# ANNUAL REPORT 2016

# BOARD OF DIRECTORS

The Board of exceet Group SE consists of 5 members and a permanent representative of White Hills Management & Co S.C.S

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| **Hans Hofstetter** | Chairman |
| **Dirk-Jan van Ommeren** | |
| **Dr. Hagen Hultzsch** | |
| **Roland Lienau** | |
| **Guido Bollue** | Representative of White Hills Management & Co S.C.S. |
| **Wolf-Günter Freese** | |

Guido Bollue replaced Prof. Dr. Hartmut Griepentrog as permanent representative of White Hills Management & Co S.C.S.

# MANAGEMENT

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|---|---|
| **Wolf-Günter Freese** | Acting Chief Executive Officer & Chief Financial Officer |

As of 2 March 2016 Chief Financial Officer Mr. Wolf-Günter Freese took over the functions of Mr. Ulrich Reutner as acting CEO. With the sale of the ID Management Systems (IDMS) business activities Mr. Ulrich Reutner and Mr. Robert Wolny (COO IDMS) left exceet Group at the end of September 2016. In addition, Mr. Jan Trommershausen resigned from his functions as COO Electronic Components Modules & Systems (ECMS) due to the organizational adjustments implemented on 1 January 2017.

# EXCEET GROUP MANAGEMENT REPORT

# SMART & SECURE ELECTRONICS

## STRUCTURE & REPORTING

exceet Group SE (hereafter the "Company") is a company incorporated as a Société Européenne under the law of Luxembourg and listed on the regulated Frankfurt Stock Exchange (WKN: A0YF5P / ISIN: LU0472835155) in the Prime Standard segment.

The consolidated exceet Group SE ("Group" or "exceet") is an European technology group specialized in the development and production of intelligent, complex and secure electronics for small and mid-sized volumes. The Group provides highly sophisticated solutions and distinguishes itself through its technical skill set in embedded intelligent electronics with a leading position in the health and industrial markets. The overall 10 locations (7 manufacturing sites, 2 specific technical sales & development centres for customer proximity and 1 holding location) ensure smooth and close communication for innovative solutions.

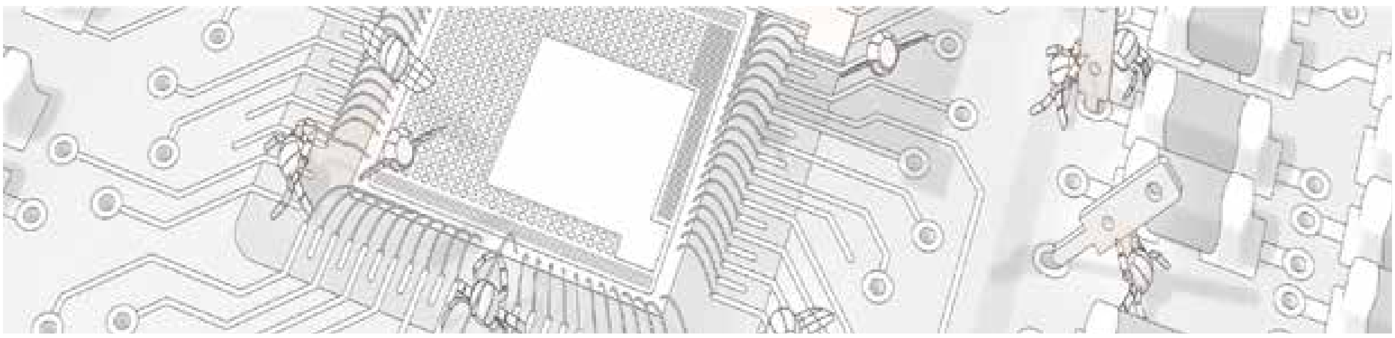
As a consequence from the divestment process of the ID Management & Systems (IDMS) business segment, the Group's IFRS reporting is split into „Continued Operations" and „Discontinued Operations".

