk management system identifies and documents the main risks and opportunities in accordance with their risk categories and assesses them as regards the probability of their occurring and the level of financial damage. The Executive Board of euromicron AG is notified directly if defined thresholds are exceeded. The risk management system is applied in standardized form at all associated companies and is an integral part of their extensive continuous planning, controlling and reporting processes. This ensures that the Executive Board is informed promptly of all major risks and can respond suitably. The risk management system also covers the consolidated accounting processes. Group-wide policies are in place to ensure compliance with consistent standards in the risk management system and consolidated accounting

The risks that may have a significant influence on the net assets, financial position and results of the euromicron Group are classified in the following categories in accordance with the risk management system:

Risk management system



Markets and competition

In principle, the euromicron Group is dependent on positive economic trends in the Euro zone; as in the previous year, the German market accounts for around 83.4% of the company's sales and so is crucial to its success. Germany is also the place of activity of most of euromicron's subsidiaries, which benefit from investments in communications, security and data networks. Consequently, the development of the German market is of great significance for the overall Group's earnings. Given the positive economic forecasts for 2018, the likelihood of potential economic risks occurring in the German market is assessed as being low. According to current assessments, the slow recovery in the economies of the Mediterranean region will not have any direct impact on euromicron. There are currently only few business relationships outside the European economies, which is why distortions there should not have any material effects on euromicron.

Apart from economic risks, euromicron is subject to the fundamental risks relating to competition and the related pressure on prices. euromicron tackles these challenges by means of diversification and by nurturing intensive contacts with customers so as to be able to offer top-quality products and services at competitive prices. Certain subsidiaries have a low degree of dependence on individual large accounts. This risk at the Group level is relativized, since – as in the previous year – only one customer accounts for more than 10% of total sales. The risk of default by large customers is assessed as being low due to their very good creditworthiness. The risk of nonpayment is additionally reduced by factoring of some receivables from customers.

Products, technologies and R&D

Technology/R&D risks exist to the extent that leaps in technology might mean the loss of technological leadership. However, that applies to the Group only to a limited extent: euromicron's system houses and distributors can keep up with technological innovations without any problems because they have access to their own products and a diversified product portfolio from a wide range of different vendors (philosophy of vendor independence) for delivering customer solutions. euromicron's customers demand that the technology companies deliver top-quality, tailored solutions. To meet this requirement, euromicron's development departments not only respond to technological trends, but also occupy a pioneering role in research and development. To achieve that, the development units at the technology companies have been expanded in the past years and the quality and quantity of support for them enhanced by enlisting the services of external development partners. Due to the continued investments in innovative new products and solutions, which is also reflected in the large proportion of capitalized development costs, only low risks to the Group's future earnings performance are seen in this area.

Projects

In general, project business harbors risks that can never be ruled out completely, but are controllable and calculable. They include up-front financing for projects, ensuring adequate availability of subcontractors and own staff, long-term contractual commitments, and general warranty obligations. It is also necessary to ensure that the technical specifications for the acquired projects can be handled and the projects can be completed in time and in the agreed quality. These risks are influenced by many factors, such as cooperation with suppliers and partners, employee fluctuation and qualifications, or changes to the law or general political conditions. The affected companies are aware of these risks and counter them.

The system houses are mainly affected by up-front financing. They provide up-front financing themselves for some of the projects. If a customer does not meet its payment obligations, the result may be financial losses, depending on the size of the project. To minimize this risk, there are clear stipulations that down-payments and partial invoices should be agreed when the project is accepted so that up-front financing and so potential risks of default are minimized.

Further risks are the realization of revenue billed for individual large projects acquired by euromicron Deutschland GmbH in previous periods. In some cases, final negotiations are being conducted with the customers; in individual cases, claims are already being enforced through legal action, which means receipt of payment may be delayed. This risk was reflected appropriately in measuring the value of these projects. Nevertheless, there may be new findings in subsequent periods that may result in an amended assessment of projects.

