ANNUAL REPORT

2016

euromicron

KEY FIGURES

Key figures

	2016	2015
	€ m.	€ m.
Consolidated sales	**325.3**	**344.9**
Sales by division		
Smart Buildings	193.7	197.9
Critical Infrastructures	114.0	121.4
Distribution	22.6	22.5
All other segments and reconciliation	–5.0	3.1
Operating EBITDA*	**13.2**	**13.8**
Operating EBITDA* by division		
Smart Buildings	6.0	10.1
Critical Infrastructures	7.2	8.1
Distribution	3.1	2.5
All other segments and reconciliation	–3.1	–6.9
Operating EBITDA margin*	**4.0%**	**4.0%**
Reorganization costs with an impact on EBITDA	–5.8	–6.9
EBITDA	**7.4**	**6.9**
EBITDA margin	**2.3%**	**2.0%**
Operating EBIT*	**4.5**	**4.5**
Reorganization costs with an impact on EBIT	–6.8	–13.1
EBIT	**–2.3**	**–8.6**
Consolidated net loss for the period (attributable to euromicron AG shareholders)	–12.7	–13.3
Undiluted earnings per share (in €)	–1.76	–1.85
Working Capital (before factoring)	**73.2**	**81.7**
Working Capital Ratio (before factoring)	**22.5 %**	**23.7 %**
Working Capital (after factoring)	**38.5**	**61.4**
Working Capital Ratio (after factoring)	**11.8%**	**17.8%**
Cash flow from operating activities (reported)	–7.1	4.5**
Cash flow from operating activities, adjusted for effects from factoring and customers' monies to be passed on	1.3	4.4**
Order books	123.3	103.4
Equity ratio	33.7%	35.8%
Total assets	244.6	270.8
Employees (number as an average for the year)	1,804	1,825

* adjusted for special effects of the reorganization

** previous year's figure adjusted

CONTENTS

WE
DEVELOP
OUR
FUTURE

WE DEVELOP

euromicron

WE DEVELOP OUR FUTURE

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, we enable our customers to network business and production processes and so successfully move to a digital future.

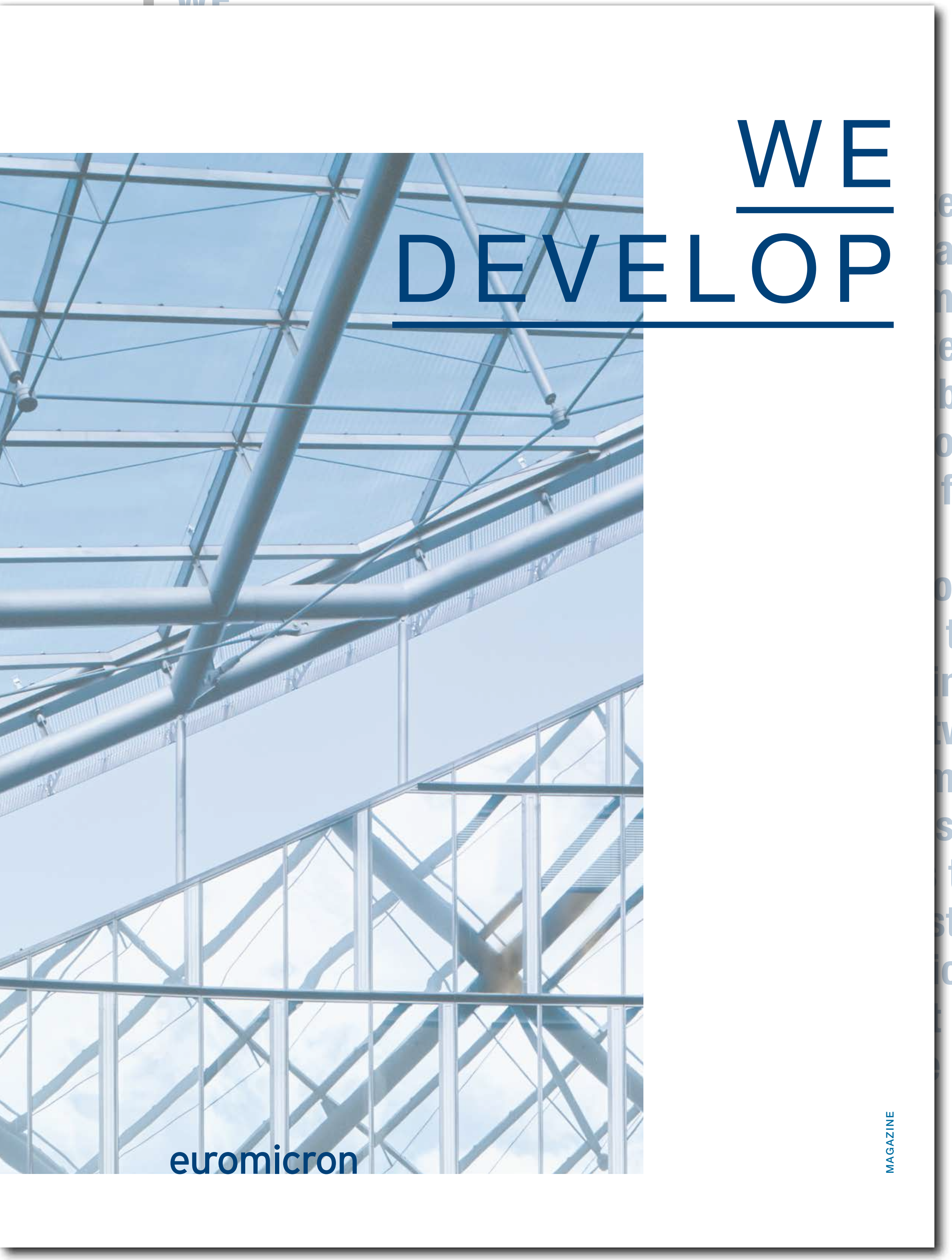
From design and implementation, operation, to intelligent services – we offer our customers tailor-made solutions for technologies, system integration and smart services and create the IT, network and security infrastructures required for them. As a result, we also enable existing infrastructures to 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.

WE
DEVELOP
OUR
FUTURE

euromicron

euromicron

WE



ed
ar in
nart
erman
ble our
on pro-
future.

on, to
tai-
integra-
twork
n. As a
s to be
to this
stomers
iciency,
lay the
road.

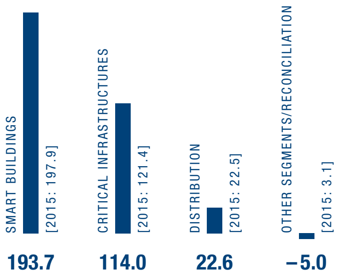
CONSOLIDATED SALES
IN € MILLION

2016

325.3

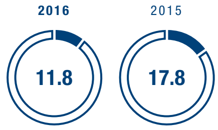
[2015: 344.9]

SALES BY DIVISION IN 2016
IN € MILLION

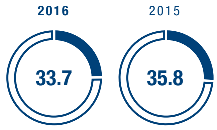


OPERATING EBITDA*
IN € MILLION

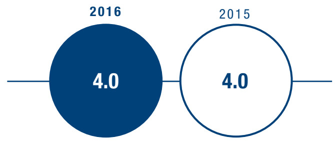
WORKING CAPITAL RATIO
IN %



EQUITY RATIO
IN %



OPERATING EBITDA MARGIN*
IN %



AVERAGE NUMBER OF EMPLOYEES

* adjusted for special effects of the reorganization
** previous year's figure adjusted

	2016	2015
	€ m.	€ m.
Operating EBITDA*	**13.2**	**13.8**
Reorganization costs with an impact on EBITDA	–5.8	–6.9
EBITDA	**7.4**	**6.9**
EBITDA margin	**2.3%**	**2.0%**
Operating EBIT*	**4.5**	**4.5**
Reorganization costs with an impact on EBIT	–6.8	–13.1
EBIT	**–2.3**	**–8.6**
Consolidated net loss for the period (attributable to euromicron AG shareholders)	–12.7	–13.3
Undiluted earnings per share (in €)	–1.76	–1.85
Working capital	**38.5**	**61.4**
Cash flow from operating activities	–7.1	4.5**
Cash flow from operating activities, adjusted for effects from factoring and customers' monies to be passed on	1.3	4.4**
Order books	123.3	103.4

WE ARE TAPPING THE INTERNET OF THINGS

Digitization will change our economic life fundamentally. Enterprises that tackle this change will secure their future opportunities today.

The euromicron Group enables its customers to achieve the digital transformation with innovative technical infrastructures, solutions and applications. In the markets of “Digital Buildings”, “Smart Industry” and “Critical Infrastructures”, we develop intelligent, future-proof digital solutions and related smart services.

OUR STRENGTHS FOR THE IOT

DIGITAL BUILDINGS

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

SMART INDUSTRY

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

CRITICAL INFRASTRUCTURES

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

Where a smart ♥ beats

Berlin. Humboldthafen 1. The modern office building erected here is one of Germany's top ten green buildings in the office sector. That's not due to the color of its facade, but its design and technical equipment, which minimize power consumption.

That also goes for security in the building: high-end and really smart. The latter aspect is no light matter. euromicron Deutschland has equipped the office complex over a total area of 28,000 square meters with smart security technology. That includes the burglar alarm system, access control, video technology, escape route technology and a danger management system. The systems communicate via several firewall zones in the internal IT network so as to ensure maximum security.

In such a large office complex, one prime goal is to safeguard data and business operations, as well as protect people. The objective was therefore to achieve the highest-possible level of security with an intelligent concept and completely reliable technical solutions.

The solution's heart and brain is the danger management system euromicron has integrated in the overall system. It receives messages from all security-related technical facilities in the building – for example from the almost 100 indoor and outdoor video cameras and over 200 doors where unauthorized persons are to be stopped from gaining access. The building is divided into more than 35 security zones where access rights are strictly assigned and protected by multiple means. Insightful real-time images are supplied by means of video surveillance. Security personnel can quickly size up the situation and take action in accordance with defined instructions. Priority 1 operating and security messages are transmitted redundantly to a VdS-certified control center in a German city.

It's not only people that may pose a danger to companies. euromicron has set up an early-warning system, for example, against the ingress of water and changes in temperature in rooms containing sensitive power distribution panel boards or servers. Errors or even potential ones are reported before damage arises so that operations are not put in jeopardy. The technical term for that is Predictive Maintenance.

"That was a very challenging project," says Alexander Schnopp, the project manager whose ten-strong team implemented the security solutions over some four months. "We delivered a concept tailored to the customer's specific requirements and created a smart building in the truest sense of the word. There are only few properties that are so complex in Germany."

MICRO APPS BRING GREEN INTO THE BUILDING

Modern buildings don't need electricity. Ideally, they produce it.

Such results can only be achieved with intelligent building technology. Because when the lights go on only where they're needed or the air-conditioning adjusts itself to the number of people in a room, that's not only convenient, but also saves a lot of power.

Smart network technology makes that possible: Micro apps programmed on switches can organize energy-saving building equipment. Sensors and actuators record the actual states and the clever applications derive "actions" for the devices.

euromicron

WE

More attractive
Security and energy efficiency enhance office buildings.

OUTSIDE

INTELLIGENT SECURITY SOLUTIONS

28
thousand sqm

are fitted with smart security technology

WE DEVELOP

100

indoor and outdoor video cameras

More than
200

doors, where unauthorized persons are to be stopped from gaining access

More than
35

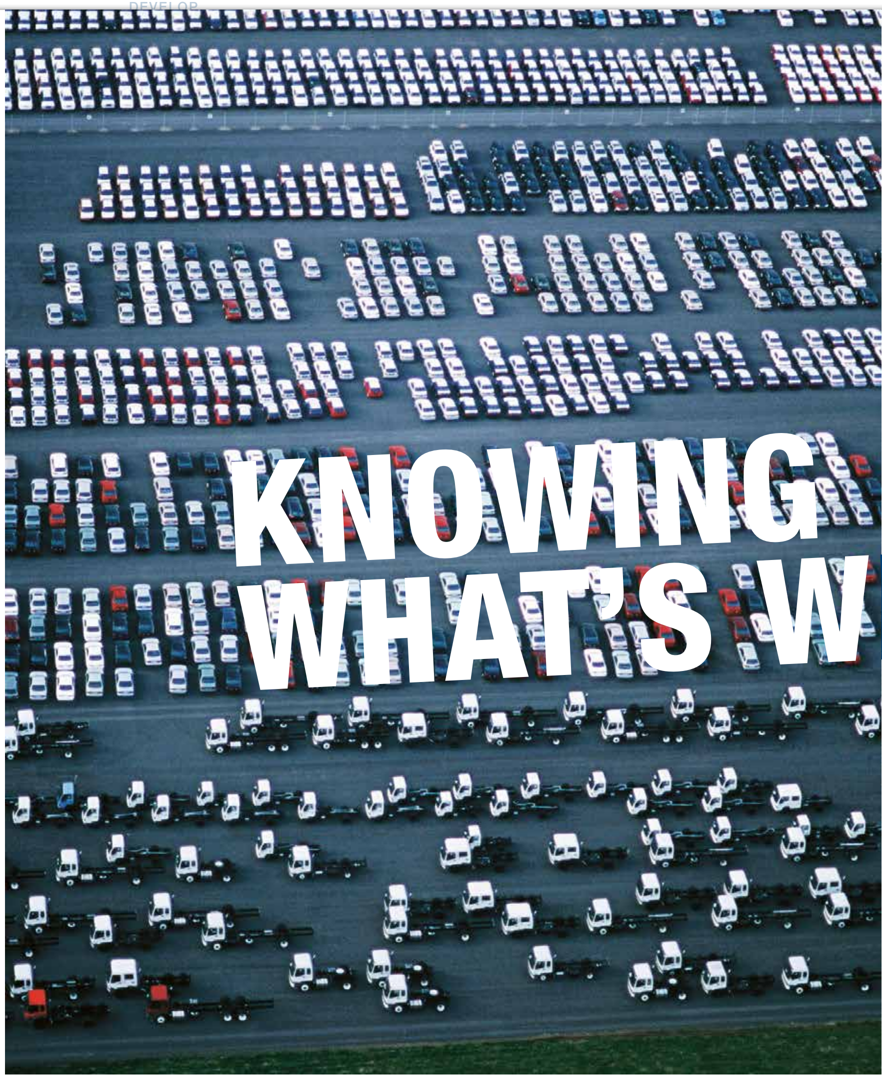
security zones

Images that are easy to interpret right away are supplied by the video surveillance system

ed
ar in
nart
erman
ble our
on pro-
future.

on, to
tai-
integra-
work
n. As a
s to be
to this
stomers
iciency,
lay the
road.

WE
DEVELOP



KNOWING WHAT'S WH

WE
DEVELOP

A clear overview
Identical vehicles waiting for their bodies to be customized in the workshop are a frequent sight on the grounds of SPIER.

A semitrailer with new pickup trucks drives up to the front gate of the company SPIER Fahrzeugwerk. The medium-sized enterprise specializes in customized bodies, extensions and trailers – from vans to heavy-duty trucks.

At times, there are up to 1,000 vehicles on the campus. New vehicles that often look alike as two peas in a pod and that still don't have license plates. How can you find the right van reliably in this constantly changing environment? How do you avoid mistakes due to confusion? How can unproductive waits at the workshop be reduced?

SPIER has found answers to these questions together with the euromicron company telent. And they lie in the Internet of Things.

As part of nationwide expansion of the network in Germany, telent's specialists also equipped the campus of SPIER with a LoRa® network. These low-power wireless networks are easy to install, use hardly any power and have a particularly wide range. They are excellently suited for transmitting information from sensors, such as that generated in tracking. "When a vehicle is brought to the company, it's provided with a sensor that has previously been 'married' with it," is how Lars Petermann, Head of Business Development at telent, explains the idea behind the technology.

ERE!

From that moment on, the vehicle can be found anywhere on the grounds or in the production halls. Confusing one of them for another is ruled out." The solution also protects against theft. That's because the sensors also respond to vibrations and changes in position. That's an effective deterrent to the theft of parts, a repeated occurrence on such large grounds with vehicles on them. Initial experience with telent's system has been extremely positive: Operational processes are being clearly optimized, resources saved and quality improved. Consequently, the pilot project is being put into regular operation. The investment pays off for the customer.

Q+A
LARS PETERMANN
HEAD OF BUSINESS DEVELOPMENT AT TELENT

Q What application examples would be typical of a low power WAN?

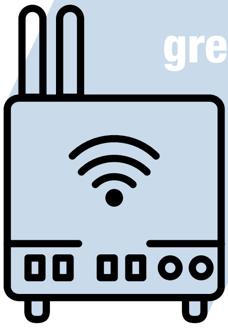
A LPWAN is the preferred solution for transmitting sensor data, meter readings or position data securely and at low cost. They also provide reliable coverage in difficult environments, such as shafts and basements.

Q And what about the costs of the infrastructure?

A Customers only pay connectivity charges – at an annual flat rate per device.

Q How do customers ultimately obtain their data?

A There are two ways. The data is transferred to existing customer systems or customers are given their own application for presenting and analyzing the data. We recommend the web-based solution on our "evalorIQ" platform.

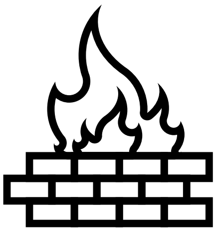


Small bandwidth, great impact

When paring places communicate with cars or sidewalks with the snow and ice clearing service, Netzikon – a euromicron Group company – may be behind that.

Netzikon is a subsidiary of telent GmbH and focuses on creating and operating specific IoT wireless solutions: LPWANs (low power wide area networks). The network has an extremely wide range and only transfers low bandwidths. That means it can be used to connect autonomous devices that only exchange small quantities of data, such as smart sensors and actuators. LPWANs like that from Netzikon boast outstanding energy efficiency: The battery-powered devices can run for up to ten years. Netzikon GmbH's network is based on the cutting-edge standard LoRaWAN™ – long range wide area network –, is low-radiation and ensures secure transmission. That means it can be used for sensitive areas.

Netzikon GmbH was founded in 2016. One of the first applications was to monitor lightning strikes on the rotor blades of wind power turbines. The strikes damage the material and technology over time. Thanks to this means of monitoring, wind farm operators can replace affected parts before they fail and so ensure continuous, reliable operation of their farms.

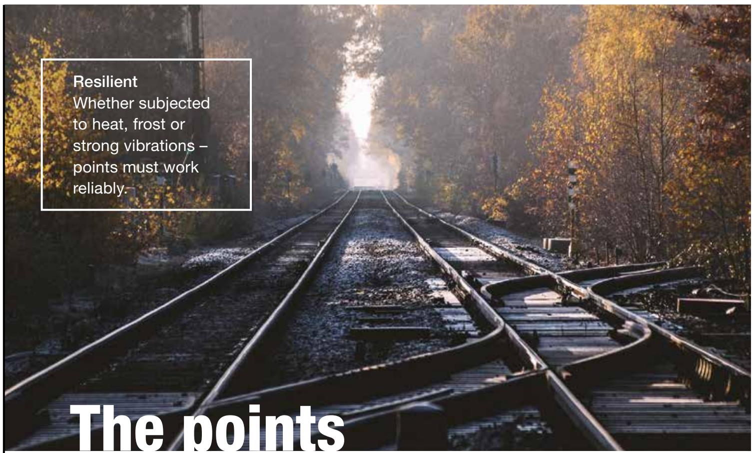


SIMPLY SECURE

There are high security requirements in the chemical industry, above all to protect unauthorized persons gaining access to new developments. BEZEMA AG, an international company from Switzerland that operates in the field of specialty chemicals, responded to the current threats in the field of IT security and tasked euromicron Deutschland with implementing a state-of-the-art firewall solution.

THE REQUIREMENT
- **HIGH LEVEL OF PROTECTION**
- **LOW OPERATING COSTS**

euromicron implemented a segmented firewall solution that is easy to manage using a single platform. The system is transparent down to the application level and also detects state-of-the-art attacks.



Resilient
Whether subjected to heat, frost or strong vibrations – points must work reliably.

The points are set to “go”

Timing is always important in rail transport. Compensating for outages in the infrastructure is complex, costs time and jeopardizes punctuality. Points are a key infrastructure component in the rail network – in order to ensure smooth operations, they have to work reliably under maximum stress and strain, even in snow and ice. Nowadays, points are usually remotely controlled by means of electrical drives from a signal box. If a point is faulty, the damage is indicated right away, but it has to be rectified first by a service team. Can that be done without interruption to services?

Predictive maintenance is the magic phrase with which euromicron ensures smooth traffic operations for a rail network operator. The current pulse in the signal box at the connection cable to the point is measured by a sensor. Deviations from the reference value, such as occur before faults arise, are detected and so the affected parts can be replaced before they fail. This preventive maintenance work can then be planned so that it does not impair ongoing transport operations.

Facts

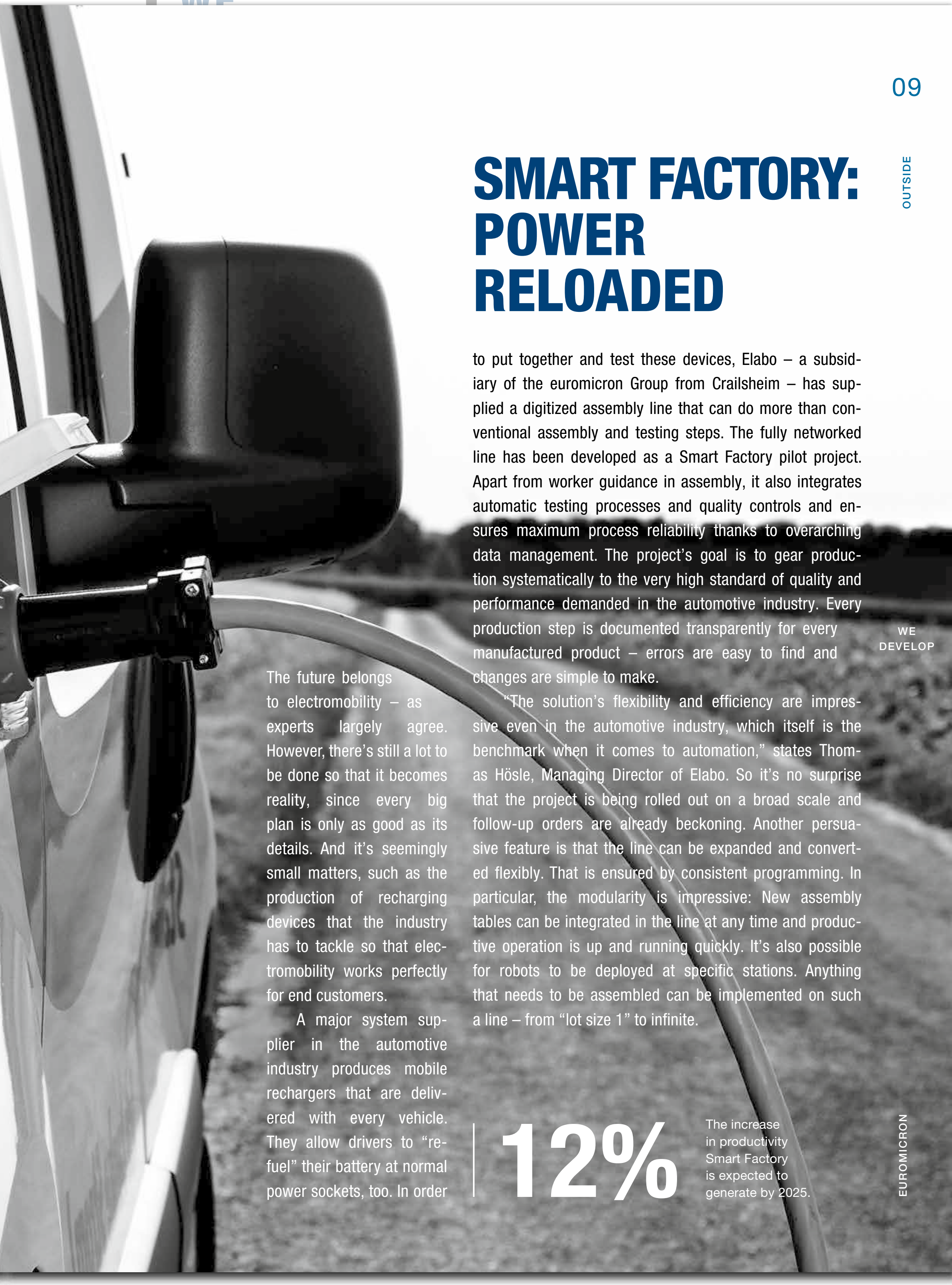
A study by the World Economic Forum and the consulting firm Accenture shows that predictive maintenance offers major savings potential.

12%
savings in planned repairs

30%
savings in maintenance costs

70%
fewer unplanned machine downtimes

Source:
World Economic Forum, Accenture



SMART FACTORY: POWER RELOADED

The future belongs to electromobility – as experts largely agree. However, there's still a lot to be done so that it becomes reality, since every big plan is only as good as its details. And it's seemingly small matters, such as the production of recharging devices that the industry has to tackle so that electromobility works perfectly for end customers.

A major system supplier in the automotive industry produces mobile rechargers that are delivered with every vehicle. They allow drivers to "refuel" their battery at normal power sockets, too. In order to put together and test these devices, Elabo – a subsidiary of the euromicron Group from Crailsheim – has supplied a digitized assembly line that can do more than conventional assembly and testing steps. The fully networked line has been developed as a Smart Factory pilot project. Apart from worker guidance in assembly, it also integrates automatic testing processes and quality controls and ensures maximum process reliability thanks to overarching data management. The project's goal is to gear production systematically to the very high standard of quality and performance demanded in the automotive industry. Every production step is documented transparently for every manufactured product – errors are easy to find and changes are simple to make.

"The solution's flexibility and efficiency are impressive even in the automotive industry, which itself is the benchmark when it comes to automation," states Thomas Hösle, Managing Director of Elabo. So it's no surprise that the project is being rolled out on a broad scale and follow-up orders are already beckoning. Another persuasive feature is that the line can be expanded and converted flexibly. That is ensured by consistent programming. In particular, the modularity is impressive: New assembly tables can be integrated in the line at any time and productive operation is up and running quickly. It's also possible for robots to be deployed at specific stations. Anything that needs to be assembled can be implemented on such a line – from "lot size 1" to infinite.

12% The increase in productivity Smart Factory is expected to generate by 2025.

WE
DEVELOP

EUROMICRON

Facts

Learning what the future needs: In the Learning Factories 4.0 in Baden-Württemberg

16
Learning Factories 4.0 are being established in Baden-Württemberg.

They are being funded to an amount of
€6.5 million
by the federal state.

Training as a “machine whisperer”

In the Learning Factory 4.0, not only school students, but also employees from surrounding companies, can prepare for the face of future manufacturing.

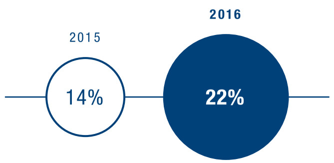
The digitized world means we have to learn a lot. How are production and information technology converging? How can we leverage the opportunities that creates? And how do we deal with questions of safety and workplace design? So that young students at vocational colleges and persons in charge of companies are prepared to tackle the opportunities and challenges of the Smart Factory, the federal state and districts in Baden-Württemberg are promoting the establishment of “Learning Factories 4.0”. A real, digitized production environment is created at them and interdisciplinary skills can be taught there. You learn here how to become a “machine whisperer”.

The colleges are fitted with cutting-edge equipment. After all, the “Smart Factory mindset” can be taken to heart only if the current state of the art is reflected in its many facets. Enterprises from the region and the Steinbeis Transfer Center for Industry 4.0 are involved in this project. euromicron’s subsidiary Elabo from Crailsheim in Swabia, an expert for digital manufacturing, is also on board. In a matter of months, it equipped two vocational colleges in Villingen-Schwenningen and Crailsheim / Schwäbisch Hall with networked workbenches, all the necessary software and training lines, including two-arm robots. The Learning Factories, the first of their kind, started their work at the end of 2016.

Not only trainees, but also technicians and decision-makers from companies in the region, will learn here in future how the Smart Factory works. For euromicron’s subsidiary, the Learning Factories 4.0 are a key project and an opportunity moving ahead. They ensure that qualified junior staff are trained in the region and that managers and entrepreneurs from the SME sector are offered a sort of shop window for digitization of their companies. In addition – and an aspect that Elabo is proud of – the project demonstrates what expertise the hotbed of innovation from Crailsheim boasts: The advantages of the Smart Factory are already tangible.

KNOWING WHAT COUNTS.

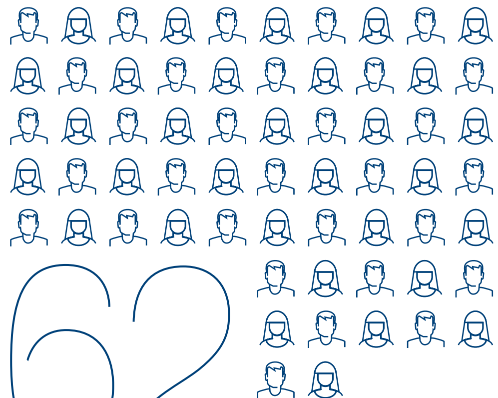
Every one-in-five privately owned small and medium-sized enterprise in Germany has been the victim of at least one successful cyberattack in the past twelve months – almost double the number compared to 2015.



By the year 2020

9.7 billion

buildings,
traffic lights,
streetlights,
water pipes,
parking meters,
weather stations
and other urban



62

trainees worked at euromicron in 2016. That's a trainee ratio of 3.4%. The goal for 2017 is to increase that figure even further.

22% of small and medium-sized enterprises in Germany state that they are of relevance to critical infrastructures. That means the consistent nationwide, cross-industry IT guidelines of the German IT Security Act (IT-SiG) apply to them.

facilities will be connected to the Internet.

FORECAST FOR GERMANY
IN € BILLION

Revenue from IoT will quadruple in the next four years.

9 OUT OF 10

small and medium-sized enterprises and managing directors believe digitization will be ***the*** trend in 2017.

SMART INDUSTRY

is offered by euromicron cost-effectively starting from

LOT SIZE 1

It supports the trend toward customized solutions.

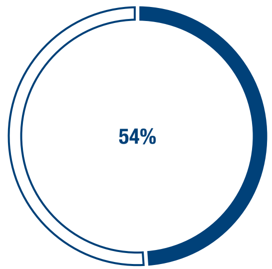
AROUND

€10 billion

is spent annually by Germany's SME sector on projects to improve and expand digitization.

82%

That is the anticipated degree of digitization at manufacturing companies in 2020. At present, these companies have digitized a third of their processes at most.



of all companies that have invested in Smart Industry expect to recoup their investments within two years.

*Cyberattacks are mainly aimed at system availability. **66%** of SMEs assume that. With its cybersecurity concepts, euromicron effectively prevents disruption to networked value chains.*

Q+A

BETTINA
MEYER
SPOKESWOMAN OF THE EXECUTIVE BOARD OF
EUROMICRON AG

REMOVING BOUNDARIES

LEVERAGING SYNERGIES

Q Ms. Meyer, euromicron has changed over the past two years. You talk about a culture change. What has happened in this regard?

A We're working to create a culture of open communication. After all, it's important to speak so that we understand one another. As Spokeswoman of the Executive Board, I regularly visit our companies and talk to all employees about their everyday work.

Q Why is that so important for you?

A Open communication increases satisfaction and creates a better rapport. I'm firmly convinced that satisfied employees show greater commitment to helping the company succeed. Studies prove that satisfaction ultimately results in higher profitability and is a competitive advantage. I believe that a spirit of respect and appreciation is vital for a management style that treats everyone as equals and for a healthy working climate.

Q euromicron comprises companies that differ very much. How do you reconcile that with a consistent corporate culture?

A That's indeed an important task. We enable good relationships between employees and foster collegial dialog across the companies. As a result, boundaries are removed and synergies leveraged. All of us must pull together in the same direction. We help employees develop by means of cross-company work groups, staff exchanges, job rotation for trainees, and discussions with all executives, for example.

Q What are your goals in relation to corporate culture in 2017?

A According to our employee survey last year, almost 80 percent of our employees believe that euromicron has a positive image in the eyes of customers. That means our group has a great deal of potential. And we aim to tap that – among other things, by further training, respect and improving workplaces. 70 percent want to see improvements in their work resources. I regard that as a mission for us to pursue.

New people, new inspiration

IoT is a pioneering, forward-looking market. Where does euromicron obtain experts who will be able to shape the Internet of Things down the road? And where do brains who are able to imagine the many effects and possibilities come from?

It's common knowledge: Technical experts with experience and innovative ideas are highly sought-after these days. But how can you acquire them? "We want to be an attractive employer to employees," states Katrin Schwarz, who is responsible for Organizational and Personnel Development at euromicron AG. That includes, for example, encouraging everyone at the group so that they can develop professionally and personally. To enable that, euromicron offers further training, as well as discussions with and feedback from supervisors. Further training measures are always embedded in preparatory and follow-up work and are accompanied by measures to ensure that what is learned in applied in practice, as well as reviews of their efficiency. Two days of further training mean four to five days of dealing with the subject in question. In addition, there are issues such as a strong emphasis on health management or family-friendly measures that make the group interesting to new employees.

A key component of recruitment at the euromicron Group is the training it offers. 62 young people are currently learning technical or clerical vocations at the group and that number is to increase. "We already have a good standard of training, but we'll keep on enhancing it further," declares Katrin Schwarz. "That will benefit trainees, instructors and, of course, ultimately the company, as well."

THREE RESPONSES TO THE QUESTION:

What strengths do your colleagues have?

»

Processional expertise, loyalty, a spirit of trust toward each other, a willingness to change and above all enjoyment of their work.

We have very different people under one roof. Young and old, experienced and inexperienced. I think it's great that everyone is willing to learn from each other. That's not something you can take for granted.

We have a good error culture. That produces people who have the courage to try out something.

«

Out of things for the Internet we make the Internet of Things

Innovations need staying power. And we as an IoT group are laying the groundwork. However, we're also reaping initial rewards gradually.

1

What is the Internet of Things (IoT)?

We can ascertain the states of living beings and things by means of measurement technology and sensors. Is the light on? Is electricity flowing? Is a wind turbine rotating? Such questions can be answered by measured data. Sensors generate countless items of data that initiate computing operations – big data analytics. Analyzing and interpreting this data enables decisions to be made and actions to be initiated. That requires stable sensor systems, fault-tolerant networks and IoT platforms that enable this data to be provided centrally or locally. Data analysis tools are then able to evaluate this information and data and translate it into intelligent services or business models.

2

And who needs it?

IoT solutions are used, for example, in monitoring important infrastructures, such as in the power and IT industry, at security facilities and hospitals or in transportation. However, they're also used to make our everyday life simpler, safer and more convenient. If we can analyze and use the masses of data already available to us, we'll be able to make things with fewer errors and more economically in future on the basis of the Internet of Things. That will save time, energy and material in many areas of life.

3

euromicron – the IoT specialist

We plan, implement and operate digital infrastructures for the Internet of Things under one roof – sensor systems, network technology and software. Our core competences reflect the target markets in which the IoT influences our life and work: "Digital Buildings", "Smart Industry" and "Critical Infrastructures". We accompany our customers in each of these target markets – from consulting, to concept design to service. Backed by our vendor know-how and specialized software applications, we deliver tailor-made solutions. We buy in complementary technologies for standard requirements from leading partners in the market. We develop our smart services on this technological foundation. As a result, we help our customers tap the benefits of the IoT now.

Service makes the difference

Service at euromicron has two dimensions: With "service and support" in the conventional sense, the group enriches technical solutions for its customers and ensures operational reliability. However, the group also contributes the expertise and technologies for analyzing existing data pools and flows. For example in the shape of the evalorIQ platform, which euromicron uses to deliver completely new services to customers.

This is where the existing and new understanding of service intermesh. A lot of data that is collected anyway provides information on consumption, operating states or activities, for example, and so supplies the basis for countless beneficial and services that customers are willing to pay for. These smart services shake up traditional value chains, but also make new service and support concepts necessary. "Service is very clearly an innovation topic for us," is how Thomas Kautenburger, Innovation Manager at euromicron AG, explains the strategy.

There are many examples of that: Whether predictive maintenance to avoid downtimes and so increase the availability of production and corporate processes or telematic services with real-time localization and monitoring of the status of critical parameters or resources: Intelligent products are combined with physical and digital services to create smart services. They are provided flexibly and on demand "as a service." "That's precisely where there's enormous potential," says Thomas Kautenburger. euromicron has recognized that. Companies like Netzikon, an IoT wireless network operator, or the new security expertise obtained through the acquisition of KORAMIS are geared precisely to that. "That enables us to lay the foundation for attractive service business. Because we feel certain: Service makes the difference."

10%

of sales from services – euromicron's target in the coming fiscal year.
The foundation for that is being laid with smart service concepts, security know-how and IoT wireless solutions.

WE DEVELOP OUR FUTURE

We used the year 2016 well: The transformation process we initiated is well-advanced and we've adapted the portfolio to our target markets. We have a lot of expertise and service to offer our customers.

IMPRINT

Published and copyrighted by:
euromicron AG
Zum Laurenburger Hof 76
60594 Frankfurt/Main
Germany
info@euromicron.de
www.euromicron.de

Status: March 2017

Concept, design and production:
MPM Corporate Communication
Solutions, Mainz
Germany
www.mpm.de

Photos:
Chris Kister, www.ckister.de
Auxpeer, illustrations
AdobeStock / F1 online /
Getty Images / iStock

Q+A

JÜRGEN HANSJOSTEN
MEMBER OF EXECUTIVE BOARD OF EUROMICRON AG

We are now the German IoT specialist for SMEs. That means we're forerunners in a pioneering market that is already developing great dynamism.

Q Mr. Hansjosten, what key milestones has euromicron achieved so far under its new management?

A We're gearing the euromicron Group, as a specialist for the Internet of Things, strictly to our target markets: "Digital Buildings", "Smart Industry" and "Critical Infrastructures". To enable that, we've optimized our portfolio and currently unite 17 associated companies under one roof. Our last purchase in 2017 was the specialist for cybersecurity, KORAMIS.

Q Why was this acquisition so important?

A Cybersecurity is a burning issue at present. For us, it's a cross-cutting task that affects every project and every customer, so we have to be well-prepared.

Q Did you make the progress you planned in restructuring the group last year?

A A lot of effort and resources have been put into the transformation process. In some cases, the reorganization took more time that could have been foreseen beforehand. And there's still quite a bit to do before we return to growth. So we've still not reached our goal.

Q Where does euromicron stand today?

A The glass is very clearly more than half full. We've done the most important groundwork: We are now the German IoT specialist for SMEs. That means we're forerunners in a pioneering market that is already developing great dynamism.

Q How is that making itself felt?

A In 2016, we posted five percent of our new orders from IoT projects. We can tell from the type of projects and response of our customers that we're on the right path. We impress with practical examples that show our innovation topics and their potential. That's also perceived by our customers.

WE
DEVELOP

OUR FUTURE

MAGAZINE

euromicron

euromicron

WE DEVELOP OUR FUTURE

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, we enable our customers to network business and production processes and so successfully move to a digital future.

From design and implementation, operation, to intelligent services – we offer our customers tailor-made solutions for technologies, system integration and smart services and create the IT, network and security infrastructures required for them. As a result, we also enable 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.

Q&A
INTERVIEW WITH THE EXECUTIVE BOARD

EUROMICRON IS BACK IN STABLE WATERS

euromicron is accomplishing an extensive structural change as part of its strategic realignment. The Executive Board members Bettina Meyer and Jürgen Hansjosten explain in an interview what still needs to be done so that the company can be put on the path to growth with sustainable profitability.

The strategic realignment has posed major challenges for the euromicron Group. What were you able to achieve in fiscal year 2016?

BETTINA MEYER The restructuring we initiated in 2015 is essentially completed. In fiscal year 2016, we developed our group further in line with our new strategy and took another step forward. What we're doing is basically similar to renovating a house. It's not seldom the case that the renovation work reveals other run-down spots that weren't visible to begin with and subsequently need repairing as well. That also goes for the transformation of euromicron AG we've initiated. The group's structures have been made leaner and modernized significantly. We've been able to optimize our commercial processes noticeably – such as by implementing a new controlling system. We're proceeding step by step in that. That takes time, so we've not finished work on all the spots in the group where we've identified a need for repair. For example, processes at euromicron Deutschland, which have already been reformed and used to be highly complex, are being made more efficient by the use of software solutions. The fact that our system house now has a nationwide setup in Germany and customers have a one-stop shop for consulting is greatly welcomed by the market. Our goal is to further increase synergies between the subsidiaries in all areas and develop joint IoT solutions. All in all, we generated lower revenue in fiscal year 2016 – also because we refrained from accepting unprofitable and risky large projects. We therefore stuck strictly to our maxim of "profitability before sales". In addition, old projects that were still tying up capacities had

Commercial processes have been optimized noticeably – as already reflected in operating income.

to be completed. The progress I've noted is already reflected in the positive trend in operating income, with the result that the operating EBITDA margin will be at the upper end of the guidance for 2016, despite lower sales.

