

ANNUAL REPORT
2017

TRANSFORMING
THINKING

YEARS

euromicron

CONTENTS

TO OUR SHAREHOLDERS

- 38** Foreword by the Executive Board
- 42** Report of the Supervisory Board
- 46** Corporate governance
- 56** euromicron on the capital market
- 59** Board members of the Company

GROUP MANAGEMENT REPORT

- 62** Fundamentals of the Group
- 75** Economic Report
- 97** Forecast, Opportunity and Risk Report
- 105** Internal control and risk management system in relation to the consolidated accounting process
- 107** Corporate governance declaration by the Group in accordance with Section 315d HGB (German Commercial Code)
- 107** Separate non-financial report
- 108** Compensation Report
- 111** Disclosures in accordance with Section 315a (1) HGB (German Commercial Code)

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

- 114** Auditor's Report
- 120** Balance sheet
- 122** Income statement
- 123** Statement of comprehensive income
- 124** Statement of changes in equity
- 126** Statement of cash flows
- 127** General disclosures
- 142** Consolidated companies
- 146** Notes on the consolidated balance sheet
- 148** Changes in the Group's assets
- 169** Notes on the consolidated income statement
- 173** Appropriation of net income
- 173** Other disclosures
- 178** Segment reporting

SINGLE-ENTITY FINANCIAL STATEMENTS (HGB)

- 188** Balance sheet as of December 31, 2017
- 190** Income statement for the period January 1 to December 31, 2017

FURTHER INFORMATION

- 194** Five-year overview of the Group
- 195** Glossary
- 202** List of tables
- 204** Financial calendar

KEY FIGURES

Key figures

	2017	2016
	€ m.	€ m.
Consolidated sales	332.9	325.3
Sales by division		
Smart Buildings	191.9	193.7
Critical Infrastructures**	121.0	111.2
Distribution	23.6	22.6
All other segments and reconciliation**	-3.6	-2.2
Operating EBITDA*	13.5	13.2
Operating EBITDA* by division		
Smart Buildings	6.9	6.0
Critical Infrastructures**	6.8	7.6
Distribution	4.0	3.1
All other segments and reconciliation**	-4.2	-3.5
Operating EBITDA margin*	4.1%	4.0%
Reorganization costs with an impact on EBITDA	-4.0	-5.8
EBITDA	9.5	7.4
EBITDA margin	2.9%	2.3%
Operating EBIT*	5.1	4.5
Reorganization costs with an impact on EBIT	-4.0	-6.8
EBIT	1.1	-2.3
Consolidated net loss for the period (for shareholders of euromicron AG)	-3.8	-12.7
Undiluted earnings per share (in €)	-0.53	-1.76
Working Capital (before factoring)	75.5	73.2
Working Capital Ratio (before factoring)	22.7%	22.5%
Working Capital (after factoring)	43.0	38.5
Working Capital Ratio (after factoring)	12.9%	11.8%
Cash flow from operating activities (recognized)	-1.6	-7.1
Cash flow from operating activities, adjusted for effects from factoring and customers' monies to be passed on	0.4	1.3
Order books	127.1	123.3
Equity ratio	31.1%	33.7%
Total assets	252.1	244.6
Employees (number as an average for the year)	1,833	1,804

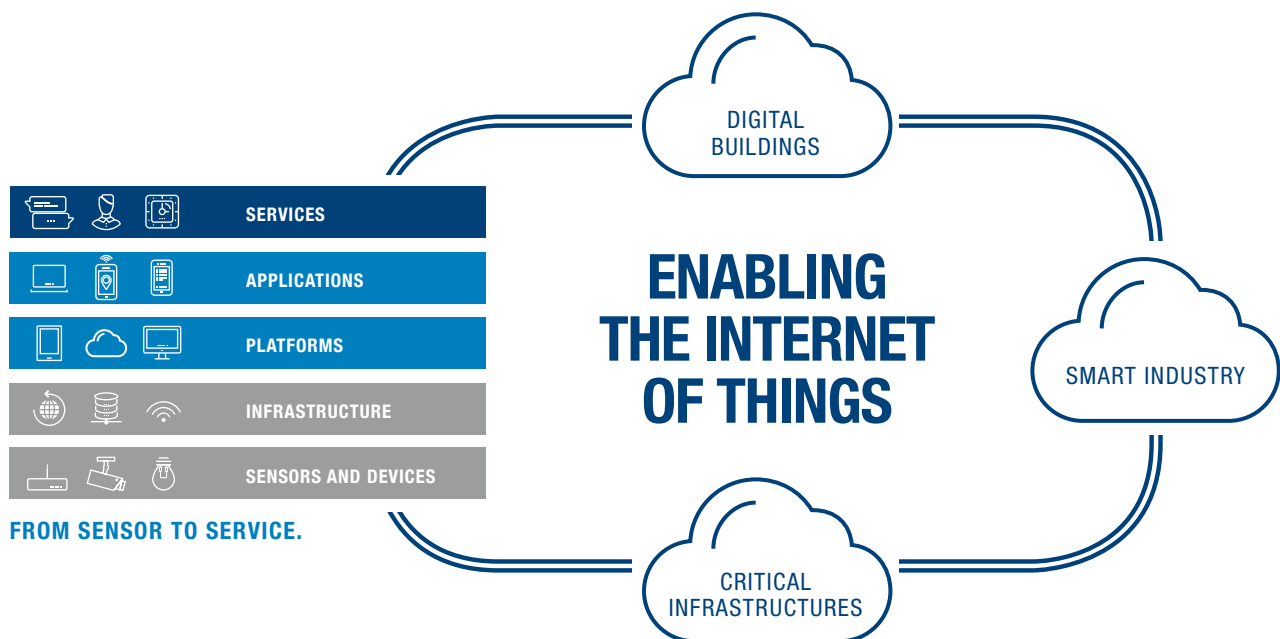
* Adjusted for special effects of the reorganization

** The previous year's figure has been adjusted.

euromicron – CUSTOMIZED CONCEPTS FOR THE INTERNET OF THINGS

The euromicron Group develops tailored IoT solution concepts in the markets “Digital Buildings”, “Smart Industry” and “Critical Infrastructures”.

We boast vertical know-how that is unique in our market. It enables us to formulate a technical infrastructure to suit each of our customers to a tee. To achieve that, we combine the technically and economically most expedient components from the fields of terminal devices and sensors, infrastructure, platforms, applications and services. In that way, we offer our customers a one-stop shop for solutions and so help them exploit the possibilities of digitalization right now.



DIGITAL BUILDINGS

Everything that can be integrated in networks can also be controlled in the digital building. Technologies and solutions from euromicron ensure that buildings thus become an integral part of the Internet of Things. Enterprises benefit from that in the shape of energy savings, convenience, simple communication and security at all levels.

SMART INDUSTRY

Smart processes, digitized small-scale production, lasting quality assurance or innovative working time concepts – companies are increasing productivity and developing new business models on the basis of Smart Industry. The foundation for that is gradual digitization. euromicron implements that for its customers in a forward-looking way that protects investments.

CRITICAL INFRASTRUCTURES

Secure networks are vital for modern societies: Banks, the energy sector, public authorities, telecommunications, transportation and healthcare depend on fault-tolerant systems. euromicron develops solutions for Critical Infrastructures on the basis of a wide range of different IT and communications technologies.

euromicron

20 YEARS EXPERIENCE WITH FUTURE

euromicron's history is that of a group tuned to the pulse of technological change. Over the past 20 years, euromicron AG has accompanied its customers on their path to a future of technological change and new business models. That demanded and keeps on demanding changes in thinking and skills.

Our goal is to anticipate what's new without simply throwing existing things over board. On the basis of that, we ensure that our customers keep pace with technical advances, while protecting their investments – as we've done for 20 years.

THE CHANGING FACE OF EUROMICRON

How slow is fast? How inaccurate is precise? How obsolete is cutting-edge? Good performance alone is no longer a guarantee of success in the digitized world. New thinking is required to leverage new opportunities. In the past, we at the euromicron Group have built the skills, technologies and service mentality that help our customers tackle the challenges they face now and down the road.

We can look back on 20 years of euromicron AG, over which time we and our customers have moved from the analog world toward digital and Internet-based technologies, applications and business models. Innovative networks and infrastructures for transporting voice and data – that has been euromicron AG's core business since the company was founded. Today, we unite key competences for digitizing network infrastructures, as well as production and business processes, under our roof. With our in-depth solution expertise for "Digital Buildings", "Smart Industry", "Critical Infrastructures" and related smart services, we boast a unique selling point in the market. ■

C

Critical Infrastructures We live in a connected world. Network infrastructures have become the lifelines of modern societies. Banks, the energy sector, public authorities, telecommunications, transportation and healthcare need fail-safe systems. euromicron supports operators of critical infrastructures in implementing tailored vertical solution concepts, IoT migration strategies and cybersecurity measures. To achieve that, we deliver the technically and economically most expedient solutions from the fields of infrastructure, platforms, applications and services. ■



D

Digital Buildings Technologies and solutions from euromicron enable energy consumption, communication, lighting, access and security, convenience and technical building functions to be tailored to users and tasks. Buildings are thus equipped with “intelligence” and integrated dynamically in the Internet of Things. These “smart buildings” offer solution approaches for living in the cities of the future. ■



S

Smart Industry Small-scale production from lot size 1 up. Intelligent processes that guide people in making things safely, securely and without errors. Foresighted actions by machinery to optimize production. The fourth industrial revolution promises to enhance and flexibilize productivity, resource efficiency and ergonomics, as well as integration of processes with customers and business partners. euromicron offers a holistic approach for Smart Industry and the related processes and services – especially for small and medium-sized enterprises. As a result, production can be networked with IT in an energy-efficient, high-performing, yet secure manner. ■

On the basis of that, we allow our customers to embark on digitization in a way tailored precisely to their needs: As a medium-sized group, we know the challenges the Internet of Things poses for companies, in particular small and medium-sized enterprises. We are a reliable partner who develops and implements tailored, future-proof solutions – from sensors to services. We complement our own expertise with technologies from partners who are leaders in their markets. As a result, we enable our customers to migrate their infrastructures and systems gradually to the digital age, as well as develop new services.

In the midst of the changes as part of digitization, euromicron has offered concrete paths to achieve transformation for two decades: How must powerful and rugged communication technology be designed? How can Smart Industry be achieved cost-effectively? What specific benefits do intelligent building functions offer? How can infrastructure and systems be protected against cyberattacks? How can our customers make investments today so that they can build on them sensibly moving ahead?

In order to answer those questions and address the ever faster pace of innovation cycles, we ourselves have embarked on a process of continual transformation: We are expanding our expertise and changing our thinking. The result is already digitization to touch and feel: in the shape of innovative IoT solutions. Or completely new business models. And expertise that helps our customers move forward. ■

THE COMPANIES IN THE EUROMICRON GROUP

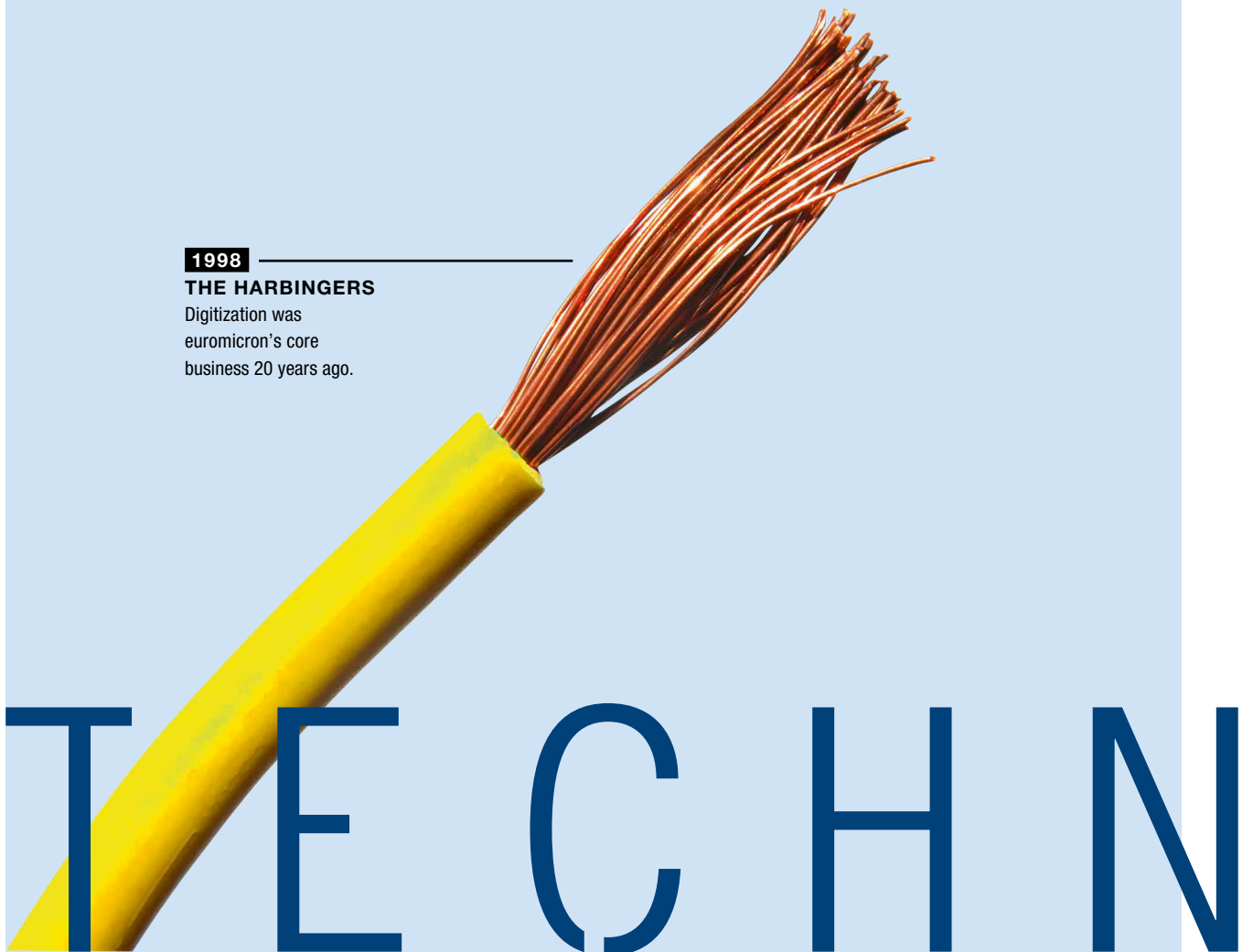


TRANS

1998

THE HARBINGERS

Digitization was
euromicron's core
business 20 years ago.

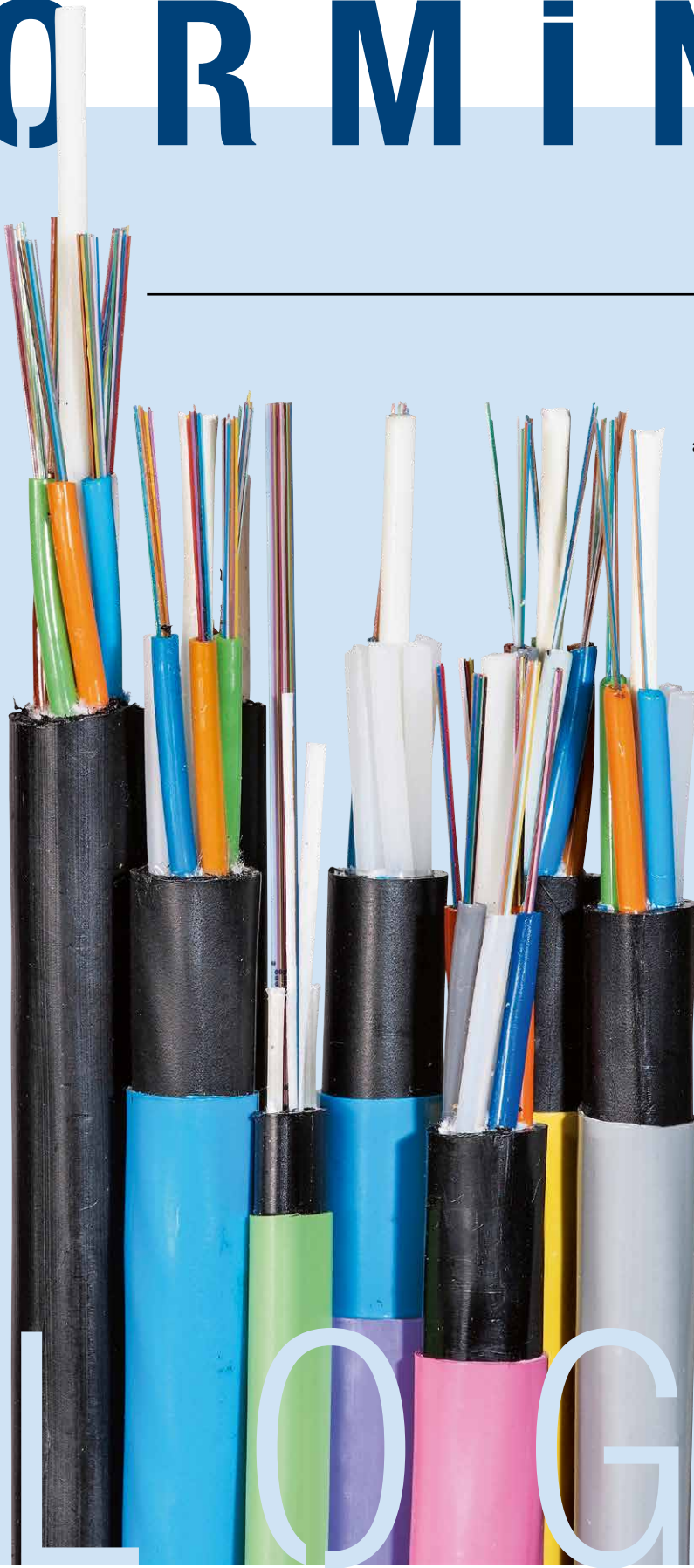


TECHN

FORMING

2018
IN THE
INTERNET OF
THINGS
we leverage our
evolved know-how
across technological
boundaries.

LOGY



20 YEARS OF DEVELOPMENT

What was the future of transmission technology 20 years ago? Could we imagine using mobile devices, each with a computing power of an entire office, in our everyday life and work? Would we have thought it possible for business models to be based on casually collected masses of data? What would we have said in response to the question: What is the “Internet of Things”?





W

Whether trains, cars, robots or buildings; We now control large things with small devices. Storage technology, mobile communications, IP, WLAN, fiber optics and the like open up possibilities that were science fiction 20 years ago and have enabled that transformation. euromicron is part of that, because transformation is our core business: from transmission technologies, computing speeds, storage capacities and security issues to intelligently connected things, self-controlling processes and mobile communication anytime, anywhere. ■

The Internet and things

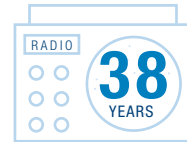
One of the far-reaching changes for life and work is the worldwide spread of the Internet in the past 20 years. In 1998, 147 million people used the Internet, i.e. 3.6% of the world's population. That had risen in 2017 to 3.885 billion, i.e. 51.7%. Behind those bare figures lies a great deal of complexity. Nowadays, any telephone connection, computer, surveillance camera, sensor and machine can be controlled via an IP address. An infinite number of "players" send and receive data in the Internet of Things. That means the challenges are growing. Enormous transmission, computing and storage capacities, as well as effective security concepts, are a must. Small and medium-sized enterprises in particular often lack the resources and know-how for technological connectivity. euromicron helps them migrate gradually with viable, practical concepts. ■



SMART BUILDINGS
in smart cities – we enhance convenience and security in the urban space with the Internet of Things.

RAPID GROWTH: FROM THE PHONE TO POKÉMON

Time needed for the number of users to grow from 0 to 50 million

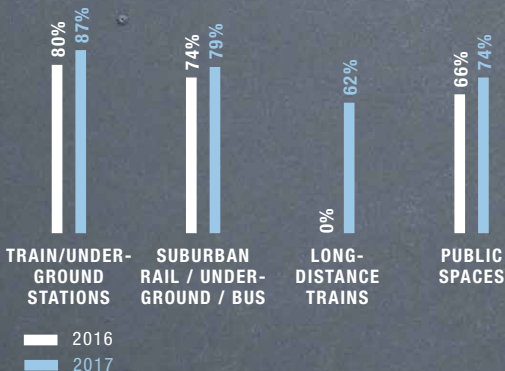


FROM THE GUARD DOG TO THE CAMERA

Intelligent video surveillance has become possible by connecting video cameras with the Internet and using highly specialized evaluation and analysis tools. euromicron is equipping more and more areas where security is vital – train stations, underground car parks, public spaces, entrances to buildings or security-critical facilities – with smart video cameras. That not only increases the feeling of security: it's a greater deterrent to criminals, while potentially dangerous situations are identified faster and can be prevented before they arise. euromicron Deutschland fitted Cologne Central Station with around 200 cutting-edge cameras and a central video management platform and integrated data components in the existing system and process landscape. The project was accomplished in just three months without interruption to ongoing operations. Other stations are to follow. ■



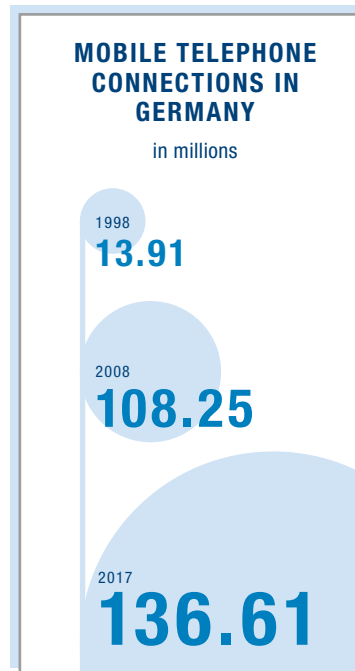
ACCEPTANCE FOR THE USE OF VIDEO CAMERAS





Online everywhere

Growing demands for mobility, bandwidth and reliability have fueled advances in tele-communications in the past 20 years. Global introduction of the fully digital mobile communications standard GSM in 1992 laid the groundwork for a veritable revolution – the cell phone became a multimedia all-rounder. Bandwidth continued to increase during that time. The broadband standard LTE became available as of 2010. The next quantum leap in mobile communications is expected around 2020: the 5G wireless standard. However, quite a bit has to happen before that. Fiber-optic networks have to be expanded and transmission systems converted to cater for the next boom in broadband. euromicron is involved in expanding mobile communications with several of its subsidiaries, is setting up new transmission masts, and is converting existing facilities to digital transmission. ■



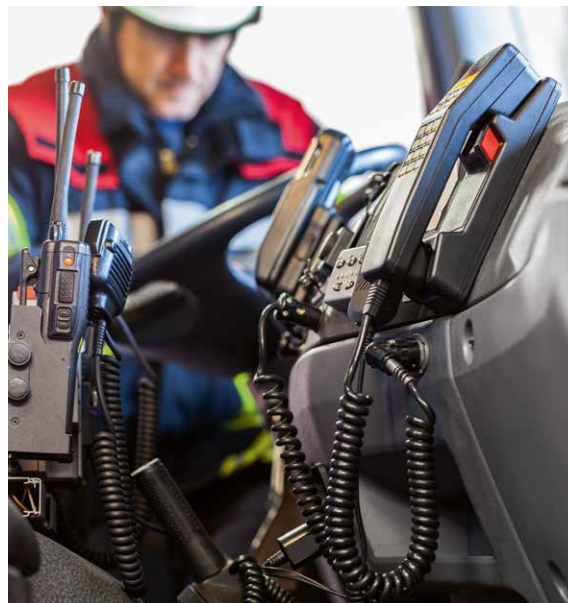
Over a short distance

The Internet for all devices – devices are integrated wirelessly in local networks on the basis of the wireless local area network (WLAN). WLAN makes it much easier to access the Internet because cable connections are no longer needed. WLAN supports the trend toward mobility and flexibility, such as at workplaces. However, it also necessitates effective protection against intruders, especially in working environments. The trend is now moving toward cloud-based management of wireless LAN solutions which do away with the need for central hardware to control the environment. euromicron's solutions in the field of software-defined and cloud-based managed network and security services are being used increasingly, in particular by chains and companies with distributed locations. ■



Free channels for emergency services

Mobile communications is now also used by public authorities and organizations that perform security tasks, such as the fire brigade, police and emergency services. Analog radio communications was used for a long time in this area, but had various drawbacks – in particular, it could not be encrypted and did not allow group communication. Digital mobile communications for public authorities uses specially reserved frequencies. Apart from voice transmission, it also permits group communication and sending of image data, a factor that may be vital in the event of disasters. Major events often initiate a step-up in expansion: For the G7 summit at Elmau Castle, euromicron was tasked with expanding the public authority wireless network in the surrounding mountain region. In addition, euromicron converted the radio networks for public authorities in two federal states to IP-based technology. ■



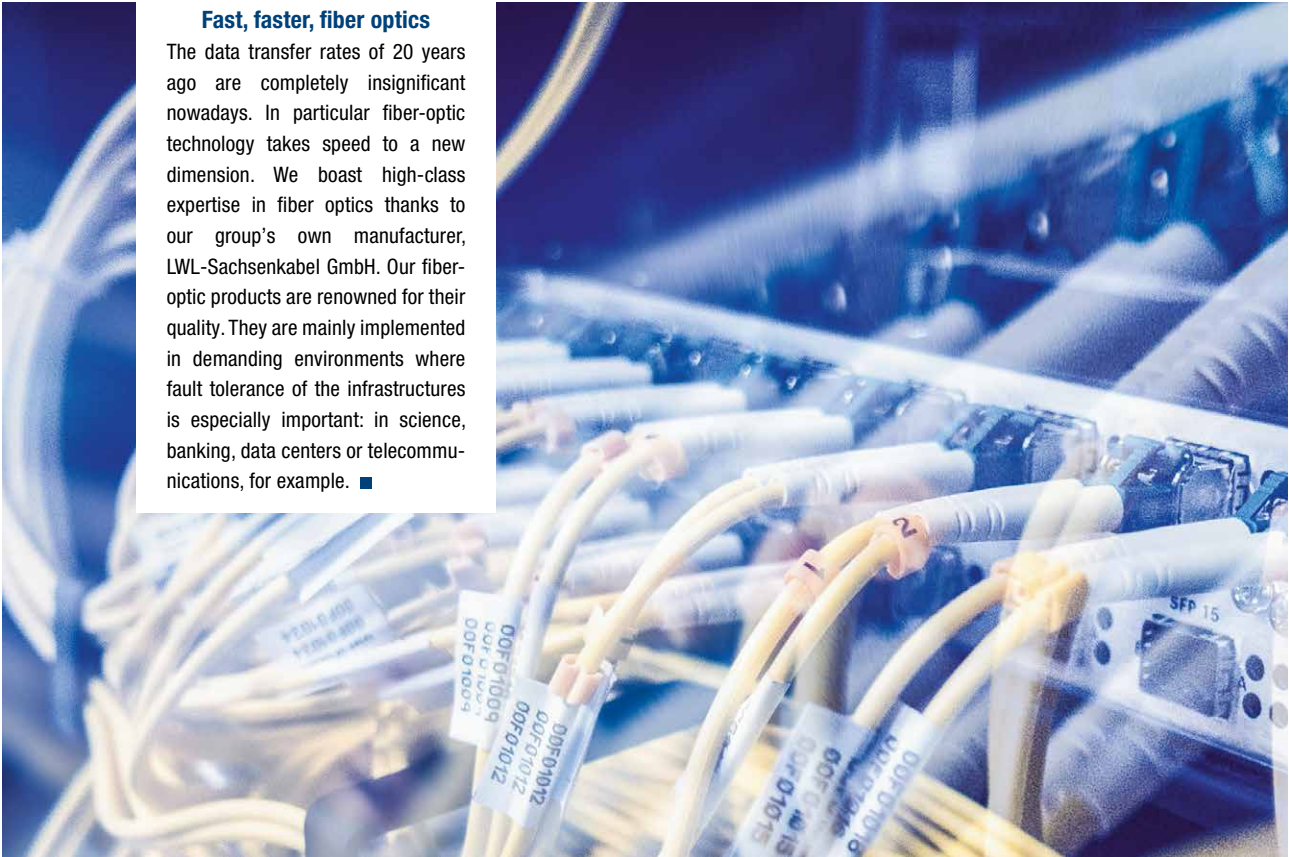
LoRa® – less energy, many transmitters

When things are to communicate with each other, they often only exchange small quantities of data. telent's subsidiary Netzikon is building and operating a secure, closed long range wide area network based on the LoRa® standard throughout Germany. It now plays a major role, especially in industrial environments and for Smart Industry. LoRa® requires little energy, its installation costs are low, and it is quickly available. telent has developed the EvalorIQ platform for systematically pooling the information and data captured and communicated by the devices and interfaces. It not only optimizes process security, but also supplies the basis for innovative digital business models with its evaluations and analyses. ■



Fast, faster, fiber optics

The data transfer rates of 20 years ago are completely insignificant nowadays. In particular fiber-optic technology takes speed to a new dimension. We boast high-class expertise in fiber optics thanks to our group's own manufacturer, LWL-Sachsenkabel GmbH. Our fiber-optic products are renowned for their quality. They are mainly implemented in demanding environments where fault tolerance of the infrastructures is especially important: in science, banking, data centers or telecommunications, for example. ■



Better safe than sorry

Cybersecurity – an issue that only secret services and James Bond probably thought about 20 years ago. Now cyberattacks repeatedly make headlines in the media, and cause considerable damage to companies and private individuals. In particular critical infrastructures, such as those of power utilities, transport companies, security authorities or communications network operator, have to be protected against cyberattacks so that public life is not disrupted. euromicron's subsidiary KORAMIS develops effective security concepts for sensitive areas at public authorities and enterprises. ■

CYBERATTACKS CAUSE DAMAGE OF



The German Office for the Protection of the Constitution puts the annual damage caused by cyberattacks in Germany at €50 billion.

High availability even in difficult terrain

Radio relay is also benefiting from expansion of mobile communications in the past 20 years. The highly available radio relay links are used to connect the base stations of mobile and fixed network operators to higher-level units. Radio relay is also used for redundant connections, connecting remote locations and in difficult terrain. Radio and TV broadcasters also use the technology. In February 2018, euromicron's subsidiary talent won the Europe-wide radio relay tender from the broadcaster SWR. ■



Switch with brains

Switches have always played a key role as data distributors in networks. However, network switches can now do quite a bit more. They are used as a smart means of controlling devices and security equipment, for example in building networks or connected industrial plants. To enable that, the unassuming devices are equipped with intelligent programming – with apps. We all know them from the smartphone: The small software add-ons are some of the key basic elements for the Internet of Things – they are vital to enabling interaction between sensors and actuators in the network. ■



Data lock-keeper: pay per use

The data lock-keeper InDEx, which has been developed by KORAMIS, is a bit like a digital doorman that scans removable storage media for malware and cleans them. InDEx is mainly used in industrial environments or critical infrastructures when always up-to-date protection against viruses is to be ensured without an Internet connection. If, for example, a technician needs to insert a USB stick into a machine in order to carry out maintenance work, the medium is first checked in the data lock-keeper. Important events, data and information can be processed, visualized and controlled easily at any time. KORAMIS offers InDEx in a pay-per-use model. That keeps the initial investments for customers low. ■



Try out the future

Many advantages of digitization are still hard to grasp. The underlying technologies are often complex and the resultant possibilities are barely tangible. That's why MICROSENS' engineers try to illustrate functionalities in the smart building to the company's customers. For example a specimen hotel room was specially developed for a large customer, a designer hotel chain in Poland. It presents the euromicron subsidiary's room automation solutions specifically for applications in the hotel industry and gives an impressive "live" demonstration of the perfect interplay between software and sensors. The walls imitate the rooms' interior. The switches and devices are real-life – to touch and feel. They can be used to try out and experience all the smart features: The access system, heating, air-conditioning, lighting, shading, service and entertainment – all the functions are embedded in the IT and can be operated fully from your smartphone or tablet. Guests can use functions such as "Please do not disturb" or "Please clean" to inform staff of whether they want their room to be cleaned. Specific scenarios are activated, depending on whether a guest or service employee enters the room. Customers can experience the benefits at first hand – giving them a tangible basis for making a decision to move to smart technologies. ■



TRANS



1998
**STRUCTURED
DATA**
is the basis
for processes

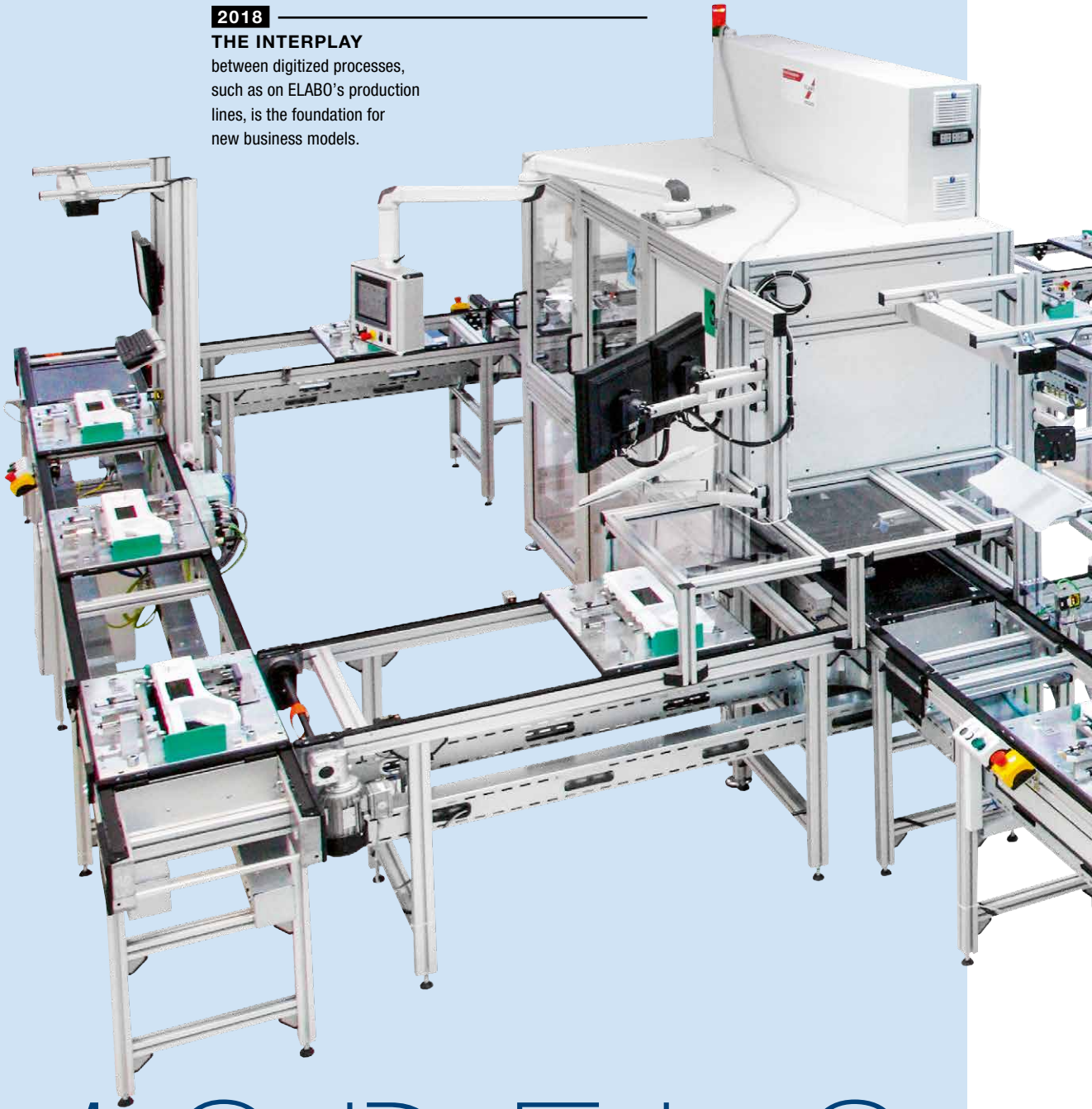
BUSINESS

FORMING

2018

THE INTERPLAY

between digitized processes, such as on ELABO's production lines, is the foundation for new business models.



MODELS

20 YEARS OF RETHINKING

There's a gold rush fever in the "Internet of Things". The many innovations brought about by digitization require services and products. Renovation in technology-driven sectors almost always means growth. Apart from the implementation of new infrastructures and transmission technologies, there's another buzz phrase whirling around in digital fantasies: new business models.





The big players in the World Wide Web have shown the way: business models based on the Internet. They were laughed at a few decades ago, but now our life without them isn't imaginable. Nevertheless, it's always a challenge when it comes to the detail to rethink existing ways of work or offerings and make them fit for digitization.

A



THOMAS HÖFLE
MANAGING DIRECTOR
ELABO GMBH

There are no off-the-peg solutions in Smart Industry. We look at every process individually, analyze it, provide advice and optimize it. From being a seller of hardware, we've turned into a provider of smart solutions and even a management consultant. That's a completely new task.

And no one knows that better than Thomas Höfle, Managing Director of euromicron's subsidiary ELABO. The company is renowned for its refined workplace and testing systems – and since very recently also for Smart Industry solutions. “We’ve focused on workplace handing and testing systems – and since very recently also for Smart Industry solutions. “We’ve focused on workplace handing and software development,” states Thomas Höfle. “These areas are linked together by digitization. We now offer our customers fully networked production and assembly lines, but also have an eye on optimizing the overall processes. Completely new requirements give rise to new services.”

How can a consistent level of quality be achieved? How can errors be traced? How are facilities maintained so that stoppages are avoided? How can the supply of parts and accessories to the work process be organized so that production isn't halted? “Such questions relating to optimization are answered with software and less so with hardware,” says Höfle. “Anyone who cooperates with us not only obtain excellently designed workplaces, but also optimized overall processes.” The company is thus breaking new ground – and initial successes are visible: Between ten and 15 percent of orders in the “Workplace Systems” business area already have a Smart Industry component to them. Our customers also include educational establishments where trainees or employees of companies are prepared for the challenges of Smart Industry in a practical way. In the field of project business for test systems, Smart Industry is already integrated in all solutions at ELABO and is being further expanded.

Seite 11

DIGITIZATION
of production
processes
involves
scrutinizing
every process
and component.



DEVISING THE FUTURE

Smart Industry must become part of vocational training.



The “Internet of Things” also means growing questions about security in the network.

Once the door to digitization has been thrown open, that paves the way for new business models at some time or other – for everyone involved. euromicron’s companies leverage their technological know-how not only to develop new services for their own portfolio, but also for that of their customers. From searching for a place to park using an app, predictive maintenance, to managed services. “Today you can market completely different things other than services or products,” states Michael Krammel, Managing Director of KORAMIS. The company, a subsidiary of telent, has been part of the euromicron

“WE NOW OFFER OUR CUSTOMERS FULLY NETWORKED PRODUCTION AND ASSEMBLY LINES.”

Group for almost two years. Its specialty: Designing and implementing security concepts for digitized industrial processes, such as digitized production processes. “To enable that, we’ve built up a lot of interdisciplinary know-how that’s urgently needed at companies,” adds Michael Krammel.



MICHAEL KRAMMEL
MANAGING DIRECTOR
OF KORAMIS

One of the very big challenges in the Internet of Things: We have to get out of a silo mentality. Up to now, most people have worked in just one department. We have to overcome these boundaries and tackle the new requirements and possibilities as a team.

SMART INDUSTRY

Ten and 15 percent of orders in the “Workplace Systems” business area already have a Smart Industry component to them.





WE SELL

our customers not only sensors and actuators, but also intelligent security systems. Points at the company that are vulnerable to digital attack, as well as human errors, are on the agenda in that.

The company develops solutions for greater security that are tailored precisely to the specific customer. “That means we’re always deeply involved in organizational development and general digitization – security is a challenge that extends across disciplines and departments.” The people at KORAMIS believe that one of the cardinal virtues for leveraging the potential of digitization is in particular to look outside the box: Shed the silo mentality, share knowledge and use swarm intelligence – that’s the motto. This mindset is not yet widespread at many companies – employees have to learn it. That’s not least one of the reasons why Michael Krammel works with associations and research institutes, rubs minds and also keeps an eye on the many sideline issues relating to digitization, such as legal questions. The goal is always to find an answer to the core question: How can value added be created in future?