Finances and liquidity

The Group's focus on Germany and the Euro zone minimizes risks relating to the exchange rate between the US dollar and Euro. Goods paid for in US dollars are purchased on the basis of short-term, foreign currency-based sales lists, which means that the currency risk can be controlled. Other currencies have as good as no relevance to the euromicron Group.

A further significant financial risk at the euromicron Group is the earnings strength of its companies. Since the Group companies are part of the centrally managed cash pool of euromicron AG, it is necessary to ensure that there are no risks to financing of them through the cash pool. This is achieved by permanent and standardized finance management and reporting that constantly monitors and assesses the Group companies' activities and assigns measures to them, which is why the likelihood of this risk occurring is assessed as being low.

In fiscal year 2017, the euromicron Group had sufficient funds to finance its operational business. The financing agreement currently concluded with our financing partners expires on March 31, 2018. The agreement specified that the company had to fulfill specific key ratios (covenants), which must be tested quarterly. Follow-up financing up to March 31, 2021, was agreed with the financing partners in March 2018. We refer in this regard to the comments in the relevant report in the notes on the consolidated financial statements (section 31 "Significant events after the balance sheet date").

Risks from pending legal disputes and tax risks are also subsumed under the category "finances and liquidity".

- euromicron AG is taking legal action before the district court in Frankfurt/Main against a former member of the Executive Board to obtain repayment of bonuses totaling around €0.3 million paid for the fiscal years 2012 and 2013 and for damages of around €4.2 million due to breaches of duty in the preparation of annual financial statements and interim reports. The legal action is pursuant to accounting errors in the IFRS consolidated financial statements for fiscal years 2012 and 2013 identified by the German Financial Reporting Enforcement Panel (FREP). They resulted in inflated key financial ratios being reported, on the basis of which excessively high bonuses were paid. In addition, the company incurred damage of €4.2 million, in particular from payment of a dividend for which there were no corresponding net retained profits, as well as from costs for dealing with the aftermath of the accounting errors. The claim for repayment of the bonus (€0.3 million) was already capitalized in previous periods as part of correction of the accounting errors; however, the claimed damages due to breaches of duty (€4.2 million) have not been included on the balance sheet and so represent an opportunity. The Executive Board member in question disputes the claims and has brought a cross-action claiming compensation of €1.6 million for unfair dismissal. Based on the assessment of external lawyers, who consider the dismissal to be effective and the claims of the former Executive Board member to be unjustified, this matter has not been carried in the balance sheet to date. The possible risk of the claims being payable is assessed as low.

- euromicron AG conducted securities lending transactions with a bank beyond the dividend record date in the years 2010 to 2012. The tax audit for the years 2010 to 2012 came to the conclusion that euromicron AG was not the economic owner of the shares in question at the respective dividend record date and so refused to credit the capital gains taxes withheld on the dividends. The assessing tax office then issued euromicron AG with amended corporation income tax assessment notices for the years 2010 to 2012, demanding repayment of credited amounts totaling approximately €5.8 million (plus interest). euromicron AG appealed these assessment notices in due time and form; levying of the amounts was suspended. Moreover, it applied for crediting of the amounts for reasons of equity and requested the bank involved to apply to its tax office alternatively for the amounts to be credited to it. If the tax office credits the bank involved with the paid-over capital gains tax, the bank has given a written pledge to pass on said amounts to euromicron AG. Alongside that, legal action was taken against the bank involved in August 2017, among other things to claim reimbursement of the excess compensation payments made as part of the securities lending transactions to the amount of the above-stated amounts of capital gains tax. The action is pending before the district court in Frankfurt/Main and the value in dispute is €5.8 million. Moreover, legal action was filed against the former Executive Board members in January 2018, since they are responsible for the securities lending transactions in the years 2010–2012. If neither the fiscal proceedings nor the civil case end in success for euromicron, it intends to seek recourse against the company's former Executive Board members; as a result of the third-party notice, the rulings in the court proceedings against Bankhaus Lampe will also be binding as part of legal action against the parties notified of intervention. Any such claims against the former Executive Board members will probably be covered by the directors' and officers' (D&O) policy. All in all, the company's Executive Board does not therefore expect a negative impact on the Group's liquidity as a result of this risk.