JÜRGEN HANSJOSTEN At the same time, we reviewed our portfolio and selectively shed individual units that didn't fit with our strategy. We've thus reduced the number of existing operating companies from 20 to 14 since 2015 and they are working together better and better under the roof of euromicron AG as the strategic holding. As part of our market orientation, we'll also keep on asking how we can round out our portfolio optimally moving forward. On the one hand, we're selectively looking for potential acquisitions to strengthen our competences and innovativeness in future fields. For instance, we've bolstered our expertise in the area of cybersecurity by purchasing KORAMIS. On the other hand, we don't rule out further divestments if units at the group don't fit with our strategic alignment. Overall, we believe we are positioned exactly right with our orientation toward our three target markets of "Digital Buildings", "Smart Industry" and "Critical Infrastructures".

» We want to further increase synergies in the group and develop joint IoT solutions. «

Bettina Meyer

euromicron AG focuses strongly on the Internet of Things. Why do you attach such great importance to this target market?

JÜRGEN HANSJOSTEN Digitization is growing in dynamism and that means our customers, especially in the SME sector, face enormous challenges. Policymakers have also long since realized that the future is digital. The German government supports small and medium-sized enterprises in digitization by means of various initiatives. A recent study by PwC proves that awareness of the need for digitization is already very substantial among German SMEs. Nine out of ten company representatives see digitization as a trend for 2017 according to the study. Half of the surveyed companies intend to digitize their products and train their employees in this field. The willingness to embrace change benefits us: A growing share of our new orders now comes from digitization projects. We are a reliable partner who develops and implements tailored solutions and adapts the technology to our customer's specific circumstances. The application areas could hardly be more diverse: development of a smart lighting concept for an office building, a digital solution for parking management or networked assembly lines for the electrical industry. In turn, these solutions help our customers develop their business sustainably.

JÜRGEN HANSJOSTEN The IoT market offers us attractive growth potential. We'll develop smart services for our customers on the basis of digital infrastructures. They'll make us stand out from the competition and help create lasting customer loyalty. We succeeded in initiating a raft of innovative projects for customers from the future market of the Internet of Things in fiscal year 2016. Initial pilot projects in the area of "Smart City" were launched, whereas we won our first orders for the "Smart Industry" solution in that segment. Production and manufacturing sites of small and medium-sized enterprises are being digitized in them. In addition, Netzikon GmbH, an operator of wireless-based sensor networks, was founded in the "Critical Infrastructures" segment in August 2016.

You mention digital networks and smart services. What opportunities and risks do they entail for your customers in practice?

BETTINA MEYER Let me explain that with reference to the smart city Milan. For the World Expo, Milan established a comprehensive fiber-optic network and has since been steadily expanding it: SOS phones linked to a control center have been installed in all of its parks, while there is video surveillance at trouble spots or free access to the Internet via Open WiFi Milano. 650 Gigabit Ethernet industry switches, 1,800 active network ports, 600 access points and 800 video cameras were installed to enable that. We supplied the technical equipment for that. With our network technology, such as our industry switches, which have also proven their performance under extreme weather conditions, we're helping to enhance convenience and safety in the city.

» The future market of the Internet of Things offers us enormous growth potential. «

Jürgen Hansjosten

JÜRGEN HANSJOSTEN The existing network can now be used for further applications as part of Smart City, for example to integrate a parking and traffic management system or smart street lighting. All in all, our solutions minimize risks that not least people face in their day-to-day life and raise standards of convenience and safety to a new level. Local public transport is also a good example here. We've won a large order for digital video surveillance in this field and will network 800 locations in Germany with innovative security technology. Thanks to smart services based on digital infrastructures, our customers thus have innovative ways of processing and analyzing big data.

In dialog – the Executive Board is committed to an open corporate culture.

Many market players now offer digital solutions. Where do you intend to invest so that euromicron remains competitive?

JÜRGEN HANSJOSTEN Our focus is very clearly on digitizing infrastructures. In this strategic market of the future, we aim to increase our investments by €4 – 5 million in fiscal year 2017 and strengthen our market position further. Selective acquisitions remain an attractive option for us. Of course, they have to fit with our overall strategic alignment, complement our portfolio sensibly and help us expand our competences. For instance, we took over the cybersecurity specialist KORAMIS GmbH in January 2017. IT security is definitely one of the issues that will gain in relevance for our customers. Companies have sensitive data that has to be protected against cyberattacks. One example: We installed a new firewall solution for the chemicals company BEZEMA AG. As a result, it has not only increased its standard of security, but also significantly reduced its administrative overhead and need for external consulting.

Motivated employees are vital to every company. Is euromicron ready for new innovations in terms of its corporate culture?

BETTINA MEYER Our corporate culture is a matter that's very dear to our hearts and a key factor in the group's further development. That's why we conducted an employee survey in 2016 – and it met with a great response. I'm pleased to say that our employees are basically satisfied with their working climate and workplace, despite the reorganization at the group. But there are unquestionably aspects that need to be improved – and we'll tackle them. Above all, we're committed to an open corporate culture that fosters a continuous dialog between everyone. We also want to strengthen expertise and innovativeness at all levels. With a view to the requirements resulting from digitization, we aim to invest more in further training and developing our employees, increase the number of trainees, and bolster our ranks selectively with highly qualified experts. We want to motivate our employees and get them on board on our path to transforming the company. That means it's important to develop their skills and prepare them as best possible for the digitization projects our customers are going to launch.

What do you anticipate for fiscal year 2017?

JÜRGEN HANSJOSTEN We believe euromicron is making good progress all in all. In 2016, we stabilized the company and established more efficient structures. We intend to use that momentum to keep on optimizing our efficiency. We need to get ourselves into position and create a good setup to leverage market opportunities down the road. We as a group will still be in a transformation phase in the current fiscal year and 2018, before aiming to herald in an era of growth from 2019 on. We know our customers very intimately from our core business and so we're the perfect partner to develop innovative solutions together with them and to accompany them as they move toward the digital future. Our objective is growth with sustainable profitability as a specialist for SMEs in the future market of the Internet of Things.

TO OUR SHAREHOLDERS

Report of the Supervisory Board
2016

Evelyne Freitag
Chairwoman of the Supervisory Board

DEAR SHAREHOLDERS,

The Supervisory Board of euromicron AG discharged the tasks incumbent on it under the law, the Articles of Association, its bylaws and the corporate governance principles in fiscal year 2016.

Composition of the Supervisory Board and Executive Board

The term of office of Chairman of the Supervisory Board Dr. Franz-Stephan von Gronau, his deputy Mr. Josef Martin Ortolf, and the further member Dr. Andreas de Forestier expired when the 2016 Ordinary General Meeting on July 28, 2016, ended. The members of the Supervisory Board were newly elected at the 2016 Ordinary General Meeting. Ms. Evelyne Freitag is now Chairwoman of the Supervisory Board, her deputy is Mr. Rolf Unterberger, and the further member is Dr. Alexander Kirsch. The regular term of office of the newly elected Supervisory Board expires at the end of the Ordinary General Meeting in 2021.

There were no changes to the composition of the Executive Board in the year under review.

Cooperation of the Executive Board and Supervisory Board

The Supervisory Board regularly advised the Executive Board and monitored how it managed the company. The Supervisory Board was directly integrated in all decisions of fundamental importance for the company at an early stage. In this regard, the Executive Board met its obligations to provide information and regularly, promptly and comprehensively informed the Supervisory Board in writing and orally about matters of relevance to the company and Group relating to its current situation, strategy, planning, development of business, the risk situation and risk management, compliance and important business transactions of the company and its subsidiaries. The members of the Supervisory Board had the opportunity to take an intensive look at the reports by the Executive Board and contribute their own suggestions. On the basis of the Executive Board's reporting, the Supervisory Board reviewed the development of business and discussed important decisions and matters for the company. All information from the Executive Board was examined for plausibility and critically appraised by the Supervisory Board. Deviations in business development from the plans were presented individually to the Supervisory Board and dealt with intensively by it. The business transactions and measures that are of fundamental importance to the company and for which the Executive Board therefore requires the consent of the Supervisory Board pursuant to the bylaws were discussed by the Supervisory Board with the Executive Board directly and promptly and examined in detail by it. The Supervisory Board consented to each of the submitted business transactions and measures. The half-yearly and quarterly financial reporting was also discussed with the Executive Board. In addition, the Supervisory Board was in regular contact with the Executive Board and obtained information on the current development of business and the main transactions and occurrences.

Focus of deliberations in 2016

The Supervisory Board, which consists of three members and so has not formed any committees, convened five meetings and two telephone conferences in fiscal year 2016. In its four regular meetings on March 23, July 27, October 17 and December 14, 2016, the Supervisory Board discussed the company's planning, economic situation and strategic development, as well as the progress made in implementing the reorganization measures at the Group, in the presence of the Executive Board. The constituent meeting of the newly elected Supervisory Board was held on August 3, 2016, with Ms. Evelyne Freitag being elected as its Chairwoman and Mr. Rolf Unterberger as its Deputy Chairman. The Supervisory Board also held a telephone conference on November 7 and December 7, 2016. All members of the Supervisory Board took part in all of these meetings and telephone conferences.

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

- Adoption of the corporate planning for the fiscal years 2017 to 2021
- Implementation of the reorganization and integration process
- Divestments
- Human resources policy and personnel development
- Data protection and security
- The Group's financing structure
- Risk management and the internal control system of the company
- Compliance activities and organization

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

Corporate governance

The latest version of the German Corporate Governance Code, the amendments to it published on June 12, 2015, and implementation of it at euromicron AG were a subject of the Supervisory Board's telephone conference on December 7, 2016.

The Supervisory Board and Executive Board have analyzed the recommendations and suggestions of the "German Corporate Governance Code" (DCGK) and issued an updated declaration on conformance in accordance with Section 161 of the German Stock Corporation Law (AktG). The declaration on conformance is available at all times on the company's Internet site.

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

Independent auditor

The independent auditor elected for the company and the Group by the 2016 General Meeting for fiscal year 2016 is PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt / Main. The certified accountants are Ms. Diana Plaum (since fiscal year 2015) and Dr. Ulrich Störk (since fiscal year 2013), who is responsible for auditing the financial statements.

Annual financial statements of euromicron AG and the group

The independent auditor, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, audited the annual financial statements, which were prepared by the Executive Board in compliance with the rules of the German Commercial Code (HGB), and the management report for fiscal year 2016. The auditor issued an unqualified audit opinion for them. The consolidated financial statements of euromicron AG for the fiscal year 2016 and the group management report were prepared in accordance with Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS), as are applicable in the European Union. The consolidated financial statements and group management report for the past fiscal year were also issued with an unqualified audit opinion.

The financial statement documents and audit reports for euromicron AG and the Group were available to the Supervisory Board in good time before the balance sheet meeting on March 28, 2017. The Supervisory Board examined the financial statements and the management report, as well as the consolidated financial statements and group management report of euromicron AG and the auditor's reports and concurs with the auditor's findings following detailed discussion with the Executive Board. At the balance sheet meeting of the Supervisory Board on March 28, 2017, the auditors reported extensively on the main results of their audit of the single-entity and consolidated financial statements, as well as the company's internal control and risk management system and compliance structures, and answered supplementary questions by the Supervisory Board. There were no objections to this report.

In its meeting on March 28, 2017, the Supervisory Board therefore gave its consent to the result of the audit by the independent auditor and the annual financial statements of euromicron AG prepared by the Executive Board and the group management report. The annual and consolidated financial statements of euromicron AG were thus approved.

Thanks

The Supervisory Board wishes to express its thanks to the members of the Executive Board, the employees and the employee representative bodies of the euromicron Group for their personal commitment and achievements in fiscal year 2016. Thanks to their vigor and dedication, they all helped ensure that the euromicron Group developed stably.

Frankfurt / Main, March 28, 2017

For the Supervisory Board:

Evelyne Freitag
Chairwoman of the Supervisory Board

Corporate Governance

1. Corporate Governance Report

1.1 Composition and workings of the Executive Board and Supervisory Board

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

1.1.1 The Supervisory Board

The Supervisory Board consists of three members and is currently made up solely of shareholder representatives in accordance with Section 96 of the German Stock Corporation Law (AktG).

The term of office of Chairman of the Supervisory Board Dr. Franz-Stephan von Gronau, his deputy Mr. Josef Martin Ortolf, and the further member Dr. Andreas de Forestier expired when the Ordinary General Meeting on July 28, 2016, ended. The members of the Supervisory Board were newly elected at the Ordinary General Meeting. Ms. Evelyne Freitag is now Chairwoman of the Supervisory Board, her deputy is Mr. Rolf Unterberger, and the further member is Dr. Alexander Kirsch. The regular term of office of the newly elected Supervisory Board expires at the end of the Ordinary General Meeting in 2021.

After the new elections for it, the composition of the Supervisory Board still corresponds to the following general requirements and concrete objectives for its composition. These take into account the recommendations of the German Corporate Governance Code (referred to as “DCGK” or “Code” in the following) and are as follows:

- General requirements for members of the Supervisory Board
  Every member of the Supervisory Board must fulfill the requirements defined by the law and Articles of Association to become a member of the Supervisory Board (cf. in particular Section 100 (1) to (4) of the German Stock Corporation Law (AktG)).

  Every member of the Supervisory Board must have the knowledge and skills required to properly discharge the tasks incumbent on him / her under the law and the Articles of Association.

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

- Concrete objectives for the composition of the Supervisory Board
  The Supervisory Board has specified that, ideally, the members of the Supervisory Board in its entirety should have the following qualifications and qualities; a combination of several qualifications and qualities in one person is also possible:

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

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

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

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

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

Pursuant to the resolution adopted by the Supervisory Board on September 17, 2015, the Supervisory Board defined the target for the ratio of women on the Supervisory Board in accordance with Section 111 (5) of the German Stock Corporation Law (AktG) as being 0% in accordance with the status at that time and set a deadline for implementation by December 31, 2016. Following the new election of the Supervisory Board's members and the election of Ms. Evelyne Freitag at the General Meeting on July 28, 2016, the ratio of women was 1/3rd and so above the defined target. Pursuant to its resolution dated December 14, 2016, the Supervisory Board defined the new target of 1/3rd for the ratio of women on the Supervisory Board by December 31, 2018.

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

There were also no conflicts of interest in fiscal year 2016.

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

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

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

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

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

The persons making up the Supervisory Board are presented in Section 1.1.1 of the Corporate Governance Report and in the section **Supervisory Board and Executive Board** on page 24 et seq. of this Annual Report. The specific work of the Supervisory Board is presented in the section **Report of the Supervisory Board** on page 9 et seq. of this Annual Report. The remuneration of the members of the Supervisory Board is explained in the section **Compensation Report** on page 79 et seq. of this Annual Report.

1.1.2 The Executive Board

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

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

The Executive Board prepares the quarterly and half-yearly financial statements of the company, the annual financial statements of euromicron AG and the consolidated financial statements. In addition, the Executive Board ensures compliance with legal requirements, official regulations and internal guidelines on conduct at the company and works to ensure compliance with them at the companies in the euromicron Group as well. You can find more information on the compliance program and related measures in fiscal year 2016 in the section **Compliance Report** on page 19 of this Annual Report.

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

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

The concrete targets for the ratio of women on the Executive Board in accordance with Section 111 (5) of the German Stock Corporation Law (AktG) and for the ratio of women in the management tier below the Executive Board in accordance with Section 76 (4) of the German Stock Corporation Law (AktG) are described in the subsection "Targets" in the **Corporate governance declaration** in accordance with Section 289a HGB (German Commercial Code).

The persons making up the Executive Board are presented in the section **Supervisory Board and Executive Board** on page 24 et seq. of this Annual Report. The remuneration of the members of the Executive Board is explained in the section **Compensation Report** on page 79 et seq. of this Annual Report.

1.2 Shareholders and General Meeting

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

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

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

1.3 Transparency

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

In accordance with Article 19 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), members of the Executive Board and Supervisory Board or persons related to them are obligated to report transactions of shares in euromicron AG that require disclosure if the value of the transactions within a calendar year is €5,000.00 or more (directors' dealings). There were no dealings that required reporting in fiscal year 2016.

1.4 Independent auditor

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

2. 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) is part of the management report of euromicron AG and the group management report. In accordance with Section 317 (2) Sentence 3 HGB, the disclosures specified in Section 289a HGB (German Commercial Code) do not have to be included in the audit.

- Wording of the declaration on conformance (Section 161 of the German Stock Corporation Law (AktG)) for the year 2016 dated December 8, 2016

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

  The Executive Board and Supervisory Board of euromicron Aktiengesellschaft communication & control technology (referred to in the following as "euromicron AG") issued the last declaration on conformance in accordance with Section 161 AktG (German Stock Corporation Law) on December 8, 2015.

  The following declaration relates for the period since publication of the last declaration on conformance on December 8, 2015, to the recommendations of the Code in its version dated May 5, 2015, as published on June 12, 2015, in the electronic Federal Official Gazette.

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

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

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

  In accordance with the recommendation in Section 4.2.5 (3) and (4) DCGK, the compensation for Executive Board members is to be disclosed in individualized form using model tables for fiscal years starting after December 31, 2013. The model tables in the Code's appendix are to be used for disclosing this information. The company currently deviates from Section 4.2.5 (3) and (4) of the Code and will continue to do so in future.

  Reason:

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

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

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

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

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

Frankfurt / Main, December 8, 2016

The Executive Board The Supervisory Board"

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

- Description of the workings of the Executive Board and Supervisory Board
The persons making up the Executive Board and Supervisory Board are presented in the section **Supervisory Board and Executive Board** on page 24 et seq. of this Annual Report. A general description of the tasks and workings of the Executive Board and Supervisory Board can be found in the section Composition and workings of the Executive Board and Supervisory Board in the **Corporate Governance Report** on page 12 of this Annual Report. The latter is also published in the Internet on our homepage in the section "Corporate Governance".

- Targets

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

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

  In filling management posts, the Executive Board ensures adequate representation of women, as well as a wide range of skill structures (diversity). At present there is one management tier below the Executive Board, consisting of four department heads who hold general commercial power of attorney. In view of the current contracts of employment and successful work, the Executive Board believes there is no need or possibility at present to improve the ratio of women in the management tier below the Executive Board. Under its resolution dated December 13, 2016, the Executive Board therefore defined the ratio of women in the management tier below the Executive Board in accordance with Section 76 (4) of the German Stock Corporation Law (AktG) as being 0% in accordance with the current status and set a deadline for implementation by December 31, 2017. The Executive Board also pledged its commitment to make intensified efforts to develop and acquire women with suitable professional and personal qualifications for management posts.

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

3. Compliance Report

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

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

3.1 Focus of our compliance work

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

Compliance in Human Resources was a focus of our compliance activities in 2016. In particular, various in-person training courses were held on the subject, and standard documents were updated and adapted.

3.2 Compliance training

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

3.3 Compliance organization

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

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

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

3.4 Further information

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

euromicron on the Capital Market

Overview of the shares

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

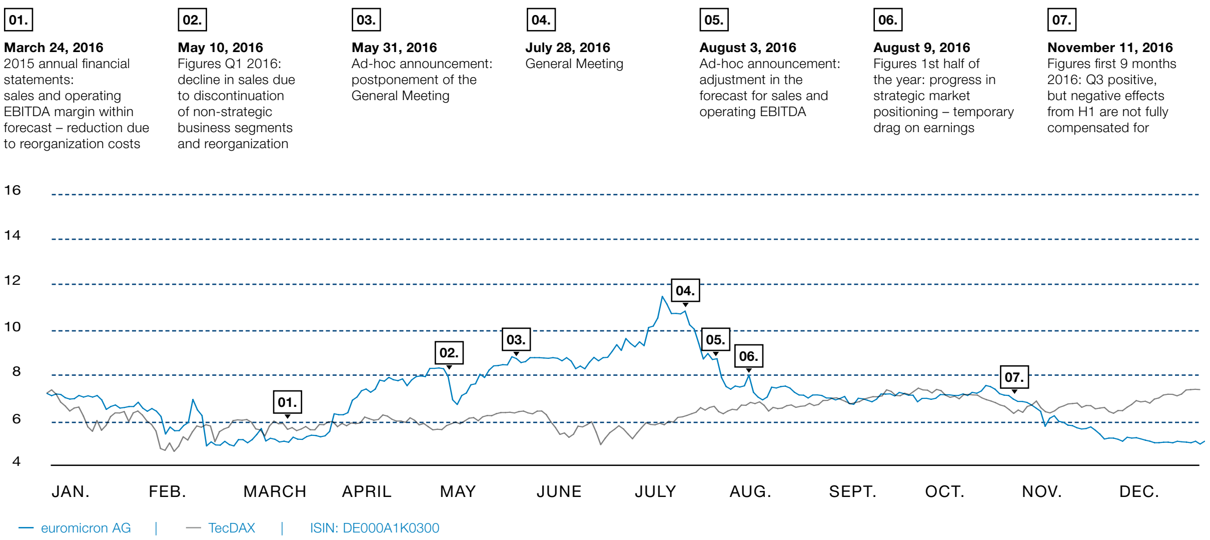
The shares on the market 001

	2016	2015
Number of shares issued at the balance sheet date	7,176,398	7,176,398
– of which treasury shares	–	–
Capital stock (€)	18,347,544.88	18,347,544.88
Highest price * (€)	10.44	14.18
Lowest price * (€)	5.7	7.52
Closing price at the end of the year * (€)	5.85	7.57
Performance in absolute terms	–22.7 %	–35.3 %
Performance of the TecDAX	–1.0 %	+32.5 %
Market capitalization at the end of the year (in € million)	41.98	54.33
Undiluted earnings per share (€)	–1.76	–1.85
Volume of shares traded (in millions) **	3.07	5.69
Ø volume of shares traded per day (in thousands)	12.02	22.38

* Xetra, closing price
** Xetra and Frankfurt Stock Exchange

Performance of euromicron's share

Performance in €



Investor Relations

euromicron AG attaches great importance to satisfying the capital market's need for information. Once again in fiscal year 2016, the Executive Board of euromicron AG nurtured a continuous dialog with the company's various stakeholders. Regular and prompt publication of news of relevance to the company underscores our objective of providing comprehensive information on the company's development. In addition, all relevant capital market information and financial reports, in German and English, can be called at any time by investors, analysts and financial journalists on our Investor Relations website www.euromicron.de/en/investor--relations.

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

Shareholders that had to be reported in acc. with Section 21 WpHG (> 3%):

3.47%

Lazard Frères Gestion SAS
March 8, 2016

3.04%

Christian Bischoff
August 12, 2015

3.01%

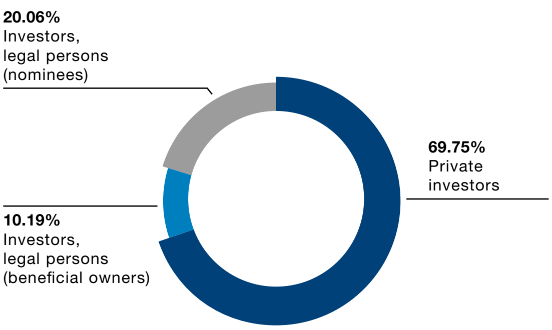
Universal-Investment-GmbH
February 22, 2016

Shareholder structure

The majority of the registered shares in euromicron AG – 69.75% – are held by private investors, Beneficial owners, i.e. investors and legal persons who hold the shares themselves, hold 10.19% of the shares. The proportion of shares held by investors whose identity is not known by us (nominees; legal persons, shares hold by third parties) is therefore 20.06%.

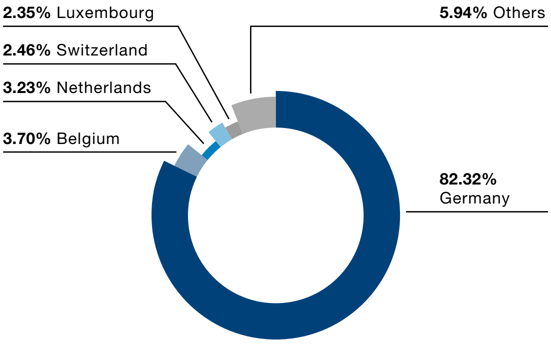
The lion's share of euromicron's shares – 82.32% – are held by investors from Germany, compared to around 17.68% by investors from Belgium, the Netherlands, Switzerland, Luxembourg and other countries. All shares in euromicron AG are free float.

Shareholder structure by type of investor



Status: December 30, 2016 | Shares: 7,176,398

Shareholder structure by country



Stand: December 30, 2016 | Shares: 7,176,398

Assessments of analysts

The designated sponsor is equinet Bank AG.

The euromicron share was covered by five financial analysts in fiscal year 2016. Nine "hold" and seven "buy" recommendations were issued in the course of the year. There were no recommendations to sell the shares.

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

Analysts' recommendation on euromicron's share 002

Institute	Analyst	Date	Recommen-dation	Upside target
				in €
Bankhaus Lampe	Wolfgang Specht	November 8, 2016	Hold	7.00
equinet Bank	Sebastian Droste	January 20, 2017	Buy	13.00
GBC AG Investment Research	Felix Gode	August 16, 2016	Buy	10.50
Independent Research	Markus Friebel	November 9, 2016	Hold	7.80
Solventis Research	Klaus Schlote	April 14, 2016	Buy	16.05

Status: March 6, 2017

General Meeting

The Annual General Meeting of euromicron AG was held this year in the Deutsche Nationalbibliothek (German National Library), Frankfurt / Main, on July 28, 2016. The Executive Board and Supervisory Board welcomed around 240 shareholders and guests. Bettina Meyer, Spokeswoman of the Executive Board, reported on the group's operational development in fiscal year 2015 and the first quarter of 2016.

The focus in the subsequent debate was on the election of the new Supervisory Board. Apart from the three candidates originally proposed by the serving Supervisory Board, a total of six other candidates were nominated by shareholders. In the interests of the company and the shareholders, the Supervisory Board withdrew its nominations in the course of the meeting and nominations by the shareholders that were capable of gaining a majority were put to the vote.

All the items on the agenda were approved by a large majority with the exception of item 7 "Resolution on authorization to acquire own shares". In addition to the clear approval to grant discharge to the serving members of the Executive Board, Bettina Meyer and Jürgen Hansjosten, for fiscal year 2015, the shareholders also resolved to grant discharge to the Supervisory Board for 2015. Evelyne Freitag, Rolf Unterberger and Dr. Alexander Kirsch were elected to the Supervisory Board for the next five years.

All documents for the General Meetings of euromicron AG

A total of 28.6% of the capital stock with voting rights was represented (previous year: 13.18%, including absentee ballots).

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

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 (previous year: € –28,184,220.00). The net accumulated losses are carried forward to a new account.

Board Members of the Company
Executive Board and Supervisory Board

EXECUTIVE BOARD

Bettina Meyer
Member (Spokeswoman)

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

Jürgen Hansjosten
Member

Operations, Strategy, IT and Purchasing

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

SUPERVISORY BOARD

Evelyne Freitag
Chairwoman of the Supervisory Board of euromicron AG

Graduate in business management

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

Rolf Unterberger
Deputy Chairman of the Supervisory Board of euromicron AG

Graduate in industrial engineering

- Business consultant and Managing Director of RMU Capital GmbH, Munich
- Managing Director of Executive Interim Partners GmbH, Munich
- Managing Director 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
Member of the Supervisory Board of euromicron AG

Businessman

- Member of the Supervisory Board of SKW Stahl-Metallurgie Holding AG, Munich
- Deputy Chairman of Centrosolar America, Inc., Scottsdale (AZ), U.S., Member of the Board (Non-Executive)

GROUP MANAGEMENT REPORT

1. Fundamentals of the Group

1.1 Business model of the Group

euromicron

Specialist for digital infrastructures

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

The central controlling functions are pooled at euromicron AG.

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

EUROMICRON GROUP

- ATECS AG
- EUROMICRON GMBH
- QUBIX
- sachsenkabel
- ssm
- ELABO
- MICROSENS euromicron group
- SIM
- euromicron telent
- euromicron austria GmbH
- Netzikon
- SIM Secure Information Management (Asia Pacific) Pte. Ltd.
- euromicron Deutschland GmbH
- ProCom
- RSR Datacom
- SIM SKYLINE

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”.

16

associated companies are responsible for operating business.

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 round out 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. Please also refer to the comments in the section "Significant events after the balance sheet date".

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:

SMART BUILDINGS | CRITICAL INFRASTRUCTURES | DISTRIBUTION

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

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.

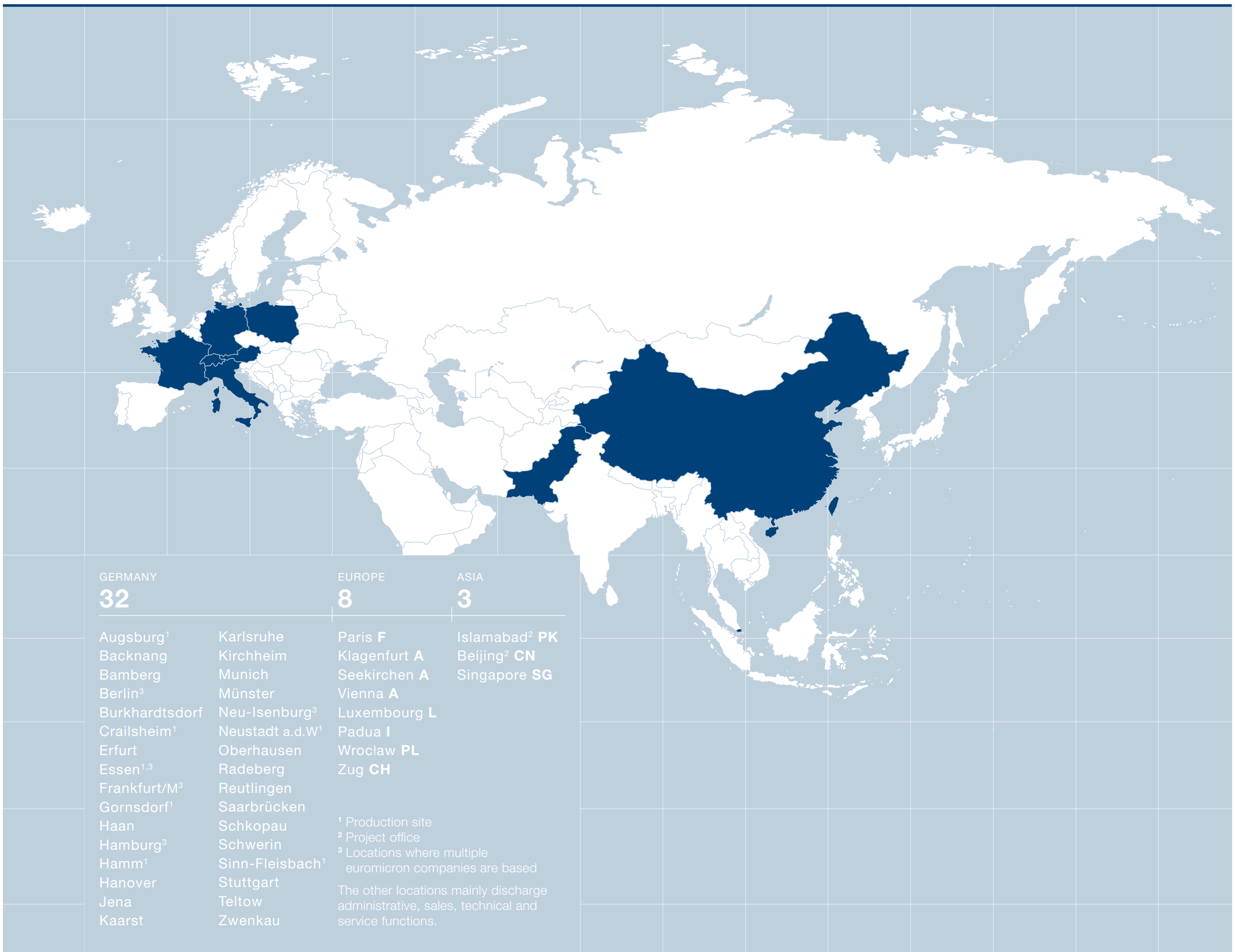
32 locations

in Germany enable proximity to customers.

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.

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

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.

€ **40** billion

The amount German industry intends to invest in "Smart Industry" by 2020.

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

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.

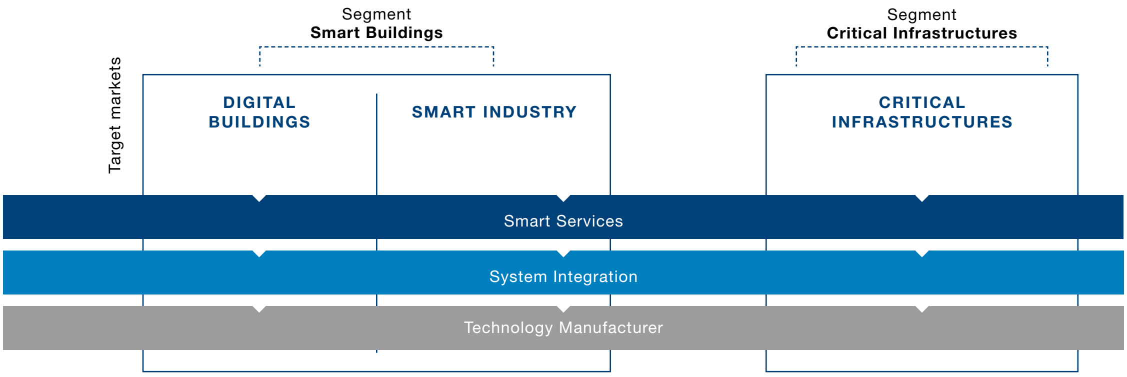
You can find out more about our expertise in the field of "Critical Infrastructures" at: http://www.euromicron.de/en/areas-of-expertise/critical-infrastructures

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.

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

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

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

Focus on liquidity and profitable growth.

Operating EBITDA and operating EBITDA margin

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

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

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

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

Key figures and control factors 003

	2016	2015
	€ m.	€ m.
Sales	**325.3**	**344.9**
Operating earnings before interest, taxes, depreciation and amortization (operating EBITDA)*	13.2	13.8
Operating EBITDA margin*	4.0%	4.0%
Reorganization costs (with an impact on EBITDA)	–5.8	–6.9
Earnings before interest, taxes, depreciation and amortization (EBITDA)	7.4	6.9
EBITDA margin	2.3%	2.0%
Working Capital	38.5	61.4
Working Capital Ratio	**11.8%**	**17.8%**

*) Adjusted for special effects of the reorganization

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

1.4 Research and development

Objectives
Research and development are the foundation of our technological leadership and play a major part in helping us stand out from the competition. Our main goal is to develop products and solutions that enable our customers to make their work processes more efficient and effective. In addition, our innovations should have unique technical selling points, safeguard our position in profitable niche markets and let us tap new markets of the future.

Significant projects and results

The focus of development activities at euromicron's subsidiary MICROSENS GmbH & Co. KG in the past year was on further development of its own software and hardware components for smart office solutions and on development of new products for future-proof networking in buildings.

At the "elektrotechnik" trade fair in February 2017, for example, MICROSENS GmbH & Co. KG showed how, following telephony and video technology, acoustic systems like traditional loudspeakers can be integrated in the data network easily and reliably thanks to the new Smart Audio Controller. Acoustic systems are used in a wide range of ways in modern buildings: Whether background music in department stores or announcements and acoustic alerts to specifically address or warn people in buildings – there is hardly any large building that does not have loudspeaker systems. IP-based solutions offer the advantage that announcements can be confined to specific rooms or areas. In the event of an alarm, predefined announcements tailored to the area and incident in question are automatically triggered.

With the Medical Switch it newly developed in 2016, MICROSENS GmbH & Co. KG is setting new standards of performance, reliability and security for data networks in hospitals, clinics and practices. Specially designed to meet requirements in the medical arena, the switch ensures patients' safety and protects them against fault currents from the mains. To meet the particularly high requirements for network security in the medical arena, the Medical Switch offers extensive security features so that confidential data also remains confidential. The Medical Switch surpasses the strict statutory requirements for electromagnetic compatibility for patients. The surface made of rugged plastic permits efficient cleaning and disinfection and optionally comes with an antibacterial coating.

MICROSENS

The Smart Office concept enables gentle migration to state-of-the-art building management.

The decentralized Smart Office concept brings network intelligence to the application's direct vicinity and so creates an exceptional level of performance and security. Based completely on IP, the concept uses standard IT cabling infrastructure that exists in every office building and so offers an open, standards-compliant solution. The sensors, actuators and management system communicate via secure, encrypted IP network protocols. The MICROSENS Smart Office concept can be scaled and expanded as desired. Existing rooms can be integrated gradually and depending on needs. That enables gentle migration to state-of-the-art building management and so offers a far higher degree of convenience, security and efficiency compared to conventional building technology. Thanks to the Smart Lighting solution, the LED lights are supplied with power by means of Power over Ethernet Plus (PoE+). Sensors placed near to the lights record ambient parameters (e.g. brightness, incident daylight and the presence of persons in the room). The smart apps use this data and settings to adjust the lighting to suit the users' needs. The brightness and color of the light can also be controlled from the smartphone or tablet. The use of state-of-the-art lighting technology and smart controlling of it can result in large savings in electricity charges.

In 2016, EUROMICRON Werkzeuge GmbH expanded its product family for connection solutions in harsh environments. They include environments where a fiber-optic connection is exposed to crude oil, mud, extreme temperatures or strong vibrations. In addition to the familiar 2- and 4-channel variants of the EUROLENS family, the 8-channel variant was made ready for series production and successfully launched on the market. There are also further developments, such as a stainless steel version for even more extreme situations, such as on rough seas. In the field of fiber-optic cabling for data centers and infrastructure, the URM family was successfully standardized. The URM system has now assumed a firm place in the IEC 61754 series of standards for defining optical connectors. In addition to the presented product developments, various technology and innovation projects were launched, such as RFID connection and new coating methods.

One focus of development at ELABO GmbH in 2016 was on enhancing the modular workplace system "CIS – Connected Industry System". Thanks to the modular concept, customers can assemble an overall system to suit their needs from a raft of individual modules. The functionality of the workplace system can also be expanded subsequently. Market launch of the system commenced at the end of 2016.

ELABO

CIS – the further-developed Connected Industry System was launched in 2016.

The development activities of LWL-Sachsenkabel GmbH in 2016 focused on the development of new distribution components (patch cables) and a large number of further developments of technical connectors, as well as improvements in handling as part of assembly and installation of the URM connector as a component for data center applications. In addition, it continued ongoing development activities for a new service portal in which registered customers will in future be able to choose Sachsenkabel products from predefined products, as well as put together and order customized products using a configurator. A customized service section will round out the portal's range of services.

R&D ratios

The continued investments in innovative and competitive new products and solutions are also reflected in the carrying amounts of capitalized development costs and self-developed software, which were €9.2 million at December 31, 2016 (previous year: €9.5 million); amortization of capitalized development costs and self-developed software was €2.8 million (previous year: €3.8 million). The newly capitalized costs in fiscal year 2016 totaled €2.5 million (previous year: €2.6 million).

€ **9.2** million

in capitalized development costs and self-developed software.

2. Economic report

2.1 General economic and industry-specific conditions

General economic conditions

According to the 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.

3.5%

The rate at which the IfW expects global GDP to increase by in 2017.

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.

1.7%

growth in German GDP is forecast by the IfW for 2017.

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.

1.2%

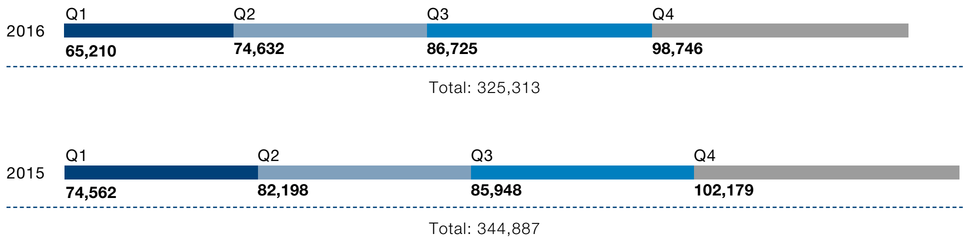
growth is expected by BITKOM for the ICT industry.