Having sold the IDMS business segment, the Group consists of the ECMS and exceet Secure Solutions (ESS) segments starting on 1 October 2016. The future reporting has to be compared with the former continued business operations.

## BUSINESS MODEL

Distinguished engineering, manufacturing and software skills enable exceet to offer solutions with a high degree of customization and qualified process certifications to fulfil demanding customer requirements. exceet offers for its mainly industrial and medical customers full-service development, design and manufacturing of complex and miniaturized electronic components, modules, systems and secure connectivity. This is complemented with a fully coordinated product development and industrialization process, ranging from proving of feasibility of new products and processes to a completely certified production in clean room environment.

exceet's business is a classical project type of business. It is to a certain degree determined by the customers who are project partners. Projects normally are progressing in cycles. Their speed, length of duration and depth are dependent on the evaluations given by the clients, referring to possible market potentials and sales volumes of products and their life cycles. These evaluations and forecasts are given on short notice and are characterized by a higher volatility compared to other industrial business models. This leads to a limited visibility for exceet regarding the project development. exceet's clients – in many cases out of the capital goods industry – in turn are dependent on their OEM customers and their market assessments and investment decisions.



# OBJECTIVES AND STRATEGY

exceet executes a clearly defined strategy which is based on the following pillars:

## LEVERAGE CUSTOMER RELATIONSHIPS

One of the most important strategic objectives for the Group is to increase its market share in its core markets leveraging on long-term customers. Close cooperation with its customers in joint-development, industrialization and manufacturing projects lead to early insights in the latest market trends, customer requirements and new business opportunities.

## NEW CUSTOMERS IN SELECTED MARKETS

Extending the customer base through new customers in selected markets (e.g. medical implants, opto-electronics, industrial internet-of-things) is an additional key element. exceet pursues a combination of "push and pull marketing strategy". It attracts sustainable customer demand and interest by offering services and showing convincing capabilities valuable for selected potential customers. Targets are major systems integrators and OEMs in exceet's core markets (industry and health), which have a strong demand for high-quality solutions.

