

# ANNUAL FINANCIAL STATEMENTS 2016 OF EUROMICRON AG

**euromicron AG**  
**Frankfurt/Main**

Financial Statements as at 31 December 2016  
and management report for the 2016 financial  
year

Audit opinion

**euromicron**

## **Management Report or the fiscal year from January 1 to December 31, 2016**

### **1. Fundamentals of the Group**

#### **1.1. Business model of the Group**

##### **Profile**

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 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 down the road.

## **The Group's structure and locations**

euromicron AG, Frankfurt/Main, is a strategic management holding that performs group-wide 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 and innovation management.

Alongside euromicron AG as the ultimate parent company, the euromicron Group's operating business is conducted by the following 16 group companies:

### Companies in the euromicron Group



Extensive restructuring and reorganization measures, including through mergers, had already been undertaken within the euromicron Group in the course of fiscal year 2015. Since then, national system house business for the target market of "Digital Buildings" has been pooled at euromicron Deutschland GmbH. The reorganization of euromicron Deutschland GmbH initiated in 2015 was continued in 2016. telent GmbH, which is also organized nationally, is the second large system house in the euromicron Group and offers its services in the target market of "Critical Infrastructures".

Further systematic additions and optimizations were made to the portfolio of associated companies in fiscal year 2016, in particular relating to the segments "Smart Buildings" and "Critical Infrastructures".

For example, a decision was taken in the “Smart Building” segment in fiscal year 2016 to part with the “Telecommunications” division of euromicron Deutschland GmbH since it is not of strategic importance for the Group. The telecommunications market is contracting and is highly competitive; sales in the overall market of telecommunications infrastructure have been declining significantly for years. There is strong consolidation among manufacturers and installation companies alike. The “Telecommunications” division can only withstand this competitive pressure to a limited extent and only extensive investments would enable it to achieve the necessary scaling to be profitable in the medium term. After the previously regionally organized business had been pooled in a national unit, an M&A project was launched in 2016. After completion of the sales negotiations, the agreement to sell this division was signed on March 15, 2017. The division is expected to be transferred to the purchaser at the end of April 2017, after the suspensive conditions specified in the agreement have been fulfilled.

In the “Critical Infrastructures” segment, the company SIM Asia PTE. LTD., Singapore, was founded as a wholly-owned subsidiary of Secure Information Management GmbH (SIM GmbH) in February 2016 and, as a sales company that is near to customers, will help tap the Asian market further for the products and services of SIM GmbH. A decision was also taken in 2016 to discontinue the “Optical Tracking Systems” product line of SIM GmbH, since it was a product portfolio that was at the end of its technical lifecycle. SIM GmbH stepped up its development activities in 2016 in order to achieve greater market penetration with higher-margin products developed in-house.

In addition, Netzikon GmbH was founded as a subsidiary of telent GmbH in August 2016. Netzikon GmbH establishes and operates customized sensor wireless networks based on the technology standard LoRa™ in Germany. The networks are designed to connect a very large number of sensors and actuators with a large range, coupled with low power consumption.

This network infrastructure means that smart city solutions, machine-to-machine networking and new digital applications – such as in agriculture and

environmental protection – can be implemented efficiently. As a result, customers benefit from the potential of the Internet of Things.

In order to complement its competences, telent GmbH also took over 75.0% of the shares in Koramis GmbH, a service provider specializing in IT-security, in January 2017. As a result, telent's value chain is being expanded to include cybersecurity for critical infrastructures and industrial infrastructures.

A decision was also taken toward the end of 2016 to discontinue the "Fiber-optic Infrastructure" division of RSR GmbH & Co. KG. The "Fiber-optic Infrastructure" division is not strategic and is characterized by low margins and high project risks. The division will complete its remaining orders on hand in the course of the first half of 2017 and then be closed.

Winding up of the companies in the "Non-strategic Business Segments" went as planned in fiscal year 2016. The business operations of euromicron NBG Fiber Optics GmbH and euromicron benelux S.A. had already been discontinued effective December 31, 2015, and the remainder was wound up in 2016, while liquidation of Avalan GmbH was continued in 2016. Liquidation of WCS Fiber Optic B. V., Amersfoort/the Netherlands, was completed on October 24, 2016, and the company was removed from the Dutch commercial register ("Kamer van Koophandel").

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



All the activities of the euromicron Group in the target 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 target 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 in Germany are represented at a total of 32 locations distributed throughout the country. That enables ideal proximity to and intensive care and support for euromicron's customers.

#### Sales by region

in € million



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 China and Pakistan, as well as (since 2016) the office of SIM Asia PTE. LTD. in Singapore.

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

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

euromicron's main locations



## **Target markets**

The possibilities for digitization are innumerable and enable holistic technical solutions in all areas of life and business. The underlying 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 target market of the "Internet of Things", specifically the target markets of "Digital Buildings", "Smart Industry" and "Critical Infrastructures". In each of these target markets, euromicron offers its customers individualized solutions for technologies, system integration and complementary smart services. There is significant future market potential for the euromicron Group with its more than 15 years of know-how in IT, network and security infrastructures in view of the growing digitization and networking of infrastructures.

### **Digital Buildings / Smart Industry**

Smart buildings are an integral part of the Internet of Things. A digital building describes the automation and central operation of the technical equipment of functional buildings, such as office buildings, airports or shopping malls. Crucial factors are ensuring the safety of the building – such as with intelligent access control or dynamic escape route planning – and optimizing energy efficiency in running the building so as to slash operating costs. Other core issues are high availability, convenience and sustainability. In the target market of "Digital Buildings", euromicron delivers cross-industry, all-round solutions in the fields of innovative building, network and security technology, as well as tailored services. 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 planned, implemented and operated as part of that. One application example of that is the intelligent, energy-efficient lighting systems from MICROSENS ("Smart Lighting"), which can be integrated as part of a solution-oriented group strategy by the system house euromicron Deutschland GmbH.

After telecommunications and security technology, lighting is also following the trend toward IP-capable devices powered by PoE. Here too, digitization is the key innovation. LED lights are increasingly replacing conventional lighting with fluorescent tubes and ballasts, both in new installations and as part of extensive renovations. Combined with powerful sensors and intelligent controllers, power savings of up to 80% are possible. Results like that can only be achieved thanks to smart building and network technology: Micro apps programmed on MICROSENS switches organize energy-saving building equipment. Sensors and actuators record the actual states in the building and applications derive "actions" for the devices. Because when the lights go on only where they are needed or the air-conditioning adjusts itself to the number of people in a room that is not only convenient, but also energy-efficient.

The benefits of the digital building for our customers are in particular security, convenience and greater cost-effectiveness of their functional buildings and properties. Existing buildings can also be digitized subsequently with euromicron technologies, since digitization 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 innovative connector systems that have been developed by our technology companies and can also be installed by euromicron Deutschland GmbH.

The focus in the target market of "Smart Industry" is on digitizing and networking development, production and service processes in the SME sector. The "Smart Industry" market is developing at a rapid pace. According to a study by PwC, German industry intends to invest €40 billion per year in applications and network components by 2020. Companies thereby hope to increase efficiency and cut costs, as well as achieve qualitative advantages, such as great flexibility and the possibility of catering for customers' individual wishes. 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.

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 mainly sets store by comprehensive risk analysis. It offers an IT-security solution that is compatible with "Smart Industry" so that production can be networked with IT securely and with a high level of performance.

At ELABO GmbH in Crailsheim, Swabia, euromicron is showcasing concrete application scenarios for Smart Industry solutions in a "Smart Factory". The model factory is specially tailored to working conditions in production at SMEs and shows how typical subprocesses in industrial production – research and development, production and quality assurance, repair and maintenance – can be networked with each other in a practical way on the basis of central data management software. All production-related information is available in real time at every workplace. Measurement and testing equipment is automatically parameterized. Also integrated are access control, video surveillance and light controlling, as well as 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 present a holistic solution to their customers here.

## **Critical Infrastructures**

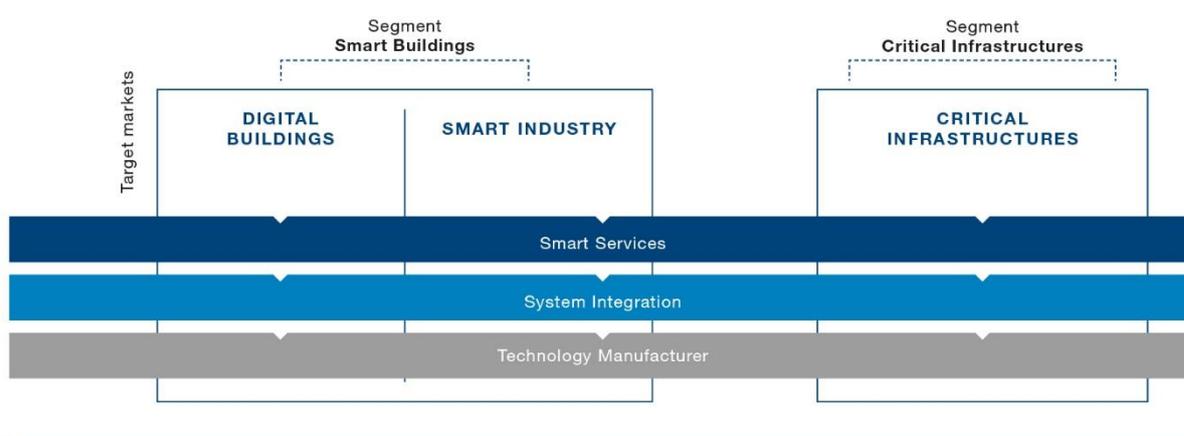
Critical infrastructures are vital business infrastructures whose failure is highly problematic for the general public. That may be the digital mobile radio system at an airport or the communications network of Deutsche Bahn or a power utility, for example. Apart from that, professional video, audio and special solutions for sensitive security restricted areas round out the euromicron Group's product portfolio in this target market. 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, as well as highly specialized process know-how in this market.

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. telent GmbH thus plans, supplies and implements future-proof communications solutions for creating intelligent energy information networks (EINs) and telecontrol applications. If required, telent GmbH also delivers the related service and designs customized solution concepts for a highly available energy information network. Intelligent technologies are demanded for smart grids that are intended to optimize power generation, capacity utilization, storage, network management and consumption. Smart energy concepts can be launched faster thanks to innovative IoT infrastructures. The prime concern in that is the security of the systems and their digital infrastructures. Decentralized energy supply systems need new communications solutions. The Internet of Things (IoT) and efficient digital infrastructures pave the way for that. A reliable infrastructure for transferring data, even over large distances, is necessary to enable components and measurement equipment to communicate in smart grids. Depending on bandwidth requirements, different standards and mobile technologies are used to transmit data, such as the new wireless standard Long Range Wide Area (LoRa®), digital mobile radio and IP-based wireless applications.