2.2 Course of business

General statement on the performance of the euromicron Group in fiscal year 2016
The euromicron Group closed fiscal year 2016 with sales of €325.3 million (previous year: €344.9 million). Consequently, sales in fiscal year 2016 were slightly down by 1.4% on the forecast range of €330 million to €350 million that was adjusted in the 2016 half-yearly financial report (original forecast in the 2015 Annual Report: €350 million to €370 million). €10.6 million of the €19.6 million decline in sales is due to the fact that there was no longer any revenue from the non-strategic business segments, whose business operations were discontinued at the end of 2015. The remainder of the decline (€9.0 million) is attributable to the "Smart Buildings" segment (€2.2 million) and the "Critical Infrastructures" segment (€7.4 million). However, sales in the "Distribution" segment were €0.6 up compared to the previous year. We refer to the presentation of the segments' development for an explanation of their sales.

Sales by quarter

In € thousand



The traditionally cyclical nature of business at the euromicron Group, which generates most of its sales and income in the fourth quarter, was especially strong in fiscal year 2016. 30.4% of annual sales were achieved in the fourth quarter in 2016 (previous year: 29.6%). There was a particularly strong peak in sales in December 2016: Whereas sales of €38.5 million (or 11.2% of the annual figure) were generated in December 2015, sales in December 2016 were €44.2 million or 13.6% of the annual total. Overall, the very strong fourth quarter was partly able to compensate for the restrained sales performance during the rest of the year, but not fully.

The euromicron Group's total operating performance (sales plus inventory changes) was €324.5 million, €21.3 million down on the previous year (€345.8 million). The effect of the €21.3 million reduction in total operating performance on gross profit was € –3.2 million. The volume-related effect from the lower total operating performance (€ –9.7 million) was partly offset by the sharp improvement in the material usage ratio. The latter fell in fiscal year 2016 by 2.0 percentage points to 52.7%, resulting in a positive effect on gross profit of €6.5 million. On the one hand, the improvement in the adjusted material usage ratio is attributable to discontinuation of the non-strategic business segments, which had an above-average material usage ratio. On the other, there was a more favorable margin mix compared with the previous year in parts of product and solution business.

€ **13.2** million

our operating EBITDA.

Operating EBITDA (EBITDA before reorganization costs) was only slightly down by €0.6 million compared to the previous year, despite the lower gross profit. As in the previous year, the operating EBITDA margin (relative to sales) was 4.0%. It was therefore at the upper end of the target range of 2.0% to 4.0% forecast in the 2016 half-yearly financial report (original forecast in the 2015 Annual Report: 4.5% to 5.5%).

The fact that operating EBITDA was only €0.6 lower despite a fall of €3.2 million in gross profit is attributable to an amount of €1.4 million to a rise in other operating income. This results to a total of €1.4 million from recognition of a receivable from reimbursement of legal costs. There was also income of €1.1 million from claims from rights of recourse against former shareholders of ATECS AG due to payment of tax arrears for a period before the company was acquired by euromicron AG. However, this other operating income is offset by tax and interest expenses to the same amount. On the other hand, there was in particular no longer any income resulting from reversal of a conditional purchase price obligation (€1.0 million) that had been carried in the other operating income in the year before.

In addition, the balance of personnel costs and other operating expenses fell by €1.3 million compared to the previous year. That was slightly offset by a fall of €0.1 million in own work capitalized.

Reorganization costs with an impact on EBITDA totaled €5.8 million and reduced the EBITDA margin by 1.7%. Consequently, they were above the range of €3.0 million to €4.0 million that was forecast in the 2016 half-yearly financial report (original forecast in the 2015 Annual Report: €2.0 million to €3.0 million). €1.0 million of the extra costs was due to non-cash effects from write-downs in connection with sale of the “Telecommunications” division of euromicron Deutschland GmbH, €0.5 million was due to effects from discontinuation of the “Optical Tracking Systems” product line of Secure Information Management GmbH, and €0.1 million was due to closure of the non-strategic “Fiber-optic Infrastructure” division of RSR GmbH & Co. KG. All these measures were not initiated until the fourth quarter and were therefore not reflected in the adjusted forecast. In addition, the reorganization costs of euromicron AG were above the forecast figure, in particular as a result of higher costs for legal advice, financial advice and other consulting services related to the reorganization. There were also slightly higher follow-up costs from the closure of the non-strategic divisions. However, a positive aspect was that the reorganization costs in the area of IT integration and centralization of the properties were below the forecast costs.

The unplanned amortization and depreciation effects from reorganization measures totaled €1.0 million. €0.5 of that was in connection with sale of the “Telecommunications” division of euromicron Deutschland GmbH and €0.5 million was due to the discontinuation of the “Optical Tracking Systems” product line of Secure Information Management GmbH.

The euromicron Group’s working capital ratio (working capital relative to sales) was reduced by 6.0 percentage points to 11.8% in 2016 and so was well below the forecast maximum figure of 15.0%. The working capital ratio before factoring was also reduced by 1.2 percentage points from 23.7% to 22.5%. This shows that the measures with which the Group intensified in 2016 to optimize working capital and so reduce its tied-up capital had a significant impact in fiscal year 2016.

The working capital ratio fell by 6.0 percentage points to

11.8%

In summary: Fiscal year 2016 was negatively affected by a weak first half with sales and income below the levels of the previous year. That also led to the adjusted forecast published in the half-yearly financial report on August 9, 2016. However, there was a positive operating trend in the second half of the year, in particular in the fourth quarter. The operating EBITDA margins of the Group’s two largest segments were improved significantly in the fourth quarter compared with the figures at September 30, 2016: In the “Smart Buildings” segment, there was an improvement in the operating EBITDA margin from – 0.2% to 3.1%, while that at the “Critical Infrastructures” segment improved from 3.3% to 6.3%. The “Smart Buildings” segment was impacted in particular by stabilization of euromicron Deutschland GmbH, which recorded a significant increase in sales and was hit to a far lesser extent by unproductive work required to complete old projects than in the first half of the year. All in all, that meant euromicron Deutschland GmbH closed the fourth quarter of 2016 with a positive operating EBITDA. Both segments also benefited from the fact that the situation as regards order postponements eased at the technology companies and there was also a sharp increase in sales here.

The described effects also had a positive impact on other operating income. Overall, the sales forecast adjusted for the year as a whole was not quite achieved and the adjusted forecast for the operating EBITDA margin came in at the upper end of the range.

After continuation of the reorganization measures in 2016, as part of which the Group shed further loss-making divisions and product lines, it is expected that this positive trend will continue in fiscal year 2017, in particular in view of the high order books.

Development of the segments

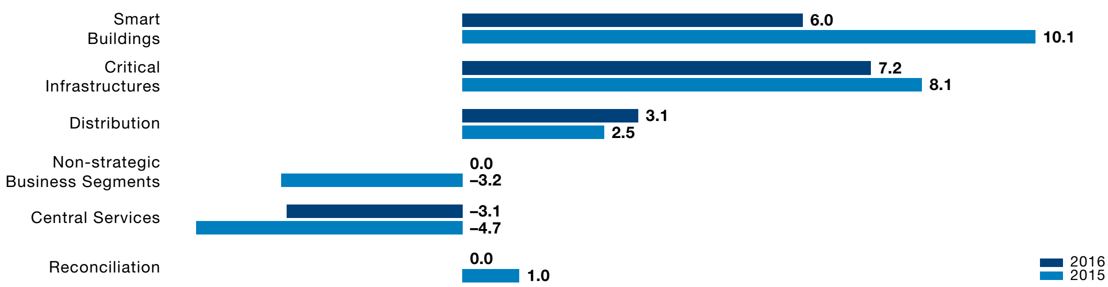
The key figures for the individual segments of the euromicron Group changed as follows in fiscal year 2016:

Sales

In € million

Operating EBITDA

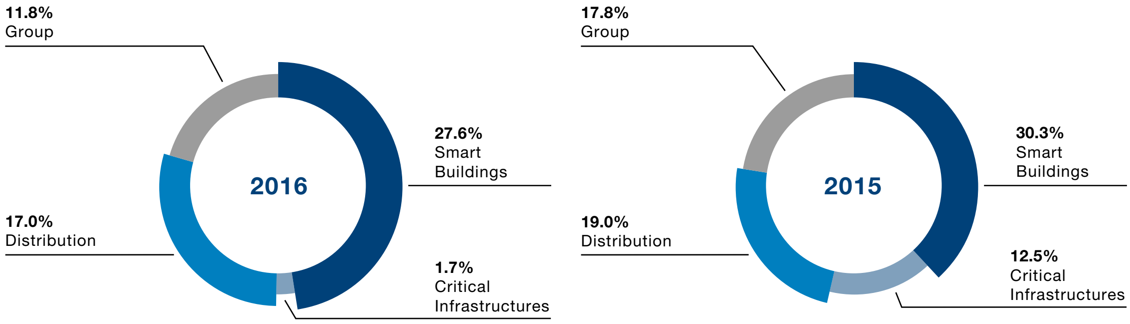
In € million



Reconciliation of the reported EBITDA with operating EBITDA / presentation of the reorganization costs 004

	2016			2015		
	Reported EBITDA	Reorganization costs	Operating EBITDA	Reported EBITDA	Reorganization costs	Operating EBITDA
	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.
Smart Buildings	4.2	–1.8	6.0	7.5	–2.6	10.1
Critical Infrastructures	6.6	–0.6	7.2	7.9	–0.2	8.1
Distribution	3.1	0.0	3.1	2.5	0.0	2.5
Non-strategic Business Segments	–0.5	–0.5	0.0	–5.0	–1.8	–3.2
Central Services	–6.0	–2.9	–3.1	–7.0	–2.3	–4.7
Reconciliation	0.0	0.0	0.0	1.0	0.0	1.0
Total EBITDA	**7.4**	**–5.8**	**13.2**	**6.9**	**–6.9**	**13.8**

Working capital ratio



Smart Buildings

Sales in the “Smart Buildings” segment were €193.7 million and so €4.2 million or 2.1% below the previous year’s figure of €197.9 million. This was due to the fact that the previous year’s figure for this segment included sales from a large order to equip data centers with special connectors – sales that are subject to annual fluctuations. In addition, sales from the supply of components were down year on year due to the postponement of international large projects. However, sales in this segment’s system house business were slightly up on the level of the previous year.

The forecast for the “Smart Buildings” segment envisaged sales growth in the high single-digit percentage range. In addition to the previously explained causes for the year-on-year deviation in sales, the forecast growth in sales at euromicron Deutschland GmbH did not materialize in fiscal year 2016. Whereas the forecast still contained sales from large projects with general contractors and, taking into account the planned performance of the company’s other divisions, anticipated a sharp increase in sales, a decision was taken in the first quarter of 2016 to withdraw from this business segment and to mainly acquire projects as part of direct customer business in the future. The readjustment of sales activities to compensate for the resultant drop in orders only took effect with a time delay. Although new orders at euromicron Deutschland GmbH were increased significantly as of the second half of 2016 by means of additional sales measures, the large sales volume from the lost large projects meant that for the year as a whole there was all in all a slight decline in sales of 1.2%, which is the main reason for the deviation from the sales forecast in this segment.

Operating EBITDA decreased by €4.1 million from €10.1 million to €6.0 million, meaning the operating EBITDA margin fell from 5.1% in the previous year to 3.1%. This negative deviation is due in particular to earnings at euromicron Deutschland GmbH, which were reduced by higher unproductive work required to complete old projects. Operational handling of the main old projects was completed by the end of fiscal year 2016, with the result that no notable effects on earnings are to be expected in the year after. There were also negative effects on margins from the loss of a large order, which does not recur annually, to equip data centers with special connectors.

The forecast envisaged an operating EBITDA margin at around the level of fiscal year 2015 (5.1%). The previously described causes for the year-on-year decline in the EBITDA margin are the main causes of the deviation from the forecast.

In the “Smart Buildings” segment, there were reorganization costs with an impact on EBITDA totaling €1.8 million, or €0.8 million lower than in the previous year (€2.6 million). The forecast envisaged reorganization costs with an impact on EBITDA within a range of between €1.0 million and €1.2 million. The deviation from the forecast was caused in particular by unplanned write-downs due to the sale of the “Telecommunications” division of euromicron Deutschland GmbH.

2.7 percentage points:

The improvement in the working capital ratio for the “Smart Buildings” segment.

The working capital ratio improved by 2.7 percentage points from 30.3% to 27.6%. This was due in particular to the reduction in up-front financing of project business and the fact that old projects in which a lot of capital was tied up were able to be billed. The forecast target of reducing the working capital ratio by up to 4.0 percentage points was therefore almost achieved.

In view of market trends, the fact that new products are ready for the market, as well as due to the fact that unproductive work for old projects will be eliminated and there will be positive effects from the realignment of euromicron Deutschland GmbH, we anticipate sales at this segment to grow in the medium single-digit percentage range in 2017. The operating EBITDA margin in 2017 is expected to be slightly above the level of fiscal year 2015 again. Completion of the reorganization measures is expected to reduce this segment’s EBITDA in 2017 by around €0.5 million to €0.7 million in 2017. As a result of further old projects being billed and the continuation of the measures to optimize working capital, we expect a further sharp improvement in the working capital ratio of up to 4.0 percentage points for the year after.

Critical Infrastructures

The “Critical Infrastructures” segment posted sales of €114.0 million, €7.4 million or 6.1% lower than in the previous year (€121.4 million). €1.7 million of this decline is due to discontinuation of the “Fiber-optic Infrastructure” division. The remaining decrease is mainly attributable to unrealized sales due to the fact that export approvals have not yet been issued as part of product business. In addition, there were changes in the sales mix at various companies in this segment, with the result that sales with higher volumes, but lower margins were substituted by sales with lower volumes, but higher margins in 2016. Overall, however, there were no negative effects on the segment’s earnings as a result of this sales effect.

The forecast envisaged an increase in sales in the medium single-digit percentage range for this segment. Apart from the above-described reasons for the year-on-year fall in sales, there was also the additional factor that the forecast included a slight growth in sales at the “Fiber-optic Infrastructure” division, which was discontinued in 2016, with the result that these sales were not able to be achieved. In addition, the forecast envisaged slight growth in certain sales as part of product business; however, these sales declined in 2016, for example due to the fact that export approvals were not issued.

The segment's operating EBITDA fell by €0.9 million to €7.2 million (previous year: €8.1 million). As a result, the operating EBITDA margin was 6.3% following 6.7% the year before. €0.5 million of the decline in earnings is attributable to effects from discontinuation of the "Fiber-optic Infrastructure" division. The lack of sales due to the fact that export approvals were not issued resulted in a negative impact on earnings of €1.9 million. On the other hand, there was a positive earnings trend, in particular in system house business, as a result of which earnings improved year on year by €0.4 million. There was also the positive effect of income of €1.1 million from claims from rights of recourse against former shareholders of ATECS AG due to payment of tax arrears from the period before the company was acquired by euromicron AG.

The forecast envisaged an operating EBITDA margin at around the level of fiscal year 2015 (6.7%). The previously described causes for the year-on-year decline in the EBITDA margin are the main causes of the deviation from the forecast.

The reorganization costs with an impact on EBITDA in this segment were €0.6 million, €0.4 million up on the previous year's figure. The forecast for 2016 did not envisage any reorganization costs for this segment. The deviation from the forecast is due to the decisions taken in the fourth quarter of 2016 to discontinue the "Fiber-optic Infrastructure" division and the "Optical Tracking Systems" product line, which resulted in reorganization costs of €0.1 million and €0.5 million respectively.

This segment's working capital ratio improved significantly from 12.5% to 1.7%, which was attributable to the lower up-front financing as part of project business and, in particular, the increase in the volume of factoring. Consequently, the forecast target of a working capital ratio below 11.0% was far surpassed. Sales are to be increased by a figure in the high single-digit percentage range next year. This is due in particular to rising sales in product business, which are also to be increased by the market launch of products developed in-house. The anticipated operating EBITDA margin for 2017 is around the level of 2016. The forecast reorganization costs for final closure of the "Fiber-optic Infrastructure" division in 2017 are expected to be in the order of €0.1 million to €0.2 million. The goal is to keep the working capital ratio in this segment at below 5.0%.

1.7%

working capital ratio after 12.5% in the previous year – a significant improvement in the "Critical Infrastructures" segment.

Distribution

The segment's sales were €22.6 million, almost at the level of the previous year (€22.5 million) and so were in line with the forecast, which envisaged sales at this segment matching the figure for the previous year.

The operating EBITDA margin was 13.9% and so well up on the previous year's 11.3%. The operating EBITDA was thus €3.1 million, €0.6 million above the previous year's figure. That is due to the sharp improvement in the gross profit margin for the sold product mix.

The forecast anticipated a slight decline in this segment's EBITDA margin, since investments in the sales organization were planned in 2016. However, a large part of these investments will not be made until 2017, which is the reason for the positive deviation from the forecast EBITDA margin.

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

The working capital ratio is 17.0% and so 2.0 percentage points better than forecast for 2016 (19.0%).

Sales at this segment are expected to grow in the medium single-digit percentage range in 2017. The operating EBITDA margin of around 9.0% forecast for 2017 is below that of 2016, since the investments in the “Distribution” segment’s sales organization originally planned for 2016 are to be made in 2017. For the subsequent year, we expect a working capital ratio at the level of 2016.

Overall, the euromicron Group generated an operating EBITDA of €16.3 million (previous year: €20.7 million) from the operating reportable segments. The operating EBITDA margin was 4.9% compared with 6.1% the previous year.

Non-strategic Business Segments

In fiscal year 2015 a decision was taken to discontinue the business operations of Avalan GmbH, euromicron NBG Fiber Optics GmbH, euromicron benelux S.A. and WCS Fiber Optic B.V., since the loss-making core business of these companies was no longer consistent with the euromicron Group’s new strategic orientation. WCS Fiber Optic B.V. was liquidated in the course of fiscal year 2016. The remaining companies are still included in the “Non-strategic Business Segments”.

Due to the discontinuation of business operations, there were no longer any sales in 2016 (previous year: €10.9 million), as well as no negative operating EBITDA (previous year: € –3.2 million), as envisaged by the forecast.

Strategic decision: The business operations of Avalan GmbH, euromicron NBG Fiber Optics GmbH, euromicron benelux S.A. and WCS Fiber Optic B.V. were discontinued.

The reorganization costs incurred in 2016 (follow-up costs from the closures) totaled €0.5 million (previous year: €1.8 million) and so are slightly up on the forecast figure by an amount €0.2 million.

Further follow-up costs from the closures until the planned final liquidation of these companies totaling €0.1 million to €0.2 million are anticipated in 2017.

Central Services

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

The negative operating EBITDA fell significantly by €1.6 million from € –4.7 million to € –3.1 million and so was €2.5 million better than forecast (€ –5.6 million). The positive deviation compared to the previous year and the forecast is attributable to income from recognition of a receivable from reimbursement of legal costs to an amount of €1.4 million. In addition, there were in particular savings in personnel cost and other operating expenses compared to the forecast.

The reorganization costs were €2.9 million, €0.6 higher than in the previous year. They were €1.6 higher than the forecast (upper end of the forecast range: €1.3 million). This is due in particular to higher costs for legal advice, financial advice and other consulting services related to the reorganization.

Negative operating EBITDA of around € –5.3 million is anticipated for the subsequent year. The rise is due to lower planned other operating income (loss of income from recognition of the receivable from reimbursement of legal costs) as well as higher personnel costs in connected with the planned expansion of euromicron AG into a strategic management holding.

In addition, reorganization costs totaling €1.7 million to €1.9 million are expected in the "Central Services" area in fiscal year 2017.

2.3 Net assets, financial position and results of operations

Net assets

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

Asset and equity structure 005

	Dec. 31, 2016		Dec. 31, 2015	
	€ m.	%	€ m.	%
Noncurrent assets	141.2	57.7	142.0	52.4
Current assets	96.5	39.5	118.1	43.6
Cash and cash equivalents	6.9	2.8	10.7	4.0
Total assets	**244.6**	**100.0**	**270.8**	**100.0**
Equity	82.4	33.7	97.0	35.8
Noncurrent liabilities	48.2	19.7	31.0	11.5
of which financial liabilities	39.3	16.1	22.2	8.2
Current liabilities	114.0	46.6	142.8	52.7
of which financial liabilities	40.3	16.5	69.7	25.7
Total equity and liabilities	**244.6**	**100.0**	**270.8**	**100.0**

The euromicron Group's total assets at December 31, 2016, decreased by 9.7% to €244.6 million compared with €270.8 million in the previous year.

The fall in noncurrent assets of €0.8 million (€141.2 million; previous year: €142.0 million) is mainly due to a decline in other intangible assets by €1.1 million from €17.5 million to €16.4 million due to write-offs. On the other hand, there was an increase of €0.3 million in property, plant and equipment due to investments.

Capital spending in fiscal year 2016 totaled €8.9 million (previous year: €8.3 million). This figure includes additions from the acquisition of a division (asset deal) of around €0.1 million (previous year: €0.2 million).

The remaining investments of €8.8 million (previous year: €8.1 million) include €2.3 million (previous year: €2.4 million) on capitalized development costs, €1.3 million (previous year: €0.9 million) on other intangible assets and €5.2 million (previous year: €4.8 million) on property, plant and equipment.

The ratio of equity and long-term debt to noncurrent assets is 92.4% (previous year: 90.1%).

Current assets fell by €21.6 million to €96.5 million. That is mainly attributable to a €15.1 million drop in trade accounts receivables. This is mainly due – to an amount of €14.4 million – to the higher volume of receivables sold as part of the factoring program. The gross amount due from customers for contract work and inventories also fell by €6.8 million and €2.4 million respectively. On the other hand, there was in particular an increase in other financial assets by €2.6 million, of which €1.4 million was attributable to recognition of a receivable from reimbursement of legal costs in the fiscal year and €1.0 million to higher receivables due from the factoring company from factoring monies not yet paid out.

37.3%

A sharp year-on-year reduction in working capital.

Working capital (trade accounts receivable, gross amount due from customers for contract work and inventories minus trade accounts payable and prepayments) was €38.5 million at the balance sheet date, an increase of €22.9 million or around 37.3% over the previous year (€61.4 million). €14.4 million of the decline is attributable to the increase in the volume of factoring and €8.5 million to the reduction in working capital as part of operational business. The latter is the result of adjustment of working capital to the lower volume of sales and of positive effects from the Group-wide program to cut working capital, whose aims included reducing up-front financing in project business and stock tie-up in manufacturing business. The Group's working capital ratio (working capital relative to sales) was thus reduced by 6.0 percentage points to 11.8% in 2016. As a result, the target forecast in the previous year – to achieve a working capital ratio of below 15.0% by the end of fiscal year 2016 – was far surpassed.

Cash and cash equivalents were €6.9 million, a decline of €3.8 million compared with the figure at December 31 of the previous year (€10.7 million). We refer in this regard to the comments on the Group's financial situation.

Equity at December 31, 2016 was €82.4 million and therefore below the level of the previous year (€97.0 million). The equity ratio is 33.7% (previous year: 35.8%) and is accordingly still at a high level. The decline in equity by €14.6 million is mainly due to an amount of €12.5 million to the consolidated net loss in fiscal year 2016. In addition, lower revaluation effects from pensions, which had to be recognized directly in equity, reduced equity by €1.9 million. Other effects also reduced equity by an amount of €0.2 million.

33.7%

equity ratio – still at a high level.

Other noncurrent financial liabilities were zero (previous year: €0.5 million) due to the reclassification of a purchase price obligation from preemptive rights as other current financial liabilities.

The liabilities to banks are divided into long-term liabilities (€38.5 million; previous year: €20.5 million) and short-term liabilities (€38.0 million; previous year: €44.3 million). The rise in liabilities to banks is due to refinancing as a result of the financing agreement that was concluded in fiscal year 2016 and which runs until March 31, 2018.

Although consolidated sales in December 2016 rose by €5.7 million compared to the figure for December of the previous year and so was accompanied by higher procurement of materials, trade accounts payable fell by €3.1 million from €47.6 million to €44.5 million. This is due in particular to faster settlement of trade accounts payable, one goal of which is to take greater advantage of cash discounts.

The reduction in other current financial liabilities of €23.0 million from €24.8 million to €1.8 million consists to an amount of €21.8 million of lower liabilities from customer monies to be passed on as part of factoring, which is due in particular to a change in practice (customer payments are returned to the factoring company). We refer in this regard to the notes on the Group's financial situation.

The Group's net debt (interest-bearing financial liabilities minus securities and cash) at December 31, 2016, was €71.0 million (previous year: €55.8 million). We likewise refer in this regard to the comments on the Group's financial situation.

Financial position

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

At December 31, 2016, unutilized granted credit lines of €37.5 million were available to the Group (previous year: €48.2 million).

The Group's cash funds changed in fiscal year 2016 as follows:

Statement of cash flows of the euromicron Group 006

for the period from January 1 to December 31, 2016 (IFRS)	2016	2015
	€ thou.	€ thou.
Net cash used in/provided by operating activities*	**–7,140**	**4,512**
Net cash used in investing activities*	**–7,770**	**–9,078**
Net cash provided by/used in financing activities*	**11,032**	**–334**
Net change in cash funds	–3,878	–4,900
Cash funds at start of period	10,722	15,622
Cash funds at end of period	**6,844**	**10,722**

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

The reported cash used in operating activities in fiscal year 2016 was € – 7.1 million, whereas in the previous year there was net cash provided by operating activities totaling €4.5 million. However, the reported cash flow figures from operating activities are substantially impacted by effects resulting from the Group's factoring program.

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

- Elimination of the effect from the change in the volume of factoring used between the balance sheet date and the respective balance sheet date of the previous period. This resulted in a positive cash flow effect to be eliminated of €14.4 million at December 31, 2016 (previous year: €1.6 million), due to the higher volume of factoring compared with at December 31, 2015.

- Where Group companies received monies from customers resulting from receivables sold as part of factoring shortly before the balance sheet date and the Group companies were not able to transfer these monies to the factoring company, this results in a liability from customer monies to be passed on, which is carried under “Other financial liabilities”. The effect on liquidity from the change in these liabilities between the respective balance sheet date and the balance sheet date of the previous period is eliminated for the purposes of analyzing the cash flow from operating activities. This negative cash flow effect to be eliminated was € – 21.8 million in 2016 (previous year: negative effect of € – 1.6 million). The sharp decline in liabilities from customers’ monies to be passed on in fiscal year 2016 is attributable to a change in practice made in the first quarter of 2016 (customer payments are now returned directly to the factoring company). Accordingly, such a liability can only arise in exceptional cases. Before this change, customer payments from sold receivables were held in trust in local accounts and passed on to the factoring company at regular times.

- The full amount of the receivable offered for sale is initially not paid out by the factoring company, but a blocked amount is withheld. Some of the sold receivables were also still being examined and so had not been paid out by the factoring company. The resultant receivable due from the factoring company is carried under “Other financial assets”; here too, the change in the balance sheet item has to be eliminated for the purposes of analyzing the cash flow from operating activities. This negative cash flow effect to be eliminated was € – 1.0 million in 2016 (previous year: positive cash flow effect to be eliminated of €0.1 million).

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

Adjusted cash flow 007

	Cash flow from operating activities acc. to statement of cash flows	Effects from factoring and customers’ monies to be passed on included in the above	Adjusted cash flow
	€ m.	€ m.	€ m.
2015*	4.5	–0.1	**4.4**
2016	–7.1	8.4	**1.3**

*) The previous year’s figure has been adjusted.

The described factoring effects, in particular as a result in the change in practice relating to the return of customer monies, meant there was a negative cash flow effect of € – 8.4 million in fiscal year 2016, which resulted correspondingly in a greater need for external financing and so an increase in the euromicron Group’s net debt.

After adjustment for factoring effects, there is net cash provided by operating activities totaling €1.3 million in fiscal year 2016 compared with €4.4 million in the previous year. As a result, the cash flow from operating activities after adjustment for the effects of factoring fell by €3.1 million in fiscal year 2016.

This is due in particular to cash effects from the sharp decrease in trade accounts payable. Whereas the reduction in trade accounts payable resulted in a negative cash flow effect of € – 3.1 million in 2016, the cash flow of the previous year was impacted positively to an amount of €3.3 million by the reduction in trade accounts payable. In total, this effect explains a cash flow change of € – 6.4 million. In addition, the balance of paid and received income taxes and interest resulted in the net cash used in operating activities increasing by € – 3.0 year on year. On the other hand, there were positive cash flow effects from the intensified measures to optimize working capital in 2016 in the area of inventories, gross amounts due from and to customers for contract work, trade accounts payable (before factoring) and payments on account. The change in these items resulted in 2016 in positive effects on the cash flow from operating activities of €5.0 million, €6.3 million higher than in the previous year (negative effect on the cash flow from operating activities of € – 1.3 million). It should also be noted in this regard that the Group's sales in December 2016 were €44.2 million, €5.7 million higher than the comparative figure for December 2015 (€38.5 million), which resulted in higher working capital at the end of the year. Excluding this effect, working capital (before factoring) at December 31, 2016, would have fallen far more sharply, which would have had corresponding positive effects the cash flow from operating activities.

Net cash used in investing activities was € – 7.8 million in fiscal year 2016, €1.3 million below the figure for the previous year (€ – 9.1 million). This change is mainly due to lower purchase price payments in connection with the company acquisitions, which were € – 0.6 million in 2016 (previous year: € – 2.7 million). Of this, € – 0.5 million related to payments in connection with the exercise of options to purchase company shares and € – 0.1 million to purchase price payments as part of an asset deal. Net cash used in purchasing intangible assets (€ – 3.5 million; previous year: € – 3.3 million) and property, plant and equipment (€ – 3.8 million; previous year: € – 3.2 million) in fiscal year 2016 was € – 0.8 million above the level of the previous year.

The net cash provided by financing activities in fiscal year 2016 was €11.0 million (previous year: net cash used in financing activities of € –0.3 million). The net cash inflow in fiscal year 2016 was due to the raising of new loans, which exceeded the net cash used to repay loans by €11.7 million (previous year: net cash provided of €1.7 million). On the other hand, there were cash repayments of liabilities from finance leases totaling € –0.5 million (previous year: € –0.7 million) and distributions to non-controlling shareholders and from profit shares of minority interests totaling € –0.2 million (previous year: € –1.3 million).

Cash and cash equivalents of the euromicron Group at December 31, 2016, were thus €6.9 million (previous year: €10.7 million).

Results of operations 008

Income statement of the euromicron Group for the period January 1 to December 31, 2016 (IFRS)	2016 before reorganization costs	Reorganization costs	2016 operational*	2015 before reorganization costs	Reorganization costs	2015 operational*
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Sales	**325,313**	**2**	**325,311**	**344,887**	**0**	**344,887**
Inventory changes	–864	0	–864	883	0	883
Own work capitalized	2,808	0	2,808	2,942	0	2,942
Other operating income	4,499	42	4,457	3,073	0	3,073
Cost of materials	–171,506	–629	–170,877	–189,883	–909	–188,974
Personnel costs	–109,057	–787	–108,270	–107,875	–3,193	–104,682
Other operating expenses	–43,809	–4,390	–39,419	–47,104	–2,733	–44,371
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**7,384**	**–5,762**	**13,146**	**6,923**	**–6,835**	**13,758**
Amortization and depreciation	–9,649	–979	–8,670	–10,238	–1,003	–9,235
Impairment of goodwill	0	0	0	–5,333	–5,333	0
Earnings before interest and taxes (EBIT)	**–2,265**	**–6,741**	**4,476**	**–8,648**	**–13,171**	**4,523**
Interest income	152	0	152	66	0	66
Interest expenses	–5,439	–591	–4,848	–3,791	0	–3,791
Other financial expenses	–73	0	–73	–332	0	–332
Income before income taxes	**–7,625**	**–7,332**	**–293**	**–12,705**	**–13,171**	**466**
Income taxes	–4,845	0	–4,845	–424	0	–424
Consolidated net income/loss for the year	**–12,470**	**–7,332**	**–5,138**	**–13,129**	**–13,171**	**42**
Thereof for euromicron AG shareholders	–12,656	–7,332	–5,324	–13,253	–13,171	–82
Thereof for non-controlling interests	186	0	186	124	0	124
(Un)diluted earnings per share in €	**–1.76**	**–1.02**	**–0.74**	**–1.85**	**–1.84**	**–0.01**

*) Adjusted for special effects of the reorganization

Consolidated earnings for 2016 are mainly reduced by reorganization costs incurred as part of the strategic realignment. They are distributed over the individual companies of the euromicron Group as follows:

€ **7.3** million

The costs of the Group-wide reorganization measures in 2016

Reorganization costs 009

	2016	2015
	€ thou.	€ thou.
Reorganization costs (with an impact on EBITDA)		
euromicron AG	–2,937	–2,280
euromicron Deutschland GmbH	–1,774	–2,574
Secure Information Management GmbH	–385	0
Avalan GmbH (in liquidation)	–342	–859
RSR Datacom GmbH & Co. KG	–125	0
ATECS AG	–95	0
euromicron NBG Fiber Optics GmbH	–89	–905
euromicron benelux S.A.	–12	0
WCS Fiber Optic B.V. (liquidation completed in 2016)	–2	0
euromicron austria GmbH	0	–217
Total reorganization costs with an impact on EBITDA	**–5,762**	**–6,835**
Reorganization costs (amortization and depreciation)		
euromicron Deutschland GmbH	–490	–36
Secure Information Management GmbH	–489	0
euromicron AG	0	–570
euromicron NBG Fiber Optics GmbH	0	–333
Avalan GmbH (in liquidation)	0	–64
Impairment of goodwill	0	–5,333
Total reorganization costs with an impact on EBIT	**–6,741**	**–13,171**
Reorganization costs (net financial result)		
euromicron AG	–591	0
Total reorganization costs	**–7,332**	**–13,171**

The reorganization costs of euromicron AG (totaling €3,528 thousand) are mainly due to costs for legal advice, costs for financial advice, other consulting costs, costs of concluding the financing agreement and costs for personnel measures.

Reorganization costs at euromicron Deutschland GmbH totaled €2,264 thousand, of which the lion's share (€1.493 thousand) was due to write-downs as a result of fair value measurement of the assets held for sale at the "Telecommunication" division. The remainder of €771 thousand is mainly due to costs for personnel measures and IT integration.

The reorganization costs for Secure Information Management GmbH (totaling €874 thousand) are mainly attributable to write-downs of demo stock and inventories and costs for personnel measures and dissolution of contracts in connection with discontinuation of the "Optical Tracking Systems" product line.

The reorganization costs for ATECS AG (€95 thousand) include costs for dissolution of contracts due to discontinuation of the “Optical Tracking Systems” product line.

The reorganization costs for RSR Datacom GmbH & Co. KG (€125 thousand) mainly comprise write-downs of inventories due to discontinuation of the “Fiber-optic Infrastructure” division.

The reorganization costs of Avalan (in liquidation), euromicron NBG Fiber Optics GmbH, euromicron benelux S.A. and WCS Fiber Optics B. V. (totaling €445 thousand) result from follow-up costs from the closure of these companies, whose business operations were discontinued at the end of 2015.

The following explains the year-on-year changes in the results of operations of the euromicron Group after adjustment for the effects of the reorganization.

The euromicron Group generated sales of €325.3 million in fiscal year 2016 and so €19.6 million or 5.7% below the previous year’s figure of €344.9. €10.6 million of the €19.6 million decline in sales is due to the fact that there was no longer any revenue from the non-strategic business segments, whose business operations were discontinued at the end of fiscal year 2015. We refer to the presentation of the segments’ development for an explanation of the remaining €9.0 million decline in sales.

A breakdown by the various regions shows that most sales were generated within Germany, as in previous years. The sales generated in Germany in fiscal year 2016 were €274.3 million (previous year: €291.3 million) or a share of 84.3% (previous year: 84.5%). Foreign sales fell slightly in 2016 from €53.6 million to €51.0 million, with the result that international sales now contribute around 15.7% (previous year: 15.5%) to the euromicron Group’s total volume of sales.

€ **274.3** million

in sales in Germany.

The euromicron Group’s total operating performance (sales plus inventory changes) was €324.4 million, down €21.4 million or 6.2% on the previous year (€345.8 million).

Own work capitalized was €2.8 million, almost at the level of the previous year (€2.9 million). The euromicron Group continues to invest in developing new products to expand its market position and increase its innovativeness.

The €1.4 million increase in other operating income to €4.5 million results to an amount of €1.4 million from recognition of a receivable from reimbursement of legal costs. There was also income of €1.1 million from claims from rights of recourse against former shareholders of ATECS AG due to payment of tax arrears from the period before the company was acquired by euromicron AG. However, this other operating income is offset by tax and interest expenses to the same amount. On the other hand, there was in particular no longer any income resulting from reversal of a conditional purchase price obligation (€1.0 million) that had been carried in the other operating income in the year before

As in the previous year, the cost of materials is the largest expense item in the euromicron Group's income statement. The (adjusted) cost of materials in fiscal year 2016 was €170.9 million (previous year: €189.0 million); the (adjusted) material usage ratio relative to total operating performance thus improved significantly by 2.0 percentage points from 54.7% to 52.7%.

On the one hand, the improvement in the adjusted material usage ratio is attributable to discontinuation of the business operations of the non-strategic business segments, which had a high material usage ratio. On the other, there was a more favorable margin mix compared with the previous year in parts of product and solution business.

1,742

employees (excluding trainees) worked at euromicron as an average in 2016.

(Adjusted) personnel costs increased in fiscal year 2016 by €3.6 million from €104.7 million to €108.3 million, a rise of 3.4%. The average headcount (excluding trainees) in the year under review fell only slightly from 1,747 to 1,742. Apart from effects from pay adjustments, this is attributable in particular to an increase in staff with higher qualifications. Whereas there were job cuts in the non-strategic business segments, staff with higher qualifications were added, in particular in the "Smart Buildings" segment.

(Adjusted) amortization and depreciation totaled €8.7 million, a fall of €0.5 million compared with the previous year (€9.2 million). This is mainly due to lower amortization of hidden reserves disclosed as part of capital consolidation, which declined to €1.0 million (previous year: €1.4 million).

(Adjusted) other operating expenses in the fiscal year were €39.4 million, €5.0 million below the comparative figure for the previous year of €44.4 million. The largest items in the other operating expenses were still vehicle and travel expenses (€12.4 million; previous year: €13.6 million), rent/room costs (€5.8 million; previous year: €6.6 million) and legal and consulting costs (€2.9 million; previous year: €4.4 million), which all declined followed adjustment for reorganization costs.

Operating earnings before interest, taxes, depreciation and amortization (operating EBITDA) totaled €13.2 million (previous year: €13.8 million). As in the previous year, the operating EBITDA margin is 4%. The operating EBIT was €4.5 million and so likewise at the level of the previous year.

The (adjusted) net financial result was € –4.8 million, € –0.7 million down on the previous year (€ –4.1 million). This is attributable in particular to the higher utilization of external credit lines as an average for the year.

The tax ratio in the year under review was –63.5% after –3.3% in the previous year. The tax expense was €4.8 million (previous year: €0.4 million). The increase in the tax expense is due to various special effects: One effect totaling €3.5 million is the result of tax risks from the securities lending transactions in the years 2010 to 2012. An amount of €2.1 million has been recognized for possible payment of tax arrears. There was also a non-cash charge from the reduction in deferred tax assets of €1.4 million from the additionally expected utilization of corporation income tax loss carryforwards. In addition, there were tax expenses not relating to the period from completion of the tax audit at ATECS AG for the time before it was acquired by euromicron AG (€1.1 million), although these are offset by corresponding other operating income from recognition of claims from rights of recourse against former shareholders. There was also a non-cash effect of €2.0 million resulting from the derecognition of deferred tax assets on loss carryforwards of euromicron Deutschland GmbH which were incurred before the tax group with euromicron AG was established in 2016 that can no longer be used during the term of the tax group under German tax law. We refer in this regard to the tax reconciliation in section 20 of the notes on the consolidated income statement.

The (adjusted) consolidated net loss for shareholders of euromicron AG was € –5.3 million (previous year: net loss of € –0.1 million). (Adjusted) undiluted earnings per share were € –0.74 versus € –0.01 in the previous year.

Without adjustment for the effects of the reorganization, the consolidated net loss for shareholders of euromicron AG for fiscal year 2016 is € –12.7 million (previous year: net loss of € –13.3 million) and the undiluted earnings per share are € –1.76 (previous year: € –1.85).

New orders and order books

New orders at the euromicron Group in fiscal year 2016 were €346.0 million (previous year: €326.8 million), an increase of €19.2 million or 5.9%. It should be noted in this regard that the previous year's figure still includes new orders of €4.8 million from the divisions that have since been discontinued. In relation to continuing core business operations, new orders in the fiscal year thus even increased by €24.0 million or 7.5%.

€ **24.0** million

The year-on-year increase in new orders in continuing core business operations.

Order books at December 31, 2016, were €123.3 million (previous year: €103.4 million). That is an increase of €19.9 million or 19.2% – a very good foundation for fiscal year 2017.