“SECURITY IS A CHALLENGE THAT EXTENDS ACROSS DISCIPLINES AND DEPARTMENTS.”

“As a small, dynamic company in a medium-sized technology group, we’re flexible and agile. We learn quickly – also as an organization. That’s why we can offer our customers up-to-date answers to their questions.”

And ELABO succeeds precisely in that in the field of Smart Industry. “Products are becoming more and more customized, and product life-cycles are growing shorter and shorter,” is how Thomas Hösle explains the challenge. “We help our customers master this complexity.” One of the most important benefits of our systems is process transparency. Each step carried out by a worker can be documented, while errors and

problems can be recorded and assigned to the causes in a finely granular way. That means a company can document compliance with all standards and specifications in every process. That’s important in many sensitive areas and helps enterprises achieve their objectives.” After all, say the two experts: “What counts at the end of the day is that the potential of new business models is reflected in the customer’s business plan. They then gain acceptance.” ■

Enlightening: EvalorIQ

euromicron’s subsidiary telent has developed “EvalorIQ”, an IoT platform and associated applications in the Smart City and Smart Industry arenas. It enables all the information to be analyzed and visualized. For example, electricity, water and gas meters can be read using “EvalorIQ” and the figures passed on to existing billing systems via standardized interfaces. It also enables presentations in trend graphs or dynamic process images for energy management that can be compared using analysis tools. EvalorIQ sheds light on the masses of data companies collect. Thanks to this platform, the deluge of data supplied by devices and interfaces can be analyzed, and new services and customer benefits delivered on the basis of that. ■



Tight and secure

Whether water, chemicals or fuels – pipelines are vital infrastructure elements in a wide range of different areas of life and extremely important for our needs. Maximum tightness in them is a must – especially if they’re used to convey environmentally hazardous or toxic substances. Special sensors that can measure leak-tightness on the basis of ultrasound have been developed to detect micro-cracks in pipelines made out of glass-fiber reinforced plastic. The sensors send the results of their examination to the IoT platform EvalorIQ. Time-consuming inspections on foot and material analyses are thus avoided, while the environment, people and industrial plants are protected against leaks of harmful substances. ■

Digital mousetraps

They’re a nuisance: Whether in warehouses, the baggage-handling levels of airports or food manufacturers – mice cause considerable damage. That’s why mousetraps are set on a large scale at companies. Employees then do the rounds several times a day in order to inspect the traps and empty them if necessary. But there’s an easier, digital way: A sensor indicates whether a mousetrap has been sprung. Employees can then go directly to it. euromicron supplies an all-round solution – from the wireless sensor, sensor network to the mobile application on the smartphone. That eliminates the need for time-consuming walks to inspect mousetraps. ■



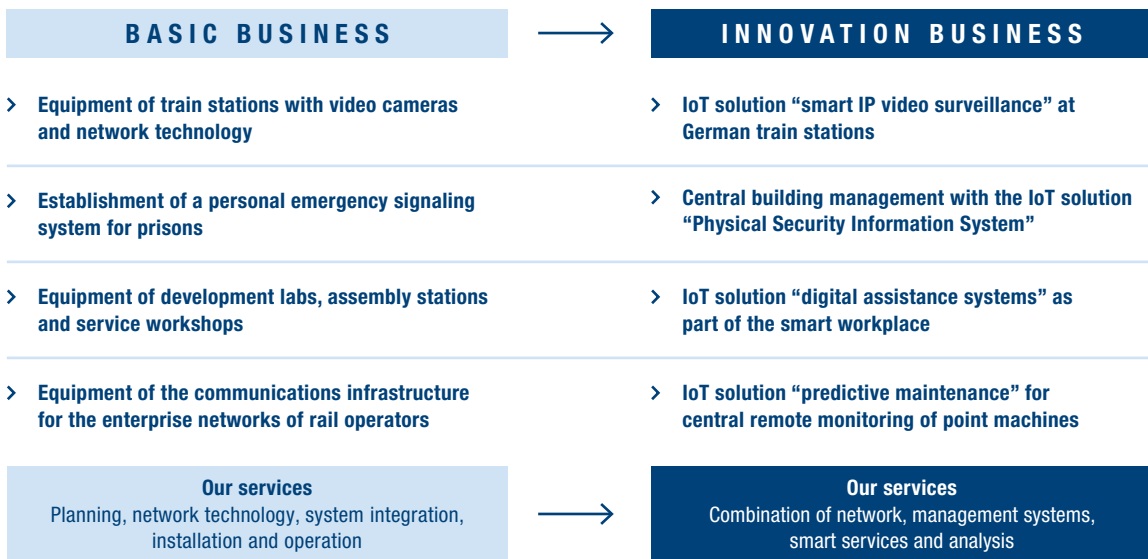
INTELLIGENT POINTS
send status reports to the central office.

Predictive maintenance

Predictive maintenance denotes proactive servicing of technical systems. The objective is to avoid downtimes by replacing wear parts when they issue a relevant status message. Predictive maintenance can be used, for example, for central remote monitoring of point machines in rail transport, in maintenance of wear parts on machines in industry, or for lighting solutions, such as in road traffic: Sensors capture the status data of the system and send it to a central unit, which analyzes the data. Service teams can thus take action even before a failure occurs. Dangerous situations or production stoppages are completely avoided. ■

DEVELOPMENT FROM BASIC BUSINESS TO INNOVATION BUSINESS

euromicron has planned and designed network infrastructures and related technologies for 20 years. That experience benefits our customers to this day – it forms our basic business. We leverage that as the foundation for developing innovative solutions and business models for the Internet of Things. As a result, we accompany customers – mainly from the SME sector – on their path toward digitization.



TRANS

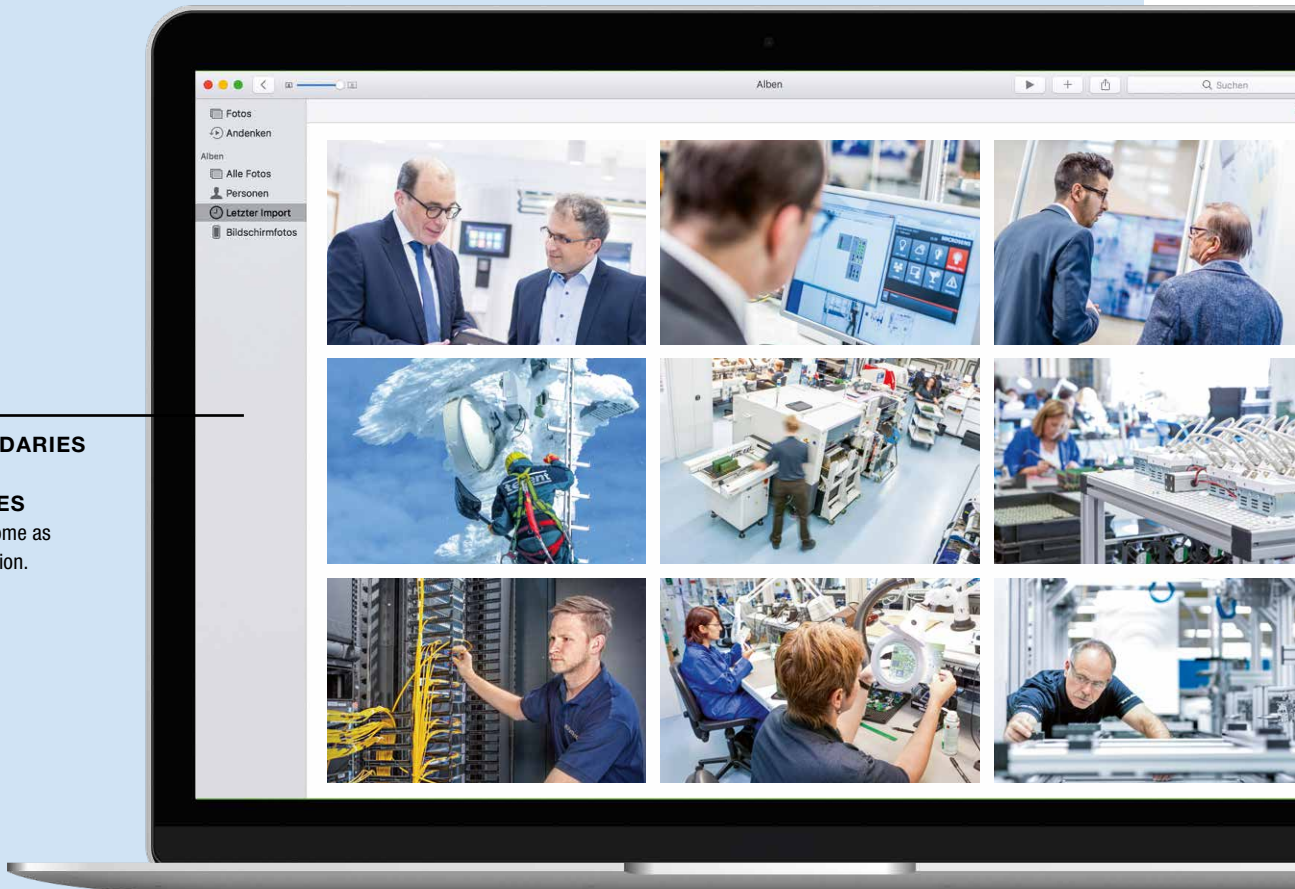


1998
**EXPERTISE
IN THEIR
DISCIPLINE**
Technicians
and engineers
have been trained
for that in
the past decades.

COMPE

FORMING

2018
**THE BOUNDARIES
BETWEEN
DISCIPLINES**
must be overcome as
part of digitization.



TENCES

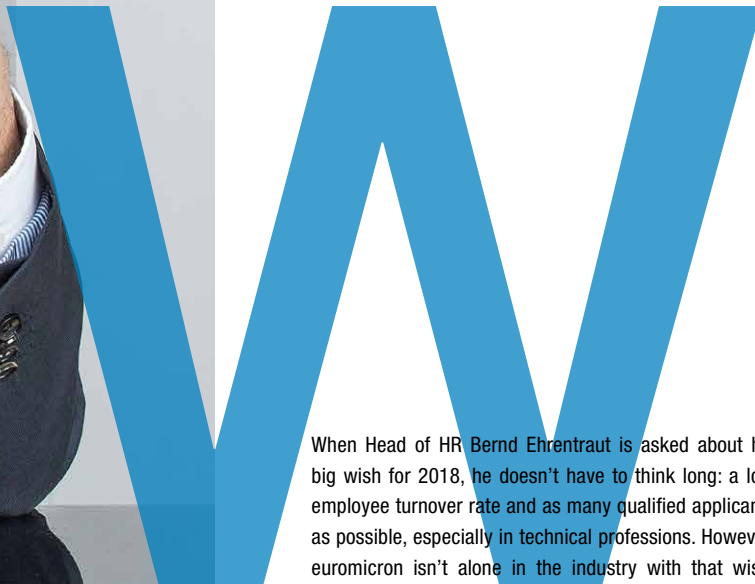
20
YEARS
TUNED
TO THE
PULSE
OF
TECH
NOLOGY



**BERND
EHRENTRAUT**

Head of the
Human Resources
department at
euromicron AG

You can help turn the “Internet of Things” into a reality now: If you find new technologies and their possibilities exciting, working at one of euromicron’s companies in Germany might just suit you down to the ground. The group boasts many advantages in the “battle for brains”: an interesting working environment, professional support for your individual career, recognition of commitment and achievement, exciting opportunities to gain further qualifications, and particularly good training for young people.



When Head of HR Bernd Ehrentraut is asked about his big wish for 2018, he doesn't have to think long: a low employee turnover rate and as many qualified applicants as possible, especially in technical professions. However, euromicron isn't alone in the industry with that wish: There's strong demand for skilled workers. So what needs to be done to win bright minds? "We try to fill our employees with enthusiasm for their tasks and our company," states Bernd Ehrentraut. "We manage to do that because many of our projects are tuned to the pulse of the age and it's exciting – especially for technicians – to work at the forefront of technology." Training is a key tool in the long-term strategy for recruiting employees: "We take this important learning phase for young people

very seriously and have increased our trainee ratio by 20 percent over the previous year." And last, but not least: As a medium-sized group, euromicron offers short career paths. Anyone with the right commitment often rises to responsible positions faster than at a large company. Those are good arguments that make for exciting careers. ■

CAREER: LISTEN AND KEEP ON LEARNING – THROUGHOUT OUR WORKING LIFE

**MATTHIAS
WOLFF**

Head of the Region North/
West, member of
management of
euromicron Deutschland
GmbH



It was probably a bit like love at first sight: Matthias Wolff started at euromicron Deutschland as a trainee. That was 28 ago and even back then he was inspired by what now shapes his entire professional life: technical solutions and networks that can be used to optimize work and infrastructures. Automation picked up pace at the beginning of the 1990s, reaching a level that was too demanding for a conventional electrical engineer. IT know-how was needed to satisfy the new requirements, especially in the field of industrial production. Matthias Wolff had found his trade – he decided to “study together with euromicron”. He completed his course of studies in Manufacturing Informatics at the university of applied sciences while gaining practical experience at his employer – that would probably be called “cooperative education” these days, but tended to be a pretty rare model back then.

Knowledge and communication

That sealed the launch of his career. Matthias Wolff began as a project engineer in office-based sales as part of an internal trainee program, then tested his new knowledge in field service, directly at the interface between IT and electrical engineering: “If you want to work in sales, you need a lot of specialist know-how,” he explains. “And you have to be a good listener so as to gain a proper understanding of the customer’s problems. After all, euromicron Deutschland doesn’t offer off-the-peg products, but instead we develop solutions that are tailored completely to the customer’s needs.”

What else do you need to get on well in sales? To communicate, of course. Matthias Wolff is more of an extroverted type, so that helped: “Sales often means developing ideas in joint discussions, taking about other projects, and conveying enthusiasm for good solutions. You need to ability to inspire your customers.”

“WE’RE CONSTANTLY CHANGING. AND THAT OFFERS YOU THE CHANCE OF A CAREER THAT SUITS YOU PERSONALLY.”

At the thick of things as a manager

Matthias Wolff was promoted to Head of the Region North/West eight years ago and so is responsible for one of euromicron Deutschland’s largest regions with its five locations and 160 employees. He was prepared for his duties by a development program for junior executives. What’s important for him: He also has direct contact with customers in this function, advising them on strategic issues and investments. “That means I keep up-to-date on what’s happening in the market and what our customers want and can more easily anticipate future developments so as to provide cutting-edge solutions,” he explains. “As Regional Head, I’m also in charge of optimizing structures and processes in order to improve productivity.” At the beginning of 2018 he was appointed to the extended management team – a new step in his career. Matthias Wolff is enthusiastic about the fact that he can still keep on learning things even after 28 years at the company: “No one day is like the other, and I’m always facing completely new challenges. That’s simply exciting.”

Matthias Wolff knows from his own experience what opportunities euromicron offers committed employees and how valuable encouragement is. That’s why he also likes lending his personal support to young staff: Last year he restructured a department that had grown quickly. Four new team leader positions were created as a result – and four employees were developed into managers for them. “Commitment pays off here, precisely because we’re not a huge group. This company offers you great opportunities to advance yourself and your career. We’re constantly changing. And that offers you the chance of a career that suits you personally. And that’s something I’m dedicated to ensuring.” ■

Working across disciplines

Intermeshed expertise from electrical engineering, production technology to IT – large projects in the field of intelligent networking in buildings or smart production processes are only possible with people with that background. euromicron Deutschland lines up with cross-discipline teams who ensure dialog among equals with contact persons from the various trades at the companies. ■



MANAGEMENT: STRATEGIC THINKING AND SOCIAL SKILLS

**DR. STAMATINA
BÄRMANN**
Director Strategic
Partnerships,
telent GmbH

It may seem unusual today to spend all your working life at the same location – but at telent in Backnang, a subsidiary of euromicron, that tends to be the rule. That's also because the environment is right, the tasks are exciting and the management style is pleasantly open. That's how Stamatina Bärmann explains why she's been with the company so long. Greek by birth, she started working at the company (which was then Bosch Telecom) back in 1996, experienced the move to Marconi in 2000 and

finally also the transition to telent and the takeover by the euromicron Group. From a technology giant to a medium-sized specialist for transmission technology and wireless technologies – what sort of professional career does that involve? Stamatina Bärmann sums it up this way: Challenging tasks and many possibilities to develop your talents – that's the mix that makes for a long length of service.

“EMPLOYEES HERE HAVE A LOT OF FREEDOM TO FULFILL THEMSELVES. WHAT YOU DO TAKES ON A VISIBLE SHAPE.”

She studied electrical engineering with the focus on communications technology in Athens, then gained her doctorate in “Optical Networks” in London: So Stamatina Bärmann contributed in-depth specialist know-how plus international experience from the outset. She also likes to communicate – and that mix, which tends to be rare among engineers, meant she assumed many tasks in Sales over the years. She has worked in Business Development since 2009 and is now Director Strategic Partnerships. “Of course, it’s incredibly exciting when your work involves dealing with large players like Cisco, Nokia, Ericsson or now Huawei as well. You’re right at the vanguard of technological change.”

And a huge deal has happened in that regard in the past two decades. “We mainly used to sell hardware, but now the focus is on software and service,” is how the engineer sums up the changes. “It’s a different business model, one that makes special demands when it comes to employees’ skills.” telent’s staff are mostly highly specialized experts. They shoulder a lot of responsibility – and have a great influence of the company’s strategic alignment. The manager has a new role: formulating clear objectives, setting priorities, controlling projects, enabling training and acting as the person people contact if they have problems. “Strategic thinking and social skills are demanded,” says Stamatina Bärmann, as she knows from her own experience. “The art is to strike a good balance. And that requires “female skills,” she adds as encouragement to her female colleagues to have the pluck to forge a career. She believes there are great opportunities for development, especially at a medium-sized company like telent: “Employees here have a lot of freedom to fulfill themselves. What you do takes on a visible shape.”

Skill requirements will continue to grow along with the huge technological changes. Clean mobility in the future, for example, in order to cut air pollution in cities worldwide will be achieved on the basis of more computing power, artificial intelligence and networks. “Enjoying your work is a question of whether you feel a sense of purpose in it,” states Stamatina Bärmann. “After all, we’re working here on one of the major issues of our time.” ■

WE ARE LOOKING FOR ENGINEERS AND TECHNICIANS

We are looking for people who are passionately dedicated to helping the company achieve its objectives, are open to new things and want to contribute their knowledge and skills – as soon as possible and at various locations in Germany.



Do you like communicating, show personal initiative and have a keen technical understanding?

We offer you challenging and demanding tasks in development, production and distribution, sales, planning and installation, project management, service and administration.

Would you like to be part of a future-oriented company?

Then come and join an aspiring company with a clear orientation toward the exciting growth area of the Internet of Things. We offer you permanent employment in an atmosphere characterized by the trust, openness and the spirit of a medium-sized enterprise.

What you should bring with you:

- > Completed vocational training in a technical field or a technical course of study
- > Commitment and interest in the cutting-edge topic of the Internet of Things
- > Team spirit and interest in learning and gaining further qualifications

Career changers from offer technical sectors are also very welcome!

You enjoy

Attractive fringe benefits (team events, payment of standby duty, trust-based working hours, flexible work with a high degree of self-determination), development of your personal and professional skills as part of internal and external training programs and our own laboratory environment.

Interested?

You can find further information and the necessary contact details on our career portal at www.euromicron-karriere.de.



**MARTIN
GRAEVE**

Project Manager,
Smart Building Solutions,
MICROSENS
GmbH & Co. KG



CAREER START: THROWN IN AT THE DEEP END!

A

Anyone who's fresh out of university and is about to start work thinks a lot about what things will be like at their new company. How will my colleagues welcome me? What's the difference between theory and practice like? And will I cope with the tasks I'm entrusted with? Martin Graeve had very little time to ponder all those questions.

“EVEN TO THIS DAY, PEOPLE STILL MENTION THE TRADE FAIR STAND TO ME. AND NOW THE NEXT LIGHT & BUILDING IS COMING UP – AND I’VE SET THE BAR HIGH. I NOW HAVE TO GO ONE BETTER!”

His working life began with a challenging project for which he bore responsibility. In December 2015, he joined the Smart Building unit at MICROSENS and the major trade show Light & Building was around the corner in March. “You’re in charge of technical implementation,” was the assignment. “A tiny moment of shock and then I took the plunge into the deep end. No shore in sight far and wide, but a lot of support and the confidence of my colleagues and boss that I’d manage it,” is how Martin Graeve recalls his first weeks at work. “I was catapulted into the thick of things in next to no time.”

Sure, such a situation isn’t an everyday occurrence, but it’s a bit typical of the SME sector. People who can pitch in and look outside the box are wanted. And that’s exactly why Martin Graeve applied to MICROSENS: “I could have gone to a large company, where I’d probably have attended lots of courses and learned the company guidelines in the first weeks.” And that’s precisely what he didn’t want – instead he was driven by the desire to roll up his sleeves and get cracking. His colleagues and supervisors naturally gave him support. The result was impressive. “Even to this day, people still mention the trade fair stand to me. And now the next Light & Building is coming up – and I’ve set the bar high. I now have to go one better!”

Martin Graeve doesn’t sound like someone who’s just started their career – although he’s been with MICROSENS for just under two-and-a-half years. Before that, he studied Sales Engineering & Product Management at the Ruhr University in Bochum. Does he feel that university prepared him well? “Yes, in terms of methodology, but technically only to some extent – the pace of technological upheaval was too fast. No one had linked a machine to the Internet five years ago – but now that’s state-of-the-art.” It’s in particular his methodological skills that now help the young sales engineer in his duties. After all, there are no off-the-peg solutions – instead, projects are always developed in line with customers’ concrete requirements. Project controlling is an important issue here, which is why he was made fit for that task right away in a course of further training in the subject.

Martin Graeve believes one of the challenges in his job is to convey the advantages of the smart building to customers. “Most customers still regard this topic as simply involving digitization of traditional building functions, enhanced by a few smart features. Yet the new possibilities extend further. And they’re often so complex to a degree that our customers can hardly imagine. What you then need is creativity and good communication skills to present the potential.”

What will his working life look like in 20 years’ time? “To be honest, I’ve not given that a moment’s thought. I’m simply happy at present to have a technologically demanding and challenging job. Sure, I’d like an executive function at some time or other. But the way we’re growing, we’ll have no shortage of responsible tasks in future, too.” ■

**Intelligent
building automation
Concepts and solutions for
digital buildings.**

MICROSENS has developed solutions for specific application cases in digital buildings for some years now. They are based on intelligent programmable switches and can be implemented in virtually any context. MICROSENS has now opened up a further door toward the digital building: solutions for digitized building automation. The basis is again intelligent switches that are implemented decentrally and are used to enable interaction between actuators and sensors in buildings. Special apps on the switches allow systems such as heating, air-conditioning or audio to be integrated. This interplay creates a decentralized concept with virtually unlimited possibilities. Cost-effectiveness and convenience in buildings can be lastingly increased on the basis of that. ■



**JÖRG-
MICHAEL
KÄTHER**
Director Field
Operations,
telent GmbH

CHANGE: LIVING WITH TECHNICAL ADVANCES

T

Technology means change. And that also entails changes in work and life. No one knows that better than Jörg-Michael Käther, head of telent's location in Teltow. He began his career by studying communications technology at the Maritime University in Warnemünde/Wustrow. He went to sea on merchant vessels as a radio officer responsible for the electrical transmission and high-frequency technology on board. "In technical terms," says Jörg-Michael Käther, "you were on your own on the ship and had to rely on your own abilities. That was naturally a challenge." Finally, new technology did away with his

**“YOU’RE STRONGER AS A GROUP.
WE ALSO BENEFIT FROM
THE MANUFACTURING EXPERTISE
OF AND DIALOG WITH
THE OTHER COMPANIES.”**

profession: Satellite technology replaced radiotelegraphy using Morse Code. Jörg-Michael Käther joined the overhead railway in Hamburg as a project engineer for transmission technology – he was fascinated by the complexity of a transport company.

In 1992, mobile communications technology was the shining star in the heavens. The first digital transmission standard GSM was introduced in Germany in 1992, making mobile telephony suitable for large-scale use. Jörg-Michael Käther – who at the time held an executive function with Philips, one of the major electronics companies and a supplier of mobile communications technology – was at the thick of the meteoric technological changes. “The feeling that a new age was dawning in this market was very impressive,” he recalls. However, a damper was put on that when the UMTS licenses in Germany were auctioned for the spectacular price of €50 billion in the year 2000. That meant some companies simply didn’t have the money for necessary follow-up investments. That also impacted Jörg-Michel Käther. His unit became an independent company in 2006 after being hived off from the Marconi Group – and went by

the name “telent”. “Back then we worked on topics such as transmission technology for traffic systems and critical infrastructures for public utilities – fields that didn’t appear so interesting for a large telecommunications provider at the time. At telent, we had and still have answers and precisely fitting solutions for our customers.” Now, as part of digitization and IoT, they’re gaining in importance again. telent then joined euromicron in 2011. “You’re stronger as a group. We also benefit from the manufacturing expertise of and dialog with the other companies. The issue of security has become very important for us in the wake of digitization. telent has a lot to offer here and we’re geared to our customers’ requirements in the field of critical infrastructures.”

Whether mobile communications, traffic systems, infrastructures for public utilities, security or completely new applications emerging nowadays from the interaction between sensors and actuators via the Internet – Jörg-Michael Käther knows how challenging and diverse the tasks are in the field of transmission technology. In a professional life characterized by change, he names one constant factor: “Things are always exciting.” ■

WE ARE LOOKING FOR YOU!

TO TRAIN AS AN ELECTRONICS TECHNICIAN OR IT SPECIALIST

Are you inspired by cutting-edge topics, such as networks, technical infrastructures, security and the Internet of Things? Are you looking for career prospects that offer a good future?

euromicron uses technologies that help enterprises and public authorities shape their future today. Learn from and with experts in the Internet of Things, Smart Industry and smart applications – now for the future!



Are you looking for a company that provides training and offers a large range of technologies and applications?

Then you’re in good hands at one of euromicron’s many companies in Germany. We plan tailored solutions for our customers using various technologies and systems that precisely fit their needs. Your colleagues in the teams know their fields inside out – and will be pleased to show you what they’re capable of.

What do we expect from you?

Good knowledge in mathematics, physics and English. Interest in technical subjects. Commitment and a joy of learning. Team spirit and desire for something new.

What do we offer you?

We give our trainees intensive support and access to specialist know-how, as well as exciting practical assignments. We accompany you – from your first professional experience to successful completion of your training.

Do you like the sound of that?

You can find further information and the necessary contact details on our career portal at www.euromicron-karriere.de





**TIMO
BEDNAREK**

Head of the Workplace
Solutions Division,
ELABO GmbH

CAREER CHANGE: APPRE CIATION OF NEW PERSPEC TIVES

T

Timo Bednarek is head of the Workplace Solutions Division at euromicron's subsidiary ELABO. He joined the company in April 2017 and is responsible for sales, project management and product management. He's a career changer – he was previously an industrial engineer in the field of waste gas purification and fuel cells. Yet new career paths are not rare as part of such major changes as digitization: After all, change demands fresh thinking.

Timo Bednarek has now worked at ELABO for almost a year and is now at the thick of Smart Industry. The company from Crailsheim in the Hohenlohische Alb mountain region is renowned for its refined workplace solutions, functional tables and equipment for technical workplaces, industrial workplaces and test and inspection systems. What does the workplace of the future look like? That's an old question for ELABO and one to which the company is now finding completely new answers: Linking of all work operations, step-by-step instructions with audio and visual aids, networking and central documentation of the process data as the basis for analyses and improvements. These developments are shaping the future of industrial production, as well as manual production, which is widespread in the SME sector.

From starting as a seller of hardware, ELABO has evolved systematically in the direction of connected systems. The company from Crailsheim was quick to recognize what opportunities Smart Industry offers for small and medium-sized enterprises. That's why the company now boasts unique, longstanding expertise in linking hardware and software and can provide its customers with comprehensive advice on digital optimization of the shopfloor. "How to replace more and more hardware with software, how data management works, how variant management is put into practice – those are no trivial questions, especially for small and medium-sized companies," as Timo Bednarek knows from his first year at ELABO. "We provide a lot of consulting work here."

Learning Factory 4.0 – Pie in the sky sets the tone

Who will shape processes in the factory of the future if not today's trainees? Companies and vocational colleges in Schwäbisch Hall and Villingen-Schwenningen asked that question and obtained an answer right away. In the Learning Factory 4.0, young people and employees from various companies learn about digitized processes and intelligent machines in a real Smart Industry environment. The systems come from ELABO, which can design and implement turnkey, state-of-the-art Smart Industry solutions. Smart Industry can be learned in all its dimensions in such a "real" digitized production environment. ■

“WE REGARD SMART INDUSTRY AS TEAMWORK. THINGS WON'T WORK OUT WITH A BUNCH OF LONE-FIGHTERS, SO COLLABORATING IN NETWORKS IS SO IMPORTANT FOR US.”

One helpful factor is that ELABO not only designs solutions for others, but has also integrated its own divisions themselves into a comprehensive digitization concept. Smart Industry is not only devised, but also lived. "We've developed a modular approach that permits gradual digitization," explains Timo Bednarek. Bednarek's department uses that to design customized, industry- and application-independent workplace systems for discrete manufacturing in small lot sizes, as well as for educational establishments. There's no cookie-cutter approach: In every project, the customer's needs are carefully recorded in a workshop, often together with other companies from the euromicron Group or research partners. Bednarek believes pooling expertise is key: "We regard Smart Industry as teamwork. Things won't work out with a bunch of lone-fighters, so collaborating in networks is so important for us."

Digitization enables people to change from completely different careers, and demands and supports unconventional points of view. That's because it's not precise knowledge of an industry that's important, but above all the ability to gain an understanding of systems, analyze them and optimize them. "You learn transformation in a playful way, your ability to change grows, and you get to know new aids and methods. The experience you bring with you from a completely different sector helps create completely new ideas and is greatly appreciated here," states Timo Bednarek. He sees especially good conditions to contribute his skills at a medium-sized group like euromicron: "You can make a lot of difference as an individual: Flat hierarchies and fast decision-making structures ensure a dynamic climate in your everyday work – and, of course, help you advance professionally. You're always close to the technologies and customers and can see what's happening in the industry. That's simply exciting." ■



**STEFFEN
BONIN**

Project Manager
Power Supply
System Assembly,
TDM Refreshment,
telent GmbH

TRAINING: SIGHTS SET ON THE GOAL

S

Steffen Bonin knows precisely what he wants. He's an electronics technician with heart and soul. And he likes working with his brains and hands. As he puts it, he needs haptics: Work you can touch and feel. That's why he embarked on a course of training after gaining his vocational diploma. "Since the first time I painted the fence together with my father when I was a child, I knew I wanted to learn a handicraft trade," is how he describes his motivation. "The care he took simply fascinated me." Steffen Bonin is now 27 years of age – and his penchant for good work helped him in his training and when starting his professional career. He's what people at telent call a "super trainee." His commitment and enthusiasm were

Steffen Bonin: It's possible and worthwhile – especially when the people at the company backs you with encouragement. He has taken a large stride toward his big goal of becoming a master craftsman in a very short time. He's now completing the modules he still needs alongside his work, while still looking after a number of customers. He's currently engaged in a responsible task relating to network expansion for a carrier.

Course set for a career

That dual burden requires self-discipline and commitment. "But I'm confident he's got what it takes," are the words of praise from Stefan Bräsemann for his ex-trainee. Steffen Bonin's career path isn't commonplace, but it shows that anything's possible if you're motivated and interested in a subject. There are more ways than you think, and it's worthwhile for young school-leavers to be well-informed. "Anyone who learns a trade these days has excellent job prospects," is Bräsemann's conviction. "Steffen Bonin is proof that not only studying offers career opportunities. That's really the key message." ■

also impressive. Yet he didn't even begin his training at telent: "I moved from the previous company where I was training because I was unhappy with it and was excited by what the colleagues at telent were telling me about their experience there."

Opportunities, not only for high-flyers

Steffen Bonin was welcomed with open arms at telent's location in Teltow. Up to five people start here every year and are given training as electronics technicians and IT specialists. "We attach great importance to imparting a broad range of knowledge and very good preparation for all exams. Electronics in particular is a subject with wide requirements, there's a lot to learn and at the end you bear great responsibility," explains Stefan Bräsemann, the Head of Training. That suits Steffen Bonin perfectly – he's likes to shoulder responsibility. He showed such great commitment at his new training spot that the instructors and location management suggested a special approach for him: Starting his course to qualify as a master craftsman even while he was still an apprentice. "To achieve that, I had to skip lessons at college and learn the contents to catch up later in my spare time – that was the price of my unusual career path." One thing is certain for

“ANYONE WHO LEARNS A TRADE THESE DAYS HAS EXCELLENT JOB PROSPECTS. STEFFEN BONIN IS PROOF THAT NOT ONLY STUDYING OFFERS CAREER OPPORTUNITIES.”

From the bottom up

Young people who seek and seize opportunities – that's one side to training. The other: A company that invests in the future and takes young people's concerns seriously. Head of Training Stefan Bräsemann speaks about the comprehensive training euromicron gives to electronics technicians or IT specialists, for example.

"You need a broad range of expertise. First, we teach general handicraft skills, such as drilling, filing or soldering, but then above all how to use cabling, systems, networks, wireless technologies and transmission technologies.

After the first year of training, trainees are assigned to preassembly, where the systems designed for customer projects are prepared. That's followed by project work at the customer. Together with the instructors

and experienced colleagues, the trainees gain practical experience: on site at the customer, transmission lines or network nodes. They learn step by step what counts later: Knowing what to do, even in response to difficult questions. We also work closely with vocational colleges and chambers of industry and commerce.

Our prime aim is for our trainees to gain their qualifications. Apart from that, there are additional voluntary offerings where they can learn other things – from an exchange program with the UK to climbing and safety training for work on high transmission masts. You should be good at mathematics, physics and English – then we always welcome an application. We offer a great deal, because we want to keep the young people on after they finish their training. So it's in our interests for them to be really well-qualified at the end of it." ■

**TO OUR
SHARE
HOLDERS**

38	Foreword by the Executive Board
42	Report of the Supervisory Board
46	Corporate Governance Report
46	Corporate Governance Report
50	Corporate governance declaration
53	Compliance Report
56	euromicron on the capital market
56	Overview of the shares
56	Performance of euromicron's share
57	Investor relations
57	Shareholder structure
58	Assessments of analysts
58	General Meeting
58	Appropriation of net income
59	Board members of the Company

ARRIVED IN THE DIGITAL FUTURE

From a technology group to an IoT specialist: 2017 was an important year for euromicron AG in its transformation. The Executive Board members Bettina Meyer and Jürgen Hansjosten give their verdict and look positively to the future.

T

The euromicron Group is gearing its activities rigorously to the future market of the Internet of Things (IoT). The strategic course we have adopted began to deliver initial rewards in fiscal 2017.

“The transformation strategy of euromicron AG reaped positive results in fiscal 2017. We improved key figures and increased our profitability by posting an operating EBITDA of €13.5 million in the period under review. That confirms our course of pressing ahead continuously with our strategic measures. We also invested in innovative business areas, which will improve our competitiveness in the medium term, whereas we completed our operational restructuring in fiscal 2017,” is how Bettina Meyer sums up the key data.

euromicron successfully implemented further strategic measures last year as part of its transformation.

“WE’VE ESTABLISHED NEW AREAS OF INNOVATION AND SELECTIVELY EXPANDED THE GROUP’S KNOW-HOW BY MEANS OF SUCCESSFUL M&A MEASURES.”

JÜRGEN HANSJOSTEN

“I’d like to emphasize acquisition of the IT security specialist KORAMIS at the beginning of 2017. As a result, we’ve expanded our portfolio to include cybersecurity for critical infrastructures and Smart Industry. That’s an important purchase with fine prospects moving ahead – because our customers have sensitive data that has to be protected against cyberattacks. The high pace of innovation and increasing networking of plant and systems mean that integrated, efficient IT security concepts have long been vital,” states Jürgen Hansjosten. Backed by KORAMIS, which has established customer relationships in numerous industries, euromicron can offer its customers a one-stop shop for tailored, secure all-round solutions for process and enterprise networks.

euromicron has shed business units that were not strategically relevant. The most recent move in this regard was when euromicron Deutschland GmbH sold the “Telecommunications” division to the Ostertag Group in March 2017. “As a system integrator with a nationwide footprint, euromicron Deutschland is now focusing on its core business in the Smart Building arena,” is the reason Jürgen Hansjosten gives for this step. “We have acquired an electrical specialist so that we can operate on the market as an all-round provider of network, electrical and security infrastructures for digital buildings. It strengthens our basic business with expertise in the specialized field of high-voltage current. With this setup, euromicron Deutschland can deliver full-line offerings and achieve larger project volumes, higher margins and greater differentiation from the competition.”

euromicron AG has positioned itself clearly with its orientation toward the three markets of “Digital Buildings”, “Smart Industry” and “Critical Infrastructures”. The group provides its customers with the infrastructure and platform, develops the applications, and takes care of services. “We benefit here from our group’s broad know-how, enabling us to achieve holistic solutions for our customers,” is Bettina Meyer’s conviction. “euromicron can cater for the entire value chain in the individual areas.”

“AS A VERTICAL SOLUTION PROVIDER, WE CREATE INTEGRATED IOT SOLUTIONS FOR OUR CUSTOMERS – FROM SENSORS TO SERVICES. THAT COMPETENCE IS WHAT MAKES US STAND OUT FROM MANY OF OUR COMPETITORS, WHO OFTEN ONLY OFFER INDIVIDUAL COMPONENTS OF AN IOT SOLUTION. EUROMICRON IS A ONE-STOP SHOP FOR EVERYTHING.”

BETTINA MEYER



**BETTINA
MEYER**

Executive Board of
euromicron AG

Up to now, not all companies have benefited equally from digitalization. They want to change their business model, but the snag is often: “How?” Bettina Meyer believes that in particular offers attractive opportunities for euromicron:

**“WE SEE OURSELVES AS
SOMEONE WHO SOLVES
OUR CUSTOMERS’ PROBLEMS
AND HELPS THEM DEVELOP
THEIR BUSINESS SUSTAINABLY
AND TRANSITION IT TO
THE DIGITAL FUTURE.”**

BETTINA MEYER

And it offers an extremely diverse range of solutions: networked assembly lines for the electrical industry, smart building technology for university medical centers, cybersecurity solutions for the automotive industry. Or predictive maintenance for the railway track points of Deutsche Bahn and video surveillance at public places. In local public and long-distance transport, euromicron’s solutions enhance passenger safety and security, as well as optimize operational processes at stations. For example at Cologne Central, which welcomes around 280,000 travelers a day and so is one of Germany’s most-frequented long-distance train stations.

Fiscal year 2017 has clearly shown: Digitalization is now unleashing great dynamism. Enterprises now see how absolutely necessary it is to digitize their processes and products and adapt their business models. In particular customers from small and medium-sized businesses face considerable challenges in preparing for this far-reaching change. “We are well-positioned in the SME sector and the preferred partner for many companies when it comes to digitization,” states Jürgen Hansjosten.

“We’re always confronted by different technological requirements. Backed by our experience and broad know-how, we give our customers tailored consulting and develop digitized solutions that precisely suit their needs. Apart from our basic business, we’re focusing on innovative orders with a large share of services.”

As part of its further orientation toward the IoT market, euromicron AG relies on special know-how. That is why the group is not only searching for new employees, but also building its own expertise to a greater extent and enhancing it in a diverse number of ways.

**“WE ATTRACT TALENTED
JUNIOR STAFF TO THE GROUP
BY GIVING THEM TRAINING OR
ENABLING THEM TO PURSUE A
COURSE OF DUAL STUDY, AND
ALSO ENCOURAGE CONTINUOUS
FURTHER EDUCATION OF
OUR MANAGERIAL STAFF.”**

BETTINA MEYER

“Our network and deep roots in the SME community help us in recruitment. We also give our employees a broad pallet of extra fringe benefits, from support in building a company pension to sport and healthcare offerings. We foster an open corporate culture and use the group’s advantage here to provide a diverse offering. One thing is clear: Motivated employees are vital to our company. With their great commitment and high degree of identification, they make a crucial contribution to our commercial success,” adds Bettina Meyer.