Procurement and production

As a producer, service provider and operator of IoT and Smart Industry solutions, there are procurement risks as regards the supply of raw materials and in the supply of complete technical components. We counter these risks with organizational and contractual measures, as well as measures relating to purchasing strategy. Our procurement management delivers the basis for qualified consulting in all portfolio groups. By pooling this expertise, we ensure that our customers and own companies benefit from the very best procurement channels and optimum terms and conditions. That enables us to leverage synergies to the full, yet also minimize risks at the euromicron Group and internal process costs. The market success of our products goes hand in hand with the previously described technology leadership. Constant orientation toward customers' technological needs reduces the risk of producing solutions that ignore market requirements, so this risk is assessed as being low.

Service and sales

In addition, the ethos of service is a key aspect in our business model. Leading technologies, customer proximity and total commitment to service help secure sales. Proximity to customers also means that tendencies and trends are identified and the solution portfolio expanded in good time. Training and innovative service concepts underpin the product, training and sales strategy.

Important for our business model: customer proximity and a commitment to service.

IT

A large part of our field of business is in digital technologies. In particular in times of growing cybercrime, risks to IT security must be addressed to a greater and greater extent. It is vital for data, networks and systems to be protected and reliable. We counter the higher risk by means of constant monitoring, the use of protective systems, and regular training and further education. Apart from planned manipulative interference in networks, it is also necessary to take into account technical faults, which we counter by systematic protection, backup and modern data structures. The risk is regarded as low all in all.

Corporate

The loss of qualified personnel is a key risk at a technology group with a medium-sized character like euromicron, in particular in project business, which is highly reliant on the existing staff. That is why the Group offers its employees regular, systematic further qualifications to reflect needs. That enables employees to assume more responsibility in their departments and demanding, varied tasks in their function. euromicron believes that professional and personal further development is a means of enhancing employee loyalty and key to a successful HR policy. As in the previous year, the employee loyalty program formulated by the Executive Board and HR was also implemented throughout the Group in fiscal year 2017. Due to our existing and planned measures to ensure employees' loyalty and development, we believe the risk of losing highly qualified staff to be limited.

Summary of the risk situation

The main risks were presented in accordance with the categories from the risk management system, with most attention paid to financing and project risks. However, the residual risk is calculable given the countermeasures that have been initiated, guidelines and constant controls.

With the exception of the legal risks presented in the section "Finances and liquidity", there are no other legal risks from pending legal proceedings above and beyond current business.

In summary: In the assessment of the Executive Board, the currently known risks will probably have no significant impact on the net assets, financial position and results of operations of euromicron.

3.3 Opportunity report

Opportunities for the euromicron Group lie in the possibilities and potential of the IoT market, which in some cases have already been leveraged in practice in the form of concrete IoT projects. Examples are "digitized" points, trash cans "that also use their brain", "intelligent" hotel rooms or the use of self-propelled robots in production.

In order to create profitable growth and so increase the company's value sustainably, we intend to link our established basic business even more strongly with solution business in promising new market segments – our innovation business. Due to this combination and the strategic orientation toward the growth market of the Internet of Things, a market with prospects of large growth will open up for euromicron. New opportunities keep on arising due to the great dynamism of the market environment. The euromicron Group also boasts innovativeness in the field of network components "Made in Germany" and an international footprint.

Our opportunities lie in the potential of the IoT market.

Our particular focus is on delivering maximum customer satisfaction with our solutions, which is why we examined this aspect in 2017 with external customer surveys. The surveys revealed that customers are highly satisfied with the products and services of the euromicron Group. In conjunction with the longstanding cooperation and partnership with our broad customer base, the result is further opportunities for innovation and growth and so to increase profitability further.