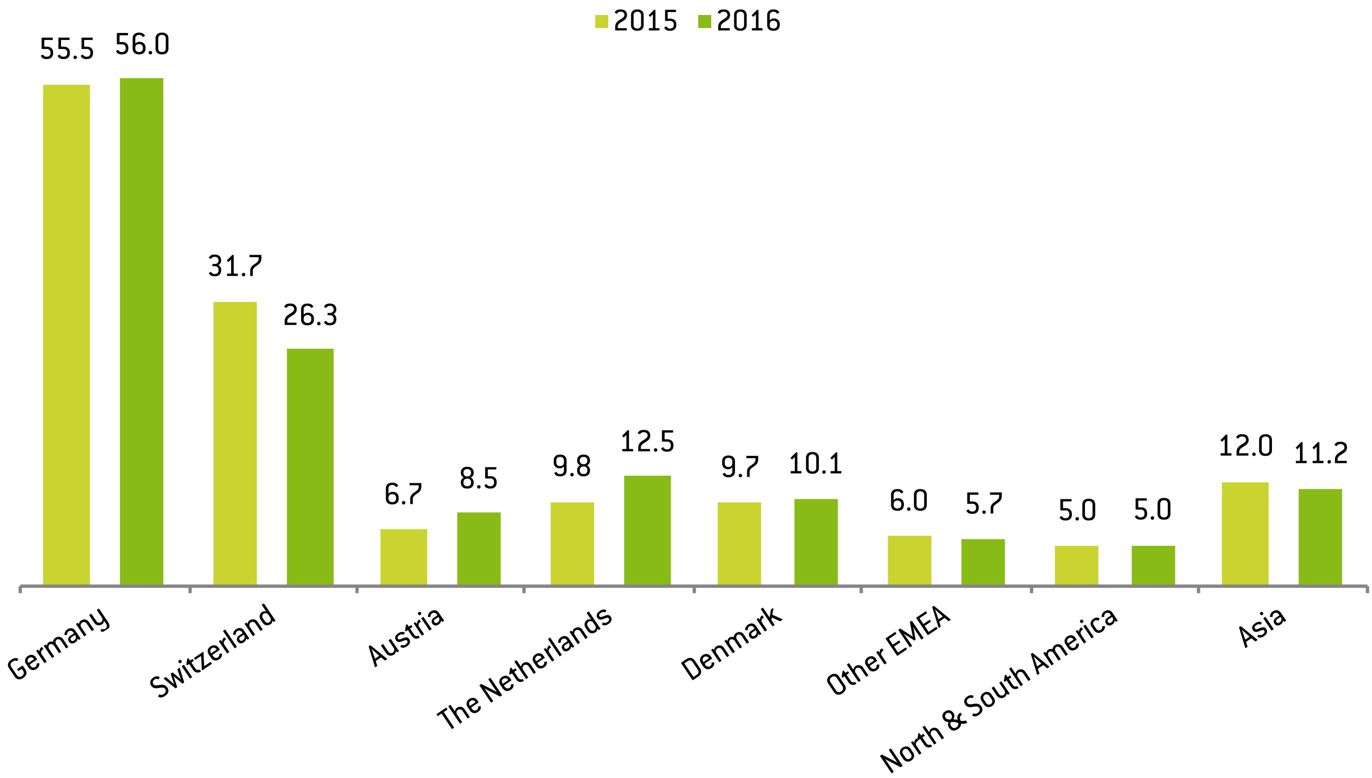
## CROSS SEGMENT COLLABORATION

The internal sharing of technical competences and qualifications is exceet's key to offer the best available solution to its customers. Therefore sales and project development teams regularly provide important feedback from the market. Through this constant internal information exchange, exceet is close to the market and able to adapt its development, industrialization and manufacturing activities faster according to changing market conditions and customers' immediate and future needs. Through the combination of know-how and expertise across its companies, exceet is able to offer unique comprehensive electronic solutions comprising key components such as hardware, software and secure connectivity.

## GEOGRAPHICAL PRESENCE

exceet's actual core markets consist of Austria, Denmark, Germany, Switzerland and the Netherlands. Further geographic market presence was started and will be pursued on a step by step basis. Since 2015 the US market is served by a local sales office located in Woburn (MA) next to Boston.

EXCEET'S REVENUE BY COUNTRIES (IN EUR MILLION)
(excluding the sold card segment IDMS)



### STRATEGIC ACQUISITIONS

The Group expects further industry consolidation and is ready to benefit from that process if an interesting opportunity is fitting to its strategy.

## OPERATIONS

### ELECTRONIC COMPONENTS MODULES & SYSTEMS (ECMS)

The ECMS segment (93% of Net Sales 2016) develops and produces innovative, complex and integrated electronic products, with a focus on miniaturization, cost optimization and a high degree of customization to suit the needs of its customers. The products and services of the ECMS segment are aimed primarily at customers in the sectors of medical and healthcare, industrial automation, security and avionics.

In 2016 ECMS continued the industrialization of innovative, high quality wearables for the precise measurement of vital data. These medical grade wearables are produced and designed in cooperation with the customers. The measurement of vital signs, e.g. such as the heart rate, can be used by patients at home or outside without any professional medical assistance on site, allowing avoidance of hospitalization and helps to reduce costs while increasing the patient's quality of life.

Thanks to the set of the wide ECMS competences in design, development and production of customer specific touch displays in Grossbettlingen/DE and Rotkreuz/CH, the segment was able to access new markets and win several projects, as for example in the field of vending machines (e.g. distributors of drinks and snacks in busses or at other highly frequented locations). In this case, ECMS performed a usability study and developed an individual user interface guaranteeing an intuitive handling. Customers also benefit from the secure connection of all vending machines, ensuring that sales figures for accounting purposes are transmitted tamper-proof and protected against access of third parties. In this project ECMS profited by the proven industrial IoT expertise of the ESS segment and could also take advantage of the profound ESS IT-Security competence.