## Products and solutions

In its target markets, the euromicron Group unites technological and system integration expertise to create holistic, innovative solutions. These are systematically made ready for the market as part of a cross-company, structured innovation process.

Business model of 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 handling the entire project – from consulting, planning, selecting the system technology and implementation to service, maintenance and operation. As part of that, euromicron combines all technologies and applications in the field of information and communications technology (ICT) with digital sensor systems and software applications so as to be able to offer its customers tailored solutions in the Internet of Things area. In doing so, it combines the most innovative internal and external technologies to suit customers' requirements in order to create best-in-class solutions. As a result of the ever-changing and in some cases very specific customer requirements, strategic partnerships with leading external technology suppliers are also key success criteria for supplying best-in-class solutions.

Thanks to their many established partnerships with vendors from the fields of network, transmission and security technology, the companies in the euromicron Group are always able to deliver the ideal solution for the customer's specific needs. At the same time, they have the necessary certification to ensure top quality when it comes to planning, installing and maintaining the products used. Customer proximity by means of on-site service is crucial in the consulting-intensive solution business and euromicron achieves that with its comprehensive network of branch offices. Services are provided directly on-site or through the central Service and Network Operation Center (NOC).

## **1.2 Objectives and strategies**

After it took office in April 2015, the Executive Board of euromicron AG adopted a strategic realignment based on the company's existing bread-and-butter business, 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.

Increasing networking and digitization of all conceivable information are impacting how existing and potential customers work and live to a greater and greater extent. The terrific pace of technological developments, such as in the Internet of Things, Smart Industry, smart services or big data analytics, pose new challenges for companies. In the past, 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.

Planning, implementing and operating digital infrastructures is the focus of euromicron's business activity. euromicron is positioning itself in a market segment that is at the start of its growth phase. The objective is a profitable growth model in a dynamic market of the future. To supplement that, we 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.

In order to achieve this strategy, necessary reorganization measures were implemented in 2015 and mainly accomplished at the operating companies by the end of fiscal year 2016. These measures, especially those relating to restructuring of euromicron Deutschland GmbH, took more time than was anticipated at the end of the previous year. As a result, implementation of the euromicron Group's strategy, which is laid down in a three-phase model, has been pushed back one year.

Now that the euromicron Group's reorganization has been largely completed in 2016, euromicron's transformation into a solution provider that generates a significant share of its sales from the IoT market is the core component of the strategy for fiscal years 2017 and 2018.

The goal in this phase of transformation is to leverage stable bread-and-butter business to systematically develop solutions that unite technology expertise and system integration expertise lastingly at the company. euromicron's extensive customer base, broad solution portfolio and enormous innovativeness in the areas of technology and system integration are the foundation for that. By intermeshing collaboration between the technology and system integration companies and pooling know-how, euromicron will be able in future to offer a broad range of smart services for all strategic target markets in the IoT market. In this way, the Group differentiates itself clearly and lastingly from the competition. This phase is accompanied by a tactical M&A strategy. The first element in that was acquisition of the majority stake in Koramis GmbH, a service provider specializing in IT-security, in January 2017. As a result, euromicron's value chain was expanded to include cybersecurity for critical infrastructures (KRITIS) and industrial infrastructures.

From 2019 onward, euromicron aims to grow further through rigorous continuation of the IoT strategy. The medium-term goal up to 2019 is profitable sales growth that, complemented by tactical M&A measures, will result in sales of around €400 million by 2019. 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.

The future target markets of the euromicron Group were defined and the Group was geared toward market needs as part of the strategic alignment from fiscal year 2015 on. In this connection, the Group's structures and organizational units were re-molded. The focus is on close collaboration between our Group companies so as to leverage synergies. As a result of that, we offer our customers tailored solutions using the full value chain of our Group's portfolio.

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 bread-and-butter business, but also to tap future markets in the growth market of the Internet of Things by means of a structured, Group-wide innovation process. The key success factor as part of that is our excellent employees.

### **Internal key control indicators**

The main key financial indicators of euromicron AG comprise key indicators on the performance of its associated companies, the results of the primary business activities of euromicron AG and the financing costs of euromicron AG. The most important key indicators used to control euromicron AG are currently the result from long-term investments, the operating result and the net financial result.

**Result from long-term investments** The result from long-term investments comprises income from equity interests, income from profit and loss transfer agreements, expenses from the assumption of losses, and write-downs of financial assets. To enable better comparison over time, we also look at the result from long-term investments after adjustment for special effects ("adjusted result from long-term investments"). Special effects in fiscal year 2016 relate to reorganization costs that were incurred at the level of the subsidiaries and so resulted in higher expenses from the assumption of losses at the level of euromicron AG. They also include the write-off of the equity interest in Avalan GmbH, whose business operations were discontinued in fiscal year 2015.

**Operating result** The operating result of euromicron AG is defined as the balance of sales, other operating income and expenses, cost of materials, personnel costs and amortization/depreciation. Here too, the operating result after adjustment for special effects is also looked at ("adjusted operating result"). The special effects in fiscal year 2016 relate to reorganization costs incurred at the level of euromicron AG.

**Net financial result** The net financial result comprises income from long-term loans, other interest and similar income, and interest and similar expenses. Here too, we also look at the net financial result after adjustment for special effects ("adjusted net financial result"). The special effects in fiscal year 2016 relate to the non-recurrent costs in connection with conclusion of the new financing agreement.

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

### **Key figures and control indicators**

	<b>2016</b>	<b>2015</b>
	<b>€ m.</b>	<b>€ m.</b>
Result from long-term investments	-1.9	-4.4
Adjusted result from long-term investments*	1.5	1.0
Operating result	-6.1	-8.6
Adjusted operating result*	-3.2	-4.8
Net financial result	-2.6	-1.8
Adjusted net financial result*	-2.0	-1.8

\* Adjusted for special effects of reorganization

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

#### **1.4 Research and development**

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

## **2. Economic report**

### **2.1. General economic and industry-specific conditions**

#### **General economic conditions**

According to the spring economic report of the Kiel Institute for the World Economy (IfW), the global economy firmed up in the course of 2016, despite greater political uncertainties, and picked up pace again at the beginning of this year. In the advanced economies, the elections in the U.S. not only aroused worries due to the nascent risk of protectionism, but also hopes for powerful economic boosts from the United States. According to the IfW, the situation in emerging countries has stabilized and a gradual pickup is expected, albeit without any major economic momentum. Globally, no strong upturn is anticipated in view of the diverse structural impediments that still exist. The risks of a reorientation in economic policy in the United States are assessed as considerable, although there are not any concrete specifics in this regard so far. All in all, global gross domestic product (GDP) in 2016 grew by 3.1%. The IfW's economists assume that GDP will grow by 3.5% in the current year. Economic growth will likely rise to 3.6% in 2018.

#### **Trends in the Euro area**

According to the Kiel Institute for the World Economy, the economic recovery in the Euro area remains moderate, but stable, although there are first signs of an additional upswing. The European economy grew by 1.7% in 2016. The economists predict GDP to grow moderately by 1.8% in 2017 and by 1.7% the year after. In the Euro area excluding Germany, the pace of expansion will probably be slightly weaker, especially since it is exposed to a number of political risks in 2017. These imponderabilities include the upcoming negotiations with the United Kingdom on its leaving the EU, important elections in four of the five major member states, and the fact that the economic and trade policy of the new U.S. administration is difficult to predict. Buoyancy in the Euro area comes from the decline in unemployment, the upward-pointing early indicators, and boosts to economic activity from low interest rates and the low external value of the Euro.

#### **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 2016 was again characterized by solid and steady growth. All in all, the average increase in gross domestic product (GDP) for 2016 as a whole was 1.8% (after price and working-day adjustments). The IfW anticipates that gross domestic product will grow by 1.7% in 2017 and 2.0% the year after. The driving forces will be consumption, which is losing momentum, as well as exports and investments. It is expected, for example, that construction investment – ignoring weather-related fluctuations – will also expand vigorously due to favorable financing conditions. Inflation will probably rise to 1.8% this year. The German economy will thus continue to expand in an unsettled international environment.

### **German ICT market grows in line with the economy as a whole**

The German Association for Information Technology, Telecommunications and New Media (BITKOM) states that the German ICT market grew by 1.7% to €160.5 billion in the whole of 2016, compared with revenue of €157.6 billion the year before. The industry's growth driver remains information technology, whose revenue was able to grow by 3.6% to €84 billion. According to the association, business of software vendors in particular grew at an above-average rate: by 6.2% to €21.6 billion.

Investment in digital technologies is a must if the digital transformation is to succeed. Revenue from IT services, which are an especially strong reflection of orders relating to digitization of companies, recorded a rise of 2.7% to €38.2 billion. Around 57.0% of enterprises that use or plan to use Smart Industry have budgeted funds for that this year, according to a survey by BITKOM. However, enterprises are still tending to be cautious when it comes to investment. Business with infrastructure systems performed positively again in 2016, growing by 2.1% to €6.6 billion.

Information technology was the strongest driver in the international ICT market as well and posted rising revenue, especially for software. According to the annual report of EITO (European Information Technology Observatory), global

revenue from IT and communications products and services grew by 2.1% to €3.1 trillion in 2016.

### **Outlook for 2017**

BITKOM expects the overall ICT market to grow by 1.2% to €162.4 billion in 2017. Apart from slightly weaker growth in the overall economy, anticipated weaker business with IT hardware, such as desktop PCs and notebooks, as well as a sharper decline in revenue from fixed-line and mobile services due to price competition and regulatory effects will result in the slightly lower growth rate. EITO assumes that the global ICT market will grow by 2.5% in the coming year.

## **2.2 Course of business**

### **General statement on the performance of euromicron AG in fiscal year 2016**

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

## **Results**

	<b>2016</b>	<b>2015</b>
	<b>€ m.</b>	<b>€ m.</b>
Result from long-term investments	-1.9	-4.4
Operating result	-6.1	-8.6
Net financial result	-2.6	-1.8
Tax result	-2.1	-0.4
<b>Net loss for the year</b>	<b>-12.7</b>	<b>-15.2</b>

The reported result of euromicron AG was impacted massively by special effects in fiscal year 2016 and the year before. Reorganization costs reduced euromicron AG's result in both years.