The technological and security challenges facing enterprises wishing to capitalize on the advantages of increasing digitization represent a further opportunity for the euromicron Group. It is increasingly difficult for small and medium-sized customers in particular to achieve the necessary transformation solely with their internal resources or to recruit additional experts. The expertise and skills of IoT solution providers such as euromicron are therefore highly sought by users, ideally in combination with specific industry know-how.

As an IoT pioneer from the very start, euromicron is one of the few providers to be able to offer companies and public institutions overarching solutions from a single source. The euromicron Group has vertical know-how that allows it to create a perfectly fitting technical infrastructure for customers. To achieve that, euromicron combines the technical and economically most expedient modules from the fields of terminal devices and sensors, infrastructure, platforms, applications and services. euromicron's solutions enable users to increase the flexibility and efficiency of their business and production processes.

IoT solutions "Made by euromicron" have significant scaling potential. For example, we are now digitizing the first 7,000 railway points in Germany. There is a total potential of more than 30,000 points in Germany. Video surveillance projects are a mega trend in security technology. We are implementing them for Germany's largest train stations. However, the potential at public places is virtually unlimited. Digitization of the power distribution networks for controlling alternative energies and e-mobility is a major challenge facing our customers. Here too, euromicron is implementing IoT solutions in order to master these challenges in a cost-effective and innovative way.

Our solutions have scaling potential.

Apart from the strategic alignment, systematic leveraging of synergies between technology companies and system integrators represents further large potential for improving the euromicron Group's results in the medium term. In 2017, for example, euromicron's subsidiaries MICROSENS and euromicron Deutschland jointly implemented high-performance infrastructure components for the Wuppertal-based Barmenia Versicherungen, one of Germany's largest insurance companies. The video surveillance projects are carried out by euromicron Deutschland using technology from MICROSENS. KORAMIS delivers security solutions for telent's critical infrastructure projects and ensures secure Smart Industry solutions for ELABO.

Pinpointed organizational changes will help improve marketing opportunities in the "Digital Buildings" arena in the future. Following MICROSENS' success in the field of automation with "Smart Lighting" and "Smart Office", it is merging building automation and IT fully with its new division "Smart Building Solutions". The declared objective is to digitize automation processes in the entire building and achieve even closer cooperation with the Group's system integrators.

Further opportunities for euromicron lie in rigorously continuing the measures to reduce working capital and so the Group's tied-up capital.

There are also opportunities from further increasing the share of services in our solution portfolio in order to provide our customers with help tailored to their needs in the digital transformation of their business processes, strengthen their loyalty to euromicron and so increase our profitability lastingly.

3.4 Forecast for fiscal year 2018

The reorganization measures of the euromicron Group's operating companies were largely completed in fiscal year 2017. As stated last year, however, the realignment of euromicron Deutschland GmbH in particular took more time than originally planned, which is why implementation of the euromicron Group's strategy, which is laid down in a three-phase model, has also been pushed back one year.

On the basis of sales of €332.9 million in 2017 and taking into account the pro-rata loss of sales from disposal of the "Telecommunications" division of euromicron Deutschland GmbH effective April 20, 2017, sales expectations for 2018 – allowing for the presented opportunities and risks – are in a range between €340 million and €360 million.

We also assume an operating EBITDA margin of between 4.0% and 5.0% for 2018. The anticipated margin is impacted to a substantial extent by investments in further expansion of innovation business in the target market of the Internet of Things.

In addition, special costs – expected in particular at the level of euromicron AG due to legal and consulting costs and in connection with the Group's financing – will probably reduce the group's reported EBITDA in 2018 by around €2 million.

Following a working capital ratio (defined as working capital relative to sales) of 12.9% in fiscal year 2017, it is to be cut to around 10.0% by the end of 2018 through further intensification of working capital management.

