

ANNUAL FINANCIAL STATEMENTS 2017 OF EUROMICRON AG

euromicron AG
Frankfurt/Main

Financial Statements as at 31 December 2017
and management report for the 2017 financial
year

Audit opinion

euromicron

**Management Report or the fiscal year
from January 1 to December 31, 2017**

1. Fundamentals of the Group

1.1. Business model of the Group

Profile

As parent company, euromicron AG holds the investments of the euromicron Group. 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:

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".

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.

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:



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).

Sales by region

€ m.

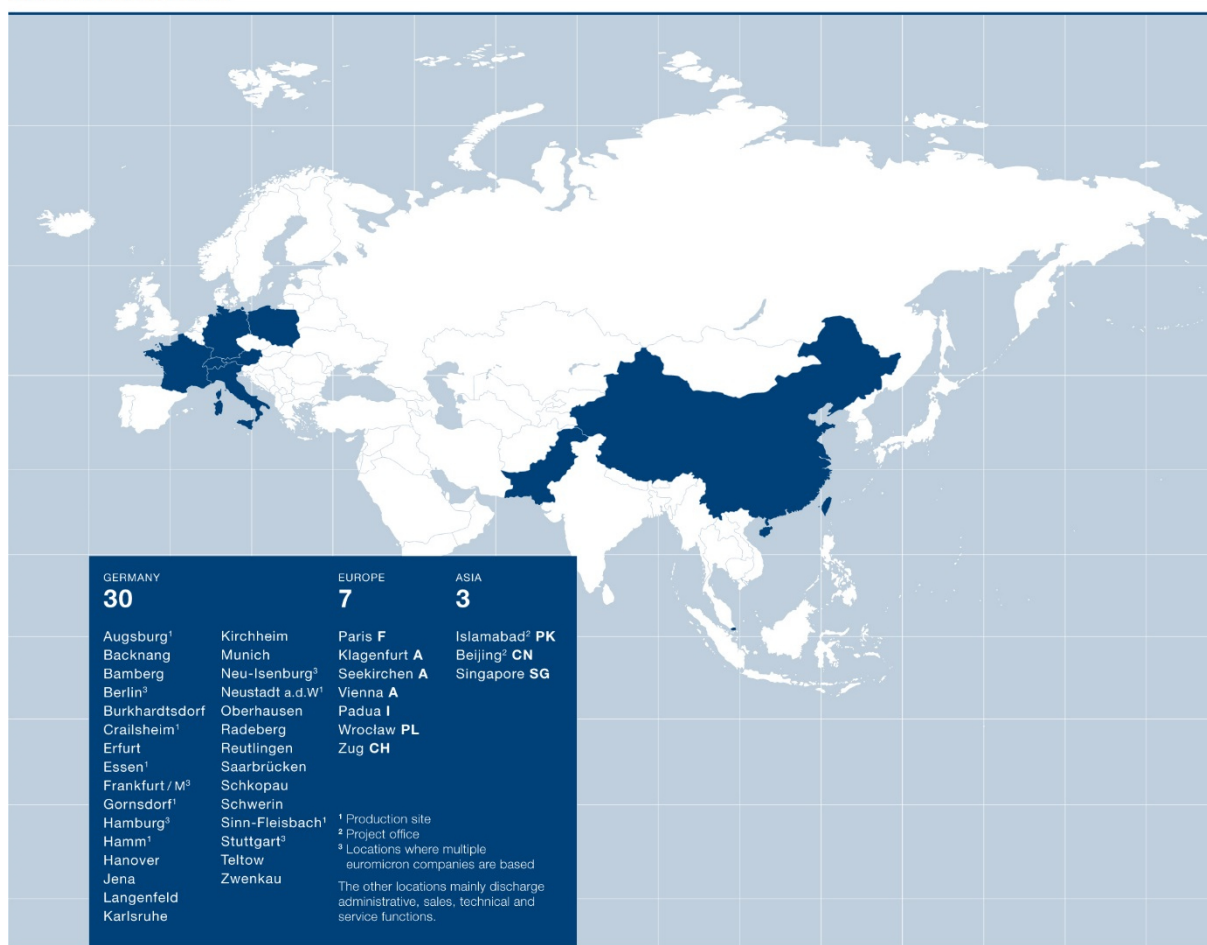


The companies in the euromicron Group are represented in other European countries with locations in Italy, Austria, France, Poland and Switzerland. Group companies are also based in some non-European countries in the shape of project offices so as to cater for country-specific market requirements there. 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:

euromicron's main 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.

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.

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.

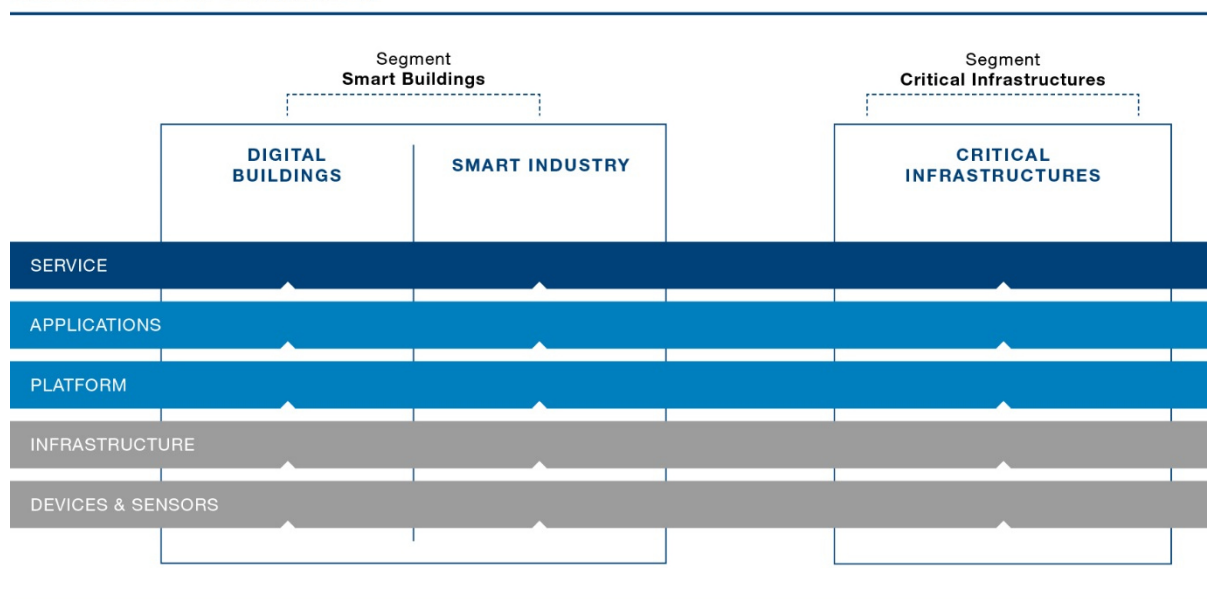
Special availability, integrity and confidentiality requirements are demanded of these networks. They relate to security standards and the ability to repel attacks, as well as system solutions that are sufficiently fault-tolerant. The euromicron Group has intimate knowledge of the requirements, guidelines 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.

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 devices and sensors, infrastructure, platform, applications and service.

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 strategies

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.

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 intermeshing 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

The main financial control factors of euromicron AG 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.

Result from long-term investments The result from long-term investments comprises income from equity interests, income from profit and loss transfer agreements, expenses from the assumption of losses, and write-downs of financial assets. To enable better comparison over time, we also look at the result from long-term investments after adjustment for special effects ("adjusted result from long-term investments"). Special effects in fiscal year 2017 relate to reorganization costs that were incurred at the level of the subsidiaries and so resulted in higher expenses from the assumption of losses at the level of euromicron AG. They also include the write-off of the equity interest in Avalan GmbH, whose business operations were discontinued in fiscal year 2015.

Operating result The operating result of euromicron AG is defined as the balance of sales, other operating income and expenses, cost of materials, personnel costs and amortization/depreciation. Here too, the operating result after adjustment for special effects is also looked at (“adjusted operating result”). The special effects in fiscal year 2017 relate to reorganization costs incurred at the level of euromicron AG.