These special effects impacted euromicron AG's result in fiscal years 2016 and 2015 as follows:

## Adjustment of the results for special effects of reorganization

	<b>2016</b>	<b>2015</b>
	<b>€ m.</b>	<b>€ m.</b>
<b>Result from long-term investments</b>	-1.9	-4.4
Effects from higher assumption of losses	3.1	3.5
Effects from write-off of equity interests	0.3	1.9
<b>Adjusted result from long-term investments</b>	<b>1.5</b>	<b>1.0</b>
<b>Operating result</b>	-6.1	-8.6
Effects from reorganization costs at the level of euromicron AG	2.9	2.7
Effect of the subsidy to euromicron NBG Fiber Optics GmbH	0.0	1.1
<b>Adjusted operating result</b>	<b>-3.2</b>	<b>-4.8</b>
<b>Net financial result</b>	-2.6	-1.8
Effect from the arrangement fee for the financing agreement	0.6	0,0
<b>Adjusted net financial result</b>	<b>-2.0</b>	<b>-1.8</b>
Tax result	-2.1	-0.4
<b>Adjusted net loss for the year</b>	<b>-5.8</b>	<b>-6.0</b>

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

The adjusted result from long-term investments is €1.5 million and so €0.5 million above the previous year's figure of €1.0 million. Lower expenses from assumption of losses account for €3.6 million of this increase. That is attributable to an amount of €2.7 million to the fact that the operating losses of Avalan GmbH (in liquidation) no longer had to be assumed. The operating losses assumed from euromicron Deutschland GmbH were also €0.9 million lower. In addition, the write-downs on shares in a U.S. listed company due to the decline in their price were €0.4 lower than in the previous year. On the other hand, income from profit and loss transfer agreements was €7.3 million, €2.2 million lower than in the previous year, but still at a high level. Income from equity investments also fell by €1.3 million, mainly due to lower simultaneous dividend payments from subsidiaries.

The adjusted operating result of euromicron AG likewise improved by €1.6 million from € -4.8 million to € -3.2 million in fiscal year 2016. €0.5 million of that is attributable to higher other operating income, which increased in particular as a result of income from recognition of a receivable from reimbursement of legal costs. In addition, the cost of materials fell by €0.5 million due to lower costs for purchased IT services. Apart from that, the adjusted other operating expenses were also able to be reduced by €0.9 million thanks to savings in all main cost items. The adjusted amortization/depreciation is likewise slightly lower by €0.1 million than in the previous year. On the other hand, sales fell by €0.2 million due to lower passed-on charges to subsidiaries. In addition, adjusted personnel costs increased slightly by €0.2 million.

The adjusted net financial result fell by € -0.2 million to € -2.0 million, mainly because provisions were set up for interest payments due to tax risks. For further details, please refer to section 3.2 "Risk report and salient features of the risk management system".

After allowing for the tax result, the adjusted net loss for fiscal year 2016 is € -5.8 million (previous year: net loss of € -6.0 million). The fall of € -1.7 million in the tax result is attributable to the fact that provisions for tax risks were set up. We refer you in this regard to our comments in section 3.2 "Risk report and salient features of the risk management system".

There were no changes in the equity investment portfolio of euromicron AG as a result of company acquisitions in fiscal year 2016. The only measure of significance in 2016 was that the stakes in Secure Information Management GmbH and ATECS AG were increased from 90.0% to 95.0% through exercise of purchase options.

## **2.3. Net assets, financial position and results of operations**

### **Net assets**

euromicron AG's total assets increased slightly by 0.1% to €203.5 million in fiscal year 2016 (previous year: €203.2 million).

Fixed assets totaled €165.4 million (previous year: €166.1 million) or 81.3% (previous year: 81.7%) of total assets. Of the fixed assets, intangible assets and property, plant and equipment account for around €0.7 million (previous year: €0.6 million). There were additions to assets of €0.3 million in fiscal year 2016, compared with amortization/depreciation of €0.2 million.

Financial assets fell by €0.8 million from €165.5 million to €164.7 million in fiscal year 2016. The ratio of equity and fixed assets is 48.7% (previous year: 56.2%). The decline in financial assets is due in particular to the following effects, which offset each other in some cases:

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

Current assets (excluding cash-in-hand and bank balances) increased by €3.6 million from €33.8 million to €37.4 million. They mainly comprise receivables from affiliated companies, which rose by €2.9 million from €32.3 million to €35.2 million at December 31, 2016. This is due in particular to the fact that receivables from profit distributions and profit transfers increased by €1.4 million and receivables from cash pooling after and offsetting within the individual companies increased by €1.7 million in fiscal year 2016.

Other assets rose by €0.7 million from €1.5 million to €2.2 million, in particular due to the fact that a receivable from reimbursement of legal costs was recognized in 2016.

Cash and cash equivalents fell from €3.2 million in the previous year to €0.5 million. Liabilities to banks were €73.0 million, €11.7 million above the level of the previous year (€61.3 million). Of the outside financing from banks utilized at the balance sheet date, €38.5 million has a medium- and long-term structure (previous year: €20.5 million). Short-term financial liabilities total €34.5 million (previous year: €40.8 million). euromicron AG's net debt (cash and cash equivalents minus interest-bearing liabilities) increased by €14.4 million to €72.5 million at December 31, 2016 (previous year: €58.1 million). We refer to our comments in the section "Financial position" for explanations on that.

Equity at December 31, 2016, was €80.6 million and so €12.7 million below the previous year's figure of €93.3 million. The decline is attributable to the net loss of € -12.7 million for fiscal year 2016. The equity ratio is 39.6% (previous year: 45.9%) and so still at a very stable level.

The increase in provisions of €0.8 million from €2.9 million to €3.7 million is due to an amount of €1.1 million to higher provisions for taxes (please refer to the comments in section 3.2 "Risk report and salient features of the risk management system"). This was slightly offset by the €0.3 million fall in other provisions.

Liabilities to affiliated companies rose by €0.9 million from €44.1 million to €45.0 million. This is attributable in particular to the increase of €1.2 million in cash

pool liabilities. On the other hand, there was a decline in liabilities from the assumption of losses, which fell by €0.4 million after offsetting within the individual companies.

The €0.8 million decline in other liabilities to €0.2 million is due to an amount of €0.6 million to lower value-added tax liabilities and to an amount of €0.2 million to lower wage tax liabilities.

**Financial position**

euromicron AG's cash funds at December 31, 2016, total €0.5 million (previous year: €3.2 million). In addition, unutilized promised credit lines of €37.0 million are available to euromicron AG at December 31, 2016 (previous year: €47.2 million).

The net cash used in operating activities in fiscal year 2016 EUR was € -11.3 million (previous year: € -11.7 million). Given the net loss for the year of € -12.7 million and adding the write-downs of financial assets, amortization of intangible assets and depreciation of property, plant and equipment, the result is positive cash flow effects of €0.6 million. After allowing for other positive cash flow effects totaling €0.8 million, the net cash used in operating activities was € -11.3 million.

Net cash provided by investing activities was €0.1 million (previous year: €3.0 million). This is due to proceeds from repayment of long-term intra-group loans (cash flow effect: €0.9 million). On the other hand, there were purchase price payments for acquiring shares in subsidiaries (cash flow effect: € -0.5 million) and cash used for investments in intangible assets and property, plant and equipment (cash flow effect: € -0.3 million).

Net cash provided by financing activities was €8.4 million (previous year: €3.3 million) and is due to an amount of €11.8 million from net proceeds from the raising and repayment of bank loans. On the other hand, the increase in the balance from intra-group cash pool receivables and liabilities had an effect of € -3.4 million.

## Results of operations

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

	2016	2016	2016	2015	2015	2015
	em AG	Reorgani- zation	em AG "adjusted"	em AG	Reorgani- zation	em AG "adjusted"
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Result from equity investments	-1,467	3,038	1,571	-2,070	3,533	1,463
Write-down of financial assets	-393	320	-73	-2,278	1,847	-431
<b>(Adjusted) result from long-term investments</b>	<b>-1,860</b>	<b>3,358</b>	<b>1,498</b>	<b>-4,348</b>	<b>5,380</b>	<b>1,032</b>
Sales	2,003	0	2,003	2,235	0	2,235
Other operating income	2,508	0	2,508	2,014	0	2,014
Cost of materials	-447	0	-477	-934	0	-937
Personnel costs	-3,722	113	-3,609	-4,099	632	-3,467
Amortization and depreciation	-233	0	-233	-795	467	-328
Other operating expenses	-6,190	2,824	-3,366	-7,065	2,747	-4,318
<b>(Adjusted) operating result</b>	<b>-6,081</b>	<b>2,937</b>	<b>-3,144</b>	<b>-8,645</b>	<b>3,846</b>	<b>-4,799</b>
Net financial result	<b>-2,665</b>	<b>591</b>	<b>-2,074</b>	<b>-1,815</b>	<b>0</b>	<b>-1,815</b>
<b>Income before taxes</b>	<b>-10,607</b>	<b>6,886</b>	<b>-3,721</b>	<b>-14,808</b>	<b>9,226</b>	<b>-5,582</b>
Tax result	<b>-2,126</b>	<b>0</b>	<b>-2,126</b>	<b>-380</b>	<b>0</b>	<b>-380</b>
<b>Net loss for the year</b>	<b>-12,733</b>	<b>6,886</b>	<b>-5,847</b>	<b>-15,188</b>	<b>9,226</b>	<b>-5,962</b>

The special effects in 2016 from reorganization totaled €6.9 million (previous year: €9.2 million) and are due to an amount of €3.4 million (previous year: €5.4 million) to the result from long-term investments, to an amount of €2.9 million (previous year: €3.8 million) to the operating result and to an amount of €0.6 million (previous year: €0 million) to the net financial result of euromicron AG.

Of the effects on the result from long-term investments (€3.4 million), €3.0 million is accounted for by costs for reorganization measures incurred at the subsidiaries euromicron Deutschland GmbH and Secure Information Management GmbH. These resulted in an increase in expenses from the assumption of losses at the level of euromicron AG.

Of these costs, €2.2 million is attributable to euromicron Deutschland GmbH, mainly as a result of non-cash effects from write-downs on assets in connection

with sale of the "Telecommunications" division (please refer to the comments in section 1.1 "Business model"). These costs also resulted from measures to optimize the company's personnel and IT structure.