2.4 Non-financial performance indicators

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

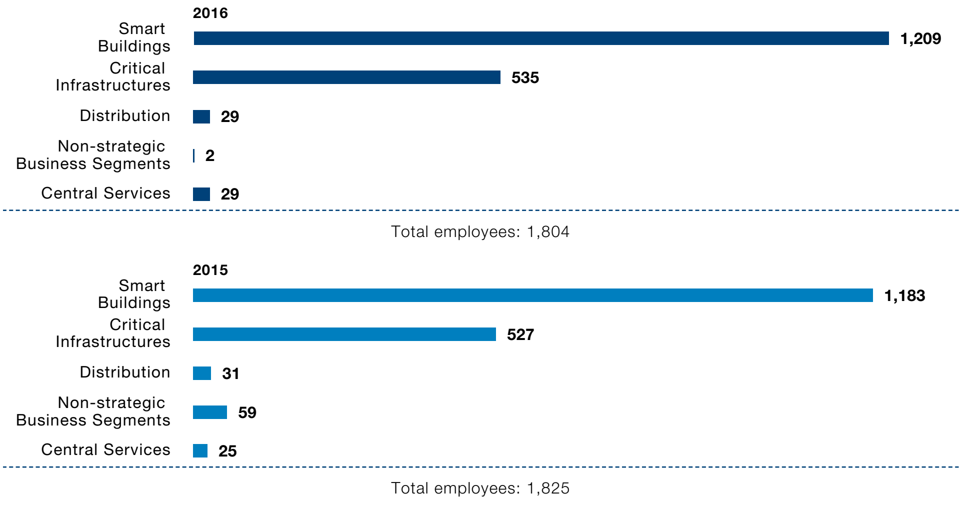
Employee development and loyalty

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

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

The euromicron Group aims to employ a sufficient number of qualified and committed employees at all times and to offer them attractive working conditions and prospects. The average headcount in fiscal year 2016 fell slightly from 1,825 to 1,804 or by 1.1 percentage points. The average number of employees (excluding trainees) was 1,742 or around the level of the previous year (1,747).

Employees by segment



The reduction in staff in the "Non-strategic Business Segments" (fall of 57 employees) was partly offset by the addition of employees in the segments "Smart Buildings" (increase of 26 employees) and "Critical Infrastructures" (increase of 8 employees). In the year under review, we were able to recruit further specialized, highly qualified personnel in these segments.

Personnel costs in fiscal year 2016 were €109.1 million compared with €107.9 million in the previous year. After adjustment for reorganization costs, personnel costs were €108.3 million (previous year: €104.7 million). As a result, personnel costs adjusted for reorganization costs increased by €3.6 million or 3.4%, which is attributable to the effects of pay adjustments and the hiring of staff with higher qualifications.

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

euromicron employee survey 2016

In order to hear what our employees require and expect and derive sound measures from that, we launched the first Group-wide euromicron employee survey in 2016. The aim was not to compare the actual situation and what things should be like, but to find out:

- How employees rate their current workplace conditions
- What factors have a positive impact on our corporate culture and
- How we can further strengthen interaction between our employees and their managers.

Its contents were created on the basis of the results from the sample analysis from the "Employee Loyalty" project conducted in 2014. The focal areas derived at the time were used to structure the employee survey, which was held by means of an online tool in September 2016. The objective of the survey was to find out what the euromicron Group's employees currently regard as important in order to feel a good affinity for their company and what measures in the past two years have achieved positive effects. Among other things, employees' views on workplace conditions, the company's attractiveness as an employer and employee loyalty were examined.

Completion of the survey was followed in October 2016 by a multi-perspective analysis of the results, as well as creation of company-specific reports and the Group-wide report. The results of the employee survey confirm the correctness of the measures taken in previous periods, but also reveal subject areas that must given greater focus in the future. They include the areas of "healthy workplace", "forward-looking range of further training to maintain employability skills", work-life balance" and "continuous, goal-oriented information meetings and use of a modern media mix."

Employee development

Vocational training is changing as a result of digital media, yet – as far as our training topics are concerned – our employees should rub minds, try things out in practice, and provide and accept feedback. We believe that to be vital. Further training is interfacing more and more closely with organizational and corporate development. Moreover, training and management have the same requirements, namely efficiency, sustainability and ensuring that what is learned in applied in practice. So that we meet those requirements, we understand personnel development to be a system of coordinated measures that challenge and encourage our employees so that they gain extensive qualifications to achieve their personal goals.

Trainee ratio

As always, training of new employees is of particular importance to euromicron. The euromicron Group's trainee ratio was 3.4% in the year under review, lower than the previous year's figure of 4.2%. The goal for fiscal year 2017 is to increase the trainee ratio again.

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

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

Optimization of HR processes at euromicron Deutschland GmbH

Rollout of integrated HR software at euromicron Deutschland GmbH enabled HR processes to be optimized and made more efficient. Six modules were set up at euromicron Deutschland GmbH: from Employee Management as the basis, Applicant Management, Absence, Seminar Management, Performance Management to HR Cost Management. The use of an HR software solution means employees can be involved in numerous related processes ("employee self service"). As a result, they can maintain their personal data on their own or initiate approval processes. It also means that information, such as the applicant pool in recruiting, the agreement on objectives in performance management or key indicators for controlling are available centrally at all times. In addition, overviews and query options in the newly introduced integrated HR software deliver great benefits for executives.

Staff loyalty thanks to professional and personal further development

Our objective is to stage initiatives and programs in future as well and also develop new training measures in response to requirements in the IoT market. We want our employees to keep on contributing their strengths competently to the company and so help make euromicron a success through their motivation and personal successes.

Responsible use of natural resources

Although none of the Group's companies is subject to special environmental protection guidelines, euromicron nevertheless aims to live up to its responsibility for society as a whole and so attaches great importance to complying with environmental protection regulations. Consequently, the Group helps ensure the responsible use of resources voluntarily. As part of that, audits are conducted to identify potentials for increasing efficiency in and reducing power consumption at the Group and appropriate measures are initiated to cut the company's ecological footprint further. The production operations of euromicron's technology companies are also geared to energy-saving processes. These include, for example, computer-aided control of the standby switches or the continuous review and rollout of electric motors with higher efficiency classes.

As part of the DIN EN 16247 energy audit in connection with the requirements of the German Energy Services Act, we had our company audited by external, independent energy consultants in fiscal year 2015. Measures derived from that were implemented in fiscal year 2016. For example, a 2,500 m² production hall was completely converted to LEDs, resulting in significant power savings compared to the previous fluorescent lamps. In addition, the lighting at production halls, parking lots and passageways and in office buildings was refurbished and halogen spotlights replaced with new, efficient LED lighting.

In procuring new vehicles for its fleet, whether by leasing or other means of expanding it, the companies in the euromicron Group consciously attach importance to economical vehicles with low CO2 emissions. In the case of existing vehicles, we ensure that they are passed on internally. In order to enhance preventive healthcare among employees, the cars used in the fleet also have ergonomic seats as minimum equipment. euromicron is also examining the possibility of converting the fleet to electric vehicles or ones with alternative drives.

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

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

Established brands and growing visibility

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

euromicron enters into strategic partnerships with leading technology vendors.

Strategic partnerships with leading technology suppliers are also key success criteria for supplying best-in-class solutions and increasing awareness of our company. euromicron was awarded the title of Gold Certified Partner by Cisco Systems for the first time in 2016 and so crowned the more than 20-year partnership between the two companies by obtaining this highest accolade for partners. To achieve this certification, euromicron had to fulfill strict standards defined by Cisco in the areas of network expertise, service, support and customer satisfaction. As a Cisco Gold Certified Partner, euromicron meets all the conditions for achieving the very highest expertise in a wide range of technologies. Cisco Gold certification gives euromicron access to training and support by Cisco, as well as extensive sales, technology and lifecycle services.

We still keep on striving to enhance the visibility and image of our umbrella brand. Following our extensive reorganization, positioning of the euromicron brand is especially important so that in particular the realignment can be presented understandably and in detail on the capital market. We aim to increase the value of the euromicron brand on the capital market, as well as ensure transparent, clear reporting as the basis of a trusted relationship with our investors. As part of that, we conduct active investor and public relations work. In the year under review, we presented our company in a raft of investor conferences and roadshows, as well as in programs and articles in various media. We demonstrated the innovativeness and high performance of the euromicron Group at internationally well-known trade shows, such as InnoTrans, the international trade show for transport technology, and security essen, the world’s leading trade show for security and fire prevention. The focus of our appearance at InnoTrans was holistic approaches for smart transport infrastructures. At security essen, several euromicron companies presented their individual protection concepts and smart services for people, buildings, data and objects.

In 2016, we also accomplished an extensive relaunch of our website www.euromicron.de. Apart from technical enhancements (such as search engine optimization, introduction of a flexible means of presenting websites for mobile use, and an improvement in user friendliness), we highlighted our positioning as a medium-sized high-tech group in the IoT market with our new online presence. New content, application examples and customer statements from the areas “Digital Buildings”, “Smart Factory” and “Critical Infrastructures” offer visitors extensive information and prove the practical nature of the presented solutions.

Customers and quality

Apart from our employees and our visibility as a brand, another aspect of great importance to us is to ensure the products and services we offer give our customers maximum satisfaction. By streamlining our structure and reorganizing the segments, we are able to network our customers' business and production processes and successfully accompany them on the way to the digital future. That demands the very highest standards as regards the quality of our processes, our products and services and our employees.

Our product quality is certified.

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

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

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

3. Forecast, Opportunity and Risk Report

3.1 Explanation of deviations from the previous year's forecast

The previous year's forecast envisaged a sales target of €350 million to €370 million and an operating EBITDA margin between 4.5% and 5.5% for fiscal year 2016. It was also anticipated that reorganization costs would reduce EBITDA in fiscal year 2016 by around €2.0 million to €3.0 million.

The forecast for fiscal year 2016 was adjusted with publication of the half-yearly financial report for 2016 on August 9, 2016. The corrected forecast envisaged sales of €330 million to €350 million for fiscal year 2016. An operating EBITDA margin in the range between 2.0% and 4.0% was forecast. The expected reduction in EBITDA by reorganization costs was put at €3.0 million to €4.0 million.

The forecast was adjusted in particular in view of the sales and earnings performance of euromicron Deutschland GmbH in the first half of 2016. The realignment of sales that was initiated in order to avoid risky large projects resulted in declines in sales and so a lack of contribution margins in the first half of the year; as a result of that, the Group's sales and earnings were impacted more strongly than assumed at the time the original forecast was made. Apart from that, higher unproductive work required to complete old projects also put a greater burden on the company's earnings than anticipated.

Sales in fiscal year 2016 were €325.3 million and so slightly down by 1.4% on the adjusted forecast range of €330 million to €350 million. The operating EBITDA margin was 4.0% and so at the upper end of the target of 2.0% to 4.0% in the adjusted forecast. Reorganization costs reduced EBITDA by €5.8 million in fiscal year 2016 and so more strongly than expected in the adjusted forecast. There were also unplanned amortization and depreciation effects from divestment decisions (€1.0 million) made in the fourth quarter of 2016.

The operating EBITDA margin is at the upper end of the forecast target range.

For the purpose of explaining the deviation between the actual and forecast figures for fiscal year 2016, reference is made to the original forecast for fiscal year 2016, irrespective of the adjusted forecast dated August 9, 2016. As part of that, the actual figures for sales and operating EBITDA/operating EBITDA margin are compared with the lower thresholds of the original forecast. The actual figure for the reorganization costs with an impact on EBITDA is compared with the upper threshold of the original forecast.

Deviation from forecast sales 010

	€ m.
Sales forecast for fiscal year 2016 (lower end of the forecast range)	350.0
Actual sales for fiscal year 2016	325.3
Deviation from the forecast	**–24.7**

The deviation from the forecast sales totaling € –24.7 million is due mainly to the fact that sales at the “Smart Buildings” segment were lower than planned. As described in the presentation of the segments’ development, this deviation in sales in mainly attributable to the deviation from the planned figures at euromicron Deutschland GmbH and is due in particular to the decision not to generate sales from large projects with general contractors that were included in planning. As a result, this company was not able to grow its sales as planned in 2016. In addition, sales at the “Critical Infrastructures” segment were below the forecast level. The main causes of that are, as described in the presentation of the segments’ development, the effects from loss of sales in product business, such as due to export approvals that were not issued, sales effects from discontinuation of the “Fiber-optic Infrastructure” division, and a product and project mix that deviated from the planning and resulted in lower sales, although that did not have any impact on the segment’s earnings.

Deviation from forecast EBITDA 011

	€ m.
Sales forecast for fiscal year 2016 (lower end of the forecast range)	350.0
Forecast operating EBITDA margin for fiscal year 2016 (lower end of the forecast range)	4.5%
Forecast operating EBITDA for fiscal year 2016 (lower end of the forecast range)	15.8
Actual operating EBITDA margin for fiscal year 2016	4.0%
Actual operating EBITDA for fiscal year 2016	13.2
Deviation from the forecast	**–2.6**

The deviation from the forecast for operating EBITDA was € –2.6 million. That is mainly die to the lack of gross profit as a result of sales below the level forecast. Given a deviation in forecast sales of € –24.7 million and a material usage ratio adjusted for reorganization effects (relative to sales) of 52.5%, this sales effect resulted in the gross profit being € –11.7 million lower than forecast.

On the other hand, there was the positive effect of other operating income of €2.8 million that was not included in the forecast. In particular, €1.4 million of that figure comes from recognition of a receivable from reimbursement of legal costs and €1.1 million from claims from rights of recourse against former shareholders of ATECS AG due to payment of tax arrears from the period before the company was acquired by euromicron AG.

The remaining effect of €6.3 million is attributable in particular to the fact that personnel and material costs were able to be adjusted to the lower sales volume, resulting in cost savings compared to the forecast.

Deviation from forecast reorganization costs with an impact on EBITDA 012

	€ m.
Forecast reorganization costs with an impact on EBITDA for 2016 (upper end of the forecast range)	–3.0
Actual reorganization costs with an impact on EBITDA for fiscal year 2016	–5.8
Deviation from the forecast	**–2.8**

The reorganization costs with an impact on EBITDA in fiscal year 2016 were € – 5.8 million, € -2.8 million higher than envisaged in the forecast. € – 1.0 million of the deviation from the forecast was due to write-downs in connection with sale of the “Telecommunications” division of euromicron Deutschland GmbH, € – 0.5 million was due to effects from discontinuation of the “Optical Tracking Systems” product line of Secure Information Management GmbH, and € – 0.1 million was due to closure of the non-strategic “Fiber-optic Infrastructure” division of RSR GmbH & Co. KG. These measures were not initiated until the fourth quarter and so were not reflected in the adjusted forecast. In addition, the reorganization costs of euromicron AG were € – 1.6 million above the forecast figure, in particular as a result of higher costs for legal advice, financial advice and other consulting services related to the reorganization. In addition, the follow-up costs from the closure of the non-strategic divisions were € – 0.2 higher than planned. However, there was also the positive aspect that other reorganization costs were a total of €0.4 million below the planned costs.

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

3.2 Risk report and salient features of the risk management system

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). In addition there was a charge from the reduction in deferred tax assets of €1.4 million from the additionally expected utilization of corporation income tax loss carryforwards.

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

Since the reorganization measures in 2016, especially those relating to realignment of euromicron Deutschland GmbH, took more time than was anticipated at the end of the previous year, implementation of the euromicron Group’s strategy, which is laid down in a three-phase model, has been pushed back one year.

On the basis of sales of €325.3 million in 2016 and the pro-rata loss of sales from the disposal in 2017 of the “Telecommunications” division of euromicron Deutschland GmbH and from discontinuation of the “Fiber-optic Infrastructure” division of RSR GmbH & Co. KG, sales expectations for 2017 – allowing for the presented opportunities and risks – are in a range between €330 million and €350 million.

We assume an operating EBITDA margin of between 4.0% and 5.0% for 2017.

Completion of the reorganization measures and costs in connection with restructuring of the Group’s financing will probably reduce the reported consolidated EBITDA in 2017 by around €2 million to €3 million.

After the reduction in the working capital ratio (defined as working capital relative to sales) by 6.0 percentage points to 11.8% in 2016, it is to be further decreased to approximately 10.0% in 2017 by the further intensification of working capital management up to the end of 2017.

We expect a further significant improvement in our profitability in the coming years as a result of the Group’s transformation. We assume that the operating EBITDA margin will increase continuously by one percentage point per annum in the subsequent years until the target range of 8.0% to 11.0% is reached.

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 315 (2) 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.

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

Corporate Governance Report 2016 and corporate governance declaration in accordance with Section 289a HGB (German Commercial Code)

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

The corporate governance declaration in accordance with Section 315 (5) 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 315 (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 315 (4) Nos. 8 and 9 of the German Commercial Code (HGB).

Frankfurt/Main, March 22, 2017

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

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Auditor's Report

Following the final results of our audit, we have issued the following unqualified audit dated March 22, 2017:

Audit opinion

We have audited the consolidated financial statements – consisting of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes – prepared by euromicron Aktiengesellschaft, Frankfurt/Main, and the group management report for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and group management report in accordance with IFRS, as are to be applied in the EU, and in addition the commercial law regulations to be applied pursuant to Section 315a (1) of the HGB (Handelsgesetzbuch – German Commercial Code) is the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

We conducted our audit of the consolidated 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 consolidated financial statements, taking into account the principles of orderly accounting, and by the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the definition of the companies consolidated, the accounting and consolidation principles used, and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and group 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 consolidated financial statements comply with the IFRS, as are to be applied in the EU, and in addition to the commercial law regulations to be applied pursuant to Section 315a (1) of the HGB (German Commercial Code) and give a true and fair view of the net assets, financial position and results of operations of the Group, taking into account these regulations. The group management report accords with the consolidated financial statements, complies with the statutory requirements, conveys overall an accurate picture of the Group'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

Balance sheet

of the euromicron Group as of December 31, 2016 (IFRS)

Assets

013

	Note	Dec. 31, 2016	Dec. 31, 2015	Change
		€ thou.	€ thou.	€ thou.
Noncurrent assets				
Goodwill	(1)	108,291	108,217	74
Other intangible assets	(1)	16,371	17,520	–1,149
Property, plant and equipment	(1)	15,612	15,306	306
Other financial assets	(1)	499	733	–234
Other assets	(1)	32	61	–29
Deferred tax assets	(2)	413	120	293
		141,218	**141,957**	**–739**
Current assets				
Assets held for sale	(3)	691	0	691
Inventories	(4)	28,381	30,763	–2,382
Trade accounts receivable	(5)	18,150	33,248	–15,098
Gross amount due from customers for contract work	(5)	40,708	47,480	–6,772
Claims for income tax refunds	(5)	765	1,496	–731
Other financial assets	(5)	5,520	2,879	2,641
Other assets	(5)	2,287	2,304	–17
Cash and cash equivalents	(6)	6,844	10,722	–3,878
		103,346	128,892	–25,546
		244,564	**270,849**	**–26,285**

Equity and liabilities

014

	Note	Dec. 31, 2016	Dec. 31, 2015	Change
		€ thou.	€ thou.	€ thou.
Equity				
Subscribed capital	(7)	18,348	18,348	0
Capital reserves	(7)	94,298	94,298	0
Currency translation reserve	(7)	–5	–2	–3
Consolidated retained earnings	(7)	–30,743	–16,010	–14,733
Stockholders' equity		81,898	96,634	–14,736
Non-controlling interests	(7)	461	404	57
Total equity		**82,359**	**97,038**	**–14,679**
Noncurrent liabilities				
Provisions for pensions	(8)	1,381	1,255	126
Other provisions	(8)	1,683	1,802	–119
Liabilities to banks	(9)	38,458	20,484	17,974
Liabilities from finance leases	(9)	843	1,193	–350
Other financial liabilities	(9)	0	474	–474
Other liabilities	(9)	147	189	–42
Deferred tax liabilities	(10)	5,670	5,606	64
		48,182	**31,003**	**17,179**
Current liabilities				
Liabilities in connection with assets held for sale		318	0	318
Other provisions	(8)	1,574	2,081	–507
Trade accounts payable	(9)	44,512	47,593	–3,081
Gross amount due to customers for contract work	(9)	1,384	851	533
Liabilities from current income taxes	(9)	3,520	3,232	288
Liabilities to banks	(9)	38,043	44,307	–6,264
Liabilities from finance leases	(9)	466	516	–50
Other tax liabilities	(9)	8,078	7,141	937
Personnel obligations	(9)	9,176	8,876	300
Other financial liabilities	(9)	1,774	24,838	–23,064
Other liabilities	(9)	5,178	3,373	1,805
		114,023	**142,808**	**–28,785**
		244,564	**270,849**	**–26,285**

Income statement

of the euromicron Group for the period January 1 to December 31, 2016 (IFRS)

Income statement 015

	Note	2016	2015
		€ thou.	€ thou.
Sales	(12)	**325,313**	**344,887**
Inventory changes		–863	883
Own work capitalized	(13)	2,808	2,942
Other operating income	(14)	4,499	3,073
Cost of materials	(15)	–171,506	–189,883
Personnel costs	(16)	–109,057	–107,875
Other operating expenses	(17)	–43,809	–47,104
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**7,385**	**6,923**
Amortization and depreciation	(18)	–9,649	–10,238
Impairment of goodwill	(18)	0	–5,333
Earnings before interest and taxes (EBIT)		**–2,264**	**–8,648**
Interest income	(19)	152	66
Interest expenses	(19)	–5,439	–3,791
Other financial expenses	(19)	–73	–332
Income before income taxes		**–7,624**	**–12,705**
Income taxes	(20)	–4,845	–424
Consolidated net loss for the year		**–12,469**	**–13,129**
Thereof attributable to euromicron AG shareholders		–12,655	–13,253
Thereof attributable to non-controlling interests	(21)	186	124
(Un)diluted earnings per share in €	(22)	**–1.76**	**–1.85**

Statement of comprehensive income

of the euromicron Group for the period January 1 to December 31, 2016 (IFRS)

Statement of comprehensive income 016

	Note	2016	2015
		€ thou.	€ thou.
Consolidated net loss for the year		**–12.469**	**–13.129**
Items to be subsequently recognized in profit or loss			
Gain/loss on the valuation of securities	(7)	0	–98
Currency translation reserves	(7)	–3	–1
Items not to be subsequently recognized in profit or loss			
Revaluation effects from pensions	(8)	–1.911	830
Other comprehensive income		**–1.914**	**731**
Total comprehensive income		**–14.383**	**–12.398**
Thereof attributable to euromicron AG shareholders		–14.569	–12.522
Thereof attributable to non-controlling interests		186	124

Statement of changes in equity

of the euromicron Group as of December 31, 2016 (IFRS)

Statement of changes in equity

	Subscribed capital	Capital reserves
	€ thou.	€ thou.
December 31, 2014	**18,348**	**94,298**
Consolidated net loss for 2015	**0**	**0**
Other comprehensive income		
Gain/loss on the valuation of securities	0	0
Currency translation reserves	0	0
Revaluation effects from pensions	0	0
	0	**0**
Total comprehensive income	**0**	**0**
Transactions with owners		
Distributions to/drawings by minority interests	0	0
	0	**0**
December 31, 2015	**18,348**	**94,298**
Consolidated net loss for 2016	**0**	**0**
Other comprehensive income		
Gain/loss on the valuation of securities	0	0
Currency translation reserves	0	0
Revaluation effects from pensions	0	0
	0	**0**
Total comprehensive income	**0**	**0**
Transactions with owners		
Transfer of profit shares for minority interests to liabilities	0	0
Distributions to/drawings by minority interests	0	0
	0	**0**
December 31, 2016	**18,348**	**94,298**

017

Consolidated retained earnings	Gain/loss on the valuation of securities	Currency translation difference	Equity attributable to the shareholders of euromicron AG	Non-controlling interests	Total equity
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
–2,747	**98**	**–1**	**109,996**	**405**	**110,401**
–13,253	**0**	**0**	**–13,253**	**124**	**–13,129**
0	–98	0	–98	0	–98
0	0	–1	–1	0	–1
830	0	0	830	0	830
830	**–98**	**–1**	**731**	**0**	**731**
–12,423	**–98**	**–1**	**–12,522**	**124**	**–12,398**
–840	0	0	–840	–125	–965
–840	**0**	**0**	**–840**	**–125**	**–965**
–16,010	**0**	**–2**	**96,634**	**404**	**97,038**
–12,655	**0**	**0**	**–12,655**	**186**	**–12,469**
0	0	0	0	0	0
0	0	–3	–3	0	–3
–1,911	0	0	–1,911	0	–1,911
–1,911	**0**	**–3**	**–1,914**	**0**	**–1,914**
–14,566	**0**	**–3**	**–14,569**	**186**	**–14,383**
0	0	0	0	–4	–4
–167	0	0	–167	–125	–292
–167	**0**	**0**	**–167**	**–129**	**–296**
–30,743	**0**	**–5**	**81,898**	**461**	**82,359**

Statement of cash flows

of the euromicron Group for the period January 1 to December 31, 2016 (IFRS)

Statement of cash flows 018

	2016	2015
Note (23)	TEUR	TEUR
Income before income taxes	–7,624	–12,705
Net interest income/loss	5,360	4,057
Depreciation and amortization of noncurrent assets	9,649	15,572
Reversal of write-downs of noncurrent assets	–54	0
Disposal of assets, net	–24	10
Depreciation/amortization of other noncurrent and current assets	894	0
Allowances for inventories and doubtful accounts	1,500	1,771
Change in provisions	–860	433
Changes in current and noncurrent assets and liabilities:		
– Inventories	254	–2,784
– Trade accounts receivables and gross amount due from customers for contract work	17,413	4,598
– Trade accounts payable and gross amount due to customers for contract work	–2,696	4,170*
– Other operating assets	–2,724	–368
– Other operating liabilities	–20,119	–5,122
– Income tax paid	–4,306	–2,147
– Income tax received	1,070	791
– Interest paid	–4,898	–3,795*
– Interest received	25	31
Net cash used in/provided by operating activities[1]	**–7,140**	**4,512***
Proceeds from		
– Retirement/disposal of intangible assets	12	0
– Retirement/disposal of property, plant and equipment	67	65
Payments due to acquisition of		
– Intangible assets	–3,464	–3,302
– Property, plant and equipment	–3,776	–3,169*
– Subsidiaries Purchase price payments of €609 thousand (previous year: €2,672 thousand) There are no (conditional) purchase price payments that have not yet been made	–609	–2,672
Net cash used in investing activities	**–7,770**	**–9,078***
Proceeds from raising of financial loans	21,835	18,338
Cash repayments of financial loans	–10,125	–16,661
Cash repayments of liabilities from finance leases	–526	–744*
Distributions to/withdrawals by non-controlling interests and profit shares of minority interests	–152	–1,267
Net cash provided by/used in financing activities	**11,032**	**–334***
Net change in cash funds	–3,878	–4,900
Cash funds at start of period	10,722	15,622
Cash funds at end of period	**6,844**	**10,722**
[1] Adjusted for factoring effects:		
Net cash provided by operating activities:	**1,295**	**4,400***

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

General disclosures

1. Description of business activities

euromicron AG (hereinafter referred to as the “company”) is a registered stock corporation under German law whose shares are traded on the stock market and has its registered offices in Frankfurt/Main, Germany. The euromicron Group unites medium-sized high-tech companies that operate in particular in the target markets of “Digital Buildings”, “Smart Industry” and “Critical Infrastructures”. As a German specialist 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 customized solutions for technologies, system integration and smart services and creates the IT, network and security infrastructures required for them. As a result, euromicron lets its customers migrate existing infrastructures gradually to the digital age. Thanks to this expertise, the euromicron Group helps its customers increase their own company’s agility and efficiency, as well as develop new business models that lay the foundation for commercial success down the road.

2. Accounting principles

euromicron AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as are applicable in the European Union, and the supplementary regulations pursuant to Section 315a (1) of the German Commercial Code (HGB), in the valid version at December 31, 2016. All the mandatory standards at the balance sheet date were applied.

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

The International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRS IC) have newly adopted the following standards, interpretations and amendments that were mandatory for the first time in fiscal year 2016: TABLE 019

Standards to be applied for the first time in the fiscal year — 019

	Standard/Interpretation	Mandatory application in the EU	Adoption by the EU Commission
IAS 1	Disclosure Initiative (amendment)	January 1, 2016	Yes
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization (amendment)	January 1, 2016	Yes
IAS 16 and IAS 41	Bearer Plants (amendment)	January 1, 2016	Yes
IAS 19	Defined Benefit Plans: Employee Contributions (amendment)	February 1, 2015	Yes
IAS 27	Equity Method in Separate Financial Statements of an Investor (amendment)	January 1, 2016	Yes
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception (amendments)	January 1, 2016	Yes
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (amendment)	January 1, 2016	Yes
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	No/n/a
AIP	Annual improvements to the IFRSs, cycle 2010 – 2012	February 1, 2015	Yes
AIP	Annual improvements to the IFRSs, cycle 2012 – 2014	January 1, 2016	Yes

Amendment to IAS 1 "Presentation of Financial Statements": Disclosure Initiative

The amendment to IAS 1 "Presentation of Financial Statements" adopted as part of the Disclosure Initiative on December 18, 2014, comprises in particular clarifications on assessing the materiality of disclosures in financial statements, the presentation of additional items in the balance sheet and statement of comprehensive income, presentation of the other profit/loss for associated companies and joint ventures carried using the equity method, the structure of disclosures in the notes and presentation of the applicable accounting methods. The regulation on adoption of the amendments to IAS 1 "Presentation of Financial Statements" by the EU ("endorsement") was published in the Official Journal of the EU on December 19, 2015. The changes must be applied to fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any significant effects on the consolidated financial statements.

Amendment to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible Assets": Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible Assets" adopted on May 12, 2014, contain guidelines on the methods to be applied for depreciation of property, plant and equipment and for amortization of intangible assets. According to them, the revenue-based method is not a permissible method of depreciation and amortization under IAS 16. This also applies refutably and analogously for IAS 38. The regulation on adoption of the amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" by the EU ("endorsement") was published in the Official Journal of the EU on December 3, 2015. These changes must be applied to fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any significant effects on the consolidated financial statements.

Amendment to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture": Bearer Plants

Under the amendments to the IAS 16 and IAS 41 standards published on June 30, 2014, bearer plants, such as grape vines, banana trees and oil palms, will be covered by IAS 16 in future. The regulation on adoption of the amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" by the EU ("endorsement") was published in the Official Journal of the EU on November 24, 2015. These changes must be applied to fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any effects on the consolidated financial statements.

Amendment to IAS 19 "Employee Benefits": Defined Benefit Plans: Employee Contributions

The IASB published an amendment to IAS 19R (2011) in November 2013. The amendment includes in the standard an option relating to accounting of defined benefit plans to which employees (or third parties) make obligatory contributions. Taking into account the now published amendment to IAS 19R, it is permissible to carry employee contributions linked to service and not to the number of years of service in the period in which the corresponding service is performed, without following the described method of calculation and distribution using the projected unit credit method. The regulation on adoption of the amendments to IAS 19R (2011) by the EU ("endorsement") was published in the Official Journal of the EU on January 9, 2015. The changes must be applied to fiscal years beginning on or after February 1, 2015. They can be applied before then. First-time application did not have any effects on the consolidated financial statements.

Amendment to IFRS 27 "Separate Financial Statements": Equity Method in Separate Financial Statements of an Investor

The amendments to IAS 27 "Separate Financial Statements" published on 12, 2014, mean that application of the equity method as an option for carrying interests in subsidiaries, associated companies and joint ventures in the separate financial statements of an investor is permitted again. There is still (as before) the option of recognizing them at amortized acquisition cost or in accordance with IAS 39 or IFRS 9. The regulation on adoption of the amendments to IAS 1 "Presentation of Financial Statements" by the EU ("endorsement") was published in the Official Journal of the EU on December 23, 2015. The changes come into effect for fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any effects on the consolidated financial statements.

Amendment to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures": Investment Entities – Applying the Consolidation Exception

The change to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" adopted on December 18, 2014, comprises minor changes to these standards. In particular, it deals with various questions relating to exemption from the consolidation obligation under IFRS 10 if the parent company meets the definition of an "investment entity". The regulation on adoption of the amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" by the EU ("endorsement") was published in the Official Journal of the EU on September 23, 2016. These changes must be applied to fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any effects on the consolidated financial statements.

Amendment to IFRS 11 "Joint Arrangements": Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 "Joint Arrangements" adopted on May 6, 2014, contain additional guidelines on the question of how an acquisition of interests in joint operations is to be carried. The amendments clarify that an acquisition of interests in a joint operation that constitutes a business enterprise within the meaning of IFRS 3 "Business Combinations" must be recognized in accordance with the provisions of IFRS 3 (purchase method of accounting) and other relevant standards, such as IAS 12, IAS 38 and IAS 36. The regulation on adoption of the amendments to IFRS 11 "Joint Arrangements" by the EU ("endorsement") was published in the Official Journal of the EU on November 25, 2015. The changes must be applied prospectively to the acquisition of interests in fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any effects on the consolidated financial statements.

IFRS 14 "Regulatory Deferral Accounts"

The standard introduces an optional exemption for first-time adopters in accordance with IFRS 1 with which, subject to restrictive conditions, these companies can continue recognition of regulatory deferral accounts from price regulation on the basis of their existing accounting principles. The new standard is intended as an interim solution until there are final extensive provisions on accounting of rate-regulated activities. As part of the extensive project, a discussion paper was published in September 2014 as part of the ongoing IASB research project. The EU's endorsement process was not carried out by the EU commission for the interim standard IFRS 14, since a decision was taken to wait for the final standard. Voluntary prior adoption of the regulations is permissible. It is still open as to when the regulations can be expected to be endorsed by the EU. First-time application of the regulations will not have any effects on the consolidated financial statements, since their application is only envisaged for first-time adopters of the IFRSs and companies that already report using the IFRSs are exempted from applying it.

Annual Improvement Project (AIP) – Annual improvements to the IFRSs, 2010-2012 cycle ("Improvements to IFRS")

The collection "Annual improvements to the IFRSs, 2010-2012 cycle" contains amendments to the following IFRSs:

- IAS 16 "Property, Plant and Equipment"
- IAS 24 "Related Party Disclosures"
- IAS 38 "Intangible assets"
- IFRS 2 "Share-based payment"
- IFRS 3 "Business Combinations"
- IFRS 8 "Operating Segments"
- IFRS 13 "Fair Value Measurement"

The amendments to the individual IFRSs as part of the "Annual improvements to the IFRSs, 2010–2012 cycle" are as follows:

IAS 16 "Property, plant and equipment" and IAS 38 "Intangible Assets"

The amendment clarifies that, if the revaluation method is applied in accordance with IAS 16.35 or IAS 38.30, accumulated depreciation/amortization must be determined at the time of valuation. The reformulation of IAS 16.35(a) reflects, for example, the fact that, as part of the revaluation, both the historical acquisition or manufacturing costs and the updated carrying amount may have changed with reference to available market data. In this case, there can be no proportionate change in the accumulated depreciation/amortization.

IAS 24 "Related Party Disclosures"

The amendment expands the definition of "related parties" to include entities that provide key management personnel services for the reporting entity themselves or through one of their group companies, without the two companies being deemed to be related within the meaning of IAS 24 ("management entities"). Separate disclosures in accordance with a newly inserted paragraph 18A are required for the expenses for services provided by the management entity at the reporting entity. However, the reporting entity does not need to make any disclosures in accordance with IAS 24.17 for the compensation paid by the management entity to employees who assume management tasks at the reporting entity.

IFRS 2 "Share-based payment"

The amendment contains a clarification of the definition of "vesting conditions" by separate definitions for "performance conditions" and "service conditions" being included in Annex A of the standard. This specifies that a performance condition is a vesting condition that requires a certain period of service to be completed and certain performance targets to be fulfilled within this period of service. The performance targets to be achieved must be defined with reference to the entity's activities or the value of its equity instruments (including shares and options). They may also relate to the overall performance of the entity and by the performance of parts of the entity or individual employees. Unlike a performance condition, however, a service condition only requires a certain period of service be completed, without the attachment of performance targets. If an employee leaves before this period of service is completed, the vesting condition is regarded as not having been fulfilled. In addition, the amendment clarifies in relation to the definition of "market conditions" that these are not only performance conditions that depend on the market price or value of the entity's equity instruments, but are also performance conditions that depend on the market price or value of the equity instruments of another entity in the group.

IFRS 3 "Business Combinations"
IFRS 3.40 specifies that an acquirer must classify an obligation to pay contingent consideration as a liability or equity based on the definitions of an equity instrument and a financial liability in paragraph 11 of IAS 32 or another applicable IFRS. Since the question of classifying the contingent consideration as equity or a financial liability only arises for contingent consideration that meets the definition of a financial instrument and that raised the question of when at all "another applicable IFRS" had to be used for such classification, the wording of IFRS 3.40 was amended so that only contingent consideration that occurs as part of a business combination and meets the definition of a financial instrument is referred to and, in addition, the reference to "another applicable IFRS" is deleted.

Moreover, the regulation in IFRS 3.58 on subsequent measurement of contingent consideration was unclear in that measurement at fair value is prescribed for contingent consideration not classified as equity, but reference is made to IFRS 9 (or IAS 39), IAS 37 or other IFRSs that may not require measurement at fair value. Amendment of this paragraph and corresponding consequential amendments to IFRS 9, IAS 39 and IAS 37 mean that now subsequent measurement at fair value, with posting of all resultant effects in profit or loss, is prescribed for all contingent consideration not classified as equity.

IFRS 8 "Operating Segments"
The following clarifications have been newly included in IFRS 8:

- When operating segments are aggregated into reportable segments, the considerations used by management to identify the reportable segments (brief description of the aggregated operating segments and economic factors that were used to determine the "similar economic characteristics" within the meaning of IFRS 8.12) must be disclosed and
- reconciliation of the segment's assets to the relevant amounts in the balance sheet is only necessary if disclosures on the segment's assets are also part of the financial information that is reported regularly to the chief operating decision maker.

IFRS 13 "Fair Value Measurement"
An amendment to the "basis for conclusions" of IFRS 13 clarifies that, with the changes to IFRS 9 and IAS 39 resulting from IFRS 13, the IASB did not want to remove the possibility of dispensing with discounting in relation to current receivables and liabilities if they are immaterial, provided the discounting effect is insignificant.

Most of the changes relate to clarifications or corrections to existing International Financial Reporting Standards (IFRSs) or amendments due to changes previously made to the IFRSs. The changes must be applied to fiscal years beginning on or after February 1, 2015. They can be applied before then. First-time application did not have any significant effects on the consolidated financial statements.

Annual Improvement Project (AIP) – Annual improvements to the IFRSs, 2012-2014 cycle ("Improvements to IFRS")
The collection "Annual improvements to the IFRSs, 2012-2014 cycle" contains amendments to the following IFRSs:

- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
- IFRS 7 "Financial Instruments": Disclosures (with the subsequent amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards")
- IAS 19 "Employee Benefits"
- IAS 34 "Interim Financial Reporting"

The amendments to the individual IFRSs as part of the "Annual improvements to the IFRSs, 2012-2014 cycle" are as follows:

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
This clarifies that direct reclassification of noncurrent assets "held for sale" to "for distribution to owners" does not result in a cessation of the related classification, presentation and measurement requirements in IFRS 5. Only in cases where the criteria for classification as "available for sale" or "for distribution to owners" are not longer met, without there being a direct move between the two categories, is it necessary to apply the measurement regulations of IFRS 5.27 – 29, which now also apply explicitly to assets (or disposal groups) previously classified as "for distribution to owners".

IFRS 7 "Financial Instruments": Disclosures
In accordance with IFRS 7.42C(c), the obligation of a selling entity to forward withheld payments from the sold financial assets to the purchaser of the receivables does not constitute a continuing involvement within the meaning of the disclosure provisions of IFRS 7.42E-H, if the criteria for a forwarding agreement within the meaning of IAS 39 are met. It was not clear up to now what that meant for servicing agreements (collection, dunning, etc.). The IASB has now clarified that servicing agreements in which the selling entity retains some of the opportunities or risks from the performance of the sold receivables establishes a continuing involvement within the meaning of IFRS 7. That means, for example, that withholding a servicing obligation in exchange for receipt of a servicing fee may in principle constitute a continuing involvement. This is the case in particular if the servicing fee depends on the level of the withheld payments or the time of payment receipt. A fixed servicing fee that does not have to be paid in full due to problems in payment for the transferred financial assets likewise results in a continuing involvement being assumed for the purposes of the disclosure requirements. This assessment is irrespective of whether the agreed servicing fee represents a reasonable consideration for the services to be provided.