Fiscal year 2018 will also still be dominated by the issue of transformation. The groundwork for profitability has been accomplished. “All in all, the euromicron Group developed as planned in fiscal year 2017. Unlike in earlier years, we met our forecast and increased our profitability slightly,” confirms Jürgen Hansjosten, who also notes looking ahead to the year of transformation 2018:

“WE AIM TO TAKE THE NEXT STEPS FORWARD SO AS TO TRANSLATE THE GROWTH OPPORTUNITIES IN OUR MARKETS INTO GROWTH POTENTIAL FOR OUR GROUP. THE MORE DIGITAL NETWORKING AND IOT SOLUTIONS ARE NEEDED IN THE MARKET, THE STRONGER WE CAN PROFIT FROM THAT.”

JÜRGEN HANSJOSTEN

“euromicron has therefore resolved to keep on working in the current fiscal year to optimize the group’s structures and processes and increase synergies between the subsidiaries in all areas.”

“In this connection, we’re also grappling intensively with the issue of shedding profitable, but not strategically relevant companies,” adds Bettina Meyer. “Basically, our maxim remains: profitability before sales. That means our goal this fiscal year is to post profits at all the group’s units for the first time. Our aim is then to complete the transformation phase by the end of 2018. As the IoT specialist for small and medium-sized enterprises, we will then herald in the growth phase.”



**JÜRGEN
HANSJOSTEN**
Executive Board of
euromicron AG

Report of the Supervisory Board

2017



**EVELYNE
FREITAG**
Chairwoman of the
Supervisory Board

DEAR SHAREHOLDERS,

The Supervisory Board of euromicron AG discharged the tasks incumbent on it under the law, the Articles of Association, its bylaws and the corporate governance principles in the year under review.

Composition of the Supervisory Board and Executive Board

There were no changes to the composition of the Executive Board and the Supervisory Board in the year under review. Ms. Evelyne Freitag is Chairwoman of the Supervisory Board, her deputy is Mr. Rolf Unterberger, and the further member is Dr. Alexander Kirsch. The regular term of office of the newly elected Supervisory Board expires at the end of the Ordinary General Meeting in 2021. Ms. Bettina Meyer is Spokeswoman of the Executive Board and Mr. Jürgen Hansjosten is the further member of the Executive Board.

Cooperation of the Executive Board and Supervisory Board

The Supervisory Board regularly advised the Executive Board and monitored how it managed the company. The Supervisory Board was directly integrated in all decisions of fundamental importance for the company at an early stage. In this regard, the Executive Board met its obligations to provide information and regularly, promptly and comprehensively informed the Supervisory Board in writing and orally about matters of relevance to the company and Group relating to its current situation, in particular its financial position and results of operations, strategy, planning, development of business, the risk situation and risk management, compliance and important business transactions of the company and its subsidiaries. The members of the Supervisory Board have taken an intensive look at the reports by the Executive Board and contributed their own suggestions. On the basis of the Executive Board's reporting, the Supervisory Board reviewed the development of business and discussed important decisions and matters for the company.

All information from the Executive Board was examined for plausibility and critically appraised by the Supervisory Board. Deviations in business development from the plans were presented individually to the Supervisory Board and dealt with intensively by it. The business transactions and measures that are of fundamental importance to the company and for which the Executive Board therefore requires the consent of the Supervisory Board pursuant to the bylaws were discussed by the Supervisory Board with the Executive Board directly and promptly and examined in detail by it. The Supervisory Board consented to each of the submitted business transactions and measures. The half-yearly and quarterly financial reporting was also discussed with the Executive Board. In addition, the Supervisory Board was in regular contact with the Executive Board and obtained information on the current development of business and the main transactions and occurrences. Since the Supervisory Board only consists of three members, there are no committees. All significant matters were dealt with in plenary sessions or using appropriate communication media.

Focus of deliberations in fiscal 2017

The Supervisory Board, which consists of three members and so has not formed any committees, convened five meetings and four telephone conferences in fiscal 2017. In its five regular meetings on February 3, March 28, June 13, August 10 and December 18, 2017, the Supervisory Board discussed the company's planning, economic situation and strategic development, as well as the progress made in implementing the reorganization measures at the Group, in the presence of the Executive Board. The Supervisory Board held deliberations as part of telephone conferences on May 8, August 8, October 9 and November 7, 2017. All members of the Supervisory Board took part in all of these meetings and telephone conferences.

The other focal subjects of the Supervisory Board meetings included the following:

- Review and ongoing adjustment of the Group's strategic orientation.
- M&A activities (potential acquisitions and divestments)
- Adoption of the corporate planning for the fiscal years 2018 to 2022
- Implementation of the reorganization and integration process
- Human resources policy and personnel development
- Data protection and security
- The Group's financing structure
- Risk management and the internal control system of the company
- Compliance activities and organization

The Supervisory Board satisfied itself that the Executive Board managed the company's business carefully in the past fiscal year and took necessary measures in good time. The efficiency of the Supervisory Board's work and decision-making processes was regularly evaluated and optimized.

Corporate governance

The Supervisory Board and Executive Board have analyzed the recommendations and suggestions of the "German Corporate Governance Code" (DCGK), the amendments to it as published on April 24, 2017, and its implementation at euromicron AG, and adopted an updated declaration on conformance in accordance with Section 161 of the German Stock Corporation Law (AktG) on December 8, 2017. The declaration on conformance is available at all times on the company's website.

There were no conflicts of interest on the Supervisory Board in the year under review.

Independent auditor

The independent auditor elected for the company and the Group by the 2017 General Meeting for fiscal year 2017 is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main. The certified accountants are Ms. Diana Plaum (since fiscal year 2015) and Dr. Ulrich Störk (since fiscal year 2013), who is responsible for auditing the financial statements.

Annual financial statements of euromicron AG and the group

The independent auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, audited the annual financial statements, which were prepared by the Executive Board in compliance with the rules of the German Commercial Code (HGB), and the management report for fiscal year 2017. The auditor issued an unqualified auditor's report for them. The consolidated financial statements of euromicron AG for the fiscal year 2017 and the group management report were prepared in accordance with Section 315e HGB (German Commercial Code) on the basis of the International Financial Reporting Standards (IFRS), as are applicable in the European Union. The consolidated financial statements and group management report for the past fiscal year were also issued with an unqualified auditor's report.

The financial statement documents and audit reports for euromicron AG and the Group were available to the Supervisory Board in good time before the balance sheet meeting on March 22, 2018. The Supervisory Board examined the financial statements and the management report, the consolidated financial statements and group management report, and the non-financial group report of euromicron AG and the reports of the auditors and concurs with the auditor's findings following detailed discussion with the Executive Board. At the balance sheet meeting of the Supervisory Board on March 22, 2018, the auditors reported extensively on the main results of their audit of the single-entity and consolidated financial statements, as well as the company's internal control and risk management system and compliance structures, and answered supplementary questions by the Supervisory Board. There were no objections to this report.

In its meeting on March 27, 2018, the Supervisory Board therefore gave its consent to the result of the audit by the independent auditor and approved the annual financial statements of euromicron AG prepared by the Executive Board and the consolidated financial statements.

Thanks

The Supervisory Board wishes to express its thanks to the members of the Executive Board, the employees and the employee representative bodies of the euromicron Group for their personal commitment and achievements in fiscal 2017. Thanks to their vigor and dedication, they all helped ensure that the euromicron Group developed stably.

Frankfurt/Main, March 27, 2018

For the Supervisory Board:

A handwritten signature in blue ink, appearing to read 'E. Freitag', is written over a horizontal line.

Evelyne Freitag

Chairwoman of the Supervisory Board

Corporate Governance

1. Corporate Governance Report
2. Corporate governance declaration
3. Compliance Report

1. Corporate Governance Report

1.1 Composition and workings of the Executive Board and Supervisory Board

In compliance with the requirements of the German Stock Corporation Law (AktG), euromicron AG has a dual management system consisting of the Executive Board and the Supervisory Board.

1.1.1 The Supervisory Board

The Supervisory Board consists of three members and is currently made up solely of shareholder representatives in accordance with Section 96 of the German Stock Corporation Law (AktG). Ms. Evelyne Freitag is Chairwoman of the Supervisory Board, her deputy is Mr. Rolf Unterberger, and the further member is Dr. Alexander Kirsch. The regular term of office of the members of the Supervisory Board expires at the end of the Ordinary General Meeting in 2021.

The composition of the Supervisory Board corresponds to the following general requirements and concrete objectives for its composition. These take into account the recommendations of the German Corporate Governance Code (referred to as "DCGK" or "Code" in the following) and are as follows:

— General requirements for the members of the Supervisory Board

Every member of the Supervisory Board must fulfill the requirements defined by the law and Articles of Association to become a member of the Supervisory Board (cf. in particular Section 100 (1) to (4) of the German Stock Corporation Law). Every member of the Supervisory Board must have the knowledge and skills required to properly discharge the tasks incumbent on him/her under the law and the Articles of Association.

At least one independent member of the Supervisory Board must have expertise in the fields of preparing and auditing financial statements within the meaning of Section 100 (5) of the German Stock Corporation Law (AktG).

— Concrete objectives for the composition of the Supervisory Board

The Supervisory Board has specified that, ideally, the members of the Supervisory Board in its entirety should have the following qualifications and qualities; a combination of several qualifications and qualities in one person is also possible (competence profile):

At least two independent members within the meaning of Section 5.4.2 Sentence 2 of the German Corporate Governance Code are to belong to the Supervisory Board.

The members of the Supervisory Board are to have different educational backgrounds and expertise from different areas of business life. In particular, expertise in the fields of business management, preparing and auditing financial statements and in banking and finance is desirable.

At least one member with expertise in the field of the euromicron Group's international business is to sit on the Supervisory Board.

The composition of the Supervisory Board is to represent as broad a range of experience of life as possible. No member of the Supervisory Board is to be older than 70 years of age.

Anyone who is expected to be subject to a conflict of interests frequently or permanently in exercising his or her office is not to be elected as a member of the Supervisory Board.

The competence profile is met fully with the Supervisory Board's current composition.

Pursuant to its resolution dated December 14, 2016, the Supervisory Board defined the target of 1/3rd for the ratio of women on the Supervisory Board by December 31, 2018. The ratio of women currently matches the defined target.

In the opinion of the Supervisory Board, all its members are independent within the meaning of Section 5.4.2 of the Code. Where members of the Supervisory Board hold a high-ranking post at other companies with which euromicron AG – directly or indirectly – has business relationships, these transactions are conducted at terms and conditions as with third-party companies and do not affect the independence of the Supervisory Board members in question.

There were also no conflicts of interest in fiscal year 2017.

The Supervisory Board advises the Executive Board in running the company, supervises its activities and is directly integrated in decisions of fundamental importance for the company. The Executive Board agrees the company's business development and strategy as well as planning and implementation of the latter with the Supervisory Board and discusses these in regular meetings together with the Supervisory Board.

The Supervisory Board examines the annual financial statements, the consolidated financial statements, the respective management report and the proposal on appropriation of the net retained profits. It deals with the quarterly and half-yearly reports and is also responsible for adoption of the annual financial statements and approval of the consolidated financial statements, taking into account the audit reports of the independent auditor.

The Supervisory Board also deals with compliance with legal requirements, official regulations and internal guidelines on conduct by the company.

Furthermore, the Supervisory Board has the task of appointing the members of the Executive Board, setting the number of its members and defining spheres of authority. The Supervisory Board has defined rules for the work of the Executive Board in bylaws, where this is not already stipulated by the Articles of Association. In particular, the Supervisory Board has defined which important decisions by the Executive Board – such as large acquisitions, divestments and financial measures – require its consent.

The Chairman/Chairwoman of the Supervisory Board coordinates its work. Supervisory Board committees have not been formed.

The persons making up the Supervisory Board are presented in Section 1.1.1 of the Corporate Governance Report and in the section **“Supervisory Board and Executive Board”** starting on page 184 of the Annual Report. The specific work of the Supervisory Board is presented in the section **“Report of the Supervisory Board”** starting on page 42 of this Annual Report. The remuneration of the members of the Supervisory Board is explained in the section **“Compensation Report”** starting on page 108 of this Annual Report.

1.1.2 The Executive Board

The members of the Executive Board manage the company’s business and run it in joint responsibility with the goal of creating sustainable value. They develop the strategic orientation as well as annual and multi-year planning, decide on fundamental matters relating to business policy, agree these with the Supervisory Board and ensure they are implemented. The members of the Executive Board are assigned individual spheres of authority by the Supervisory Board, meaning there are clear responsibilities.

The Executive Board consists of two members; the Supervisory Board has appointed the Executive Board member Ms. Bettina Meyer as Spokeswoman of the Executive Board. The duties of the Spokeswoman of the Executive Board include coordinating the work of the Executive Board, in particular as regards chairing its meetings, and representing the company.

The Executive Board prepares the quarterly and half-yearly financial statements of the company, the annual financial statements of euromicron AG and the consolidated financial statements. In addition, the Executive Board ensures compliance with legal requirements, official regulations and internal guidelines on conduct at the company and works to ensure compliance with them at the companies in the euromicron Group as well. You can find more information on the compliance program and related measures in fiscal 2017 in the section **“Compliance Report”** on page 20 of this Annual Report.

The Executive Board and Supervisory Board work closely together to the benefit of the Group. The Executive Board regularly informs the Supervisory Board promptly and extensively about all matters of relevance to the company as a whole relating to strategy, planning, development of its business, financial position and results of operations, commercial risks and compliance.

In filling management posts, the Executive Board ensures adequate representation of women, as well as a wide range of skill structures (diversity).

The concrete targets for the ratio of women on the Executive Board in accordance with Section 111 (5) of the German Stock Corporation Law (AktG) and for the ratio of women in the management tier below the Executive Board in accordance with Section 76 (4) of the German Stock Corporation Law (AktG) are described in the subsection **“Targets”** in the Corporate governance declaration.

The persons making up the Executive Board are presented in the section **“Supervisory Board and Executive Board”** starting on page 184 of this Annual Report. The remuneration of the members of the Executive Board is explained in the section **“Compensation Report”** starting on page 108 of this Annual Report.

1.2 Shareholders and General Meeting

All shares in euromicron AG are equal and in principle each share entitles the holder to one vote. Shareholders exercise their voting right, in addition to their other rights under the law and Articles of Association, before or during the General Meeting.

The annual Ordinary General Meeting is held within the first eight months of a fiscal year in accordance with Section 14 of the Articles of Association. The Executive Board submits the annual financial statements, the management report, the consolidated financial statements and the group management report to it. The General Meeting decides on the appropriation of profits, as well as discharge of the Executive Board and Supervisory Board, and regularly elects the shareholder representatives on the Supervisory Board. The General Meeting also decides on changes to the Articles of Association, measures relating to changes in equity, company agreements and other important commercial measures, which are then implemented by the Executive Board.

The General Meeting is convened along with details of the agenda and an explanation of the rights of shareholders. Documents that have to be made accessible and relate to the items on the agenda can be obtained on the homepage of euromicron AG.

1.3 Transparency

Our goal is to provide institutional investors, private shareholders, financial analysts, employees and interested members of the public equally with regular and up-to-date information on the company's situation. We publish press releases, ad-hoc announcements, voting rights notifications, all financial reports and other important information on our homepage. All documents relating to our General Meeting can also be found there. We publish details on recurring events, such as the date of the next General Meeting, accounts press conferences, analysts' conferences or quarterly reports, in a financial calendar, which is published on the company's homepage.

In accordance with Article 19 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), members of the Executive Board and Supervisory Board or persons related to them are obligated to report transactions of shares in euromicron AG that require disclosure if the value of the transactions within a calendar year is €5,000.00 or more (directors' dealings). There were no dealings that required reporting in fiscal 2017.

1.4 Independent auditor

PricewaterhouseCoopers (PWC) was appointed as the independent auditor of the financial statements of euromicron AG and as the auditor of the consolidated financial statements for the first time in 2010. The responsible audit partner since fiscal 2013 has been Dr. Ulrich Störk.

2. Declaration on corporate governance

The corporate governance declaration in accordance with Section 289f or Section 315d in conjunction with Section 289f HGB (German Commercial Code) is part of the management report of euromicron AG and the group management report. In accordance with Section 317 (2) Sentence 6 HGB (German Commercial Code), the disclosures specified in Section 289f and Section 315d HGB (German Commercial Code) do not have to be included in the audit.

— Wording of the declaration on conformance (Section 161 of the German Stock Corporation Law (AktG)) for the year 2017 dated December 8, 2017

“The Executive Board and Supervisory Board of listed stock corporations are obligated under Section 161 of the German Stock Corporation Law to declare once a year that their company has complied and will continue to comply with the recommendations of the government commission on the German Corporate Governance Code or which recommendations it has not applied or will not apply. In the latter case, reasons must be given why the company did not and will not comply with the recommendation in question.

The Executive Board and Supervisory Board of euromicron AG issued the last declaration on conformance in accordance with Section 161 of the German Stock Corporation Law on December 8, 2016.

The following declaration relates for the period from December 8, 2016, to April 23, 2017, to the recommendations of the Code in its version dated May 5, 2015, as published on June 12, 2015, in the Federal Official Gazette (“2015 version”). The following declaration relates for the period from April 24, 2017, to the recommendations of the Code in its version dated February 7, 2017, as published on April 24, 2017, in the Federal Official Gazette (“2017 version”).

This having been stated, the Executive Board and the Supervisory Board of euromicron AG declare in accordance with Section 161 of the German Stock Corporation Law:

euromicron AG complied and will comply with the recommendations of the government commission on the German Corporate Governance Code, with the following exceptions:

1. Establishment of a whistleblower system for company members (Section 4.1.3, first half of sentence 3, DCGK 2017 version)

Under the recommendation in Section 4.1.3, first half of sentence 3 DCGK, employees shall be given suitable opportunity to report, in a protected manner, suspected breaches of the law within the company. The company currently deviates from this.

Reason:

In its Code of Conduct, euromicron AG offers employees the possibility of reporting violations by contacting the company’s compliance officers personally or by phone and also the possibility of contacting the Chief Compliance Officer under the e-mail address verhalten@euromicron.de. Protected contact is therefore only possible at present from an anonymous e-mail address of the sender using appropriate encryption software or, if violations are reported by phone, with appropriate calling line identification restriction. By way of clarification, however, the Code of Conduct states that anonymous information is also taken note of and investigated. The Executive Board is currently examining whether to establish a system of reporting violations through an external ombudsman or an IT-aided portal.

2. Individualized presentation of the compensation for Executive Board members (Section 4.2.5 (3) and (4) DCGK)

In accordance with the recommendation under Section 4.2.5 (3) and (4) DCGK, the compensation for Executive Board members is to be disclosed in individualized form using model tables. The model tables in the Code's appendix are to be used for disclosing this information. The company currently deviates from Section 4.2.5 (3) and (4) of the Code and will continue to do so in future.

Reason:

The compensation for Executive Board members is disclosed in compliance with statutory provisions. The company does not provide any further disclosures on or breakdowns of the compensation using the model tables due the work involved in this change and the extra administrative overhead.

3. Drafting of contracts with Executive Board members, severance pay cap (Section 4.2.3 (4) DCGK)

Pursuant to the recommendation under Section 4.2.3 (4) DCGK, in concluding contracts with Executive Board members, care shall be taken to ensure that severance payments made to an Executive Board member on premature termination of his/her contract do not exceed his/her compensation for the remaining term of the employment contract and at most the value of two years' compensation (severance pay cap). The company currently deviates from Section 4.2.3 (4) of the Code and will continue to do so in future for the term of the current contracts with Executive Board members.

Reason:

In the view of euromicron AG, the deviation from the recommendation under Section 4.2.3 (4) DCGK is in the company's interests. In the absence of an important reason, a contract with an Executive Board member can only be terminated prematurely by being rescinded through mutual consent. Consequently, negotiations on the level of the severance pay when an Executive Board member departs would not be ruled out by a severance pay cap. Moreover, the leeway in negotiations on the departure of an Executive Board member would also be constricted if a severance payment cap were agreed, which may be disadvantageous in particular if there is not clarity as to whether there is an important reason for the member being removed.

4. Formation of Supervisory Board committees (Section 5.3.1 to 5.3.3 DCGK)

The Supervisory Board of euromicron AG has not formed any committees in the past and will also not do so in future, meaning euromicron AG deviates from the recommendations under Sections 5.3.1 to 5.3.3 of the German Corporate Governance Code.

Reason:

In compliance with the Articles of Association, the Supervisory Board of euromicron AG consists of just three members. The formation of committees would not make the work of the three-member Supervisory Board easier, since the committees which adopt decisions would also have to have at least three members of the Supervisory Board on them.

Frankfurt/Main, December 8, 2017

The Executive Board

The Supervisory Board"

- **Disclosures on corporate governance practices**

The company's Code of Conduct contains corporate governance practices that go further than the statutory requirements. It can be viewed on the company's homepage at www.euromicron.de/en/company/code-of-conduct. The Code of Conduct contains in particular guidelines on business dealings with customers and suppliers, conduct toward competitors, third parties and employees, use of information, avoiding conflicts of interest, and health, safety and environment issues.

- **Description of the workings of the Executive Board and Supervisory Board**

The persons making up the Executive Board and Supervisory Board are presented in the section "**Supervisory Board and Executive Board**" starting on page 184 of this Annual Report. A general description of the tasks and workings of the Executive Board and Supervisory Board can be found in the section "**Composition and workings of the Executive Board and Supervisory Board**" in the Corporate Governance Report starting on page 46 of this Annual Report. The latter is also published in the Internet on our homepage in the section "**Corporate Governance**".

- **Targets**

Pursuant to its resolution dated December 14, 2016, the Supervisory Board defined, in accordance with the current status, the new target of 1/3rd for the ratio of women on the Supervisory Board by December 31, 2018.

Pursuant to the resolution adopted by the Supervisory Board on December 14, 2016, the Supervisory Board defined the target for the ratio of women on the Executive Board in accordance with Section 111 (5) of the German Stock Corporation Law (AktG) as being 50% in accordance with the current status and set a deadline for implementation by December 31, 2018.

In filling management posts, the Executive Board ensures adequate representation of women, as well as a wide range of skill structures (diversity). At present there is one management tier below the Executive Board, consisting of four department heads who hold general commercial power of attorney. In view of the current contracts of employment, the Executive Board believes there is little leeway at present to improve the ratio of women in the management tier below the Executive Board apart from creating further departments. Under its resolution dated December 29, 2017, the Executive Board therefore defined the ratio of women in the management tier below the Executive Board in accordance with Section 76 (4) of the German Stock Corporation Law (AktG) as being 0% in accordance with the current status and set a deadline for implementation by December 31, 2018. The Executive Board also pledged its commitment to make intensified efforts to develop and acquire women with suitable professional and personal qualifications for management posts.

The defined targets for the ratio of women on the Supervisory Board, on the Executive Board and in the management tier below the Executive Board are thus met at present.

- **Diversity concept**

The Supervisory Board's diversity concept is part of the above-described competence profile. Due to the small number of Executive Board members, the company does not pursue a diversity concept within the meaning of Section 289f (2) No. 6 of the German Commercial Code (HGB) with regard to the Executive Board's composition.

3. Compliance Report

For the Executive Board of euromicron AG, corporate governance based on integrity means morally and legally responsible conduct, in particular toward executives, employees and all business partners. These maxims are actively practiced by the Executive Board, Supervisory Board and employees and have been incorporated in the company's Code of Conduct. This serves as the basis for creating a basic, consistent understanding of ethical conduct in the Group. The Code of Conduct can be viewed on the company's homepage at www.euromicron.de/en/company/code-of-conduct.



euromicron's Code of Conduct provides guidelines that represent a framework for our commercial and personal conduct.

3.1 Focus of our compliance work

In addition to the general guidelines for compliance in practice, the Executive Board – in coordination with the compliance officer of euromicron AG – selects each year a special area of focus so as to ensure adequately at all times that our individual divisions are able to cope with the changes that they are subject to. The aim of this is to address the changes in requirements from operational business and in the market environment. Our divisions are to be developed further on the basis of the created compliance structure with reference to the separately defined areas of focus.

The focus of our compliance activities in 2017 was on antitrust and competition law. As part of that, there was particular emphasis on risk analysis; in addition, various training courses were held.

euromicron's Code of Conduct provides guidelines that represent a framework for our commercial and personal conduct.

3.2 Compliance training

Various training measures ensure that the high standards euromicron AG demands of all executives and employees are implemented and practiced. In addition to on-the-job training in the form of e-learning, the compliance officers identify specific groups of executives and employees to attend in-person courses and learn what compliance involves. As a result, the specific requirements of our various divisions can be better addressed.

3.3 Compliance organization

The Executive Board has created an effective organizational structure to enforce, control and further develop the compliance principles and ensure that the Group lives up to its mission of complying with the law and company agreements. Local compliance officers have been appointed at all Group companies. The compliance officers act as primary contact persons for management and employees at the respective companies for all matters relating to the issue of compliance. However, they are also contact persons of the Chief Compliance Officer and responsible for implementing compliance-related guidelines issued by the Executive Board at their respective companies. A further important function is to receive information on compliance violations and to coordinate with the Chief Compliance Officer of euromicron AG in dealing with such violations.

The Chief Compliance Officer reports regularly to the Executive Board on all compliance matters and notifies the Executive Board immediately if there is the suspicion of compliance violations. The Executive Board reports regularly to the Supervisory Board on compliance matters.

Meetings of all compliance officers in the euromicron Group ensure that information and experience are shared and that the guidelines on conduct issued by the Executive Board are carried through effectively and filled with life. To enable that, the compliance and IT officers are also in close dialog with the Group's Data Protection Officer.

As a result, the compliance organization of euromicron AG is firmly established in all of the company's units and ensures an effective structure that guarantees that Group-wide requirements are communicated to and applied at the individual companies, company-specific requirements are formulated, and all employees have a competent contact person for compliance-related questions and information.

3.4 Further information

To make sure that the contents of compliance are practiced not only by employees and executives, but also with our business partners, they are also implemented in our general standard terms and conditions of trade and other contractual agreements.

euromicron on the capital market

Overview of the shares

euromicron's share is a technology stock that is traded on the Xetra electronic trading platform and, among other places, at Frankfurt Stock Exchange.

The shares on the market

001

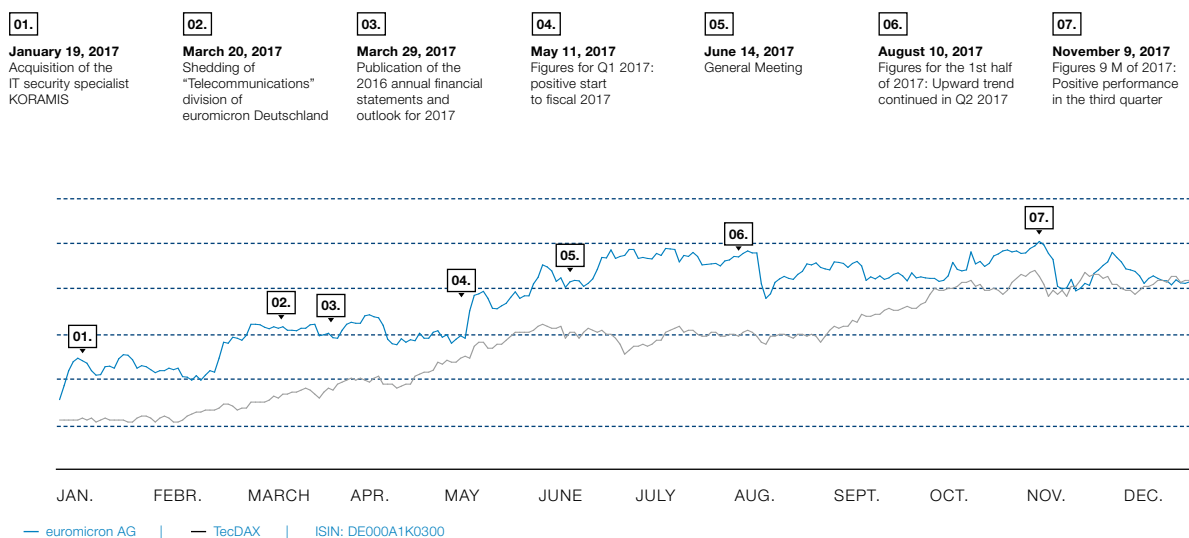
	2017	2016
Number of shares issued at the balance sheet date	7,176,398	7,176,398
– of which treasury shares	–	–
Capital stock (€)	18,347,544.88	18,347,544.88
Highest price * (€)	8.94	10.44
Lowest price * (€)	5.77	5.7
Closing price at the end of the year * (€)	8.09	5.85
Performance in absolute terms	+ 38.3%	– 22.7%
Performance of the TecDAX	+ 39.6%	– 1.0%
Market capitalization at the end of the year (in € million)	58.06	41.98
Undiluted earnings per share (€)	– 0.53	– 1.76
Volume of shares traded (in millions)**	2.92	3.07
Ø volume of shares traded per day (in thousands)	11.57	12.02

* Xetra, closing price

** Xetra and Frankfurt Stock Exchange

Performance of euromicron's share

Share performance in €



Investor relations

euromicron AG attaches great importance to satisfying the capital market’s need for information. Once again in fiscal 2017, the Executive Board of euromicron AG nurtured a continuous dialog with the company’s various stakeholders. Regular and prompt publication of news of relevance to the company underscores our objective of providing comprehensive information on the company’s development. In addition, all relevant capital market information and financial reports, in German and English, can be called at any time by investors, analysts and financial journalists on our Investor Relations website www.euromicron.de/en/investor-relations.

By being listed in the Prime Standard at Frankfurt Stock Exchange, we fulfill the very highest requirements for transparency. Above and beyond our statutory obligations, we conducted further IR activities last year by taking part in investor conferences and one-on-one meetings in order to share information. Our mission is and will remain to ensure fair and transparent financial communication with all market players as part of our commitment in the field of investor relations.

Shareholder structure

The majority of the registered shares in euromicron AG – 69.58% – are held by private investors. Beneficial owners, i.e. investors and legal persons who hold the shares themselves, hold 9.49% of the shares. The proportion of shares held by investors whose identity is not known by us (nominees; legal persons, shares held by third parties) is therefore 20.93%.

The lion’s share of euromicron’s shares – 83.87% – are held by investors from Germany, compared to around 16.13% by investors from Belgium, France, Switzerland, Austria and other countries. All shares in euromicron AG are free float.

Shareholders that had to be reported in acc. with Section 33 WpHG (> 3%):

3.47%

Lazard Frères Gestion SAS
March 8, 2016

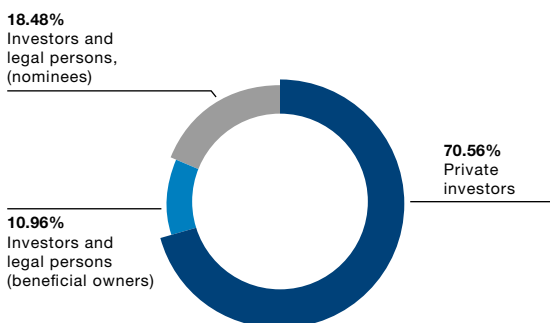
3.04%

Christian Bischoff
August 12, 2015

3.01%

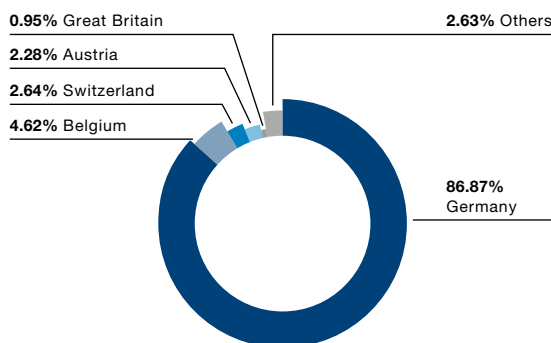
Universal-Investment-GmbH
February 22, 2016

Shareholder structure by type of investor



Status: March 31, 2018 | Shares 7,176,398

Shareholder structure by country



Status: March 31, 2018 | Shares 7,176,398

Assessments of analysts

The designated sponsor is equinet Bank AG.

The euromicron share was covered by five financial analysts in fiscal 2017. Nine “hold” and six “buy” recommendations were issued in the course of the year. There were no recommendations to sell the shares.

The studies by analysts are available on the website of euromicron AG in the section Investor Relations/Shares.

Analysts' recommendation on euromicron's share

Institute	Analyst	Date	Recommendation	Upside target
				in EUR
Solventis Research	Klaus Schlote	Nov. 17, 2017	Buy	14,90
equinet Bank	Sebastian Droste	Nov. 16, 2017	Buy	13,00
Independent Research	Markus Friebe	Nov. 16, 2017	Hold	8,75
GBC AG Investment Research	Marcel Goldmann	Nov. 14, 2017	Buy	10,50
Bankhaus Lampe	Wolfgang Specht	Nov. 9, 2017	Hold	8,50

Status: March 12, 2018

General Meeting

The Ordinary General Meeting of euromicron AG was held this year in the Deutsche Nationalbibliothek (German National Library), Frankfurt/Main, on June 14, 2017. The Executive Board and Supervisory Board welcomed around 180 shareholders and guests.

In the course of the General Meeting, the Executive Board reported in detail on the company's operating performance in fiscal 2016 and the measures that had been taken in the final year of reorganization. The shareholders were able to follow developments at the Group and the corporate strategy with reference to current projects and examples. The Executive Board gave an outlook for the current fiscal year 2017 on the basis of the figures for the first quarter.

All the items on the agenda were approved by a large majority. The Executive Board and Supervisory Board were granted discharge for the past fiscal year 2016. In addition, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, was elected as the auditor for the company and the Group for fiscal year 2017.

A total of 25.04% of the capital stock with voting rights was represented (previous year: 28.6%, including absentee ballots).

You can obtain detailed results for the votes and further documents on the General Meeting at <http://www.euromicron.de/en/investor-relations/general-meeting>.

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 (previous year: loss of € –40,916,954.67).

The net accumulated losses are carried forward to a new account.



All documents for the General Meetings of euromicron AG

Board members of the Company

Executive Board and Supervisory Board

EXECUTIVE BOARD

Bettina Meyer

Member (Spokeswoman)

Finance, Legal Affairs, Human Resources,
Accounting/Controlling and
Investor Relations

Jürgen Hansjosten

Member

Operations, Strategy, IT and Purchasing

- Chairman of the Supervisory Board of
AMS Technologies AG, Planegg

SUPERVISORY BOARD

Evelyne Freitag

Chairwoman of the Supervisory Board of
euromicron AG

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 of the Supervisory Board of
euromicron AG

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

Member of the Supervisory Board of
euromicron AG

Businessman

- Managing Partner
Renusol Europe GmbH, Cologne
- Deputy Chairman
of the Supervisory Board of SKW
Stahl-Metallurgie Holding AG, Munich

GROUP MANAGEMENT REPORT

62	Fundamentals of the Group
62	Business model of the Group
69	Objectives and strategy
70	Control system
71	Research and development
75	Economic Report
75	General economic and industry-specific conditions
76	Course of business
84	Net assets, financial position and results of operations
93	Non-financial performance indicators
97	Forecast, Opportunity and Risk Report
97	Explanation of deviations from the previous year's forecast
98	Risk report and salient features of the risk management system
102	Opportunity report
104	Forecast for fiscal year 2018
105	Internal control and risk management system in relation to the consolidated accounting process
105	Legal background and definition of an internal accounting control and risk management system (ICS/RMS)
105	Fundamental regulatory and control activities to ensure proper and reliable consolidated accounting
106	Specific accounting-related risks
107	Other aspects
107	Corporate governance declaration by the Group in accordance with Section 315d HGB (German Commercial Code)
107	Separate non-financial report
108	Compensation Report
	Salient features of the compensation system for Executive Board members
	Compensation of members of the Executive Board
	Salient features of the compensation system for the Supervisory Board
111	Disclosures in accordance with Section 315a (1) HGB (German Commercial Code)

1. Fundamentals of the Group

1.1 Business model of the Group

euromicron

Specialist for
digital infrastructures

Profile

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

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

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

The Group’s structure and locations

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

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

The central controlling functions are pooled at euromicron AG.

The companies in the euromicron Group



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

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

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

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

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

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

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

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

16

associated companies are responsible for operating business.

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

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



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

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

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

30 LOCATIONS

in Germany enable proximity to customers.

Sales by region

€ m.

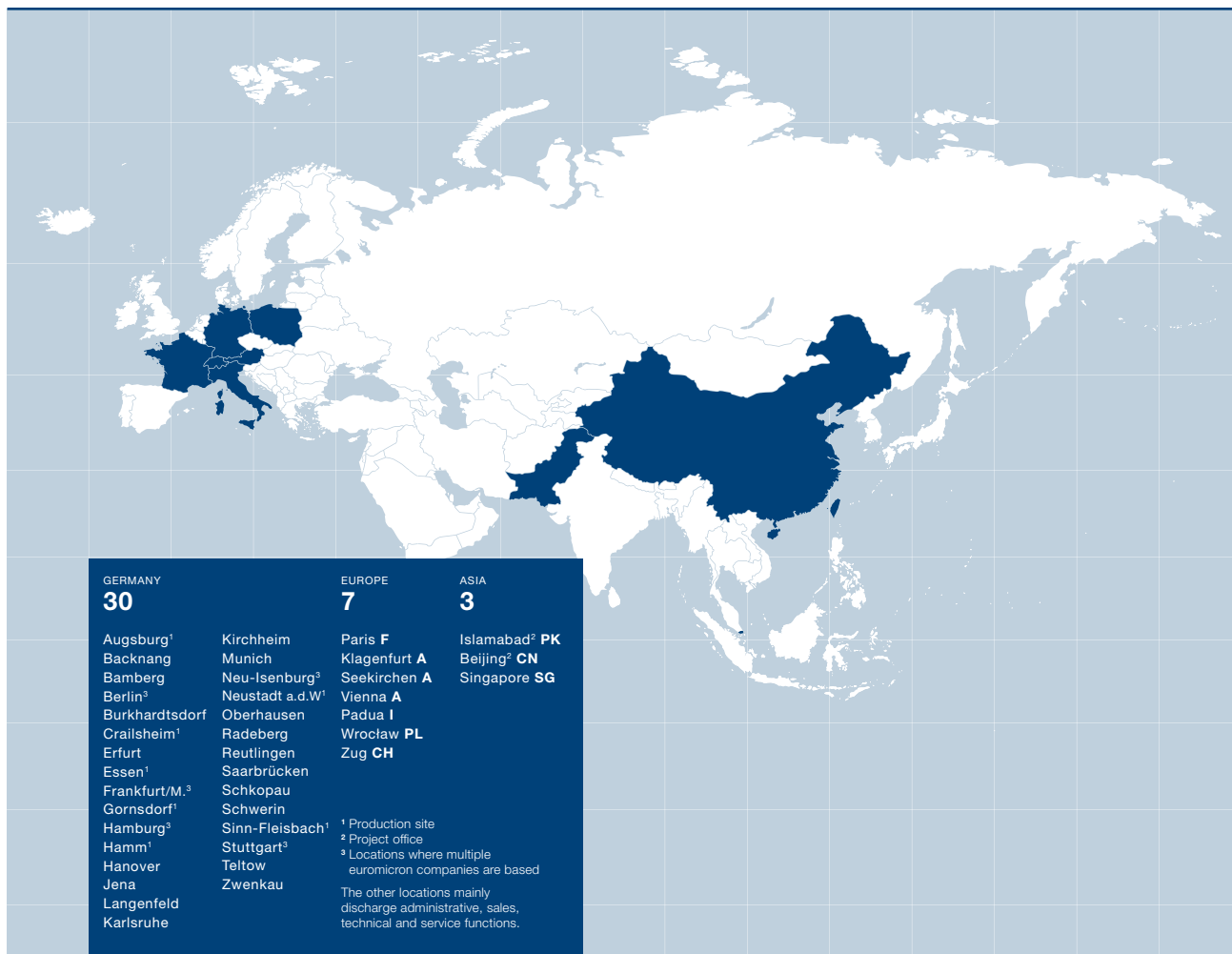


The companies in the euromicron Group are represented in other European countries with locations in Italy, Austria, France, Poland and Switzerland. Group companies are also based in some non-European countries in the shape of project offices so as to cater for country-specific market requirements there.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

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

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

Main euromicron locations





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

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.