The remainder of €0.8 million is attributable to Secure Information Management GmbH and results from costs in connection with discontinuation of the "Optical Tracking Systems" product line, in particular from write-downs of inventories, costs for reducing the workforce, severance payments for premature termination of contracts, and write-downs of property, plant and equipment. There are further special charges totaling €0.3 million due to write-off of the carrying amount for Avalan GmbH due to continuing liquidation of that company.

The operating result was also reduced by further costs of €2.9 million due to reorganization measures at the level of euromicron AG. Apart from the costs of financial advice, they relate in particular to costs for personnel measures, interim management and other legal and consulting costs.

The adjusted result from long-term investments in 2016 rose by €0.5 million to €1.5 million. Of that figure, €3.6 million is due to lower expenses for assumption of losses. That is attributable to the fact that operating losses of Avalan GmbH (in liquidation) no longer had to be assumed (previous year: €2.7 million) and the fact that the operating losses of euromicron Deutschland GmbH were €0.9 lower. Apart from that, the write-downs on shares in a U.S. listed company due to the decline in their price were €0.4 million lower than in the previous year. Income from profit and loss transfer agreements was €7.3 million, still at a high level, but €2.2 million lower year on year. Income from equity investments also fell by €1.3 million, mainly due to lower simultaneous dividend payments.

The adjusted operating result of euromicron AG likewise improved by €1.6 million from € -4.8 million to € -3.2 million in fiscal year 2016. There was a positive impact in particular from a €0.5 million increase in adjusted other operating income (mainly due to income from recognition of a receivable from reimbursement of legal costs) and a €0.9 fall in adjusted other operating expenses. In addition, the adjusted cost of materials fell by €0.5 million due to lower costs for purchased IT services and adjusted amortization/depreciation

fell by €0.1 million. On the other hand, there was a slight increase in adjusted personnel costs (€0.2 million) and a reduction in adjusted sales as a result of lower passed-on charges to affiliated companies (€0.2 million).

The net financial result includes reorganization costs of €0.6 million. These were incurred in connection with conclusion of the new financing agreement. The adjusted net financial result fell in fiscal year 2016 by € -0.2 million to € -2.0 million (previous year: € -1.8 million), mainly because provisions were set up for interest payments due to tax risks.

Regarding the € -1.7 million reduction in the tax result we refer to our comments in section 3.2 "Risk report and salient features of the risk management system".

After allowing for the tax result, the adjusted net loss for the year is € -5.8 million, a slight improvement of € 0.2 million compared the previous year.

#### **2.4. Non-financial performance indicators**

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

### **3. Forecast, Opportunity and Risk Report**

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

The forecast for the previous year envisaged a result from long-term investments between €8.0 million and €10.0 million for fiscal year 2016. Allowing for the negative operating result and negative net financial result, income before taxes for 2016 was forecast at around €1.0 million.

If the result for 2016 is adjusted for the unplanned special effects from reorganization (see section 2.2 "General statement on the performance of euromicron AG in fiscal year 2016"), the result from long-term investments is €1.5 million (before adjustment: € -1.9 million) and income before taxes is € -3.7 million (before adjustment: € -10.6 million). Consequently, the adjusted result from long-term investments is € -6.5 million below and the adjusted income before taxes € -4.7 below the forecast range.

The deviation in the adjusted result from long-term investments is due in particular to the fact that the profit transferred by the subsidiary telent GmbH is around € -5.2 million lower than planned. This effect resulted from the postponement in billing for a large project that runs over several years and from which profits can be recognized under German commercial law only when the final invoice is drawn up. In last year's planning, it was assumed that the final invoice for this project would be submitted in 2016; this has now been postponed to 2017 and so the contribution to earnings from this project will not be recognized until 2017.

Whereas the result from long-term investments was below planned, there was a positive deviation from the planning as regards the adjusted operating result. This was mainly attributable to income from recognition of a receivable from reimbursement of legal costs and from reductions in operating costs. The adjusted net financial result was as planned. All in all, the deviation in income before taxes compared with the planning is € -4.7 million.

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

#### Risk strategy and general risk management

euromicron AG and its subsidiaries have an established risk management system based on statutory stipulations. The system was expanded to include opportunities and new risks and the risk assessment methodology was revised in 2016. There were also Group-wide training courses on the changes to the risk management system. 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 84.0% of the Group'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 2017, the likelihood of potential economic risks occurring in the German market is assessed as being low. According to current assessments, the merely slow recovery in the economies of the Mediterranean region will not have any direct impact on the company. 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 production 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 production 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 completion of large projects acquired by euromicron Deutschland GmbH in previous periods. Operational handling of these old projects, which resulted in considerable unproductive work and so in operating losses in fiscal year 2016, was largely completed by the end of fiscal year 2016. As a result, the Group's risk exposure has been reduced significantly. There are residual risks in obtaining the amounts billed for some of these projects. In some cases, final negotiations are being conducted with the customers; in individual

cases, it is also possible that claims will have to be enforced through legal action, which means receipt of payment may be delayed. This risk was reflected in measuring the value of these projects.

In order to minimize the risks from project business moving ahead, a decision was taken in 2016 not to accept any large projects from general contractors in future, if they have a high risk profile and low margin. Instead, the focus was placed on direct customer business. euromicron Deutschland GmbH developed a standardized process that was rolled out comprehensively in all regions in 2016 and has now been implemented at all branch offices. It covers all aspects from the process for approval, processes in implementation management, to standardization of project controlling. Project staff are given continuous further training and education. Personnel capacities in project controlling were increased further in 2016. Moreover, project controlling was integrated more strongly in Group reporting and accompanied centrally. Thanks to the measures that have already been implemented and those additionally planned in 2017, the impact of risks from project business in subsequent years is regarded as manageable, with the result that project losses exceeding the customary operational extent are not expected.

#### Finances/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 no financing risk derive from this financing of the Group companies via 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 2016, the euromicron Group had sufficient funds to finance its operational business. In addition, the Group's reorganization measures were continued and largely completed. Winding up of what remains of the loss-making business areas that are not strategically relevant and were closed in 2015 is proceeding as planned. In addition, further divisions were identified in 2016 and the Group commenced measures to discontinue or sell them in 2016. The reorganization measures in 2016 again focused on euromicron Deutschland GmbH, the largest system house in the euromicron Group. The reorganization measures at euromicron Deutschland GmbH in 2016 comprised in particular continued reduction and restructuring of the workforce to reflect the requirements of the individual regions, measures to reduce working capital and optimize receivables management, and creation of standardized controlling and IT structures. The goal of these measures is in particular to optimize structures and processes so as to lastingly boost the earnings and financial strength of euromicron Deutschland GmbH and so of the euromicron Group.

So as to secure liquidity in future, euromicron AG needed to refinance the loans that expired in fiscal year 2016. To enable that, a financing agreement running until March 31, 2018, was concluded with financing partners. The agreement specifies that the company must fulfill specific key ratios (covenants), which must be tested quarterly. There were no indicators at the balance sheet date that these financial covenants cannot be fulfilled in the future. In fiscal year 2017, follow-up financing after March 31, 2018, will be a key focus of the Executive Board's activities. Together with our main financing partners, we are currently working on a structure that is tailored to the strategic realignment and related requirements of the euromicron Group. As things stand at present, the Executive Board of euromicron AG – also based on assessments by external experts who are supporting the company in this financing process – expects that the follow-up financing will be completed in the second half of fiscal year 2017 and so the Group will secure the funding it needs.

Tax risks are also subsumed under the category "finances/liquidity". One aspect that should be mentioned in this connection are tax risks from the securities

lending transactions euromicron AG conducted in the years 2010 to 2012. As part of that, shares in various companies were borrowed by euromicron AG from a bank directly before the dividend record date and returned to the lender at the same price shortly after the dividend record date. euromicron AG received the net dividends (less withheld capital gains tax and solidarity surcharge) and paid the lender compensation to the amount of the gross dividends. 95% of the distributed dividends were exempt from corporation income tax at euromicron AG, while the compensation payments were able to be claimed immediately as a deductible operating expense. euromicron AG offset the amounts of tax withheld as part of the dividend payments against the corporation income tax it owed. However, that requires euromicron AG to be the economic owner from the tax perspective of the shares loaned by the lender on the respective dividend record date. Pursuant to the change in jurisdiction by the German Federal Fiscal Court and the subsequent letter from the Federal Ministry of Finance on the question of ascribing economic ownership in securities lending transactions, this aspect was addressed in the current tax audit for the years 2010 to 2012.

There is the risk that the dividends, which were treated as being exempt from corporation income tax to an amount of 95%, will have to be fully counted as taxable operating income, since the change in the legal viewpoint means euromicron AG is no longer regarded as the economic owner of the shares from the tax perspective. This risk was reflected fully in the balance sheet in the 2016 financial statements by recognition of the possible payment of tax arrears (€2.1 million) and related interest payment (€0.3 million).

There is also the 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. That would result in a payment of tax arrears of around €5.8 million and an interest payment (as per December 31, 2016) of around €1.1 million. Due to the many doubts about the lawfulness of this change in terms of procedural law and content, an appeal has been lodged and suspension of execution applied for. The fiscal authorities have already granted the suspension of execution. In addition, this issue means that euromicron AG has claims from rights of recourse to the same amount. These claims have been

underpinned by a legal opinion from a specialist external attorney. Consequently, no outflow of liquidity from this risk is expected in total.

#### Procurement and production

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

#### Service and sales

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

#### IT

A large part of our field of business is in digital technologies. In particular in times of growing cybercrime, risks to IT-security must be addressed to a greater and greater extent. It is vital for data, networks and systems to be protected and reliable. We counter the higher risk by means of constant monitoring, the use of protective systems, and regular training and further education.

Apart from planned manipulative interference in networks, it is also necessary to take into account technical faults, which we counter by systematic protection, backup and modern data structures. The risk is regarded as low all in all.

### Corporate

The loss of qualified personnel is a key risk at a technology group with a medium-sized character like euromicron, in particular in project business, which is highly reliant on the existing staff. That is why the Group offers its employees regular, systematic further qualifications to reflect needs. That enables employees to assume more responsibility in their departments and demanding, varied tasks in their function. euromicron believes that professional and personal further development is a means of enhancing employee loyalty and key to a successful HR policy. In addition, the employee loyalty program formulated by the Executive Board and HR was implemented throughout the Group in fiscal year 2016. 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.

There are no 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**

Due to its strategic focus on the growth market of the “Internet of Things”, euromicron has a virtually unlimited market with prospects of large growth. euromicron’s target markets are the business areas “Digital Buildings”, “Smart Industry” and “Critical Infrastructures” (see also section 1.2 “Objectives and strategies”), which are already core markets of euromicron. Underpinned by its extensive experience and forward-looking technologies in the field of IT, network and security infrastructures, the euromicron Group’s solutions dovetail seamlessly into the innovative concepts for the Internet of Things.