A further clarification relates to application of the amendments to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities". It is clarified that the amendments to IFRS 7 do not result in any explicit disclosure obligations relating to interim financial reports. Nevertheless, the additional disclosures must be made in abridged interim financial reports in accordance with IAS 34 if this is required by IAS 34 (for example pursuant to the regulation in IAS 34.15 et seq., under which all necessary explanatory notes on events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date are required).

IAS 19 "Employee Benefits"
The rate of interest used to discount defined benefit pension liabilities in accordance with IAS 19R.83 must be determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. In countries without a liquid market for such corporate bonds, the rate must be defined by reference to market yields at the end of the reporting period on government bonds. The wording "in countries without a liquid market" has in some cases been used to deduce that the depth of a market must only be determined at the country level even in a currency zone (such as the Euro zone). With this publication, the IASB clarifies that the depth of the market for high-quality corporate bonds must be assessed on the "basis of the currency", which means that in the Euro zone corporate bonds from the entire Euro zone must be included, for example. If an entity comes to the opinion that there is no liquid market for high-quality corporate bonds on the basis of the currency zone, government bond yields must be applied. The respective currency zone must also be included in that.

IAS 34 "Interim Financial Reporting"

IAS 34.16A requires entities to make specific disclosures in the notes to the interim financial report if they have not already been provided "elsewhere in the interim financial report". The IASB now clarifies that information "elsewhere in the interim financial report" may be information that is to be found either directly elsewhere in the interim financial report or in other documents referred to in the interim financial report. In the latter case, however, the other documents must be available to the addressees of the interim financial report at the same time and the same conditions as the interim financial report itself.

Most of the changes relate to clarifications or corrections to existing International Financial Reporting Standards (IFRSs) or amendments due to changes previously made to the IFRSs. The changes must be applied to fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any significant effects on the consolidated financial statements.

The following new or changed accounting regulations of the IASB have recently been adopted. However, since their application is not mandatory or they have not yet been adopted by the European Union, they were not used in the consolidated financial statements as of December 31, 2016: TABLE 020

IFRS standards to be applied in future fiscal years 020

	Standard / Interpretation	Mandatory application in the EU	Adoption by the EU Commission
IAS 7	Disclosure Initiative (amendment)	January 1, 2017	No
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses (amendment)	January 1, 2017	No
IAS 40	Investment Property (amendment)	January 1, 2018	No
IFRS 2	Share-based Payment (amendment)	January 1, 2018	No
IFRS 4	Insurance Contracts (amendment)	January 1, 2018	No
IFRS 9	Financial instruments	January 1, 2018	Yes
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendment)	n/a	No
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Yes
IFRS 15	Revenue from Contracts with Customers (clarifications)	January 1, 2018	No
IFRS 16	Leases	January 1, 2019	No
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	No
AIP	Annual improvements to the IFRSs, cycle 2014–2016	January 1, 2017 / January 1, 2018	No

Amendment to IAS 7 "Statement of Cash Flows": Disclosure Initiative

As part of its initiative to improve disclosure requirements ("Disclosure Initiative"), the IASB published an amendment to IAS 7 "Statement of Cash Flows" on January 29, 2016. Under this amendment, the financial statements are to include a reconciliation showing the development of those liability items in the balance sheet during the period under review whose cash changes have to be recognized in the net cash used in/provided by financing activities in the statement of cash flows. The changes must be applied retrospectively to fiscal years beginning on or after January 1, 2017. Voluntary application before then – subject to any still outstanding endorsement – is permitted. Any effects on the consolidated financial statements are still being examined at present.

Amendment to IAS 12 "Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses"

On January 19, 2016, the IASB published an amendment to IAS 12 "Income Taxes" that clarifies the recognition of deferred tax assets for unrealized losses from available-for-sale financial assets. The amendment to IAS 12 clarifies that deferred tax assets must be applied to deductible temporary differences resulting from unrealized losses from available-for-sale financial assets in the form of debt instruments if the company has the ability and the intention to hold the securities until they recover their value (if applicable to their maturity). It also clarifies that there must be positive taxable income before reversal of the the deductible temporary differences before the deferred tax assets can be used, unless there are sufficient deferred tax liabilities. Accordingly, realization of a value above the IFRS carrying amount is conceivable for estimating the future taxable income, if there is adequate proof that that is probable. The changes must be applied retrospectively to fiscal years beginning on or after January 1, 2017. Voluntary application before then – subject to any still outstanding endorsement – is permitted. First-time application will probably have no significant effects on the consolidated financial statements.

Amendment to IAS 40 "Investment Property – Transfers of Investment Property"

On December 8, 2016, the IASB published an amendment to IAS 40 "Investment Property" which clarifies how transfers of investment property are recognized. Investment property within the meaning of IAS 40 is land or a building that is held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation, and that is not held for use in the production or supply of goods or services or is held for sale in the ordinary course of business. In accordance with IAS 40.57, transfers to or from investment property should only be made when there is a change in its use. The IASB clarifies that there must be a change in use and this change must be evidenced ("supporting evidence that a change in use has occurred") and that the list of examples of changes in use given in IAS 40.57 (such as commencement or end of owner occupation) is non-exhaustive. It is also emphasized that the mere intention by management to change the use of investment property is by itself not sufficient to constitute a transfer within the meaning of IAS 40.57.

The mandatory date of adoption of the amendment to IAS 40 is January 1, 2018, although voluntary application of it before then is permitted. For the transitional period, there is a choice between prospective application of the amendments to all changes in use that occur at or after the start of the period in which the entity adopts the amendments for the first time, and retrospective application, as long as the information required for that is available without "use of hindsight", i.e. was already available at the time of any earlier change in use. First-time application will probably have no significant effects on the consolidated financial statements.

Amendment to IFRS 2 "Share-based Payment"

On June 20, 2016, the IASB published amendments to IFRS 2 "Share-based Payment" essentially containing three clarifications:

Accounting for cash-settled share-based payment transactions

According to IFRS 2.6A, the term "fair value" used in IFRS 2 differs from the definition in IFRS 13, since not all the parameters to be included in accordance with IFRS 13 in calculating fair value are also used in accordance with IFRS 2. Whereas IFRS 2 defines detailed measurement regulations for equity-settled share-based payment transactions ("equity-settled grants"), there were no clear regulations to date on how the fair value of cash-settled share-based payment transactions ("cash-settled grants") had to be calculated. In future, cash-settled grants must be measured in compliance with the regulations for measuring equity-settled grants. The addition of IFRS 2.33A means that service conditions and non-market-based vesting conditions must not be included in calculating the fair value, but in the number of the (virtual) equity instruments that are expected to be non-forfeitable. If it is regarded as unlikely that service conditions and non-market-based vesting conditions will be achieved, no expense has to be recognized, since the number of the (virtual) equity instruments that are expected to be non-forfeitable is zero in this case.

Classification of share-based payment transactions with net settlement features

The amendments to IFRS 2 also relate to payment transactions in which equity instruments are granted where some of them are retained to settle a tax liability of the beneficiary ("net settlement feature"). This is the case if the entity is obliged to pay over the tax due from the beneficiary on the equity-settled grant in cash to the responsible tax authority. Up to now, such a commitment had to be split up: The part that is expected to be settled in equity instruments must be carried as an equity-settled grant, whereas the anticipated cash payment to the tax authority is covered by the regulations for cash-settled grants. As a means of simplification for the reporting entity, the amendments to IFRS 2 specify that such a commitment can be classified in its entirety as an equity-settled grant if such a classification would have had to be carried out for such a commitment without a net settlement feature. The payment to the tax authority must be carried as a deduction from equity.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

In its current version, IFRS 2 does not contain any regulations on accounting for modifications of cash-settled grants that become equity-settled grants. Such circumstances are treated differently in current practice, in particular if the fair value of the modified commitment differs from the fair value of the original commitment.

The newly added IFRS 2.B44A clarifies the following:

a) The equity-settled grant is measured at the fair value of the granted equity instruments at the time of the modification and recognized in equity if the entity has already received goods and services.

b) The liability recognized for the cash-settled grant at the time of the modification is derecognized.

c) Any differences between the derecognized liability and the amount recognized in equity must be recognized in profit and loss.

The mandatory date of first-time adoption is January 1, 2018. Voluntary application before then – subject to any still outstanding endorsement – is permitted subject to disclosure of the fact. First-time application will probably have no significant effects on the consolidated financial statements.

Amendment to IFRS 4 "Insurance Contracts"

On September 12, 2016, the IASB published amendments to IFRS 4 "Insurance Contracts" in order to address the accounting consequences of the different effective dates of IFRS 9 "Financial Instruments" and the new insurance contracts standard (IFRS 17). The amendments to IFRS 4 offer two options:

- A temporary exemption from applying IFRS 9 for insurance companies that meet specific criteria, and
- the overlay approach.

IFRS 4 will be replaced by the upcoming new insurance contracts standard, which means the option to apply the temporary exemption and the overlay approach will end. As part of temporary exemption from IFRS 9, insurance companies can still apply IAS 39 instead of IFRS 9 until January 1, 2021, if their activity is predominantly connected to insurance business. The overlay approach relates to specific financial instruments that have to be measured at fair value through profit or loss under IFRS 9, whereas the related actuarial provisions from insurance contracts are often measured on the basis of acquisition costs, which may result in increased volatility in earnings for the period. The overlay approach therefore enables entities that issue insurance contracts within the scope of IFRS 4 to transfer fluctuations in the market value of specific financial assets (qualifying financial assets) within the statement of comprehensive income from the earnings for the period (profit and loss) to the other comprehensive income. As a result of this transfer, earnings for the period are calculated that would have resulted from application of IAS 39.

The mandatory date of first-time adoption is January 1, 2018. Voluntary application before then – subject to any still outstanding endorsement – is permitted subject to disclosure of the fact. First-time application will probably have no significant effects on the consolidated financial statements.

IFRS 9 "Financial Instruments"

The IASB adopted the final version of IFRS 9 "Financial Instruments" on July 24, 2014. The revised IFRS 9 now also contains regulations on a new measurement category for fair value through other comprehensive income (FVOCI) and impairment of financial instruments. Adoption of the IFRS 9 means that its previous versions (Classification and Measurement: Financial Assets and Liabilities; Hedge Accounting) and its predecessor standard IAS 39 are superseded.

When first carried, financial assets are in future to be categorized as measured at "fair value through profit or loss" or at "amortized cost" This classification is dependent on the company's business model and the contractual terms of the financial asset. The new measurement category FVOCI introduced with the final standard can be used for specific financial assets if the assets are controlled with the objective of collecting the contractually agreed cash flows and to sell the assets (holding and selling business model) and the contractual cash flows from the assets are solely repayments of principal and interest payments (cash flow criterion). If both conditions are met, a debt instrument must always be measured at FVOCI, unless the fair value option is used at the time of the asset's addition.

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

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

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

The new regulations in IFRS 9 on recognition of impairments are based on the premise of providing for anticipated losses (expected loss model), a deviation from the previous model of losses that had already occurred (incurred loss model). Both models differ in that the expected loss model includes anticipated losses where there are no concrete loss indicators, whereas losses may only be included in the incurred loss model if there are already concrete loss indicators. Consequently, a risk provision for expected payment losses must now be formed in principle in accordance with IFRS 9. In order to determine the extent of provisions for risks, there is a three-tier model under which in principle expected losses for 12 months are to be carried as of first-time recognition and, in the event of a significant deterioration in the credit risk, the anticipated total losses are to be recognized.

IFRS 9 contains regulations on hedge accounting that create a stronger connection between hedge accounting on the balance sheet and the risk management practiced as part of operational activities. IFRS 9 provides a more flexible possibility for designating hedged items, under which individual components, net positions and aggregated positions (including derivatives) can be hedged. Individual components of non-financial items can also be designated provided they are separately identifiable and reliably measurable.

With the exception of equity instruments for which the FVOCI option has been exercised, IFRS 9 basically permits any type of non-derivative financial instrument to be designated as a hedging instrument if those financial instruments are measured at fair value.

Effectiveness is assessed solely on a prospective basis in accordance with IFRS 9. The economic relationship between the hedged item and the hedging instrument is the main criterion for measuring effectiveness. The credit risk and hedge ratio are also analyzed.

The regulation on adoption of IFRS 9 “Financial Instruments” by the EU (“endorsement”) was published in the Official Journal of the EU on November 29, 2016. The new standard must be applied to fiscal years beginning on or after January 1, 2018. In principle, first-time adoption of IFRS 9 must be retrospective; however, various simplification options are granted. It can be applied before then voluntarily.

euromicron is currently examining the allocation of financial assets to the individual categories as part of a project it has launched. Significant effects on measurement of them are not expected at present. In addition, the new concept for impairments (expected loss model) is being analyzed. We expect that to result in effects on the level of impairment that have to be calculated, although we cannot quantify these effects at present. We do not expect any effects from the changes to hedge accounting, since they are of minor importance to the euromicron Group.

Amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures": Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendment adopted on September 11, 2014, eliminates an existing inconsistency between IFRS 10 and IAS 28 in relation to the question of complete (IFRS 10) or proportionate (IAS 28) recognition of gains if an investor sells assets in one of its associated companies or joint ventures (or contributes assets to such entities). The changes should be applied prospectively as of January 1, 2016. However, the IASB specified in December 2015 that the mandatory first-adoption date can be postponed for an indefinite period, as proposed in an exposure draft published in August 2015. However, voluntary prior adoption of the regulations is still permissible. The amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" have not been endorsed by the EU, which means that they are not yet currently applicable to entities that report in the EU using the IFRSs.

IFRS 15 "Revenue from Contracts with Customers"
On May 28, 2014, the IASB published the long-awaited standard on revenue recognition. IFRS 15 "Revenue from Contracts with Customers" establishes a consistent set of rules for all questions of recognizing revenue from contracts with customers. The stipulations in IFRS 15 must be applied consistently to different transactions and across all industries. The only exception is contracts that are covered by the scope of IAS 17 "Leases", IAS 27 "Separate Financial Statements", IAS 28 "Investments in Associates and Joint Ventures", IFRS 4 "Insurance Contracts", IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". This standard supersedes the existing standards and interpretations on revenue recognition (IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programs", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services").

IFRS 15 contains in particular extensive regulations on recognition of revenue from contracts with different service components (multi-component contracts). Under these regulations, revenue must be recognized if the customer has obtained control of the agreed goods and services and can obtain benefits from them. The revenue must be measured at the amount of consideration which an entity expects to receive. The new model envisages a five-step framework to determine revenue recognition, under which the customer contract and the separate performance obligations in it must first be identified. The transaction price for the customer contract must then be determined and allocated to the individual performance obligations. Finally, under the new model, revenue to the amount of the allocated pro-rata transaction price must be recognized for each performance obligation, as soon as the agreed obligation has been satisfied or the customer has obtained control of it. A distinction must be made here – on the basis of defined criteria – between whether the performance obligation is satisfied at a point in time or over time. The new standard does not differentiate between different types of contract and performance, but defines uniform criteria on when performance has to be recognized as being at a point in time or over time. In addition, IFRS 15 expands existing disclosure requirements and introduces extensive qualitative and quantitative disclosures on contracts with customers, the main discretionary decisions and subsequent changes to them, and assets resulting from capitalized costs for obtaining or fulfilling contracts with customers so as to provide more useful information for decision-making for the target audience of the financial statements.

In September 2015, the IASB also published an amendment to the standard, under which the mandatory date of first-time adoption of the standard is postponed to fiscal years beginning on or after July 1, 2018. The regulation on adoption of IFRS 15 "Revenue from Contracts with Customers" (including the amendment to the mandatory date of first-time adoption) by the EU ("endorsement") was published in the Official Journal of the EU on October 29, 2016. Voluntary prior adoption of the regulations is permissible.

At the beginning of fiscal year 2017, the euromicron Group initiated a group-wide project to introduce IFRS 15. As part of this project, it will initially analyze the extent to which the business models of the euromicron Group's operating companies are affected by the regulations of IFRS 15. The types of contract at the individual companies will then be analyzed on the basis of the results of that. This analysis will be used to derive a technical concept for adopting the regulations of IFRS 15, which will also identify the need to adapt existing IT processes/systems. In addition, the group companies will be given training in how to use and apply the new requirements defined in IFRS 15.

We expect that splitting the transaction price over different performance obligations will result in changes to when revenues are obtained for certain types of contract. As far as can be assessed at present, the lion's share of Construction Contracts recognized using the percentage of completion method will meet the requirements for realization of revenues over time, although there may be shifts in the time at which revenue is carried, depending on the contractual arrangements. We currently do not expect changes to the total amount of the revenues to be recognized from contracts with customers (e.g. from concretization of the definition of principal versus agent).

Apart from that, we expect changes in the balance sheet, in particular as a result of separate balance sheet items for assets and liabilities from contracts, as well as additional, extensive quantitative and qualitative disclosures in the notes.

Clarifications on IFRS 15 "Revenue from Contracts with Customers"

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

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

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

IFRS 16 "Leases"

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

Under the new regulations, the lessee must recognize all leases in future in the balance sheet in the form of a right of use and corresponding lease liability. They are always presented in the income statement as a financing transaction, i.e. the right of use must usually be amortized using the straight-line method and the lease liability amortized using the effective interest method. Only leases with a total maximum term of twelve months and leases for low-value assets (IT equipment and operating and office equipment with a value when new of up to USD 5,000, if they are not closely linked to other assets) are exempted from being carried in the balance sheet. In these cases, the lessee can elect to recognize the assets in a similar way as for the previous operating lease under IAS 17 "Leases".

The new standard does not contain any major changes for lessors. The IASB has adopted the regulations of IAS 17 for lessors in the new standard almost without any changes. As a result, the lessor still classifies every lease from the aspect of risk and reward, both for the purpose of presenting it on the balance sheet and in earnings. As a result, there is no longer a mirror-image reflection between the lessor and lessee.

In addition, the IASB has established the control principle familiar from IFRS 10 "Consolidated Financial Statements" and IFRS 15 "Revenue from Contracts with Customers" in IFRS 16 "Leases". Accordingly, a lease will exist in future if fulfillment of the contract depends on use of an identified asset and the contract also gives the customer the right to control use of that asset.

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

Subject to its endorsement in EU law, IFRS 16 must be applied for the first time to fiscal years beginning on or after January 1, 2019. It can be implemented earlier, but that requires simultaneous application of the revenue recognition regulations in IFRS 15. In fiscal year 2016, the euromicron Group initiated a group-wide project to introduce IFRS 16. As part of the project, a survey of the existing tenancy agreements and leases was initially conducted throughout the group. The effects of the new standard on accounting, processes and systems were also analyzed. In addition, various software solutions on the market were examined to determine whether they might be used at the euromicron Group.

We expect first-time adoption of IFRS 16 as of January 1, 2019, to increase total assets due to the fact that rights of use and lease obligations have to be recognized in the balance sheet. Due to the increase in total assets, we anticipate a negative effect on the euromicron Group’s equity ratio.

As regards the effects on items in the consolidated income statement, we expect a positive impact on EBITDA due to lower rent and lease expenses as of fiscal year 2019. We also expect a positive impact on EBIT, although this will be far lower than the positive impact on EBITDA due to additional amortization of the recognized rights of use. We also expect higher interest expense and so a fall in the net financial result. It is not possible to assess definitely at present whether the effects presented here will have a positive or negative overall effect on income for the respective period.

In addition to the effects on the balance sheet and income statement, we anticipate additional, extensive quantitative and qualitative disclosures in the notes.

IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

On December 8, 2016, the IFRS IC published the interpretation IFRIC 22 “Foreign Currency Transactions and Advance Consideration”, which deals with the question of translating foreign currency transactions in circumstances in which consideration is paid or received in advance. The interpretation clarifies what exchange rate must be used when a foreign currency transaction is carried for the first time in the functional currency of an entity when the entity pays or receives advance consideration on the assets, expenses or income (or parts of them) received on the basis of the transaction. A foreign currency transaction must be recognized in the functional currency for the first time by the foreign currency amount being translated at the spot rate between the functional currency and foreign currency applying on the date of the business transaction (transaction time = the time at which the business transaction has to be recognized for the first time in accordance with the IFRSs) (IAS 21.21). In cases where an entity pays or receives advance consideration, a non-financial asset is usually carried (right to receive an asset or service or a non-financial liability [obligation to supply an asset or service]). If this involves payments in foreign currency, these are translated as non-monetary items into the functional currency at the spot rate on the day of payment. The non-financial assets or liabilities are derecognized when the performance obligation is fulfilled. At the same time, the assets, expenses or income received on the basis of the transaction are recognized.

The IFRS IC now clarifies in the interpretation that the transaction time for determining the exchange rate is the day of first-time recognition of the advance consideration carried as a financial asset or liability. If an entity pays or receives multiple considerations as part of a transaction, the transaction time and so the exchange rate must be determined separately for each advance consideration.

This regulation does not apply if the received assets or the expenses and income to be carried for the first time are to be recognized at their fair value or the fair value of specific considerations in exchange. Insurance contracts and accounting of income taxes are excluded from the interpretation’s scope of application.

The new regulations must either be applied retrospectively within the meaning of IAS 8 or prospectively to all assets, expenses and income covered by the interpretation's scope of application which have been recognized for the first time on or after the start of the reporting period in which the interpretation was adopted for the first time or on or after the start of a reporting period that is specified as the comparative period in the financial statements and in which the interpretation was adopted for the first time.

The mandatory date of first-time adoption is January 1, 2018. Voluntary application before then is permitted subject to disclosure of the fact. First-time application will probably have no significant effects on the consolidated financial statements.

Annual Improvement Project (AIP) – Annual improvements to the IFRSs, 2014-2016 cycle ("Improvements to IFRS")
The collection "Annual improvements to the IFRSs, 2014–2016 cycle" contains amendments to the following IFRSs:

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

The amendments to the individual IFRSs as part of the "Annual improvements to the IFRSs, 2014–2016 cycle" are as follows:

IAS 28 "Investments in Associates and Joint Ventures"
Two amendments were made to IAS 28:

IAS 28.18 provides the option of measuring shares in associated companies or joint ventures that are held directly or indirectly by venture capital organizations, investment funds, unit trusts, and similar entities, including fund-based insurance contracts, at fair value with fair value changes recognized in profit or loss in accordance with IAS 39 (in future IFRS 9) instead of being recognized using the equity method. In this regard, the IASB clarified that this decision has to be made separately for each associated company or joint venture at the time of first-time recognition.

In principle, investment entities within the meaning of IFRS 10.27 do not have to consolidate shares in subsidiaries, but must measure the investments at fair value (IFRS 10.31). If, in turn, an investment entity is included as an associated company or joint venture in the consolidated financial statements of a non-investment entity, the latter can retain this means of accounting investments in subsidiaries at fair value by the investment entity (IAS 28.36A). In this regard it has been clarified that the decision on that likewise has to be made separately for each investment entity included in the consolidated financial statements as an associated company or joint venture and that the choice must be made by the latest at the following times:

- The time of first-time recognition of the associate
- The time at which the associate became an investment entity or
- The time at which the associate became a parent company for the first time.

IFRS 12 "Disclosure of Interests in Other Entities"
There are currently the following regulations relating to disclosures in accordance with IFRS 12 for shares in companies that are classified as held for sale or as a discontinued operation in accordance with IFRS 5:

In accordance with IFRS 5.5B, the disclosure requirements of other standards are not relevant for assets held for sale and discontinued operations in accordance with IFRS 5, unless

a) other IFRSs require specific disclosures in respect of such assets or operations or

b) other IFRSs require measurement disclosures for assets and liabilities in a disposal group that is outside the scope of the measurement requirements of IFRS 5.

Under IFRS 12.B17, shares that are classified as held for sale in accordance with IFRS 5 are exempted from the obligation for summarized financial information to be provided for these shares in accordance with IFRS 12.B10-B16. There was a lack of clarity as to whether all the other disclosures (apart from the summarized financial information) required by IFRS 12 have to be made for shares that are classified as held for sale in accordance with IFRS 5 or whether no disclosures at all are required in accordance with IFRS 12, since IFRS 12 does not – as required by IFRS 5.5B – define specific disclosures for these shares.

The IASB has now clarified that, with the exception of the summarized financial information in accordance with IFRS 12.B17, all other disclosure obligations under IFRS 12 also apply to shares that are classified as noncurrent assets held for sale or discontinued operations in accordance with IFRS 5.

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The temporary exemptions for first-time adopters of the IFRSs in the text of IFRS 1 (IFRS 1.E3 – E7), which relate to short-term exceptions to application of transition regulations of IFRS 7, IAS 19 and IFRS 10, were removed, since they are no longer relevant due to the fact that the period of time for them has expired.

Most of the changes relate to clarifications or corrections to existing International Financial Reporting Standards (IFRSs) or amendments due to changes previously made to the IFRSs. The changes must be applied to fiscal years beginning on or after January 1, 2017, or on or after January 1, 2018. They can be applied before then. First-time application will probably have no significant effects on the consolidated financial statements.

General principles

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

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

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

Offsetting of assets and liabilities

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

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

- Offsetting of pension obligations against the associated plan assets.

- Offsetting of payments on account received that can be directly assigned to individual Construction Contracts and are covered by services provided by the balance sheet date on the basis of the percentage of completion method.

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

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

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

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

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

All resultant translation differences are recognized in equity in the separate item “Currency translation reserve”.

Consolidation principles
Subsidiaries are all companies that are controlled by the Group. The Group controls an associated company if it has power of disposal over the company, there is a risk exposure as a result of or rights to variable returns from its engagement in the associated company and the Group has the ability to use its power of disposal over the company so as to influence the level of the variable returns from the associated company. This is usually accompanied by a share of the voting rights of more than 50%. In assessing whether a company is controlled, the existence and impact of potential voting rights that can be exercised or are convertible at present are taken into account. Subsidiaries are included in the consolidated financial statements by way of full consolidation. They are included from the date on which control has passed to the Group and no longer included where the Group does not have control over them.

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

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

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

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

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

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

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

Non-controlling interests are measured at their share proportionate to the identifiable and re-measured net assets of the subsidiary. Any conditional considerations are measured at fair value at the time of acquisition. Subsequent changes to the fair value of a conditional consideration classified as an asset or liability are measured in accordance with IAS 39 and any resultant profit or loss is recognized either in profit or loss or in the other profit/loss. A conditional consideration classified as equity is not re-measured and its later settlement is recognized in equity.

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

Intangible assets – Goodwill

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

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

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

Other intangible assets

The other intangible assets comprise concessions, industrial and similar rights, brand name rights, capitalized development costs and self-developed software. The other intangible assets are carried at cost and amortized using the straight-line method, on the basis of the following useful lives: TABLE 021

Useful lives of other intangible assets 021

	Useful life in years
Concessions, industrial and similar rights	3–10
Brand name rights	10–25
Capitalized development costs	3–6
Self-developed software	4–8

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

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

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

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

Property, plant and equipment

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

Property, plant and equipment is depreciated using the straight-line method, on the basis of the following useful lives: TABLE 022

Useful lives of property, plant and equipment 022

	Useful life in years
Buildings/leasehold improvements	10–40
Technical equipment and machinery	3–15
Other equipment, operating and office equipment	3–16

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

Impairment of long-lived assets

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

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

Leasing

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

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

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

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

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

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

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

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

a) At fair value through profit or loss

b) Loans and receivables

c) Held to maturity investments and

d) Available for sale.

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

The euromicron Group has financial assets in the categories "Loans and receivables" and "Available for sale" at the balance sheet date.

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

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

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

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

Impairment of financial assets

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents are measured at nominal value.

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

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

Current and deferred taxes

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

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

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

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

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

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

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

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

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

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

Financial liabilities
Financial liabilities can basically be split into two categories:

a) Financial liabilities at fair value through profit or loss;

b) Other financial liabilities measured at amortized cost using the effective interest method.

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

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

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

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

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

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

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

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

Sales
In accordance with IAS 18, sales revenues are recognized on transfer of risk or performance of the service, and are stated net of discounts, customer bonuses and rebates and excluding value-added tax.

3. Discretionary decisions and uncertainties in estimates

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

Predictive estimates and assumptions are essentially made for the following:

- Measurement of goodwill: €108,291 thousand (previous year: €108,217 thousand)

  Goodwill is tested for impairment annually and when specific indications indicate that it may be impaired (impairment test). As part of this impairment test, specific measurement parameters, such as future sales growth and future EBITDA margin, are estimated, with management making assessments as regards the development of markets, market share and prices. We refer in this regard to the notes on the consolidated balance sheet (section 1. a)).

- Measurement of capitalized development costs: €8,421 thousand (previous year: €8,594 thousand)

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

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

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

- Payment of income taxes (claims for refunds (+) and income tax liabilities (–) netted off): € – 2,755 thousand (previous year: € – 1,736 thousand)

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

- Gross amount due from customers for contract work: €40,708 thousand (previous year: €47,480 thousand)

- Gross amount due to customers for contract work: €1,384 thousand (previous year: €851 thousand)

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

- Measurement of the other provisions (short- and long-term): €3,257 thousand (previous year: €3,883 thousand)

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

- Measurement of provisions for pensions: €1,381 thousand (previous year: €1,255 thousand)

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

- Measurement of deferred taxes; surplus of deferred tax liabilities over deferred tax assets: €5,257 thousand (previous year: €5,486 thousand). We refer in this regard to the notes on the consolidated balance sheet (sections 2 and 10).

Consolidated companies

1. Companies included in the consolidated financial statements

The euromicron Group is made up of euromicron AG and 23 companies to be consolidated (previous year: 22). euromicron AG directly or indirectly holds the majority of voting rights in all the associated companies and so controls them. euromicron AG holds the majority of voting rights in all the companies included in the consolidated financial statements, so that no significant discretionary decisions and assumptions were necessary to include them in the consolidated group. All companies are included in the consolidated financial statements by way of full consolidation.

Of these companies, 15 (previous year: 14) are based in Germany, 7 (previous year: 8) in other European countries, and 1 (previous year: 0) in non-European countries.

There were the following changes to the consolidated companies apart from euromicron AG: TABLE 023

Number of consolidated companies 023

	2016	2015
January 1st	22	26
First-time consolidation / newly established companies	2	0
Deconsolidation / mergers within the Group	–1	–4
December 31st	23	22

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

2. Acquisition of companies and divisions

In fiscal year 2016 there were no changes in the consolidated companies due to significant acquisitions of subsidiaries and other business units in accordance with IFRS 3. However, two new companies were founded and increased the number of consolidated companies; in addition, a division was acquired as part of an asset deal. One company was liquidated in the course of 2016 and so deconsolidated.

Establishment of SIM Asia PTE. LTD

The company SIM Asia PTE. LTD., Singapore, was founded in February 2016. It is a wholly-owned subsidiary of Secure Information Management GmbH, Neustadt an der Weinstraße, Germany. Its paid-up nominal capital is €30 thousand.

Establishment of Netzikon GmbH

The company Netzikon GmbH, Backnang, was founded in August 2016. It is a wholly-owned subsidiary of telent GmbH, Backnang. Its paid-up nominal capital is €25 thousand.

Liquidation of WCS Fiber Optic B.V.

Liquidation of WCS Fiber Optic B.V., Amersfoort/the Netherlands, was completed in October 2016 and the company was removed from the Dutch commercial register (“Kamer van Koophandel”).

Acquisition of the “PSS” division of PMG GmbH & Co. KG by euromicron Deutschland GmbH (asset deal)

Under the purchase agreement dated May 2, 2016, euromicron Deutschland GmbH acquired the “PSS” division of PMG GmbH & Co. KG by way of an asset deal. The date the agreement was concluded is also the date of acquisition. euromicron Deutschland GmbH acquired the division at a total purchase price of €109 thousand. The goodwill of €74 thousand resulting from the difference between the total purchase price and the measured net assets of €35 thousand is mainly attributable to the well-trained workforce in the field of security technology. The measured assets of the “PSS” division at the time of the acquisition comprised fixed assets (€21 thousand), inventories (€28 thousand) and other assets (€3 thousand). The measured liabilities comprised provisions (€11 thousand) and other liabilities (€6 thousand). A tax-deductible goodwill to the same amount resulted from the transaction. No incidental costs were incurred in connection with the acquisition. Three employees were taken over. The earnings and sales of the division cannot be identified reliably for the period in which it was part of the Group (from May 2 to December 31, 2016), since the sales attributable to the acquired assets cannot be ascertained separately from the sales of euromicron Deutschland GmbH. The acquisition had no effect on the consolidated companies. It enables the euromicron Group to build its expertise in the field of security technology.

3. Disclosures on company acquisitions from previous years

ATECS AG, Zug/Switzerland and Secure Information Management GmbH, Neustadt a.d.W.
At December 31, 2015, euromicron AG held 90% of the shares in ATECS AG Zug/Switzerland (hereinafter referred to as ATECS AG) and 90% of the shares in Secure Information Management GmbH, Neustadt a. d. W. (hereinafter referred to as SIM GmbH). There were purchase options or preemptive rights relating to the remaining 10% stakes in both companies.

On February 22, 2016, partial exercise of the existing purchase option was agreed effective March 31, 2016. 5% of the shares in ATECS AG and 5% of the shares in SIM GmbH were acquired. The purchase price for exercising the options 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 rose to 95% in each case. Due to the fact that the existing purchase options are designed as opposite put/call options that resulted in full consolidation of both companies in December 2013 following acquisition of 80% of the shares in them at the time, the purchase price obligations totaling €500 thousand resulting from exercise of the options were already carried under “Other current financial liabilities” in the financial statements at December 31, 2015.

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

The amount of the liabilities from preemptive rights discounted to the present value was €493 thousand at December 31, 2016 (previous year: €1,000 thousand), of which €394 thousand (previous year: €800 thousand) is for ATECS AG and €99 thousand (previous year: €200) for SIM GmbH. These liabilities from preemptive rights are carried to an amount of €493 thousand (previous year: €1,000 thousand) under “Other current financial liabilities”.

MICROSENS GmbH & Co. KG, Hamm
As part of the acquisition of 80% of the shares in MICROSENS GmbH & Co. KG, Hamm, in 2006, the minority shareholders obtained a preemptive right to tender the remaining 20% and euromicron AG an option to purchase them. As a result of the mutual put/call options, this company was fully consolidated in the consolidated financial statements of euromicron AG, with a liability from the preemptive rights to the amount of the present value being recognized at the same time. The option comprised a fixed purchase price and a conditional purchase price component.

As of December 31, 2016, euromicron AG held 95% of the shares in MICROSENS GmbH & Co. KG due to partial exercise of this purchase option. There is a preemptive right and a purchase option relating to the remaining 5% stake held by the minority shareholders. They can be exercised on January 1, 2014, at the earliest and on December 31, 2017, at the latest. According to the contractual arrangements, the purchase price must be increased by up to €50 thousand if a defined EBIT is exceeded in the fiscal years 2016 to 2017.

In December 2016, one of the two minority shareholders notified euromicron AG that it would exercise its preemptive right to tender 2.5% of the shares in January 2017 (see section 31 “Significant events after the balance sheet date”). The liability relating to this part of the preemptive right was discounted in line with the shorter remaining term. Taking into account the announced exercise of the preemptive right to tender by a minority shareholder, the present value of this liability from preemptive rights (fixed purchase price plus the conditional purchase price component) at December 31, 2016, is €494 thousand (previous year: €474 thousand) and is carried under “Current financial liabilities”. As a result of interest accrued on this liability, there were interest expenses of €20 thousand in fiscal year 2016 (previous year: €12 thousand). TABLE 024

List of companies included in the consolidated financial statements 024

	Share in capital in %
Parent company	
euromicron Aktiengesellschaft, Frankfurt/Main, Germany	
Consolidated subsidiaries	
telent GmbH – ein Unternehmen der euromicron Gruppe, Backnang, Germany	100.00
RSR Datacom GmbH & Co. KG, Essen, Germany	100.00
RSR Datacom Verwaltungs GmbH, Essen, Germany	100.00
ProCom Professional Communication & Service GmbH Essen, Germany	100.00
euromicron austria GmbH, Seekirchen, Austria	100.00
ATECS AG [1], Zug, Switzerland	95.00
Secure Information Management GmbH [1], Neustadt a. d. W., Germany	95.00
euromicron Deutschland GmbH – ein Unternehmen der euromicron Gruppe, Neu-Isenburg, Germany	100.00
Stark- und Schwachstrom Montage GmbH, Hamburg, Germany	100.00
MICROSENS GmbH & Co. KG [2], Hamm, Germany	95.00
MICROSENS sp.zo.o.[2], Wrocław, Poland	95.00
Microsens Beteiligungs GmbH [2], Hamm, Germany	95.00
EUROMICRON Werkzeuge GmbH – ein Unternehmen der euromicron Gruppe, Sinn-Fleisbach, Germany	100.00
LWL-Sachsenkabel GmbH-Spezialkabel und Vernetzungstechnik, Gornsdorf, Germany	100.00
ELABO GmbH – ein Unternehmen der euromicron Gruppe, Crailsheim, Germany	100.00
Qubix S.p.A., Padua, Italy	90.00
SKM Skyline GmbH, Munich, Germany	100.00
Avalan GmbH – ein Unternehmen der euromicron Gruppe, Spiesen-Elversberg, Germany	100.00
euromicron NBG Fiber Optics GmbH, Seekirchen, Austria	100.00
euromicron benelux S.A., Ellange, Luxembourg	100.00
euromicron holding gmbh, Seekirchen, Austria	100.00
Netzikon GmbH, Backnang, Germany	100.00
SIM Asia PTE.LTD, Singapore, Singapore	95.00

[1] Due to an existing opposite put/call option on the preemptive right or acquisition of the remaining 5% stake, 100% of the shares must be economically ascribed to euromicron AG for consolidation purposes.

[2] Due to an existing opposite put/call option on the preemptive right or acquisition of the remaining 5% stake, 100% of the shares must be economically ascribed to euromicron AG for consolidation purposes (see also section 31 “Significant events after the balance sheet date”).

Notes on the consolidated balance sheet

1. Fixed assets

A complete overview of all long-lived assets is provided in the fixed asset movement schedule under 1. b) "Property, plant and equipment" of these notes.

a) Intangible assets

The intangible assets comprise goodwill, concessions, industrial property and similar rights, brand name rights, capitalized development costs and self-developed software.

Goodwill

Goodwill developed as follows in the fiscal year: TABLE 025

Goodwill 025

	2016	2015
	€ thou.	€ thou.
Goodwill at January 1st	108,217	113,479
Additions	74	71
Disposals	0	–5,333
Goodwill at December 31st	**108,291**	**108,217**

The addition in goodwill was due to the acquisition of the "PSS" division of PMG GmbH & Co. KG by way of an asset deal (see section 2 "Acquisition of companies and divisions").

The goodwill at the euromicron Group is distributed over these CGUs as follows: TABLE 026

Allocation of goodwill to CGUs 026

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Smart Buildings	67,931	67,857
Critical Infrastructures	35,129	35,129
Distribution	5,231	5,231
	108,291	**108,217**

Goodwill impairment test

Regardless of any event-driven impairment tests, euromicron conducts the obligatory annual goodwill impairment test at December 31 of the reporting period. This annual impairment test was conducted at the end of fiscal year 2016 on the basis of the cash-generating units identified at the end of the year.

The impairment test is based on the following main planning and measurement assumptions:

Planning for the CGU "Smart Buildings" envisages sales growth in the medium single-digit percentage range in the years 2017 to 2021. The EBIT margin is budgeted to be 5.5% for 2017 and will increase moderately each year in subsequent years up to 2021 to up to 10.5%.

Sales for the CGU "Critical Infrastructures" are expected to increase by 9.6% in 2017, while an increase of 9.1% is planned for 2018. A moderate increase in sales of around 2% has been assumed in 2019. The anticipated sales growth in the years 2020 and 2021 will be around 9.6% and 8.0% respectively. The EBIT margin is budgeted to be 6% for 2017 and will increase moderately each year in subsequent years up to 9.9%.

The planning for the CGU "Distribution" envisages sales growth of 7.6% for the year 2017 and of around 4% for each of the years 2018 to 2021. An EBITDA margin of 9% is planned for 2017 and will rise slightly to 9.6% by 2021.

In particular, estimates by management of how the markets, market shares and prices will develop are subject to some uncertainty.

Since individual business risks have already been taken into account in preparing the budgeting for the respective CGUs and will reduce the derived free cash flow, the following parameters were applied uniformly to all CGUs for calculating the WACC for the impairment test at December 31, 2016: TABLE 027

Interest assumed in the 2016 impairment test 027

	2016	2015
Borrowing rate after taxes	1.39%	2.28%
Risk-free interest rate	0.81%	1.29%
Markup for return on equity	6.50%	6.50%
Beta factor	0.75	1.08
Debt/equity ratio	14.84%	14.42%
Weighted average cost of capital (WACC)	**5.12%**	**7.01%**
Growth rate	**0.81%**	**1.00%**
WACC perpetuity	**4.12%**	**6.01%**

The goodwill impairment test at December 31, 2016, did not reveal any need to reduce the value of the goodwill of individual CGUs (previous year: €0 thousand).