We expect a continuous improvement in our profitability in the coming years as a result of the Group's further transformation. We assume that the operating EBITDA margin will rise by approximately one percentage point per annum in the following years, with the result that an EBITDA margin of more than 8.0% will be achieved in the medium term.

As part of our focus on strategic areas of innovation, we also continuously examine divestments and acquisitions and seize the chance to make them if good opportunities arise. The forecast is based on the Group's current structure and so may need to be adjusted if divestments or acquisitions are made.

This forecast is based on the assumption of a positive economic development in the Federal Republic of Germany and in the general conditions in the IT/ICT industry in 2018, as presented in section 2.1 “General economic and industry-specific conditions”. Nevertheless, the actual results may deviate significantly from the expectations and forecasts if one of the above, or other, uncertainties arise or the assumptions on which the statements were based should prove to be inaccurate.

4. Internal control and risk management system in relation to the consolidated accounting process

Legal background and definition of an internal accounting control and risk management system (ICS/RMS)

Stock corporations as defined by Section 264d HGB (German Commercial Code) are obliged pursuant to Section 315 (4) of that code to present the salient features of the ICS/RMS in relation to the consolidated accounting process in the group management report. The ICS/RMS comprises all principles, procedures and measures to ensure effective, cost-efficient and proper consolidated accounting and compliance with the relevant financial reporting regulations. It is integrated in the risk management system of the overall Group, which is described in detail in section 3.2 “Risk report and salient features of the risk management system”.

Fundamental regulatory and control activities to ensure proper and reliable consolidated accounting

The measures in the ICS at euromicron AG and the euromicron Group are geared to proper and reliable consolidated accounting and ensure that business transactions are recorded fully, promptly and in compliance with statutory provisions. They also ensure that stock-takes are carried out properly and assets and liabilities are carried, measured and reported accurately in the consolidated financial statements. The regulatory activities also ensure that reliable and transparent evidence relating to business transactions is available in the form of accounting documents.

With the increase in the workforce at the corporate units of euromicron AG, especially in Group Accounting and Group Controlling, Taxes, Working Capital Management, Internal Auditing and Compliance, we have implemented the planned target structure, resulting in an improvement in the internal accounting control system. In addition, extensive guidelines are drawn up continuously, updated and implemented throughout the Group so that processes, the design of the ICS and specific accounting matters are documented and governed consistently throughout the Group. In addition, the structures and processes in system house business were further optimized to harmonize and standardize implementation management and project controlling at the project companies and to integrate project controlling more deeply in Group reporting.

In order to permit selective analysis of deviations between actual and planned figures and to enable swift and effective countermeasures to be taken in response to deviations from planning, the organizational structure of Group Controlling is geared toward ensuring direct assignment of staff from Group Controlling to the operating companies and integration of these in process-related or accounting-specific matters at the subsidiaries in question. Reporting and the process for preparing the Group's monthly financial statements have been standardized throughout the Group. Integrated income statement, balance sheet and liquidity planning is created and is the foundation for monthly analyses with regard to deriving monthly budget figures. An IT-aided planning tool for preparing the integrated Group planning was rolled out in the reporting period and will be adapted further to the needs of the euromicron Group's planning process in the next year.

Process-integrated and process-independent control measures form the main elements of the ICS at the euromicron Group. Apart from manual process controls – such as the “dual control principle” –, automated IT process checks are also a key part of the process-integrated controls. This ensures that Financial Accounting is informed promptly of the status of all documents, which significantly reduces the risk of matters not being completely or correctly reported in accounting. The separation of functions and the four eyes principle are prescribed in work instructions or have been implemented in some cases in the systems used. Strict compliance with these measures also reduces the possibility of acts of criminal intent.

Regular training courses make sure that employees at Accounting are informed of changes to the law that may have an impact on preparation of the consolidated financial statements. In addition, the text of laws and commentaries on them are available to an adequate extent.