Furthermore, ECMS expanded the activities in the microchip placement process area by offering a wafer backend process. With this new business field, the segment is now able to act as a one-stop-shop for all manufacturing steps from raw wafer product to fully fitted circuit board in less than 8 weeks. This offers a substantial reduction of the time-to-market for the customers. The setup of the new production infrastructure guarantees ECMS a technological cutting edge for the next 3-5 years. The early integration in the customer process leads to a substantial reduction of the coordination efforts and related costs. First customers already valued this competitive advantage and started new projects with ECMS in 2016.

In addition, ECMS was present during major international trade fairs in Europe (Compamed, Electronica, SPS, Embedded World), USA (Medical Design & Manufacturing, Photonics) and Japan (Nepcon) to show its capabilities. On the exceet booths, ECMS experts were able to win and inspire new prospects and intensify established customer relationships. Hereby, customers and prospects were able to benefit from the bundled expertise of all exceet segments.

ECMS continuously invests in production improvements and the optimization of quality assurance- and production processes to strengthen its market position. The ECMS locations Berlin/DE and Rotkreuz/CH were certified in 2016 according to the internationally recognized EN 9100 standard, which confirms the compliance with quality management standards for aerospace. In gaining EN 9100 certification, ECMS is prepared with its special competences for new avionic industry clients and is listed in the international Online Aerospace Supplier Information System (OASIS) database as an EN 9100-compliant supplier.

In 2016 ECMS continued the streamlining of operations and shifted production capacities in cooperation with its customers from Rotkreuz/CH to Ebbs/AT. This enables ECMS to focus on its high and long-time engineering competence in Rotkreuz by using the efficient production facility in Ebbs as an extended working facility.

### EXCEET SECURE SOLUTIONS (ESS)

The ESS segment (7% of Net Sales 2016) is focused on secure connectivity mainly based on IT Security and industrial Internet of Things (IoT) projects and solutions. Within all IoT projects, the segment recorded a strong demand for concept development, customer specific IoT hardware, IoT software and especially process specific IT Security consulting, products and services. The segment also further improved eHealth, eSignature and Hardware Security Module (HSM) related developments and sales activities.

To complete its portfolio, ESS started to adapt its signature software according to the actual eIDAS regulation. In the reporting period the segment reached an important milestone in its product and services strategy, whereas its trust center was certified according to the international eIDAS (Electronic Identification and Services) regulation. As one of the first German providers, ESS is now able to offer qualified time stamps according to this European wide regulation. The IT-Security specialist will offer this new software in combination with its long-term HSM expertise and leads the way for cost efficient, high volume signing of electronic documents and data – legally accepted all over Europe.

### REDUCED COMPLEXITY

exceet streamlined its corporate organization and capital structure in 2016 to strengthen its focus on smart and secure electronics. In July 2016 the outstanding warrants and rights to convert outstanding Class B and C Shares in Class A Shares expired. Subsequently, the shareholders approved the cancelation of all B- and C Shares at the extraordinary shareholder meeting on 15 September 2016. This simplified the capital base to one single share category and reduced the total number of shares to 20,523,695 shares (Class A Shares).