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

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

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

Critical Infrastructures

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

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

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



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

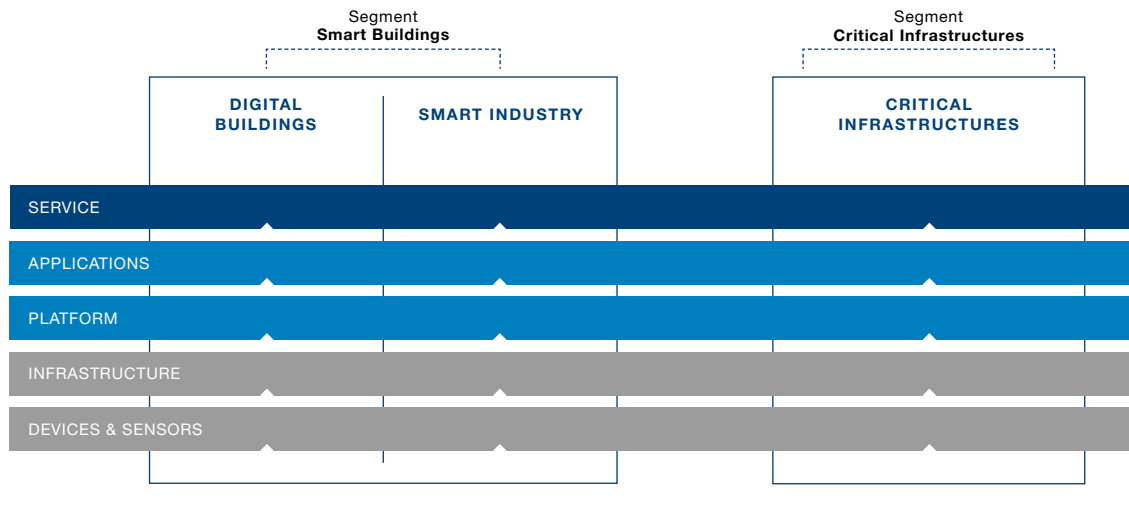
Critical infrastructures include:

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

Products and solutions

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

Business model to the euromicron Group



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

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

1.2 Objectives and strategy

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

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

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

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

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

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



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

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

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

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

1.3 Control system

Corporate controlling

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

Internal key control indicators

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

Operating EBITDA and operating EBITDA margin

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

Focus on liquidity and profitable growth.

Sales

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

Working capital ratio

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

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

TABLE 003

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

* Adjusted for special effects of the reorganization

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

1.4 Research and development

Objectives

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

Significant projects and results

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

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

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

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

MICROSENS

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

KORAMIS

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

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

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

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

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

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

TELENT

developed a solution for digitizing pallets in a cooperation project.

NETZIKON

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

FAST.LANE®

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

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

ELABO

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

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

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

R&D ratios

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

€ **9.7** million

in capitalized development costs and self-developed software.

2. Economic report

2.1 General economic and industry-specific conditions

General economic conditions

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

3.9%

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

Trends in the Euro area

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

The economic situation in the Federal Republic of Germany

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

2.5%

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

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

The German ICT market

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

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

1.7%

growth is expected by BITKOM for the ICT industry.

Outlook for 2018

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

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

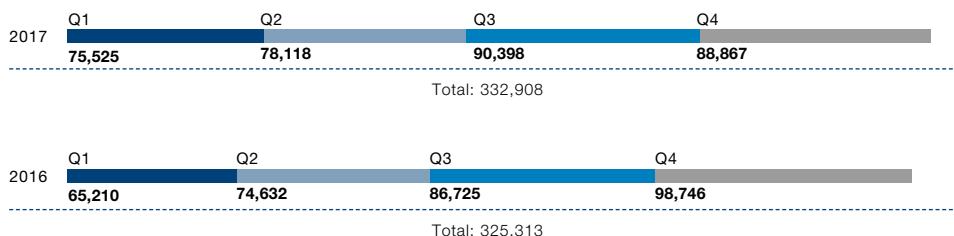
2.2 Course of business

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

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

Sales by quarter

€ thousand



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

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

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

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

€ **13.5** million
our operating EBITDA.

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

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

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

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

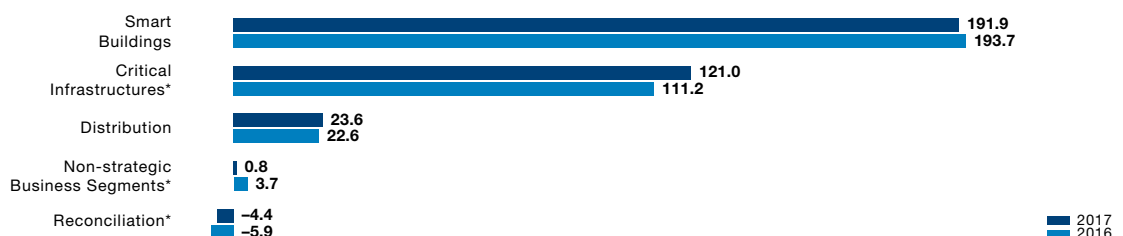
Following reporting of a negative EBIT of € -2.3 million in the previous year, a positive EBIT of €1.1 million was posted in 2017. The consolidated net loss for the year for euromicron AG shareholders was also reduced sharply to € -3.8 million from € -12.7 million the year before.

Development of the segments

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

Sales

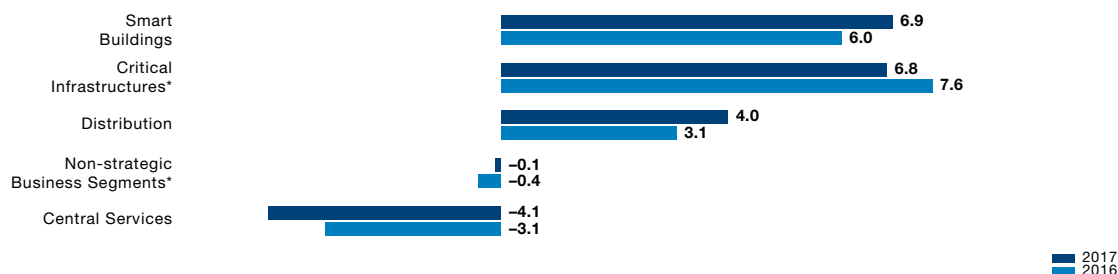
€ m.



* The previous year's figure has been adjusted.

Operating EBITDA

€ m.



* The previous year's figure has been adjusted.

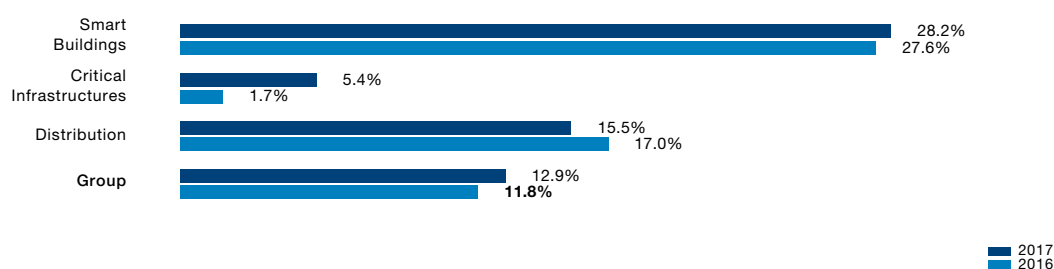
Reconciliation of the reported EBITDA with operating EBITDA/presentation of the reorganization costs

004

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

* The previous year's figure has been adjusted.

Working capital ratio



Smart Buildings

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

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

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

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

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

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

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

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

Critical Infrastructures

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

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

€ **9.8** million

increase in sales in the “Critical Infrastructures” segment.

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

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

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

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

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

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

Distribution

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

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

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

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

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

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

Non-strategic Business Segments

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

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

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

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

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

Central Services

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

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

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

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

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

2.3 Net assets, financial position and results of operations

Net assets

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

TABLE 005

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31.1%

equity ratio – still at a high level.

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

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

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

Financial position

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

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

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

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

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

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

This involves the following:

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

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

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

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

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

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

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

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

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

Results of operations

008

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

*Adjusted for special effects of the reorganization

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

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

€ **4.1** million

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

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

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

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

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

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

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

€ **277.8** million

in sales in Germany.

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

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

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

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

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

1,768

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

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

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

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

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

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

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

Positive (adjusted) consolidated net income for the year.

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

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

New orders and order books

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

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

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

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

€ **4.0** million

increase in new orders from continuing core business.

2.4 Non-financial performance indicators

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

Employee development and loyalty

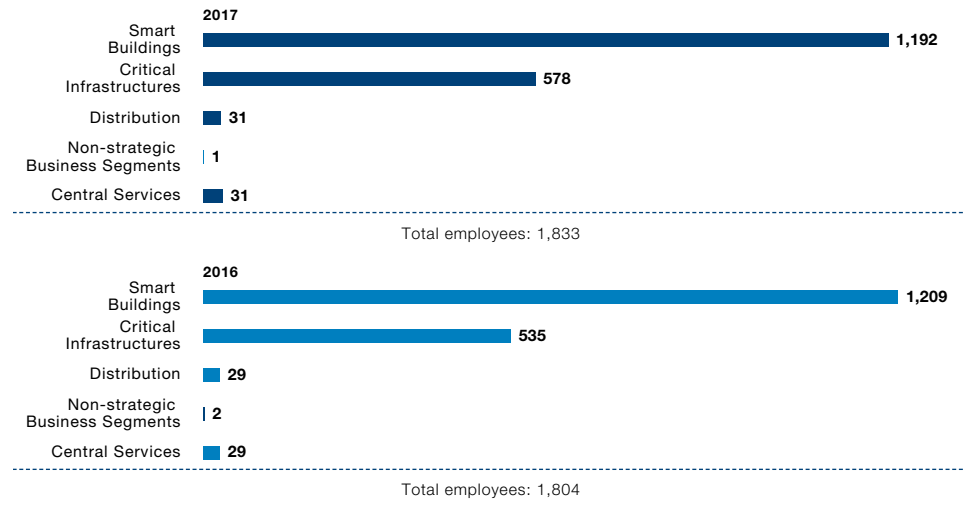
The euromicron Group's success is founded on the skills and commitment of its employees. Our focus as part of that is on close cooperation with the HR departments at our locations and strategic further development and implementation of the Group-wide HR strategy. Organizational and personnel development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

Personnel loyalty thanks to professional and personal further development

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

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

Employees by segment



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

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

Employee development

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

Trainee ratio

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

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

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

Responsible use of natural resources

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

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

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

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

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

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

Established brands and growing visibility

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

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

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

Strategic partnerships with leading technology vendors.

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

Customers and quality

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

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

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

Our product quality is certified.

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

3. Forecast, Opportunity and Risk Report

3.1 Explanation of deviations from the previous year's forecast

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

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

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

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

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

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

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

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

3.2 Risk report and salient features of the risk management system

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

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

Risk management system



Markets and competition

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

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

Products, technologies and R&D

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

Projects

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

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

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

Finances and liquidity

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

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

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

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

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

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

Procurement and production

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

Service and sales

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

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

IT

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

Corporate

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

Summary of the risk situation

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

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

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

3.3 Opportunity report

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

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

Our opportunities lie in the potential of the IoT market.

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

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

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

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

Our solutions have scaling potential.

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

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

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

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

3.4 Forecast for fiscal year 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Specific accounting-related risks

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

Other aspects

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

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

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

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



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

6. Separate non-financial report

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



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

7. Compensation Report

Salient features of the compensation system for Executive Board members

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

Compensation of members of the Executive Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Salient features of the compensation system for the Supervisory Board

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

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

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

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

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

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

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

Authorized capital

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

Treasury shares

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

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

Frankfurt/Main, March 26, 2018

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

CONSOLIDATED FINANCIAL

Auditor's Report	114
Balance sheet	120
Assets	120
Equity and liabilities	121
Income statement	122
Statement of comprehensive income	123
Statement of changes in equity	124
Statement of cash flows	126
General disclosures	127
Description of business activities	127
Accounting principles	127
Discretionary decisions and uncertainties in estimates	141
Consolidated companies	142
Companies included in the consolidated financial statements	142
Acquisition of companies and divisions	142
Disclosures on company acquisitions from previous years	144
Notes on the consolidated balance sheet	146
Fixed assets	146
Changes in the Group's assets in 2017	148
Deferred tax assets	153
Assets held for sale and liabilities in connection with assets held for sale	154
Inventories	154
Receivables and other current assets	154
Cash and cash equivalents	157
Equity	157
Provisions	159
Liabilities	162
Deferred tax liabilities	165
Additional disclosures on the financial instruments – Carrying amounts and fair values by measurement categories	166

STATEMENTS (iFRS)

169 Notes on the consolidated income statement

- 169 Sales
- 169 Own work capitalized
- 169 Other operating income
- 170 Cost of materials
- 170 Personnel costs
- 170 Other operating expenses
- 170 Depreciation/amortization
- 171 Net interest income/loss / other financial income and expenses
- 172 Income taxes
- 173 Share of non-controlling interests in consolidated net income for the period
- 173 Earnings per share

173 Appropriation of net income

173 Other disclosures

- 173 Notes on the statement of cash flows
- 175 Contingencies and other financial obligations
- 176 Segment reporting

178 Segment reporting

- 180 Risk management
- 182 Related parties
- 182 Declaration on the Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Law)
- 183 Stock option program / securities transactions requiring disclosure
- 183 Auditors' fees
- 183 Significant events after the balance sheet date
- 183 Publication of the consolidated financial statements
- 184 Supervisory Board and Executive Board
- 185 Declaration by the legal representatives

Auditor's Report

Following the final results of our audit, we have issued the following unqualified auditor's report dated March 26, 2018:

Independent auditor's report

Audit opinions

We have audited the consolidated financial statements of euromicron AG, Frankfurt/Main, and its subsidiaries (the Group), consisting of the consolidated balance sheet as of December 31, 2017, the consolidated statement of comprehensive income, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2017, as well as the notes on the consolidated financial statements, including a summary of significant accounting methods. We have also audited the group 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 group 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 consolidated financial statements comply, in all material respects, with the IFRS, as are to be applied in the EU, and in addition to the German statutory regulations to be applied pursuant to Section 315e (1) of the HGB (German Commercial Code) and give a true and fair view of the net assets and financial position of the Group 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 these regulations, and
- the enclosed group management report conveys overall an accurate picture of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German statutory requirements, and accurately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the contents of the components of

the group 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 consolidated financial statements and the group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the group 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 consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the Group companies 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 consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

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

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

1. Recoverability of goodwill (impairment test)
2. Accounting of customer-specific construction contracts

We have structured our presentation of these particularly key audit matters 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 matters in the following:

1. Recoverability of goodwill (impairment test)

1.1 Goodwill totaling €110.6 million (43.9% of total assets or 140.9% of equity) is carried under the balance sheet item "Goodwill" in the consolidated financial statements of euromicron AG. Goodwill is tested for impairment every year and as warranted (in an event-driven test) by the company to determine any need for it to be written down. The impairment test is conducted at the level of the group of cash-generating units to which the goodwill is assigned. In the impairment test, the carrying amount of each cash generating unit, including the goodwill, is compared with the recoverable amount. The recoverable amount is determined in principle on the basis of the fair value minus costs of sale. The basis of measurement here is usually the present value of the future cash flows of the respective group of cash-generating units. The present values are determined by means of discounted cash flow models. In this, the medium-term planning adopted by the Group forms the starting point and is updated by assumptions relating to long-term growth rates. Expectations of future market development and assumptions on the development of macroeconomic factors are also taken into account. The plausi-

bility of the budgeting on which the impairment test 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 weighted average cost of capital for the respective group of cash-generating units. The result of the impairment test revealed that there was no need to recognize a impairment on the goodwill.

The result of this assessment depends to a great extent on the estimate by the legal representatives as regards future cash inflows for the respective group of cash-generating units, the discount rate used, the rate of growth, and other assumptions and so is subject to considerable uncertainty. In view of that and the complexity of such an assessment and the issue's significance for the company's net assets and results of operations, this matter was of particular importance in our audit.

1.2 As part of our audit, we gained an understanding of the methodological approach applied in the impairment test, among other things. After comparing the future cash inflows used for calculation with the medium-term planning adopted by the Group, we assessed the reasonableness of the calculation. Accompanying that, we also 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. We also examined whether the costs of Group functions were taken into account properly. Knowing that just relatively small 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. In order to reflect the existing uncertainties in forecasting, we gained an understanding of the sensitivity analyses created by the company. As part of that, we found that the carrying amounts of the cash-generating units, including the assigned goodwill, are sufficiently covered by the discounted future cash surpluses, taking into account the information available.

The measurement parameters and assumptions applied by the legal representatives match our expectations as a whole and are also within fluctuation margins that we believe to be acceptable.

1.3 The company's disclosures on goodwill can be found in section 1 (a) of the notes on the consolidated financial statements.

2. Accounting of customer-specific construction contracts

2.1 The sales reported in the consolidated financial statements of euromicron AG are attributable to customer-specific construction contracts to an amount of €180.4 million (54.2% of sales). The sales are recognized – provided the criteria defined in IAS 11 are met – in accordance with the percentage of completion method, with the percentage of completion being estimated using the ratio of actually incurred costs for the contract to the planned total costs (cost to cost method). In particular, the planned total costs and appropriate allocation of the incurred costs to the contracts are based on estimates and assumptions by legal representatives. In view of that and the resultant uncertainty in making estimates and the complexity of accounting for these contracts, this matter was of particular importance in our audit.

2.2 As part of our audit, we assessed among other things the processes and controls established by the Group to record sales from customer-specific construction contracts, taking into account their percentage of completion. In addition, we examined randomly selected projects to determine whether the requirements for realizing profits in accordance with the percentage of completion method pursuant to IAS 11 were met. Moreover, we assessed how the percentage of completion of customer-specific construction contracts was determined on the basis of the cost to cost method, as well as the resultant pro-rata sales and profits that were realized, taking into account the possible requirements for an immediate recognition of any loss. In this connection, we gained an understanding of how the planned total costs and the actually incurred costs are determined. That also included assessing the progress of the respective projects through talks with project managers and by inspecting project documents. We also assessed the continuity and consistency of the methods applied to calculate the incurred costs. We also ensured by means of Group-wide instructions that the audit risk inherent in this area is countered by consistent audit procedures. In this regard, we satisfied ourselves that the established systems and processes and the controls in place are appropriate all in all and that the estimates and assumptions made by the legal representatives as regards recognition and measurement of sales using the percentage of completion method are adequately documented.

2.3 The company's disclosures on sales from customer-specific construction contracts can be found in section 12 of the notes on the consolidated financial statements.

Other information

The legal representatives are responsible for the other information. The other information comprises the following components of the group 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 group 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

The other information also comprises the other parts of the Annual Report – excluding further cross-references to external information –, with the exception of the audited consolidated financial statements and the audited group management report.

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

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

- is materially inconsistent with the consolidated financial statements, the group 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 consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of consolidated financial statements that comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the Group'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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in compliance with the IFRSs as adopted in the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
 - Obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
 - Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.
 - Perform audit procedures on the prospective information presented by the legal representatives in the group 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as the group auditor by the General Meeting on June 13, 2017. We were engaged by the Supervisory Board on December 7, 2017. We have been the group 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, 26 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk
Wirtschaftsprüfer

ppa. Diana Plaum
Wirtschaftsprüfer

Balance sheet

of the euromicron Group as of December 31, 2017 (IFRS)

Assets	011			
	Note	Dec. 31, 2017	Dec. 31, 2016	Change
		€ thou.	€ thou.	€ thou.
Noncurrent assets				
Goodwill	(1)	110,629	108,291	2,338
Other intangible assets	(1)	16,557	16,371	186
Property, plant and equipment	(1)	19,139	15,612	3,527
Other financial assets	(1)	232	499	-267
Other assets	(1)	4	32	-28
Deferred tax assets	(2)	255	413	-158
Total noncurrent assets		146,816	141,218	5,598
Current assets				
Inventories	(4)	31,486	28,381	3,105
Trade accounts receivable	(5)	8,994	18,150	-9,156
Gross amount due from customers for contract work	(5)	52,518	40,708	11,810
Claims for income tax refunds	(5)	928	765	163
Other financial assets	(5)	3,898	5,520	-1,622
Other assets	(5)	2,566	2,287	279
Cash and cash equivalents	(6)	4,954	6,844	-1,890
Subtotal for current assets		105,344	102,655	2,689
Assets held for sale	(3)	0	691	-691
Total current assets		105,344	103,346	1,998
Total assets		252,160	244,564	7,596

Equity and liabilities

012

	Note	Dec. 31, 2017	Dec. 31, 2016	Change
		€ thou.	€ thou.	€ thou.
Equity				
Subscribed capital	(7)	18,348	18,348	0
Capital reserves	(7)	94,298	94,298	0
Currency translation difference	(7)	4	-5	9
Consolidated retained earnings	(7)	-34,708	-30,743	-3,965
Stockholders' equity		77,942	81,898	-3,956
Non-controlling interests	(7)	599	461	138
Total equity		78,541	82,359	-3,818
Noncurrent liabilities				
Provisions for pensions	(8)	1,424	1,381	43
Other provisions	(8)	1,751	1,683	68
Liabilities to banks	(9)	19,993	38,458	-18,465
Liabilities from finance leases	(9)	1,143	843	300
Other financial liabilities	(9)	610	0	610
Other liabilities	(9)	170	147	23
Deferred tax liabilities	(10)	5,598	5,670	-72
Total noncurrent liabilities		30,689	48,182	-17,493
Current liabilities				
Other provisions	(8)	1,955	1,574	381
Trade accounts payable	(9)	46,996	44,512	2,484
Gross amount due to customers for contract work	(9)	2,014	1,384	630
Liabilities from current income taxes	(9)	1,385	3,520	-2,135
Liabilities to banks	(9)	70,556	38,043	32,513
Liabilities from finance leases	(9)	521	466	55
Other tax liabilities	(9)	4,777	8,078	-3,301
Personnel obligations	(9)	9,795	9,176	619
Other financial liabilities	(9)	1,562	1,774	-212
Other liabilities	(9)	3,369	5,178	-1,809
Subtotal for current liabilities		142,930	113,705	29,225
Liabilities in connection with assets held for sale	(3)	0	318	-318
Total current liabilities		142,930	114,023	28,907
Total equity and liabilities		252,160	244,564	7,596

Income statement

of the euromicron Group for the period January 1 to December 31, 2017 (IFRS)

Income statement

013

	Note	2017	2016
		€ thou.	€ thou.
Sales	(12)	332,908	325,313
Inventory changes		-612	-863
Own work capitalized	(13)	3,389	2,808
Other operating income	(14)	2,190	4,499
Cost of materials	(15)	-172,432	-171,506
Personnel costs	(16)	-112,551	-109,057
Other operating expenses	(17)	-43,389	-43,809
Earnings before interest, taxes, depreciation and amortization (EBITDA)		9,503	7,385
Amortization and depreciation	(18)	-8,405	-9,649
Earnings before interest and taxes (EBIT)		1,098	-2,264
Interest income	(19)	313	152
Interest expenses	(19)	-4,943	-5,439
Other financial income	(19)	200	0
Other financial expenses	(19)	-219	-73
Income before income taxes		-3,551	-7,624
Income taxes	(20)	45	-4,845
Consolidated net loss for the year		-3,506	-12,469
Thereof attributable to euromicron AG shareholders		-3,769	-12,655
Thereof attributable to non-controlling interests	(21)	263	186
(Un)diluted earnings per share in €	(22)	-0.53	-1.76

Statement of comprehensive income

of the euromicron Group for the period January 1 to December 31, 2017 (IFRS)

Statement of comprehensive income

014

	Note	2017	2016
		€ thou.	€ thou.
Consolidated net loss for the year		-3,506	-12,469
Items to be subsequently recognized in profit or loss			
Gain/loss on the valuation of securities	(7)	0	0
Currency translation differences	(7)	9	-3
Items not to be subsequently recognized in profit or loss			
Revaluation effects from pensions	(8)	-201	-1,911
Other comprehensive income (net)		-192	-1,914
Total comprehensive income		-3,698	-14,383
Thereof attributable to euromicron AG shareholders		-3,961	-14,569
Thereof attributable to non-controlling interests		263	186

Statement of changes in equity

of the euromicron Group as of December 31, 2017 (IFRS)

Statement of changes in equity

	Note	Subscribed capital	Capital reserves
		€ thou.	€ thou.
December 31, 2015		18,348	94,298
Consolidated net loss for 2016		0	0
Other comprehensive income			
Currency translation differences	(7)	0	0
Revaluation effects from pensions	(8)	0	0
		0	0
Total comprehensive income		0	0
Transactions with owners			
Transfer of profit shares for minority interests to liabilities	(7)	0	0
Distributions to / drawings by minority interests	(7)	0	0
		0	0
December 31, 2016		18,348	94,298
Consolidated net loss for 2017		0	0
Other comprehensive income			
Currency translation differences	(7)	0	0
Revaluation effects from pensions	(8)	0	0
		0	0
Total comprehensive income		0	0
Transactions with owners			
Transfer of the pro-rata claim for compensation of losses on the part of minority interests to "Other assets"	(7)	0	0
Distributions to / drawings by minority interests	(7)	0	0
		0	0
December 31, 2017		18,348	94,298

015

	Consolidated retained earnings	Currency translation difference	Equity attributable to the shareholders of euromicron AG	Non-controlling interests	Total equity
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
	-16,010	-2	96,634	404	97,038
	-12,655	0	-12,655	186	-12,469
	0	-3	-3	0	-3
	-1,911	0	-1,911	0	-1,911
	-1,911	-3	-1,914	0	-1,914
	-14,566	-3	-14,569	186	-14,383
	0	0	0	-4	-4
	-167	0	-167	-125	-292
	-167	0	-167	-129	-296
	-30,743	-5	81,898	461	82,359
	-3,769	0	-3,769	263	-3,506
	0	9	9	0	9
	-201	0	-201	0	-201
	-201	9	-192	0	-192
	-3,970	9	-3,961	263	-3,698
	5	0	5	0	5
	0	0	0	-125	-125
	5	0	5	-125	-120
	-34,708	4	77,942	599	78,541

Statement of cash flows

of the euromicron Group for the period January 1 to December 31, 2017 (IFRS)

Statement of cash flows

016

	2017	2016
	€ thou.	€ thou.
Note (23)		
Income before income taxes	-3,551	-7,624
Net interest income/loss and other financial expenses	4,649	5,360
Depreciation and amortization of fixed assets	8,405	9,649
Reversal of write-downs of fixed assets	0	-54
Disposal of assets, net	-51	-24
Non-cash deconsolidation effects	70	0
Depreciation/amortization of other noncurrent and current assets	238	894
Allowances for inventories and doubtful accounts	770	1,500
Change in provisions	540	-860
Changes in current and noncurrent assets and liabilities:		
– Inventories	-3,764	254
– Trade accounts receivable and gross amount due from customers for contract work	-2,408	17,413
– Trade accounts payable and gross amount due to customers for contract work	3,299	-2,696
– Other operating assets	1,493	-2,724
– Other operating liabilities	-4,377	-20,119
– Income tax paid	-2,870	-4,306
– Income tax received	832	1,070
– Interest paid	-4,960	-4,898
– Interest received	125	25
Net cash used in operating activities*	-1,560	-7,140
Proceeds from		
– Retirement/disposal of intangible assets	0	12
– Retirement/disposal of property, plant and equipment	68	67
Payments for		
– the purchase of intangible fixed assets	-4,410	-3,464
– the purchase of tangible fixed assets	-6,380	-3,776
– the acquisition of subsidiaries and other business units, less assumed cash and cash equivalents	-2,048	-609
– the disposal of subsidiaries and other business units, including transferred cash and cash equivalents	-701	0
Net cash used in investing activities	-13,471	-7,770
Proceeds from raising of financial loans	18,720	21,835
Cash repayments of financial loans	-4,775	-10,125
Cash repayments of liabilities from finance leases	-525	-526
Distributions to/withdrawals by non-controlling interests and profit shares of minority interests	-279	-152
Net cash provided by financing activities	13,141	11,032
Net change in cash funds	-1,890	-3,878
Cash funds at start of period	6,844	10,722
Cash funds at end of period	4,954	6,844
* Adjusted for factoring effects:		
Net cash provided by operating activities:	386	1,295

General disclosures

1. Description of business activities

euromicron AG (hereinafter referred to as the “company”) is a registered stock corporation under German law whose shares are traded on the stock market and has its registered offices in Frankfurt/Main, Germany. The euromicron Group unites medium-sized high-tech companies that operate in particular in the target 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. From design and implementation, operation, to intelligent services – euromicron provides its customers with tailor-made solutions for technologies, system integration and smart services and creates the IT, network and security infrastructures required for them. As a result, euromicron lets its customers migrate existing infrastructures 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 down the road.

2. Accounting principles

euromicron AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as are applicable in the European Union, and the supplementary regulations pursuant to Section 315e (1) of the German Commercial Code (HGB), in the valid version at December 31, 2017. All the mandatory standards at the balance sheet date were applied.

Effects of new standards and interpretations or changes to them on the consolidated financial statements

The International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRS-IC) have newly adopted the following standards, interpretations and amendments that were mandatory for the first time in fiscal year 2017: [TABLE 017](#)

Standards to be applied for the first time in the fiscal year

017

	Standard / interpretation	Mandatory application in the EU	Adoption by the EU Commission
IAS 7	Statement of Cash Flows – Disclosure Initiative (amendment)	January 1, 2017	Yes
IAS 12	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses (amendment)	January 1, 2017	Yes
AIP	Annual improvements to the IFRSs, cycle 2014–2016	January 1, 2017 / January 1, 2018	Yes

First-time application of the amendments to IAS 12 “Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses” did not have any effects on the consolidated financial statements. First-time application of the amendments to IAS 7 “Statement of Cash Flows – Disclosure Initiative” resulted in new and extended disclosures in the notes on the statement of cash flows, in which the changes to certain financial liabilities have to be presented.

The collection “Annual improvements to the IFRSs, 2014-2016 cycle” contains amendments to the following IFRSs:

- IAS 28 “Investments in Associates and Joint Ventures”
- IFRS 12 “Disclosure of Interests in Other Entities”
- IFRS 1 “First-time Adoption of International Financial Reporting Standards”

Only the amendments to IFRS 12 “Disclosure of Interests in Other Entities” from the collection “Annual improvements to the IFRSs, 2014-2016 cycle” were mandatory for the first time for the past fiscal year 2017; first-time application did not have any significant effects on the consolidated financial statements.

The following new or changed accounting regulations of the IASB have recently been adopted. However, since their application is not yet mandatory or they have not yet been adopted by the European Union, they were not used in the consolidated financial statements as of December 31, 2017.

TABLE 018

First-time application of the amendments to IAS 19 “Employee Benefits: Plan Amendment, Curtailment or Settlement”, IAS 28 “Long-term Interests in Associates and Joint Ventures”, IAS 40 “Investment Property: Transfers of Investment Property”, IFRS 2 “Share-based Payment: Classification and Measurement of Share-based Payment Transactions” and IFRS 4 “Insurance Contracts” and from first-time application of the new standards and interpretations IFRS 17 “Insurance Contracts”, IFRIC 22 “Foreign Currency Transactions and Advance Consideration” and IFRIC 23 “Uncertainty over Income Tax Treatments” will probably not have any significant effects on the consolidated financial statements.

IFRS standards to be applied in future fiscal years

018

	Standard / interpretation	Mandatory application in the EU	Adoption by the EU Commission
IAS 19	Employee Benefits: Plan Amendment, Curtailment or Settlement amendment)	January 1, 2019	No
IAS 28	Long-term Interests in Associates and Joint Ventures (amendment)	January 1, 2019	No
IAS 40	Investment Property: Transfers of Investment Property (amendment)	January 1, 2018	Yes
IFRS 2	Share-based Payment: Classification and Measurement of Share-based Payment Transactions (amendment)	January 1, 2018	Yes
IFRS 4	Insurance Contracts (amendment)	January 1, 2018	Yes
IFRS 9	Financial instruments	January 1, 2018	Yes
IFRS 9	Financial Instruments: Prepayment Features with Negative Compensation (amendment)	January 1, 2019	No
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Yes
IFRS 15	Revenue from Contracts with Customers (clarifications)	January 1, 2018	Yes
IFRS 16	Leases	January 1, 2019	Yes
IFRS 17	Insurance Contracts	January 1, 2021	No
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	No
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	No
AIP	Annual improvements to the IFRSs, cycle 2014–2016	January 1, 2017 / January 1, 2018	No
AIP	Annual improvements to the IFRSs, cycle 2015–2017	January 1, 2019	No

Of the above amendments to the IFRSs contained in the collection “Annual improvements to the IFRSs, 2014-2016 cycle”, the amendments to IAS 28 “Investments in Associates and Joint Ventures” and IFRS 1 “First-time Adoption of International Financial Reporting Standards” have to be applied for the first time in fiscal year 2018. First-time application of these amendments will probably not have any significant effects on the consolidated financial statements.

The collection “Annual improvements to the IFRSs, 2015–2017 cycle” contains amendments to the following IFRSs:

- IFRS 3 “Business Combinations” and IFRS 11 – “Joint Arrangements”
- IAS 23 – “Borrowing Costs”
- IAS 12 – “Income Taxes”

Any effects on the consolidated financial statements are still being examined at present.

Voluntary premature application of individual standards or interpretations to be applied in future, where permissible for the standard or interpretation in question – subject to any still outstanding endorsement –, is not envisaged by the euromicron Group.

The following presents the standards or interpretations which are to be applied in future and whose first-time application will have significant effects on the consolidated financial statements.

IFRS 9 – “Financial Instruments”

The IASB adopted the final version of IFRS 9 “Financial Instruments” on July 24, 2014. Adoption of the IFRS 9 means that its previous versions (Classification and Measurement: Financial Assets and Liabilities; Hedge Accounting) and its predecessor standard IAS 39 “Financial Instruments: Recognition and Measurement” are superseded.

When first carried, financial assets are in future to be categorized as measured at “fair value through profit or loss” or at “amortized cost” This classification is dependent on the company’s business model and the contractual terms of the financial asset. The new measurement category FVOCI in-

roduced with the final standard can be used for specific financial assets if the assets are controlled with the objective of collecting the contractually agreed cash flows and to sell the assets (holding and selling business model) and the contractual cash flows from the assets are solely repayments of principal and interest payments (cash flow criterion). If both conditions are met, a debt instrument must always be classified as FVOCI, unless the fair value option is used at the time of the asset’s addition.

In the case of financial assets that are assigned to the measurement category FVOCI (with recycling), measurement gains must be recognized in the “Other profit/loss”; however, impairment losses, income from reversals of impairment losses, gains and losses from foreign currency translation and interest income must be presented in the income statement. The measurement gains carried in “Other profit/loss” must be transferred to the income statement when derecognized (recycling).

There is the irrevocable possibility of applying an FVOCI option for equity instruments provided the instruments in question are not held for trading. The amounts carried in “Other profit/loss” are not transferred to the income statement for these instruments (no recycling).

The classification of financial liabilities has not changed compared with IAS 39. Only the regulations in the event of a change to the own credit risk have changed for financial liabilities measured at fair value using the fair value option. They have to be carried in the “Other profit/loss”.

The new regulations in IFRS 9 on recognition of impairments are based on the premise of providing for anticipated losses (expected loss model), a deviation from the previous model of losses that had already occurred (incurred loss model). Unlike the incurred loss model, the expected loss model takes into account anticipated losses if there are no concrete loss indicators. Consequently, a risk provision for expected payment losses must now be formed in principle in accordance with IFRS 9.

In order to determine the extent of provisions for risks, there is a three-tier model under which in principle expected losses for 12 months are to be carried as of first-time recognition and, in the event of a significant deterioration in the credit risk, the anticipated total losses are to be recognized.

An exception to the general impairment model is the simplified impairment model for trade receivables, lease receivables and contract assets in accordance with IFRS 15. Under the simplified impairment model, a risk provision must be carried for all instruments (regardless of the quality of the credit) to the amount of the anticipated losses over their remaining term, i.e. at the time of addition of these instruments are assigned generally to level 2 and transferred to level 3, if there are objective indications of impairment. Assignment to level 1 is prohibited if the simplified impairment model is used.

IFRS 9 contains regulations on hedge accounting that create a stronger connection between hedge accounting on the balance sheet and the risk management practiced as part of operational activities. We do not expect any effects from the changes to hedge accounting, since the euromicron Group does not use hedge accounting.

The regulation on adoption of IFRS 9 "Financial Instruments" by the EU ("endorsement") was published in the Official Journal of the EU on November 29, 2016. The new standard must be applied to fiscal years beginning on or after January 1, 2018. In principle, first-time adoption of IFRS 9 must be retrospective; however, various simplification options are granted. No adjustment is made to the comparative figures for the previous year.

euromicron examined the effects of IFRS 9 in a project launched for that purpose. In the assessment of management, the euromicron Group is affected by introduction of IFRS 9 as regards the following matters:

Since the euromicron Group sells receivables to a significant extent, the receivables which are to be sold revolvingly do not meet the requirements for the business model "Hold for collection of contractual cash flows", meaning that these receivables are measured at fair value. Receivables not covered by the terms and conditions of the factoring agreement are still carried at amortized cost, since they fall under the business model "Hold for collection of contractual cash flows". The trade accounts receivable sold at the balance sheet date result in a partial disposal with booking of a low continuing involvement. Consequently, there are no significant effects from measurement at fair value at the balance sheet date.

In addition, the new impairment model (expected loss model) was analyzed. Use of the simplified impairment model on trade accounts receivable and contract assets in accordance with IFRS 15 will only insignificantly increase the impairments at the time of first-time application of IFRS 9.

In addition to the presented effects on recognition and measurement, there are new and extensive disclosure obligations, in particular in relation to credit risks and expected credit losses.

IFRS 15 "Revenue from Contracts with Customers"

The IASB published the standard IFRS 15 "Revenue from Contracts with Customers" in May 2014. It has to be applied for reporting periods commencing as from January 1, 2018. The standard provides a single, principles-based five-step model for determining and recognizing revenue that is to be applied to all contracts with customers and contains the core principle that revenue must be recognized at the time control over goods and services passes to the customer. In particular, it supersedes the standards IAS 11 and IAS 18 and the regulations in various interpretations. euromicron will apply it for the first time using the modified retrospective method, i.e. any conversion effects will be recognized cumulatively in the consolidated retained earnings at the start of the comparative period on January 1, 2018. euromicron makes use of possible exemptions here. In particular, contracts that began or were fulfilled before January 1, 2018, will not be remeasured, in particular at January 1, 2018.

Determination of the effects entails considerable exercise of judgment and estimates. That applies, for example, to the assessment of customers' likely willingness to accept changes and consent to supplements, or to estimating the percentage of completion. Implementation of the standard has not yet been completed, meaning all the disclosures are current estimates which may change by the time of its final implementation.

The above-described effects of first-time application of IFRS 15 depend to a significant extent on the business models of euromicron's companies.

In construction-related project business/system integration business, the Group assumes that the requirements for realization of revenues over time will still apply to just about all construction contracts with just one performance obligation. However, IFRS 15 also contains new regulations, such as on reporting and accounting of supplements and changes to contracts in the form of contract modifications. A higher probability threshold than under the standards to date is applied as regards revenue recognition.

In the remaining project business, euromicron assumes that the revenue for most of the construction contracts carried up to now using the percentage of completion method in accordance with IAS 11 will in future have to be recognized at a later point in time, since the requirements for realization of revenues over time in accordance with IFRS 15 are no longer fulfilled.

Revenues from service agreements mainly come from service and maintenance services and other services. euromicron expects that, in relation to service agreements, there will be no significant changes to revenue realization as at present as a result of IFRS 15.

In the case of the supply of goods, we likewise do not expect there to be any significant changes to revenue realization compared to at present as a result of IFRS 15.

euromicron currently assumes that the consolidated retained earnings at January 1, 2018, will be reduced by an amount in the lower single-digit million range, before deferred taxes are allowed for.

In addition, euromicron expects changes in the balance sheet (for example as a result of separate items for contract assets and liabilities) and additional quantitative and qualitative disclosures in the notes.