Sensitivity analysis

As part of a sensitivity analysis, changes to the parameters that were considered possible were simulated stepwise in a model calculation for each of the cash-generating units and examined as to whether there was a need to reduce the value for the CGU.

Given the described assumptions and sustained sales growth of 0.81% at the end of the planning period, the recoverable amount of the CGUs will significantly exceed the carrying amount. Even in the event of a sharp, unanticipated reduction in the assumptions for sustained sales growth (0.5% reduction in the estimated sales growth rate of 0.81%), discounting (increase in WACC by 1%) and the EBITDA margin (a 0.5% lower EBITDA margin over the whole planning period, including perpetuity), there would be a recoverable amount above the carrying amount and therefore no need for an impairment.

The fair value calculated as part of the goodwill impairment test and for assets held for sale was measured on the basis of level 3. The fair value is calculated as the present value of the future free cash flow using the discounted cash flow (DCF) method with a risk-adjusted discount rate (WACC). As part of that, assumptions are made about future sales or the anticipated EBITDA margin, for example.

Other intangible assets

Development costs for self-created intangible assets of €2,342 thousand (previous year: €2,412 thousand) were carried in the year under review. In addition, own work for self-developed software and IT solutions was capitalized to an amount of €191 thousand (previous year: €215 thousand) in the year under review.

Intangible assets were impaired to an amount of €80 thousand in the year under review (previous year: €859 thousand). Of these impairments, €69 thousand (previous year: €154 thousand) were attributable to smaller development projects where a decision was taken not to continue pursuing them. In segment reporting, the impairments on intangible assets have been fully assigned to “Smart Buildings”.

b) Property, plant and equipment

The manufacturing cost of capitalized, self-created property, plant and equipment contains the cost of direct materials and prime costs, as well as attributable overhead costs, and resulted in own work capitalized of €275 thousand in fiscal year 2016 (previous year: €314 thousand).

There were impairments of property, plant and equipment totaling €1,288 thousand in fiscal year 2016 (previous year: €116 thousand). Of this amount, €489 thousand was due to the impairment of demo stock due to discontinuation of a product line. In the segment reporting, these impairments were allocated to “Critical Infrastructures”.

In addition, there were impairments of telecommunications systems totaling €799 thousand, of which €490 thousand was connected to the planned sale of the “Telecommunications” division. We also refer in this regard to section 3 “Assets held for sale and liabilities in connection with assets held for sale”. In the segment reporting, these impairments were allocated to “Smart Buildings”.

In accordance with IAS 16.74, at the balance sheet date there are no restrictions on title to, nor any contractual commitments to acquire property, plant and equipment. In addition, no property, plant or equipment has been attached as collateral and there were no compensation payments to third parties due to value impairments in or loss of property, plant or equipment.

Statement of changes in the group's fixed assets in 2016

of euromicron AG, Frankfurt/Main

Changes in intangible assets and property, plant and equipment in 2016

	Acquisition cost				
	Jan. 1, 2016	**Additions**	**Disposals**	**Additions from company acquisitions**	**Reclassi-fication and other**
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Goodwill	**121,121**	**0**	**0**	**74**	**0**
Intangible assets					
Concessions, industrial and similar rights	29,951	1,103	–1,726	15	0
Brand names	12,530	0	0	0	0
Capitalized development costs	21,501	2,342	–1,241	0	0
Self-developed software	1,831	191	0	0	0
	65,813	3,636	–2,967	15	0
Property, plant and equipment					
Land and buildings	8,885	52	–17	0	249
Technical equipment and machinery	10,378	219	–407	0	0
Other equipment, operating and office equipment	25,377	4,978	–1,775	6	–249
	44,640	5,249	–2,199	6	0
	231,574	**8,885**	**–5,166**	**95**	**0**

028

	Amortization and depreciation					Carrying amounts	
Dec. 31, 2016	Jan. 1, 2016	Additions	Disposals	Reclassi-fication and other	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
121,195	**−12,904**	**0**	**0**	**0**	**−12,904**	**108,291**	**108,217**
29,343	−25,760	−1,786	1,724	126	−25,696	3,647	4,191
12,530	−8,647	−224	0	−86	−8,957	3,573	3,883
22,602	−12,907	−2,475	1,241	−40	−14,181	8,421	8,594
2,022	−979	−313	0	0	−1,292	730	852
66,497	−48,293	−4,798	2,965	0	−50,126	16,371	17,520
9,169	−3,851	−416	17	0	−4,250	4,919	5,034
10,190	−6,246	−1,515	407	0	−7,354	2,836	4,132
28,337	−19,237	−2,965	1,722	0	−20,480	7,857	6,140
47,696	−29,334	−4,896	2,146	0	−32,084	15,612	15,306
235,388	**−90,531**	**−9,694**	**5,111**	**0**	**−95,114**	**140,274**	**141,043**

Changes in intangible assets and property, plant and equipment in 2015

	Acquisition cost				
	Jan. 1, 2015	Additions	Disposals	Additions from company acquisitions	Reclassi-fication and other
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Goodwill	**121,050**	**0**	**0**	**71**	**0**
Intangible assets					
Concessions, industrial and similar rights	29,473	675	–273	77	–1
Brand names	12,530	0	0	0	0
Capitalized development costs	20,110	2,412	–1,021	0	0
Self-developed software	1,616	215	0	0	0
	63,729	3,302	–1,294	77	–1
Property, plant and equipment					
Land and buildings	8,675	190	–6	0	26
Technical equipment and machinery	8,723	1,954	–70	0	–229
Other equipment, operating and office equipment	23,430	2,648	–944	39	204
	40,828	4,792	–1,020	39	1
	225,607	**8,094**	**–2,314**	**187**	**0**

029

		Amortization and depreciation					Carrying amounts	
	Dec. 31, 2015	Jan. 1, 2015	Additions	Disposals	Reclassi-fication and other	Dec. 31, 2015	Dec. 31, 2015	Dec. 31, 2014
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
	121,121	**–7,571**	**–5,333**	**0**	**0**	**–12,904**	**108,217**	**113,479**
	29,951	–23,444	–2,669	273	80	–25,760	4,191	6,029
	12,530	–8,418	–229	0	0	–8,647	3,883	4,112
	21,501	–10,538	–3,310	1,020	–79	–12,907	8,594	9,572
	1,831	–534	–445	0	0	–979	852	1,082
	65,813	–42,934	–6,653	1,293	1	–48,293	17,520	20,795
	8,885	–3,475	–357	6	–25	–3,851	5,034	5,200
	10,378	–5,735	–799	70	218	–6,246	4,132	2,988
	25,377	–17,497	–2,429	882	–193	–19,237	6,140	5,933
	44,640	–26,707	–3,585	958	–1	–29,334	15,306	14,121
	231,574	**–77,212**	**–15,571**	**2,251**	**0**	**–90,531**	**141,043**	**148,395**

Leased equipment (€1,842 thousand; previous year: €2,191 thousand), operating and office equipment (€263 thousand; previous year: €418 thousand) and IT equipment reported under “Software” (€116 thousand; previous year: €0 thousand) were carried as finance leases with a net carrying amount of €2,221 thousand at December 31, 2016 (previous year: €2,609 thousand). Finance leases are used to fund assets with a useful life of at least three years, such as machinery and production machines to warehouse systems, at the manufacturing companies in the euromicron Group. Some of the existing finance lease agreements have purchase options at the end of their term. There was no subleasing from finance leases at the euromicron Group. See section 9 “Liabilities” for an explanation of the liabilities from financial leases.

All other lease agreements in which companies of the euromicron Group are the lessee are recognized as operating leases. The leasing payments are charged to expenditure (see section 24 “Contingencies and other financial obligations”). There are no restrictions (“covenants”) pursuant to leasing agreements.

c) Other noncurrent financial assets

The table below presents the components of the other noncurrent financial assets: TABLE 030

Other noncurrent financial assets 030

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Shares in Track Group Inc.	267	340
Long-term receivables from finance leases	163	326
Rent deposit / deposits by third parties	62	55
Other noncurrent financial assets	7	12
	499	**733**

The shares in the listed company SecureAlert Inc., Utah, U.S., carried under “Other noncurrent financial assets” were acquired by euromicron AG in 2009. The stake held in its capital stock on the balance sheet date was 0.60% (previous year: 0.61%). The shares in Track Group Inc. are classified as a financial asset under the category “Available for sale” and are measured at fair value. They were first measured at fair value on the day of trading (€934 thousand). Their carrying amount was €770 thousand at December 31, 2014, and €340 thousand at December 31, 2015. The shares’ fair value at the end of the fiscal year under review was €267 thousand. The value impairment of €73 thousand was recognized in the net financial result. In the previous year, the value impairment (€430 thousand) was partly recognized by a reduction in the recovery in value carried in the OCI in previous periods (€98 thousand) and partly recognized in the net financial result (€332 thousand).

The receivables from finance leases are calculated as follows: TABLE 031 / 32

Noncurrent receivables from finance leases 031

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Noncurrent receivables		
Gross receivables from finance leases	170	405
Financial income not yet realized	–7	–79
	163	**326**

Current receivables from finance leases 032

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Current receivables		
Gross receivables from finance leases	44	85
Financial income not yet realized	–5	–32
	39	**53**

The table below shows the reconciliation of gross investments in leases to the present value of the future minimum lease payments: TABLE 033

Reconciliation of gross investments in finance leases 033

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Gross receivables from finance leases		
Up to 1 year	44	85
1 to 5 years	155	338
More than 5 years	15	67
	214	**490**
Financial income not yet realized	–12	–111
Net investment in finance leases	**202**	**379**

The carrying amounts of the other noncurrent financial assets in the category “Loans and receivables” are approximately the fair value.

As part of measurement of assets held for sale (see section 3), there were allowances for receivables from finance leases totaling €123 thousand in fiscal year 2016 (previous year: €0 thousand).

d) Other noncurrent assets

The table below presents the components of the other noncurrent assets: TABLE 034

Other noncurrent assets 034

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Other noncurrent assets	32	61

The other noncurrent assets include in particular the corporation income tax credit balance in accordance with Section 37 (4) KStG (German Corporation Tax Act), which is €22 thousand at the balance sheet date (previous year: €43 thousand).

2. Deferred tax assets

Deferred tax assets are calculated on the basis of measurement differences in the following balance sheet items: TABLE 035

Deferred tax assets 035

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Intangible assets	20	19
Inventories	17,527	19,833
Property, plant and equipment	146	0
Other receivables and other assets	152	141
Provisions	2,792	2,531
Liabilities from finance leases	340	459
Other liabilities	892	1,130
Loss carryforwards for corporation income tax/trade tax and income taxes abroad	3,478	4,147
Total deferred tax assets before netting off	**25,347**	**28,260**
Netting off	–24,934	–28,140
Total deferred tax assets after netting off	**413**	**120**

There are long-term deferred tax assets (after netting off) totaling €409 thousand (previous year: €116 thousand); they result from deferred tax assets on measurement differences for intangible assets and from deferred tax assets on tax loss carryforwards.

Of the deferred tax assets remaining after netting off and totaling €413 thousand (previous year: €120 thousand), €275 thousand (previous year: €0 thousand) is attributable to two Group companies that made a tax loss in fiscal year 2016 or the year before (previous year: zero Group companies). The deferred tax assets were recognized on the basis of positive tax budgeting for the respective company. The Executive Board is of the view that it is highly probable that the deferred tax assets can be realized. In accordance with IAS 1.122, this discretionary decision by the Executive Board as regards the accounting method has a significant impact on the financial statements and may be subject to change, depending on future developments.

As of December 31, 2016, the Group had corporation income tax loss carryforwards totaling €46,470 thousand (previous year: €45,689 thousand), trade tax loss carryforwards totaling €44,264 thousand (previous year: €34,948 thousand) and loss carryforwards for income taxes abroad totaling €24,877 thousand (previous year: €23,207 thousand). These loss carryforwards relate to eight (previous year: six) domestic group companies and euromicron AG and six (previous year: five) foreign group companies. These losses may be carried forward without restriction in accordance with the current legal position.

No deferred tax assets have been formed on existing tax loss carryforwards totaling €93,132 thousand (previous year: €78,303 thousand). Of this, €54,650 thousand (previous year: €0 thousand) are loss carryforwards incurred before becoming part of a tax group, that cannot be used before the end of the tax group, and €38,482 thousand (previous year: €78,303 thousand) was attributable to tax loss carryforwards that can probably not be offset against taxable profits on the basis of the tax planning in the foreseeable future, of which €26,338 thousand (previous year: €25,470 thousand) was due to discontinued operations of the respective companies.

Of the existing tax loss carryforwards for which deferred tax assets were not formed, €70,550 thousand (previous year: €56,422 thousand) was in Germany and €22,582 thousand (previous year: €21,881 thousand) abroad.

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

As part of implementation of the new Group strategy, which at its core envisages the euromicron Group as an IoT solution provider, euromicron decided to discontinue its telecommunications business. In this regard, euromicron concluded an agreement to sell the "Telecommunications" division of euromicron Deutschland GmbH on March 15, 2017.

The anticipated purchase price is €500 thousand, excluding final purchase price adjustments. The assets and liabilities relating to the transaction had to be carried as "held for sale" at December 31, 2016, since the criteria for their being classified as "held for sale" were already met at the end of 2016.

In accordance with IFRS 5, the assets and liabilities held for sale have been written down to their fair value less costs to sell of €373 thousand. This is a fair value on a non-recurring basis. The fair value less costs to sell was calculated for the cash-generating unit on the basis of the cash flows up to the date of transfer, which are based on past experience, current operating results and the best-possible assessment of future developments by management, and on the basis of the anticipated purchase price. The fair value determined for the CGU was assigned to level 3 in the hierarchy of fair values.

This resulted in an impairment loss totaling €1,493 thousand. €490 thousand of that was impairment of fixed assets (carried as an impairment), €109 thousand was write-downs of inventories (carried under "Cost of materials") and €894 thousand was write-downs of other assets (carried under "Other operating expenses").

The assets and liabilities of the operations to be discontinued were reclassified in a disposal group at the end of 2016 and are allocated to the "Smart Buildings" segment. The figures for the disposal group are presented in the table below: TABLE 036

Assets held for sale and liabilities in connection with assets held for sale 036

	Dec. 31, 2016
	€ thou.
Inventories	86
Gross amount due from customers for contract work	518
Other assets	87
Assets held for sale	**691**
Provisions for pensions	36
Personnel obligations	272
Gross amount due to customers for contract work	11
Liabilities in connection with assets held for sale	**318**
Net assets	**373**

4. Inventories

The euromicron Group's inventories on the balance sheet data are broken down as follows: TABLE 037

Inventories 037

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Raw materials and supplies	11,001	11,517
Work in progress	3,842	3,946
Finished goods and merchandise	13,079	14,718
Prepayments	459	582
	28,381	**30,763**

In accordance with IAS 2.34, there were write-downs on inventories totaling €921 thousand (previous year: €979 thousand); the reversals totaled €125 thousand (previous year: €10 thousand). Of the write-downs, an amount of €109 thousand (previous year: €0 thousand) results from measurement of the assets held for sale (see section 3).

5. Receivables and other current assets

The receivables and other assets comprise trade accounts receivable, the gross amount due from customers for contract work, claims for income tax refunds, other financial assets and other assets.

The receivables and other assets on the balance sheet date are composed as follows: TABLE 038

Receivables and other current assets 038

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Trade accounts receivable (gross)	21,346	36,800
Allowances for doubtful accounts	−3,196	−3,552
Trade accounts receivable (net)	18,150	33,248
Gross amount due from customers for contract work	40,708	47,480
Claims for income tax refunds	765	1,496
Other current financial assets	5,520	2,879
Other current assets	2,287	2,304
	67,430	**87,407**

The carrying amounts for trade accounts receivable, the gross amount due from customers for contract work and the other current financial assets are approximately their fair value.

Trade accounts receivable

Trade accounts receivable that have defined terms of payment and are not traded on an active market are classified in the category "Loans and receivables". As in the previous year, all trade accounts receivable at December 31, 2016, were short-term.

If there are indications that receivables cannot be recovered, an appropriate allowance is recognized. The allowances for doubtful accounts result from individual adjustments for receivables; expenses from transfer to the allowances are carried under the item "Other operating expenses" in the income statement.

The year-on-year decline of €15,098 thousand (to €18,150 thousand on the balance sheet date from €33,248 thousand in the previous year) is mainly due to the fact that the level of receivables sold as part of factoring was €14,395 higher on the balance sheet date than in the previous year.

There were the following changes in the allowances for trade accounts receivable: TABLE 039

Allowances for trade accounts receivable 039

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Balance at the beginning of the period	−3,552	−4,663
Allocation	−926	−726
Utilization	1,060	1,814
Reversals	222	23
Balance at the end of the period	**−3,196**	**−3,552**

Unrecoverable receivables for which no allowances had previously been formed were derecognized to an amount of €237 thousand in 2016 (previous year: €53 thousand) due to events that had an impact on their value. As regards the accounts receivable for which no allowance has been made and that are not overdue at the reporting date, there were no signs at the reporting date that the debtors would not meet their payment obligations.

The table below shows the age structure of the trade accounts receivable for which no allowance has been made on the balance sheet date, along with the net carrying amount of the trade accounts receivable for which an allowance has been made on the balance sheet date: TABLE 042

Trade accounts receivable by times due 040

		Accounts for which no allowance has been made and that are not overdue at the reporting date	Accounts for which no allowance has been made and are overdue in the following periods of time Days < 60	60–120	121–180	181–360	>360	For which an allowance has been made
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
	Dec. 31, 2016							
Trade accounts receivable	18,150	6,922	5,390	1,691	563	154	575	2,855
	Dec. 31, 2015							
Trade accounts receivable	33,248	13,927	9,965	2,898	798	1,120	1,615	2,925

The trade accounts receivable include receivables in foreign currency (USD) totaling €6,953 thousand (previous year: €5,065 thousand). If the exchange rate of the euro to the US dollar at December 31, 2016, had been 5% higher, the consolidated net income for the year would have been €331 thousand lower (previous year: €218 thousand lower). However, if the exchange rate of the euro to the US dollar had been 5% lower, the consolidated net income for the year would have been €366 thousand higher (previous year: €248 thousand higher). There is no credit risk at the Group as a result of receivables being concentrated on one or a small number of trade debtors.

The trade accounts receivable include receivables from supplier rebates totaling €675 thousand (previous year: €402 thousand), which may be offset with corresponding trade accounts payable.

Individual companies in the euromicron Group sell some of their receivables from customers to factoring companies (buyers of the receivables). The overall program for the Group has a maximum volume of €40,000 thousand (previous year: €40,000 thousand). At December 31, 2016, receivables with a volume of €34,715 thousand (previous year: €20,321 thousand*) were sold by the entire Group. In accordance with IAS 39, sold receivables from customers are only derecognized if essentially all opportunities and risks of the sold receivables have been transferred to the buyer of the receivables. The risk of the customer becoming insolvent (risk of nonpayment) is transferred to the buyer of the receivables under the contractual arrangements. euromicron still bears the interest risk from delayed payments by customers. Since virtually all the opportunities and risks do not remain with euromicron and do not pass to the buyer of the receivables, euromicron carries the receivables at the amount of the continuing involvement of €293 thousand (previous year: €187 thousand); it is carried under “Other current financial assets”. The continuing involvement comprises the maximum amount that euromicron would have to pay to the buyer of the receivables up to receipt of payment relative to the carrying amount of the receivables sold on the reporting date. The continuing involvement is offset by an associated liability totaling €304 thousand (previous year: €199 thousand); it is carried under “Other current financial liabilities”. The difference between the asset and liability items reflects the remaining claims from or obligations to the factoring company from the interest rate guarantee and the administration fees euromicron still has. In accordance with the requirements of IAS 39, the sold receivables are partly derecognized at the balance sheet date; the share remaining as continuing involvement is low compared with the total amount of sold receivables. Interest expenses and charges resulting from the sale of receivables are carried in the net financial result.

Gross amount due from customers for contract work

The gross amount due from customers for contract work was €40,708 thousand (previous year: €47,480 thousand).

The total of accrued costs and reported profits (minus any losses) was €266,162 thousand (previous year: €250,513 thousand*).

Sales from Construction Contracts in the year under review were €130,731 thousand (previous year: €133,605 thousand*).

Payments on account received in connection with Construction Contracts totaled €1,737 thousand (previous year: €66 thousand); they are carried under “Other liabilities”.

As part of measurement of assets held for sale (see section 3), there were allowances for gross amounts due from customers for contract work totaling €660 thousand in fiscal year 2016 (previous year: €0 thousand).

* The previous year's figure has been adjusted.

Claims for income tax refunds

Receivables of €64 thousand from creditable capital gains tax due to euromicron AG are carried under "Claims for income tax refunds" in fiscal year 2016 (previous year: €872 thousand). The tax receivables of €872 thousand reported in the previous year were offset by tax liabilities at the subsidiaries to an amount of €806 thousand, which were carried under the balance sheet item "Liabilities from current income taxes".

Other current financial assets

The other current financial assets are broken down as follows: TABLE 041

Other current financial assets 041

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Receivables from factoring monies not yet paid out	3,180	2,137
Receivable from reimbursement of legal costs	1,350	0
Claims against former board members of euromicron AG	516	273
Continuing involvement (factoring)	293	187
Deposits	130	116
Receivables from finance leases	39	53
Recovery claims from excess payment of interest	0	51
Other	12	62
	5,520	**2,879**

The receivables from factoring monies not yet paid out comprise amounts from sold receivables not paid out by the factoring company by the balance sheet date (such as blocked amounts or receivables still being examined).

The receivable from reimbursement of legal costs (€1,350 thousand; previous year; €0 thousand) results from the agreement with the defendant in legal proceedings filed by euromicron AG to settle the legal dispute.

Other current assets

The other current assets changed as follows: TABLE 042

Other current assets 042

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Prepayments and accrued income	1,196	1,077
Claims for refunds from other taxes	629	857
Claims against employees	94	132
Other	367	238
	2,287	**2,304**

As part of measurement of assets held for sale (see section 3), there were allowances for prepayments and accrued income totaling €111 thousand in fiscal year 2016 (previous year: €0 thousand).

6. Cash and cash equivalents

Cash includes cash on hand, demand deposits at banks and cash equivalents with a term of no more than three months and are classified in the category "Loans and receivables".

The cash and cash equivalents are as follows: TABLE 043

Cash and cash equivalents 043

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Cash in banking accounts	6,819	10,686
Cash on hand	25	36
	6,844	**10,722**

7. Equity

a) Subscribed capital and authorized capital

The number of shares of euromicron AG in circulation is 7,176,398. The capital stock of euromicron AG is €18,347,554.88. The nominal amount per share is around €2.56. The shares are fully paid up. TABLE 044

Shares in circulation 044

	Dec. 31, 2016	Dec. 31, 2015
Shares in circulation at December 31	7,176,398	7,176,398

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

Treasury shares

At December 31, 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 that could be offset with equity in accordance with IAS 32.33 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. We refer you to pages 12 and 143 of the 2015 Annual Report of the euromicron Group for a detailed explanation.

b) Capital reserves

The capital reserves at December 31, 2016, were unchanged year on year at €94,297,543.35.

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

c) Currency translation reserve

The assets and liabilities of MICROSENS sp. z o.o., Wroclaw/Poland, whose functional currency is the Polish zloty, are translated at the mean spot exchange rate at the end of the period under review. Expenses and income are translated at mean rates during the year. The differences resulting from translation are recognized in equity and reclassified if the profit or loss from the sale of this foreign subsidiary is carried.

The difference resulting from translation of the financial statements of MICROSENS sp. z o.o. at December 31, 2016, is € –5,318.12 (previous year: € –2,204.86).

d) Distributions in the fiscal year

There were no dividend payouts in fiscal year 2016.

e) Non-controlling interests

The non-controlling interests reported at December 31, 2016 (€461 thousand; previous year: €404 thousand) relate exclusively to Qubix S.p.A., Padua/Italy (10%). The non-controlling interests should be regarded as not being material in relation to the consolidated financial statements.

f) Disclosures on capital management in accordance with IAS 1

The equity ratio and net financial debt are used as performance indicators. So as to ensure unrestricted access to the capital and credit markets at as favorable terms as possible and to increase the company's value, the objective of capital management is to increase the equity ratio to above 35% and reduce current net financial debt in the medium term. Measures to help achieve that include reducing working capital by means of an optimization program implemented throughout the Group and increasing consolidated earnings by safeguarding bread-and-butter business and tapping new strategic target markets in the field of digitization. Net financial debt and the equity ratio are constantly monitored by management.

A financing agreement running until March 31, 2018, was concluded with financing partners in fiscal year 2016. The agreement specifies that the company must fulfill specific key ratios (covenants), which must be tested quarterly. They include the equity ratio and key indicators relating to earnings and liquidity. There were no indicators at the balance sheet date that these financial covenants cannot be fulfilled. The equity ratio is 33.7% (previous year: 35.8%) and is calculated as follows: TABLE 045

Equity ratio 045

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Equity acc. to consolidated balance sheet	82,359	97,038
Total assets	244,564	270,849
Equity ratio	**33.7%**	**35.8%**

The net debt is calculated from liabilities to banks (long- and short-term), liabilities from finance leases (long- and short-term), less cash and cash equivalents. At December 31, 2016, it is €70,965 thousand (previous year: €55,778 thousand). TABLE 046

Net financial debt 046

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Liabilities to banks	76,501	64,791
Liabilities from finance leases	1,309	1,709
Cash and cash equivalents	6,844	10,722
Net financial debt	**70,966**	**55,778**

The increase in net financial debt of €15,188 thousand is mainly attributable (to an amount of €8,435 thousand) to effects from the euromicron Group's factoring program. This change in practice made in the first quarter of 2016 (customer payments are now returned directly to the factoring company) resulted in an increase in the need for external financing of €21,786 thousand over the figure at December 31, 2015. The liabilities from customers' monies to be passed on, which are carried under the other financial liabilities, fell by the corresponding amount (see section 9). Before this change, customer payments from sold receivables were held in trust in local accounts and passed on to the factoring company at regular times. On the other hand, there were positive cash effects to an amount of €13,351 thousand from an increase in the volume of factoring compared to that at December 31, 2015. These cash effects are a result of an increase of €14,394 thousand in sold receivables minus the increase in receivables from factoring monies not yet paid out (€1,043 thousand). In particular, cash effects from the sharp decrease in trade accounts payable (€3,081 thousand) and the higher balance of paid and received income taxes and interest (€2,989 thousand) increased net financial debt.

8. Provisions

a) Other provisions

euromicron expects provisions of €1,574 thousand (previous year: €2,081 thousand) will be used within one year, €1,218 thousand (previous year: €1,300 thousand) in the next two to five years and €466 thousand (previous year: €502 thousand) in the period after five years. The provisions developed as follows in the fiscal year: TABLE 047

Provisions 047

	Jan. 1, 2016	Utilization	Reversal	Accrued interest/ discounting	Allocation	Other changes	Dec. 31, 2016
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Provision for anniversaries and death benefits	646	−90	0	−44	44	−35	521
Provision for severance payments	357	0	0	0	55	0	412
Provision for restoration obligations	266	0	0	0	6	0	272
Provision for warranties and follow-up costs	251	0	−53	0	0	0	198
Provision for archiving	135	0	−14	0	2	0	123
Provisions for onerous contracts	9	0	0	0	0	−9	0
Other provisions	138	0	0	0	20	0	158
Total for other long-term provisions	**1,802**	**−90**	**−67**	**−44**	**127**	**−44**	**1,684**
Provision for warranties and follow-up costs	955	−433	−76	0	358	0	804
Provisions for onerous contracts	555	−430	−123	0	0	9	11
Provision for legal disputes	115	−55	0	0	42	0	102
Other provisions	456	−193	−95	0	489	0	657
Total for other short-term provisions	**2,081**	**−1,111**	**−294**	**0**	**889**	**9**	**1,574**
Total for other provisions	**3,883**	**−1,201**	**−361**	**−44**	**1,016**	**−35**	**3,258**

The provisions for severance payments relate to Group companies based in Austria and were set up pursuant to the obligation to make a specific one-off payment when an employment relationship ends.

The other long-term provisions include in particular a provision for severance payments to freelance commercial agents of a Group company based abroad.

The other short-term provisions are made up of various individual matters, such as provisions for interest and value-added tax in connection with tax audits or provisions for customs-related matters.

b) Provisions for pensions and similar obligations

The euromicron Group has regulations on company pensions for active and former employees after fulfillment of the vesting periods, as well as their surviving dependants. These are mainly executives and employees for whom commitments from the time before a company was acquired have been assumed by euromicron AG.

The designated payments as part of pension schemes may be based either on the wage or salary received in the last year of employment or on the average of the last five years or the compensation of an employee and are usually dependent on the length of service. The benefits must be granted as a one-off payment or an annual pension payment. In the case of pension payments, the euromicron Group bears the full risk of recipients living for a long time and inflation due to pension adjustments.

In the case that the employee is still alive, he or she acquires an entitlement to an existing benefit balance as an old-age benefit or invalidity benefit; the benefits paid to surviving dependants are a widow's pension and orphan's pension.

In order to cover a large part of the obligation, the euromicron Group has established a CTA (euromicron Pension Trust e. V.); the funds allocated to it are based on the level of the obligation. ´

The development in the pension commitment and plan assets are evidenced by actuarial reports. The changes in the present value of the defined benefit obligation (DBO) in the fiscal year are as follows: TABLE 048

Changes in the present value of the defined benefit obligation (DBO) 048

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Present value of benefit obligation at the beginning of the period	18,777	20,305
Transfer	0	–526
Current service cost	337	390
Interest cost	459	390
Pension payments	–527	–411
Revaluation effects	2,337	–1,446
Of which		
Change in financial assumptions	2,473	–1,531
Change in demographic assumptions	0	0
Experience adjustments	–136	85
Contributions by plan participants	72	75
Reclassifications to liabilities in connection with assets held for sale	–36	0
Present value of benefit obligation at the end of the period	**21,419**	**18,777**

The plan assets measured at fair value changed as follows: TABLE 049

Changes in the plan assets 049

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Plan assets at the beginning of the period	17,522	19,111
Retransfer of plan assets due to excess funds allocated to it	0	–526
Interest income from plan assets	438	372
Revaluation effects	–393	–261
Employer's contributions/ withdrawals	2,471	–1,174
Plan assets at the end of the period	**20,038**	**17,522**

The plan assets consist to 100% (previous year: 100%) of trade accounts receivable of the euromicron Group, which are held in trust by the CTA. These assets are not traded on an active market.

Due to the increase of €2,337 thousand in the revaluation effects from pensions taken directly to equity (previous year: reduction of €1,446 thousand), the deferred tax assets recognized via the other profit/loss directly in equity rose in the year under review by €701 million; they had fallen in the previous year by €434 thousand. In addition, deferred tax expenses of €118 thousand (previous year: €78 thousand) from application of the net interest method were carried against the other profit/loss.

The provision on the balance sheet changed as follows: TABLE 050

Provision on the balance sheet 050

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Provision at the beginning of the period	1,255	1,194
Current service cost	337	390
Net interest expenses	21	18
Pension payments	–527	–411
Employer's contributions/ withdrawals	–2,471	1,174
Contributions by plan participants	72	75
Revaluation effects	2,730	–1,185
Reclassifications to liabilities in connection with assets held for sale	–36	0
Provision at the end of the period	**1,381**	**1,255**

The net interest expense is carried under the overall item "Net interest income/loss"; the other components of the pension costs (current service cost and past service costs and effects from plan settlement) are carried under the personnel costs.

The revaluation effects are carried via the "Other profit/loss" and are contained in equity in the item "Consolidated retained earnings".

The following parameters, which are based on assumptions, were used to measure the future level of benefits: TABLE 051

Measurement factors 051

	2016	2015
Discount rate	1.70%	2.50%
Age at expiry of financing	63 years	63 years
Future pension indexation	1.75%	1.75%

The discount rates are based on the returns for high-quality corporate bonds with a corresponding term; the 2005 G mortality tables compiled by Heubeck were used as a basis for the biometric parameters. Since the pension commitments are mainly at euromicron Group companies in Germany, the parameters relate to the economic situation in Germany.

If the assumptions vary by +/– 1 percentage points or +/– 1 year, the effects on the DBO are as follows: TABLE 052

Variation in the assumptions by +/–1% or +/–1 year 052

	2016		2015	
	+ 1% or + 1 year	–1% or –1 year	+ 1% or +1 year	–1% or –1 year
Discount rate	–14.09%	17.94%	–13.82%	17.35%
Life expectancy	1.77%	–1.78%	1.49%	–1.59%
Age at expiry of financing	–2.19%	–1.67%	–3.37%	2.02%

A range of +/– 0.25% was used for the future pension trend. TABLE 053

Variation in assumptions by +/–0,25% 053

	2016		2015	
	+0,25%	–0,25%	+0,25%	–0,25%
Future pension indexation	2.48%	–2.36%	2.27%	–2.24%

As in the previous year, the effects were determined using the same methods as for valuation of the commitment at the end of the year.

The pension payments anticipated in the subsequent year are €816 thousand (previous year: €810 thousand), while the anticipated contributions to the scheme cannot be estimated reliably at the balance sheet date.

The weighted average duration of the commitment at the balance sheet date is 17.06 years (previous year: 16.71 years).

Contributions of €7,594 thousand (previous year: €7,287 thousand*) were paid to the statutory pension insurance fund as part of defined contribution pension schemes.

9. Liabilities

The euromicron Group's liabilities on the balance sheet data are broken down as follows: TABLE 054

Liabilities 054

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Liabilities to banks	76,501	64,791
Liabilities from finance leases	1,309	1,709
Liabilities in connection with assets held for sale	318	0
Trade accounts payable	44,512	47,593
Gross amount due to customers for contract work	1,384	851
Liabilities from current income taxes	3,520	3,232
Other tax liabilities	8,078	7,141
Personnel obligations	9,176	8,876
Other financial liabilities	1,774	25,312
Other liabilities	5,325	3,562
	151,897	**163,067**

The euromicron Group's liabilities have the following terms: TABLE 055

Term of the liabilities 055

	Total	Due in			Fair value with DVA
		Up to 1 year	1 to 5 years	More than 5 years	
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	76,501	38,043	38,458	0	76,588
Liabilities from finance leases	1,309	466	778	65	– [1]
Liabilities in connection with assets held for sale	318	318	0	0	– [1]
Trade accounts payable	44,512	44,511	1	0	– [1]
Gross amount due to customers for contract work	1,384	1,384	0	0	– [1]
Liabilities from current income taxes	3,520	3,520	0	0	– [1]
Other tax liabilities	8,078	8,078	0	0	– [1]
Personnel obligations	9,176	9,176	0	0	– [1]
Other financial liabilities	1,774	1,774	0	0	1,772
Other liabilities	5,325	5,178	147	0	– [1]
	151,897	**112,448**	**39,384**	**65**	**78,360**
(Previous year)	**163,067**	**140,727**	**22,206**	**134**	**90,114**

[1] The previous year's figure has been adjusted.

* The previous year's figure has been adjusted.

The fair value of the fixed-interest noncurrent liabilities is derived from the present values of the future interest payments and repayments, discounted at the current market interest rates, taking into account the credit risk of euromicron AG.

Liabilities to banks

The interest rates for liabilities to banks and overdrafts are fixed or variable and range from 1.10% to 8.25% (previous year: 1.08% to 8.25%). The high interest rates relate to terms for overdraft lines under individual agreements between subsidiaries and their banks, but are not used or are terminable at short notice (with a view to optimizing financing).

euromicron AG concluded a borrower's note loan with a volume of €24,500 thousand in fiscal year 2011. The loan consists of various tranches with different maturities. The bank retained €122.5 thousand (0.5%) as the arrangement fee; this affected net cash in 2011 and was recognized in the income statement in accordance with the German Commercial Code (HGB). In accordance with regulations in the IFRSs, the expense is distributed over the term of the agreement using the effective interest method. The loan liability was reduced by €122.5 thousand at the time it was disbursed. An amount of €5,000 thousand was repaid prematurely in fiscal year 2013 and a further amount of €5,000 thousand was repaid prematurely in fiscal year 2014. The remaining liabilities of €14,500 thousand from this borrower's note loan were repaid on time in July 2016. In fiscal year 2016, this resulted in a pro-rata amount of €15 thousand (previous year: €14 thousand), which was recognized in the income statement as an interest expense.

euromicron AG concluded a further borrower's note loan with a volume of €20,000 thousand in October 2014. The borrower's note loan consists of two tranches of €10,000 thousand each, one of which has a variable interest rate and the other has a fixed interest rate. Both tranches have a term of five years. The banks retained €80 thousand (0.4%) as the arrangement fee; this affected net cash in 2014 and was recognized in the income statement in accordance with the German Commercial Code (HGB). In accordance with regulations in the IFRSs, the expense is distributed over the term of the agreement using the effective interest method. The loan liability was reduced by €80 thousand at the time it was disbursed. When the borrower's note loan was concluded, euromicron AG also paid an incentive fee of €30 thousand, which was likewise recognized in the income statement in accordance with the German Commercial Code (HGB).

In accordance with regulations in the IFRSs, the expense is deferred and distributed over the term of the agreement using the effective interest method. In fiscal year 2016, these two circumstances resulted in a pro-rata amount totaling €22 thousand (previous year: €21 thousand), which was recognized in the income statement as an interest expense.

So as to ensure its solvency at all times, the euromicron Group maintains a liquidity reserve in the form of short-term credit lines and cash funds. The total unused credit line and cash funds ("free liquidity") at the end of the year was €43,112 thousand (previous year: €57,539 thousand). We refer you to the comments on net financial debt in section 7 f.) "Disclosures on capital management in accordance with IAS 1" for an explanation of the decline in free liquidity.

In principle, the companies in the euromicron Group are financed centrally through euromicron AG.

Liabilities from finance leases

The present value of the liabilities from finance leases and the future interest expense from finance leases are as follows: TABLE 056 / 057

Liabilities from finance leases in 2016 056

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1,309	466	778	65
Interest	107	45	61	1
Minimum lease payments	1,416	511	839	66

Liabilities from finance leases in 2015 057

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1,709	516	1,059	134
Interest	158	62	92	4
Minimum lease payments	1,867	578	1,151	138

Liabilities in connection with assets held for sale

We refer you to section 3 "Assets held for sale and liabilities in connection with assets held for sale" for an explanation.

Trade accounts payable

Trade accounts payable in foreign currency (mainly USD and CHF) amount to €5,812 thousand (previous year: €2,425 thousand). The increase in trade accounts payable in foreign currency is mainly due to a higher purchasing volume in USD at individual Group companies at the reporting date.

Gross amount due to customers for contract work

The gross amount due to customers for contract work in fiscal year 2016 totaled €1,384 thousand (previous year: €851 thousand). This results from ongoing contracts in which the partial settlements exceed the incurred costs plus the reported profits (minus any losses).

Liabilities from current income taxes

There were liabilities from current income taxes of €3,520 thousand in fiscal year 2016 (previous year: €3,232 thousand), of which €3,123 thousand (previous year: €84 thousand) resulted from liabilities for anticipated tax arrears payable as a result of tax audits. Of this, an amount of €2,063 thousand (previous year: €0 thousand) is attributable to a liability for anticipated tax arrears payable by euromicron AG in connection with securities lending transactions conducted in the years 2010 to 2012. We refer in this regard to the explanations in section 20 "Income taxes" and section 24 c) "Contingent assets / contingent liabilities". There is also a liability for tax arrears on the part of ATECS AG (€1,057 thousand; previous year: €0 thousand) resulting from conclusion of the tax audit for assessment periods before it was acquired by euromicron AG. There are claims from rights of recourse against the former shareholders to the same amount; these were offset against existing liabilities of ATECS AG. That resulted in fiscal year 2016 in a decline in the item "Dividend/profit shares for minority interests", which is carried under "Other financial liabilities".

In the previous year, there were liabilities from capital gains tax to be paid totaling €806 thousand at subsidiaries of euromicron AG, compared with receivables of €872 thousand from creditable capital gains tax due to euromicron AG, which were carried under "Claims for income tax refunds".

Personnel obligations

The personnel obligations (€9,176 thousand; previous year: €8,876 thousand) are made up of financial obligations totaling €5,334 thousand (previous year: €5,363 thousand) and non-financial obligations totaling €3,842 thousand (previous year: €3,513 thousand). The financial personnel obligations mainly comprise obligations from wages and salaries, severance payments and bonuses. The non-financial personnel obligations mainly comprise obligations from vacation and flexitime credit balances that have been not been used by employees, as well as obligations from semi-retirement.