Other control bodies, such as the Supervisory Board and independent auditor, are integrated in the company's control environment with their process-independent auditing and monitoring activities. The suitability and effectiveness of the internal control system are also examined constantly by the work of the Internal Auditing department.

Specific accounting-related risks

A particular risk in relation to consolidated accounting is that the consolidated financial statements to be published contain errors that may have a significant influence on the Group's financial position, net assets and results of operations. This risk exists in reporting unusual or particularly complex business transactions or other business transactions that are not routine and so have a relatively high inherent risk. We refer you in this regard to the comments in section 3.2 “Risk report and salient features of the risk management system”.

Other aspects

In preparation of the consolidated financial statements, Accounting is also dependent in part on data and information from other organizational units of the euromicron Group. Of particular importance in examining the value of goodwill and other assets is the budgeting prepared in agreement with the Controlling unit of euromicron AG and approved by its Executive Board and Supervisory Board. The Treasury unit provides the data required for presenting factoring in the balance sheet, for example. The data, which is provided by other organizational units, is subjected to a plausibility check in Accounting before being further processed as part of preparation of the consolidated financial statements.

At the euromicron Group, the segments are assessed among other things by their achievement of earnings- or cash flow-based targets. The course of business is assessed during the year with reference to various key indicators, as well as liquidity, profitability and comparison with budgeting. In the course of a fiscal year, three calculations on expectations with forecasts for the end of the year are conducted. However, far more criteria than pure key indicators are required as a basis for investment and business decisions in fast-moving technology markets and these are obtained through permanent monitoring and reviews. The company's management also bases its decisions on analyses by the specialists and persons responsible who are involved in the process and have extensive market, product and sector know-how. A wide range of different evaluation criteria are used, tailored to the specific case. The companies are accompanied permanently by Investment Controlling at euromicron AG; deviations are identified and countermeasures initiated immediately.

5. Corporate governance declaration by the Group in accordance with Section 315d HGB (German Commercial Code)

The (Group) corporate governance declaration in accordance with Section 315d in conjunction with Section 289f HGB (German Commercial Code) can be found in the 2017 Corporate Governance Report, which is available at all times on the homepage of euromicron AG at <http://www.euromicron.de/en/investor-relations/corporate-governance-code-17>.



2017 Corporate Governance Report and corporate governance declaration in accordance with Section 289f HGB (German Commercial Code)

6. Separate non-financial report

euromicron AG has disclosed its activities in the field of sustainability in the Declaration of Conformity with the German Sustainability Code (DNK). In the declaration, we present information – in accordance with the Act Implementing the CSR Directive within the meaning of Sections 315b and 315c in conjunction with Sections 289c to 289e HGB (German Commercial Code) – on the Group's sustainability strategy and the action we take to promote sustainability as regards matters relating to the environment, employees and society, as well as respect for human rights and combating of corruption. The Declaration of Conformity can be found at <https://www.euromicron.de/en/investor-relations/sustainability>.



www.euromicron.de/en/investor-relations/sustainability

7. Compensation Report

Salient features of the compensation system for Executive Board members

euromicron's future success depends on the company's ability to acquire, motivate and retain good personnel. The compensation system for euromicron AG's Executive Board is therefore oriented toward performance incentives for long-term corporate governance geared to sustainability. The Executive Board members' compensation is also part of an end-to-end system for executives at the euromicron Group and is intended to reflect the size and strategic alignment of the company, its economic situation and future prospects and the personal performance of the board member in question. The compensation should be competitive nationally and internationally and so offer incentives for committed and successful work. Overall responsibility for defining the compensation principles for the Group lies with the Supervisory Board, which also regularly reviews them.