Clarifications on IFRS 15 "Revenue from Contracts with Customers"

The IASB published clarifications on IFRS 15 "Revenue from Contracts with Customers" on April 12, 2016. The clarifications contain additions and information on the following issues in IFRS 15:

- Identifying performance obligations (delimitation in the context of a contract)
- Principal versus agent consideration (principles for differentiating between a principal and agent)
- Licensing (determination of the type of license and sales-based and use-based license fees) and
- Transition regulations (exemption for retrospective application of IFRS 15).

The clarifications relate in particular to the question of whether a company acts as the principal (i.e. controls the asset or service before it is transferred to the customer) or as an agent. The clarifications on IFRS 15 therefore contain amended as well as new practical examples relating to the mediation of air tickets, meal vouchers and maintenance services. The mandatory date of first-time adoption is January 1, 2018. Please refer to the comments on IFRS 15 "Revenue from Contracts with Customers" for details of the anticipated effect of IFRS 15 on the consolidated financial statements.

IFRS 16 "Leases"

On January 13, 2016, the IASB published its standard on future lease accounting: IFRS 16 "Leases". IFRS 16 thus replaces the previous regulations of IAS 17 "Leases" and related interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases: Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease").

Under the new regulations, the lessee must recognize all leases in future in the balance sheet in the form of a right of use and corresponding lease liability. They are always presented in the income statement as a financing transaction, i.e. the right of use must usually be amortized using the straight-line method and the lease liability amortized using the effective interest method. Only leases with a total maximum term of twelve months and leases for low-value assets (IT equipment and operating and office equipment with a value when new of up to USD 5,000, if they are not closely linked to other assets) are exempted from being carried in the balance sheet. In these cases, the lessee can elect to

recognize the assets in a similar way as for the previous operating lease under IAS 17 "Leases".

The new standard does not contain any major changes for lessors. The IASB has adopted the regulations of IAS 17 for lessors in the new standard almost without any changes. As a result, the lessor still classifies every lease from the aspect of risk and reward, both for the purpose of presenting it on the balance sheet and in earnings. As a result, there is no longer a mirror-image reflection between the lessor and lessee. In addition, the IASB has established the control principle familiar from IFRS 10 "Consolidated Financial Statements" and IFRS 15 "Revenue from Contracts with Customers" in IFRS 16 "Leases". Accordingly, a lease will exist in future if fulfillment of the contract depends on use of an identified asset and the contract also gives the customer the right to control use of that asset.

Further changes from previous regulations include in relation to sale and leaseback transactions, in which in a first step it is necessary to assess where there is a sale in accordance with IFRS 15 "Revenue from Contracts with Customers", which did not have to be taken into account under IAS 17 "Leases". In addition, IFRS 16 contains amended regulations on the separation of lease and service components, accounting in the event of modification to existing contracts, and a significant expansion in disclosure obligations on the part of both the lessor and lessee.

IFRS 16 must be applied to fiscal years beginning on or after January 1, 2019. In fiscal year 2016, the euromicron Group initiated a group-wide project to introduce IFRS 16 and continued it in 2017. As part of the project, a survey of the existing tenancy agreements and leases was initially conducted throughout the Group. The effects of the new standard on accounting, processes and systems were also analyzed. In addition, various software solutions on the market were examined to determine whether they might be used at the euromicron Group.

The euromicron Group will apply IFRS 16 for the first time effective January 1, 2019, using the modified retrospective method and recognize the cumulative effect from first-time application of IFRS 16 as an adjustment to the opening balance sheet values for the revenue reserves at January 1, 2019, without adjusting the comparative information.

As regards the options and exemptions available under IFRS 16, the euromicron Group chooses the following approach:

- Rights of use and lease obligations are carried separately in the balance sheet.
- It does not use the exemption whereby the recognition, measurement and carrying requirements of IFRS 16 do not have to be applied to short-term leases (total maximum term of twelve months) and to leases for which the underlying asset is of low-value.
- No separation is carried out in contracts that contain non-lease components in addition to lease components. Each lease component is presented as one lease along with the other related non-lease components.

We anticipate that first-time application of IFRS 16 effective January 1, 2019, will result in a significant increase in total assets due to the fact that rights of use and lease obligations have to be carried in the balance sheet. The increase in lease obligations will entail a corresponding increase in net financial debt. Due to said increase in total assets, we also anticipate a corresponding reduction in the euromicron Group's equity ratio.

As regards the effects on items in the consolidated income statement, we expect a significant improvement in EBITDA due to lower rent and lease expenses carried under "Other operating expenses" as of fiscal year 2019. We also expect a positive impact on EBIT, although this will be far lower than the positive impact on EBITDA due to additional amortization of the recognized rights of use. We also expect higher interest expense and so a fall in the net financial result, as well as corresponding expenses and income from deferred taxes. All in all, we expect the above effects to have a positive impact on euromicron AG's consolidated income in fiscal year 2019.

In the consolidated statement of cash flows, the repayment portion of the lease payments from operating leases to date will reduce the net cash from financing activities in future. The cash flows for the lease payments made under operating leases were previously carried in the net cash from operating activities.

In addition to the effects on the balance sheet and income statement, there will also be additional, extensive quantitative and qualitative disclosures in the notes.

General principles

Preparation of consolidated financial statements in compliance with IFRS requires estimates. In addition, the application of company-wide accounting policies necessitates assessments by management. Areas where there is a large latitude for assessment or greater complexity or areas where assumptions and estimates are crucial to the consolidated financial statements are specified in section 3.

In principle, the consolidated financial statements were prepared on the basis of historical acquisition or manufacturing costs, with the exception of re-measurement of the available-for-sale financial assets. The consolidated financial statements of euromicron AG are prepared in euros. Unless otherwise specified, all amounts, including the figures for the previous year(s), are shown in thousand euros (€ thou.). The consolidated income statement has been prepared using the type of expenditure format. The fiscal year is the calendar year.

The balance sheet is presented by noncurrent and current assets and liabilities in accordance with IAS 1. Assets and liabilities are classified as current if they are due within twelve months. Irrespective of when they are due, inventories, trade accounts receivable and trade accounts payable and gross amounts due from and to customers for contract work are regarded as current assets or liabilities if they are not sold, consumed or due within a year, but are sold, consumed or due within the normal course of the business cycle. The maturities of the assets and liabilities are presented in detail in the notes.

Offsetting of assets and liabilities

In accordance with IAS 1.32, assets and liabilities and income and expenses are not allowed to be offset unless required or permitted by a standard or an interpretation. Offsetting was carried out in the following circumstances:

- Offsetting of deferred tax assets against deferred tax liabilities if they relate to income tax levied by the same tax authority and there is an entitlement to offsetting of an actual tax refund claim against an actual tax liability.
- Offsetting of pension obligations against the associated plan assets.
- Offsetting of payments on account received that can be directly assigned to individual construction contracts and are covered by services provided by the balance sheet date on the basis of the percentage of completion method.

Currency translation

The consolidated financial statements of euromicron AG are prepared in euro, the functional currency of euromicron AG.

Foreign currency transactions are translated into the functional currency at the exchange rates at the time of the transaction. Gains and losses resulting from fulfillment of such transactions and translation of monetary assets and liabilities held in foreign currency at the balance sheet date are recognized in the income statement.

Receivables and liabilities in foreign currency amounts are translated at the spot rate on the balance sheet date.

The results and balance sheet items of Group companies that have a different functional currency to the euro are translated into euros as follows:

- Assets and liabilities are translated at the rate on each respective balance sheet date.
- Income and expenses are translated for each income statement at the average rates during the year (unless use of the average rate does not result in a reasonable approximation of the cumulative effects that would have resulted from translation at the rates applicable at the times of the transactions, in which case income and expenses are to be translated at their rates on the transaction date).

All resultant translation differences are recognized in equity in the separate item "Currency translation difference".

Consolidation principles

Subsidiaries are all companies that are controlled by the Group. The Group controls an associated company if it has power of disposal over the company, there is a risk exposure as a result of or rights to variable returns from its engagement in the associated company and the Group has the ability to use its power of disposal over the company so as to influence the level of the variable returns from the associated company. This is usually accompanied by a share of the voting rights of more than 50%. In assessing whether a company is controlled, the existence and impact of potential voting rights that can be exercised or are convertible at present are taken into account. Subsidiaries are included in the consolidated financial statements by way of full consolidation.

They are included from the date on which control has passed to the Group and no longer included where the Group does not have control over them.

The financial statements of euromicron AG and its German and foreign subsidiaries included in the consolidated financial statements have been prepared in accordance with Group-wide reporting and measurement methods.

Receivables and payables between the companies included in the consolidated financial statements are offset against each other; any differences are recognized in the income statement under "Other operating income" or "Other operating expenses" respectively. If valuation adjustments for shares of consolidated companies or intragroup receivables are carried in individual financial statements, they are reversed as part of consolidation.

Intragroup sales, material expenses, other operating expenses and income and interest are eliminated in the consolidated financial statements. Deferred taxes are formed for transactions recognized in profit or loss as part of consolidation.

The Group dispenses with the elimination of intercompany profits in inventories and fixed assets since the resultant amounts are of minor importance.

Company acquisitions

Acquired subsidiaries are carried using the purchase method of accounting in accordance with IFRS 3. The transferred consideration for the acquisition correspond to the fair value of the assets of the issued equity instruments and the debts that were assumed at the time of the transaction. They also include the fair values of any recognized assets or liabilities resulting from a conditional consideration agreement. Identifiable assets, liabilities and contingent liabilities as part of a business combination are measured at their fair value at the time of acquisition in first-time consolidation. Any positive difference remaining after allowance for deferred taxes is carried as goodwill under the intangible assets.

If the transferred consideration is less than the net assets of the acquired subsidiary measured at fair value, the difference is recognized directly in the income statement.

Incidental costs as part of company acquisitions are recognized as an expense in the current period and carried under "Other operating expenses" (mainly as consulting costs).

Non-controlling interests are measured at their share proportionate to the identifiable and re-measured net assets of the subsidiary.

If put or call options for non-controlling interests are concluded in a company acquisition, the "anticipated acquisition method" is used; complete acquisition is assumed in this method, with the result that non-controlling interests are not carried.

Any conditional considerations are measured at fair value at the time of acquisition. Subsequent changes to the fair value of a conditional quid pro quo classified as an asset or liability are measured in accordance with IAS 39 and any resultant profit or loss is recognized in the income statement. A conditional consideration classified as equity is not re-measured; its later settlement is recognized in equity.

When the group loses control of a company, the remaining portion is re-measured at fair value and the resultant difference recognized as profit or loss. In addition, all the amounts reported in the other profit/loss in relation to that company are recognized as would be required if the parent company had directly sold the associated assets and liabilities. That means any profit or loss previously carried in the other profit/loss is reclassified from equity to profit/loss.

Intangible assets – Goodwill

Goodwill from business combinations is not written off using the regular method of depreciation, but examined for impairment at least once a year in accordance with the regulations of IAS 36 (impairment test). euromicron tests goodwill for impairment every year at December 31 of the respective reporting period. An impairment test is also conducted if there are indications or circumstances (triggering events) that suggest the value might be reduced.

In the impairment test, the carrying amount of each cash generating unit (CGU) to which goodwill is allocated is compared with the recoverable amount. The carrying amount of a CGU is determined by addition of the carrying amounts of the assets minus the associated liabilities. The recoverable amount is the higher of its fair value less costs of retirement and value in use of a CGU. The fair value minus retirement costs are used for the purposes of the impairment test at the euromicron Group. The fair value is calculated as the present value of the future free cash flow using the discounted cash flow (DCF) method with a risk-adjusted discount rate (WACC).

In order to determine the fair value, minus retirement costs, for the groups of cash-generating units, payment flows for the next five years were forecast on the basis of past experience, current operating results and the best-possible assessment of future developments by management, as well as on market assumptions. The near-term sales planning is geared to the sales pipeline and the analyzed potentials for new and existing customers. In its multi-year approach, management is essentially oriented toward the potentials and anticipated individual developments of the addressed markets. The anticipated effects of measures by government and public authorities in the field of infrastructure are also taken into account if they can be adequately foreseen. The variable costs mainly change in line with the anticipated development of sale volumes and purchase prices. The planning figures are updated for subsequent years using a long-term growth rate of 1.0% (previous year: 0.81%). The fair value determined for the groups of cash-generating units was assigned to level 3 in the hierarchy of fair values.

Other intangible assets

The other intangible assets comprise concessions, industrial and similar rights, brand name rights, capitalized development costs and self-developed software. The other intangible assets are carried at cost and amortized using the straight-line method, on the basis of the following useful lives: [TABLE 019](#)

Useful lives of other intangible assets 019

	Useful life in years
Concessions, industrial and similar rights	3–10
Brand name rights	10–25
Capitalized development costs	3–8
Self-developed software	5

There are no intangible assets with an indefinite period of use either at the balance sheet date or at the balance sheet date of the previous year.

In the case of self-developed intangible assets, development costs are carried at acquisition and manufacturing cost in accordance with IAS 38, provided the expenses can be clearly assigned, technical feasibility is ensured, there is the intent and ability to create and sell the intangible assets, and marketing of products based on development work is likely to result in future inflows of funds.

Capitalized development costs and own work for self-developed software and IT solutions include directly attributable unit costs, which are recorded in cost accounting, and pro-rata overhead costs.

Research expenditure – where incurred – is posted as an expense, but is not a material factor at the euromicron Group.

Property, plant and equipment

Property, plant and equipment is measured at its acquisition or manufacturing cost less cumulated depreciation.

Property, plant and equipment is depreciated using the straight-line method, on the basis of the following useful lives: **TABLE 020**

<u>Useful lives of property, plant and equipment</u>	<u>020</u>
	Useful life in years
Buildings/leasehold improvements	5–40
Technical equipment and machinery	3–14
Other equipment, operating and office equipment	3–16

Financing costs are capitalized as acquisition or manufacturing costs in accordance with IAS 23 if they are directly attributable to a qualifying asset. This relates to assets for which borrowing costs can be directly attributed to the acquisition or production of a qualifying asset and for which a considerable period of usually more than twelve months is required to put them into a usable state. In the past fiscal year or in the previous fiscal year before that, there were no borrowing costs that must be capitalized within the meaning of IAS 23.

Impairment of long-lived assets

Long-lived assets (other intangible assets and property, plant and equipment) are tested for impairment if, due to events or changes in circumstances, there are indications that the carrying amount of the objects can no longer be recovered (triggering events). As part of the impairment test, assets are grouped at the lowest level for which cash flows can be separately identified (CGU). The recoverable amount is the higher of its fair value less costs to sell and its value in use. The fair value of the asset is the price that would be obtained for the asset on the measurement date in an orderly business transaction between market participants.

Value in use is the present value of the estimated future cash flow expected to be derived from continued use of an asset and its retirement at the end of its useful life. If the reasons for the value impairments in earlier reporting periods no longer exist, the assets – with the exception of goodwill – are written up again.

Leasing

If, in accordance with IAS 17, the lessee bears the main risks and opportunities in relation to leased assets, economic ownership is ascribed to the lessee (“finance lease”). In the case of the assets leased by the euromicron Group, the leased object under a finance lease is carried at the time of addition in other intangible assets or the fixed assets at the lower of its fair value or the present value of the minimum lease payments. Capitalized leased objects are written down using the straight line method over their scheduled useful lives or over the agreement’s term. The corresponding liability to the lessor is carried at the same amount under “Liabilities from finance leases” at the time of the addition and amortized by means of the effective interest method.

If the main risks and opportunities from a lease remain with the lessor, this constitutes an operating lease. Payments in connection with an operating lease are carried in the income statement linearly over the term of the lease.

When the euromicron Group leases assets in a finance lease, the present value of the minimum lease payments is carried as the leasing receivable. The difference between the gross receivable (minimum lease payments before discounting) and the present value of the receivable is carried as unrealized financial income. Lease contracts are recognized over the term of the lease in income in such a way that there is a constant rate of interest for the leasing receivable.

Assets that are leased by the euromicron Group as part of an operating lease are allocated on the balance sheet on the basis of their nature. Income from operating leases is carried linearly over the term of the lease.

Inventories

Inventories are carried in principle at the lower of acquisition/historical cost or net realizable value on the balance sheet date in accordance with IAS 2.9. The net realizable value is the estimated selling price that can be achieved in the ordinary course of business, less the variable costs necessary to make the sale. The first in, first out method is used at the euromicron Group to measure inventories. The historical cost of inventories includes production materials and labor costs, as well as allocable material and production and administrative overheads. In the past fiscal year or in the previous fiscal year before that, there were no borrowing costs that must be capitalized within the meaning of IAS 23.

Construction contracts

The euromicron Group's portfolio includes project companies that report project and installation services running beyond the key date in their balance sheet. Sales and earnings for projects that run beyond the key date and whose costs and pro-rata profit can be clearly identified are recognized using the percentage of completion (PoC) method in accordance with IAS 11. The input-oriented cost-to-cost method is used to determine the percentage of completion, with the order costs incurred up to the balance sheet date being expressed as a ratio of the total estimated order costs or those specified in order costing. In general, only order costs that reflect the progress of the service are included in these costs. Using cost and contribution margin budgeting for each project, the project progress achieved on the key date is reflected in terms of value or the revenues from the order are recorded. Management of the project companies regularly examines the estimates of the project orders, including as regards potential risks and the costs still to be incurred in the project, that are required so that the overall success of a project can be assessed with sufficient reliability. The PoC sales revenues determined using the cost-to-cost method are derived from the costs of contracts incurred up to the balance sheet date plus a pro-rata profit or less any losses.

The balances of projects running beyond the key date are reported in the separate balance sheet items "Gross amount due from customers for contract work" and "Gross amount due to customers for contract work". They are carried after being netted off against the partial settlements covered by the services provided up to the key date and against the reported losses.

Financial assets

In principle, financial assets are split into the following categories:

- a) At fair value through profit or loss
- b) Loans and receivables
- c) Held to maturity investments and
- d) Available for sale.

The classification depends on the purpose for which the financial asset in question was acquired. Management defines the classification of financial assets when they are recognized for the first time.

The euromicron Group has financial assets in the categories "Loans and receivables", "Available for sale" and "At fair value through profit or loss" at the balance sheet date.

Financial assets in the "Available for sale" category are initially carried at their fair value. Related transaction costs are recognized in profit or loss in the case of equity instruments. After first-time recognition, financial assets in the category "Available for sale" are measured at fair value. Changes in the fair value of financial assets in the "Available for sale" category are in principle recognized under "other comprehensive income" (OCI), unless a lasting impairment to them is ascertained.

If securities classified as "Available for sale" are sold, the accumulated changes in fair value previously carried under "Other profit/loss" are recognized in the income statement.

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They are classed as current assets if their due date is not more than twelve months after the balance sheet date. If the due date is more than twelve months, they are carried as noncurrent assets. "Loans and receivables" are carried in the balance sheet under "Trade accounts receivable", "Gross amount due from customers for contract work", "Other financial assets" and "Cash and cash equivalents". Financial assets in the category "Loans and receivables" are initially recognized at their fair value plus transaction costs. After first-time recognition, they are carried at amortized acquisition cost using the effective interest method.

Financial assets assigned to the category "at fair value through profit or loss" are financial instruments which are held for trading or have been defined as being measured at "fair value through profit or loss" at the time they are first recognized. They are carried in the balance sheet under "Other financial assets". Financial assets in the "at fair value through profit or loss" category are initially carried at their fair value. Financial assets in this category are also measured subsequently at their fair values. Changes in fair value are in principle recognized in "Other financial income" or "Other financial expenses".

Regular purchases or sales of financial assets are recognized on the day of trading. Financial assets are derecognized if the rights to payments from the financial assets have expired or been transferred and the Group has essentially transferred all risks and opportunities attached to ownership of them.

Impairment to the value of financial assets

At each balance sheet, an examination is carried out to ascertain whether there are objective indications that the value of a financial asset or group of financial assets has been impaired.

In the case of financial assets in the "Available for sale" category, a significant or lasting decline in fair value below the acquisition costs is regarded as an indicator of impairment.

If there is such an impairment for available-for-sale assets, the accumulated loss is derecognized from equity and carried in the income statement. If the fair value of a financial asset in the category "Available for sale" increases again in a subsequent period due to circumstances that have occurred after first-time recognition of the impairment, the recovery in value is taken directly to equity in the case of equity instruments.

In the event of impairment to the value of an asset in the category "Loans and receivables", its carrying amount is reduced and the loss recognized as an expense. If the amount of the impairment falls in a subsequent period, the recovery in value is recognized as income.

Cash and cash equivalents

Cash and cash equivalents are measured at nominal value.

Assets held for sale and liabilities in connection with assets held for sale

Assets held for sale and their related liabilities are measured in accordance with IFRS 5 and carried as current assets. Assets are classified as "held for sale" if they can be sold immediately in their current condition and it is highly probable that they will be sold. They may relate to individual non-current assets or groups of assets for sale (disposal groups). Liabilities that are transferred together with assets in a transaction are part of a disposal group and are carried separately as current liabilities as "liabilities in connection with assets held for sale". Noncurrent assets held for sale are not written off using the regular method of depreciation/amortization and must be recognized at the lower of their carrying amount or their fair value less costs to sell. Gains or losses from measurement of individual assets held for sale or disposal groups are carried in the result from continuing operations until they are finally sold, unless discontinued operations are involved.

Any impairment loss that needs to be recognized for a disposal group is initially allocated to the noncurrent assets of the disposal group in accordance with the order specified in IAS 36. Any impairment loss that needs to be recognized above and beyond that is allocated to the current assets in euromicron's consolidated financial statements.

Current and deferred taxes

The tax expense for the period is composed of current and deferred taxes. Taxes are carried in the income statement, unless they relate to items that are recognized directly in equity or the other profit/loss. In that case, the taxes are likewise carried in equity or the other profit/loss. The current tax expense is calculated using the tax regulations that apply on the balance sheet date for the countries in which the company and its subsidiaries earn taxable income.

Deferred taxes are formed on temporary differences in carrying values between the consolidated balance sheet and tax balance sheet and on loss carryforwards using the liabilities method in accordance with IAS 12. In this, deferred taxes at the level of the individual companies and from consolidation effects are taken into account.

Deferred tax claims (deferred tax assets) are recognized to the extent that it is probable that there will be a taxable result in future. The tax rates that are enacted or can be expected to be enacted on the balance sheet at the time of realization are used to calculate deferred taxes. In general, deferred taxes are carried in the noncurrent balance sheet items.

Deferred taxes resulting from temporary differences in connection with shares in subsidiaries are not recognized if the time at which the temporary differences are reversed can be determined by the Group and it is likely that the temporary differences will not be reversed in the foreseeable future due to this influence.

Deferred tax assets are netted off against deferred tax liabilities if they relate to income tax levied by the same tax authority and there is an entitlement to offsetting of an actual tax refund claim against an actual tax liability.

Equity

Equity comprises the shares in euromicron AG. There are no preferential shares or shares whose nominal amounts must be repaid.

In accordance with IAS 32.37, the equity transaction costs incurred as part of capital increases and the issue of new shares or options, minus deferred taxes, are directly offset with the premium and not recognized in the income statement.

If a company in the euromicron Group acquires equity interests in euromicron AG (treasury shares), the value of the paid consideration, including directly attributable additional costs (net after income taxes), is deducted from euromicron AG's equity until all the shares have been redeemed and issued again. If such treasury shares are subsequently issued again, the received consideration (net after deduction of directly attributable additional transaction costs and related income tax) is carried in euromicron AG's equity.

Liabilities

Liabilities are classified as current if the payment obligation is due within one year. Otherwise, they are classified as noncurrent liabilities.

When recognized for the first time, liabilities are measured at fair value. Current liabilities are measured at their repayment amount or settlement amount. Noncurrent liabilities are measured at their amortized acquisition cost. The amortized acquisition costs are determined using the effective interest method.

Financial liabilities

Financial liabilities can basically be split into two categories:

- a) Financial liabilities at fair value through profit or loss;
- b) Other financial liabilities measured at amortized cost using the effective interest method.

When recognized for the first time, financial liabilities at fair value through profit or loss are measured at fair value, minus directly attributable transaction costs. Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Changes to fair value are carried in the period they occur in the income statement. All other financial liabilities are measured in subsequent periods at amortized acquisition cost using the effective interest method. Financial liabilities are derecognized on the balance sheet only if they have been repaid, i.e. if the underlying obligation has been fulfilled or canceled or has elapsed.

Provisions for pensions and similar obligations

There are defined benefit and defined contribution pension schemes at the euromicron Group. A defined contribution scheme is a pension scheme where the Group pays fixed contributions to a company (fund) that is not part of the Group. The Group has no legal or factual obligation to pay additional contributions if the fund does not contain sufficient assets to settle the pension entitlements of all employees from the current and previous fiscal years. A defined benefit scheme is a scheme that is not a defined contribution scheme. Typically, defined benefit schemes prescribe an amount for the pension benefits which the employees will receive when they retire and which is usually dependent on one or more factors (age, length of service and salary).

The provision for defined benefit schemes in the balance sheet corresponds to the present value of the defined benefit obligation (DBO) on the balance sheet date minus the fair value of the plan assets. The DBO is calculated annually by an independent actuarial expert using the projected unit credit method. The present value of the DBO is calculated by discounting the anticipated future cash payments at the interest rate of high-quality corporate bonds. The corporate bonds are denominated in the currency of the amounts to be paid out and have maturities matching the pension obligations.

The current service cost reflects the increase in the benefit obligation earned by employees in the period under review. It is carried in the income statement under "Personnel costs". Past service costs are also recognized immediately in the income.

The net interest is calculated by multiplying the net debt (asset) from the defined benefit schemes by the discount rate. Both are calculated at the beginning of the period under review, taking into account any changes that have occurred to the net debt due to payments of contributions and benefits in the course of the period under review. The net interest is carried under "Net interest income/loss" in the income statement.

New valuations due to experience adjustments and changes to actuarial assumptions are recognized in equity under "Other profit/loss" in the period in which they occur.

In the case of defined contribution schemes, the Group pays contributions to public or private pension institutions voluntarily or subject to a statutory or contractual obligation. The Group has no further payment obligations above and beyond making the contributions. The contributions are carried under "Personnel costs" when they are due. Prepaid contributions are recognized as assets to the extent that there is a right to repayment or a reduction in future payments.

Other provisions

Provisions are recognized in the case of a current legal or constructive obligation to third parties from a past event where utilization is probable and the expected amount of the necessary provision can be measured reliably. The provisions are measured in compliance with IAS 37 at the best estimate of the expenditure required to settle the obligation. Provisions are reversed against the expense item where the original allocation to a provision was carried. If the discounting effect for long-term provisions is material, the provisions are recognized at the present value of the anticipated future cash flows.

Sales

euromicron has various classes of revenue:

Revenue from the sale of goods are recognized if the significant risks and opportunities associated with ownership of the sold goods and products has been transferred to the customer and the amount of revenue realized can be measured reliably. That is usually when the goods are handed over.

The company recognizes revenue from the provision of services as soon as the service has been provided or, in the case of long-term service agreements, linearly over the term of the agreement.

Revenues from construction contracts are recognized using the percentage of completion method of the result if a construction contract can be estimated reliably. Please refer to the comments on construction contracts in this regard.

Apart from that, revenues are recognized after deduction of cash discounts, customer bonuses and rebates.

Statement of cash flows

In accordance with IAS 7, the statement of cash flows presents the changes in cash funds reported in the consolidated balance sheet under the item "Cash and cash equivalents" and comprising cash and cash equivalents (cash on hand, demand deposits at banks and checks) with a term of no more than three months. The cash flows are grouped by the three areas of operating, investing and financing activities. Net cash provided by operating activities is determined using the indirect method in accordance with IAS 7.18.

Net cash provided by operating activities is derived indirectly by the income before income taxes being adjusted for the effects of non-cash transactions and allowing for changes in current assets and liabilities and paid and received interest and income taxes.

Cash outflows from the exercise of options or preemptive tender rights in relation to minority interests that are not recognized as such due to use of the "anticipated acquisition method" are shown in the "Net cash provided by/used in investing activities" in the consolidated statement of cash flows.

3. Discretionary decisions and uncertainties in estimates

In preparation of the consolidated financial statements, it is necessary to make estimates and assumptions that have an effect on the recognition and measurement method and the level of assets, liabilities and contingent liabilities, as well as the level of expenses and income. The assumptions and estimates are based on the knowledge and data available at the balance sheet date; however, the actual results may differ from the anticipated figures and result in appropriate adjustments to the carrying amounts of the assets and liabilities. The assumptions and estimates of relevance to preparation of the consolidated financial statements are constantly reviewed.

Predictive estimates and assumptions are essentially made for the following:

- Measurement of goodwill: €110,629 thousand (previous year: €108,291 thousand)

Goodwill is tested for impairment every year and as warranted (event-driven test). As part of this impairment test, specific measurement parameters, such as future sales growth and future EBITDA margin, are estimated, with management making assessments as regards the development of markets, market share and prices. We refer in this regard to the notes on the consolidated balance sheet, section 1 (a).

- Measurement of capitalized development costs: €9,078 thousand (previous year: €8,421 thousand)

We refer in this regard to the notes on the consolidated balance sheet, section 1 (a).

- Measurement of assets held for sale (€0 thousand; previous year: €691 thousand) and liabilities in connection with assets held for sale: €0 thousand (previous year: €318 thousand).

Noncurrent assets held for sale are not written off using the regular method of depreciation/amortization, but must be recognized at the lower of their carrying amount or their fair value less costs to sell. As regards the estimated parameters for measuring fair value, we refer to the notes on the consolidated balance sheet (section 3).

- Payment of income taxes (claims for refunds (+) and income tax liabilities (–) netted off): € –456 thousand (previous year: € –2,755 thousand)

Claims for refunds and income tax liabilities are based on calculations that include estimates and assumptions. The final amount is not fixed until the tax assessment notices have been issued or the tax audits completed.

- Gross amount due from customers for contract work: €52,518 thousand (previous year: €40,708 thousand)
- Gross amount due to customers for contract work: €2,014 thousand (previous year: €1,384 thousand)

Use of the percentage of completion methods demands in particular estimates of the anticipated total costs and revenues for construction contracts. We refer in this regard to the notes on the consolidated balance sheet (sections 5 and 9) and the notes on the consolidated income statement (section 12).

- Measurement of the other provisions (short- and long-term): €3,706 thousand (previous year: €3,257 thousand)

Measurement of the other provisions is based in particular on their amount, the likelihood of their being utilized and the time they are utilized. We refer in this regard to the notes on the consolidated balance sheet (section 8 a).

- Measurement of provisions for pensions: €1,424 thousand (previous year: €1,381 thousand)

The present value of the pension obligations depends on a large number of factors that are based on actuarial assumptions. We refer in this regard to the notes on the consolidated balance sheet (section 8 b).

- Measurement of deferred taxes; surplus of deferred tax liabilities over deferred tax assets: €5,343 thousand (previous year: €5,257 thousand).

We refer in this regard to the notes on the consolidated balance sheet (sections 2 and 10).

Consolidated companies

1. Companies included in the consolidated financial statements

The euromicron Group is made up of euromicron AG and 23 companies to be consolidated (previous year: 23).

euromicron AG directly or indirectly holds the majority of voting rights in all the associated companies and so controls them. euromicron AG holds the majority of voting rights in all the companies included in the consolidated financial statements, so that no significant discretionary decisions and assumptions were necessary to include them in the consolidated group. All companies are included in the consolidated financial statements by way of full consolidation.

Of these companies, 16 (previous year: 15) are based in Germany, 5 (previous year: 7) in other European countries, and 2 (previous year: 1) in non-European countries.

There were the following changes to the consolidated companies apart from euromicron AG: [TABLE 021](#)

Number of consolidated companies	021	
	2017	2016
January 1	23	22
First-time consolidation/ newly established companies	2	2
Deconsolidation	-2	-1
December 31	23	23

An overview of the consolidated companies can be found at the end of this section.

2. Acquisition of companies and divisions

In fiscal year 2017 there were the following changes in the consolidated companies due to significant acquisitions of subsidiaries and other business units in accordance with IFRS 3. Apart from that, just one new company was established and increased the number of consolidated companies. In addition, a division was acquired as part of an asset deal and a division was sold; neither transaction had any effects on the consolidated group. One company was sold in the course of 2017 and so deconsolidated. One company was liquidated in the course of 2017 and so likewise deconsolidated.

Acquisition of 75% of the shares in KORAMIS GmbH by telent GmbH

Under the notarized purchase agreement dated December 21, 2016, telent GmbH acquired 75% of the shares in KORAMIS GmbH, Saarbrücken, an IT security company that specializes in industrial security.

As part of the acquisition of 75% of the shares, the minority shareholder also obtained a preemptive right to tender the remaining 25% of the shares and euromicron AG an option to purchase them. The minority shareholder can exercise the preemptive right in the period from October 1, 2019, to December 31, 2019; if the preemptive right is exercised, the purchase price is €650 thousand. telent GmbH can exercise the purchase option in the period from October 1, 2017, to December 31, 2019; if the option is exercised, the purchase price is €850 thousand. If neither the purchase option nor the preemptive right is exercised, the minority shareholder has a further preemptive tender right which it can exercise in the period from January 1, 2020, to March 31, 2020; if this preemptive right is exercised, the purchase price is €650 thousand plus a contractually agreed premium. The minority shareholder's respective share of the company's debt at the time of acquisition is deducted from the exercise prices of the individual put/call options. As a result of these put/call options, KORAMIS GmbH was fully consolidated in euromicron's consolidated financial statements.

As a result of this acquisition, telent GmbH is expanding its value chain to include cybersecurity for critical infrastructures and industrial infrastructures. The date of acquisition was January 1, 2017. The purchase price was €1,833 thousand. This comprises the purchase price paid for acquiring 75% of the shares in KORAMIS GmbH (€1,120 thousand) and the payment obligation from the above-mentioned put/call options at January 1, 2017 (€713 thousand). Loan obligations totaling €529 thousand were also assumed as part of the acquisition. The assets of KORAMIS GmbH were composed of property, plant and equipment (€262 thousand), inventories (€71 thousand), trade accounts receivable (€657 thousand) and other assets (€75 thousand) at the time of acquisition. The liabilities comprised provisions (€72 thousand), liabilities to banks (€32 thousand), trade accounts payable (€205 thousand) and other liabilities (€980 thousand). There are no significant discrepancies between the gross amount and carrying amount of the acquired trade accounts receivable. The acquired receivables are expected to be recoverable in full.

The goodwill of €2,057 thousand resulting from the difference between the total purchase price (€1,833 thousand) and the measured net assets (€ -224 thousand) is mainly attributable to the well-trained workforce in the field of IT security. There was no tax-deductible goodwill. There were incidental costs of €15 thousand in connection with the acquisition. These are recognized as legal and consulting costs in the "Other operating expenses". 36 employees were taken over. The number of consolidated companies increased by one as a result of the acquisition.

The external sales of the acquired company for the period in which it was part of the Group (January 1 to December 31, 2017) totaled €3,658 thousand; its EBIT was €160 thousand.

Establishment of the new company ProCom Communication Systems Trading (Beijing) Co. Ltd.

Establishment of the company 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. The registered capital is €150 thousand; €105 thousand of that amount had been paid in at December 31, 2017. The number of consolidated companies increased by one as a result of its establishment.

Disposal of the "Telecommunications" division of euromicron Deutschland GmbH

Effective April 30, 2017, euromicron Deutschland GmbH transferred all customer, supplier and other agreements connected with the "Telecommunications" division as part of an asset deal. The division's employees were also transferred to the purchaser. In particular since the impairment test conducted at December 31, 2016, was based on the assumption that the closing date would be March 31, 2017, but that date was postponed to April 30, 2017, there was an additional impairment loss of €238 thousand resulting from this in fiscal year 2017; the amount is carried under "Other operating expenses". Please refer to section 3 "Assets held for sale and liabilities in connection with assets held for sale" for details of the assets and liabilities of the "Telecommunications" division at the time of disposal.

Acquisition of the business operations of Elektroanlagen GmbH Dollenchen & Co. KG by euromicron Deutschland GmbH by way of an asset deal

Under the purchase agreement dated September 1, 2017, euromicron Deutschland GmbH acquired the business

operations of Elektroanlagen GmbH Dollenchen & Co. KG, Sallgast-Dollenchen, by way of an asset deal. The date the agreement was concluded is also the date of acquisition. The agreed basic purchase price was €250 thousand. The amount of the liability from the conditional purchase price payment due to earn-out clauses, which was assessed on the basis of likelihood of the condition being met at the time of acquisition, was €155 thousand. Under the agreed earn-out clauses, there may be performance-related payments if the EBIT of the acquired division exceeds certain thresholds in fiscal years 2018 and 2019. The resultant payments may be between €0 thousand and €200 thousand.

The goodwill of €306 thousand resulting from the difference between the total purchase price and the measured net assets of €99 thousand is mainly attributable to the well-trained workforce in the field of electrical installation/high-voltage current. There was tax-deductible goodwill to the same amount. No incidental costs were incurred in connection with the acquisition. 16 employees were taken over. The acquisition had no effect on the consolidated companies. It enables the euromicron Group to build its electrical-related expertise in the field of high-voltage current.

The division's sales for the period in which it was part of the Group (September 1 to December 31, 2017) totaled €597 thousand; its EBIT was €72 thousand.

Disposal of euromicron NBG Fiber Optics GmbH

Under the notarized assignment agreement dated October 30, 2017, the sole shareholder euromicron holding gmbh sold its shares in euromicron NBG Fiber Optics GmbH, Seekirchen, Austria. The selling price was €1 and so matched the shares' carrying amount. The assets and liabilities of euromicron NBG Fiber Optics GmbH at the time of disposal comprised other assets (€21 thousand), cash and cash equivalents (€85 thousand), other provisions (€32 thousand) and other financial liabilities (€3 thousand). euromicron holding gmbh did not incur any incidental costs in connection with the disposal. Deconsolidation of NBG Fiber Optics GmbH resulted in a deconsolidation loss of €70 thousand, which was carried in the "Other operating expenses" in the consolidated financial statements. The business operations of euromicron NBG Fiber Optics GmbH had already been discontinued effective the end of fiscal year 2015. The number of consolidated companies fell by one as a result of the disposal.

Liquidation of euromicron benelux S.A.

Liquidation of euromicron benelux S.A., Ellange, Luxembourg, was completed on December 22, 2017. The company has been liquidated. The number of consolidated companies fell by one as a result of the liquidation.

3. Disclosures on company acquisitions from previous years**ATECS AG, Zug/Switzerland and Secure Information Management GmbH, Neustadt a. d. W.**

On December 27, 2017, an agreement was reached to exercise the existing preemptive rights relating to remaining 5.0% of the shares in ATECS AG, Zug, Switzerland, (hereinafter referred to as ATECS AG) and the remaining 5.0% of the shares in Secure Information Management GmbH, Neustadt a. d. W., (hereinafter referred to as SIM GmbH). As a result, euromicron AG holds all of the shares in ATECS AG and all of the shares in SIM GmbH at December 31, 2017.

The amount of the liabilities from preemptive rights discounted to the present value was €500 thousand at December 31, 2017 (previous year: €493 thousand), of which €400 thousand (previous year: €394 thousand) is for ATECS AG and €100 thousand (previous year: €99) for SIM GmbH. These liabilities from preemptive rights are carried under "Other current financial liabilities". The above acquisitions were each subject to the suspensive condition that the purchase price had to be paid in full, which was done on January 10, 2018.

MICROSENS GmbH & Co. KG, Hamm, and Microsens Beteiligungs GmbH, Hamm

On January 12, 2017, an agreement was reached to exercise the existing preemptive right relating to 2.5% of the shares 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 was 97.5% in each case.

Due to the fact that the purchase options/preemptive tender rights are designed as opposite put/call options, both companies were already fully included in the consolidated financial statements. The purchase price obligations resulting from the preemptive rights exercised on January 12, 2017, were already carried to an amount of €251 thousand under "Other current financial liabilities" in the consolidated financial statements at December 31, 2016. The pro-rata purchase price obligation for the exercised part of the put/call option was €226 thousand and that for a conditional purchase price component was an amount of €25 thousand. Since the original acquisition of MICROSENS GmbH & Co. KG falls under the scope of IFRS 3 (2004 version), the €25 thousand from the conditional purchase price component, which did not have to be paid due to the fact that the targets were not achieved, was treated in fiscal year 2017 as an adjustment to the purchase price in accordance with IFRS 3.33 (2004 version) and the goodwill from the acquisition was reduced by that amount.