Net financial result The net financial result comprises income from long-term loans, other interest and similar income, and interest and similar expenses. Here too, we also look at the net financial result after adjustment for special effects (“adjusted net financial result”). The special effects in fiscal year 2017 relate to the non-recurrent costs in connection with the structuring of financing.

Important key figures that are monitored regularly for the purpose of controlling euromicron AG are shown in the table below:

Key figures and control indicators

	2017	2016
	€ m.	€ m.
Result from long-term investments	5.4	-1.9
Adjusted result from long-term investments*	6.6	1.5
Operating result	-7.2	-6.1
Adjusted operating result*	-4.5	-3.2
Net financial result	-2.2	-2.6
Adjusted net financial result*	-2.1	-2.0

* Adjusted for special effects of 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

Innovation activities in research and development are pursued by the subsidiaries of euromicron AG; euromicron AG itself does not conduct any research and development. We refer in this regard to the group management report of euromicron AG.

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.

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.

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.

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 euromicron AG in fiscal year 2017

The reported result of euromicron AG is composed of the main components presented in the following. A definition of these result components can be found in section 1.3 "Control system" – "Internal key control indicators".

Results

	2017	2016
	€ m.	€ m.
Result from long-term investments	5.4	-1.9
Operating result	-7.2	-6.1
Net financial result	-2.2	-2.6
Tax result	+1.7	-2.1
Net loss for the year	-2.3	-12.7

The reported result of euromicron AG was impacted massively by special effects in fiscal year 2017 and the year before. Reorganization costs reduced euromicron AG's result in both years.

These special effects impacted euromicron AG's result in fiscal years 2017 and 2016 as follows:

Adjustment of the results for special effects of reorganization

	2017 € m.	2016 € m.
Result from long-term investments	5.4	-1.9
Effects from higher assumption of losses	0.9	3.1
Effects from write-off of equity interests	0.3	0.3
Adjusted result from long-term investments	6.6	1.5
Operating result	-7.2	-6.1
Effects from reorganization costs at the level of euromicron AG	2.7	2.9
Adjusted operating result	-4.5	-3.2
Net financial result	-2.2	-2.6
Effekt from special costs for structuring of financing	0.1	0.6
Adjusted net financial result	-2.1	-2.0
Tax result	1.7	-2.1
Adjusted net profit/net loss for the year	1.7	-5.8

Please refer to section 2.3 "Net assets, financial position and results of operations" – "Results of operations" for a detailed explanation of these special effects.

The adjusted result from long-term investments is €6.6 million and so €5.1 million above the previous year's figure of €1.5 million. Higher income from profit transfers account for €5.5 million of this increase. In particular, income from the profit transferred by telent GmbH increased sharply by €5.2 million in fiscal 2017. That is mainly due to completion of a multi-year large project, which resulted in realization of a corresponding profit under German commercial law in 2017. However, income from long-term investments was €0.6 million, €0.3 million down on the previous year. In addition, the write-downs on shares in a U.S. listed company due to the decline in their price were €0.1 million higher than in the previous year.

However, the adjusted operating result of euromicron AG fell by € –1.3 million to € –4.5 million in fiscal 2017. That is mainly due to the € –1.7 million drop in other operating income. The other operating income was impacted in the previous year in particular by non-recurring effects from recognition of a receivable from reimbursements 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 fiscal 2017. On the other hand, other operating expenses in particular were lower by €0.3 million than in the previous year as a result of savings in various cost items.

The adjusted net financial result was € –2.1 million and so almost at the level of the previous year (€ –2.0 million).

After allowing for the positive tax result of €1.7 million, the adjusted net income for fiscal year 2017 is €1.7 million (previous year: adjusted net loss of € –5.8 million). The positive tax effect is due to an amount of €0.9 million to partial reversal of the provision for tax risks from the tax audit for the years 2010 to 2012, which was completed in the year under review. In addition, €0.7 million is due to recognition of trade tax receivables likewise resulting from the completed tax audit.

There were no changes in the equity investment portfolio of euromicron AG as a result of new company acquisitions in fiscal 2017. In 2017, there were only increases in the stakes held in Secure Information Management GmbH and ATECS AG from 95.0% to 100.0% and in MICROSENS GmbH & Co KG and Microsens Beteiligungs GmbH from 95.0% to 97.5% as a result of purchase options being exercised.

2.3. Net assets, financial position and results of operations

Net assets

euromicron AG's total assets fell by 3.5% to €196.3 million in fiscal 2017 (previous year: €203.5 million).

Fixed assets totaled €164.7 million (previous year: €165.4 million) or 83.9% (previous year: 81.3%) of total assets. Of the fixed assets, intangible assets and property, plant and equipment accounted for €0.7 million, as in the previous year.

Financial assets fell by €0.7 million to €164.0 million in fiscal 2017 (previous year: €164.7 million). The ratio of equity and fixed assets is 47.5% (previous year: 48.7%). The decline in financial assets is due in particular to the following effects, which offset each other in some cases:

- Exercise of the options to purchase the remaining 5.0% of the shares in Secure Information Management GmbH (€0.1 million) and the remaining 5.0% of the shares in ATECS AG (€0.4 million).
- Exercise of the option to purchase a further 2.5% of the shares in MICROSENS GmbH & Co KG and a further 2.5% of the shares in Microsens Beteiligungs GmbH (total: €0.2 million).
- Reduction in the carrying amount for the shares in Avalan GmbH by €0.3 million due to the fact that they were written down to their lower fair value on the balance sheet date.
- Reduction in loans to affiliated companies due to repayments (€0.9 million).
- Reduction in the carrying amount for securities classified as noncurrent assets (shares in a U.S. listed company) by €0.2 million due to the fact that they were written down to their lower fair value on the balance sheet date to reflect their fall in price.

Current assets (excluding cash-in-hand and bank balances) fell by €6.0 million from €37.4 million to €31.4 million.

They mainly comprise receivables from affiliated companies, which declined by €5.7 million from €35.2 million to €29.5 million at December 31, 2017. That is due in particular to an €8.5 reduction in short-term intra-group loan receivables from subsidiaries. In addition, the receivables from profit distributions and profit transfers were slightly down on the previous year by an amount of €0.1 million. On the other hand, receivables from cash pooling and the other receivables from affiliated companies (mainly comprising receivables from integrated inter-company relationships for value-added tax purposes with subsidiaries, interest due and receivables from intra-group billing) after offsetting within the individual companies increased by €2.0 million and €0.9 million respectively.

Moreover, other assets fell by €0.3 million from €2.2 million to €1.9 million. That is due to an amount of €1.4 million to receipt in fiscal 2017 of a receivable from reimbursement of litigation and legal costs that was recognized in the previous year. However, receivables from fiscal authorities (receivables from income taxes and input tax, and interest due) increased by €1.0 million and receivables from supplier rebates increased by €0.1 million.

Cash and cash equivalents fell from €0.5 million in the previous year to €10 thousand. Liabilities to banks were €87.3 million, €14.3 million above the level of the previous year (€73.0 million). Of the outside financing from banks utilized at the balance sheet date, €20.0 million has a medium- and long-term structure (previous year: €38.5 million). Short-term financial liabilities total €67.3 million (previous year: €34.5 million). euromicron AG's net debt (cash and cash equivalents minus interest-bearing liabilities) increased by €14.8 million to €87.3 million at December 31, 2017 (previous year: €72.5 million). We refer to our comments in the section "Financial position" for explanations on that.

Equity at December 31, 2017, was €78.2 million and so €2.3 million below the previous year's figure of €80.5 million. The decline is attributable to the net loss of € -2.3 million for fiscal year 2017. The equity ratio is 39.9% (previous year: 39.6%) and so still at a very stable level.

The €1.6 million fall in provisions from €3.7 million to €2.1 million is attributable to an amount of €1.9 million to lower provisions for taxes. Provisions for taxes set up in the previous year, in particular for effects from tax audits, were utilized to an amount of €1.0 million. €0.9 million was transferred to the other liabilities after receipt of the related tax assessment notices. In addition, an amount of €0.9 million was able to be reversed and recognized as income after the tax audit for the years 2010 to 2012 was completed in fiscal 2017. However, there was a slight rise of €0.3 million in other provisions. In particular, this is due to an amount of €0.5 million to provisions for litigation costs being set up.