Compensation of members of the Executive Board

The total compensation of members of the Executive Board is based on Section 87 AktG (German Stock Corporation Law) and takes into account the Group's earnings targets. It is currently made up of performance-unrelated components (salary, other remuneration) and performance-related components (earnings-related bonus and a variable component with a long-term incentive effect ("LTI")). The performance-unrelated component accounts for around 60.0%, the performance-related component for around 30.0% and the component with a long-term incentive effect for around 10.0% of the agreed total compensation, if the targets for the performance-related components are achieved in full.

euromicron AG's compensation strategy also envisages offering remuneration that is fair and transparent and takes the interests of shareholders into consideration.

The following criteria apply to the individual components of the Executive Board's compensation:

The performance-unrelated compensation is paid as a monthly salary, along with non-cash compensation. The Executive Board members each receive identical fixed compensation. The other remuneration relates to use of company cars, premiums for a group accident insurance policy and for a direct company insurance policy, and contributions to health and nursing care insurance. The Executive Board members pay tax on the respective benefit in money's worth of these non-cash benefits.

The company maintains an insurance policy for board members of the euromicron Group, what is termed a directors' and officers' (D&O) policy. This insurance covers personal liability if claims for financial loss are made against Executive Board members as part of their work. In accordance with the applicable arrangement in the contracts of employment with Executive Board members, a deductible of 10.0% is provided for in accordance with statutory provisions (deductible within the meaning of Section 93 (2) AktG (German Stock Corporation Law) in conjunction with Section 23 (1) EGAktG (Introductory Act to the German Stock Corporation Law)).

The variable, performance-related components of the compensation for Executive Board members are geared to the company's sustainable development and consist of the following, mutually independent components:

First, there is an earnings-related bonus in the form of a variable cash payment which is calculated taking the Group's EBITDA and working capital into account (70.0%). In addition, the compensation of Executive Board members includes variable components that are measured on the basis of the achievement of individual qualitative targets (30.0%). These are short-term targets that are redefined every year. In fiscal year 2017, they include ensuring that the planned results and key financial ratios are achieved. An upper limit (cap) avoids entitlement to an excessively high bonus in the event of highly positive developments.

In addition, the system for compensation includes variable components with a multi-year basis of assessment (LTI). For the contribution made to increases in the company's value, the Executive Board members can receive a long-term compensation component geared to the individually agreed targets (currently: securing the Group's financing).

The performance period originally covered the time from the start of the employment relationship (April 1, 2015) to December 31, 2017. Due to inclusion of the target of ensuring a going concern in preparation of the annual and consolidated financial statements for fiscal year 2017 by means of an appropriate financing structure, the performance period was extended by the Supervisory Board until when the annual and consolidated financial statements are prepared in 2018.

The entitlement to payment of the LTI becomes due ten business days after approval of the consolidated financial statements for fiscal year 2017; the 2017 consolidated financial statements were approved at the end of March 2018. Payments on account for the LTI are made to an amount of 66% of the bonus calculated for the respective fiscal year and are due for payment ten business days after approval of the consolidated financial statements for the fiscal year in question. This amount will be calculated pro rata temporis for fiscal year 2015 due to the fact that the employment relationship commenced during the year. The payments on account are offset with the amount to be granted for the entire performance period in accordance with the degree to which the targets are achieved. If the amount for the payments on account is larger than the amount to be granted for the entire performance period, the difference is immediately reimbursed by the member of the Executive Board.

In the event that an Executive Board member's activity is terminated without an important reason, all contracts provide for continued payment of the performance-unrelated and performance-related components for the remaining term of the contract of employment. A shortened performance period can be assumed to calculate the LTI component. The contracts with both members of the Executive Board end on March 31, 2020. The same applies in the event of premature termination of a board member's activity in the case of a change of control. In both cases, no further payments that necessitate a severance pay cap have been agreed.

For their work in fiscal year 2017, the individual members of the Executive Board received the following payments:

The total compensation for all members of the Executive Board was €604.1 thousand. The performance-unrelated, fixed basic compensation accounted for €559.1 thousand (including other non-cash compensation of €9.1 thousand) and the variable, performance-related compensation for €45.0 thousand.