On December 13, 2017, the period for exercising the preemptive right and the purchase option relating to the remaining 2.5% of the shares in MICROSENS GmbH & Co. KG and Microsens Beteiligungs GmbH was extended. The options can now be exercised on January 1, 2018, at the earliest and on December 31, 2020, at the latest. The present value of the resultant liability from preemptive rights (fixed purchase price plus the conditional purchase price component) at December 31, 2017, is €251 thousand (previous year: €244 thousand) and is carried under "Current financial liabilities". As a result of interest accrued on this liability, there were interest expenses of €7 thousand (€20 thousand) in fiscal year 2017. [TABLE 022](#)

List of companies included in the consolidated financial statements

022

	Share in capital in %
Parent company:	
euromicron AG, Frankfurt/Main, Germany	
Consolidated subsidiaries	
telent GmbH – ein Unternehmen der euromicron Gruppe, Backnang, Germany	100.00
RSR Datacom GmbH & Co. KG, Essen, Germany	100.00
RSR Datacom Verwaltungs GmbH, Essen, Germany	100.00
ProCom Professional Communication & Service GmbH Essen, Germany	100.00
euromicron austria GmbH, Seekirchen, Austria	100.00
ATECS AG, Zug, Switzerland	100.00
Secure Information Management GmbH, Neustadt a. d. W., Germany	100.00
euromicron Deutschland GmbH, Neu-Isenburg, Germany	100.00
ssm euromicron GmbH ¹⁾ , Hamburg, Germany	100.00
MICROSENS GmbH & Co. KG 2), Hamm, Germany	97.50
MICROSENS sp.z.o.o. ²⁾ , Wroclaw, Poland	97.50
Microsens Beteiligungs GmbH ²⁾ , Hamm, Germany	97.50
EUROMICRON Werkzeuge GmbH, Sinn-Fleisbach, Germany	100.00
LWL-Sachsenkabel GmbH – Spezialkabel und Vernetzungstechnik, Gornsdorf, Germany	100.00
ELABO GmbH – ein Unternehmen der euromicron Gruppe, Crailsheim, Germany	100.00
Qubix S.p.A., Padua, Italy	90.00
SKM Skyline GmbH, Munich, Germany	100.00
Avalan GmbH – ein Unternehmen der euromicron Gruppe, Spiesen-Elversberg, Germany	100.00
euromicron holding gmbh, Seekirchen, Austria	100.00
Netzikon GmbH, Backnang, Germany	100.00
SIM Asia PTE.LTD, Singapore, Singapore	100.00
KORAMIS GmbH ³⁾ , Saarbrücken, Germany	75.00
ProCom Communication Systems Trading (Beijing) Co. Ltd., Beijing, China	100.00

¹⁾ Still operated under the name "Stark- und Schwachstrommontage GmbH" in the previous year.

²⁾ Due to an existing opposite put/call option on the preemptive right or acquisition of the remaining 2.5% stake, 100% of the shares must be economically ascribed to euromicron AG for consolidation purposes.

³⁾ Due to existing opposite put/call options on the preemptive right or acquisition of the remaining 25% stake, 100% of the shares must be economically ascribed to euromicron AG for consolidation purposes.

Notes on the consolidated balance sheet

1. Fixed assets

A complete overview of all long-lived assets is provided in the fixed asset movement schedule under 1. b) "Property, plant and equipment" of these notes.

a) Intangible assets

The intangible assets comprise goodwill, concessions, industrial property and similar rights, brand name rights, capitalized development costs and self-developed software.

Goodwill

Goodwill developed as follows in the fiscal year: [TABLE 023](#)

	023	
	2017	2016
	€ thou.	€ thou.
Goodwill at January 1	108,291	108,217
Additions	2,363	74
Disposals	-25	0
Goodwill at December 31	110,629	108,291

The addition of goodwill resulted from the acquisition of the company KORAMIS GmbH by telent GmbH and the acquisition of the business operations of Elektroanlagen GmbH Dollenchen & Co. KG by way of an asset deal by euromicron Deutschland GmbH (see section 2 "Acquisition of companies and divisions"). The disposal of goodwill resulted from the fact that the targets for a conditional purchase price component were not achieved from an acquisition that falls under the scope of IFRS 3 (2004 version) (see section 3 "Disclosures on company acquisitions from previous years").

The goodwill at the euromicron Group is distributed over these CGUs as follows: [TABLE 024](#)

	024	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Smart Buildings	68,212	67,931
Critical Infrastructures	37,186	35,129
Distribution	5,231	5,231
	110,629	108,291

Goodwill impairment test

Regardless of any event-driven impairment tests, euromicron conducts the obligatory annual goodwill impairment test at December 31 of the reporting period. This annual impairment test was conducted at the end of fiscal year 2017 on the basis of the cash-generating units identified at the end of the year.

The impairment test is based on the following main planning and measurement assumptions:

Planning for the CGU "Smart Buildings" envisages sales growth of 2.3% in 2018. Sales growth of 4.3% is planned in 2019 and 2020. Sales increases of 5.9% and 4.0% respectively are planned in 2021 and 2022. The EBIT margin is budgeted to be 5.2% for 2018 and will increase by around one percentage point each year in subsequent years up to 2022 to up to 9.5%.

In the previous year, the planning envisaged sales growth in the medium single-digit percentage range in the years 2017 to 2021. In the previous year, the EBIT margin was budgeted to be 5.5% for 2017 and it was assumed it would increase moderately each year in subsequent years up to 2021 to up to 10.5%.

Sales for the CGU "Critical Infrastructures" are expected to increase by 4.3% in 2018, while an increase of 3.5% is planned for 2019. The anticipated sales growth in the years 2020 and 2022 will be between 2.7% and 3.3%. The EBIT margin is budgeted to be 6.0% for 2018 and will increase moderately each year in subsequent years up to 7.7%.

In the previous year, a 9.6% increase in sales was expected for the CGU "Critical Infrastructures" in 2017. Sales increases of 9.1%, 2.0%, 9.6% and 8.0% respectively were planned for the subsequent years 2018 to 2021. The planning in the previous year also envisaged an EBITDA margin of 6% for 2017 and a moderate increase to up to 9.9% in subsequent years.

The planning for the CGU "Distribution" envisages sales growth of 5.3% for the year 2018 and of between 2.9% and 4.5% for each of the years 2019 to 2022. An EBITDA margin of 11.5% is planned for 2018 and will remain stable up to 2022.

In the previous year, the planning envisaged sales growth of 7.6% for the year 2017 and of around 4% for each of the subsequent years 2018 to 2021. An EBITDA margin of 9% was also planned for 2017 and will rise slightly to 9.6% by 2021.

In particular, estimates by management of how the markets, market shares and prices will develop are subject to some uncertainty.

Since individual business risks have already been taken into account in preparing the budgeting for the respective CGUs and will reduce the derived free cash flow, the following parameters were applied uniformly to all CGUs for calculating the WACC for the impairment test at December 31, 2017:

TABLE 025

Interest assumed in the 2017 impairment test		025
	2017	2016
Borrowing rate after taxes	1.49%	1.39%
Risk-free interest rate	1.07%	0.81%
Markup for return on equity	6.50%	6.50%
Beta factor	0.79	0.75
Debt / equity ratio	6.25%	14.84%
Weighted average cost of capital (WACC)	5.94%	5.12%
Growth rate	1.00%	0.81%
WACC perpetuity	4.94%	4.31%

The goodwill impairment test at December 31, 2017, did not reveal any need to reduce the value of the goodwill of individual CGUs (previous year: €0 thousand).

Sensitivity analysis

As part of a sensitivity analysis, changes to the parameters that were considered possible were simulated stepwise in a model calculation for each of the cash-generating units and examined as to whether there was a need to reduce the value for the CGU.

Given the described assumptions and sustained sales growth of 1.0% at the end of the planning period, the recoverable amount of the CGUs will sharply exceed the carrying amount. Even in the event of a sharp, unanticipated reduction in the assumptions for sustained sales growth (0.5% reduction in the estimated sales growth rate of 1.0%), or an increase in WACC by 1 percentage points or a 0.5% lower EBITDA margin over the whole planning period (including perpetuity), there would be a recoverable amount above the carrying amount and therefore no need for a write-down.

The fair value calculated as part of the goodwill impairment test and for assets held for sale was measured on the basis of level 3. The fair value is calculated as the present value of the future free cash flow using the discounted cash flow (DCF) method with a risk-adjusted discount rate (WACC). As part of that, assumptions are made about future sales or the anticipated EBITDA margin, for example.

Other intangible assets

Development costs for self-developed intangible assets of € 2,775 thousand (previous year: €2,342 thousand) were recognized in the reporting period. In addition, own work for self-developed software and IT solutions was capitalized to an amount of €155 thousand (previous year: €191 thousand) in the reporting period.

Intangible assets were written down by an amount of €150 thousand in the reporting period (previous year: €80 thousand). They are allocated to capitalized development costs in the fixed-asset movement schedule and are fully attributable (previous year: to an amount of €69 thousand) to smaller development projects where a decision was taken not to continue pursuing them. In segment reporting, the write-downs on intangible assets have been fully assigned to the "Smart Buildings" segment, as in the previous year.

(b) Property, plant and equipment

The manufacturing cost of capitalized, self-developed property, plant and equipment contains the cost of direct materials and manufacturing costs, as well as attributable overhead costs, and resulted in own work capitalized of €554 thousand in fiscal year 2017 (previous year: €275 thousand).

There were no impairments of property, plant and equipment in fiscal year 2017 (previous year: €1,288 thousand). In the previous year's segment reporting, impairments of property, plant and equipment (impairment of telecommunications systems) were allocated to the "Smart Buildings" segment to an amount of €799 thousand and, to an amount of €489 thousand (impairment of demo stock), to the "Critical Infrastructures" segment.

In accordance with IAS 16.74, at the balance sheet date there are no restrictions on title to, nor any contractual commitments to acquire property, plant and equipment. In addition, no property, plant or equipment has been attached as collateral and there were no compensation payments to third parties due to value impairments in or loss of property, plant or equipment.

Changes in the Group's assets in 2017

of euromicron AG, Frankfurt/Main

Changes in intangible assets and property, plant and equipment in 2017

	Acquisition cost				
	Jan. 1, 2017	Additions	Disposals	Additions from company acquisitions	Reclassification and other
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Goodwill	121,195	0	- 400	2,338	0
Intangible assets					
Concessions, industrial and similar rights	29,343	1,477	- 121	160	0
Brand name rights	12,530	0	0	0	0
Capitalized development costs	22,602	2,775	- 5,739	0	0
Self-developed software	2,022	155	- 601	0	0
	66,497	4,407	- 6,461	160	0
Property, plant and equipment					
Land and buildings	9,169	209	- 38	12	1,065
Technical equipment and machinery	10,190	587	- 712	0	5
Other equipment, operating and office equipment	28,337	6,563	- 773	245	- 1,070
	47,696	7,359	- 1,523	257	0
	235,388	11,766	8,384	2,755	0

026

Amortization and depreciation					Carrying amounts		
Dec. 31, 2017	Jan. 1, 2017	Additions	Disposals	Reclassification and other	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
123,133	-12,904	0	400	0	-12,504	110,629	108,291
30,859	-25,696	-1,816	120	21	-27,371	3,488	3,647
12,530	-8,957	-222	0	0	-9,179	3,351	3,573
19,638	-14,181	-2,097	5,739	-21	-10,560	9,078	8,421
1,576	-1,292	-245	601	0	-936	640	730
64,603	-50,126	-4,380	6,460	0	-48,046	16,557	16,371
10,417	-4,250	-391	38	0	-4,603	5,814	4,919
10,070	-7,354	-754	712	0	-7,396	2,674	2,836
33,302	-20,480	-2,880	709	0	-22,651	10,651	7,857
53,789	-32,084	-4,025	1,459	0	-34,650	19,139	15,612
241,525	-95,114	-8,405	8,319	0	-95,200	146,325	140,274

Changes in the Group's assets in 2016

of euromicron AG, Frankfurt/Main

Changes in intangible assets and property, plant and equipment in 2016

	Acquisition cost				
	Jan. 1, 2016	Additions	Disposals	Additions from company acquisitions	Reclassification and other
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Goodwill	121,121	0	0	74	0
Intangible assets					
Concessions, industrial and similar rights	29,951	1,096	-1,726	15	7
Brand name rights	12,530	0	0	0	0
Capitalized development costs	21,501	2,342	-1,241	0	0
Self-developed software	1,831	191	0	0	0
	65,813	3,629	-2,967	15	7
Property, plant and equipment					
Land and buildings	8,885	14	-17	0	287
Technical equipment and machinery	10,378	219	-407	0	0
Other equipment, operating and office equipment	25,377	4,978	-1,775	6	-249
	44,640	5,211	-2,199	6	38
	231,574	8,840	-5,166	95	45

027

Amortization and depreciation					Carrying amounts		
Dec. 31, 2016	Jan. 1, 2016	Additions	Disposals	Reclassification and other	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
121,195	-12,904	0	0	0	-12,904	108,291	108,217
29,343	-25,760	-1,779	1,724	119	-25,696	3,647	4,191
12,530	-8,647	-224	0	-86	-8,957	3,573	3,883
22,602	-12,907	-2,475	1,241	-40	-14,181	8,421	8,594
2,022	-979	-313	0	0	-1,292	730	852
66,497	-48,293	-4,791	2,965	-7	-50,126	16,371	17,520
9,169	-3,851	-378	17	-38	-4,250	4,919	5,034
10,190	-6,246	-1,515	407	0	-7,354	2,836	4,132
28,337	-19,237	-2,965	1,722	0	-20,480	7,857	6,140
47,696	-29,334	-4,858	2,146	-38	-32,084	15,612	15,306
235,388	-90,531	-9,649	5,111	-45	-95,114	140,274	141,043

Leased equipment (€1,809 thousand; previous year: €1,842 thousand), operating and office equipment (€675 thousand; previous year: €263 thousand) and IT equipment reported under "Software" (€115 thousand; previous year: €116 thousand) were recognized as finance leases with a net carrying amount of €2,599 thousand at December 31, 2017 (previous year: €2,221 thousand). Finance leases are used to fund assets with a useful life of at least three years, such as machinery and production machines to warehouse systems, at the manufacturing companies in the euromicron Group. Some of the existing finance lease agreements have purchase options at the end of their term. There was no subleasing from finance leases at the euromicron Group. See section 9 "Liabilities" for an explanation of the liabilities from financial leases.

All other lease agreements in which companies of the euromicron Group are the lessee are recognized as operating leases. The leasing payments are charged to expenditure (see section 24 "Contingencies and other financial obligations"). There are no restrictions ("covenants") pursuant to leasing agreements.

(c) Other noncurrent financial assets

The table below presents the components of the other noncurrent financial assets: [TABLE 028](#)

Other noncurrent financial assets	028	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Shares in Track Group Inc.	55	267
Long-term receivables from finance leases	122	163
Rent deposits / deposits provided to third parties	51	62
Other noncurrent financial assets	4	7
	232	499

The shares in the listed company Track Group Inc., Utah, U.S., carried under "Other noncurrent financial assets" were acquired by euromicron AG in 2009. The stake held in its capital stock on the balance sheet date was 0.60% (previous year: 0.60%). The shares in Track Group Inc. are classified as a financial asset under the category "Available for sale" and are measured at fair value. They were first measured at fair value on the day of trading (€934 thousand) and their carrying amount at December 31, 2016, was €267 thousand. The shares' fair value at the end of the fiscal year

was €55 thousand. The value impairment of €212 thousand was recognized in the net financial result.

The receivables from finance leases are calculated as follows: [TABLE 029 / 030](#)

Noncurrent receivables from finance leases	029	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Noncurrent receivables		
Gross receivables from finance leases	126	170
Financial income not yet realized	-4	-7
	122	163

Current receivables from finance leases	030	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Current receivables		
Gross receivables from finance leases	44	44
Financial income not yet realized	-3	-5
	41	39

The table below shows the reconciliation of gross investments in leases to the present value of the future minimum lease payments: [TABLE 031](#)

Gross investments in finance leases	031	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Gross receivables from finance leases		
Up to 1 year	44	44
1 to 5 years	126	155
More than 5 years	0	15
	170	214
Financial income not yet realized	-7	-12
Net investment in finance leases	163	202

The carrying amounts of the other noncurrent financial assets in the category "Loans and receivables" are approximately the fair value.

There were no allowances for receivables from finance leases in fiscal year 2017 (previous year: €123 thousand).

(d) Other noncurrent assets

The table below presents the components of the other non-current assets: **TABLE 032**

Other noncurrent assets	032	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Other noncurrent assets	4	32

There is no longer any corporation income tax credit balance in accordance with Section 37 (4) KStG (German Corporation Tax Act) in the other noncurrent assets as of December 31, 2017 (previous year: €22 thousand).

2. Deferred tax assets

Deferred tax assets are calculated on the basis of measurement differences in the following balance sheet items:

TABLE 033

Deferred tax assets	033	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Intangible assets	17	20
Inventories	24.885	17.527
Property, plant and equipment	0	146
Other receivables and other assets	91	152
Provisions	2.827	2.792
Liabilities from finance leases	469	340
Other liabilities	666	892
Loss carryforwards for corporation income tax / trade tax and income taxes abroad	3.919	3.478
Total deferred tax assets before netting off	32.874	25.347
Netting off	-32.619	-24.934
Total deferred tax assets after netting off	255	413

There are long-term deferred tax assets (after netting off) totaling €251 thousand (previous year: €409 thousand); they result from deferred tax assets on measurement differences for intangible assets and from deferred tax assets on tax loss carryforwards.

Of the deferred tax assets remaining after netting off and totaling €255 thousand (previous year: €413 thousand), €128 thousand (previous year: €275 thousand) is attributable to four Group companies that made a tax loss in fiscal year 2017 or the year before (previous year: two Group companies). The deferred tax assets were recognized on the basis of positive tax budgeting for the respective company. The Executive Board is of the view that it is highly probable that the deferred tax assets can be realized. In accordance with IAS 1.122, this discretionary decision by the Executive Board as regards the accounting method has a significant impact on the financial statements and may be subject to change, depending on future developments.

As of December 31, 2017, the Group had corporation income tax loss carryforwards totaling €48,546 thousand (previous year: €46,470 thousand), trade tax loss carryforwards totaling €44,921 thousand (previous year: €44,264 thousand) and loss carryforwards for income taxes abroad totaling €16,024 thousand (previous year: €24,877 thousand). The loss carryforwards relate to ten (previous year: eight) domestic holdings and euromicron AG and four (previous year: six) foreign holdings. These losses may be carried forward without restriction in accordance with the current legal position.

No deferred tax assets have been formed on existing tax loss carryforwards totaling €84,400 thousand (previous year: €93,132 thousand). Of this, €54,650 thousand (previous year: €54,650 thousand) was attributable to loss carryforwards prior to the integrated inter-company relationship that cannot be used before the end of the integrated inter-company relationship, and €29,750 thousand (previous year: €38,482 thousand) was attributable to tax loss carryforwards that can probably not be offset against taxable profits on the basis of the budgeting in the foreseeable future, of which €16,513 thousand (previous year: €26,338 thousand) was due to discontinued operations of the respective companies.

Of the existing tax loss carryforwards for which deferred tax assets were not formed, €71,796 thousand (previous year: €70,550 thousand) was in Germany and €12,604 thousand (previous year: €22,582 thousand) abroad.

3. Assets held for sale and liabilities in connection with assets held for sale

No assets classified as "held for sale" and no liabilities classified as "liabilities in connection with assets held for sale" are carried at December 31, 2017.

At December 31, 2016, the assets and liabilities connected with the sale of the "Telecommunications" division of euromicron Deutschland GmbH were carried as "held for sale". The values for the disposal group on the date of disposal (April 30, 2017) and at December 31, 2016, are shown in the table below: [TABLE 034](#)

Assets held for sale and liabilities in connection with assets held for sale

	April 30, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Inventories	122	86
Gross amount due from customers for contract work	404	518
Other assets	62	87
Assets held for sale	588	691
Provisions for pensions	10	36
Gross amount due to customers for contract work	328	11
Personnel obligations	299	272
Other liabilities	567	0
Liabilities in connection with assets held for sale	1.204	318
Net assets	-616	373

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. In particular since the impairment test conducted at December 31, 2016, was based on the assumption that the closing date would be March 31, 2017, but that date was postponed to April 30, 2017, there was an additional impairment loss of €238 thousand; the amount is carried under "Other operating expenses".

4. Inventories

The euromicron Group's inventories on the balance sheet data are broken down as follows: [TABLE 035](#)

Inventories	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Raw materials and supplies	11,878	11,001
Work in progress	3,346	3,842
Finished goods and merchandise	15,397	13,079
Prepayments	865	459
	31,486	28,381

In accordance with IAS 2.34, there were write-downs on inventories totaling €632 thousand (previous year: €921 thousand); the reversals totaled €0 thousand (previous year: €125 thousand). Of the write-downs, an amount of €0 thousand (previous year: €109 thousand) results from measurement of the assets held for sale (see section 3).

5. Receivables and other current assets

The receivables and other assets comprise trade accounts receivable, the gross amount due from customers for contract work, claims for income tax refunds, other financial assets and other assets. [TABLE 036](#)

Receivables and other current assets	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Trade accounts receivable (gross)	11,381	21,346
Allowances for doubtful accounts	-2,387	-3,196
Trade accounts receivable (net)	8,994	18,150
Gross amount due from customers for contract work	52,518	40,708
Claims for income tax refunds	928	765
Other current financial assets	3,898	5,520
Other current assets	2,566	2,287
	68,904	67,430

The carrying amounts for trade accounts receivable, the gross amount due from customers for contract work and the other current financial assets are approximately their fair value.

Trade accounts receivable

Trade accounts receivable that have defined terms of payment and are not traded on an active market are classified in the category "Loans and receivables". As in the previous year, all trade accounts receivable at December 31, 2017, were short-term.

If there are indications that receivables cannot be recovered, an appropriate allowance is recognized. The allowances for doubtful accounts result from individual adjustments for receivables; expenses from transfer to the allowances are carried under the item "Other operating expenses" in the income statement.

There were the following changes in the allowances for trade accounts receivable: [TABLE 037](#)

	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Balance at the beginning of the period	-3.196	-3.552
Allocation	-612	-926
Utilization	947	1.060
Reversals	474	222
Balance at the end of the period	-2.387	-3.196

Unrecoverable receivables for which no allowances had previously been formed were derecognized to an amount of €100 thousand in 2017 (previous year: €237 thousand) due to events that had an impact on their value. As regards the accounts receivable for which no allowance has been made and that are not overdue at the reporting date, there were no signs at the reporting date that the debtors would not

meet their payment obligations.

The table below shows the age structure of the trade accounts receivable for which no allowance has been made on the balance sheet date, along with the net carrying amount of the trade accounts receivable for which an allowance has been made on the balance sheet date: [TABLE 038](#)

The trade accounts receivable include receivables in foreign currency (US\$) totaling €5,193 thousand (previous year: €6,953 thousand). If the exchange rate of the euro to the US dollar at December 31, 2017, had been 5% higher, the consolidated net income for the year would have been €-247 thousand lower (previous year: €-331 thousand lower). However, if the exchange rate of the euro to the US dollar had been 5% lower, the consolidated net income for the year would have been €273 thousand higher (previous year: €366 thousand higher). There is no credit risk at the Group as a result of receivables being concentrated on one or a small number of trade debtors.

The trade accounts receivable include receivables from supplier rebates totaling €539 thousand (previous year: €675 thousand), which may be offset with corresponding trade accounts payable.

Individual companies in the euromicron Group sell some of their receivables from customers to forfaiting companies (buyers of the receivables). The overall program for the Group has a maximum volume of €40,000 thousand (previous year: €40,000 thousand). At December 31, 2017, receivables with a volume of €32,481 thousand (previous year: €34,715 thousand) were sold by the entire Group. In accordance with IAS 39, sold receivables from customers are only derecognized if essentially all opportunities and risks of the sold receivables have been transferred to the buyer of the receivables. The risk of the customer becoming insolvent (risk of nonpayment) is transferred to the buyer of the receivables under the contractual arrangements.

Trade accounts receivable by times due

038

	Accounts for which no allowance has been made and that are not overdue at the reporting date		Accounts for which no allowance has been made and are overdue in the following periods of time Days					For which an allowance has been made
			<60	60-120	121-180	181-360	>360	
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
	Dec. 31, 2017							
Trade accounts receivable	8,994	673	4,840	103	264	422	0	2,692
	Dec. 31, 2016							
Trade accounts receivable	18,150	6,922	5,390	1,691	563	154	575	2,855

euromicron still bears the interest risk from delayed payments by customers. Since virtually no opportunities and risks remain with euromicron, but not all of them without exception pass to the buyer of the receivables, euromicron carries the receivables at the amount of the continuing involvement of €301 thousand (previous year: €293 thousand); it is carried under "Other current financial assets". The continuing involvement comprises the maximum amount that euromicron would have had to pay to the buyer of the receivables up to receipt of payment relative to the carrying amount of the receivables sold on the key date. The continuing involvement is offset by an associated liability totaling €312 thousand (previous year: €304 thousand); it is carried under "Other current financial liabilities". The difference between the asset and liability items reflects the remaining claims from or obligations to the factoring company from the interest rate guarantee and the administration fees euromicron still has. In accordance with the requirements of IAS 39, the sold receivables are partly derecognized at the balance sheet date; the share remaining as continuing involvement is low compared with the total amount of sold receivables. Interest expenses and charges resulting from the sale of receivables are carried in the net financial result.

Gross amount due from customers for contract work

The gross amount due from customers for contract work was €52,518 thousand (previous year: €40,708 thousand).

The total of accrued costs and reported profits (minus any losses) was €97,777 thousand (previous year: €106,364 thousand).

Payments on account received in connection with construction contracts totaled €880 thousand (previous year: €2,229 thousand); they are carried under "Other liabilities".

As part of measurement of assets held for sale (see section 3), there were allowances for gross amounts due from customers for contract work totaling €660 thousand in the previous year.

Claims for income tax refunds

In particular claims for refunds due to the subsequent effects of the completed tax audit of euromicron AG (€710 thousand; previous year: €0 thousand) and of telent GmbH (€41 thousand; previous year: €0 thousand) are carried under "Claims for income tax refunds". In addition, receivables

from creditable capital gains tax due to euromicron AG (€77 thousand; previous year: €64 thousand) and claims for income tax refunds of other Group companies (€100 thousand; previous year: €701 thousand) are carried.

Other current financial assets

The other current financial assets are broken down as follows: [TABLE 039](#)

Other current financial assets	039	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Receivables from factoring monies not yet paid out	2,877	3,180
Receivable from reimbursement of litigation and legal costs	0	1.350
Claims against former board members of euromicron AG	516	516
Continuing involvement (factoring)	301	293
Rent deposits / deposits	106	130
Receivables from finance leases	41	39
Other	57	12
	3,898	5,520

The receivables from factoring monies not yet paid out comprise amounts from sold receivables not paid out by the factoring company by the balance sheet date (such as blocked amounts or receivables still being examined).

Other current assets

The other current assets changed as follows: [TABLE 040](#)

Other current assets	040	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Prepaid expenses	1,306	1,196
Claims for refunds from other taxes	468	629
Claims for refunds from interest on tax refunds	200	49
Claims against employees	43	94
Other	549	318
	2,566	2,287

As part of measurement of assets held for sale (see section 3), there were allowances for prepayments and accrued income totaling €111 thousand in the previous year.

6. Cash and cash equivalents

Cash includes cash on hand, demand deposits at banks and cash equivalents with a term of no more than three months and are classified in the category "Loans and receivables". [TABLE 041](#)

Cash and cash equivalents	041	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Cash in banking accounts	4,922	6,819
Cash on hand	32	25
	4,954	6,844

7. Equity

(a) Subscribed capital and authorized capital

The number of shares of euromicron AG in circulation is 7,176,398. The capital stock of euromicron AG is €18,347,554.88. The nominal amount per share is around €2.56. The shares are fully paid up. [TABLE 042](#)

Shares in circulation	042	
	Dec. 31, 2017	Dec. 31, 2016
Sales in circulation	7,176,398	7,176,398

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 that could be offset with equity in accordance with IAS 32.33 at December 31, 2017.

(b) Capital reserves

The capital reserves at December 31, 2017, were unchanged year on year at €94,297,543.35.

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).

(c) Currency translation difference

The assets and liabilities of MICROSENS sp. z o.o., Wrocław, Poland, whose functional currency is the Polish zloty, are translated at the mean spot exchange rate at the end of the period under review. Expenses and income are translated at average rates during the year. The differences resulting from translation are recognized in equity and reclassified if the profit or loss from the sale of this foreign subsidiary is carried.

The difference resulting from translation of the financial statements of MICROSENS sp. z o.o. at December 31, 2017, is €3,574.94 (previous year: € -5,318.12).

(d) Distributions in the fiscal year

There were no dividend payouts in fiscal year 2017.

(e) Non-controlling interests

The non-controlling interests reported at December 31, 2017 (€599 thousand; previous year: €461 thousand) relate exclusively to Qubix S.p.A., Padua (10%). The non-controlling interests should be regarded as not being material in relation to the consolidated financial statements.

The following table presents summarized financial information on the significant companies in which no controlling interest are held or in which the euromicron Group does not hold all the shares: [TABLE 043](#)

Summarized financial information on subsidiaries with significant non-controlling interests

043

	Qubix S.p.A.		KORAMIS GmbH	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.	€ thou.	€ thou.
Noncurrent assets	173	229	465	N/A
Current assets	10,819	8,843	1,224	N/A
Assets	10,992	9,072	1,689	N/A
Noncurrent liabilities	630	548	13	N/A
Current liabilities	4,836	4,336	1,843	N/A
Net assets	5,526	4,188	-167	N/A
Sales	14,800	13,136	3,693	N/A
Income before income taxes	3,613	2,753	114	N/A
Income tax expense	-1,025	-934	-41	N/A
Total profit/loss	2,588	1,820	73	N/A
Share of total profit/loss ascribable to minority interests	263	186	N/A	N/A
Dividends paid to minority interests	125	125	0	N/A
Cash funds at end of period	3,625	4,077	38	N/A
Minority interests:*	10.0%	10.0%	25.0%	N/A

* Only Qubix S.p.A. is carried in the non-controlling interests of the euromicron Group.

(f) Disclosures on capital management in accordance with IAS 1

The equity ratio and net financial debt are used as performance indicators. So as to ensure unrestricted access to the capital and credit markets at as favorable terms as possible and to increase the company's value, the objective of capital management is to increase the equity ratio to above 35% and reduce current net financial debt in the medium term. Measures to help achieve that include reducing working capital by means of an optimization program implemented throughout the Group and increasing consolidated earnings by safeguarding bread-and-butter business and tapping new strategic target markets in the field of digitization. In addition, there is ongoing examination of the possibility of reducing net debt by disposing of non-strategic Group companies. Net financial debt and the equity ratio are constantly monitored by management.

The financing agreement currently concluded with the 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. They included the equity ratio and key indicators relating to earnings and liquidity. 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").

The equity ratio is 31.1% (previous year: 33.7%) and is calculated as follows: [TABLE 044](#)

	Equity ratio	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Equity acc. to consolidated balance sheet	78,541	82,359
Total assets	252,160	244,564
Equity ratio	31.1%	33.7%

The net financial debt is calculated from liabilities to banks (long- and short-term), liabilities from finance leases (long- and short-term), less cash and cash equivalents. It is €87,259 thousand at December 31, 2017 (previous year: €70,966 thousand). [TABLE 045](#)

Net financial debt 045

	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Liabilities to banks	90,549	76,501
Liabilities from finance leases	1,664	1,309
Cash and cash equivalents	4,954	6,844
Net financial debt	87,259	70,966

The increase in net financial debt of €16,293 thousand is attributable in particular to the fact that while there was a sharp increase in net cash used in investing activities (€13,471 thousand) – also for acquisition-related reasons – in fiscal year 2017, the net cash provided by operating activities totaled just €386 thousand after adjustment for factoring effects. We refer in this regard to section 23 “Notes on the statement of cash flows” and to the explanations on the financial position in the group management report. In addition, effects from the euromicron Group’s factoring program contributed €1,946 thousand to the increase in net financial debt; in particular, the lower volume of sold receivables had an impact here.

8. Provisions**(a) Other provisions**

euromicron expects provisions of €1,955 thousand (previous year: €1,574 thousand) will be used within one year, €1,267 thousand (previous year: €1,218 thousand) in the next two to five years and €484 thousand (previous year: €466 thousand) in the period after five years. The provisions developed as follows in the fiscal year: **TABLE 046**

The other changes relate exclusively to additions and disposals in connection with changes to the consolidated companies.

The provisions for severance payments relate to Group companies based in Austria and Italy and were set up pursuant to the obligation to make a specific one-off payment when an employment relationship ends.

The other long-term provisions include in particular a provision for severance payments to freelance commercial agents of a Group company based abroad.

Provisions

046

	Jan. 1, 2017	Utilization	Reversal	Accrued interest/ discounting	Allocation	Other changes	Dec. 31, 2017
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Provision for anniversaries and death benefits	521	-68	0	15	29	0	497
Provision for severance payments	412	-6	0	0	65	0	471
Provision for restoration obligations	272	0	0	0	18	0	290
Provision for warranties and follow-up costs	198	-10	0	0	1	0	189
Provision for archiving	123	-9	0	0	1	6	121
Other provisions	158	0	0	0	25	0	183
Total for other long-term provisions	1,684	-93	0	15	139	6	1,751
Provision for warranties and follow-up costs	804	-333	-14	0	598	18	1,073
Provision for impending losses	11	-11	0	0	0	0	0
Provision for legal disputes	102	-70	0	0	505	-32	505
Other provisions	657	-360	-87	0	120	47	377
Total for other short-term provisions	1,574	-774	-101	0	1,223	33	1,955
Total for other provisions	3,258	-867	-101	15	1,362	39	3,706

The provisions for litigation disputes comprise legal costs for the current court instances in connection with legal action against former board members of the company and as part of the securities lending transactions.

The other short-term provisions are made up of various individual matters, such as provisions for interest and value-added tax in connection with tax audits or provisions for customs-related matters.

(b) Provisions for pensions and similar obligations

The euromicron Group has regulations on company pensions for active and former employees after fulfillment of the vesting periods, as well as their surviving dependants. These are mainly executives and employees for whom commitments from the time before a company was acquired have been assumed by euromicron AG.

The designated payments as part of pension schemes may be based either on the wage or salary received in the last year of employment or on the average of the last five years or the compensation of an employee and are usually dependent on the length of service. The benefits must be granted as a one-off payment or an annual pension payment. In the case of pension payments, the euromicron Group bears the full risk of recipients living for a long time and inflation due to pension adjustments. In the case that the employee is still alive, he or she acquires an entitlement to an existing benefit balance as an old-age benefit or invalidity benefit; the benefits paid to surviving dependants are a widow's pension and orphan's pension.

In order to cover a large part of the obligation, the euromicron Group has established a CTA (euromicron Pension Trust e. V.); the funds allocated to it are based on the level of the obligation.

The development in the pension commitment and plan assets are evidenced by actuarial reports. The changes in the present value of the defined benefit obligation (DBO) in the fiscal year are as follows: [TABLE 047](#)

Changes in the present value of the defined benefit obligation (DBO) 047

	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Present value of benefit obligation at the beginning of the period under report	21,419	18,777
Current service cost	373	337
Effects from plan settlements	-5	0
Interest cost	358	459
Pension payments	-558	-527
Revaluation effects	-7	2,337
Of which change in financial assumptions	0	2,473
Of which experience adjustments	-7	-136
Contributions by plan participants	68	72
Other effects	25	-36
Present value of benefit obligation at the end of the period under report	21,673	21,419

The plan assets measured at fair value changed as follows:

TABLE 048

Changes in the plan assets 048

	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Plan assets at the beginning of the period under report	20,038	17,522
Interest income from plan assets	341	438
Revaluation effects	-295	-393
Employer contributions / withdrawals	165	2,471
Plan assets at the end of the period under report	20,249	20,038

The plan assets consist to 100% (previous year: 100%) of trade accounts receivable of the euromicron Group, which are held in trust by the CTA. These assets are not traded on an active market.

Due to the reduction of € -7 thousand in the revaluation effects from pensions taken directly to equity (previous year: increase of €2,337 thousand), the deferred tax assets recognized via the other profit/loss directly in equity fell in the reporting period by € -2 thousand; they had risen in the previous year by €701 thousand. In addition, deferred tax expenses of €88 thousand (previous year: €118 thousand) from application of the net interest method were carried against the other profit/loss.

The provision on the balance sheet changed as follows:

TABLE 049

Provision on the balance sheet	049	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Provision at the beginning of the period under report	1,381	1,255
Current service cost	373	337
Effects from plan settlement	-5	0
Net interest cost/income	17	21
Pension payments	-558	-527
Employer contributions/withdrawals	-165	-2,471
Contributions by plan participants	68	72
Revaluation effects	288	2,730
Other effects	25	-36
Provision at the end of the period under report	1,424	1,381

The net interest expense is carried under the overall item "Net interest income/loss"; the other components of the pension costs (current service cost and past service costs and effects from plan settlement) are carried under the personnel costs.

Variation in the assumptions by +/- 1% or +/- 1 year

051

	2017		2016	
	+ 1% or + 1 year	-1% or -1 year	+ 1% or + 1 year	-1% or -1 year
Discount rate	-13.78%	17.46%	-14.09%	17.94%
Life expectancy	1.83%	-1.84%	1.77%	-1.78%
Age at expiry of financing	-2.16%	1.53%	-2.19%	1.67%

A range of +/- 0.25% was used for the future pension trend.

TABLE 052

Variation in assumptions by +/- 0.25%

052

	2017		2016	
	+0.25%	-0.25%	+0.25%	-0.25%
Future pension indexation	2.50%	-2.38%	2.48%	-2.36%

As in the previous year, the effects were determined using the same methods as for valuation of the commitment at the end of the year.

The pension payments anticipated in the subsequent year are €934 thousand (previous year: €816 thousand), while the anticipated contributions to the plan cannot be estimated reliably at the balance sheet date.

The revaluation effects are carried via the "Other profit/loss" and are contained in equity in the item "Consolidated retained earnings".

The following parameters, which are based on assumptions, were used to measure the future level of benefits: TABLE 050

Measurement factors

050

	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Discount rate	1.70%	1.70%
Age at expiry of financing	63 years	63 years
Future pension indexation	1.75%	1.75%

The discount rates are based on the returns for high-quality corporate bonds with a corresponding term; the 2005 G mortality tables compiled by Heubeck were used as a basis for the biometric parameters. Since the pension commitments are mainly at euromicron Group companies in Germany, the parameters relate to the economic situation in Germany.

If the assumptions vary by +/- 1 percentage point or +/- 1 year, the effects on the DBO are as follows: TABLE 051

The weighted average duration of the commitment at the balance sheet date is 16.62 years (previous year: 17.06 years).

Contributions of €7,743 thousand (previous year: €7,594 thousand) were paid to the statutory pension insurance fund as part of defined contribution pension schemes.

9. Liabilities

The euromicron Group's liabilities on the balance sheet data are broken down as follows: **TABLE 053**

Liabilities	053	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Liabilities to banks	90,549	76,501
Liabilities from finance leases	1,664	1,309
Liabilities in connection with assets held for sale	0	318
Trade accounts payable	46,996	44,512
Gross amount due to customers for contract work	2,014	1,384
Liabilities from current income taxes	1,385	3,520
Other tax liabilities	4,777	8,078
Personnel obligations	9,795	9,176
Other financial liabilities	2,172	1,774
Other liabilities	3,539	5,325
	162,891	151,897

The euromicron Group's liabilities have the following terms:

TABLE 054

The fair value of the fixed-interest noncurrent liabilities is derived from the present values of the future interest payments and repayments, discounted at the current market interest rates, taking into account the credit risk of euromicron AG.