Liabilities to affiliated companies fell sharply by €19.7 million to €25.3 million (previous year: €45.0 million). This is attributable in particular – to an amount of €15.5 million – to the decrease in cash pool liabilities. In addition, the liabilities from the assumption of losses after offsetting within the individual companies was €4.3 million below the figure for the previous year. However, the other liabilities to affiliated companies increased slightly by €0.1 million.

The €2.1 million increase in other liabilities to €2.3 million is due to an amount of €1.6 million to higher liabilities to fiscal authorities (liabilities from income taxes and value-added tax, as well as interest payable) and to an amount of €0.5 million to purchase price liabilities from the acquisitions of shares in Secure Information Management GmbH and ATECS AG.

Financial position

euromicron AG's cash funds at December 31, 2017, total €10 thousand (previous year: €0.5 million). In addition, unutilized promised credit lines of €22.6 million are available to euromicron AG at December 31, 2017 (previous year: €37.0 million).

The net cash used in operating activities in fiscal 2017 was € -8.8 million (previous year: € -11.3 million). Given the net loss for the year of € -2.3 million and adding the write-downs of financial assets, amortization of intangible assets and depreciation of property, plant and equipment, the result is positive cash flow effects of €0.7 million. After allowing for other negative cash flow effects totaling € -7.1 million, in particular as a result of lower liabilities to affiliated companies (excluding effects from the change in the cash pool balance), the net cash used in operating activities was € -8.8 million.

Net cash provided by investing activities was €0.4 million (previous year: €0.1 million). This is due to proceeds from repayment of long-term intra-group loans (cash flow effect: €0.9 million). On the other hand, there were purchase price payments for acquiring shares in subsidiaries (cash flow effect: € -0.2 million) and cash used for investments in intangible assets and property, plant and equipment (cash flow effect: € -0.3 million).

Net cash provided by financing activities was €7.9 million (previous year: €8.4 million) and is due to an amount of €14.3 million from net proceeds from the raising and repayment of bank loans. On the other hand, the increase in the balance from intra-group cash pool receivables and liabilities had an effect of € -6.4 million.

Results of operations

The table below presents the result of operations and reconciliation with the adjusted result before special effects resulting from reorganization costs:

	2017	2017	2017	2016	2016	2016
	em AG	Reorgani- -zation	em AG "adjusted"	em AG	Reorgani- -zation	em AG "adjusted"
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Result from equity investments	5,846	914	6,760	-1,467	3,038	1,571
Write-downs of financial assets	-472	260	-212	-393	320	-73
(Adjusted) result from long-term investments	5,374	1,174	6,548	-1,860	3,358	1,498
Sales	1,893	0	1,893	2,003	0	2,003
Other own work capitalized	52	0	52	0	0	0
Other operating income	796	0	796	2,508	0	2,508
Cost of materials	-319	0	-319	-447	0	-447
Personnel costs	-3,752	177	-3,575	-3,722	113	-3,609
Depreciation/amortization	-227	0	-227	-233	0	-233
Other operating expenses	-5,641	2,550	-3,091	-6,190	2,824	-3,366
(Adjusted) operating result	-7,198	2,727	-4,471	-6,081	2,937	-3,144
Net financial result	-2,185	120	-2,065	-2,665	591	-2,074
Income before taxes	-4,009	4,021	12	-10,607	6,886	-3,721
Tax result	1,674	0	1,674	-2,126	0	-2,126
Net loss for the year	-2,335	4,021	1,686	-12,733	6,886	-5,847

The special effects in 2017 from reorganization totaled €4.0 million (previous year: €6.9 million) and are due to an amount of €1.2 million (previous year: €3.4 million) to the result from long-term investments, to an amount of €2.7 million (previous year: €2.9 million) to the operating result, and to an amount of €0.1 million (previous year: €0.6 million) to the net financial result of euromicron AG.

Of the effects on the result from long-term investments (€1.2 million), €0.9 million is accounted for by costs for reorganization measures, which were almost exclusively incurred at the subsidiary euromicron Deutschland GmbH. These resulted in an increase in expenses from the assumption of losses at the level of euromicron AG. The reorganization costs at euromicron Deutschland GmbH mainly 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). There are further special charges totaling €0.3 million from the further write-off of the carrying amount for the investment in Avalan GmbH due to continuing liquidation of that company.

The adjusted result from long-term investments in 2017 rose by €5.1 million to €6.6 million. €5.5 million of that increase is due to higher income from profit transfers. In particular, income from the profit transferred by telent GmbH increased sharply by €5.2 million in fiscal 2017; this was mainly due to completion of a multi-year large project, which resulted in realization of a corresponding profit under German commercial law in 2017. However, income from long-term investments was €0.6 million, a slight €0.3 million decrease compared to the previous year. Apart from that, the write-downs on shares in a U.S. listed company due to the decline in their price were €0.1 million higher than in the previous year.

The operating result was reduced by costs of €2.7 million due to reorganization measures at the level of euromicron AG. These comprise in particular costs of financial advice, interim management, litigation costs and other legal and consulting costs, and costs for personnel measures.

The adjusted operating result of euromicron AG fell by € -1.3 million from € -3.2 million to € -4.5 million in fiscal 2017. That is mainly due to the € -1.7 million drop in other operating income. This was impacted in the previous year in particular by non-recurring effects from recognition of a receivable from reimbursements 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 fiscal 2017.

On the other hand, adjusted other operating expenses were lower by €0.3 million than in the previous year as a result of savings in various cost items.

The net financial result includes reorganization costs of €0.1 million incurred in connection with structuring of funding. The adjusted net financial result was € -2.1 million and so at the level of the previous year.

The positive tax result of €1.7 million is due to an amount of €1.6 million to income from income taxes unrelated to the accounting period, to an amount of €0.9 million to the partial reversal of the provision for tax risks, and to an amount of €0.7 million to recognition of trade tax receivables, in each case resulting from the tax audit for the years 2010 to 2012 that was completed in the year under review.

After allowing for the tax result, the adjusted net income for the year is €1.7 million, a sharp improvement of €7.5 million.

2.4. Non-financial performance indicators

Non-financial performance indicators are of minor importance for analyzing and controlling euromicron AG's business and so are not presented in more detail in the management report.

3. Forecast, Opportunity and Risk Report

3.1. Explanation of deviations from the previous year's forecast

The forecast for the previous year envisaged an adjusted result from long-term investments between €9.5 million and €11.5 million for fiscal year 2017. The adjusted result from long-term investments in fiscal 2017 was €6.6 million or €2.9 million below the forecast range. Given that income from profit and loss transfer agreements and income from equity investments were almost at the planned level, this deviation is mainly due to the assumption of higher operating losses from euromicron Deutschland GmbH than envisaged in the planning. The operating losses made by euromicron Deutschland GmbH in fiscal 2017 were reduced as a result of the implemented reorganization measures, but were still higher than planned. That was due in particular to the fact that sales at euromicron Deutschland GmbH in fiscal 2017 were lower than expected in the planning. Since the still high order books did not impact revenue to the forecast extent – in particular due to postponements of projects –, the resultant lack of contribution margins led to a higher operating loss than planned.

However, there was a positive deviation from the planning as regards the adjusted operating result. Whereas the previous year's forecast envisaged an adjusted negative operating result of € -5.5 million to € -6.5 million, it was actually just € -4.5 million, i.e. a positive deviation from the planning of €1.0 million. That is attributable in roughly equal part to reductions in personnel costs and in other operating expenses.

The adjusted net financial result was € -2.1 million, €1.4 million better than planned (€ -3.5 million). The positive deviation from the planning is due to lower interest on loans and current accounts (€0.5 million), the higher balance from IC interest income and expenses (€0.3 million), positive effects from interest on taxes (€0.2 million), lower loan and guarantee commission (€0.2 million) and positive other effects (€0.2 million).