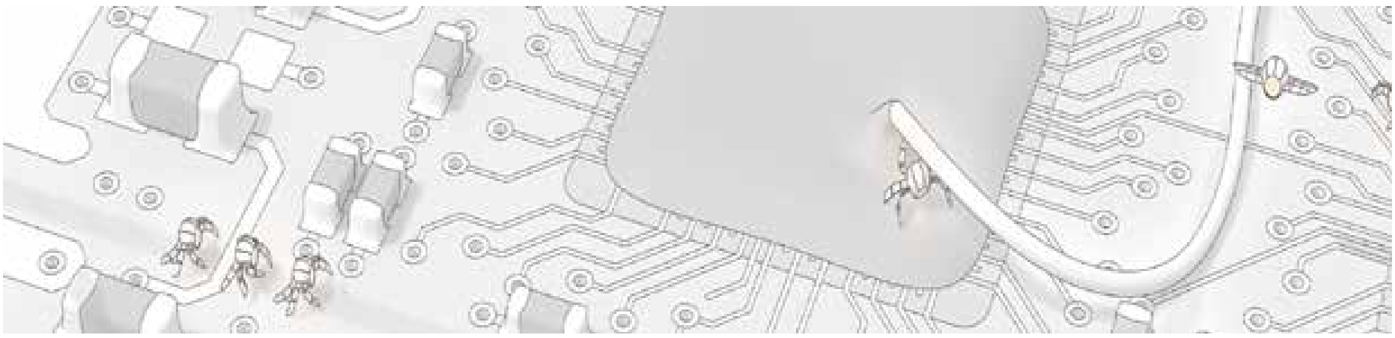
In addition, exceet sold as of 30 September 2016 its card business through a Management-Buy-Out (MBO). This transaction was in line with the operational focus on opto-electronics & sensor systems, smart and embedded electronics & industrial IoT solutions as well as high-end miniaturized printed circuit boards (PCBs). The reduced complexity of the group allowed lowering the future overhead costs by adjusting the management structure as of 1 January 2017.

The Group now has a dilution-free, transparent capital base and a stringent business model focussed on smart and secure electronics. The company favours lean structures and flat hierarchies that will be further optimized. The management board structure will exclusively consist of the positions of CEO and CFO, currently held by the same person. The business segment organization will be replaced by the second level management team reporting directly to the management board. The team will be supported by limited group functions related to business and technical development as well as sales activities.

## FUNDAMENTALS OF EXCEET SHARES

The Company's authorized share capital currently amounts to 20,523,695 Class A Shares (Public Shares). 450,000 Class A Shares are held in treasury by the Company (see exceet Group Consolidated Financial Statements note 13 "Equity").

The market capitalization of exceet Group SE accumulated to EUR 81.7 million at 1 January 2016 and reached EUR 51.3 million at 31 December 2016 due to the decrease of the share price from Euro 3.98 to Euro 2.50. The final share price of the year 2016, was recorded at the 29 December 2016 on a XETRA trading volume of 607 shares. On the last trading day



of the year, 30 December 2016, no trading volume in exceet shares was recorded on XETRA. The cumulative XETRA trading volume amounted to 749,139 shares for the entire year (after 333,718 shares in 2015) of which 183,339 shares were traded between October and December 2016.

Currently, exceet is covered by the investment and research banks Hauck & Aufhäuser Institutional Research (http://www.ha-research.de) and KeplerCheuvreux (http://www.keplercheuvreux.com).

On 26 July 2016 the conversion right for holders of Class B and Class C Shares contained in the articles of association of the Company expired. At the extraordinary general meeting (the "EGM") held 15 September 2016, shareholders agreed to the decrease of the Company's issued share capital by an amount of Euro 216,000.00 from Euro 527,960.16 to Euro 311,960.16 through the cancelation of all (i) 5,210,526 redeemable Class B Shares and (ii) 9,000,000 redeemable Class C Shares from their holders at their accounting par value.

The exceet Public Warrants (ISIN LU0472839819) expired on 26 July 2016 in accordance with clause 9.2 of their terms and conditions and have been automatically and immediately canceled on 27 July 2016.

From year-end 2015 (Euro 3.98) to year-end 2016 (Euro 2.50) exceet shares lost about 37%. On XETRA, 89 trading days ended without any turnover volume of shares. On a further 50 trading days the trading volume on XETRA was below 500 shares per day. This caused an overall high volatility on extremely low volumes. The total number of traded shares in 2016 (749,139) amounted to less than 4% of the total number of Class A Shares outstanding. 40% of the total number of shares that had been traded were traded in the first quarter. There, on 7 March 2016 the share price was marking the year high of Euro 4.15.