Apart from the strategic alignment, systematic leveraging of synergies between technology companies and system integrators represents the greatest potential for improving the euromicron Group’s results in the medium term. Whereas these synergies have been exploited mainly at the project level to date, euromicron used business development resources in the centrally controlled innovation process in a pinpointed manner in fiscal year 2016, such as in the areas of IT security, smart services for IoT and service management. Central Business Development functions at euromicron help gear the solution portfolio to the target markets across all the companies and systematically create synergies between the associated companies.

One result of the proactive cooperation was that the euromicron companies ELABO GmbH, MICROSENS GmbH & Co. KG and euromicron Deutschland GmbH jointly opened a “Smart Industry” showroom in July 2016. Visitors to the showroom in Crailsheim can gain an overview of the Group’s entire Smart Factory portfolio – from customized workplace configurations to fully networked production, including robotics.

Apart from these market-related opportunities, one of our main goals is still to increase efficiency, especially in project business. The measures described in the risk report mean there are great opportunities to increase profitability in project business and so help improve results further.

Further opportunities for euromicron lie in rigorously continuing and expanding the measures to reduce working capital and so the Group's tied-up capital. The Group aims to follow up the successes it achieved in 2016 – reflected in a lower working capital ratio – by reducing the working capital ratio again in fiscal year 2017. This will also have a positive impact on the euromicron Group's liquidity situation.

Following the realignment of our strategy and the reorganization measures derived from that, a major focus in 2017 will be on professionalizing and optimizing our sales activities. We will therefore continue to expand key account management at our Group for important customers and target industries.

One strategic objective is still to increase the share of services in our solution portfolio in order to help customers in the digital transformation of their business processes, strengthen their loyalty to euromicron and so increase our profitability lastingly. To enable that, we further standardized and professionalized our service structures and processes at the Group. Under the euromicron product group "Smart Services", we formulated and developed new innovative service concepts for the IoT market that enable operation of digital infrastructures. For example, euromicron's subsidiary telent GmbH has recently launched EvalorIQ, its own scalable IoT platform. The software solution enables information and data supplied by the connected devices and interfaces to be analyzed and visualized and translated into practical approaches or business models. Customers can use the IoT platform to manage and present complex smart city and smart industry applications efficiently.

### **3.4. Forecast for fiscal year 2017**

Taking into account the presented opportunities and risks, an adjusted result from long-term investments of €9.5 million to €11.5 million is expected in 2017 at the level of euromicron AG. We also anticipate an adjusted operating result of around € -5.5 million to € -6.5 million and a net financial result of around € -3.5 million.

We expect that the earnings of euromicron AG in fiscal year 2017 will continue to be reduced by reorganization costs totaling €2.0 million to €3.0 million.

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 2017, 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 of the German Commercial Code (HGB) are obliged pursuant to Section 289 No. 5 of that Code to present the salient features of the ICS/RMS in relation to the consolidated accounting process in the group management report. The ICS/RMS comprises all principles, procedures and measures to ensure effective, cost-efficient and proper consolidated accounting and compliance with the relevant financial reporting regulations. It is integrated in the risk management system of the overall Group, which is described in detail in section 3.2. "Risk report and salient features of the risk management system".

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

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

In fiscal year 2016, the workforce at the corporate units of euromicron AG was increased, especially in Group Accounting and Group Controlling, Taxes, Internal Auditing and Compliance, resulting in a further improvement in the internal accounting control system. In addition, extensive guidelines were drawn up 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, optimization of structures and processes in system house business was continued to harmonize and standardize implementation management and project controlling at the project companies.

That also included implementation of a consistent cockpit for regional controlling at euromicron Deutschland GmbH. In addition, a further increase in personnel in project controlling is planned. The process started in 2016 to integrate project controlling more strongly in Group reporting will be expanded further. The necessary personnel requirements for that were created in 2016 when a permanent post at the level of euromicron AG was filled.

The organizational structure of Group Controlling was meshed more closely with the operating companies in order to further improve analysis of deviations between actual and planned figures and to enable swift and effective countermeasures to be taken in response to deviations from planning. Core elements are the direct assignment of staff from Group Controlling to the individual operating companies and stronger integration of them in process-related or accounting-specific matters at the subsidiaries. Reporting was standardized further, as a result of which preparation of the Group's monthly financial statements was professionalized further. In the year under review, integrated income statement, balance sheet and cash flow planning for the subsequent years was created and is the foundation for monthly analysis with regard to deriving monthly budget figures. A project to enable IT-aided preparation of the integrated Group planning as of fiscal year 2017 is currently being implemented.

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 “four eyes 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 accounting department's employees are informed of changes to the law that may have an impact on preparation of

the consolidated financial statements. This is all the more important given that extensively amended IFRS standards have to be implemented in subsequent periods. Group-wide projects as part of that have already been launched. Examples that might be mentioned here are the amendments to the standards on revenue recognition (IFRS 15) and lease accounting (IFRS 16). In addition, the legislative texts and related commentaries are available to an adequate extent.

Other control bodies, such as the Supervisory Board and independent auditor, are integrated in the Group'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, the accounting department is also dependent in part on data and information from other organizational units of the euromicron Group. Of particular importance in examining the intrinsic 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 and any derivate financial instruments in the balance sheet. The data, which is provided by other organizational units, is subjected to a plausibility check in the accounting department before being further processed as part of preparation of the consolidated financial statements.

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

The corporate governance declaration in accordance with Section 289a HGB (German Commercial Code) can be found in the 2016 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-16>.

## **6. Compensation Report**

### **Salient features of the compensation system for the Executive Board**

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's 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 the Executive Board**

The total compensation 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 account for around 60%, the performance-related component for around 30% and the component with a long-term incentive effect for around 10% of the total compensation.

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 non-performance-related 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 a direct company insurance policy, contributions to health and nursing care insurance, and reimbursement of business-related travel and entertainment expenses. 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 (75%). In addition, the compensation of Executive Board members includes variable components that are measured on the basis of the achievement of individual qualitative targets (25%). They relate to ensuring that planned earnings are achieved and to optimization of the financing structure. 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 (optimization of the financing structure). Payment of it is due after the consolidated financial statements for the final year of the performance period have been approved; annual payments on account are set off against this.

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 necessitated a severance pay cap have been agreed.

For their work in fiscal year 2016, the individual members of the Executive Board received the following payments:

The total compensation for all members of the Executive Board was €739 thousand. The performance-unrelated, fixed basic compensation accounted for €559 thousand (including other non-cash compensation of €9 thousand) and the variable, performance-related compensation for €180 thousand.

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

- Bettina Meyer: €370 thousand (performance-unrelated compensation of €280 thousand, including €5 thousand in other remuneration, plus performance-related compensation of €90 thousand)
- Jürgen Hansjosten: €369 thousand (performance-unrelated compensation of €279 thousand, including €4 thousand in other remuneration, plus performance-related compensation of €90 thousand)

The following interest-free advances on the LTI component were granted in 2016:

- Bettina Meyer: €33 thousand
- Jürgen Hansjosten: €33 thousand

No loans were granted to the members of the Executive Board in the year under review. Apart from the stated compensation components, the members of the Executive Board did not receive any fringe benefits.

In fiscal year 2016, 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 2016 in accordance with the Articles of Association was thus €135 thousand, which is broken down as follows:

Members of the Supervisory Board up to the General Meeting on June 28, 2016:

- Dr. Franz-Stephan von Gronau: €35 thousand
- Josef Martin Ortolf: €26.25 thousand
- Dr. Andreas de Forestier: €17.5 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.

Members of the Supervisory Board elected at the General Meeting on June 28, 2016:

- Evelyne Freitag: €25 thousand
- Rolf Unterberger: €18.75 thousand
- Dr. Alexander Kirsch: €12.5 thousand

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%.

With one exception, the members of the Supervisory Board did not receive any further payments for services provided in the year under review. The auditing firm LKC Kemper Czarske v. Gronau Berz was commissioned to prepare expert opinions in connection with legal and accounting matters. A fee totaling €33 thousand was incurred for the services.

## **7. Disclosures in accordance with Section 289 (4) 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, 2016, 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, 2016.

euromicron AG had been authorized to acquire its own shares in the period from June 10, 2011, to June 9, 2016, under a resolution adopted by the General Meeting on June 9, 2011. That resolution authorized euromicron AG to acquire its own shares at a maximum proportional amount of the capital stock of €1,310,539.74 for these shares. The Executive Board did not make use of the authorization to acquire treasury shares up to June 9, 2016.

- g.) There are no significant agreements by the company as defined by Section 289 (4) Nos. 8 and 9 of the German Commercial Code (HGB).

Frankfurt/Main, March 22, 2017

**Bettina Meyer**  
Spokeswoman of the  
Executive Board

**Jürgen Hansjosten**  
Member of the Executive Board

Annual financial statements for the financial  
year  
from 1 January to 31 December 2016

## Balance sheet as of December 31, 2016

of euromicron AG, Frankfurt/Main

<b>Assets</b>		
	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
	in €	in €
<b>A. Fixed assets</b>		
<b>I. Intangible assets</b>		
Purchased concessions, industrial and similar rights	261,243.43	238,253.00
<b>II. Property, plant and equipment</b>		
Other equipment, operating and office equipment	397,849.00	331,369.00
<b>III. Financial assets</b>		
1. Shares in affiliated companies	145,607,728.00	145,427,728.00
2. Loans to affiliated companies	18,800,000.00	19,700,000.00
3. Securities classified as noncurrent assets	266,909.00	340,325.00
4. Prepayments	20,000.00	20,000.00
	164,694,637.00	165,488,053.00
	165,353,729.43	166,057,675.00
<b>B. Current assets</b>		
<b>I. Receivables and other assets</b>		
1. Receivables from affiliated companies	35,242,904.71	32,291,872.47
2. Other assets	2,185,233.98	1,453,429.43
	37,428,138.69	33,745,301.90
<b>II. Cash-in-hand, bank balances</b>	470,152.73	3,223,988.97
	37,898,291.42	36,969,290.87
<b>C. Prepayments and accrued income</b>	213,217.58	190,792.96
	203,465,238.43	203,217,758.83