Reorganization costs were forecast to be €2.0 million to €3.0 million for fiscal 2017. The reorganization costs incurred were €4.0 million or €1.0 million above the forecast range. The deviation from the planning is attributable in particular to unplanned effects on earnings from a provision set up for litigation costs (€0.5 million), further write-off of the carrying amount for the investment in Avalan GmbH (€0.3 million) and reorganization costs in the area of human resources (€0.2 million).

3.2. Risk report and salient features of the risk management system

Risk strategy and general risk management

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.

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 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.

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

Taking into account the presented opportunities and risks, an adjusted result from long-term investments of €4.0 million to €6.0 million is expected in 2018 at the level of euromicron AG. We also anticipate an adjusted negative operating result of around € -5.5 million to € -6.5 million and an adjusted net financial result of around € -3.0 million to € -3.5 million.

We expect that the earnings of euromicron AG in fiscal year 2018 will continue to be reduced by special costs totaling around €2.0 million, in particular from legal and consulting costs and costs connected with the Group's financing.

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 stocktakes 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.

5. Corporate governance declaration by the Group in accordance with Section § 289f HGB (German Commercial Code)

The (Group) corporate governance declaration in accordance 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 www.euromicron.de/en/investor-relations/corporate-governance-code-17.

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 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>.

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 289a (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
Spokeswoman of the Executive Board

Jürgen Hansjosten
Member of the Executive Board

Annual financial statements for the financial
year from 1 January to 31 December 2017

Balance sheet as of December 31, 2017

of euromicron AG, Frankfurt/Main

Assets		
	Dec. 31, 2017	Dec. 31, 2016
	in €	in €
A. Fixed assets		
I. Intangible assets		
Purchased concessions, industrial and similar rights	378,450.00	261,243.43
II. Property, plant and equipment		
Other equipment, operating and office equipment	308,765.00	397,849.00
III. Financial assets		
1. Shares in affiliated companies	146,083,367.12	145,607,728.00
2. Loans to affiliated companies	17,900,000.00	18,800,000.00
3. Securities classified as noncurrent assets	54,777.00	266,909.00
4. Prepayments	10,000.00	20,000.00
	164,048,144.12	164,694,637.00
	164,735,359.12	165,353,729.43
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	29,460,379.02	35,242,904.71
2. Other assets	1,918,355.40	2,185,233.98
	31,378,734.42	37,428,138.69
II. Cash-in-hand, bank balances	9,786.23	470,152.73
	31,388,520.65	37,898,291.42
C. Prepayments and accrued income	170,611.40	213,217.58
	196,294,491.17	203,465,238.43

Equity and liabilities		
	Dec. 31, 2017	Dec. 31, 2016
	in €	in €
A. Equity		
I. Subscribed capital	18,347,554.88	18,347,554.88
II. Capital reserves	96,689,403.69	96,689,403.69
III. Revenue reserves		
Other revenue reserves	6,433,729.53	6,433,729.53
IV. Net accumulated losses	- 43,251,861.92	- 40,916,954.67
	78,218,826.18	80,553,733.43
B. Provisions		
1. Provisions for taxes	217,562.32	2,086,451.99
2. Other provisions	1,899,525.30	1,619,422.68
	2,117,087.62	3,705,874.67
C. Liabilities		
1. Liabilities to banks	87,314,963.58	73,006,103.27
2. Trade accounts payable	1,013,345.24	1,043,890.65
3. Liabilities to affiliated companies	25,343,248.48	44,956,079.55
4. Other liabilities (of which from taxes EUR 1,551,000.41; previous year EUR197,729.73)	2,285,020.07	199,556.86
	115,956,577.37	119,205,630.33
D. Deferred income	2,000.00	0.00
	196,294,491.17	203,465,238.43

Income statement for the period January 1 to December 31, 2017

of euromicron AG, Frankfurt/Main

	2017	2016
	in €	in €
1. Income from investments	600,000.00	863,982.89
(thereof from affiliated companies €600,000.00; previous year: €863,982.89)		
2. Income from profit and loss transfer agreements	12,775,282.84	7,298,001.45
(thereof from affiliated companies €12,775,282.84; previous year: €7,298,001.45)		
3. Expenses from assumption of losses	- 7,529,087.13	- 9,628,695.85
(thereof from affiliated companies €7,440,332.52; previous year: €9,628,695.85)		
4. Sales	1,893,149.55	2,002,718.96
5. Other own work capitalized	52,288.72	0.00
6. Other operating income	795,689.08	2,508,243.06
7. Cost of materials		
a) Cost of purchased services	- 319,302.57	- 446,725.51
8. Personnel costs		
a) Salaries	- 3,349,250.94	- 3,369,289.29
b) Social security and other pension costs	- 402,609.28	- 352,500.19
(of which in respect of old age pensions €28,227.06; previous year: €34,633.92)		
9. Amortization of intangible assets and depreciation of tangible assets	- 226,663.21	- 233,041.63
10. Other operating expenses	- 5,641,481.27	- 6,190,338.44
11. Income from long-term loans	75,000.00	120,000.00
(thereof from affiliated companies €75,000.00; previous year: €120,000.00)		
12. Other interest and similar income	1,562,844.63	1,338,484.76
(thereof from affiliated companies €1,331,281.01; previous year: €1,338,108.48)		
13. Write-downs of financial assets	- 472,132.00	- 393,416.00
14. Interest and similar expenses	- 3,822,575.13	- 4,123,963.59
(thereof to affiliated companies €463,320.46; previous year €327,979.04)		
(of which expenses from interest accrued for provisions €4,584.33; previous year €8,023.49)		
15. Income taxes	1,623,500.40	- 2,105,987.84
16. Income after taxes	- 2,385,346.31	- 12,712,527.22
17. Other taxes	50,439.06	- 20,207.45
18. Net loss for the year	- 2,334,907.25	- 12,732,734.67
19. Loss carried forward	- 40,916,954.67	- 28,184,220.00
20. Net accumulated losses	- 43,251,861.92	- 40,916,954.67

euromicron AG, Frankfurt/Main

Notes to the financial statements for fiscal year 2017

Fundamentals

euromicron AG, Frankfurt/Main, is a listed stock corporation that is entered in the commercial register of Frankfurt/Main Local Court under the number HRB 45562.

The annual financial statements of euromicron AG have been prepared in accordance with the provisions of the German Commercial Code (HGB) in the version of the German Accounting Directive Implementation Act (BilRUG) and in accordance with the supplementary provisions of the German Stock Corporation Law (AktG).

The balance sheet was prepared in accordance with the classification format specified in Section 266 HGB and the income statement in accordance with the total cost (nature of expense) format defined in Section 275 (2) HGB. Due to the special nature of euromicron AG's business activity, the format specified in Section 275 (2) HGB is deviated from, in that income from equity interests, income from profit and loss transfer agreements and expenses from the assumption of losses have been placed first. The aim of that is to ensure a clearer presentation.

As in the previous year, euromicron AG meets the requirements for being classified as a large stock corporation on the balance sheet date in accordance with Section 267 (3) Sentence 2 HGB, since it utilizes an organized market within the meaning of Section 2 (5) of the German Securities Trading Act (WpHG) with the securities issued by it.

Accounting and measurement policies

Assets

Purchased **intangible assets** are stated at cost, including incidental costs, less straight-line amortization.

They are amortized pro rata temporis on the basis of their normal useful life. The useful lives of purchased licenses and software are between three and five years. If necessary, they are written down to their lower fair value on the balance sheet date.

Property, plant and equipment is carried at cost, including incidental costs, and written off pro rata temporis on the basis of their normal useful life by means of the straight-line method of depreciation. The useful lives of operating and office equipment (including IT hardware) are between three and ten years.

Low-value assets up to a value of €150 are fully expensed in the year of acquisition. Up to the end of fiscal year 2015, low-value assets with an individual cost of €150 to €1,000 were posted in a collective item analogously to Section 6 (2a) of the German Income Tax Law (EStG) and written down using the straight-line method in the year of acquisition and the next four years. Since fiscal year 2016, low-value assets with an individual cost of up to €410 are fully expensed in the year of acquisition analogously to Section 6 (2a) EStG.