The general equity market environment as measured by the international index-performances over the year showed 2016 a pronounced divergence. The best performing index was the Dow Jones Industrial Average, which increased by 13.4%, followed by the Nasdaq Composite (+7.5%) and the German DAX 30 with a plus of 6.8%. European equities in general, as measured by the Eurostoxx 50, ended the year slightly positive with +0.7%. On the other side, the Swiss SMI lost 5.6% and the German technology stocks reflected in the TecDAX lost 1%.

EXCEET SHARE PRICE DEVELOPMENT 2016

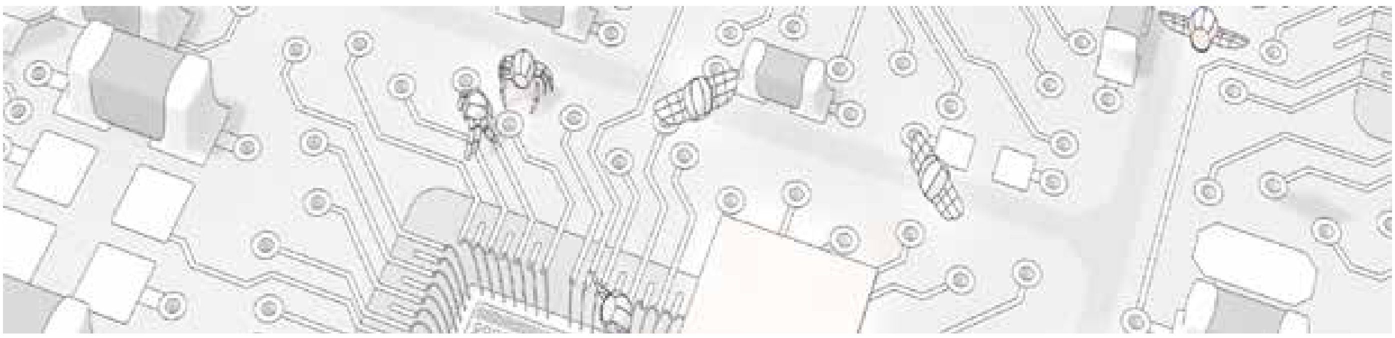
# BUSINESS ENVIRONMENT

## OVERALL ECONOMIC ENVIRONMENT

In 2016, the general environment for the business of exceet has to be described again as challenging due to a continued wide spread caution within the Group's customer base. Reasons are the various macroeconomic and political concerns in the course of the year that also found their expression in volatile equity market reactions. But finally equity prices turned out resilient in Europe and the US, as growth and earnings concerns were countered by a majority of encouraging quarterly results. On this background, exceet's engineering project cycle managed to follow a stable path developing a number of innovative technological solutions for its customers.

Until summer, growth forecasts were dominated by deflation worries, bank sector concerns, global indebtedness and possibly failing Quantitative Easing (QE) policies. Capital markets had been anticipating the threat of an erosion of confidence, sending share prices sharply down with the DAX marking 8,750 points by mid-February before recovering. As of March, the European Central Bank (ECB) keeps its key rate at zero and demands penalty rates of minus 0.4% for bank deposits. The QE program has been extended to corporate bonds in the second quarter coinciding with the 10 Year Government Bond Yield reaching negative territory for the first time ever. Recently, the ECB confirmed its rates and inflation target of 2% and prolonged its QE program until December 2017 while reducing the monthly volume from EUR 80 to 60 billion. Whether this can be interpreted as a smooth entry into a tapering process is still unclear among observers. According to the ECB, Eurozone inflation will reach 1.3% in 2017 and 1.7% in 2018 due to rising oil prices. Since summer markets shifted their awareness to political developments, the Brexit vote and Donald Trump's election as US president. UK growth might profit from the weakness of the British Pound and the government could possibly lower corporate taxes significantly and negotiate bilateral free trade agreements to make up for the loss of the EU common market in the case of a "hard Brexit". In the US, markets currently bet on a parallel of the economic program of the new US administration to the era of "Reaganomics" where US growth reached 3.8% on average between 1983 and 1989 while growth reached merely 1.6% in 2016. But as a major difference, the readiness to suspend free trade agreements seems to be given now. The US monetary policy, therefore, might need adjustments as the possible inflationary effects of the new US fiscal policy consisting of public spending programs and tax cuts are not clear. Currently, markets are anticipating three further steps upward in the Fed Funds interest target range from actually 0.5 – 0.75 percent. Germany, the biggest European economy recently reported a surprisingly healthy GDP growth of 1.9% for 2016, the strongest figure since 5 years, mainly driven by private (+2.0%) and public demand (+4.2%) but also by a long waited-for moderate pick-up of investment in machinery and equipment (+1.7%). The latest growth projections by the IMF for 2017 are as following: World 3.4% (2016: 3.1%), US 2.3% (2016: 1.6%), Eurozone 1.6% (2016: 1.7%).