<b>Equity and liabilities</b>		
	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
	in €	in €
<b>A. Equity</b>		
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	- 40,916,954.67	- 28,184,220.00
	80,553,733.43	93,286,468.10
<b>B. Provisions</b>		
1. Provisions for taxes	2,086,451.99	948,681.23
2. Other provisions	1,619,422.68	1,950,067.15
	3,705,874.67	2,898,748.38
<b>C. Liabilities</b>		
1. Liabilities to banks	73,006,103.27	61,271,283.65
2. Trade accounts payable	1,043,890.65	624,532.06
3. Liabilities to affiliated companies	44,956,079.55	44,127,392.90
4. Other liabilities	199,556.86	1,009,333.74
(of which from taxes €197,729.73; previous year:		
	119,205,630.33	107,032,542.35
	203,465,238.43	203,217,758.83

# Income statement for the period January 1 to December 31, 2016

of euromicron AG, Frankfurt/Main

<b>Income statement</b>			
	<b>2016</b>	<b>2015 acc. to BilRuG</b>	<b>2015</b>
	in €	in €	in €
1. Income from investments	863,982.89	2,126,252.49	2,126,252.49
(thereof from affiliated companies €863,982.89; previous year: €2,126,252.49)			
2. Income from profit and loss transfer agreements	7,298,001.45	9,544,965.83	9,544,965.83
(thereof from affiliated companies €7,298,001.45; previous year: €9,544,965.83)			
3. Expenses from assumption of losses	- 9,628,695.85	- 13,741,030.29	- 13,741,030.29
(thereof from affiliated companies €9,628,695.85; previous year: €13,741,030.29)			
4. Sales	2,002,718.96	2,234,788.06	0.00
5. Other operating income	2,508,243.06	2,013,841.82	4,248,629.88
6. Cost of materials			
a) Cost of purchased services	- 446,725.51	- 934,647.14	0.00
7. Personnel costs			
a) Salaries	- 3,369,289.29	- 3,775,961.72	- 3,775,961.72
b) Social security and other pension costs	- 352,500.19	- 322,809.00	- 322,809.00
(of which in respect of pension schemes €34,633.92; previous year: €22,643.97)			
8. Amortization of intangible assets and depreciation of tangible assets	- 233,041.63	- 794,912.26	- 794,912.26
9. Other operating expenses	- 6,190,338.44	- 7,065,732.02	- 8,000,379.16
10. Income from long-term loans	120,000.00	321,666.67	321,666.67
(thereof from affiliated companies €120,000.00; previous year: €321,666.67)			
11. Other interest and similar income	1,338,484.76	1,290,902.79	1,290,902.79
(thereof from affiliated companies €1,338,108.48; previous year: €1,290,419.41)			
12. Write-down of long-term financial assets	- 393,416.00	- 2,278,069.32	- 2,278,069.32
13. Interest and similar expenses	- 4,123,963.59	- 3,427,125.65	- 3,427,125.65
(thereof to affiliated companies €327,979.04; previous year: €756,197.91)			
(of which expenses from interest accrued for provisions € 8,023.49; previous year: €821,631.12)			
14. Income taxes	- 2,105,987.84	- 189,165.45	- 189,165.45
15. Income after taxes	- 12,712,527.22	- 14,997,035.19	- 14,997,035.19
16. Other taxes	- 20,207.45	- 191,215.39	- 191,215.39
17. Net loss for the year	- 12,732,734.67	- 15,188,250.58	- 15,188,250.58
18. Loss carried forward	- 28,184,220.00	- 12,995,969.42	- 12,995,969.42
19. Net accumulated losses	- 40,916,954.67	- 28,184,220.00	- 28,184,220.00

## **euromicron AG, Frankfurt/Main**

### **Notes to the financial statements for fiscal year 2016**

#### **Fundamentals**

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

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

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

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

#### **Accounting and measurement policies**

##### **Assets**

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

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

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

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

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

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

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

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

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

## Equity and liabilities

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

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

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

**Liabilities** are carried at their settlement amount.

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

At December 31, 2016, there are deferred tax liabilities from different valuations for shares in affiliated companies, equity interests in partnerships, and receivables from simultaneous dividend payments from subsidiaries. Deferred tax assets result from different valuations of provisions and corporation income tax and trade tax loss carryforwards. In addition, they are due to temporary differences at the level of the dependent companies, which result in particular from different valuations for goodwill from asset deals, property, plant and equipment, inventories, provisions for pensions, other provisions and non-interest-bearing loan obligations.

At December 31, 2016, as in the previous year, there was a surplus of deferred tax assets for the consolidated fiscal group, which the company did not carry in utilization of the option permitted by Section 274 (1) Sentence 2 HGB.

## Explanations on the balance sheet and income statement of euromicron AG

### 1. Fixed assets

A breakdown and the changes in fixed assets are presented in the fixed-asset movement schedule below:

#### Changes in fixed assets at December 31, 2016

	Cost				Amortization and depreciation				Carrying amounts	
	Jan. 1, 2016	Additions	Disposals	Dec. 31, 2016	Jan. 1, 2016	Additions	Disposals	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
I. Intangible assets Purchased concessions, industrial and similar rights	1,713	134	1,265	582	1,475	111	1,265	321	261	238
	<b>1,713</b>	<b>134</b>	<b>1,265</b>	<b>582</b>	<b>1,475</b>	<b>111</b>	<b>1,265</b>	<b>321</b>	<b>261</b>	<b>238</b>
II. Property, plant and equipment Other equipment, operating and office equipment	1,009	189	356	842	678	122	356	444	398	331
	<b>1,009</b>	<b>189</b>	<b>356</b>	<b>842</b>	<b>678</b>	<b>122</b>	<b>356</b>	<b>444</b>	<b>398</b>	<b>331</b>
III. Financial assets										
1. Shares in affiliated companies	151,215	500	0	151,715	5,787	320	0	6,107	145,608	145,428
2. Loans to affiliated companies	19,700	0	900	18,800	0	0	0	0	18,800	19,700
3. Securities classified as noncurrent assets	934	0	0	934	594	73	0	667	267	340
4. Prepayments	20	0	0	20	0	0	0	0	20	20
	<b>171,869</b>	<b>500</b>	<b>900</b>	<b>171,469</b>	<b>6,381</b>	<b>393</b>	<b>0</b>	<b>6,774</b>	<b>164,695</b>	<b>165,488</b>
	<b>174,591</b>	<b>823</b>	<b>2,521</b>	<b>172,893</b>	<b>8,534</b>	<b>626</b>	<b>1,621</b>	<b>7,539</b>	<b>165,354</b>	<b>166,057</b>

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

A list of shareholdings at December 31, 2016, in accordance with Section 285 No. 11 HGB is presented on the next page.

## List of shareholdings at December 31, 2016

Name	Registered office	Amount of the share in capital in %	Equity € thou.	Annual result € thou.
euromicron Deutschland GmbH <sup>1)</sup>	Neu-Isenburg	100.00	6,708	0
ELABO GmbH - ein Unternehmen der euromicron Gruppe <sup>1)</sup>	Crailsheim	100.00	2,061	0
EUROMICRON Werkzeuge GmbH - ein Unternehmen der euromicron Gruppe <sup>1)</sup>	Sinn-Fleisbach	100.00	825	0
Stark- und Schwachstrommontage GmbH	Hamburg	100.00	847	88
LWL- Sachsenkabel GmbH - Spezialkabel und Vernetzungstechnik <sup>1)</sup>	Gornsdorf	100.00	1,685	0
Microsens Beteiligungs GmbH	Hamm	95.00	31	-3
MICROSENS GmbH & Co. KG	Hamm	95.00	500	578
MICROSENS Sp.z.o.o. <sup>2)</sup>	Wroclaw / Poland	95.00	160	48
telent GmbH - ein Unternehmen der euromicron Gruppe <sup>1)</sup>	Backnang	100.00	8,002	0
Netzikon GmbH <sup>2)</sup>	Backnang	100.00	-292	-317
euromicron austria GmbH <sup>3)</sup>	Seekirchen / Austria	100.00	3,873	0
RSR Datacom Verwaltungs GmbH	Essen	100.00	41	2
RSR Datacom GmbH & Co. KG	Essen	100.00	324	-324
ProCom Professional Communication & Service GmbH <sup>2)</sup>	Essen	100.00	399	187
Secure Information Management GmbH <sup>4)</sup>	Neustadt a.d.W.	95.00	539	0
Secure Information Management (Asia Pacific) Pte. Ltd. <sup>2)</sup>	Singapore / Singapore	95.00	554	524
ATECS AG	Zug / Switzerland	95.00	865	-804
SKM Skyline GmbH	Munich	100.00	1,194	22
Qubix S.p.A. <sup>2)</sup>	Padua, Italy	90.00	4,026	1,906
Avalan GmbH (in liquidation) - ein Unternehmen der euromicron Gruppe	Spiesen-Elversberg	100.00	615	-385
euromicron benelux S.A. <sup>2)</sup>	Ellange / Luxembourg	100.00	-25	-12
euromicron NBG Fiber Optics GmbH <sup>2)</sup>	Seekirchen / Austria	100.00	82	-84
euromicron holding GmbH	Seekirchen / Austria	100.00	9,396	1,035

<sup>1)</sup> Annual result after transfer of profits

<sup>2)</sup> Indirect shareholding

<sup>3)</sup> Indirect and direct shareholding

<sup>4)</sup> Annual result after assumption of losses

The company holds shares in the U.S. listed company Track Group Inc., U.S. The market value of the shares (value in US dollars translated into euros) at December 31, 2016, is €267 thousand. Consequently, the carrying amount of €340 thousand at

December 31, 2016, was written down by €73 thousand to the lower fair value of €267 thousand.

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

The **prepayments** of €20 thousand relate to payments made in connection with the option to acquire the minority interests in MICROSENS GmbH & Co. KG, which must be offset against the future purchase price at the time the option is exercised.

## **2. Receivables and other assets**

After receivables and liabilities that can be offset have been offset within the individual companies, the receivables from affiliated companies total €35,243 thousand (previous year: €32,292 thousand). They result from receivables from profit distributions and profit transfers (€15,877 thousand; previous year: €14,506 thousand), receivables from the cash pool (€6,027 thousand; previous year: €4,353 thousand), loan receivables (€13,100 thousand; previous year: €13,100 thousand) and receivables from current offsetting, the integrated inter-company relationship for value-added tax purposes and interest due (€239 thousand; previous year: €333 thousand).

All receivables from affiliated companies and other assets are due in less than one year. In the previous year, loans due from affiliated companies totaled €13,100 thousand and a partial amount of the recognized corporation income tax credit balance of €3 thousand from the credit procedure at the time was due in between 1 and 5 years.