If necessary, property, plant and equipment is written down to its lower fair value on the balance sheet date.

Shares in affiliated companies and securities classified as noncurrent assets are carried at acquisition cost, including incidental costs, or at the lower fair value if their value is impaired. If the reasons for writing them down in previous years no longer apply, they are written up again to their acquisition cost at most.

Loans to affiliated companies are carried at their principal amounts less any repayments made.

Receivables and other assets, as well as cash-in-hand and bank balances, are recognized at their principal amount, with the exception of the corporation income tax credit balance reported in the previous year in accordance with Section 37 (4) of the German Corporation Tax Act (KStG), which was carried at its present value. If necessary, they are written down to their lower fair value on the balance sheet date. Recoveries in value are written up to their acquisition costs at most.

Prepaid expenses relate to expenditures in a fiscal year that result in an expense in a period after the balance sheet date.

Equity and liabilities

The **subscribed capital** is carried at its principal amount.

The **capital reserves** contain the amounts required pursuant to Section 272 (2) No. 1 HGB.

Perceivable risks and contingent liabilities must be taken into adequate account when **provisions for taxes** and **other provisions** are set up. They have been recognized by the settlement amount dictated by prudent business practice. Other provisions with a remaining maturity of more than one year are discounted at an average market interest rate for the past seven fiscal years that reflects their remaining maturity. The interest rates published by the Deutsche Bundesbank are used for that.

Liabilities are carried at their settlement amount.

Deferred taxes are calculated on differences between the commercial law and fiscal law valuations for assets, liabilities and prepaid expenses and deferred income. Tax loss carryforwards are taken into account if they can be offset against taxable income within the next five years. In addition, differences between the commercial law and fiscal law valuations for assets, liabilities, and prepaid expenses and deferred income from dependent companies in the fiscal unit for income tax purposes are taken into account insofar as it can be assumed that there will be future tax charges or reductions from the reversal of temporary differences at euromicron AG. Deferred taxes are calculated on the basis of the combined income tax rate for the consolidated fiscal group of euromicron AG (currently 29.736%). The combined income tax rate comprises corporation income tax, trade tax and solidarity surcharge.

At December 31, 2017, there are deferred tax liabilities from different valuations for shares in affiliated companies, equity interests in partnerships, and receivables from simultaneous dividend payments from subsidiaries. Deferred tax assets result from different valuations of provisions and corporation income tax and trade tax loss carryforwards. In addition, they are due to temporary differences at the level of the dependent companies, which result in particular from different valuations for goodwill from asset deals, inventories, provisions for pensions, other provisions and non-interest-bearing loan obligations.

At December 31, 2017, as in the previous year, there was a surplus of deferred tax assets for the consolidated fiscal group, which the company did not carry in utilization of the option permitted by Section 274 (1) Sentence 2 HGB.

Explanations on the balance sheet and income statement of euromicron AG

1. Fixed assets

The changes in fixed assets as at 31 December 2017 are presented in the following schedule of assets:

	Cost					Amortization and depreciation				Carrying amounts	
	Jan. 1, 2017	Additions	Disposals	Transfer	Dec. 31, 2017	Jan. 1, 2017	Additions	Disposals	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
I. Intangible assets											
Purchased concessions, industrial and similar rights	582	233	90	0	725	321	116	90	347	378	261
	582	233	90	0	725	321	116	90	347	378	261
II. Property, plant and equipment											
Other equipment, operating and office equipment	842	21	113	0	750	444	110	113	441	309	398
	842	21	113	0	750	444	110	113	441	309	398
III. Financial assets											
1. Shares in affiliated companies	151,715	725	0	10	152,450	6,107	260	0	6.367	146,083	145,608
2. Loans to affiliated companies	18,800	0	900	0	17,900	0	0	0	0	17,900	18,800
3. Securities classified as noncurrent assets	934	0	0	0	934	667	212	0	879	55	267
4. Prepayments	20	0	0	-10	10	0	0	0	0	10	20
	171,469	725	900	0	171,294	6,774	472	0	7,246	164,048	164,695
	172,893	979	1,103	0	172,769	7,539	698	203	8,034	164,735	165,354

The financial assets mainly comprise shares in domestic and foreign affiliated companies and loans to affiliated companies.

On January 12, 2017, an agreement was reached to exercise the existing preemptive right relating to 2.5% of the minority interests in MICROSENS GmbH & Co. KG and in Microsens Beteiligungs GmbH, subject to the suspensive condition that the purchase price had to be paid in full. The purchase price was €225 thousand for the shares in MICROSENS GmbH & Co. KG and €1 thousand for the shares in Microsens Beteiligungs GmbH. The purchase price was paid on January 25, 2017. In rem transfer of the shares in MICROSENS GmbH & Co. KG was also subject to the suspensive condition of the necessary entry in the commercial register being made, which was done on January 30, 2017. The acquisition meant the stake held by euromicron AG in MICROSENS GmbH & Co. KG and Microsens Beteiligungs GmbH increased to 97.5% in each case.

On December 27, 2017, it was agreed that the existing purchase options for the minority stake of 5.0% of the shares in ATECS AG and for 5.0% of the shares in Secure Information Management GmbH would be exercised. As a result, all of the shares in ATECS AG and all of the shares in Secure Information Management GmbH were ascribable to euromicron AG at December 31, 2017. The purchase price obligations totaling €500 thousand were carried under "Other liabilities" at December 31, 2017. Each of the acquisitions was subject to the suspensive condition that the purchase price had to be paid in full. The purchase price was paid on January 10, 2018.

A list of shareholdings at December 31, 2017, in accordance with Section 285 No. 11 HGB is presented on the next page.

euromicron AG
Frankfurt/Main

List of shareholdings at December 31, 2017

Name	Registered office	Amount of the share in capital in %	Equity € thou.	Annual result € thou.
euromicron Deutschland GmbH ¹⁾	Neu-Isenburg	100.00	6,708	0
ELABO GmbH - ein Unternehmen der euromicron Gruppe ¹⁾	Crailsheim	100.00	2,061	0
EUROMICRON Werkzeuge GmbH - ein Unternehmen der euromicron Gruppe ¹⁾	Sinn-Fleisbach	100.00	825	0
Stark- und Schwachstrommontage GmbH ⁴⁾	Hamburg	100.00	847	0
LWL- Sachsenkabel GmbH - Spezialkabel und Vernetzungstechnik ¹⁾	Gornsdorf	100.00	1,685	0
Microsens Beteiligungs GmbH	Hamm	97.50	9	-22
MICROSENS GmbH & Co. KG	Hamm	97.50	-2,389	-2,889
MICROSENS Sp.z.o.o. ²⁾	Wroclaw / Poland	97.50	235	66
telent GmbH - ein Unternehmen der euromicron Gruppe ¹⁾	Backnang	100.00	8,002	0
KORAMIS GmbH ²⁾	Saarbrücken	75.00	-378	-276
Netzikon GmbH ²⁾	Backnang	100.00	-1,004	-712
euromicron austria GmbH ³⁾	Seekirchen / Austria	100.00	3,568	-304
RSR Datacom Verwaltungs GmbH	Essen	100.00	44	2
RSR Datacom GmbH & Co. KG	Essen	100.00	200	-123
ProCom Professional Communication & Service GmbH ²⁾	Essen	100.00	700	301
ProCom Communication Systems Trading (Beijing) Co. Ltd. ²⁾	Peking / China	100.00	11	-94
Secure Information Management GmbH	Neustadt a.d.W.	100.00	1,392	852
Secure Information Management (Asia Pacific) Pte. Ltd. ²⁾	Singapore / Singapore	100.00	785	231
ATECS AG	Zug / Switzerland	100.00	30	-835
SKM Skyline GmbH	Munich	100.00	1,321	127
Qubix S.p.A. ²⁾	Padua, Italy	90.00	5,469	2,693
Avalan GmbH i.L. - ein Unternehmen der euromicron Gruppe	Spiesen-Elversberg	100.00	360	-255
euromicron holding GmbH	Seekirchen / Austria	100.00	8,917	121

¹⁾ Annual result after transfer of profits

²⁾ Indirect shareholding

³⁾ Indirect and direct shareholding

⁴⁾ Annual result after assumption of losses

The company holds shares in the U.S. listed company Track Group Inc., U.S. The market value of the shares (value in US dollars translated into euros) at December 31, 2017, is €55 thousand. Consequently, the carrying amount of €267 thousand at December 31, 2017, was written down by €212 thousand to the lower fair value of €55 thousand.