The national central banks' projections 2017 are for Germany 1.8%, Switzerland 1.5% and Austria 1.5%. This means that general GDP growth forecasts in exceet's major markets remain uninspiring and surprises, according to the Global Risk Report, published by the World Economic Forum, could well be on the downside, as global protectionism seems to be on the rise. Political pressure could result from the elections in France, Germany and the Netherlands. And additionally, the EU again could be confronted with fresh budget problems in Italy and in Greece.



## SECTOR-SPECIFIC ENVIRONMENT

**Electronics**

According to latest available global market data provided by the German Electrical Industry Association (ZVEI) in September 2016, the world electronics market in this study was expected to grow by 3% in 2016 and by 4% in 2017. Above average growth was forecasted for Asia, except Japan and South Korea. China, which is accounting for 37% of the worldwide electronics production, was expected to continue its growth almost twice as strong as the overall market growth figure. Among the western countries, Europe's expected growth rate of 3% for 2016 and 2017 as well, was slightly underperforming the global average and the US market's growth was seen even a bit below the European level. The German electrical industry, accounting for a market size of about EUR 178 billion in 2015, in the same study was expected to have increased total output by 2% in 2016 followed again by 2% in 2017. But recently published figures showed an unexpected weak performance of the industry in Germany in the final quarter of 2016 bringing down the growth rate to merely 0.2% for the entire year 2016. This might put pressure on the upcoming growth assumptions for the industry in Germany in 2017.

In the German market, roughly three quarters of the total production is dedicated to industrial applications and investment goods with specific technological requirements. This explains why lagging overall investment in Germany has led to a subdued growth of the German electronics industry for a while. But in the light of major market trends, investment has to pick up and electronics made in Germany (the same applies to Switzerland and Austria) should be able to improve gradually their world market position.

The 2016 Global Outsourcing Survey by Deloitte Consulting among large cap corporations worldwide – of which a majority of 60% achieved annual revenues in the range from 5 billion to more than 25 billion Dollars – outlines that a growing number of CEOs (35% actually) regard outsourcing not only as an instrument of cost cutting, but increasingly as an important driver of value-enhancing innovation and growth. According to Plunkett Research, outsourcing and offshoring still play pivotal roles in manufacturing, but also in research and development. In the electronics market nearshoring and reshoring is regaining ground and high tech manufacturing collaboration, software design and design of engineering and components fuels research efforts in major companies. The business model of exceet responds advantageous to such developments. Clearly industrial OEM's tend more and more to outsource their product development and industrialization to external engineering and manufacturing partners while maintaining proximity and co-engineering on site to gain a maximum of flexibility, quicker access to know-how and shorter cycles until time-to-market. In the case of markets addressed by exceet, competitive know-how has to be defined by the following parameters: miniaturization plus performance, combination of hardware and software and secure connectivity and data handling in IoT infrastructures. Furthermore, as traceability and compliance are setting increasingly the frame for the industrial production of complex, low-volume product series, differentiation by certification gets important.