Liabilities to banks

The interest rates for liabilities to banks and overdrafts are fixed or variable and range from 1.10% to 8.25% (previous year: 1.10% to 8.25%). The high interest rates relate to terms for overdraft lines under individual agreements between subsidiaries and their banks, but are not used or are terminable at short notice (with a view to optimizing financing).

euromicron AG concluded a borrower's note loan with a volume of €20,000 thousand in October 2014. The borrower's note loan consists of two tranches of €10,000 thousand each, one of which has a variable interest rate and the other has a fixed interest rate. Both tranches have a term of five years. The banks retained €80 thousand (0.4%) as the arrangement fee; this affected net cash in 2014 and was recognized in the income statement in accordance with the German Commercial Code (HGB). In accordance with regulations in the IFRSs, the expense is distributed over the term of the agreement using the effective interest method. The loan liability was reduced by €80 thousand at the time it was disbursed. When the borrower's note loan was concluded, euromicron AG also paid an incentive fee of €30 thousand, which was likewise recognized in the income statement in accordance with the German Commercial Code (HGB). In accordance with regulations in the IFRSs, the expense is deferred and distributed over the term of the agreement using the effective interest method. In fiscal year 2017, these two circumstances resulted in a pro-rata amount totaling €22 thousand (previous year: €22 thousand), which was recognized in the income statement as an interest expense.

Term of the liabilities

	054				Fair value with DVA
	Total	Due in			
		Up to 1 year	1 to 5 years	More than 5 years	
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	90,549	70,556	19,993	0	90,600
Liabilities from finance leases	1,664	521	1,139	4	– ¹⁾
Trade accounts payable	46,996	46,996	0	0	– ¹⁾
Gross amount due to customers for contract work	2,014	2,014	0	0	– ¹⁾
Liabilities from current income taxes	1,385	1,385	0	0	– ¹⁾
Other tax liabilities	4,777	4,777	0	0	– ¹⁾
Personnel obligations	9,795	9,795	0	0	– ¹⁾
Other financial liabilities	2,172	1,562	610	0	2,171
Other liabilities	3,539	3,369	170	0	– ¹⁾
	162,891	140,975	21,912	4	92,771
(Previous year)	151,897	112,448	39,384	65	78,360

¹⁾ The carrying amount corresponds approximately to the fair value.

In the previous year, there was a further borrower's note loan, which was repaid on time. This likewise resulted in fiscal year 2016 in interest expense of €15 thousand resulting from the effective interest method.

So as to ensure its solvency at all times, the euromicron Group maintains a liquidity reserve in the form of short-term credit lines and cash funds. The total unused credit line and cash funds ("free liquidity") at the end of the year was €27,495 thousand (previous year: €43,112 thousand). We refer you to the comments on net financial debt in section 7 f.) "Disclosures on capital management in accordance with IAS 1" for an explanation of the decline in free liquidity.

In principle, the companies in the euromicron Group are financed centrally through euromicron AG.

Liabilities from finance leases

The present value of the liabilities from finance leases and the future interest expense from finance leases are as follows:

TABLE 055/056

Liabilities from finance leases in 2017 055

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1,664	521	1,139	4
Interest	151	61	90	0
Minimum lease payments	1,815	582	1,229	4

Liabilities from finance leases in 2016 056

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1.309	466	778	65
Interest	107	45	61	1
Minimum lease payments	1.416	511	839	66

Liabilities in connection with assets held for sale

We refer you to section 3 "Assets held for sale and liabilities in connection with assets held for sale" for an explanation.

Trade accounts payable

Trade accounts payable in foreign currency (mainly USD and CHF) amount to €3,531 thousand (previous year: €5,812 thousand). The fall in trade accounts payable in foreign currency is mainly due to a lower purchasing volume in USD at individual Group companies due to reporting date-related effects.

Gross amount due to customers for contract work

The gross amount due to customers for contract work in fiscal year 2017 totaled €2,014 thousand (previous year: €1,384 thousand). It results from ongoing contracts in which the partial settlements exceed the incurred costs plus the reported profits (minus any losses).

Liabilities from current income taxes

There were liabilities from current income taxes of €1,385 thousand in fiscal year 2017 (previous year: €3,520 thousand), of which €1,152 thousand (previous year: €3,123 thousand) resulted from liabilities for anticipated tax arrears payable as a result of tax audits. Of this, an amount of €1,147 thousand (previous year: €2,063 thousand) is attributable to a liability for tax arrears payable by euromicron AG in connection with the tax audit for the years 2010 to 2012, resulting in particular from the securities lending transactions conducted in those years. We refer in this regard to the explanations in section 20 "Income taxes" and section 24 c) "Contingent claims / contingent liabilities".

Personnel obligations

The personnel obligations (€9,795; previous year: €9,176 thousand) are made up of financial obligations totaling €5,676 thousand (previous year: €5,334 thousand) and non-financial obligations totaling €4,119 thousand (previous year: €3,842 thousand). The financial personnel obligations mainly comprise obligations from wages and salaries, severance payments and bonuses. The non-financial personnel obligations mainly comprise obligations from vacation and flexitime credit balances that have been not been used by employees.

Other financial liabilities

The other financial liabilities are composed as follows:

TABLE 057

Other financial liabilities	057	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Obligations from preemptive rights	523	0
Purchase price liabilities	80	0
Miscellaneous	7	0
Other noncurrent financial liabilities	610	0
Customers' monies to be passed on	126	141
Dividend/profit shares for minority interests	182	334
Obligations from preemptive tender rights	251	987
Purchase price liabilities	575	0
Liability from the continuing involvement	312	304
Miscellaneous	116	8
Other current financial liabilities	1,562	1,774
Total of other financial liabilities	2,172	1,774

In the euromicron Group, financial liabilities from the earn-out clauses as part of acquisition of the business operations of Elektroanlagen GmbH Dollenchen & Co. KG and liabilities from the put option for the remaining shares in KORAMIS GmbH not held by telent GmbH, which are carried under "Obligations from preemptive tender rights" and "Purchase price liabilities", are measured at fair value. Changes to fair value are carried in the period they occur in the income statement. All other financial liabilities are assigned to the category "Other financial liabilities measured at amortized cost" at the balance sheet date and measured at amortized costs using the effective interest method. Loan commission, which is not included as a transaction cost as part of the effective interest method, totaled €314 thousand (previous year: €748 thousand) and was recognized in the income statement.

Other liabilities

The other liabilities are composed as follows: TABLE 058

Other liabilities	058	
	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Liabilities from rent smoothing	160	146
Liabilities from retained security	10	1
Other liabilities (noncurrent)	170	147
Payments on account	1,009	2,854
Liabilities from social security (incl. mutual indemnity association)	1,007	1,079
Deferred income	767	841
Liabilities from compensation for members of the Supervisory Board	135	56
Liabilities from rent smoothing	31	31
Miscellaneous	420	316
Other current liabilities	3,369	5,178
Total for other liabilities	3,539	5,325

The payments on account include payments that cannot be set off. They also include payments on account from construction contracts in accordance with the percentage of completion method (€561 thousand; previous year: €1,737 thousand).

The contractually agreed (undiscounted) interest payments and repayments for the financial obligations of the euromicron Group are shown below. TABLE 059/060

All financial instruments held on the balance sheet date at December 31, 2017, and for which payments have already been contractually agreed were included. The variable interest payments from the financial instruments were calculated on the basis of the interest rates applicable on December 31, 2017 (previous year: December 31, 2016). Financial liabilities that can be repaid at any time have been assigned to the earliest possible time segment.

euromicron uses derivative financial instruments exclusively to hedge interest rate risks resulting from financial transactions. A decision on this is taken on a case-by-case basis. They are not held for the purposes of short-term speculation. Derivative financial instruments were not held either at December 31, 2017, nor at December 31, 2016.

Cash flow from liabilities in 2017

059

	Carrying amount at Dec. 31, 2017	Cash flow in 2018 Up to 1 year			Cash flow 2019–2022 More than 1 year to 5 years			Cash flow 2023 et seq. More than 5 years		
		Interest		Repaym.	Interest		Repaym.	Interest		Repaym.
		Fixed	Variable		Fixed	Variable		Fixed	Variable	
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	90,549	1,275	200	70,556	206	165	19,993	0	0	0
Liabilities from finance leases	1,664	60	0	521	91	0	1,139	0	0	4
Other financial liabilities	2,172	0	0	1,562	0	0	610	0	0	0
	94,385	1,335	200	72,639	297	165	21,742	0	0	4
(Previous year)	79,584	1,286	201	40,283	729	367	39,236	1	0	65

Cash flow from liabilities in 2016

060

	Carrying amount at Dec. 31, 2016	Cash flow in 2017 Up to 1 year			Cash flow 2018–2021 More than 1 year to 5 years			Cash flow 2022 et seq. More than 5 years		
		Interest		Repaym.	Interest		Repaym.	Interest		Repaym.
		Fixed	Variable		Fixed	Variable		Fixed	Variable	
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	76,501	1,227	201	38,043	668	367	38,458	0	0	0
Liabilities from finance leases	1,309	45	0	466	61	0	778	1	0	65
Other financial liabilities	1,774	14	0	1,774	0	0	0	0	0	0
	79,584	1,286	201	40,283	729	367	39,236	1	0	65
(Previous year)	91,812	741	257	69,661	813	570	22,017	4	0	134

10. Deferred tax liabilities

In accordance with IAS 12.39, no deferred tax liabilities were recognized on taxable temporary differences between the shares in subsidiaries compared with the tax carried of €823 thousand (previous year: €631 thousand), since euromicron AG is able to control the time at which the differences are reversed and it is likely that the temporary differences will not be reversed in the foreseeable future ("outside basis differences").

The deferred tax liabilities result from measurement differences in the following balance sheet items: [TABLE 061](#)

Deferred tax liabilities

061

	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.
Intangible assets	8,743	7,989
Property, plant and equipment	948	786
Inventories	15	18
Other receivables and other assets	27,916	20,938
Provisions	586	849
Other liabilities	9	24
Total deferred tax liabilities before netting off	38,217	30,604
Netting off	-32,619	-24,934
Total deferred tax liabilities after netting off	5,598	5,670

There are long-term deferred tax liabilities (after netting off) totaling €3,198 thousand (previous year: €2,553 thousand); as in the previous year, they result from deferred tax liabilities on measurement differences for intangible assets and property, plant and equipment.

11. Additional disclosures on the financial instruments – Carrying amounts and fair values by measurement categories

Financial instruments by measurement category

	Measurement category acc. to IAS 39	Value carried in the balance sheet acc. to IAS 39				Fair value recognized directly in equity
		Carrying amount at Dec. 31, 2017	Amortized acquisition cost	Acquisition cost	Fair value recognized in profit or loss	
		€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Assets						
Cash and cash equivalents	LaR ¹⁾	4,954		4,954		
Trade accounts receivable	LaR ¹⁾	8,994	8,994			
Gross amount due from customers for contract work	LaR ¹⁾	52,518	52,518			
Other financial assets	AfS ³⁾ LaR ¹⁾ FVtPoL ⁴⁾ IAS 17	4,130	3,910		3	55
			162			
Equity and liabilities						
Trade accounts payable	FLAC ²⁾	46,996	46,996			
Liabilities to banks	FLAC ²⁾	90,549	90,549			
Gross amount due to customers for contract work	FLAC ²⁾	2,014	2,014			
Other financial liabilities	FLAC ²⁾ FVtPoL ⁴⁾	2,172	1,494		678	
Financial personnel obligations	FLAC ²⁾	5,676	5,676			
Liabilities from finance leases	IAS 17	1,664	1,664			

¹⁾ LaR = Loans and Receivables

²⁾ FLAC = Financial Liabilities Measured at Amortized Cost

³⁾ AfS = Available-for-Sale Financial Assets

⁴⁾ FVtPoL = At Fair Value through Profit or Loss

Financial instruments are measured at fair value in accordance with IFRS 13 on three levels:

Level 1: Input factors in level 1 are (not adjusted) prices listed for identical assets or liabilities in active markets to which the company has access on the measurement date.

Level 2: Input factors in level 2 are market price listings other than those stated in level 1 which can be observed either directly or indirectly for the asset or liability.

Level 3: Input factors in level 3 are input factors that cannot be observed for the asset or liability.

The level model was applied for measuring the financial instruments reported at fair value at the euromicron Group. The fair values of the shares in Track Group Inc. (balance

sheet item: "Other financial assets") were measured on the basis of the 1st level, since the share price can be observed on an active market.

The fair values for the fixed-interest long-term debt presented in section 9 "Liabilities" were measured on the basis of level 2. The fair value is derived from the present values of the future interest payments and repayments, discounted at the current market interest rates, taking into account the credit risk of euromicron AG.

The liabilities from the opposite put/call options for the remaining shares in MICROSENS GmbH & Co. KG, Microsens Beteiligungs GmbH, SIM GmbH and ATECS AG not held by euromicron were measured on the basis of level 3. They are carried as "Obligations from preemptive tender rights" or as "Purchase price liabilities" under the other current financial liabilities. The carrying amount of the liabilities is approximately their fair value.

062

Value carried in the balance sheet acc. to IAS 39

Carrying amount at Dec. 31, 2016	Amortized acquisition cost	Acquisition cost	Fair value recognized in profit or loss	Fair value recognized directly in equity
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
6,844		6,844		
18,150	18,150			
40,708	40,708			
				267
6,019	5,550		0	
	202			
44,512	44,512			
76,501	76,501			
1,384	1,384			
1,774	1,774			
			0	
5,334	5,334			
1,309	1,309			

The liabilities from the put/call option for the remaining shares in KORAMIS GmbH not held by telent GmbH were measured on the basis of level 3. The Black-Scholes formula was used to determine the fair value of the put/call options. The main model parameters applied in that are the value of the underlying instrument, the exercise price, the anticipated volatility of the underlying instrument, any dividend payments, the risk-free interest rate, and the anticipated remaining term. The liability from the put option (€523 thousand) is carried as "Obligations from preemptive tender rights" under the other noncurrent financial liabilities. The call option (€3 million) is carried under the other current financial assets.

The liabilities from the earn-out clauses under the agreement to purchase the business operations of Elektroanlagen GmbH

Dollenchen & Co. KG were measured on the basis of level 3. The long-term portion of the liability is carried as "Obligations from preemptive tender rights" under the other noncurrent financial liabilities (€80 thousand). The short-term portion of the liability is carried as "Obligations from preemptive tender rights" under the other current financial liabilities (€75 thousand).

There were no transfers between the levels during the fiscal year. There is no collateral received for financial instruments at the euromicron Group.

The changes in fair value for the liabilities assigned to level 3 are shown in the table below: [TABLE 063](#)

Changes in fair value for the 3rd level financial liabilities

063

	Earn-out liabilities (asset deal Elektroanlagen GmbH Dollenchen & Co. KG)	Liabilities from the put option KORAMIS GmbH	"Obligations from preemptive tender rights" under the other financial liabilities	Total
	€ thou.	€ thou.		€ thou.
Balance at January 1, 2017	0	0		0
Addition of conditional consideration from company acquisitions	155	0		155
Disposal of liabilities from exercise of preemptive right	0	0		0
Addition of the liability from the preemptive right from company acquisition	0	723		723
Reclassification of liability from preemptive right	0			0
Interest accrued on liability from preemptive right	0			0
Change in fair value of the liability from preemptive right	0	-200		-200
Balance at December 31, 2017	155	523		678

Notes on the consolidated income statement

12. Sales

The Group's sales include sales from construction contracts totaling €180,417 thousand (previous year: €175,609 thousand).

The Group's sales are further divided into revenue from the sale of goods (€100,144 thousand; previous year: €99,810 thousand) and from the provision of services (€52,347 thousand; previous year: €49,894 thousand).

There were changes in sales as a result of changes in the consolidated companies in fiscal year 2017 to an amount of €4,255 thousand (previous year: €0 thousand).

13. Own work capitalized

Own work capitalized totals €3,389 thousand (previous year: €2,808 thousand) and results to an amount of €2,705 thousand (previous year: €2,342 thousand) from capitalization of development costs, to an amount of €130 thousand (previous year: €191 thousand) from own work capitalized for software and IT solutions and to an amount of €554 thousand (previous year: €275 thousand) from own work capitalized for property, plant and equipment.

14. Other operating income

The other operating income is composed as follows:

TABLE 064

Other operating income	2017	2016
	€ thou.	€ thou.
Currency gains	673	547
Reduction in allowances for doubtful accounts	474	222
Income from property and rent	248	247
Compensation paid from insurance	179	45
Refunds for health insurance/ reintegration/ passed-on charges	113	83
Income from retirement of noncurrent assets	60	36
Income from cash received from written-down receivables	24	15
Income from damages	14	19
Income from claims for damages against former board members	0	260
Income from claims for reimbursement of litigation and legal costs	0	1,350
Income from claims from rights of recourse against former shareholders of ATECS AG	0	1,151
Other	405	524
	2,190	4,499

15. Cost of materials

TABLE 065

Cost of materials	065	
	2017	2016
	€ thou.	€ thou.
Cost of raw materials and supplies and goods purchased	118,949	120,550
Cost of purchased services	53,483	50,956
	172,432	171,506

16. Personnel costs

TABLE 066

Personnel costs	066	
	2017	2016
	€ thou.	€ thou.
Wages and salaries	95,257	92,019
Social security	17,294	17,038
	112,551	109,057

Average number of employees per year at the Group:

TABLE 067

Employees	067	
	2017	2016
Hourly-paid employees	905	919
Salaried employees	863	823
Trainees	65	62
	1,833	1,804

17. Other operating expenses

TABLE 068

Other operating expenses	068	
	2017	2016
	€ thou.	€ thou.
Vehicle and travel expenses	12,458	12,369
Rent/room costs	6,071	5,814
Legal and consulting costs	5,708	5,632
IT costs	2,497	2,180
Cost of goods consignment	2,454	2,093
Trade fair/advertising costs	1,717	1,884
Communication expenses	1,665	1,944
Commission	1,053	1,221
Further training costs	1,003	928
Currency losses	936	605
Personnel leasing	859	1,054
Running costs	837	792
Allocation of allowances for receivables	612	926
Maintenance and repair	589	636
Administrative expenses	390	454
Expenses incidental to monetary transactions	114	112
Losses of receivables	100	237
Loss from deconsolidation of euromicron NBG Fiber Optics GmbH	70	0
Write down of current assets/ telecommunications business	238	894
Miscellaneous	4,018	4,034
	43,389	43,809

18. Depreciation/amortization

TABLE 069

Depreciation/amortization	069	
	2017	2016
	€ thou.	€ thou.
Amortization of intangible assets	4,380	4,791
of which impairments	150	80
Depreciation of tangible assets	4,025	4,858
of which impairments	0	1,288
	8,405	9,649

Intangible assets (before deferred taxes) totaling €144 thousand were identified and carried as part of purchase price allocation in the company acquisitions/acquisitions of business operations in fiscal year 2017. The amortization and depreciation for this in fiscal year 2017 was €65 thousand.

19. Net interest income / loss / other financial income and expenses

TABLE 070

Net interest income/loss	070	
	2017	2016
	€ thou.	€ thou.
Interest income	313	152
Interest expenses	-4,943	-5,439
Net interest income/loss	-4,630	-5,287

The total interest income and total interest expense for financial instruments not carried at fair value in accordance with IAS 39 are shown in the table below: TABLE 071

Total interest income and expense	071	
	2017	2016
	€ thou.	€ thou.
Total interest expense	-4,483	-4,784
Total interest income	213	18

The other financial expenses (€219 thousand; previous year: €73 thousand) comprise the cost from the impairment to the value of available-for-sale assets (shares in Track Group Inc.: €212 thousand; previous year: €73 thousand) and the decline in value of the call option on the minority interests in KORAMIS GmbH (€7 thousand; previous year: €0 thousand). The other financial income (€200 thousand; previous year: €0 thousand) comprises the effect from adjustment of the liability from the preemptive tender right (put option) of the minority shareholder of KORAMIS GmbH (please refer to section 2 "Acquisition of companies and divisions" for details of the put/call option for KORAMIS GmbH).

Net gains and losses from financial instruments for the measurement categories at the euromicron Group are presented in the following: TABLE 072

Net gains and losses from financial instruments	072	
	2017	2016
	€ thou.	€ thou.
Loans and receivables	129	-770
Financial assets measured at fair value through profit or loss	-7	0
Available-for-sale financial assets	-212	-73
of which carried in the other profit/loss	0	0
of which carried in the income statement	-212	-73
Financial liabilities measured at fair value through profit or loss	200	0
Financial liabilities measured at amortized cost	-4,771	-4,847

The net gains and losses from financial instruments comprise measurement gains and losses, discount amortization, the recognition and reversal of impairment write-downs, gains and losses from currency translation and interest and losses from their disposal. Net gains or net losses from available-for-sale financial assets contain income from write-downs/write-ups, and the transfers of valuation effects from equity when the assets are sold or disposed of.

20. Income taxes

Income taxes	073	
	2017	2016
	€ thou.	€ thou.
Current taxes in Germany	1,309	3,137
Deferred taxes in Germany	-2,648	696
Current taxes abroad	-1,047	1,119
Deferred taxes abroad	2,431	-107
	45	4,845

In fiscal year 2017, a reduction in deferred tax assets totaling €2 thousand (previous year: an increase of €701 thousand) was recognized directly in equity. As in the previous year, it results in 2017 solely from deferred tax assets that had to be recognized in the other profit/loss as part of the application of IAS 19 R. In addition, there were (net) deferred tax assets of €43 thousand that were recognized directly in equity as part of the company acquisitions in 2017. In the previous year, there were no deferred taxes from company acquisitions that were taken directly to equity. Application of the net interest method resulted in deferred tax expenses of €88 thousand (previous year: €118 thousand) in the current reporting period which did not result in recognition of deferred tax liabilities in the balance sheet, since there was a balancing entry in the other profit/loss.

The items "Current taxes in Germany" and "Current taxes abroad" (totaling €262 thousand; previous year: €4,256 thousand) include income tax expenses for previous years of €356 thousand (previous year: €3,203 thousand) and tax income for previous years of €1,878 thousand (previous year: €119 thousand). Of the tax income for previous years, €917 thousand result from partial reversal of the liability for tax arrears payable by euromicron AG, which was set up in the previous year to an amount of €2,063 thousand due to the change in jurisdiction on the issue of economic ownership in the case of securities lending transactions. This tax liability was able to be adjusted accordingly in fiscal year 2017 after conclusion of the tax audit for the years 2010–2012. In addition, this tax audit of euromicron AG resulted in a claim for a tax refund totaling €711 thousand, which is likewise contained as tax income for previous years in the item "Current taxes in Germany".

In the previous year, €1,057 thousand also related to formation of a liability for tax arrears of ATECS AG payable as a result of a tax audit for assessment periods before the company was acquired by euromicron AG. In the previous year, there

was income from claims from rights of recourse against the former shareholders to the same amount; it has been recognized under the other operating income.

The item "Deferred taxes in Germany" (€2,648 thousand; previous year: €696 thousand) includes deferred tax expenses of €1,721 thousand (previous year: €1,391 thousand) resulting from the utilization of corporation income tax and trade tax loss carryforwards on which deferred tax assets have been recognized; it likewise resulted from the tax audit at euromicron AG for the years 2010 to 2012. In the previous year, it also contained deferred tax expenses of €2,006 thousand resulting from derecognition of deferred tax assets on loss carryforwards of euromicron Deutschland GmbH prior to the integrated inter-company relationship.

The table below presents a reconciliation of the tax expense expected in the fiscal year to the tax expense actually disclosed. As in the previous year, the expected tax expense is calculated from a total tax rate of 30.00% and the income before taxes. The total tax rate is calculated from a corporation income tax rate, including solidarity surcharge, of 15.825% and the effective average trade tax rate of 14.175%. **TABLE 074**

Tax reconciliation	074	
	2017	2016
	€ thou.	€ thou.
Income before income taxes	-3,551	-7,624
Expected tax expense	-1,065	-2,287
Non-deductible expenses	270	331
Tax expenses/income not related to the period	-1,503	3,084
Effect from derecognition of deferred tax assets on loss carryforwards/losses prior to the integrated inter-company relationship that can no longer be used due its establishment	0	2,006
Effect from adjustment of deferred taxes formed in previous years on loss carryforwards/temporary differences	1,635	1,483
Non-recognition of deferred taxes on losses of the current year	607	326
Effect from write-downs with no impact on taxes	68	22
Effects of different national tax rates	-26	-138
Recognition of deferred taxes on loss carryforwards (not recognized in previous periods)	-6	-20
Other	-25	38
Actual tax expense	-45	4,845
Effective tax expenses (-)/ tax income (+)	1.3%	-63.5%

21. Share of non-controlling interests in consolidated net income for the period

The consolidated net income for the period for non-controlling interests relates solely to Qubix S.p.A., Padua, Italy (10%). The non-controlling interests should be regarded as not being material in relation to the consolidated financial statements.

22. Earnings per share

Undiluted earnings per share are calculated as follows:

TABLE 075

Undiluted earnings per share	075	
	2017	2016
Earnings for euromicron AG shareholders in € thousand	-3,769	-12,655
Weighted average number of shares issued	7,176,398	7,176,398
Undiluted earnings per share in €	-0.53	-1.76

The earnings for euromicron AG shareholders correspond to the consolidated net loss for the year minus the earnings for non-controlling interests.

The method of calculating diluted earnings per share is basically the same as that for calculating undiluted earnings per share. However, the quantities included in the calculation must also be adjusted for all equity dilution effects resulting from potential shares. There was no dilution effect at the time the consolidated financial statements were prepared. As a result, both figures are the same.

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 (previous year: loss of € -40,916,954.67).

Other disclosures

23. Notes on the statement of cash flows

The cash used in operating activities in fiscal year 2017 was € -1,560 thousand (previous year: € -7,140 thousand). However, comparison of these figures is not meaningful due to effects from factoring (change in the volume of factoring used at the balance sheet date, the receivables from retained factoring monies and the liabilities from customers' monies to be passed on). A detailed presentation of these effects can be found in section 2.3 "Net assets, financial position and results of operations", subsection "Financial position", in the 2017 group management report. Aggregated reconciliation with a cash flow from operating activities adjusted for factoring effects supplies the following comparative figures: TABLE 076

Adjusted cash flow	076		
	Cash flow from operating activities acc. to statement of cash flows	Effects from factoring and customers' monies to be passed on included in that	Adjusted cash flow from operating activities
	€ thou.	€ thou.	€ thou.
2016	-7,140	8,435	1,295
2017	-1,560	1,946	386

After adjustment for factoring effects, there is net cash provided by operating activities in fiscal year 2017 totaling €386 thousand (previous year: €1,295 thousand). The cash flow from operating activities in fiscal year 2017 thus fell slightly by € -909 thousand over the previous year. Coupled with an increase in EBITDA of €2,118 thousand and a

€1,236 lower cash outflow from the balance of paid and received income taxes and interest, this is attributable to an amount of € -4,226 thousand to cash effects from the change in working capital: Whereas the reduction in working capital resulted in positive cash flow effects of €1,741 thousand in 2016, the cash flow for 2017 was negatively

influenced to an amount of € –2,485 thousand by the slight increase in working capital, due especially to the Group's growth. There were also minor negative effects of € –37 thousand from the change in other items.

Under the contractual trust agreement, trade accounts receivable of €165 thousand were allocated to the plan assets in fiscal year 2017. Receivables of €2,471 thousand were allocated to the plan assets in the previous year.

Net cash used in investing activities is derived from the net cash from the disposal of assets and the net cash used for investments in property, plant and equipment and intangible assets, as well as company acquisitions. The net cash used in the fiscal year was € –13,471 or € –5,701 higher than in the previous year (€ –7,770 thousand). This is mainly the result of higher net cash used in purchasing property, plant and equipment (€ –6,380 thousand; previous year: € –3,776 thousand) and in purchasing intangible assets (€ –4,410 thousand; previous year: € –3,464 thousand). The net cash used in investing activities was also impacted by an increase

of € –1,439 thousand in net cash used in company acquisitions and, to an amount of € –701 thousand, by effects from the disposal of subsidiaries and other business units. €452 thousand of the loan obligations totaling €529 thousand that were assumed as part of company acquisitions was repaid in the fiscal year.

The net cash provided by financing activities in fiscal year 2017 was €13,141 thousand (previous year: €11,032 thousand). The net cash inflow in fiscal year 2017 was mainly due to the raising of new loans, which exceeded the net cash used to repay loans by €13,945 thousand (previous year: net cash inflow of €11,710 thousand). On the other hand, there were cash repayments of liabilities from finance leases totaling € –525 thousand (previous year: € –526 thousand) and distributions to non-controlling shareholders and from profit shares of minority interests totaling € –279 thousand (previous year: € –152 thousand).

The table below presents the reconciliation of the changes in debt with the cash flows from financing activities: [TABLE 077](#)

Reconciliation of the changes in debt with the cash flows from financing activities

077

	Note	Liabilities to banks	Liabilities from finance leases	Other financial liabilities	Total
		€ thou.	€ thou.	€ thou.	€ thou.
Balance sheet as of January 1, 2017		76,501	1,309	1,774	79,584
Changes in the cash flow from financing activities					
Proceeds from raising of financial loans	(23)	18,720			18,720
Cash repayments of financial loans	(23)	–4,775			–4,775
Cash repayments of liabilities from finance leases	(23)		–525		–525
Distributions to/withdrawals by non-controlling interests and profit shares of minority interests	(23)			–279	–279
Total change in the cash flow from financing activities		13,945	–525	–279	13,141
Changes from the acquisition of subsidiaries and other business operations	(3)	59	0	0	59
Other changes					
Addition of liabilities from new finance lease agreements	(9)		880		880
Addition of liabilities from preemptive tender rights and purchase price payments	(3; 9)			878	878
Fair value changes in liabilities from preemptive tender rights	(3; 9)			–200	–200
Disposal of liabilities from preemptive tender rights and purchase price payments due to exercise of rights/options	(3; 9)			–251	–251
Addition from adopted distributions to non-controlling shareholders				125	125
Effects from accrued interest on options	(3)			14	14
Other effects (accumulated)	(9)	44		111	155
Total for other changes		44	880	677	1,601
Balance sheet as of January 31, 2017		90,549	1,664	2,172	94,385

24. Contingencies and other financial obligations

(a) Contingencies

The euromicron Group does not have any contingencies in favor of third parties.

(b) Other financial obligations

There are the following other financial obligations on the balance sheet date: [TABLE 078](#)

Other financial obligations in 2017

078

	Total	Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Bill commitments	3,707	3,707	0	0
Operating lease	24,883	8,044	14,406	2,433
Purchase obligation	19,546	19,410	136	0
	48,136	31,161	14,542	2,433
Previous year	43,979	28,750	14,814	415

The purchase obligation relates to orders for order-related goods and services; orders of intangible assets or tangible assets were insignificant.

Obligations as part of operating lease agreements comprise the future minimum lease payments from unterminable agreements and mainly relate to rental and leasing agreements for operating and office equipment, such as cars, office machines or PC workstations, and communications technology; these obligations total €24,883 thousand (previous year: €23,742 thousand). In fiscal year 2017, payments from these leasing relationships totaling €9,411 thousand (previous year: €9,475 thousand) were recognized in the income statement. Conditional lease payments of €25 thousand (previous year: €25 thousand) were carried.

(c) Contingent claims/contingent liabilities

In fiscal year 2017, the company took legal action to claim damages totaling €4.2 million from a former Executive Board member due to breaches of duty. Due to uncertainty as to when they might arise and their amount, these contingent claims were not recognized at December 31, 2017.

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 contingent liability has not been carried in the balance sheet to date. The possible risk of the claims being payable is assessed as low.

In fiscal year 2017, there was a contingent liability in connection with securities lending transactions. There is also a risk that amounts of tax withheld as part of dividend payments (capital gains tax and solidarity surcharge) might no longer be able to be offset by euromicron AG due to the change in jurisdiction on the issue of securities lending transactions. This would result in payment of tax arrears of €5.8 million plus interest. An appeal has been lodged and suspension of execution applied for. The fiscal authorities granted the suspension of execution. In addition, this issue means that euromicron AG has contingent claims to the same amount due to claims from rights of recourse against the securities lender and former board members of euromicron AG. These claims have been underpinned by a legal opinion from a specialist external attorney. All in all, the Executive Board does not therefore expect a negative impact on the Group's liquidity as a result of this matter.

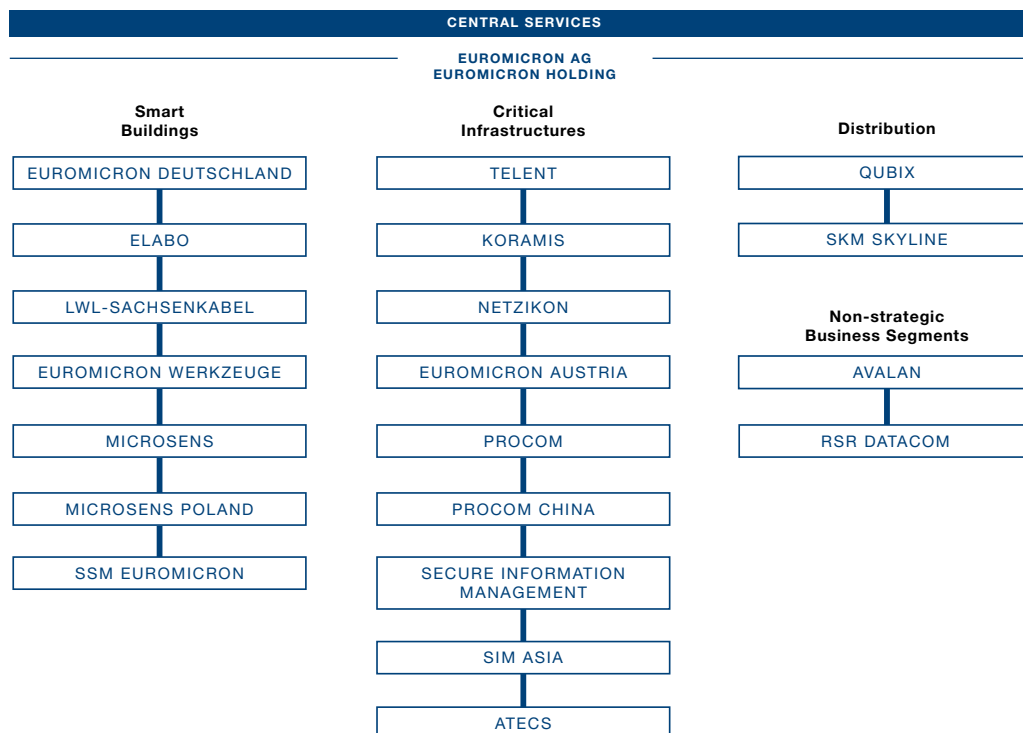
25. Segment reporting

The Executive Board is the main decision-maker in the Group. The business segments were identified on the basis of the internal reporting the Executive Board uses to allocate resources and assess earnings strength.

Under its strategic alignment, the euromicron Group focuses on the three main business areas of “Smart Buildings”, “Critical Infrastructures” and “Distribution”. Controlling and the reporting structure are in line with the orientation toward the target markets and the underlying value chain within the Group.

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 Areas”. The previous year’s figures have been accordingly adjusted in segment reporting.

Segment structure



Description of the segments:

All the activities of the euromicron Group in the target markets of “Digital Buildings” and “Smart Industry” are pooled in the “Smart Buildings” segment. In the target market of “Digital Buildings”, euromicron provides infrastructure-related intelligent solutions, such as “Smart Office”, “Smart Energy” or “Smart Lighting”. Services relating to building or process automation, light control, access control, video surveillance, fire prevention or support services as part of efficient energy and building management are planned, implemented and operated as part of that. The focus in the target market of “Smart Industry” is on digitizing and networking development, production and service processes in industry. The euromicron Group develops holistic approaches and the related processes for and with its customers and implements them in a forward-looking way that protects investments. This segment also includes services relating to the equipment of data centers with innovative connector systems.

The “Critical Infrastructures” segment deals with vital business infrastructures whose failure is highly problematic. Such infrastructures may be the digital mobile radio system at an airport or the communications network of Deutsche Bahn or a power utility, for example. System integration comprises the planning, production and operation of digitized critical infrastructures. In addition, the technology manufacturing companies in this segment round out the product portfolio in this target market with their professional video, audio and special technology solutions for sensitive security restricted areas.

The “Distribution” segment advises and supplies customers in a vendor-independent manner in all matters relating to active and passive network components in the fiber-optic and copper arena.

“All other segments” consists of the “Non-strategic Business Areas” and “Central Services”. The “Non-strategic Business Areas” include the business units that have been identified by the Executive Board as no longer being of relevance at Avalan GmbH (in liquidation), euromicron NBG Fiber Optics

GmbH (sold effective October 30, 2017), euromicron benelux S.A. (liquidated effective December 22, 2017), RSR Datacom Verwaltungs GmbH, and RSR Datacom GmbH & Co. KG, whose business operations were discontinued. The “Central Services” area mainly includes euromicron AG as the strategic management holding company. euromicron AG also pools the corporate departments of financing, group controlling and accounting, taxes, legal affairs, human resources, purchasing, IT, corporate marketing, investor relations and innovation management, which act as service providers within the Group.

The reconciliation contains the consolidation of the cross-segment network of services and various other items that cannot be assigned to the individual areas, since the Executive Board believes they do not reflect the services provided by the areas.

Control factors

The Executive Board assesses the earnings strength of the business segments on the basis of operating EBITDA and the operating EBITDA margin (operating EBITDA relative to sales). Operating EBITDA excludes effects from one-off expenses in the business segments, such as reorganization costs due to personnel measures. Apart from these key figures, sales and the working capital ratio (working capital used relative to sales) are the most important control factors.

The sales and earnings, as well as the current assets and liabilities included in the working capital, that are reported to the main decision-maker are measured in accordance with the same principles and standards as in euromicron’s consolidated financial statements. Transactions within and between the segments are reflected at market prices (at arm’s length principle).

The working capital is calculated from the total of inventories, trade accounts receivable and the gross amount due from customers for contract work minus trade accounts payable, the gross amount due to customers for contract work and received prepayments.

Segment reporting

of the euromicron Group for the period January 1 to December 31, 2017 (IFRS)

Segment reporting

	Smart Buildings		Critical Infrastructures		Distribution	
	2017	2016	2017	2016	2017	2016
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
External sales	190,021	191,243	119,706	110,051	22,448	20,678
Sales within the Group	1,902	2,471	1,280	1,119	1,105	1,925
Total sales	191,923	193,714	120,986	111,170	23,553	22,603
EBITDA	5,981	4,174	6,829	7,085	3,988	3,145
EBIT margin	3.1%	2.2%	5.6%	6.4%	16.9%	13.9%
of which reorganization costs	915	1,774	0	481	0	0
Operating EBITDA	6,896	5,948	6,829	7,566	3,988	3,145
Operating EBITDA margin	3.6%	3.1%	5.6%	6.8%	16.9%	13.9%
Amortization and depreciation	-5,162	-5,588	-2,491	-1,977	-313	-369
Write-downs of property, plant and equipment, intangible assets and goodwill	-150	-879	0	-489	0	0
EBIT	669	-2,293	4,338	4,620	3,675	2,776
of which reorganization costs	915	2,264	0	970	0	0
Operating EBIT	1,584	-29	4,338	5,589	3,675	2,776
Order books	75,764	65,664	49,077	54,251	1,863	2,006
Working capital	54,054	53,552	6,560	1,868	3,654	3,852
Working capital ratio	28.2%	27.6%	5.4%	1.7%	15.5%	17.0%

Total for all reportable operating segments		All other segments						Reconciliation		Group	
		Non-strategic Business Areas		Central Services		Total for the segments					
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
332,175	321,972	733	3,341	0	0	332,908	325,313	0	0	332,908	325,313
4,287	5,515	85	384	0	0	4,372	5,899	-4,372	-5,899	0	0
336,462	327,487	818	3,725	0	0	337,280	331,212	-4,372	-5,899	332,908	325,313
16,798	14,404	-443	-983	-6,852	-6,036	9,503	7,385	0	0	9,503	7,385
5.0%	4.4%					2.8%	2.2%			2.9%	2.3%
915	2,255	341	570	2,727	2,937	3,983	5,762	0	0	3,983	5,762
17,713	16,659	-102	-413	-4,125	-3,099	13,486	13,147	0	0	13,486	13,147
5.3%	5.1%	-12.5%	-11.1%			4.0%	4.0%			4.1%	4.0%
-7,966	-7,934	-1	-26	-288	-321	-8,255	-8,281	0	0	-8,255	-8,281
-150	-1,368	0	0	0	0	-150	-1,368	0	0	-150	-1,368
8,682	5,103	-444	-1,009	-7,140	-6,357	1,098	-2,264	0	0	1,098	-2,264
915	3,234	341	570	2,727	2,937	3,983	6,741	0	0	3,983	6,741
9,597	8,337	-103	-439	-4,413	-3,420	5,081	4,477	0	0	5,081	4,477
126,704	121,921	601	1,571	0	0	127,305	123,492	-210	-238	127,095	123,254
64,268	59,272	-300	-38	-1,385	-1,304	62,583	57,930	-19,604	-19,442	42,979	38,488
19.1%	18.1%					18.6%	17.5%			12.9%	11.8%

Explanation of selected items

The reconciliation with the working capital item includes off-setting and netting off of the plan assets, consisting of trade accounts receivable, with the relevant provisions for pensions. For an explanation of the composition of the reorganization costs, we refer you to our comments in the management report (section 2.2 "Course of business", subsection "Development of the segments", and section 2.3 "Net assets, financial position and results of operations", subsection "Results of operations").