The **loans to affiliated companies** are interest-bearing loans.

The **prepayments** of €10 thousand relate to payments made in connection with the option to acquire the minority interests in MICROSENS GmbH & Co. KG, which must be offset against the future purchase price at the time the option is exercised.

2. Receivables and other assets

After receivables and liabilities that can be offset have been offset within the individual companies, the receivables from affiliated companies total €29,460 thousand (previous year: €35,243 thousand). They result from receivables from profit distributions and profit transfers (€15,789 thousand; previous year: €15,877 thousand), receivables from the cash pool (€8,006 thousand; previous year: €6,027 thousand), loan receivables (€4,600 thousand; previous year: €13,100 thousand) and receivables from current offsetting, the integrated inter-company relationship for value-added tax purposes and interest due (€1,065 thousand; previous year: €239 thousand).

All receivables from affiliated companies and other assets, as in the previous year, are due in less than one year.

3. Aktiver Rechnungsabgrenzungsposten

The prepaid expenses totaling €171 thousand (previous year: €213 thousand) mainly comprise prepayments for insurance premiums and IT maintenance services.

4. Subscribed capital and authorized capital

The capital stock of euromicron AG is €18,347,554.88. There are 7,176,398 shares in circulation on the balance sheet date.

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.

5. Capital reserves

The Company's capital reserves in accordance with Section 272 (2) of the German Commercial Code (HGB) comprise the premiums from share issues and capital increases. The capital reserves meet the requirements stipulated by Section 150 of the German Stock Corporation Law (AktG).

6. Revenue reserves

There was no change in the (other) revenue reserves compared to the previous year.

7. Net accumulated losses

There are no amounts blocked from distribution as defined in Section 268 (8) HGB on the balance sheet date.

The net accumulated losses at December 31, 2017 are € -43,251,861.92. This results from the net accumulated losses of the previous year (€ -40,916,954.67) plus the net loss for 2017 of € -2,334,907.25.

8. Provisions for taxes

The provisions for taxes reported at December 31, 2017, total €218 thousand (previous year: €2,086 thousand) and relate solely to tax-related matters from previous years.

9. Other provisions

The other provisions total €1,900 thousand in the fiscal year (previous year: €1,619 thousand).

They include provisions for attorney and process costs (€500 thousand; previous year: €0 thousand), supplier rebates to be passed on (€352 thousand; previous year: €247 thousand), bonuses (€290 thousand; previous year: €524 thousand), auditing of the financial statements and tax consulting (€161 thousand; previous year: €165 thousand), impending losses and rent smoothing (€151 thousand; previous year: €186 thousand), supervisory board compensation (€ 135 thousand; previous year: € 56 thousand), invoices not yet received (€123 thousand; previous year: €90 thousand), value-added tax and interest (€32 thousand; previous year: €317 thousand), and miscellaneous items (€156 thousand; previous year: €34 thousand).

10. Liabilities

The liabilities are due as follows:

	Total liabilities	Due in			Previous year	Secured
		Up to 1 year	More than 1 year	More than 5 years		
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	87,315	67,315	20,000	0	73,006	87,315
Trade accounts payable	1,013	1,013	0	0	1,044	0
Liabilities to affiliated companies	25,343	25,343	0	0	44,956	0
Other liabilities	2,285	2,285	0	0	200	0
	115,956	95,956	20,000	0	119,206	87,315
Previous year	119,206	80,706	38,500	0		73,006

The liabilities to banks are secured by liens on the shares of euromicron Deutschland GmbH, ELABO GmbH, EUROMICRON Werkzeuge GmbH, Stark- und Schwachstrommontage GmbH, LWL-Sachsenkabel GmbH, MICROSENS GmbH & Co. KG and telent GmbH.

After receivables and liabilities that can be offset have been offset within the individual companies, the liabilities to affiliated companies total €25,343 thousand (previous year: €44,956 thousand). They result from liabilities from the cash pool (€ 19.841 thousand; previous year: € 35.305 thousand), from liabilities from the assumption of losses (€ 5.349 thousand; previous year € 9.609 thousand) and from liabilities from current offsetting and interest payable (€ 153 thousand; previous year: € 42 thousand).

11. Sales

The company reports revenue of EUR € thousand (previous year: € 2,003 thousand). These relate primarily to services provided by the company to Group companies (€ 1,886 thousand, previous year € 1,881 thousand) and other services / revenues (€ 7 thousand; previous year: € 15 thousand). In the previous year, rental and lease income (€ 107 thousand) was also included, which did not accrue in the 2017 reporting year.

12. Other operating income

The other operating income in the fiscal year was €796 thousand (previous year: €2,508 thousand). In the previous year, they included income from the recognition of a receivable from reimbursement of legal and litigation costs (€ 1,350 thousand), which was no longer incurred in the year under review.

13. Cost of materials

The expenses carried under "Cost of materials" (€319 thousand; previous year: € 447 thousand) relate solely to purchased services in connection with the provided (intra-group) services and rental income.

14. Amortization of intangible assets and depreciation of tangible assets

In the 2017 financial year, as in the previous year, no write-downs were recognized on intangible assets and property, plant and equipment.

15. Other operating expenses

The other operating expenses in the fiscal year were €5,641 thousand (previous year: €6,190 thousand).

16. Other interest and similar income

The other interest and similar income in the fiscal year was € 1,563 thousand (previous year: € 1,338 thousand).

17. Write-downs of financial assets

The write-downs of financial assets (€472 thousand; previous year: €393 thousand) relate to an amount of €260 thousand (previous year: €320 thousand) to write-downs on the shares in the affiliated company Avalan GmbH (in liquidation) and to an amount of €212 thousand (previous year: €73 thousand) to write-downs on securities classified as noncurrent assets (shares in a U.S. listed company) resulting from the performance in its share price on the balance sheet date.

18. Other interest and similar expenses

The other interest and similar expenses in the fiscal year were € 3,823 thousand (previous year: € 4,124).

19. Income taxes

Tax income totaling €1,624 thousand is reported in the fiscal year and comprises tax income not relating to the period (€1,630 thousand) and tax expenses not relating to the period (€6 thousand). The tax income not relating to the period is due to an amount of €919 thousand to partial reversal of the provision for tax risks from the tax audit for the years 2010 to 2012, which was completed with the audit report dated November 28, 2017. In addition, €711 thousand is due to recognition of trade tax receivables likewise resulting from the completed tax audit for the years 2010 to 2012.

Tax expenses totaling €2,106 thousand were reported in the previous year and comprised tax expenses not relating to the period (€2,133 thousand) and tax income not relating to the period (€27 thousand). The tax expenses not relating to the period in the previous year were due to a total of €2,063 thousand to, in particular, setup of a provision for tax risks from the tax audit for the years 2010 to 2012.

Other disclosures

1. Average number of employees

An average number of 31.7 people were employed at euromicron AG in fiscal year 2017, of whom four were executive employees.

2. Consolidated financial statements

euromicron AG, as the ultimate parent company of the euromicron Group, prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as are applicable in the European Union, at December 31, 2017. They are deposited with the operator of the Federal Official Gazette for publication.

3. Notifications in accordance with Section 21 (1) and Section 22 (1) Sentence 1 No. 6 of the German Securities Trading Act (WpHG)

We received the following mandatory notifications of changes in shareholdings in accordance with Section 21 (1) and Section 22 (1) Sentence 1 No. 6 (WpHG)

- Mr. Christian Bischoff, Germany, notified us on August 14, 2015, that his share of the voting rights exceeded the threshold of 3.00% on August 12, 2015, and since then has been 3.04% (217,989 voting rights). He held 3.04% (217,989 voting rights) directly.
- Universal Investment Gesellschaft mbH, Frankfurt/Main, Germany, notified us on February 26, 2016, that its share of the voting rights exceeded the threshold of 3.00% on February 22, 2016, and since then has been 3.01% (215,638 voting rights). 3.01% (215,638 voting rights) were attributable to it in accordance with Section 22 (1) Sentence 1 No. 6 WpHG.
- Lazard Frères Gestion SAS, France, notified us on March 18, 2016, that its share of the voting rights exceeded the threshold of 3.00% on March 8, 2016, and since then has been 3.47% (249,100 voting rights). It held 3.47% (249,100 voting rights) directly.