The following amounts were paid to the individual members of the Executive Board:

- Bettina Meyer: €302.6 thousand (performance-unrelated compensation of €280.1 thousand, including €5.1 thousand in other remuneration, plus performance-related compensation of €22.5 thousand)
- Jürgen Hansjosten: €301.5 thousand (performance-unrelated compensation of €279.0 thousand, including €4.0 thousand in other remuneration, plus performance-related compensation of €22.5 thousand)

On the basis of the above-presented regulations, the Executive Board members were granted the following interest-free advances on the LTI component in the form of payments on account in the years 2016 and 2017.

- Bettina Meyer: €57.9 thousand
- Jürgen Hansjosten: €57.9 thousand

The advances must be repaid if the stated targets for the LTI component are not achieved. No loans were granted to the members of the Executive Board in the reporting period.

In fiscal year 2017, the members of the Executive Board did not receive any benefits from third parties that have been promised or granted in relation to their work as board members. Activities in or for subsidiaries are not remunerated separately.

Salient features of the compensation system for the Supervisory Board

The compensation of members of the Supervisory Board is governed by the Articles of Association of euromicron AG. Apart from being reimbursed for their outlays, the members of the Supervisory Board receive a fixed annual remuneration of €30 thousand. The Chairman/Chairwoman of the Supervisory Board receives double and his/her deputy one-and-a-half times the fixed remuneration. The overall compensation for the Supervisory Board for 2017 in accordance with the Articles of Association was thus €135 thousand, which is broken down as follows:

- Evelyne Freitag: €60 thousand
- Rolf Unterberger: €45 thousand
- Dr. Alexander Kirsch: €30 thousand

The compensation for 2015 and the pro-rata compensation for 2016 for the Supervisory Board members who served until July 28, 2016, have not yet been paid out.

In its own interests, the company maintains a directors' and officers' (D&O) insurance policy that also covers the members of the Supervisory Board. Its deductible is 10.0%.

The members of the Supervisory Board did not receive any further payments for services provided in the reporting period.

8. Disclosures in accordance with Section 315a (1) HGB (German Commercial Code)

- a.) The subscribed capital of euromicron AG on the balance sheet date comprises 7,176,398 no-par value registered shares.
- b.) The company's Executive Board is not aware of restrictions on voting rights or transfer of shares, even if they may be defined under agreements between shareholders.
- c.) There are no direct or indirect capital stakes exceeding 10.0% of the voting rights, where the disclosures do not have to be made in the notes on the consolidated financial statements.
- d.) There are no holders of shares with special rights that confer controlling powers.
- e.) The Executive Board is appointed and removed by the Supervisory Board in accordance with the Articles of Association in compliance with Section 84 AktG (German Stock Corporation Law). Amendments to the Articles of Association require the consent of the General Meeting.
- f.) Powers of the Executive Board to issue or buy back shares:

Authorized capital

The General Meeting on May 14, 2014, adopted a resolution to create new authorized capital totaling €9,173,770.00. Under it, the Executive Board is authorized to increase the capital stock of euromicron AG by May 13, 2019, by up to a total of €9,173,770.00 on one or more occasions with the approval of the Supervisory Board by issuing new registered shares in exchange for cash or non-cash contributions. In accordance with the Articles of Association, there is the possibility, under specific preconditions, to exclude the statutory shareholders' subscription right.

Treasury shares

At December 31, 2017, there is no authorization from the General Meeting for euromicron AG to acquire its own shares. As in the previous year, the company did not therefore hold any treasury shares at December 31, 2017.

- g.) There are no significant agreements by the company as defined by Section 315a (1) Nos. 8 and 9 of the German Commercial Code (HGB).

Frankfurt/Main, March 26, 2018

Bettina Meyer	Jürgen Hansjosten
Spokeswoman of the	Member of the
Executive Board	Executive Board