Other financial liabilities

The other financial liabilities are composed as follows:
TABLE 058

Other financial liabilities 058

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Liabilities from preemptive rights	0	474
Other noncurrent financial liabilities	**0**	**474**
Customers' monies to be passed on	141	21,927
Dividend/profit shares for minority interests	334	1,712
Obligations from preemptive rights	987	1,000
Liability from the continuing involvement	304	199
Miscellaneous	8	0
Other current financial liabilities	**1,774**	**24,838**
Total of other financial liabilities	**1,774**	**25,312**

The decline of €21,786 thousand in liabilities from customers' monies to be passed on is attributable to a change in factoring practice made in the first quarter of 2016 (customer payments are now returned directly to the factoring company). Before this change, customer payments from sold receivables were held in trust in local accounts and passed on to the factoring company at regular times. On the other hand, this change increased the euromicron Group's need for external financing to a corresponding amount.

The liability from dividend/profit shares for minority interests fell by €1,378 thousand in fiscal year 2016. €1,151 thousand of this decline is due to offsetting of claims from rights of recourse against former shareholders of ATECS AG, which result from tax arrears (€1,057 thousand) and related interest payments (€94 thousand). We refer in this regard to the notes on the item "Liabilities from current income taxes".

At the euromicron Group, financial liabilities are all assigned to the category "Other financial liabilities measured at amortized cost" at the balance sheet date and measured at amortized costs using the effective interest method. Loan commission, which is not included as a transaction cost as part of the effective interest method, totaled €748 thousand (previous year: €227 thousand) and was recognized in the income statement.

Other liabilities

The other liabilities are composed as follows: TABLE 059

Other liabilities 059

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Liabilities from rent linearisation	146	170
Liabilities from retained security	1	9
Miscellaneous	0	10
Other noncurrent liabilities	**147**	**189**
Payments on account	2,854	1,690
Liabilities from social security (incl. mutual indemnity association)	1,079	911
Deferred income	841	421
Liabilities from compensation for members of the Supervisory Board	56	135
Liabilities from rent linearisation	31	31
Miscellaneous	316	185
Other current liabilities	**5,178**	**3,373**
Total for other liabilities	**5,325**	**3,562**

The payments on account include payments that cannot be set off. They also include payments on account from Construction Contracts in accordance with the percentage of completion method (€1,737 thousand; previous year: €66 thousand).

The contractually agreed (undiscounted) interest payments and repayments for the financial liabilities of the euromicron Group are shown below: TABLE 060 / 061

Cash flow from liabilities in 2016

060

	Carrying amount at Dec. 31, 2016	Cash flow in 2017 Up to 1 year			Cash flow 2018–2021 More than 1 year to 5 years			Cash flow 2022 et seq. More than 5 years		
		Interest		Repaym.	Interest		Repaym.	Interest		Repaym.
		Fixed	Variable		Fixed	Variable		Fixed	Variable	
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	76,501	1,227	201	38,043	668	367	38,458	0	0	0
Liabilities from finance leases	1,309	48	0	466	64	0	778	1	0	65
Trade accounts payable	44,512	0	0	44,511	0	0	1	0	0	0
Other financial liabilities	1,774	14	0	1,774	0	0	0	0	0	0
	124,096	**1,289**	**201**	**84,794**	**732**	**367**	**39,237**	**1**	**0**	**65**
(Previous year)	**139,405**	**741**	**257**	**117,254**	**813**	**570**	**22,017**	**4**	**0**	**134**

Cash flow from liabilities in 2015

061

	Carrying amount at Dec. 31, 2015	Cash flow in 2016 Up to 1 year			Cash flow 2017–2020 More than 1 year to 5 years			Cash flow 2021 et seq. More than 5 years		
		Interest		Repaym.	Interest		Repaym.	Interest		Repaym.
		Fixed	Variable		Fixed	Variable		Fixed	Variable	
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	64,791	652	257	44,307	707	570	20,484	0	0	0
Liabilities from finance leases	1,709	62	0	516	92	0	1,059	4	0	134
Trade accounts payable	47,593	0	0	47,593	0	0	0	0	0	0
Other financial liabilities	25,312	27	0	24,838	14	0	474	0	0	0
	139,405	**741**	**257**	**117,254**	**813**	**570**	**22,017**	**4**	**0**	**134**
(Previous year)	**140,563**	**1,058**	**336**	**93,669**	**1,425**	**897**	**46,894**	**0**	**0**	**0**

All financial instruments held on the balance sheet date December 31, 2016, and for which payments have already been contractually agreed were included. The variable interest payments from the financial instruments were calculated on the basis of the interest rates applicable on December 31, 2016 (previous year: December 31, 2015). Financial liabilities that can be repaid at any time have been assigned to the earliest possible time segment.

euromicron uses derivative financial instruments exclusively to hedge interest rate risks resulting from financial transactions. A decision on this is taken on a case-by-case basis. They are not held for the purposes of short-term speculation. No derivative financial instruments were held either at December 31, 2016, or at December 31, 2015.

10. Deferred tax liabilities

In accordance with IAS 12.39, no deferred tax liabilities were recognized on taxable temporary differences between the shares in subsidiaries compared with the tax carried of €631 thousand (previous year: €635 thousand), since euromicron AG is able to control the time at which the differences are reversed and it is likely that the temporary differences will not be reversed in the foreseeable future ("outside basis differences").

The deferred tax liabilities result from measurement differences in the following balance sheet items: TABLE 062

Deferred tax liabilities 062

	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Intangible assets	7,989	7,504
Property, plant and equipment	786	883
Inventories	18	22
Other receivables and other assets	20,938	24,075
Provisions	849	1,239
Other liabilities	24	23
Total deferred tax liabilities before netting off	**30,604**	**33,746**
Netting off	−24,934	−28,140
Total deferred tax liabilities after netting off	**5,670**	**5,606**

There are long-term deferred tax assets (after netting off) totaling €2,553 thousand (previous year: €3,436 thousand); they result from deferred tax assets on measurement differences for intangible assets and property, plant and equipment. In the previous year, these measurement differences related to intangible assets and property, plant and equipment.

11. Additional details on the financial instruments – Carrying amounts and fair values by measurement categories

Financial instruments by measurement category

			Value carried acc. to IAS 39		
	Measurement category acc. to IAS 39	Carrying amount at Dec. 31, 2016	Amortized acquisition cost	Acquisition cost	Fair value recognized directly in equity
		€ thou.	€ thou.	€ thou.	€ thou.
Assets					
Cash and cash equivalents	LaR [1]	6,844		6,844	
Trade accounts receivable	LaR [1]	18,150	18,150		
Gross amount due from customers for contract work	LaR [1]	40,708	40,708		
Other financial assets	AfS [3] LaR [1] IAS 17	6,019	 5,550 202		267
Equity and liabilities					
Trade accounts payable	FLAC [2]	44,512	44,512		
Liabilities to banks	FLAC [2]	76,501	76,501		
Other financial liabilities	FLAC [2]	1,774	1,774		
Financial personnel obligations	FLAC [2]	5,334	5,334		
Liabilities from finance leases	IAS 17	1,309	1,309		

[1] LaR = Loans and Receivables
[2] FLAC = Financial Liabilities Measured at Amortised Cost
[3] AfS = Available for Sale Financial Assets

063

		Value carried in the balance sheet acc. to IAS 39		
	Carrying amount at Dec. 31, 2015	Amortized acquisition cost	Acquisition cost	Fair value recognized directly in equity
	€ thou.	€ thou.	€ thou.	€ thou.
	10,722		10,722	
	33,248	33,248		
	47,480	47,480		
	3,612	2,892 380		340
	47,593	47,593		
	64,791	64,791		
	25,313	25,313		
	5,363	5,363		
	1,709	1,709		

Financial instruments are measured at fair value in accordance with IFRS 13 on three levels:

1. Level 1: Input factors in level 1 are (not adjusted) prices listed for identical assets or liabilities in active markets to which the company has access on the measurement date.

2. Level 2: Input factors in level 2 are market price listings other than those stated in level 1 which can be observed either directly or indirectly for the asset or liability.

3. Level 2: Input factors in level 3 are input factors that cannot be observed for the asset or liability.

The level model was applied for measuring the financial instruments reported at fair value at the euromicron Group. The fair values of the shares in Track Group Inc. (balance sheet item: "Other financial assets") were measured on the basis of the 1st level, since the share price can be observed on an active market.

The fair values for the fixed-interest noncurrent liabilities presented in section 9 "Liabilities" were measured on the basis of level 2. The fair value is derived from the present values of the future interest payments and repayments, discounted at the current market interest rates, taking into account the credit risk of euromicron AG.

The opposite put/call option for the remaining shares in ATECS AG, SIM GmbH and MICROSENS GmbH & Co. KG not held by euromicron were measured on the basis of the 2nd level. It is carried as "Obligations from preemptive rights" under the other financial liabilities. The fair value of the long-term components was calculated as the present value of the contractually agreed selling or purchase prices using a market rate of interest.

There were no transfers between the levels during the fiscal year. There is no collateral received for financial instruments at the euromicron Group.

Notes on the consolidated income statement

12. Sales

The Group's sales include sales from Construction Contracts totaling €130,731 thousand (previous year: €133,605 thousand*). The related production costs were €112,673 thousand (previous year: €123,388 thousand*).

As in the previous year, there were no changes in sales as a result of changes in the consolidated companies in fiscal year 2016.

Consolidated sales are divided into those from the sale of goods totaling €203,899 thousand (previous year: €214,436 thousand) and from the provision of services totaling €121,414 thousand (previous year: €130,451 thousand).

13. Own work capitalized

Own work capitalized totals €2,808 thousand (previous year: €2,942 thousand) and results to an amount of €2,342 thousand (previous year: €2,413 thousand) from capitalization of development costs, to an amount of €191 thousand (previous year: €215 thousand) from own work capitalized for self-developed software and IT solutions and to an amount of €275 thousand (previous year: €314 thousand) from own work capitalized for property, plant and equipment.

* The previous year's figure has been adjusted.

14. Other operating income

The other operating income is composed as follows: TABLE 064

Other operating income 064

	2016	2015
	€ thou.	€ thou.
Income from claims for reimbursement of legal costs	1,350	0
Income from claims from rights of recourse against former shareholders of ATECS AG (due to payments of tax arrears)	1,151	0
Currency gains	547	740
Income from claims against former board members of euromicron AG	260	0
Rental income	247	287
Reduction in allowances for doubtful accounts	222	23
Refunds for health insurance/reintegration/passed-on charges	83	275
Compensation paid from insurance	45	103
Income from retirement of noncurrent assets	36	37
Income from damages	19	32
Income from cash received from written-down receivables	15	36
Revenue from the reversal of theearn-out liability for SIM/ATECS	0	999
Other	524	541
	4,499	**3,073**

The income from claims for reimbursement of legal costs (€1,350 thousand; previous year; €0 thousand) results from the agreement with the defendant in legal proceedings filed by euromicron AG to settle the legal dispute.

The income from claims from rights of recourse against former shareholders of ATECS AG (€1,151 thousand; previous year: €0 thousand) is due to payment of tax arrears (€1,057 thousand) and related interest payments (€94 thousand) as a result of the tax audit for a period before the company was acquired by euromicron AG. The resultant claim was offset with existing liabilities owed by ATECS AG to the former shareholders. We refer in this regard to the notes in section 9 “Liabilities from current income taxes” and “Other financial liabilities”.

The “Other” item contains a large number of individual items; a presentation of them is dispensed with.

15. Cost of materials

The cost of materials is composed of: TABLE 065

Cost of materials 065

	2016	2015
	€ thou.	€ thou.
Cost of raw materials and supplies and goods purchased	120,550	124,096
Cost of purchased services	50,956	65,787
	171,506	**189,883**

16. Personnel costs

The personnel costs are composed as follows: TABLE 066

Personnel costs 066

	2016	2015
	€ thou.	€ thou.
Wages and salaries	92,019	91,344
Social security	17,038	16,531
	109,057	**107,875**

Average number of employees per year: TABLE 067

Employees 067

	2016	2015
Hourly-paid employees	919	920
Salaried employees	823	828
Trainees	62	77
	1,804	**1,825**

17. Other operating expenses

Other operating expenses are composed as follows: TABLE 068

Other operating expenses 068

	2016	2015
	€ thou.	€ thou.
Vehicle and travel expenses	12,369	13,621
Rent/room costs	5,814	6,996
Legal and consulting costs	5,632	6,214
IT costs	2,180	2,471
Shipping costs	2,093	1,956
Communication expenses	1,944	1,956
Trade fair/advertising costs	1,884	1,741
Commissions	1,221	2,106
Personnel leasing	1,054	1,346
Further training costs	928	994
Allocation of allowances for receivables	926	726
Impairments of current assets/ telecommunications business	894	0
Operating costs	792	750
Maintenance and repair	636	831
Currency losses	605	780
Administrative expenses	454	390
Losses of receivables	237	53
Expenses incidental to monetary transactions	112	160
Miscellaneous	4,032	4,013
	43,809	**47,104**

18. Depreciation/amortization and impairment of goodwill

Amortization and depreciation in the fiscal year is composed as follows: TABLE 069

Depreciation/amortization and impairment of goodwill 069

	2016	2015
	€ thou.	€ thou.
Impairment of goodwill	0	5,333
	0	**5,333**
Amortization of intangible assets	4,791	6,653
of which impairments	80	859
Depreciation of tangible assets	4,857	3,585
of which impairments	1,288	80
	9,648	**10,238**

Dormant reserves totaling €15 thousand before deferred taxes were identified and carried as part of purchase price allocation in the acquisition of a division by way of an asset deal in 2016. The amortization and depreciation for this in fiscal year 2016 was €2 thousand.

19. Net interest income/loss

Net interest/income loss is composed as follows: TABLE 070

Net interest income/loss 070

	2016	2015
	€ thou.	€ thou.
Interest income	152	66
Interest expenses	–5,439	–3,791
Net interest income/loss	**–5,287**	**–3,725**

The total interest income and total interest expense for financial instruments not carried at fair value in accordance with IAS 39 are shown in the table below: TABLE 071

Total interest income and expense 071

	2016	2015
	€ thou.	€ thou.
Total interest expense	–4,784	–3,536
Total interest income	18	31

The other financial expenses (€73 thousand; previous year: €332 thousand) comprise the cost from the impairment of available-for-sale assets (shares in Track Group Inc.).

Net gains and losses from financial instruments for the measurement categories at the euromicron Group are presented in the following: TABLE 072

Net gains and losses from financial instruments 072

	2016	2015
	€ thou.	€ thou.
Loans and receivables	–770	–671
Available-for-sale financial assets	–73	–430
of which carried in the other profit/loss	0	–98
of which carried in the income statement	–73	–332
Financial liabilities measured at amortized cost	–4,847	–3,544

The net gains and losses from financial instruments comprise measurement gains and losses, discount amortization, the recognition and reversal of impairment write-downs, gains and losses from currency translation and interest and losses from their disposal. Net gains or net losses from available-for-sale financial assets contain income from write-downs/write-ups, and the transfers of valuation effects from equity when the assets are sold or disposed of.

20. Income taxes

Income taxes 073

	2016	2015
	€ thou.	€ thou.
Current taxes in Germany	3,137	347
Deferred taxes in Germany	696	–804
Current taxes abroad	1,119	937
Deferred taxes abroad	–107	–56
	4,845	**424**

In fiscal year 2016, an increase in deferred tax assets totaling €701 thousand (previous year: a reduction of €434 thousand) was recognized directly in equity. As in the previous year, it results in 2016 solely from deferred tax assets that had to be recognized in the other profit/loss as part of the application of IAS 19 R. In 2016, as in the previous year, there were no deferred tax liabilities from company acquisitions that were taken directly to equity. Application of the net interest method resulted in the year under review in deferred tax expenses of €118 thousand (previous year: €78 thousand) which did not result in recognition of deferred tax liabilities in the balance sheet, since there was a balancing entry in the other profit/loss.

The items “Current taxes in Germany” and “Current taxes abroad” (totaling €4,256 thousand; previous year: €1,284 thousand) include income taxes for previous years of €3,203 thousand (previous year: €55 thousand) and tax refunds for previous years of €119 thousand (previous year: €73 thousand. Of the tax expenses for previous years, €2,063 thousand (previous year: €0 thousand) relates to expenses that were incurred due to the ongoing tax audit of euromicron AG for the years 2010 to 2012 due to the change in jurisdiction on the issue of economic ownership in the case of securities lending transactions used as part of the provision for risks. In addition, €1,057 thousand (previous year: €0) relate to formation of a liability for tax arrears of ATECS AG payable as a result of a tax audit for assessment periods before the company was acquired by euromicron AG. There was income from claims from rights of recourse against the former shareholders to the same amount; it has been recognized under the other operating income.

The item “Deferred taxes in Germany” (€696 thousand; previous year: € –804 thousand) includes deferred tax expenses of €1,391 thousand (previous year: €0 thousand) resulting from the anticipated utilization of corporation income tax loss carryforwards on which deferred tax assets have been recognized; it likewise results from the tax risks from securities lending transactions in the years 2010 to 2012. There is also a deferred tax expense of €2,006 thousand (previous year: €0 thousand) resulting from the derecognition of deferred tax assets on loss carryforwards of euromicron Deutschland GmbH prior to the integrated inter-company relationship that can no longer be used during the term of the integrated inter-company relationship under German income tax law established with euromicron AG in 2016.

The table below presents a reconciliation of the tax expense expected in the fiscal year to the tax expense actually disclosed. As in the previous year, the expected tax expense is calculated from a total tax rate of 30.00% and the income before taxes. The total tax rate is calculated from a corporation income tax rate, including solidarity surcharge, of 15.825% and the effective average trade tax rate of 14.175%. TABLE 074

Tax reconciliation 074

	2016	2015
	€ thou.	€ thou.
Income before income taxes	–7,624	–12,705
Expected tax expense	–2,287	–3,811
Non-deductible expenses	331	318
Tax expenses/income not related to the period	3,084	–18
Effect from derecognition of deferred tax assets on loss carryforwards incurred before joining a tax group, that can no longer be used	2,006	0
Effect from adjustment of deferred taxes formed in previous years on loss carryforwards/temporary differences	1,483	243
Non-recognition of deferred taxes on losses of the current year	326	2,477
Effect from impairments with no impact on taxes (goodwill, etc.)	22	1,499
Tax rate differentials	–138	36
Recognition of deferred taxes on loss carryforwards (not recognized in previous periods)	–20	–25
Effect from reversal of the earn-out liability (no impact on taxes)	0	–294
Other	38	–1
Actual tax expense	4,845	424
Effective tax rate	**–63.5%**	**–3.3%**

21. Share of non-controlling interests in consolidated net income for the period

The consolidated net income for the period for non-controlling interests relates solely to Qubix S.p.A., Padua, Italy (10%). The non-controlling interests should be regarded as not being material in relation to the consolidated financial statements.

22. Earnings per share

Undiluted earnings per share are calculated as follows: TABLE 075

Undiluted earnings per share 075

	2016	2015
Earnings for euromicron AG shareholders in € thousand	–12,655	–13,253
Weighted average number of shares issued	7,176,398	7,176,398
Undiluted earnings per share in €	**–1.76**	**–1.85**

The earnings for euromicron AG shareholders correspond to the consolidated net loss for the year minus the earnings for non-controlling interests.

The method of calculating diluted earnings per share is basically the same as that for calculating undiluted earnings per share. However, the quantities included in the calculation must also be adjusted for all equity dilution effects resulting from potential shares. There was no dilution effect at the time the consolidated financial statements were prepared. As a result, both figures are the same.

Appropriation of net income

The annual financial statements of euromicron AG at December 31, 2016, in accordance with the German Commercial Code (HGB) disclose net accumulated losses of € –40,916,954.67 (previous year: loss of € –28,184,220.00).

Other details

23. Notes on the statement of cash flows

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

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

The cash used in operating activities in fiscal year 2016 was € –7,140 thousand, whereas in the previous year there was net cash provided by operating activities totaling €4,512 thousand. However, comparison of these figures is not meaningful due to effects from factoring (change in the volume of factoring used at the balance sheet date, the receivables from retained factoring monies and the liabilities from customers’ monies to be passed on). A detailed presentation of these effects can be found in section 2.3 “Net assets, financial position and results of operations”, subsection “Financial position”, in the 2016 group management report. Aggregated reconciliation to a cash flow from operating activities adjusted for factoring effects supplies the following comparative figures: TABLE 078

Adjusted cash flow

076

	Cash flow from operating activities acc. to statement of cash flows	Effects from factoring and customers' monies to be passed on included in the above	Adjusted cash flow from operating activities
	€ thou.	€ thou.	€ thou.
2015*	4,512	–112	4,400
2016	**–7,140**	**8,435**	**1,295**

* The previous year's figure has been adjusted.

After adjustment for factoring effects, there is net cash provided by operating activities totaling €1,295 thousand in fiscal year 2016 compared with net cash provided by operating activities totaling €4,400 thousand in the previous year. As a result, the cash flow from operating activities in fiscal year 2016 fell by € –3,105 thousand. This is due in particular to cash effects from the sharp decrease in trade accounts payable: Whereas the reduction in trade accounts payable resulted in a negative cash flow effect of € –3,081 thousand in 2016, the cash flow of the previous year was impacted positively to an amount of €3,355 thousand by the increase in trade accounts payable. In total, this effect explains a cash flow change of € –6,436 thousand. In addition, the balance of paid and received income taxes and interest resulted in net cash used in operating activities increasing by € –2,989 year on year. On the other hand, there were positive cash flow effects from the intensified measures to optimize working capital in 2016 in the area of inventories, gross amounts due from and to customers for contract work, trade accounts payable (before factoring) and payments on account. The change in these items resulted in 2016 in positive effects on the cash flow from operating activities of €4,981 thousand, which were €6,278 thousand higher than in the previous year (negative effect on the cash flow from operating activities of € –1,297). It should also be noted in this regard that the Group's sales in December 2016 were €44,184 thousand, €5,649 thousand higher than the comparative figure for December 2015 (€38,535 thousand), which resulted in a corresponding increase in working capital. Excluding this effect, working capital (before factoring) at December 31, 2016, would have fallen more sharply, which would have had corresponding positive effects on the cash flow from operating activities.

Under the contractual trust agreement, trade accounts receivable of €2,471 thousand were contributed to the plan assets in fiscal year 2016. Receivables of €1,173 thousand were withdrawn from the plan assets in the previous year.

Net cash used in investing activities is derived from the net cash from the disposal of assets and the net cash used for investments in property, plant and equipment and intangible assets, as well as company acquisitions. The net cash used in the fiscal year was € –7,770 or €1,308 lower than in the previous year (€ –9,078 thousand). This is mainly attributable to the fact that purchase price payments from company acquisitions were lower by €2,063 thousand (2016: € –609 thousand; 2015: € –2,672 thousand). Net cash used in purchasing intangible assets (€ –3,464 thousand; previous year: € –3,302 thousand) and property, plant and equipment (€ –3,776 thousand; previous year: € –3,169 thousand) in 2016 was €769 thousand above the level of the previous year.

The net cash provided by financing activities in fiscal year 2016 was €11,032 thousand (previous year: net cash used of € –334 thousand). The net cash inflow in fiscal year 2016 was mainly due to the raising of new loans, which exceeded the net cash used to repay loans by €11,710 thousand (previous year: net cash provided of €1,677 thousand). On the other hand, there were cash repayments of liabilities from finance leases totaling € –526 thousand (previous year: € –744 thousand) and distributions to non-controlling shareholders and from profit shares of minority interests totaling € –152 thousand (previous year: € –1,267 thousand).

24. Contingencies and other financial obligations

a) Contingencies

The euromicron Group does not have any contingencies in favor of third parties.

b) Other financial obligations

There are the following other financial obligations on the balance sheet date: TABLE 077

Other financial obligations in 2016 077

	Total	Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Acceptance liability (bill of exchange)	2,985	2,985	0	0
Lease agreements	23,742	8,513	14,814	415
Purchase obligation	17,252	17,252	0	0
	43,979	**28,750**	**14,814**	**415**
Previous year	**31,561**	**19,594**	**10,748**	**1,219**

The purchase obligation relates to orders for order-related goods and services; orders of intangible assets or tangible assets were insignificant.

Obligations as part of operating lease agreements comprise the future minimum lease payments from unterminable agreements and mainly relate to rental and leasing agreements for operating and office equipment, such as cars, office machines or PC workstations, and communications technology and total €23,742 thousand (previous year: €19,919 thousand). In fiscal year 2016, payments from these leasing arrangements totaling €9,475 thousand (previous year: €10,593 thousand) were recognized in the income statement. Conditional lease payments of €25 thousand (previous year: €50 thousand) were carried. Future proceeds of €0 thousand (previous year: €72 thousand) are expected from subleasing as part of operating lease agreements up to when they can be terminated for the first time.

c) Contingent assets/contingent liabilities

At December 31, 2016, contingent assets of up to €4 million were identified as part of possible claims for damages against former board members of the company. Due to uncertainty as to when they might arise and their amount, these contingent assets were not recognized at December 31, 2016.

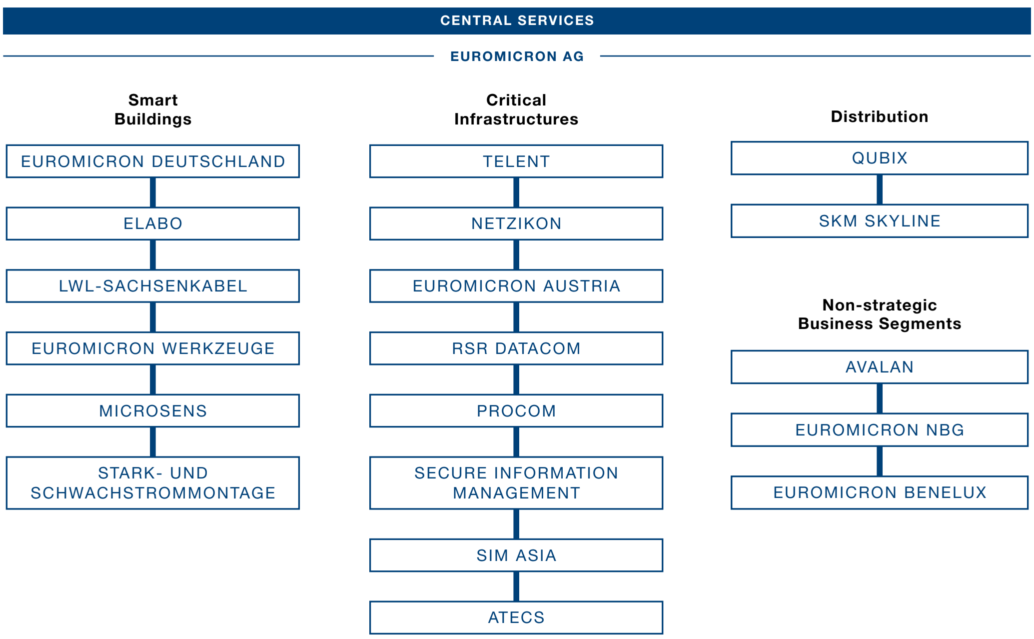
In fiscal year 2016, there was a contingent liability in connection with securities lending transactions. There is a risk that amounts of tax withheld as part of dividend payments (capital gains tax and solidarity surcharge) might no longer be able to be offset by euromicron AG due to the change in jurisdiction on the issue of securities lending transactions. That would result in the company paying tax arrears of €5,782 thousand and interest of €1,131 thousand. 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 contingent assets to the same amount due to claims from rights of recourse against the securities lender and former board members of euromicron AG. These claims have been underpinned by a legal opinion from a specialist external attorney. Consequently, no outflow of liquidity is expected in total.

25. Segment reporting

The Executive Board is the main decision-maker in the Group. The business segments were identified on the basis of the internal reporting the Executive Board uses to allocate resources and assess earnings strength.

Under its strategic alignment, the euromicron Group focuses on the three main business areas of “Smart Buildings”, “Critical Infrastructures” and “Distribution”. Controlling and the reporting structure are in line with the orientation toward the target markets and the underlying value chain within the Group.

Segment structure



Description of the segments:
All the activities of the euromicron Group in the target markets of “Digital Buildings” and “Smart Industry” are pooled in the “Smart Buildings” segment. In the target market of “Digital Buildings”, euromicron provides infrastructure-related intelligent solutions, such as “Smart Office”, “Smart Energy” or “Smart Lighting”. Services relating to building or process automation, light control, access control, video surveillance, fire prevention or support services as part of efficient energy and building management are planned, implemented and operated as part of that. The focus in the target market of “Smart Industry” is on digitizing and networking development, production and service processes in industry. The euromicron Group develops holistic approaches and the related processes for and with its customers and implements them in a forward-looking way that protects investments. This segment also includes services relating to the equipment of data centers with innovative connector systems.

The “Critical Infrastructures” segment deals with vital business infrastructures whose failure is highly problematic. Such infrastructures may be the digital mobile radio system at an airport or the communications network of Deutsche Bahn or a power utility, for example. System integration comprises the planning, production and operation of digitized critical infrastructures. In addition, the technology manufacturing companies in this segment round out the product portfolio in this target market with their professional video, audio and special technology solutions for sensitive security restricted areas.

The “Distribution” segment advises and supplies customers in a vendor-independent manner in all matters relating to active and passive network components in the fiber-optic and copper arena.

“All other segments” consists of the “Non-strategic Business Segments” and “Central Services”. The Non-strategic Business Segments include the business units that have been identified by the Executive Board as no longer being of relevance at Avalan GmbH (in liquidation), euromicron NBG Fiber Optics GmbH, euromicron benelux S.A. and WCS Fiber Optic B.V. (liquidated effective October 24, 2016), whose business operations were discontinued. The “Central Services” area mainly includes euromicron AG as the strategic management holding company. euromicron AG also pools the corporate departments of financing, Group controlling and accounting, taxes, legal affairs, human resources, purchasing, IT, corporate marketing, investor relations and innovation management, which act as service providers within the Group.

The reconciliation contains the consolidation of the cross-segment network of services and various other items that cannot be assigned to the individual areas, since the Executive Board believes they do not reflect the services provided by the areas.

Control factors
The Executive Board assesses the earnings strength of the business segments on the basis of operating EBITDA and the operating EBITDA margin (operating EBITDA relative to sales). Operating EBITDA excludes effects from one-off expenses in the business segments, such as reorganization costs due to personnel measures. Apart from these key figures, sales and the working capital ratio (working capital used relative to sales) are the most important control factors.

The sales and earnings, as well as the current assets and liabilities included in the working capital, that are reported to the main decision-maker are measured in accordance with the same principles and standards as in euromicron’s consolidated financial statements. Transactions within and between the segments are reflected at market prices (at arm’s length principle).

The working capital is calculated from the total of inventories, trade accounts receivable and the gross amount due from customers for contract work minus trade accounts payable, the gross amount due to customers for contract work and received prepayments.

Segment reporting

of the euromicron Group for the period January 1 to December 31, 2016 (IFRS)

Segment reporting

	Smart Buildings		Critical Infrastructures		Distribution	
	2016	2015	2016	2015	2016	2015
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
External sales	191,243	193,479	113,403	120,807	20,678	20,017
Sales within the Group	2,471	4,391	595	638	1,925	2,437
Total sales	**193,714**	**197,870**	113,998	**121,445**	**22,603**	**22,454**
EBITDA	4,174	7,502	6,547	7,886	3,145	2,538
EBITDA margin	2.2%	3.8%	5.7%	6.5%	13.9%	11.3%
of which reorganization costs	1,774	2,574	606	217	0	0
Operating EBITDA	**5,948**	**10,076**	7,153	**8,103**	**3,145**	**2,538**
Operating EBITDA margin	**3.1%**	**5.1%**	6.3%	**6.7%**	**13.9%**	**11.3%**
Amortization and depreciation	−5,588	−5,672	−2,003	−2,089	−369	−562
impairments of property, plant and equipment, intangible assets and goodwill	−879	−190	−489	0	0	0
EBIT	−2,293	1,640	4,055	5,797	2,776	1,976
of which reorganization costs	2,264	2,610	1,095	217	0	0
Operating EBIT	−29	4,250	5,150	6,014	2,776	1,976
Order books	65,664	53,264	55,822	50,494	2,006	1,433
Working capital	53,552	59,877	1,923	15,129	3,852	4,258
Working capital ratio	**27.6%**	**30.3%**	**1.7%**	**12.5%**	**17.0%**	**19.0%**

078

Total for all operating segments that must be reported		All other segments: Non-strategic Business Segments		All other segments: Central Services		Total for the segments		Reconciliation		Group	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
325,324	334,303	−11	10,584	0	0	325,313	344,887	0	0	325,313	344,887
4,991	7,466	13	283	0	0	5,004	7,749	−5,004	−7,749	0	0
330,315	**341,769**	**2**	**10,867**	**0**	**0**	**330,317**	**352,636**	**−5,004**	**−7,749**	**325,313**	**344,887**
13,866	17,926	−445	−4,995	−6,036	−7,007	7,385	5,924	0	999	7,385	6,923
4.2%	5.2%					2.2%	1.7%			2.3%	2.0%
2,380	2,791	445	1,765	2,937	2,279	5,762	6,835	0	0	5,762	6,835
16,246	**20,717**	**0**	**−3,230**	**−3,099**	**−4,728**	**13,147**	**12,759**	**0**	**999**	**13,147**	**13,758**
4.9%	**6.1%**	**0.0%**	**−29.7%**			**4.0%**	**3.6%**			**4.0%**	**4.0%**
7,960	−8,323	0	−303	−321	−637	−8,281	−9,263	0	0	−8,281	−9,263
−1,368	−190	0	−5,730	0	−388	−1,368	−6,308	0	0	−1,368	−6,308
4,538	9,413	−445	−11,028	−6,357	−8,032	−2,264	−9,647		999	−2,264	−8,648
3,359	2,827	445	7,494	2,937	2,850	6,741	13,171	0	0	6,741	13,171
7,897	12,240	0	−3,534	−3,420	−5,182	4,477	3,524	0	999	4,477	4,523
123,492	105,191	0	0	0	0	123,492	105,191	−238	−1,834	123,254	103,357
59,327	79,264	−93	48	−1,304	−981	57,930	78,331	−19,442	−16,974	38,488	61,357
18.0%	**23.2%**					**17.5%**	**22.2%**			**11.8%**	**17.8%**

Explanation of selected items

The reconciliation with the working capital item includes offsetting and netting off of the plan assets, consisting of trade accounts receivable, with the relevant provisions for pensions. For an explanation of the composition of the reorganization costs, we refer you to our comments in the management report (section 2.2 “Course of business”, subsection “Development of the segments”, and section 2.3 “Net assets, financial position and results of operations”, subsection “Results of operations”).

Sales by region

Sales in Germany were €274.3 million (previous year: €291.3 million), in the Euro zone €35.7 million (previous year: €35.2 million) and in the Rest of the World €15.3 million (previous year: €18.4 million). The sales relate to the geographical location of the customers.

Sales by category

Breakdown of sales for all products and services: Consolidated sales are divided into those from the sale of goods totaling €203,899 thousand (previous year: €214,436 thousand) and from the provision of services totaling €121,414 thousand (previous year: €130,451 thousand).

Sales by customer

There are sales exceeding the thresholds defined by IFRS 8.34 with one customer (previous year: one customer). These sales total €33,656 thousand and were generated in the segments “Smart Buildings” and “Critical Infrastructures”.

Noncurrent assets

In accordance with IFRS 8.33b, noncurrent assets are €116,023 thousand in Germany (previous year: €116,669 thousand), €24,741 thousand (previous year: €25,168 thousand) in other European countries, and €41 thousand (previous year: €0 thousand) in non-European countries. They are composed of:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Other financial assets
- Other assets

26. Risk management

Principles of risk management

As a result of its business activity, the euromicron Group is exposed to various risks. They are countered by a risk management system that has been implemented throughout the Group and is closely geared to its business strategy. The internal control system and compliance policies are inseparable from the risk management system. They ensure that financial reporting is performed correctly and the rules of conduct are observed by employees. The existing system of controls and policies enables the euromicron Group to comply with the stipulations of the corporate governance guidelines. The focus is in particular on finance and accounting, controlling and taxes, legal and compliance and the main operating processes.

Risk control

The concrete risks to which the euromicron Group is exposed in terms of assets, liabilities and strategic alignment are mainly in changes in the market situation, financing situation and interest rates. To minimize them, the basic elements of the business and financial policy are defined by the Executive Board and monitored by the Supervisory Board. In turn, Finance and Accounting, Controlling and Taxes are responsible for operationally implementing the financial policy and constant risk management.

Market risks

In principle, the euromicron Group is dependent on economic trends in the Euro zone; the German market accounts for 84.3% (previous year: 84.5%) of sales and so is crucial to the Group’s success. Germany is also the area of activity of most of the euromicron Group’s operating units, which are benefiting from investments in communications, security and data networks. Apart from economic risks, euromicron is subject to the fundamental risks relating to other market players and pressure on prices. euromicron tackles these challenges by nurturing intensive contacts with customers and special solutions in niche markets so as to be able to offer top-quality products and services at competitive prices.

Risks of default

Due to its broad customer base and financing activity, the euromicron Group is subject to the risk of defaults, which it reflects by means of individual allowances for doubtful accounts. However, an unusually high risk exposure cannot be discerned. Only one customer accounted for more than 10% of consolidated sales in fiscal year 2016 (previous year: one customer). In addition, the risk of default is minimized by Group-wide monitoring of accounts receivable. Moreover, credit sale insurance policies were concluded for specific companies.

The maximum risk of default is to the carrying amounts of the financial assets carried on the balance sheet which are not secured by credit sale insurance policies.

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

A further financial risk for the euromicron Group is the provision of sufficient liquidity for the subsidiaries' business operations. euromicron AG must ensure that the receivables resulting from financing of the operating units through the cash pool retain value. This is achieved by permanent and standardized finance management and reporting that constantly monitors and assesses the subsidiaries' activities and assigns measures to them.

With regard to the measures to secure future liquidity, please refer to the comments in section 3.2 "Risk report and salient features of the risk management system" in the group management report for 2016.

Interest rate risks
Interest rate risks are restricted exclusively to the Euro zone. To protect against these risks, the euromicron Group relies on a balanced mix of a variable and fixed financing structure. Interest rate derivatives can also be used to optimize the net interest income/loss on a case-by-case basis. As in the previous year, however, there were no interest rate derivatives at December 31, 2016.

The financing that was contractually agreed and utilized at December 31, 2016, will result in interest expenses of around €2.6 million by the end of their term (previous year: €2.3 million). A sensitivity analysis is used to assess the interest rate risks. This shows the effects of different market interest rates on interest payments, interest income and interest expenses.

The euromicron Group complies with these stipulations and applies further assumptions:

- Changes in market interest rates for original financial instruments with a fixed rate have an impact on the result only if these instruments are measured at their fair value. All financial instruments with a fixed rate that are measured at their amortized acquisition cost are not therefore exposed to the risk of any change in interest rates.

- Changes in market interest rates for original financial instruments that have a variable rate and whose interest payments are not designated as a hedged item as part of cash flow hedges against risks of interest rate changes have an effect on the net interest income/loss and are included in calculation as part of the earnings-oriented sensitivity analysis.

If the average market level for interest rates in 2016 had been 50 base points higher, income before taxes at the euromicron Group would have been €203 thousand lower. There would have been no effects if the average market level for interest rates had been lower. The hypothetical impact on income is mainly the result of the original financial instruments with a variable rate of interest and factoring.

Internal control system
In order to comply with statutory requirements, the euromicron Group continued to focus in fiscal year 2016 on monitoring its main corporate processes. In particular, the internal controls are aimed at minimizing operational risks and avoiding mistakes in sensitive areas of the company. For example, the company ensures that key functions are kept strictly separate from each other and that the four eyes principle is applied comprehensively. Moreover, Finance and Accounting, Controlling and Taxes very closely observe changes in accounting and employees are given extensive training by external consultants if and when required.

The controls are carried out throughout the Group and their suitability and comprehensiveness are reviewed regularly on a test basis.

Appropriate measures to minimize risks from project business were implemented in previous years. Further enhancement of these structures was also a focus of the euromicron Group's risk management activities in 2016. For further details, please refer to the comments in section 3.2 "Risk report and salient features of the risk management system" in the group management report for 2016.

In fiscal year 2016, euromicron AG's risk identification system complied with the measures to set up a suitable risk identification system specified by Section 91 (2) AktG (German Stock Corporation Law). The risk identification system is suitable for promptly detecting developments that might jeopardize the company's continued existence.

Compliance

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

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

Compliance in Human Resources was again the focus of our compliance activities in 2016. In particular, various in-person training courses were held on the subject, and standard documents were updated and adapted.