There are the following stakes of which we were notified in accordance with Section 160 (1) No. 8 AktG in conjunction with Section 21 (1) WpHG:

euromicron AG, Frankfurt am Main ISIN DE000A1K0300 WKN A1K030	Date of the voting rights notification	Date the threshold was exceeded/fallen below	Current notification		Last notification	
			Number	Share in %	Number	Share in %
Total number of registered shares			7,176,398	100%	7,176,398	100%
Christian Bischoff, Germany	Aug. 14, 2015	Aug. 12, 2015	217,989	3.04%	n.a.	n.a.
Universal-Investment- GmbH, Frankfurt/Main	Feb. 26, 2016	Feb. 22, 2016	215,638	3.01%	203,946	2.84%
Lazard Frères Gestion SAS, France	March 18, 2016	March 8, 2016	249,100	3.47%	n.a.	n.a.

Direct or indirect stakes in the capital stock of euromicron AG exceeding ten percent of the voting rights at the time of reporting have not been reported to euromicron AG and are also not known to it otherwise.

4. Business transactions not included in the balance sheet, contingencies and other financial obligations

As in the previous year, euromicron AG concluded a master agreement on the sale of receivables with a bank based in Germany on December 31, 2017. Eight (previous year: eight) other affiliated companies of the euromicron Group are covered by this master agreement. By selling receivables, the companies are able to turn their receivables into liquid funds more quickly and so make a positive contribution to their funding and improve their working capital. Moreover, factoring means that the companies can obtain more favorable financing terms on the market than was previously the case. euromicron AG itself has not sold any receivables under this agreement. There are no risks from these transactions from the point of view of euromicron AG.

As part of financing of the Group, euromicron AG concluded a collateral pooling agreement with the lending banks in the previous year. This agreement related to the liabilities to banks already recognized at euromicron AG (December 31, 2017: € 87,315 thousand; previous year: € 73,006 thousand), as well as to liabilities to banks of the subsidiaries euromicron Deutschland GmbH (December 31, 2017: € 500 thousand; previous year: € 500 thousand) and Microsens GmbH & Co. KG (December 31, 2017: € 343 thousand; previous year: € 411 thousand).

In this connection, euromicron AG and the other companies in the euromicron Group issued a guarantee to the pool leader, Deutsche Postbank AG, up to a maximum amount of €150 million toward the lenders on June 30, 2016. However, claims against the guarantee can only be made if this does not result in establishment of a negative net worth.

As part of cash management, euromicron AG is jointly liable for daily credit utilization of credit facilities by its subsidiaries which do not have any credit lines of their own with the banks leading the cash pool, HSBC Trinkhaus & Burkhardt, Postbank and Taunus Sparkasse, to a maximum total of €9,195 thousand (previous year: €8,350 thousand) up to daily transfer to the group's account at 0:00 hours. The amount of liability at 0:00 hours on December 31, 2017, was €0 thousand (previous year: €0 thousand). The respective subsidiaries and euromicron AG are jointly and severally liable for utilization of the provided credit line of up to €26,569 thousand at the banks by the subsidiaries of euromicron AG under the cash pooling arrangements.

At December 31, 2017, euromicron AG assumed performance and advance payment guarantees for the following group companies:

euromicron Deutschland GmbH:	€ 11,755 thou. (previous year: € 12,167 thou.)
telent GmbH:	€ 5,171 thou. (previous year: € 8,189 thou.)
Stark-und Schwachstrommontage GmbH	€ 2,841 thou. (previous year: € 1,944 thou.)
Elabo GmbH:	€ 1,182 thou. (previous year: € 1,785 thou.)
Avalan GmbH:	€ 973 thou. (previous year: € 1,317 thou.)
euromicron austria GmbH:	€ 576 thou. (previous year: € 321 thou.)
RSR Datacom GmbH & Co. KG	€ 245 thou. (previous year: € 245 thou.)
Others	€ 143 thou. (previous year: € 123 thou.)

We believe that the obligations on which the guarantees assumed for the subsidiaries are based can be fulfilled by the subsidiaries; utilization of the guarantees is not expected. The maximum amount of utilization of the guarantees would be around the amount of the provisions for warranties that have been set up at the subsidiaries on the basis of many years of experience, if the subsidiaries were not able to meet the obligations themselves.

At December 31, 2017, euromicron AG held 97,5% of the shares in Microsens Beteiligungs GmbH, Hamm, and 97,5% of the shares in MICROSENS GmbH & Co. KG, Hamm. The minority shareholder has a preemptive right to tender the remaining 2.5% of the shares to euromicron AG.

At the same time, euromicron AG has an option to acquire these shares. This preemptive right and option, which can be exercised on January 1, 2018, at the earliest and on December 31, 2020, at the latest, results in a maximum payment obligation of €251 thousand on the part of euromicron AG. This comprises a fixed payment obligation of €226 thousand and a payment obligation of €25 thousand that is contingent on achievement of specific earnings in the future.

The other financial obligations result from rental agreements (running until 2022) and lease obligations (running until 2021) and total €2,597 thousand (of which due to affiliated companies: €0 thousand). They are composed as follows:

	Total	Up to 1 year	1 to 5 years	More than 5 years
Leasing	583	273	310	0
Rent	2,014	395	1,619	0
Total:	2,597	668	1,929	0
<i>Of which due to affiliated companies</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

The advantage of the rental and leasing agreements is that little capital is tied up initially compared with acquisition of the objects and that there is no realization risk. Risks may result from the term for which the agreements run, if the objects can no longer be fully used, although there are no indications of that at present.

5. Corporate governance declaration in accordance with Section 289f HGB (German Commercial Code)

The corporate governance declaration in accordance 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 www.euromicron.de/en/investor-relations/corporate-governance-code-17

6. Auditor's fee

The total fee charged by the company's independent auditor for fiscal 2017 is broken down into auditing services, tax consulting services and other services in the related disclosure in the consolidated financial statements of euromicron AG. Tax consulting services, comprising in particular the preparation of tax returns, were provided for euromicron AG and the companies controlled by it. The other services comprise in particular an analysis of the target markets relating to the euromicron Group's strategic orientation.

Significant events after the balance sheet date

Follow-up financing up to March 31, 2021, was agreed with the financing partners in March 2018. The agreement specifies that the company must fulfill specific key ratios (covenants), which must be tested quarterly, for the first time as of June 30, 2018. They include the gearing ratio and key indicators relating to earnings and liquidity. In addition, the agreement specifies contractually stipulated repayments of €2.5 million effective March 31, 2019, and €25.0 million effective January 31, 2020. The lenders also have an extraordinary right to terminate the agreement if 30% or more of the shares and/or voting rights are taken over.

Supervisory Board and Executive Board

1. Name of the board members and other seats/functions held

(1) The members of the Executive Board of euromicron AG are or were:

Bettina Meyer

- Finance, Legal Affairs, Human Resources, Accounting / Controlling and Investor Relations
- Spokeswoman of the Executive Board

Jürgen Hansjosten

- Operations, Strategy, IT and Purchasing
- Chairman of the Supervisory Board of AMS Technologies AG, Planegg

(2) Members of the Supervisory Board of euromicron AG:

Evelyne Freitag, Chairwoman

Graduate in business management,

Chief Financial Officer Germany/Switzerland/Austria of
Sanofi-Aventis Deutschland GmbH, Frankfurt/Main

Chairwoman of the Supervisory Board of the

Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG, Frankfurt/Main

Rolf Unterberger, Deputy Chairman

Graduate in industrial engineering,

Business consultant and Managing Director of RMU Capital GmbH, Munich

Managing Director of Executive Interim Partners GmbH, Munich

Member of the Advisory Board of Melboss Music, Palo Alto (CA), U.S.