## **3. Prepaid expenses**

The prepaid expenses totaling €213 thousand (previous year: €191 thousand) mainly comprise prepayments for insurance premiums and IT maintenance services.

## **4. Subscribed capital and authorized capital**

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

The General Meeting on May 14, 2014, adopted a resolution to create new authorized capital totaling €9,173,770.00. Under it, the Executive Board is authorized to increase the capital stock of euromicron AG by May 13, 2019, by up to a total of €9,173,770.00 on one or more occasions with the approval of the Supervisory Board by issuing new

registered shares in exchange for cash or non-cash contributions. In accordance with the Articles of Association, there is the possibility, under specific preconditions, to exclude the statutory shareholders' subscription right.

### Treasury shares

At December 31, 2016, there is no authorization from the General Meeting for euromicron AG to acquire its own shares. euromicron AG had been authorized to acquire its own shares in the period from June 10, 2011, to June 9, 2016, under a resolution adopted by the General Meeting on June 9, 2011. That resolution authorized euromicron AG to acquire its own shares at a maximum proportional amount of the capital stock of €1,310,539.74 for these shares. The Executive Board did not make use of the authorization to acquire treasury shares up to June 9, 2016.

## **5. Capital reserves**

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

## **6. Revenue reserves**

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

## **7. Net accumulated losses**

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

The net accumulated losses at December 31, 2016, are €40,916,954.67. This results from the net accumulated losses of the previous year (€28,184,220.00) plus the net loss for 2016 of €12,732,734.67.

## **8. Provisions for taxes**

The provisions for taxes reported at December 31, 2016, total €2,086 thousand and relate solely to tax-related matters from previous years.

## **9. Other provisions**

The other provisions total €1,619 thousand in the fiscal year (previous year: €1,950 thousand).

They include provisions for bonuses (€524 thousand; previous year: €405 thousand), value-added tax and interest (€317 thousand; previous year: €417 thousand), supplier rebates to be passed on (€247 thousand; previous year: €220 thousand), impending losses and rent smoothing (€186 thousand; previous year: €375 thousand), auditing of the financial statements and tax consulting (€165 thousand; previous year: €177 thousand), invoices not yet received (€90 thousand; previous year: €175 thousand) and miscellaneous items (€90 thousand; previous year: €181 thousand).

## 10. Liabilities

The liabilities are due as follows:

	Total liabilities	Due in			Previous year	Secured
		Up to 1 year	More than 1 year	Of which more than 5 years		
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	73,006	34,506	38,500	0	61,271	73,006
Trade accounts payable	1,044	1,044	0	0	625	0
Liabilities to affiliated companies	44,956	44,956	0	0	44,127	0
Other liabilities	200	200	0	0	1,009	0
	119,206	80,706	38,500	0	107,032	73,006
Previous year	107,032	86,532	20,500	0		0

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

After receivables and liabilities that can be offset have been offset within the individual companies, the liabilities to affiliated companies total €44,956 thousand (previous year: €44,127 thousand). They result from liabilities from the cash pool (€35,305 thousand; previous year: €34,127 thousand) and from liabilities from the assumption of losses (€9,609 thousand; previous year: €10,000 thousand). The liabilities from current offsetting and interest payable total €42 thousand in the fiscal year (previous year: €0 thousand).

## 11. Sales

Pursuant to statutory changes as a result of the German Accounting Directive Implementation Act (BilRUG), the company has sales totaling €2,003 thousand in the fiscal year for the first time. They mainly relate to services the company provided for group companies (€1,881 thousand), revenue from rental and leasing (€107 thousand) and other services/sales (€15 thousand). This revenue was carried under “Other operating income” in the previous year.

So as to enable better comparison with the previous year’s figures, the overview below shows the previous year’s figures analogously to 2016 in accordance with the provisions of the German Accounting Directive Implementation Act (BilRUG):

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015 (BilRUG)</b>	<b>Dec. 31, 2015</b>
	<b>€ thou.</b>	<b>€ thou.</b>	<b>€ thou.</b>
<b>Sales</b>	<b>2,003</b>	<b>2,235</b>	<b>0</b>
of which group services	1,881	2,058	0
of which rental and leasing	107	169	0
of which sales	15	8	0
<b>Other operating income</b>	<b>2,508</b>	<b>2,014</b>	<b>4,249</b>
<b>Total sales/other operating income</b>	<b>4,511</b>	<b>4,249</b>	<b>4,249</b>

## 12. Other operating income

The other operating income in the fiscal year was €2,508 thousand (previous year: €4,249 thousand). Please refer to the explanations under item 11 “Sales” for details of the effects of the statutory changes pursuant to the German Accounting Directive Implementation Act (BilRUG). The other operating income includes income from recognition of a receivable from reimbursement of legal costs totaling €1,350 thousand (previous year: €0 thousand).

### 13. Cost of materials

The expenses carried under “Cost of materials” (€447 thousand) relate solely to purchased services in connection with the provided (intra-group) services and rental income that are carried for the first time under the sales in accordance with the German Accounting Directive Implementation Act (BilRUG). They were carried under “Other operating expenses” in the previous year.

So as to enable better comparison with the previous year’s figures, the overview below shows the previous year’s figures analogously to 2016 in accordance with the provisions of the German Accounting Directive Implementation Act (BilRUG):

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015 (BilRUG)</b>	<b>Dec. 31, 2015</b>
	<b>€ thou.</b>	<b>€ thou.</b>	<b>€ thou.</b>
Cost of materials	447	934	0
Other operating expenses	6,190	7,066	8,000
<b>Total cost of materials/ other operating expenses</b>	<b>6,637</b>	<b>8,000</b>	<b>8,000</b>

### 14. Amortization of intangible assets and depreciation of tangible assets

There were no write-downs in fiscal year 2016. There were write-downs on intangible assets totaling €388 thousand in the previous year.

### 15. Other operating expenses

The other operating expenses in the fiscal year were €6,190 thousand (previous year: €8,000 thousand). Please refer to the explanations under item 13 “Cost of materials” for details of the effects of the statutory changes pursuant to the German Accounting Directive Implementation Act (BilRUG).

### 16. Other interest and similar income

The other interest and similar income in the fiscal year was €1,338 thousand (previous year: €1,291 thousand).

### 17. Write-downs of financial assets

The write-downs of financial assets (€393 thousand; previous year: €2,278 thousand) relate to an amount of €320 thousand (previous year: €1,848 thousand) to write-downs on the shares in the affiliated company Avalan GmbH (in liquidation) and to an amount of €73 thousand (previous year: €430 thousand) to write-downs on securities classified as noncurrent assets (shares in a U.S. listed company) resulting from the performance in its share price on the balance sheet date.

### **18. Other interest and similar expenses**

The other interest and similar expenses in the fiscal year were €4,124 thousand (previous year: €3,427 thousand).

### **19. Income taxes**

Income taxes were €2,106 thousand and resulted from tax expenses not relating to the period (€2,133 thousand) and tax income not relating to the period (€27 thousand). Income taxes were €189 thousand in the previous year and comprised current tax expenses (€237 thousand) and tax income not relating to the period (€48 thousand).

The tax expense not relating to the period for fiscal year 2016 is due to an amount of €2,063 thousand from the setup of a provision for tax risks from the ongoing tax audit for the years 2010 to 2012, which may result from the change in jurisdiction on the tax treatment of securities lending transactions.

## **Other disclosures**

### **1. Average number of employees**

An average number of 24.8 people were employed at euromicron AG in fiscal year 2016, of whom four were executive employees.

### **2. Consolidated financial statements**

euromicron AG, as the ultimate parent company of the euromicron Group, prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as are applicable in the European Union, at December 31, 2016. They are deposited with the operator of the Federal Official Gazette for publication.

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

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

- Mr. Christian Bischoff, Germany, notified us on August 14, 2015, that his share of the voting rights exceeded the threshold of 3.00% on August 12, 2015, and since then has been 3.04% (217,989 voting rights). He held 3.04% (217,989 voting rights) directly.
- IPConcept (Luxembourg) S.A., Luxembourg, notified us on January 28, 2016, that its share of the voting rights exceeded the threshold of 3.00% on January 22, 2016, and since then has been 3.01% (215,750 voting rights). It held 3.01% (215,750 voting rights) directly.
- IPConcept (Luxembourg) S.A., Luxembourg, notified us on February 26, 2016, that its share of the voting rights fell below the threshold of 3.00% on February 22, 2016, and since then has been 1.35% (96,919 voting rights). It held 1.35% (96,919 voting rights) directly.
- Universal Investment Gesellschaft mbH, Frankfurt/Main, Germany, notified us on February 26, 2016, that its share of the voting rights exceeded the threshold of 3.00% on February 22, 2016, and since then has been 3.01% (215,638 voting

rights). 3.01% (215,638 voting rights) were attributable to it in accordance with Section 22 (1) Sentence 1 No. 6 WpHG.

- Lazard Frères Gestion SAS, France, notified us on March 18, 2016, that its share of the voting rights exceeded the threshold of 3.00% on March 8, 2016, and since then has been 3.47% (249,100 voting rights). It held 3.47% (249,100 voting rights) directly.
- Consortia Partnership Limited, Channel Islands, notified us on September 23, 2016, that its share of the voting rights exceeded the threshold of 3.00% on May 15, 2015, and since then has been 4.24% (304,404 voting rights). The attributed voting rights are held by the companies Consortia Trustees Limited, Altitude Investments Ltd., Altitude Holdings S.à r.l. and Sapinda Holding B.V., which are controlled by Consortia Partnership Limited. 4.24 % (304,404 voting rights) were attributable to it in accordance with Section 22 (1) Sentence 1 No. 6 WpHG.
- Mr. Lars Windhorst, Germany, notified us on October 5, 2016, that his share of the voting rights exceeded the threshold of 3.00% on March 23, 2015, and since then has been 4.24% (304,404 voting rights). The attributed voting rights are held by the company Sapinda Asia Limited, Hong Kong, which is controlled by Mr. Windhorst. 4.24% (304,404 voting rights) were attributable to him in accordance with Section 22 (1) Sentence 1 No. 6 WpHG.
- Mr. Lars Windhorst, Germany, notified us on October 5, 2016, that his share of the voting rights fell below the threshold of 3.00% on September 1, 2016, and since then has been 0.00% (0 voting rights).
- Consortia Partnership Limited, Channel Islands, notified us on October 19, 2016, that its share of the voting rights fell below the threshold of 3.00% on October 14, 2016, and since then has been 0.00% (0 voting rights).