Sales by region

Sales in Germany were €277.8 million (previous year: €274.3 million), in the Euro zone €37.3 million (previous year: €35.7 million) and in the Rest of the World €17.8 million (previous year: €15.3 million). The sales relate to the geographical location of the customers.

Sales by category

Breakdown of sales for all products and services: Consolidated sales are divided into those from construction contracts totaling €180,417 thousand (previous year: €175,609 thousand), from the sale of goods totaling €100,144 thousand (previous year: €99,810 thousand) and from the provision of services totaling €52,347 thousand (previous year: €49,894 thousand).

Sales by customer

There are sales exceeding the thresholds defined by IFRS 8.34 with one customer (previous year: one customer). These sales total €33,857 thousand (previous year: €33,656 thousand) and were generated in the segments "Smart Buildings", "Critical Infrastructures" and "Non-strategic Business Areas".

Noncurrent assets

In accordance with IFRS 8.33b, noncurrent assets are €121,186 thousand in Germany (previous year: €116,023 thousand), €24,727 thousand (previous year: €24,741 thousand) in other European countries, and €648 thousand (previous year: €41 thousand) in non-European countries. They are composed of:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Other financial assets
- Other assets

26. Risk management**Principles of risk management**

As a result of its business activity, the euromicron Group is exposed to various risks. They are countered by a risk management system that has been implemented throughout the Group and is closely geared to its business strategy. The internal control system and compliance policies are inseparable from the risk management system. They ensure that financial reporting is performed correctly and the rules of conduct are observed by employees. The existing system of controls and policies enables the euromicron Group to comply with the stipulations of the corporate governance guidelines. The focus is in particular on finance and accounting, controlling and taxes, legal and compliance and the main operating processes.

Risk control

The concrete risks to which the euromicron Group is exposed in terms of assets, liabilities and strategic alignment are mainly in changes in the market situation, financing situation and interest rates. To minimize them, the basic elements of the business and financial policy are defined by the Executive Board and monitored by the Supervisory Board. In turn, Finance and Accounting, Controlling and Taxes are responsible for operationally implementing the financial policy and constant risk management.

Market risks

In principle, euromicron is dependent on economic trends in the Euro zone; the German market accounts for 83.4% (previous year: 84.3%) of sales and so is crucial to the Group's success. Germany is also the area of activity of most of the euromicron Group's operating units, which are benefiting from investments in communications, security and data networks. Apart from economic risks, euromicron is subject to the fundamental risks relating to other market players and pressure on prices. euromicron tackles these challenges by nurturing intensive contacts with customers and special solutions in niche markets so as to be able to offer top-quality products and services at competitive prices.

Risks of default

Due to its broad customer base and financing activity, the euromicron Group is subject to the risk of defaults, which it reflects by means of individual allowances for doubtful accounts. However, an unusually high risk exposure cannot be discerned. Only one customer accounted for more than 10% of consolidated sales in fiscal year 2017 (previous year: one customer). In addition, the risk of default is minimized by Group-wide monitoring of accounts receivable. Moreover, credit sale insurance policies were concluded for specific companies. The maximum risk of default is to the carrying amounts of the financial assets carried on the balance sheet which are not secured by credit sale insurance policies.

Financing and liquidity risks

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 financial risk for the euromicron Group is the provision of sufficient liquidity for the subsidiaries' business operations. euromicron AG must ensure that the receivables resulting from financing of the operating units through the cash pool retain value. This is achieved by permanent and standardized finance management and reporting that constantly monitors and assesses the subsidiaries' activities and assigns measures to them.

With regard to the measures to secure future liquidity, please refer to the comments in section 31 "Significant events after the balance sheet date" and section 3.2 "Risk report and salient features of the risk management system" in the group management report for 2017.

Interest rate risks

Interest rate risks are restricted exclusively to the Euro zone. To protect against these risks, the euromicron Group relies on a balanced mix of a variable and fixed financing structure.

The financing that was contractually agreed and utilized at December 31, 2017, will result in interest expenses of around €2.0 million by the end of their term (previous year: €2.6 million). A sensitivity analysis is used to assess the interest rate risks. This shows the effects of different market interest rates on interest payments, interest income and interest expenses.

The euromicron Group complies with these stipulations and applies further assumptions:

- Changes in market interest rates for original financial instruments with a fixed rate have an impact on the result only if these instruments are measured at their fair value. All financial instruments with a fixed rate that are measured at their amortized acquisition cost are not therefore exposed to the risk of any change in interest rates.
- Changes in market interest rates for original financial instruments that have a variable rate and whose interest payments are not designed as a hedged item as part of cash flow hedges against risks of interest rate changes have an effect on the net interest income/loss and are included in calculation as part of the earnings-oriented sensitivity analysis.

If the average market level for interest rates in 2017 had been 50 base points higher, income before taxes at the euromicron Group would have been €274 thousand lower. There would have been no effects if the average market level for interest rates had been lower. The hypothetical impact on income is mainly the result of the original financial instruments with a variable rate of interest and factoring.

Internal control system

In order to comply with statutory requirements, the euromicron Group continued to focus in fiscal year 2017 on monitoring its main corporate processes. In particular, the internal controls are aimed at minimizing operational risks and avoiding mistakes in sensitive areas of the company. For example, the company ensures that key functions are kept strictly separate from each other and that the four eyes principle is applied comprehensively. Moreover, Finance and Accounting, Controlling and Taxes very closely observe changes in accounting and employees are given extensive training by external consultants if and when required.

The controls are carried out throughout the Group and their suitability and comprehensiveness are reviewed regularly on a test basis.

Appropriate measures to minimize risks from project business were implemented in previous years. For further details on risks, please refer to the comments in section 3.2 "Risk report and salient features of the risk management system" in the group management report for 2017.

In fiscal year 2017, euromicron AG's risk identification system complied with the measures to set up a suitable risk identification system specified by Section 91 (2) AktG (German Stock Corporation Law). The risk identification system is suitable for promptly detecting developments that might jeopardize the company's continued existence.

Compliance

For the Executive Board of euromicron AG, corporate governance based on integrity means morally and legally responsible conduct, in particular toward executives, employees and all business partners. These maxims are actively practiced by the Executive Board, Supervisory Board and employees and have been incorporated in the company's Code of Conduct. This serves as the basis for creating a consistent understanding of ethical conduct in the Group. The Code of Conduct can be viewed on the company's homepage at www.euromicron.de/en/company/code-of-conduct.

In addition to the general guidelines for compliance in practice, the Executive Board – in coordination with the compliance officer of euromicron AG – selects each year a special area of focus so as to ensure adequately at all times that our individual divisions are able to cope with the changes that they are subject to. The aim of this is to address the changes in requirements from operational business and in the market environment. Our divisions are to be developed further on the basis of the created compliance structure with reference to the separately defined areas of focus.

27. Related parties

Persons and companies are regarded as related parties if they control the euromicron Group or exert a significant influence on its financial and business policy or the euromicron Group has a significant influence over them.

There are no transactions with related parties that require disclosure.

Further relations with members of the Executive Board and Supervisory Board are explained in section 33.

28. Declaration on the Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Law)

In fiscal year 2017, euromicron AG largely complied with the recommendations of the German Corporate Governance Code in its version dated February 7, 2017, which was published in the Federal Official Gazette on April 24, 2017. The exceptions are listed in the declaration on conformance by the Executive Board and Supervisory Board dated December 8, 2017, which can be read on the company's homepage at: <https://www.euromicron.de/en/investor-relations/declaration-on-conformance-2017>

29. Stock option program/ securities transactions requiring disclosure

There is currently no new stock option program or comparable incentive system based on securities. The members of the Executive Board and Supervisory Board do not hold more than 1% of the shares issued by euromicron AG directly or indirectly.

30. Auditors' fees

Auditors' fees	2017		2016	
	Total	Of which not related to the period	Total	Of which not related to the period
	€ thou.	€ thou.	€ thou.	€ thou.
Auditing services	486	12	536	19
Tax consulting services	41	7	262	26
Other services	159	0	13	0
Total	686	19	811	45

The independent auditor of euromicron AG is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

The auditing services comprise the fees for auditing the financial statements of the companies and the Group. The fees for tax consulting services include in particular fees for preparing tax returns. The fees for other services comprise in particular an analysis of the target markets relating to the euromicron Group's strategic orientation.

31. 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.

32. Publication of the consolidated financial statements

On March 27, 2018, the audited consolidated financial statements and group management report of euromicron AG are to be released for publication as of March 28, 2018, by the Supervisory Board following their submission by the Executive Board and deposited with the operator of the electronic Federal Official Gazette.

euromicron AG makes use of the provision under Section 264 (3) German Commercial Code (HGB) that exempts subsidiaries of euromicron AG from the obligation to prepare notes and/or a management report and to audit and disclose annual financial statements and management reports, and fulfills all the necessary conditions. This goes for all subsidiaries (see "List of companies included in the consolidated financial statements" in the section "Consolidated companies") with the exception of the following. Exceptions are ATECS AG, Zug, Switzerland, Avalan GmbH (in liquidation), Spiesen-Elversberg, euromicron austria GmbH, Seekirchen, Austria, euromicron benelux S.A., Ellange, Luxembourg (liquidated effective December 22, 2017), euromicron holding GmbH, Seekirchen, Austria, euromicron NBG Fiber Optics GmbH, Seekirchen, Austria (sold effective October 30, 2017), Microsens Beteiligungs GmbH, Hamm, MICROS-ENS Sp.z o.o., Wroclaw, Poland, Netzikon GmbH, Backnang, RSR Datacom Verwaltungs GmbH, Essen, Qubix S.p.A., Padua, Italy, Secure Information Management (Asia Pacific) Pte. Ltd., Singapore, KORAMIS GmbH, Saarbrücken, and ProCom Communication Systems Trading (Beijing) Co. Ltd., Beijing, China, which disclose their annual financial statements in accordance with their respective national regulations.

33. Supervisory Board and Executive Board

(a) Executive Board

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

(b) Supervisory Board

The members of the Supervisory Board of euromicron AG are:

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 of
Renusol Europe GmbH, Cologne
Deputy Chairman of the Supervisory Board of
SKW Stahl-Metallurgie Holding AG, Munich

The term of office of the members of the Supervisory Board expires at the end of the General Meeting that decides on discharge of them for fiscal year 2020.

(c) Remuneration of the board members

In total, the members of the Supervisory Board received compensation of €135 thousand (previous year: €135 thousand) in accordance with the Articles of Association; it consisted solely of fixed compensation. The fixed compensation for members of the Supervisory Board is €30 thousand, with the Chairman of the Supervisory Board receiving twice and his/her deputy one-and-a-half times the fixed compensation.

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 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).

As in the previous year, the total compensation for the Executive Board consists solely of short-term benefits.

In the years 2016 and 2017, the Executive Board members were granted interest-free advances on the LTI component in the form of payments on account totaling €116 thousand. The advances must be repaid if the agreed targets for the LTI component are not achieved.

As in 2016, no expenses from the pension commitments to Executive Board members were recognized in fiscal year 2017.

The disclosures required for listed stock corporations pursuant to Section 314 (1) No. 6 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.

34. Declaration by the legal representatives

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

Frankfurt/Main, March 26, 2018

Bettina Meyer
Spokeswoman of the
Executive Board

Jürgen Hansjosten
Member of the
Executive Board

**SINGLE-
ENTITY
FINANCIAL
STATEMENTS
(HGB)**

188	Balance sheet as of December 31, 2017
188	Assets
189	Equity and liabilities
190	Income statement for the period January 1 to December 31, 2017

Balance sheet as of December 31, 2017

of euromicron AG, Frankfurt/Main

Assets	081	
	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	37,248,138.69
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

082

	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 €1,551,000.41; previous year: €197,729.73)	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

Income statement

083

	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

**FURTHER
iNFOR
MAtiON**

194	Five-year overview of the Group
195	Glossary
202	List of tables
204	Financial calendar

Five-year overview of the Group

Values from the income statement

084

	2017	2016	2015	2014	2013
	€ m.	€ m.	€ m.	€ m.	€ m.
Sales	332.9	325.3	344.9	346.3	325.7
Germany	277.8	274.3	291.3	293.9	287.6
Euro zone	37.3	35.7	35.2	31.3	27.4
Rest of World	17.8	15.3	18.4	21.1	10.7
EBITDA (operating)*	13.5	13.2	13.8	21.1	8.7
EBITDA	9.5	7.4	6.9	21.1	8.7
EBIT (operating)*	5.1	4.5	4.5	11.4	-0.2
EBIT	1.1	-2.3	-8.6	11.4	-0.2
EBT	-3.6	-7.6	-12.7	7.8	-4.0
Consolidated net income for the period for shareholders of euromicron AG	-3.8	-12.7	-13.3	2.6	-6.5
Net cash provided by operating activities	-1.6	-7.1	4.5	-1.9	39.4

* Adjusted for special effects of the reorganization

Values from the balance sheet

085

	2017	2016	2015	2014	2013
	€ m.	€ m.	€ m.	€ m.	€ m.
Current assets	105.4	103.4	128.9	150.7	161.5
Noncurrent assets	146.8	141.2	142.0	136.7	155.0
Current liabilities	142.9	114.0	142.8	119.4	152.5
Noncurrent liabilities	30.7	48.2	31.0	57.6	52.8
Minority interests	0.6	0.5	0.4	0.4	0.4
Equity	78.6	82.4	97.0	110.4	111.2
Total assets	252.2	244.6	270.8	287.4	316.5
Equity ratio	31.1%	33.7%	35.8%	38.4%	35.1%
Working capital ratio	12.9%	11.8%	17.8%	19.2%	17.1%

Miscellaneous

086

	2017	2016	2015	2014	2013
	€ m.	€ m.	€ m.	€ m.	€ m.
Investments in property, plant and equipment and intangible assets	12.2	8.9	8.2	6.4	6.4
Employees (number as an average for the year)	1,833	1,804	1,825	1,784	1,741

Glossary

Big data

Big data denotes quantities of data that are too large or too complex to analyze using conventional data processing methods. Large volumes of data are created in particular in the Internet of Things, for example from the areas of industry, communication, the energy sector and transportation. The source for collecting this data may be intelligent sensors, smart metering systems or video cameras that store, analyze and prepare the data using special software tools. This form of processing is regarded as the basis for smart services.

BOS wireless communication (BOS = public authorities and organizations that perform security tasks)

Separate wireless systems for public authorities and organizations that perform security tasks, such as the police, fire brigade and emergency services. These mobile systems have to be expanded in particular in tunnels, garages, etc., due to the increased requirements for security in these areas and to ensure that emergency forces can be reached there.

Cloud computing

Cloud computing describes the approach for providing abstracted IT infrastructures (e.g. computing capacity, data storage, network capacities or ready software) over a network and dynamically adapted to requirements. From the user's perspective, the abstracted IT infrastructure that is provided appears remote and opaque, as if surrounded by a "cloud". These services are offered and used only via defined technical interfaces and protocols. The services offered in cloud computing cover the full range of information technology and include infrastructure (e.g. computing power, storage space), platforms and software.

Cybersecurity

Attacks on information infrastructures are growing in number and professionalism. Cybersecurity deals with all aspects of security in information and communications technology. The field of activity of traditional IT security is expanded to cover the whole of cyberspace. The latter comprises all information technology that is connected to the Internet and similar networks, including means of communication, applications and processes based on it. Cybersecurity is the sum total of suitable and reasonable measures to protect against attacks.

ELABO Information management (EIM)

Smart Industry solutions also make a major contribution to increasing efficiency in production in the small and medium-sized sector. They support the mainly manual work operations by means of an optimized information flow and so reduce time losses and error rates. ELABO Information Management (EIM), a software solution from euromicron's subsidiary ELABO, enables comprehensive controlling and networking of the production and value added processes of a company in the electrical industry. The special nature of the software is shown by the fact that all the latest process-related information is available in real time at every workplace of a business establishment. In order to achieve that, EIM accesses a database in which all the company's process data is archived centrally. The use of Smart Industry solutions such as EIM means that developers and producers of electronic modules can thus achieve comprehensive process controlling that supports and simplifies operations at many points. This EIM-based means of process management can also be supplemented by process-integrated safety and security measures, as well as special workplace configurations.

EvaloriQ

EvaloriQ from telent GmbH – a euromicron Group company – is a scalable software platform for the Internet of Things. As part of the system, conventionally automated processes and systems can be connected with IoT sensors and actuators so as to generate new utility value. The solution, which was created in cooperation with Bilfinger GreyLogix, has detailed presentation and analysis options. Application areas include solutions from the segments of smart industry, smart city, smart metering, smart parking and smart environment. For example, meters can be read and the figures passed on to existing billing systems via standardized interfaces. It also enables presentations in trend graphs or dynamic process images for energy management that can be compared using analysis tools.

Building automation

Building automation denotes the sum total of all facilities (including software) that enables overarching and automatic monitoring, control, regulation and operational optimization of systems in one or more buildings. As a key component of facility management, building automation aims to control functional processes automatically and across all disciplines and to simplify their operation and monitoring. Special control stations are used as the management center, depending on the size and complexity of the object or property to be automated. Alerting systems (for fire, burglary or assaults), access control systems and monitoring systems are not part of building automation. However, these systems can be linked to the building automation.

Danger management systems

In practice, software systems consolidate incidents from the various existing security facilities and information systems as part of building automation. euromicron offers systems for structured and clear presentation of incident-specific measures for the entire security, building, communications and IT infrastructure. Various technologies, such as burglar alarm systems, escape door systems and building control technology are combined in one central software platform in a vendor-independent manner. Intelligent visualization of the incidents enables users to identify situations properly. Users are guided to the ideal solution by means of procedural instructions and actions that run automatically in the background. The solution goes further than the familiar scope of a pure danger management system and also offers integration of existing systems on a single user interface.

Green building

A green building denotes a building that has been developed with the guiding principle of sustainability in mind. Features of such buildings include high resource efficiency in the areas of energy, water and material, as well as a reduction in damaging impacts on health and the environment. Ideally, the guiding principle is heeded over all phases of the building's lifecycle – from project development, planning and construction, operation and maintenance, to dismantling. The advantages of a green building are obvious: greater cost-effectiveness thanks to lower power consumption and an advanced environmental footprint thanks to the use of natural materials and concepts.

Industrial Ethernet

Industrial Ethernet denotes all efforts to enable the Ethernet standard to be used for networking equipment in industrial production. Industrial Ethernet is now a firmly established term that, among other things, describes the use of Ethernet-based components such as industrial switches ("ruggedized switches") in harsh environments. Such components, which are needed to control and monitor production processes, for example, are particularly sensitive to dust, dirt and large temperature fluctuations.

Smart Industry

The term "Smart Industry" stands for the fourth industrial revolution and so for a radical change in production technology. It follows on from the third industrial revolution, which was initiated in the 1970s and is characterized by increasing automation of production through the use of electronics and IT. From today's vantage point, the first industrial revolution comprised mechanism using water and steam power. It was followed by the second industrial revolution, in which mass production was enabled by assembly lines and electrical energy. As part of the German government's high-tech strategy, Smart Industry is a key future-oriented project that is intended to drive computerization of production technology and lastingly strengthen Germany as a place to do business. The goal is to achieve the "smart factory", which is characterized by adaptability, resource efficiency, ergonomic design of workplaces and integration of customers and business partners in business and value added processes. The technological foundation of Smart Industry is cyber-physical systems and the Internet of Things.

Smart Buildings

Smart buildings link state-of-the-art building technologies with IP-based information and communications technology so that, for example, office buildings, industrial complexes or multi-story car parks can be operated cost-effectively, in an ecologically balanced manner and as best suited to needs. Numerous application areas are conceivable. One example of cross-discipline interaction between the technologies is controlling of the lighting at the workplace (use of daylight, sun shades and glare protection, energy-saving use of bulbs) with the aid of blind controllers and sensors that are able to communicate for detecting movement and measuring light intensity, wind strength and room temperature. In addition, such solutions enable all information of relevance to overarching tasks, such as visualization, maintenance management, incident management, etc., to be made available anywhere in the world. Smart Buildings with their integrated disciplines, such as building automation, fire prevention, safety, security, lighting or access control, thus become an integral part of the Internet of Things.

Internet of Things

The term "Internet of Things" (IoT) generally denotes the objective of networking the virtual world with the real one. The emergence of the IoT means that not only people and (personal) computers will interact in future, but also intelligent things (devices). Essentially, IoT denotes the linking of unambiguously identifiable physical devices or sensors over the Internet. These smart devices are to think, learn, act independently and interact with other process participants. As part of the growing digitization of business processes and networking over the Internet, all parties involved in a process are provided with specific status information via IoT, so that interaction between them in real time is enabled. Instead of being the subject of attention as it is now, IoT is intended in future to help people almost unnoticed in their activities and so offer them direct benefits. The IoT enables new business models. The information that is collected and made available can be used to tap potential for optimization. One possible scenario, for example, is prompt reporting of an impending defect together with automatic notification of a maintenance service (see also "Predictive maintenance").

IoT platform

As a software-based database, an IoT platform enables networking of a wide range of different sensors, terminal devices and applications for solutions in the Internet of Things. As a result, innovative business models and cross-domain applications can be realized. The technology ensures information is exchanged by creating a link between systems and providing functions for controlling and analyzing data. IoT platforms are the elements that link the hardware and application-specific software solutions, such as ERP systems, in which the obtained data can be pooled, evaluated and analyzed.

Critical Infrastructures (KRITIS)

Modern, technologically highly developed societies depend on a reliable infrastructure, for example in energy and water supply or for emergency/rescue services. Disruptions and outages may entail considerable economic damage and directly impact large parts of the population. That also goes for information and communications technology, on which 40% of value added worldwide is already based. Consequently, secure and solid infrastructures are a factor that underpins a good business location with a future. The German government has therefore adopted the IT Security Act in order to establish Germany as one of the most secure digital locations in the world. Among other things, this act defines special requirements for the IT security technology used for Critical Infrastructures (KRITIS), which are vital to society and the economy. Critical infrastructures ensure the basic supply needs of the economy and society in such important areas as energy, information technology and transportation and, last but not least, in government and administration, the media and culture. These infrastructures are increasingly controlled by IT systems that are connected to the Internet. These infrastructures need to be classified as critical because if they fail or their operability is impaired, there would be lasting supply bottlenecks or significant disruptions to public safety.

LoRa®

LoRa® is an international radio standard for wireless transmission of small data volumes over large distances (up to 20 km). It is an innovative radio technology that is regarded as a future carrier medium for the Internet of Things. LoRa® is distinguished by a high resistance to interference and low power consumption. The diversity of application areas (including transportation and logistic or in the field of geotracking) opens up new dimensions and can optimize existing business processes worldwide. The LoRa Alliance™ (<https://www.lora-alliance.org>) is committed to expanding the use of LoRa® technology on the basis of open standards.

Lot size

Lot size is a term from industrial management or the production industry and indicates the quantity of a batch, variety or series that is produced in one go without conversion or interruption to production (manufacturing method). Companies that use just-in-time systems keep lot size stocks as low as possible; the ideal lot size in these cases is therefore 1. Smart Industry applications can enable customized needs up to "lot size 1" to be addressed thanks to the selective use of automation technologies and networking of production processes.

Low power wide area networks (LPWAN)

None of the existing communications infrastructures is as suited for the Internet of Things as low power networks. The Internet of Things networks “objects” with each other intelligently. They are thus transformed into smart objects that are able to exchange information, control themselves and trigger actions online and on their own. In particular, LPWANs can be used to connect autonomous devices that transfer small volumes of data and consume only little power. The energy-efficient, secure and low-cost radio technology LoRa® is suitable for a wide range of application cases. It is based on the open industry standard LoRa® and is specified by the non-profit organization LoRa Alliance™.

Machine to machine (M2M)

The term “machine to machine” (M2M) denotes automated exchange of information between terminal devices (machinery, machines or control devices) or between terminal devices and a control center. M2M applications are used in particular in industry, where they control production facilities. Increasing use of the Internet and the growing prevalence of wireless sensor networks based on various access technologies, such as LTE or WLAN, also opens up additional possible applications in the fields of logistics, security, surveillance, transportation and energy. One conceivable M2M application is, for example, remote monitoring, control and maintenance of plant, machinery and systems.

Machine learning

Machine learning relates to the automated development of algorithms on the basis of empirical data and training data. In machine learning, there are technologies for analyzing large volumes of data (big data). The focus is on optimizing results or improving predictions on the basis of learning processes. The topic is closely related to data mining, which however mainly involves the discovery of new patterns and underlying laws. One potential application for machine learning is in predictive maintenance in industry.

Managed services

Information and communications services that are performed for a defined period of time by a specialist provider and can be obtained as required. They comprise outsourcing services: from IT workstations, networks to operation of data centers.

Micro-switch

Micro-switches ensure network connection of terminal devices, such as computers, IP phones, printers or WLAN access points. They have now evolved from being a pure means of distributing data into smart, powerful control centers. Their great computing power enables them to take over additional and extensive building automation functions. One example of that is controlling and management of the entire technical office equipment, such as lighting, blinds, heating, air-conditioning, network access for IT devices and phones, and devices relating to security technology.

Network operation center (NOC)

A network operation center (NOC) fulfills central monitoring and operating tasks within a network and ensures IT security. The NOC monitors critical system components continuously and identifies possible weak points. Since operation and administration of an NOC require know-how and diverse resources, companies often hire specialist service providers for those tasks. NOCs and their administration staff work round the clock, thus ensuring fail-safe, redundant connection channels.

Network management

This comprises administration, operation and monitoring of IT networks and telecommunication networks, among other things in terms of their configuration, performance and security. IP networks are frequently managed by means of SNMP (Simple Network Management Protocol).

Network monitoring

Network monitoring denotes the observation and regular control of networks, their hardware (e.g. servers, routers, switches) and services (e.g. Web servers, DNS services, e-mail services). A distinction is made between external and internal monitoring. In external monitoring, an additional monitoring device is connected to the network, which is not the case in internal monitoring. It is further characterized by the terms “active” and “passive”. In active monitoring, additional packets are sent into the network, whereas only eavesdropping is carried out in passive monitoring.

Physical security

A general term for a wide range of measures for physical protection and surveillance of a room, building or campus and the critical components there. Physical protection and surveillance denotes securing an object against fire, intrusion, unauthorized access, theft, vandalism and manipulation, as well as surveillance by means of fire alarms, video cameras, access control systems and control station technologies.

PMR (Professional Mobile Radio)

Mobile radio which, in order to distinguish it from other radio services, such as maritime radio and aeronautical radio, was also called “non-public mobile land radio”. It includes all radio services that are used by individual institutions, industrial enterprises, the transport industry, trade and craft, as well as emergency services and public authorities that perform regulatory and security tasks. A common feature of all of them is the non-public, virtually private use of the radio service for a defined user group, such as taxi or haulage companies, airports or industrial plants, regardless of the radio technology used.

Power over Ethernet (PoE)

Terminal devices that are connected to a copper or fiber-optic based data network (Ethernet) are powered from this data connection instead of from an additional power supply unit. In particular in data networks based on fiber optic cables, such a data and power supply connection can be created by means of a hybrid cable (optical fiber and copper wire in one cable). LED lights or VoIP phones can also be supplied with power in this way. The standard 802.3at PoE, generally known as PoE+, was defined in 2009. These standards now make it possible for companies to use devices at places where it used to be difficult, or was not possible for cost reasons, to supply alternating current, such as on existing ceilings or walls.

Predictive maintenance

As part of service management, predictive maintenance denotes all measures that are used in proactive maintenance of machinery and production plant. Preventive handling of problems means maintenance resources can be used more cost-effectively, the operating times of machinery and equipment maximized and relevant ordering and replacement processes improved. The objective is to avoid production-critical downtimes and maintenance work. A production manager can be notified automatically that device/sensor A has a 95% probability of failing in the next two weeks, for example. That means preventive countermeasures can be taken early on to avoid a total failure.

RFID

Radio-frequency identification is a technology consisting of transmitter/receiver systems for automatic, contactless identification and location of objects and living beings using radio waves. RFID enables numerous applications that could not be implemented with conventional identification systems. An RFID system consists of a data carrier (transponder) and a reading device with an antenna. RFID uses weak electromagnetic waves that are emitted by the reading device. If this device is placed near to the transponder, information can be read contactlessly from the transponder’s memory or, vice versa, data can be transferred to the transponder.

Service level agreement (SLA)

The term “service level agreement” (SLA) denotes an agreement or the interface between the customer and service provider for recurrent services. The objective is to give the customer a transparent means of controlling whether the services are delivered by precisely describing warranted qualities of the services, such as their scope, response time and speed of handling. An important component is the service level, which defines the agreed quality of service.

Shopfloor execution system (SES)

A shopfloor execution system (SES) is used for very specific industries, namely the production sector. As a holistic management approach, it combines the functionalities of workplace design and structure (including ergonomics, energy efficiency, safety and quality) and work step handling (including variant management and worker guidance) at the production level.

Shopfloor management system

The term “shopfloor” denotes the part of a workshop or factory where production as distinct from administrative work is carried out. Shopfloor management comprises processes, rules, practices, methods and systems for ensuring production that is as efficient and intelligent as possible (smart factory). The shopfloor is also the place where the greatest value added is created in industrial manufacturing environments.

Smart Building

A smart building describes the automation and central operation of the technical equipment of functional buildings, such as office buildings, shopping malls, airports, hospitals or production halls. Core issues are ensuring the safety of the building – such as with fire alarm technology or danger management systems – and optimizing energy efficiency in running the building so as to slash operating costs.

Smart City

Cities are growing, and that is accompanied by an increase in the requirements placed on urban development concepts. The structural change that entails demands solution approaches that extend across different subject areas, disciplines and departments. Many cities regard the strategic step of turning themselves into a smart city using the Internet of Things (“IoT”) as an opportunity to successfully overcome the growing challenges they face now and down the road. Municipalities and enterprises can process data efficiently and intelligently in the urban space and so shape fields of activity in a new and sustainable way. The smart city enables completely new urban concepts – from monitoring of air quality to the intelligent trash can. Also included in that are solutions for Critical Infrastructures (KRITIS), such as for safety and security applications in the field of transportation, video surveillance or electromobility.

Smart Industry/Smart Factory

“Smart Factory” (or “Smart Production” or “Smart Industry”) is part of the future-oriented project Industry 4.0 under the German government’s high-tech strategy. As a term in production technology, smart factory denotes a cutting-edge production environment in which production plants and logistics systems largely organize themselves without human intervention. The smart factory is thus a complex system of numerous individual players that have their own intelligence. Its technical foundation is cyber-physical systems that communicate with each other with the aid of the Internet of Things. One possible application example is communication between a workpiece and production plant: The workpiece supplies its own production information in machine-readable form. Its path through the production plant and individual production steps are controlled on the basis of this data.

Smart Lighting

Smart lighting denotes intelligent, ergonomic and energy-efficient lighting solutions and has become established as a standard in modern office environments. LEDs are increasingly displacing conventional fluorescent tubes, which began to be used more than eighty years ago. So that LED lights can unfold their advantages to full effect, they should be used together with sensors and intelligent IP network switches. As part of that, they are integrated in the LAN infrastructure, which is required anyway in office environments, via Power over Ethernet in a standards-compliant manner and so are supplied with power over the IP network.

Smart meter/smart grid

Smart grids are electricity grids in which various power generators and consumers are integrated and in which digital communication (in future IP technology) is used to measure the amounts of electricity fed into or taken from them and for control, distribution and billing (smart meter). Digitization in the energy industry is a challenge, yet gives operators and distributors opportunities to reposition themselves. Fault-tolerant, highly available IT and network infrastructures are crucial to that.

Smart Office

The Smart Office concept of euromicron’s subsidiary MICROSENS is an open, decentralized and scalable building management concept based on IP. From the surveillance camera, access control, elevator control to heating, ventilation and air-conditioning: In the modern office building, smart systems communicate with clever things – provided they are networked with each other. The Smart Office concept uses the existing IP network with Power over Ethernet, both for controlling the devices and for supplying them with power. As a result, even lighting with energy-efficient LEDs can be fully integrated in the all-round concept. The Smart Office concept can be scaled and expanded as desired. It ensures greater security and cost-effectiveness, as well as more convenience and higher productivity at the workplace thanks to customization. Existing rooms can be integrated gradually and depending on needs. That enables gentle migration to state-of-the-art building management.

Smart Services

The term “smart services” denotes data-based service offerings, such as online portals or software platforms. Smart services are based on the increasing intelligence of machinery and end-to-end digitization of work processes. The underlying value chains are being connected over the Internet more and more. The quantities of data created as part of that (big data) are perhaps the most important raw material in the 21st century. The data can be analyzed, interpreted, linked and mutually supplemented in order to control, maintain and improve products, solutions and services. With the appropriate intelligence and relevant process know-how, it can be used to generate knowledge that can in turn be leveraged as the basis for new business models. The possibilities for using smart services range from specific individual functions, support in making business decisions, to controlling of complex systems in the IoT arena.

URM®

URM (the abbreviation for “yoU aRe Modular”) is an innovative fiber-optic connector system from euromicron in a small form factor design and has been specifically designed for high-density applications in data centers. Since October 2016, the URM connectors developed in Germany have assumed a firm place in the IEC 61754 series of standards for defining optical connectors and have been bindingly regulated in the individual standard IEC 61754-34:2016-10. The URM connectors are manufactured by EUROMICRON Werkzeuge GmbH (Sinn-Fleisbach / Central Hesse). The connectors are processed into high-performance cabling systems for data centers by the euromicron company LWL-Sachsenkabel GmbH in Gornsdorf/Ore Mountains. You can find more details on the euromicron URM connector system on the URM microsite at <http://urm.euromicron.com>.

The official publication of the individual standard IEC 61754-34:2016-10 can be obtained from the publisher VDE-Verlag (www.iec-normen.de).

WAN (Wide Area Network)

A wide network that connects together several small networks (LAN, MAN), for example from different countries, cities or locations, over large distances by means of cable, fiber optics or satellite.

Worker guidance

Worker guidance is a software-aided employee information system in production. It guides workers at a workplace through their work process step by step and unites the sub-areas of information management and knowledge management. Worker guidance aims to ensure that information relating to their current activity is available to workers at the right time and in the right form. Thanks to guidance in the shape of procedural instructions, even complex assembly, testing or logistics processes can be carried out by lesser-qualified staff in a high level of quality. Workers are guided securely through the individual work steps with text (multilingual) and photos (including explanatory videos if necessary) to suit the needs at hand. Audiovisual support with data glasses is also possible (“augmented reality”).

List of tables

To our shareholders

euromicron on the Capital Market

001	The shares on the market	56
002	Analysts' recommendation on euromicron's share	58

Group Management Report

Fundamentals of the Group

003	Key figures and control factors	71
-----	---------------------------------	----

Economic report

004	Reconciliation of the reported EBITDA with operating EBITDA/presentation of the reorganization costs	79
005	Asset and equity structure	84
006	Statement of cash flows of the euromicron Group	86
007	Adjusted cash flow	87
008	Results of operations	89
009	Reorganization costs	90

Forecast, Opportunity and Risk Report

010	Deviation of total reorganization costs with an impact on EBITDA from the forecast	97
-----	--	----

Consolidated Financial Statements (IFRS)

Balance sheet

011	Assets	120
012	Equity and liabilities	121
013	Income statement	122
014	Statement of comprehensive income	123
015	Statement of changes in equity	124
016	Statement of cash flows	126

General disclosures

017	Standards to be applied for the first time in the fiscal year	127
018	IFRS standards to be applied in future fiscal years	128
019	Useful lives of other intangible assets	135
020	Useful lives of property, plant and equipment	136

Consolidated companies

021	Number of consolidated companies	142
022	List of companies included in the consolidated financial statements	145

Notes on the consolidated balance sheet

023	Goodwill	146
024	Allocation of goodwill to CGUs	146
025	Interest assumed in the 2017 impairment test	147

Changes in the Group's assets in 2017

026	Changes in intangible assets and property, plant and equipment in 2017	148
027	Changes in intangible assets and property, plant and equipment in 2016	150
028	Other noncurrent financial assets	152
029	Noncurrent receivables from finance leases	152
030	Current receivables from finance leases	152
031	Gross investments in finance leases	152
032	Other noncurrent assets	153
033	Deferred tax assets	153
034	Assets held for sale and liabilities in connection with assets held for sale	154
035	Inventories	154
036	Receivables and other current assets	154
037	Allowances for trade accounts receivable	155
038	Trade accounts receivable by times due	155
039	Other current financial assets	156
040	Other current assets	156
041	Cash and cash equivalents	157
042	Shares in circulation	157
043	Summarized financial information on subsidiaries with significant non-controlling interests	158
044	Equity ratio	158
045	Net financial debt	159
046	Provisions	159
047	Changes in the present value of the defined benefit obligation (DBO)	160
048	Changes in the plan assets	160
049	Provision on the balance sheet	161
050	Measurement factors	161

051	Variation in the assumptions by +/- 1% or + / - 1 year	161
052	Variations in the assumptions by +/- 0.25%	161
053	Liabilities	162
054	Term of the liabilities	162
055	Liabilities from finance leases in 2017	163
056	Liabilities from finance leases in 2016	163
057	Other financial liabilities	164
058	Other liabilities	164
059	Cash flow from liabilities in 2017	165
060	Cash flow from liabilities in 2016	165
061	Deferred tax liabilities	165
062	Financial instruments by measurement category	166
063	Changes in fair value for the 3rd level financial liabilities	168

Notes on the consolidated income statement

064	Other operating income	169
065	Cost of materials	170
066	Personnel costs	170
067	Employees	170
068	Other operating expenses	170
069	Depreciation/ amortization	170
070	Net interest income/ loss	171
071	Total interest income and expense	171
072	Net gains and losses from financial instruments	171
073	Income taxes	172
074	Tax reconciliation	172
075	Undiluted earnings per share	173

Other disclosures

076	Adjusted cash flow	173
077	Reconciliation of the changes in debt with the cash flows from financing activities	174
078	Other financial obligations in 2017	175

Segment reporting

079	Segment reporting	178
080	Auditors' fees	183

Single-entity financial statements

Balance sheet as of December 31, 2017

081	Assets	188
082	Equity and liabilities	189
083	Income statement	190

Further information

Five-year overview of the Group

084	Values from the income statement	194
085	Values from the balance sheet	194
086	Miscellaneous	194

FINANCIAL CALENDAR

March 28, 2018	Publication of the 2017 Annual Report, Analysts' Conference and accounts press conference
May 9, 2018	Publication of the business figures for the 1st quarter of 2018
June 13, 2018	General Meeting, Frankfurt/Main
August 9, 2018	Publication of the business figures for the 2nd quarter of 2018
November 8, 2018	Publication of the business figures for the 3rd quarter of 2018

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This report also includes predictive statements and information on future developments that are based on the convictions and current views of euromicron AG's management and on assumptions and information currently available to euromicron. Where the terms "assume", "believe", "assess", "expect", "intend", "can/may/might", "plan" or similar expressions are used, they are intended to indicate predictive statements that are subject to certain elements of insecurity and risks, such as competitive pressure, changes to the law, changes in general political and economic conditions, changes to business strategy, other risks and uncertainties that euromicron AG in many cases cannot influence and that may result in significant deviations between the actual results and predictive statements. Any liability or guarantee for the used and published data and information being up-to-date, correct and/or complete is not assumed, either explicitly or implicitly.

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