Dr. Alexander Kirsch

Businessman,

Managing Partner Renusol Europe GmbH, Cologne

Deputy Chairman of the Supervisory Board of

SKW Stahl-Metallurgie Holding AG, Munich

2. Remuneration of the Executive Board members

The total remuneration of the members of the Executive Board consists of a number of components: These are a fixed amount, the bonus and a component with a long-term incentive effect, as well as fringe benefits. The disclosures required for listed stock corporations pursuant to Section 285 No. 9 a Sentences 5 to 8 of the German Commercial Code (HGB) are contained in the Compensation Report, which is part of the management report. Additional presentation of the information included in that report in the notes is therefore dispensed with.

(1) Total remuneration of the Executive Board

In fiscal year 2017, the Executive Board received a total remuneration of €604 thousand (previous year: €739 thousand); the variable payments made up €45 thousand of this (previous year: €180 thousand).

(2) Advances

The system for compensation for the Executive Board 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 March 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 annually 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.

On the basis of the above-presented regulations, the Executive Board members were granted interest-free advances on the LTI component in the form of payments on account to an amount of €116 thousand in the years 2016 and 2017.

3. Remuneration of the Supervisory Board members

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 was thus €135 thousand (previous year: €135 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.

The members of the Supervisory Board received no further compensation in the year under review.

Appropriation of net income

The annual financial statements of euromicron AG at December 31, 2017, in accordance with the German Commercial Code (HGB) disclose net accumulated losses of € -43,251,861.92.

Declaration by the legal representatives

“We affirm to the best of our knowledge that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in compliance with the applicable accounting principles and that the management report gives a true and fair presentation of the course of business, including the business results, and the position of the company and accurately describes the main opportunities and risks of the company’s anticipated development.”

Frankfurt/Main, March 26, 2018

Bettina Meyer
Spokeswoman of the Executive Board

Jürgen Hansjosten
Member of the Executive Board

AUDITOR'S REPORT

euromicron AG, Frankfurt/Main

NOTE ON THE AUDIT OF THE FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit opinions

We have audited the financial statements of euromicron AG, Frankfurt/Main, consisting of the balance sheet as of December 31, 2017, the statement of comprehensive income, the income statement, the statement of changes in equity and the statement of cash flows for the fiscal year from January 1 to December 31, 2017, as well as the notes on the financial statements, including a disclosure of the accounting principles. We have also audited the management report of euromicron AG for the fiscal year from January 1 to December 31, 2017. In accordance with German statutory requirements, we did not audit the contents of the components of the management report specified in the section "Other information" of our auditor's report.

In our opinion pursuant to the findings gained during the audit,

- the enclosed financial statements comply, in all material respects, in accordance with German commercial law and give a true and fair view of the net assets and financial position of the company as of December 31, 2017, and of its results of operations for the fiscal year from January 1 to December 31, 2017, taking into account the German Generally accepted accounting principles, and
- the enclosed management report conveys overall an accurate picture of the company's position. In all material respects, this management report is consistent with the financial statements, complies with German statutory requirements, and accurately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the contents of the components of the management report specified in the section "Other information".

In accordance with Section 322 (3) Sentence 1 HGB, we declare that our audit did not result in any objections to the legal compliance of the financial statements and the management report.

Basis for the audit opinions

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

Key audit matters in the audit of the financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the fiscal year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In our opinion, the following matters were of most significance in our audit:

① Valuation of shares in affiliated companies

We have structured our presentation of this particularly key audit matter as follows:

- ① Matter and statement of the problem
- ② Audit approach and findings
- ③ Reference to further information

We present the particularly key audit matter in the following:

① Valuation of shares in affiliated companies

① Shares in affiliated companies amounting to €146.1 million (74.4% of total assets) are carried in the annual financial statements of euromicron AG under the balance sheet item “Financial assets”. Shares in affiliated companies are measured in accordance with German commercial law on the basis of cost or the lower of fair value. The fair values of the significant equity interests are calculated using discounted cash flow models as present values of the anticipated future cash flows defined in the budgeting prepared by the legal representatives. Expectations of future market development and assumptions on the development of macroeconomic factors are also taken into account. The plausibility of the budgeting on which measurement of the equity interests is based – including the in-depth estimates and assumptions of the legal representatives – was examined by an external expert engaged by the company. Discounting is carried out using the individually determined cost of capital for the financial asset in question. The calculated values and further documentation revealed that a total of €260 thousand needed to be written off for the fiscal year.

The result of this measurement depends to a great extent on the estimates by the legal representatives as regards future cash flows, as well as on the applied discount rates used and growth rates. The measurement is therefore subject to significant uncertainties. In view of that and the great complexity of such a measurement and the issue’s significance for the company’s net assets and results of operations, this matter was of particular importance in our audit.

② As part of our audit, we gained an understanding of the methodological approach applied in measurement, among other things. In particular, we assessed whether the fair values of the significant equity interests were determined appropriately by means of discounted cash flow models and in compliance with the relevant measurement standards. Accompanying that, we assessed the usability of the report created by the external expert. That also included an evaluation of the professional qualifications of the external expert. In particular, we also gained an understanding of the original data used, and the assumptions made or applied, in the report and assessed their reasonableness.

As part of that, we also based our findings on, among other things, a comparison with general and industry-specific market expectations and on extensive explanations by the legal representatives on the significant value drivers on which the anticipated cash flows are predicated.

Knowing that just relatively slight changes in the applied discount rate and growth rate may have significant impacts on the company's value determined in this way, we looked intensively at the parameters used to determine the applied discount rate and the growth rate and gained an understanding of the calculation scheme.

It is our opinion that the measurement parameters and assumptions applied by the legal representatives, taking into account the available information, are all in all suitable for measuring the shares in affiliated companies appropriately.

③ The company's disclosures on the financial assets are contained in the list of shareholdings at December 31, 2017, in the notes.

Other information

The legal representatives are responsible for the other information. The other information comprises the following components of the management report whose contents were not audited:

- The corporate governance declaration in accordance with Section 289f and Section 315d HGB (German Commercial Code) contained in section 5 of the management report
- The Corporate Governance Report in accordance with Section 3.10 of the German Corporate Governance Code
- The separate non-financial report in accordance with Section 289b (3) HGB and Section 315b (3) HGB

Our opinions on the financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

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

Responsibilities of the legal representatives and the Supervisory Board for the financial statements and the management report

The legal representatives are responsible for the preparation of financial statements that comply, in all material respects, with the requirements of German commercial law and that the financial statements, in compliance with the German Generally accepted accounting principles, give a true and fair view of the company's net assets, financial position and results of operations. In addition, the legal representatives are responsible for such internal controls as they have determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the legal representatives are responsible for assessing the company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless this does not conflict with actual or legal circumstances.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the company's position and is, in all material respects, consistent with the financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the company's financial reporting process for the preparation of the financial statements and of the management report.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls
- Obtain an understanding of internal control relevant to the audit of the financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the company.
- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements present the underlying transactions and events in a manner that the financial statements give a true and fair view of the company's net assets, financial position and results of operations in compliance with the German Generally accepted accounting principles.
- Evaluate the consistency of the management report with the financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditor by the General Meeting on June 14, 2017. We were engaged by the Supervisory Board on December 7, 2017. We have been the auditor of euromicron AG, Frankfurt/Main, without interruption since fiscal year 2010.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German public auditor responsible for the engagement is Dr. Ulrich Störk.

Frankfurt/Main, March 26, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk	ppa. Diana Plaum
Wirtschaftsprüfer	Wirtschaftsprüfer

euromicron

euromicron AG
Zum Laurenburger Hof 76
60594 Frankfurt/Main
Germany
Phone: +49 69 631583-0
Fax: +49 69 631583-17
info@euromicron.de
www.euromicron.de

This Annual Report is available in German and English.

Both versions can also be downloaded from the Internet at www.euromicron.de.

In cases of doubt, the German version is authoritative.

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