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

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

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

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

As in the previous year, euromicron AG concluded a master agreement on the sale of receivables with a bank based in Germany on December 31, 2016. Eight (previous year: eight) other affiliated companies of the euromicron Group are covered by this master agreement. By selling receivables, the companies are able to turn their receivables into liquid funds more quickly and so make a positive contribution to their funding and improve their working capital. Moreover, factoring means that the companies can obtain more favorable financing terms on the market than was previously the case. euromicron AG itself has not sold any receivables under this agreement. There are no risks from these transactions from the point of view of euromicron AG.

As part of financing of the Group, euromicron AG concluded a collateral pooling agreement with the lending banks in the year under review. This agreement related to the liabilities to banks already recognized at euromicron AG (at December 31, 2016: €73,006 thousand), as well as to liabilities to banks of the subsidiaries euromicron Deutschland GmbH (at December 31, 2016: €500 thousand) and Microsens GmbH & Co. KG (at December 31, 2016: €411 thousand). In this connection, euromicron AG and the other companies in the euromicron Group issued a guarantee to the pool leader, Deutsche Postbank AG, up to a maximum amount of €150 million toward the

lenders on June 30, 2016. However, claims against the guarantee can only be made if this does not result in establishment of a negative net worth.

As part of cash management, euromicron AG is jointly liable for daily credit utilization of credit facilities by its subsidiaries which do not have any credit lines of their own with the banks leading the cash pool, HSBC Trinkhaus & Burkhardt, Postbank and Taunus Sparkasse, to a maximum total of €8,350 thousand (previous year: €8,350 thousand) up to daily transfer to the group's account at 0:00 hours. The amount of liability at 0:00 hours on December 31, 2016, was €0 thousand (previous year: €0 thousand). The respective subsidiaries and euromicron AG are jointly and severally liable for utilization of the provided credit line of up to €26,200 thousand at the banks by the subsidiaries of euromicron AG under the cash pooling arrangements.

At December 31, 2016, euromicron AG assumed performance and advance payment guarantees for the following group companies:

euromicron Deutschland GmbH:	€12,167 thousand (previous year: €13,947 thousand)
telent GmbH:	€8,189 thousand (previous year: €8,331 thousand)
Stark-und Schwachstrommontage GmbH	€1,944 thousand (previous year: €1,500 thousand)
Elabo GmbH:	€1,785 thousand (previous year: €1,652 thousand)
Avalan GmbH:	€1,317 thousand (previous year: €1,746 thousand)
euromicron austria GmbH:	€321 thousand (previous year: €580 thousand)
RSR Datacom GmbH & Co. KG	€245 thousand (previous year: €242 thousand)
Others	€123 thousand (previous year: €705 thousand)

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

At December 31, 2016, euromicron AG held 95% of the shares in Microsens Beteiligungs GmbH, Hamm, and 95% of the shares in MICROSENS GmbH & Co. KG, Hamm. The two minority shareholders have a preemptive right to tender the remaining 2.5% of the shares to euromicron AG. At the same time, euromicron AG has an option to acquire these shares. This preemptive right and option, which can be exercised on January 1, 2017, at the earliest and on December 31, 2017, at the latest, results in a maximum payment obligation of €501 thousand on the part of euromicron AG. This comprises a fixed payment obligation of €451 thousand and a payment obligation of €50 thousand that is contingent on achievement of specific earnings in the future.

On January 12, 2017, a minority shareholder exercised its preemptive right to tender 2.5% of the shares in Microsens Beteiligungs GmbH, Hamm (purchase price: €0.6 thousand) and 2.5% of the shares in MICROSENS GmbH & Co. KG, Hamm (purchase price: €225 thousand). In rem transfer of the shares in MICROSENS GmbH & Co. KG was subject to the suspensive conditions of the purchase price being paid and the necessary entry in the commercial register being made. When those conditions were met on January 25, 2017 (payment of the purchase price) and January 30, 2017 (entry in the commercial register), the stake held by euromicron AG in MICROSENS GmbH & Co. KG, Hamm, increased from 95% to 97.5%.

At December 31, 2015, euromicron AG held 90% of the shares in ATECS AG, Zug/Switzerland, and 90% of the shares in Secure Information Management GmbH, Neustadt a.d.W. The minority shareholders have preemptive rights to tender the remaining 10% of the shares to euromicron AG. At the same time, euromicron AG has options to acquire these shares.

On February 22, 2016, it was agreed that the existing purchase options for 5% of the shares in ATECS AG and for 5% of the shares in SIM GmbH would be partially exercised effective March 31, 2016. The purchase price was €400 thousand for the shares in ATECS AG and €100 thousand for the shares in SIM GmbH. The acquisition meant the stake held by euromicron AG in ATECS AG and SIM GmbH was 95% in each case.

At the same time, the period for exercising the preemptive right and the purchase option relating to the remaining 5% stake held by the minority shareholder was extended until December 31, 2017. The option can now be exercised on December 1, 2017, at the earliest and on December 31, 2017, at the latest.

The other financial obligations result from rental agreements (running until 2022) and lease obligations (running until 2021) and total €3,264 thousand (of which due to affiliated companies: €0 thousand). They are composed as follows:

	Total	Up to 1 year	1 to 5 years	More than 5 years
Leasing	858	277	581	0
Rent	2,406	387	1,604	415
Total:	3,264	664	2,185	415
Of which due to affiliated companies	0	0	0	0

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

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

The corporate governance declaration in accordance with Section 289a HGB (German Commercial Code) can be found in the 2016 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-16>.

## **6. Auditor's fee**

The total fee charged by the independent auditor for fiscal year 2016 in accordance with Section 285 No. 17 HGB is not disclosed, since it is stated in the consolidated financial statements of euromicron AG.

### **Significant events after the balance sheet date**

Please refer to the comments under "Other disclosures", item "4. Business transactions not included in the balance sheet, contingencies and other financial obligations" for details of the acquisition of further shares in Microsens Beteiligungs GmbH, Hamm, and MICROSENS GmbH & Co. KG, Hamm. Apart from that, there were no other matters of special importance that occurred after the end of the fiscal year and are not included in the income statement or the balance sheet.

## **Supervisory Board and Executive Board**

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

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

Bettina Meyer

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

Jürgen Hansjosten

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

(2) Members of the Supervisory Board of euromicron AG

The members of the Supervisory Board of euromicron AG until the General Meeting on July 28, 2016, were:

Dr. Franz-Stephan von Gronau, Chairman

Certified public accountant, lawyer, tax consultant

Partner of the firm LKC Kemper Czarske v. Gronau Berz GbR,  
Munich

Josef Martin Ortoľ, Deputy Chairman

Senior Vice President Power Tools and Head of the Business Unit Professional Power Tools, Industrialized Markets of Robert Bosch GmbH, Leinfelden-Echterdingen

Dr. Andreas de Forestier

Managing Director of DBE Liegenschaften GmbH, Munich

Managing Director of KEA Vermögensverwaltungsgesellschaft mbH, Hamm

Managing Director of KEA Zweitmarktgesellschaft mbH, Hamm

Chairman of the Supervisory Board of CP Consultingpartner AG, Cologne

Chairman of the Board of the Noris Stiftung, a civil-law foundation for promoting the ecological and social market economy, Nuremberg

The following members were elected to the Supervisory Board of euromicron AG at the General Meeting on July 28, 2016:

Evelyne Freitag, Chairwoman

Graduate in business management,

Director EMEA Business Transformation at Goodyear Dunlop Tires Germany GmbH, Hanau

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

CEO of Keymile GmbH, Hanover

Managing Director of HYTEC Gerätebau GmbH, Mannheim

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

Dr. Alexander Kirsch

Businessman,

Deputy Chairman of the Supervisory Board of SKW Stahl-Metallurgie Holding AG, Munich

Member of the Board (Non-Executive) of Centrosolar America, Inc., Scottsdale (AZ), U.S.

## **2. Remuneration of the Executive Board members**

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

(1) Total remuneration of the Executive Board

In fiscal year 2016, the Executive Board received a total remuneration of €739 thousand (previous year: €951 thousand); the variable payments made up €180 thousand of this (previous year: €230 thousand).

(2) Pension commitments

As in the previous year, no expenses from the pension commitments to Executive Board members were recognized in fiscal year 2016.

(3) Fringe benefits

In addition, all members of the Executive Board are entitled to provision of an appropriate company car.

### **3. Remuneration of the Supervisory Board members**

Apart from being reimbursed for their outlays, the members of the Supervisory Board receive a fixed annual remuneration of €30 thousand. The Chairman/Chairwoman of the Supervisory Board receives double and his/her deputy one-and-a-half times the fixed remuneration. The overall compensation for the Supervisory Board for 2016 was thus €135 thousand.

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

With one exception, the members of the Supervisory Board did not receive any further payments for services provided in the year under review. The auditing firm LKC Kemper Czarske v. Gronau Berz was commissioned to prepare expert opinions in connection with legal and accounting matters. A fee totaling €33 thousand was incurred for the services.

#### **Appropriation of net income**

The annual financial statements of euromicron AG at December 31, 2016, in accordance with the German Commercial Code (HGB) disclose net accumulated losses of €40,916,954.67.

**Declaration by the legal representatives**

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

Frankfurt/Main, March 22, 2017

Bettina Meyer  
Spokeswoman of the Executive Board

Jürgen Hansjosten  
Member of the Executive Board

## Audit opinion

We have audited the annual financial statements – consisting of the balance sheet, the income statement and the notes – together with the accounting records and management report prepared by euromicron AG, Frankfurt/Main, for the fiscal year from January 1 to December 31, 2016. The accounting records and preparation of the annual financial statements and management report in accordance with German commercial law regulations are the responsibility of the company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, including the accounting records, and management report based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 of the HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit in such a way that misstatements and violations materially affecting the presentation of the picture of the net assets, financial position and results of operations conveyed by the annual financial statements, taking into account the principles of orderly accounting, and by the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the accounting records, annual financial statements and management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion pursuant to the findings gained during the audit, the annual financial statements comply with the statutory provisions and give a true and fair view of the net assets, financial position and results of operations of the company, taking into account the principles of orderly accounting. The management report accords with the annual financial statements, complies with the statutory requirements, conveys overall an accurate picture of the company's position and accurately presents the opportunities and risks of future development.

Frankfurt/Main, March 22, 2017

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk  
Wirtschaftsprüfer

ppa. Diana Plaum  
Wirtschaftsprüfer

# euromicron

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Both versions can also be downloaded from the Internet at [www.euromicron.de](http://www.euromicron.de).  
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