27. Related parties

Persons and companies are regarded as related parties if they control the euromicron Group or exert a significant influence on its financial and business policy or the euromicron Group has a significant influence over them.

Companies connected to members of the Executive Board and Supervisory Board did not receive any payments for goods or services provided in the year under review, with the following exceptions.

Advice on labor law and legal matters by Beiten Burckhardt Rechtsanwaltsgesellschaft mbH resulted in a fee of €32,000; there are still liabilities of €3 thousand from this at December 31, 2016. In exchange for the supply of goods, Keymile GmbH received €4,345 thousand in the year under review, of which there were still unpaid liabilities of €163 thousand at the end of the year under review. In addition, the euromicron Group provided services totaling €4 thousand for Keymile GmbH.

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 paid for the services.

Business transactions with related parties are conducted at the same prices as with outside third parties (at arm's length). Further relations with members of the Executive Board and Supervisory Board are explained in section 33.

Apart from that, there were no transactions with other related parties or companies. There are no further receivables due from or liabilities toward related parties.

28. Declaration on the Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Law)

In fiscal year 2016, euromicron AG largely complied with the recommendations of the German Corporate Governance Code in its version dated May 5, 2015, which was published in the Federal Official Gazette on June 12, 2015. The exceptions are listed in the declaration on conformance by the Executive Board and Supervisory Board dated December 8, 2016, which can be read on the company's homepage at: https://www.euromicron.de/en/investor-relations/declaration-on-conformance-2016.

29. Stock option program / securities transactions requiring disclosure

There is currently no new stock option program or comparable incentive system based on securities. The members of the Executive Board and Supervisory Board do not hold more than 1% of the shares issued by euromicron AG directly or indirectly.

30. Auditors' fees

The item "Other operating expenses" contains fees for the group auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, of €811 thousand (previous year: €835 thousand). €536 thousand (previous year: €560 thousand) relate to auditing of the financial statements of the companies and the Group. They include expenses of €19 thousand (previous year: €73 thousand) not related to the period. They also include costs for other confirmation or valuation services of €0 thousand (previous year: €4 thousand), tax consulting services of €262 thousand (previous year: €263 thousand), of which €26 thousand (previous year: €40 thousand) are not related to the period, and other services of €13 thousand (previous year: €8 thousand) for euromicron AG or its subsidiaries.

31. Significant events after the balance sheet date

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

Under the notarized purchase agreement dated December 21, 2016, telent GmbH acquired 75% of the shares in Koramis GmbH, Saarbrücken, an IT-security company that specializes in industrial security. As a result of this acquisition, telent GmbH is expanding its value chain to include cybersecurity for critical infrastructures and industrial infrastructures. The date of acquisition is January 1, 2017. The purchase price was €1,648 thousand. The provisionally measured assets of Koramis GmbH were composed of property, plant and equipment (€270 thousand), inventories (€125 thousand), trade accounts receivable (€650 thousand) and other assets (€90 thousand). The provisionally measured liabilities comprised trade payables (€199 thousand) and other liabilities (€301 thousand). The purchase price allocation as part of the acquisition of Koramis GmbH is still provisional at the time euromicron's 2016 Annual Report is published. The provisional goodwill of €1,040 thousand resulting from the difference between the total purchase price (€1,648 thousand) and the provisionally measured net assets (€635 thousand), including minority interests (€27 thousand), is mainly attributable to the well-trained workforce in the field of IT security. 36 employees were taken over. The number of consolidated companies increased by one as a result of the acquisition.

Exercise of the preemptive right relating to 2.5% of the shares in Microsens GmbH & Co. KG and in Microsens Beteiligungs GmbH

On January 12, 2017, an agreement was reached to exercise the existing preemptive right relating to 2.5% of the minority interests in Microsens GmbH & Co. KG and 2.5% of the minority interests in Microsens Beteiligungs GmbH effective January 31, 2016. The purchase price is €225 thousand for the shares in Microsens GmbH & Co. KG and €1 thousand for the shares in Microsens Beteiligungs GmbH. The purchase price was paid on January 25, 2017. The acquisition meant the stake held by euromicron AG in Microsens GmbH & Co. KG and Microsens Beteiligungs GmbH was 97.5% in each case. Due to the fact that the existing purchase options are designed as opposite put/call options, both companies were already fully included in the consolidated financial statements. The purchase price obligations resulting from the opposite put/call options were likewise already carried under "Other current financial liabilities" in the consolidated financial statements at December 31, 2016. The pro-rata purchase price obligation for the exercised part of the put/call option was €226 thousand and that for a conditional purchase price component was an amount of €25 thousand. Since the original acquisition of MICROSENS GmbH & Co. KG falls under the scope of IFRS 3 (2004 version), the €25 thousand from the conditional purchase price component, which does not have to be paid due to the fact that the targets were not achieved, was treated as an adjustment to the purchase price in accordance with IFRS 3.33 (2004 version) and the goodwill from the acquisition was reduced by that amount.

Conclusion of an agreement to sell the "Telecommunications" division of euromicron Deutschland GmbH

An agreement to sell the "Telecommunications" division of euromicron Deutschland GmbH was concluded on March 15, 2017. Under it, euromicron Deutschland GmbH will transfer all customer, supplier and other agreements connected with this business as part of an asset deal. The division's employees will also be transferred to the purchaser. The closing date is expected to be April 30, 2017; that depends on the occurrence of certain, customary suspensive conditions specified in the purchase agreement.

32. Publication of the consolidated financial statements

On March 28, 2017, the audited consolidated financial statements and group management report of euromicron AG are to be released for publication as of March 29, 2017, by the Supervisory Board following their submission by the Executive Board and deposited with the operator of the electronic Federal Official Gazette.

euromicron AG makes use of the provision under Section 264 (3) German Commercial Code (HGB) that exempts subsidiaries of euromicron AG from the obligation to prepare notes and/or a management report and to audit and disclose annual financial statements and management reports and fulfills all the necessary conditions. This goes for all subsidiaries (see “List of companies included in the consolidated financial statements” in the section “Consolidated companies”) with the exception of the following. Exceptions are ATECS AG, Zug/Switzerland, Avalan GmbH (in liquidation), Spiesen-Elversberg, euromicron austria GmbH, Seekirchen/Austria, euromicron benelux S.A., Ellange/Luxembourg, euromicron holding GmbH, Seekirchen/Austria, euromicron NBG Fiber Optics GmbH, Seekirchen/Austria, Microsens Beteiligungs GmbH, Hamm, MICROSENS Sp.z o.o., Wroclaw/Poland, Netzikon GmbH, Backnang, RSR Datacom Verwaltungs GmbH, Essen, Qubix S.p.A., Padua/Italy, Secure Information Management (Asia Pacific) Pte. Ltd., Singapore and WCS Fiber Optic B.V. (in liquidation), Amersfoort/Netherlands, which disclose their annual financial statements in accordance with their respective national regulations.

33. Supervisory Board and Executive Board

a) Executive Board

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

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

b) Supervisory Board

The members of the Supervisory Board of euromicron AG 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 Ortolf, 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
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-Metallurige Holding AG, Munich
Member of the Board (Non-Executive) of
Centrosolar America, Inc., Scottsdale (AZ), U.S.

The term of office of the members of the Supervisory Board expires at the end of the General Meeting that decides on discharge of them for fiscal year 2020.

At its constituent meeting, the Supervisory Board elected Ms. Evelyne Freitag as its Chairwoman and Mr. Rolf Unterberger as its Deputy Chairman.

c) Remuneration of the board members

In total, the members of the Supervisory Board received compensation of €135 thousand (previous year: €135 thousand) in accordance with the Articles of Association; it consists solely of fixed compensation. The fixed compensation for members of the Supervisory Board is €30 thousand, with the Chairman/Chairwoman of the Supervisory Board receiving twice and his/her deputy one-and-a-half times the fixed compensation.

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

In fiscal year 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).

As in the previous year, the total compensation for the Executive Board consists solely of short-term benefits.

As in 2015, no expenses from the pension commitments to Executive Board members were recognized in fiscal year 2016.

The disclosures required for listed stock corporations pursuant to Section 314 (1) No. 6a a Sentences 5 to 8 of the German Commercial Code (HGB) are contained in the Compensation Report, which is part of the management report. Additional presentation of the information included in that report in the notes is therefore dispensed with.

34. Declaration by the legal representatives

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

Frankfurt/Main, March 22, 2017

Bettina Meyer
Spokeswoman of the
Executive Board

Jürgen Hansjosten
Member of the
Executive Board

SINGLE-ENTITY FINANCIAL STATEMENTS (HGB)

Balance sheet as of December 31, 2016

of euromicron AG, Frankfurt/Main

Assets

083

	Dec. 31, 2016 in €	Dec. 31, 2015 in €
A. Fixed assets		
I. Intangible assets		
Purchased concessions, industrial and similar rights	261,243.43	238,253.00
II. Property, plant and equipment		
Other equipment, operating and office equipment	397,849.00	331,369.00
III. Financial assets		
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. Current assets		
I. Receivables and other assets		
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
II. Cash-in-hand, bank balances	470,152.73	3,223,988.97
	37,898,291.42	**36,969,290.87**
C. Prepayments and accrued income	**213,217.58**	**190,792.96**
	203,465,238.43	**203,217,758.83**

Equity and liabilities

084

	Dec. 31, 2016	Dec. 31, 2015
	in €	in €
A. Equity		
I. Subscribed capital	18,347,554.88	18,347,554.88
II. Capital reserves	96,689,403.69	96,689,403.69
III. Revenue reserves		
Other revenue reserves	6,433,729.53	6,433,729.53
IV. Net accumulated losses	–40,916,954.67	–28,184,220.00
	80,553,733.43	**93,286,468.10**
B. Provisions		
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**
C. Liabilities		
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 (of which from taxes €197,729.73; previous year: €1,009,333.74)	199,556.86	1,009,333.74
	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

Income statement 085

	2016	2015 acc. to BilRuG	2015
	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**

FURTHER INFORMATION

Five-year overview of the Group

Values from the income statement

086

	2016	2015	2014	2013	2012
	€ m.	€ m.	€ m.	€ m.	€ m.
Sales	325.3	344.9	346.3	325.7	323.1
Germany	274.3	291.3	293.9	287.6	292.0
Euro zone	35.7	35.2	31.3	27.4	25.5
Rest of World	15.3	18.4	21.1	10.7	5.6
EBITDA (operating)*	13.2	13.8	21.1	8.7	18.0
EBITDA	7.4	6.9	21.1	8.7	18.0
EBIT (operating)*	4.5	4.5	11.4	−0.2	10.0
EBIT	−2.3	−8.6	11.4	−0.2	10.0
EBT	−7.6	−12.7	7.8	−4.0	5.2
Consolidated net income for the period for shareholders of euromicron AG	−12.7	−13.3	2.6	−6.5	2.8
Net cash provided by operating activities	−7.1	4.5	−1.9	39.4	7.0

* Adjusted for special effects of the reorganization

Values from the balance sheet

087

	2016	2015	2014	2013	2012
	€ m.	€ m.	€ m.	€ m.	€ m.
Current assets	103.4	128.9	128.9	161.5	130.3
Noncurrent assets	141.2	142.0	142.0	155.0	146.5
Current liabilities	114.0	142.8	142.8	152.5	106.8
Noncurrent liabilities	48.2	31.0	31.0	52.8	56.7
Minority interests	0.5	0.4	0.4	0.4	0.5
Equity	82.4	97.0	97.0	111.2	113.2
Total assets	244.6	270.8	270.8	316.5	276.8
Equity ratio	33.7 %	35.8 %	35.8 %	35.1 %	40.9 %
Working capital ratio	11.8 %	17.8 %	19.2 %	17.1 %	21.9 %

Miscellaneous

088

	2016	2015	2014	2013	2012
	€ m.	€ m.	€ m.	€ m.	€ m.
Investments in property, plant and equipment and intangible assets	8.9	8.2	6.4	6.4	10.8
Employees (number as an average for the year)	1,804	1,825	1,784	1,741	1,699

Glossary

Automation Gateway
The Automation Gateway is responsible for connecting the existing automation systems and devices and manages the necessary transfer of data. That means even sensors from other, completely separate systems, such as Homematic, EnOcean, KNX and IP500, can be integrated. The connection with the systems to be integrated can be via cable or wireless, which enables flexible, section-by-section integration without complex, time-consuming installation.

Big data
Big data denotes quantities of data that are too large or too complex to analyze using conventional data processing methods. Large volumes of data are created in particular in the Internet of Things, for example from the areas of industry, communication, the energy sector and transportation. The source for collecting this data may be intelligent sensors, smart metering systems or video cameras that store, analyze and prepare the data using special software tools. This form of processing is regarded as the basis for smart services.

BOS wireless communication (public authorities and organizations that perform security tasks)
Separate wireless systems for public authorities and organizations that perform security tasks, such as the police, fire brigade and emergency services. These mobile systems have to be expanded in particular in tunnels, garages, etc., due to the increased requirements for security in these areas and to ensure that emergency forces can be reached there.

Cloud computing
Cloud computing describes the approach for providing abstracted IT infrastructures (e.g. computing capacity, data storage, network capacities or ready software) over a network and dynamically adapted to requirements. From the user's perspective, the abstracted IT infrastructure that is provided appears remote and opaque, as if surrounded by a "cloud". These services are offered and used only via defined technical interfaces and protocols. The services offered in cloud computing cover the full range of information technology and include infrastructure (e.g. computing power, storage space), platforms and software.

Cybersecurity
Attacks on information infrastructures are growing in number and professionalism. Cybersecurity deals with all aspects of security in information and communications technology. The field of activity of traditional IT security is expanded to cover the whole of cyberspace. The latter comprises all information technology that is connected to the Internet and similar networks, including means of communication, applications and processes based on it. Cybersecurity is the sum total of suitable and reasonable measures to protect against attacks.

Daylight harvesting
Lighting that simulates the natural changes in daylight within a building (daylight harvesting) has proven to be particularly cost-effective and convenient. The lighting is automatically dimmed so that the available daylight is only complemented to the extent needed to obtain the desired strength. Fluctuations in brightness, such as when a cloud moves in front of the sun, are compensated for in fractions of a second. Users do not notice a thing. Smart technology enables sophisticated lighting scenarios which that used to have to be programmed at great time and effort to be created and modified within a very short time.

Elabo Information management (EIM)
Smart Factory solutions also make a major contribution to increasing efficiency in production in the small and medium-sized sector. They support the mainly manual work operations by means of an optimized information flow and so reduce time losses and error rates. Elabo Information Management (EIM), a software solution from euromicron's subsidiary Elabo, enables comprehensive controlling and networking of the production and value added processes of a company in the electrical industry. The special nature of the software is shown by the fact that all the latest process-related information is available in real time at every workplace of a business establishment. In order to achieve that, EIM accesses a database in which all the company's process data is archived centrally. The use of Smart Industry solutions such as EIM means that developers and producers of electronic modules can thus achieve comprehensive process controlling that supports and simplifies operations at many points. This EIM-based means of process management can also be supplemented by process-integrated safety and security measures, as well as special workplace configurations.

Ethernet
The term Ethernet denotes both the type of cabling and transmission methods or frameworks. Ethernet can be operated at 10 megabit/s (Ethernet), 100 to 1,000 Mbit/s (Fast Ethernet) and, more recently, 10,000 megabit/s – or 10 gigabit/s – (Gigabit Ethernet).

EvalorIQ
EvalorIQ from telent GmbH – a euromicron Group company – is a scalable software platform for the Internet of Things. As part of the system, conventionally automated processes and systems can be connected with IoT sensors and actuators so as to generate new utility value. The solution, which was created in cooperation with Bilfinger GreyLogix, has detailed presentation and analysis options. Application areas include solutions from the segments of smart industry, smart city, smart metering, smart parking and smart environment. For example, meters can be read and the figures passed on to existing billing systems via standardized interfaces. It also enables presentations in trend graphs or dynamic process images for energy management that can be compared using analysis tools.

Firewall
A firewall protects individual computers or an entire computer network against unwanted access from the network and consists of a group of network components at the interface between the Internet and internal network. A firewall's task is to prevent unpermitted network access as part of a security concept.

FTTX
A generic term for any type of broadband network architecture based on fiber-optic technology. X can be a placeholder for various user endpoints of the optical fiber, such as H for home, B for building or O for office.

Building automation
Building automation denotes the sum total of all facilities (including software) that enables overarching and automatic monitoring, control, regulation and operational optimization of systems in one or more buildings. As a key component of facility management, building automation aims to control functional processes automatically and across all disciplines and to simplify their operation and monitoring. Special control stations are used as the management center, depending on the size and complexity of the object or property to be automated. Alerting systems (for fire, burglary or assaults), access control systems and monitoring systems are not part of building automation. However, these systems can be linked to the building automation.

Danger management systems
In practice, software systems consolidate incidents from the various existing security facilities and information systems as part of building automation. euromicron offers systems for structured and clear presentation of incident-specific measures for the entire security, building, communications and IT infrastructure. Various technologies, such as burglar alarm systems, escape door systems and building control technology are combined in one central software platform in a vendor-independent manner. Intelligent visualization of the incidents enables users to identify situations properly. Users are guided to the ideal solution by means of procedural instructions and actions that run automatically in the background. The solution goes further than the familiar scope of a pure danger management system and also offers integration of existing systems on a single user interface.

Green building
A green building denotes a building that has been developed with the guiding principle of sustainability in mind. Features of such buildings include high resource efficiency in the areas of energy, water and material, as well as a reduction in damaging impacts on health and the environment. Ideally, the guiding principle is heeded over all phases of the building's lifecycle – from project development, planning and construction, operation and maintenance, to dismantling. The advantages of a green building are obvious: greater cost-effectiveness thanks to lower power consumption and an advanced environmental footprint thanks to the use of natural materials and concepts.

Industry 4.0
The term "Industry 4.0" stands for the fourth industrial revolution and so for a radical change in production technology. It follows on from the third industrial revolution, which was initiated in the 1970s and is characterized by increasing automation of production through the use of electronics and IT. From today's vantage point, the first industrial revolution comprised mechanism using water and steam power. It was followed by the second industrial revolution, in which mass production was enabled by assembly lines and electrical energy. As part of the German government's high-tech strategy, Industry 4.0 is a key future-oriented project that is intended to drive computerization of production technology and lastingly strengthen Germany as a place to do business. The goal is to achieve the "smart factory", which is characterized by adaptability, resource efficiency, ergonomic design of workplaces and integration of customers and business partners in business and value added processes. The technological foundation of Industry 4.0 is cyber-physical systems and the Internet of Things.

Industrial Ethernet
Industrial Ethernet denotes all efforts to enable the Ethernet standard to be used for networking equipment in industrial production. Industrial Ethernet is now a firmly established term that, among other things, describes the use of Ethernet-based components such as industrial switches ("ruggedized switches") in harsh environments. Such components, which are needed to control and monitor production processes, for example, are particularly sensitive to dust, dirt and large temperature fluctuations.

Infrastructure as a Service (IaaS)
Infrastructure as a Service denotes a business model where computer infrastructure is not purchased as customary, but instead leased on demand.

Smart Buildings
Smart buildings link state-of-the-art building technologies with IP-based information and communications technology so that, for example, office buildings, industrial complexes or multi-story car parks can be operated cost-effectively, in an ecologically balanced manner and as best suited to needs. Numerous application areas are conceivable. One example of cross-discipline interaction between the technologies is controlling of the lighting at the workplace (use of daylight, sun shades and glare protection, energy-saving use of bulbs) with the aid of blind controllers and sensors that are able to communicate for detecting movement and measuring light intensity, wind strength and room temperature. In addition, such solutions enable all information of relevance to overarching tasks, such as visualization, maintenance management, incident management, etc., to be made available anywhere in the world. Smart Buildings with their integrated disciplines, such as building automation, fire prevention, safety, security, lighting or access control, thus become an integral part of the Internet of Things.

Internet of Things
The term "Internet of Things" (IoT) generally denotes the objective of networking the virtual world with the real one. The emergence of the IoT means that not only people and (personal) computers will interact in future, but also intelligent things (devices). Essentially, IoT denotes the linking of unambiguously identifiable physical devices or sensors over the Internet. These smart devices are to think, learn, act independently and interact with other process participants. As part of the growing digitization of business processes and networking over the Internet, all parties involved in a process are provided with specific status information via IoT, so that interaction between them in real time is enabled. Instead of being the subject of attention as it is now, IoT is intended in future to help people almost unnoticed in their activities and so offer them direct benefits. The IoT enables new business models. The information that is collected and made available can be used to tap potential for optimization. One possible scenario, for example, is prompt reporting of an impending defect together with automatic notification of a maintenance service (see also "Predictive maintenance").

Assembling fiber optic cables
Fiber optic cables are connected to one another by various methods using connectors and linked via couplings so that the light signal is transported with as far as possible none of the signal being lost. This creates fiber-optic cables that are pre-assembled at the factory, are suitable for mounting, have the exact length and that are supplied directly to the construction site or as a spare part for storage with the right connectors for the network components to be connected and with the associated measurement protocol.

KORAMIS
KORAMIS GmbH, a subsidiary of the euromicron Group's telent GmbH, offers solutions relating to automation, process control systems, power system control technology and cybersecurity for critical infrastructures (KRITIS) and industrial infrastructures. By pooling its competences in industrial automation and industrial software, taking into account industrial security requirements, and thanks to its own research activities, KORAMIS is able to deliver end-to-end solutions for Smart Industry and the Internet of Things. euromicron and its subsidiary telent GmbH acquired a majority stake in KORAMIS in January 2017. More information can be found at http://www.koramis.de.

Critical Infrastructures (KRITIS)
Modern, technologically highly developed societies depend on a reliable infrastructure, for example in energy and water supply or for emergency/rescue services. Disruptions and outages may entail considerable economic damage and directly impact large parts of the population. That also goes for information and communications technology, on which 40 percent of value added worldwide is already based. Consequently, secure and solid infrastructures are a factor that underpins a good business location with a future. The German government has therefore adopted the IT Security Act in order to establish Germany as one of the most secure digital locations in the world. Among other things, this act defines special requirements for the IT security technology used for Critical Infrastructures (KRITIS), which are vital to society and the economy. Critical infrastructures ensure the basic supply needs of the economy and society in such important areas as energy, information technology and transportation and, last but not least, in government and administration, the media and culture. These infrastructures

are increasingly controlled by IT systems that are connected to the Internet. These infrastructures need to be classified as critical because if they fail or their operability is impaired, there would be lasting supply bottlenecks or significant disruptions to public safety.

LAN (Local Area Network)
Local network, mainly for transferring data, but also voice and other electronic information. LANs are usually to be found in office buildings or industrial plants, but also as on-board networks on vehicles, aircraft and ships.

LED lights
Light-emitting diodes (LEDs) are lights that convert electrical energy into light. They come in various colors, shapes and sizes. Thanks to their advantages, such as very low power consumption, pleasant light and very long durability, LEDs will largely displace other bulbs from the market on the medium term.

Learning Factories 4.0
In order to prepare experts and junior staff for the requirements of smart industry, the federal state of Baden-Württemberg is encouraging the establishment of “Learning Factories 4.0” at vocational colleges. The Learning Factories familiarize students with operating systems based on real industrial standards. The Learning Factory 4.0 is a laboratory that is identical in structure and equipment to industrial automation solutions and where the fundamentals of application-related processes can be learned. Mechanical engineering and electrical engineering are linked there with professional production control systems.

LoRa®
LoRa® is an international radio standard for wireless transmission of small data volumes over large distances (up to 20 km). It is an innovative radio technology that is regarded as a future carrier medium for the Internet of Things. LoRa® is distinguished by a high resistance to interference and lower power consumption. The diversity of application areas (including transportation and logistic or in the field of geotracking) opens up new dimensions and can optimize existing business processes worldwide. The LoRa Alliance™ (https://www.lora-alliance.org) is committed to expanding use of LoRa® technology on the basis of open standards.

Lot size
Lot size is a term from industrial management or the production industry and indicates the quantity of a batch, variety or series that is produced in one go without conversion or interruption to production (manufacturing method). Companies that use just-in-time systems keep lot size stocks as low as possible; the ideal lot size in these cases is therefore 1. Smart Industry applications can enable customized needs up to “lot size 1” to be addressed thanks to the selective use of automation technologies and networking of production processes.

Low power wide area networks (LPWAN)
None of the existing communications infrastructures is as suited for the Internet of Things as low power networks. The Internet of Things networks “objects” with each other intelligently. They are thus transformed into smart objects that are able to exchange information, control themselves and trigger actions online and on their own. In particular, LPWANs can be used to connect autonomous devices that transfer small volumes of data and consume only little power. The energy-efficient, secure and low-cost radio technology LoRa® is suitable for a wide range of application cases. It is based on the open industry standard LoRa® and is specified by the non-profit organization LoRa Alliance™.

Machine to machine (M2M)
The term “machine to machine” (M2M) denotes automated exchange of information between terminal devices (machinery, machines or control devices) or between terminal devices and a control center. M2M applications are used in particular in industry, where they control production facilities. Increasing use of the Internet and the growing prevalence of wireless sensor networks based on various access technologies, such as LTE or WLAN, also opens up additional possible applications in the fields of logistics, security, surveillance, transportation and energy. One conceivable M2M application is, for example, remote monitoring, control and maintenance of plant, machinery and systems.

Machine learning
Machine learning relates to the automated development of algorithms on the basis of empirical data and training data. In machine learning, there are technologies for analyzing large volumes of data (big data). The focus is on optimizing results or improving predictions on the basis of learning processes. The topic is closely related to data mining, which however mainly involves the discovery of new patterns and underlying laws. One potential application for machine learning is in predictive maintenance in industry.

Managed services
Information and communications services that are performed for a defined period of time by a specialist provider and can be obtained as required. They comprise outsourcing services: from IT workstations, networks to operation of data centers.

Micro-switch
Micro-switches ensure network connection of terminal devices, such as computers, IP phones, printers or WLAN access points. They have now evolved from being a pure means of distributing data into smart, powerful control centers. Their great computing power enables them to take over additional and extensive building automation functions. One example of that is controlling and management of the entire technical office equipment, such as lighting, blinds, heating, air-conditioning, network access for IT devices and phones, and devices relating to security technology.

Medical Switch
With its Medical Switch, euromicron's subsidiary MICROSENS is setting standards of performance, reliability and security for data networks in medical engineering, hospitals and practices. The device surpasses the strict requirements for electromagnetic compatibility. The network ports are electrically separated by means of special isolators so as to protect patients and devices against fault currents from the mains. To meet the particularly high requirements for network security in the medical arena, the Medical Switch offers extensive security features so that confidential data also remains confidential.

Network operation center (NOC)
A network operation center (NOC) fulfills central monitoring and operating tasks within a network and ensures IT security. The NOC monitors critical system components continuously and identifies possible weak points. Since operation and administration of an NOC require know-how and diverse resources, companies often hire specialist service providers for those tasks. NOCs and their administration staff work round the clock, thus ensuring fail-safe, redundant connection channels.

Netzikon
Netzikon GmbH, a subsidiary of the euromicron Group's telent GmbH, establishes and operates a highly efficient, resource-saving IoT wireless network in Germany. As a low power wide area network (LPWAN), it enables smart sensors and devices to be connected to the Internet of Things® on the basis of the radio technology LoRa. The network is designed to connect a very large number of terminal devices, 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 so that the potentials of the Internet of Things can be leveraged. More information can be found at http://www.netzikon.de.

Network management
This comprises administration, operation and monitoring of IT networks and telecommunication networks, among other things in terms of their configuration, performance and security. IP networks are frequently managed by means of SNMP (Simple Network Management Protocol).

Network monitoring
Network monitoring denotes the observation and regular control of networks, their hardware (e.g. servers, routers, switches) and services (e.g. Web servers, DNS services, e-mail services). A distinction is made between external and internal monitoring. In external monitoring, an additional monitoring device is connected to the network, which is not the case in internal monitoring. It is further characterized by the terms "active" and "passive". In active monitoring, additional packets are sent into the network, whereas only eavesdropping is carried out in passive monitoring.

Patch cable
A pluggable, flexible connecting cable between network distributors or transmission systems and between sockets and end systems. Patch cables can be produced using fiber optics or copper. They are used for flexibly bridging two cable ends and so "patch" these gaps in the connection. The first patch cable was used at the telephone exchange in manually setting up a connection (by the exchange operator).

Physical security
A general term for a wide range of measures for physical protection and surveillance of a room, building or campus and the critical components there. Physical protection and surveillance denotes securing an object against fire, intrusion, unauthorized access, theft, vandalism and manipulation, as well as surveillance by means of fire alarms, video cameras, access control systems and control station technologies.

PMR (Professional Mobile Radio)
Mobile radio which, in order to distinguish it from other radio services, such as maritime radio and aeronautical radio, was also called "non-public mobile land radio". It includes all radio services that are used by individual institutions, industrial enterprises, the transport industry, trade and craft, as well as emergency services and public authorities that perform regulatory and security tasks. A common feature of all of them is the non-public, virtually private use of the radio service for a defined user group, such as taxi or haulage companies, airports or industrial plants, regardless of the radio technology used.

Predictive maintenance
As part of service management, predictive maintenance denotes all measures that are used in proactive maintenance of machinery and production plant. Preventive handling of problems means maintenance resources can be used more cost-effectively, the operating times of machinery and equipment maximized and relevant ordering and replacement processes improved. The objective is to avoid production-critical downtimes and maintenance work. A production manager can be notified automatically that device/sensor A has a 95% probability of failing in the next two weeks, for example. That means preventive countermeasures can be taken early on to avoid a total failure.

Power over Ethernet (PoE)
Terminal devices that are connected to a copper or fiber-optic based data network (Ethernet) are powered from this data connection instead of from an additional power supply unit. In particular in data networks based on fiber optic cables, such a data and power supply connection can be created by means of a hybrid cable (optical fiber and copper wire in one cable). LED lights or VoIP phones can also be supplied with power in this way. The standard 802.3at PoE, generally known as PoE+, was defined in 2009. These standards now make it possible for companies to use devices at places where it used to be difficult, or was not possible for cost reasons, to supply alternating current, such as on existing ceilings or walls.

RFID
Radio-frequency identification is a technology consisting of transmitter/receiver systems for automatic, contactless identification and location of objects and living beings using radio waves. RFID enables numerous applications that could not be implemented with conventional identification systems. An RFID system consists of a data carrier (transponder) and a reading device with an antenna. RFID uses weak electromagnetic waves that are emitted by the reading device. If this device is placed near to the transponder, information can be read contactlessly from the transponder's memory or, vice versa, data can be transferred to the transponder.

SaaS (Software as a Service)
Software as a Service (SaaS) is a sub-area of cloud computing. The SaaS model is based on the principle of the software and IT infrastructure being run at the premises of an external IT service provider and used by the customer as a service. The party utilizing the services pays a usage-based charge (usually per user and month) for use and operation of the services. The SaaS models means that the party using the services can cut its procurement and operating costs in part. The service provider assumes responsibility for all IT administration work and other services, such as maintenance and updates. To this end, the entire IT infrastructure, including all administrative tasks, are outsourced, enabling the party using the services to focus on its core business.

Shopfloor execution system (SES)
A shopfloor execution system (SES) is used for very specific industries, namely the production sector. As a holistic management approach, it combines the functionalities of workplace design and structure (including ergonomics, energy efficiency, safety and quality) and work step handling (including variant management and worker guidance) at the production level.

Service level agreement (SLA)
The term "service level agreement" (SLA) denotes an agreement or the interface between the customer and service provider for recurrent services. The objective is to give the customer a transparent means of controlling whether the services are delivered by precisely describing warranted qualities of the services, such as their scope, response time and speed of handling. An important component is the service level, which defines the agreed quality of service.

Smart Building
A smart building describes the automation and central operation of the technical equipment of functional buildings, such as office buildings, shopping malls, airports, hospitals or production halls. Core issues are ensuring the safety of the building – such as with fire alarm technology or danger management systerms – and optimizing energy efficiency in running the building so as to slash operating costs.

Smart Audio Controller
The Smart Audio Controller from MICROSENS enables existing conventional loudspeakers to be integrated in the data network simply and reliably. The module converts the IP audio data into analog audio signals and so offers a particularly cost-effective means of migrating to IP technology. Whether background music or announcements and acoustic alerts to specifically address or warn people in buildings – the Smart Audio Controller means the advantages of IP-based systems can also be leveraged with traditional loudspeakers.

Smart Engine
The Smart Engine supplies electricity to the lights with Power over Ethernet Plus. To do that, it use suitable customary data lines such as are used for the IT infrastructure. The Smart Engine can be accommodated in a server cabinet or a power distribution panel board, but also installed directly and locally, such as in a suspended ceiling. The number of engines depends on the scope and extent of the lighting.

Smart Industry / Smart Factory
“Smart Factory” (or “Smart Production” or “Smart Industry”) is part of the future-oriented project Industry 4.0 under the German government’s high-tech strategy. As a term in production technology, smart factory denotes a cutting-edge production environment in which production plants and logistics systems largely organize themselves without human intervention. The smart factory is thus a complex system of numerous individual players that have their own intelligence. Its technical foundation is cyber-physical systems that communicate with each other with the aid of the Internet of Things. One possible application example is communication between a workpiece and production plant: The workpiece supplies its own production information in machine-readable form. Its path through the production plant and individual production steps are controlled on the basis of this data.

Smart Office
The Smart Office concept of euromicron’s subsidiary MICROSENS is an open, decentralized and scalable building management concept based on IP. From the surveillance camera, access control, elevator control to heating, ventilation and air-conditioning: In the modern office building, smart systems communicate with clever things – provided they are networked with each other. The Smart Office concept uses the existing IP network with Power over Ethernet, both for controlling the devices and for supplying them with power. As a result, even lighting with energy-efficient LEDs can be fully integrated in the all-round concept. The Smart Office concept can be scaled and expanded as desired. It ensures greater security and cost-effectiveness, as well as more convenience and higher productivity at the workplace thanks to customization. Existing rooms can be integrated gradually and depending on needs. That enables gentle migration to state-of-the-art building management.

Smart lighting
Smart lighting denotes intelligent, ergonomic and energy-efficient lighting solutions and has become established as a standard in modern office environments. LEDs are increasingly displacing conventional fluorescent tubes, which began to be used more than eighty years ago. So that LED lights can unfold their advantages to full effect, they should be used together with sensors and intelligent IP network switches. As part of that, they are integrated in the LAN infrastructure, which is required anyway in office environments, via Power over Ethernet in a standards-compliant manner and so are supplied with power over the IP network.

Smart Lighting Controller + Smart Sensor
The Smart Lighting Controller is the link between the LED light and IP network and converts the PoE power into an adjusted power supply for the light. Integrated in the light housing or mounted in the direct vicinity of lights, it analyzes the sensor data on the spot. Special sensors near the light record the ambient parameters and detect whether persons are present in the room. A brightness sensor and a temperature sensor are also integrated.

Smart meter/smart grid
Smart grids are electricity grids in which various power generators and consumers are integrated and in which digital communication (in future IP technology) is used to measure the amounts of electricity fed into or taken from them and for control, distribution and billing (smart meter). Digitization in the energy industry is a challenge, yet gives operators and distributors opportunities to reposition themselves. Fault-tolerant, highly available IT and network infrastructures are crucial to that.

Smart Services
The term "smart services" denotes data-based service offerings, such as online portals or software platforms. Smart services are based on the increasing intelligence of machinery and end-to-end digitization of work processes. The underlying value chains are being connected over the Internet more and more. The quantities of data created as part of that (big data) are perhaps the most important raw material in the 21st century. The data can be analyzed, interpreted, linked and mutually supplemented in order to control, maintain and improve products, solutions and services. With the appropriate intelligence and relevant process know-how, it can be used to generate knowledge that can in turn be leveraged as the basis for new business models. The possibilities for using smart services range from specific individual functions, support in making business decisions, to controlling of complex systems in the IoT arena.

URM®
URM (the abbreviation for "yoU aRe Modular") is an innovative fiber-optic connector system from euromicron in a small form factor design and has been specifically designed for high-density applications in data centers. Since October 2016, the URM connectors developed in Germany have assumed a firm place in the IEC 61754 series of standards for defining optical connectors and have been bindingly regulated in the individual standard IEC 61754-34:2016-10: The URM connectors are manufactured by EUROMICRON Werkzeuge GmbH (Sinn-Fleisbach / Central Hesse). The connectors are processed into high-performance cabling systems for data centers by euromicron Gesellschaft LWL-Sachsenkabel GmbH in Gornsdorf/Ore Mountains. You can find more details on the euromicron URM connector system on the URM microsite at http://urm.euromicron.com.

The official publication of the individual standard IEC 61754-34:2016-10 can be obtained from the publisher VDE-Verlag (www.iec-normen.de).

Virtual machine
A virtual machine (VM) is a computer that is not executed directly on the hardware, but by virtualization. A virtual machine is provided by a hypervisor. Multiple virtual machines can be operated simultaneously on one physical computer. This feature is leveraged in particular on servers.

Worker guidance
Worker guidance is a software-aided employee information system in production. It guides workers at a workplace through their work process step by step and unites the sub-areas of information management and knowledge management. Worker guidance aims to ensure that information relating to their current activity is available to workers at the right time and in the right form. Thanks to guidance in the shape of procedural instructions, even complex assembly, testing or logistics processes can be carried out by lesser-qualified staff in a high level of quality. Workers are guided securely through the individual work steps with text (multilingual) and photos (including explanatory videos if necessary) to suit the needs at hand. Audiovisual support with data glasses is also possible ("augmented reality").

WAN (Wide Area Network)
A wide network that connects together several small networks (LAN, MAN), for example from different countries, cities or locations, over large distances by means of cable, fiber optics or satellite.

Wireless local area network (WLAN)
Wireless local area network (WLAN) denotes a local radio network that, for example, enables access to the Internet via a WLAN router. WLANs are used in Germany in the frequency ranges 2.4 and 5 Gigahertz (GHz). The synonymous term WiFi is used in some countries (e.g. the U.S., the UK, Canada, the Netherlands, Spain, France and Italy).

LIST OF TABLES

To our shareholders

euromicron on the capital market

Group Management Report

Fundamentals of the Group

Economic report

Forecast, Opportunity and Risk Report

Consolidated Financial Statements (IFRS)

Balance sheet

General disclosures

Consolidated companies

Notes on the consolidated balance sheet

Changes in the Group's assets in 2016

Notes on the consolidated income statement

Segment reporting

Single-entity Financial Statements (HGB)

Balance sheet as of December 31, 2016

More information

Five-year overview of the Group

FINANCIAL CALENDAR

March 29, 2017	Publication of the 2016 Annual Report, Analysts' Conference and accounts press conference
May 11, 2017	Publication of the business figures for the 1st quarter of 2017
June 14, 2017	Annual General Meeting, Frankfurt/Main
August 10, 2017	Publication of the business figures for the 2nd quarter of 2017
November 09, 2017	Publication of the business figures for the 3rd quarter of 2017

IMPRINT

Publisher and copyright:
euromicron AG
Zum Laurenburger Hof 76
60594 Frankfurt/Main, Germany
www.euromicron.de
E-mail: info@euromicron.de

Registry court: Frankfurt/Main, HRB 45562

CONTACT

Investor Relations:
Phone: +49 69 631583-0
Fax: +49 69 631583-20
E-mail: IR-PR@euromicron.de

ISIN: DE000A1K0300

Securities identification number: A1K030

Concept, design and production:
MPM Corporate Communication Solutions, Mainz
www.mpm.de

Photos:
Reinhard Simon & Waltraud Pioch, www.das-portrait.com
Chris Kister, www.ckister.de
Auxpeer, illustrations / AdobeStock / F1 online /
Getty Images / iStock

This Annual Report is available in German and English.

Both versions can also be downloaded from the Internet at **www.euromicron.de**.
In cases of doubt, the German version is authoritative.

DISCLAIMER ON PREDICTIVE STATEMENTS

This report also includes predictive statements and information on future developments that are based on the convictions and current views of euromicron AG's management and on assumptions and information currently available to euromicron. Where the terms "assume", "believe", "assess", "expect", "intend", "can/may/might", "plan" or similar expressions are used, they are intended to indicate predictive statements that are subject to certain elements of insecurity and risks, such as competitive pressure, changes to the law, changes in general political and economic conditions, changes to business strategy, other risks and uncertainties that euromicron AG in many cases cannot influence and that may result in significant deviations between the actual results and predictive statements. Any liability or guarantee for the used and published data and information being up-to-date, correct and/or complete is not assumed, either explicitly or implicitly.

euromicron AG

Zum Laurenburger Hof 76
60594 Frankfurt/Main
Germany

Phone: +49 69 631583-0
Fax: +49 69 631583-17

info@euromicron.de
www.euromicron.de