A global survey by KPMG among corporations worldwide suggests that the next three years are widely considered the crucial transformation phase into the digital age. The main drivers behind this development are the areas "Cloud Computing", "Internet of Things" (IoT) and "Artificial Intelligence". exceet's business activities focused on its major end markets "Health" and "Industry" are strongly involved into these specific areas of growth.

**Health**

The German industry association of medical technology, Spectaris, is forecasting a final growth rate of 2.5% for the German market in 2016. For the current year, an overall growth rate of 3% is expected. In an international context, the German Electrical Industry Association (ZVEI) forecasts a growth rate of 6% in 2017 for the electronics-based medical technology industry globally. This is the highest growth rate among all electronic sub-industries surveyed worldwide. Many classic electrical OEM manufacturers have experienced comfortable growth and margins for years in their MedTec segments. But the industry is confronted for quite a while with rising price pressure and several structural changes. New players from the IT/Software/Data and Telecom industries are entering the health services markets and form alliances with traditional hardware suppliers who are restructuring their operations and trying to catch new trends like mass personalization and industrialization of medical services. The health market tends to individual prevention by monitoring, tracking and digital coaching with the help of digital assistants. These processes produce rapidly growing data volumes being recorded by devices such as GPS-capable wearables or smart watches. Exchanging and analyzing these data in a cost-efficient and secure manner in IoT and public key infrastructures attracts new eHealth business models, often carried forward by start-ups. On the one hand, the new value chains are highly dependent on hardware and specific electronic elements like chips, sensors, optical devices, IoT-backbones and gateways. On the other hand, a bundle of certified services like trust center services, management of digital identities and digital signatures, secure storage of cryptographic keys, etc. are essential. The shape of digital assistants most probably will also experience a variety of new formats in the upcoming years. This again should trigger even higher demands for smart and secure electronics and related services.

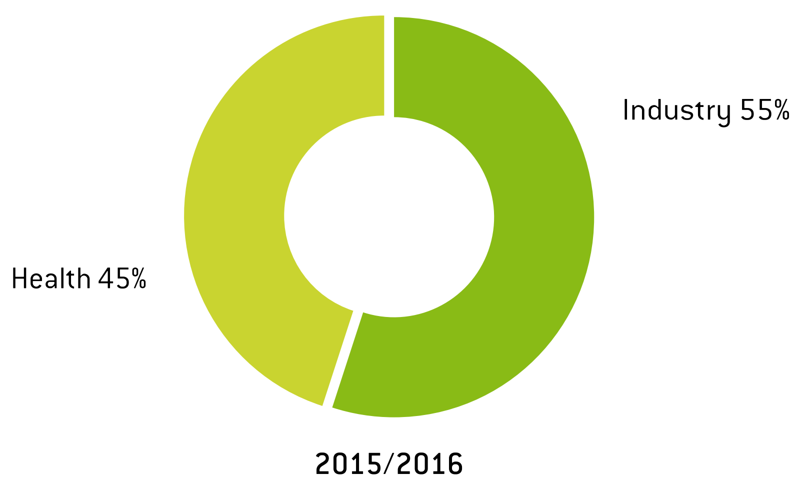
**Industry**

As it is the case for the global MedTec industry, also the classical sectors of industrial production such as electrical and mechanical engineering, automotive and semiconductors are continuously asking for highly miniaturized smart and secure electronic devices of utmost quality and reliability. Sophisticated packaging technologies like Chip on Board (CoB), Flip Chip (FC) and System in Packages (SiP) have become standard solutions in more and more applications that require extreme density in smallest spaces.

According to the Semiconductor Industry Association (SIA) especially the semiconductor industry is going to envisage stronger growth in the next two years as new fast-growing markets and applications within the areas cloud computing, IoT and artificial intelligence/digital assistants are addressed. After an almost flat development in 2016, SIA is estimating total sales growth of about 3.3% for 2017 and 2.3% for 2018. Currently smart cars and autonomous driving as one prominent application of intelligent assistants is considered to be a substantial growth driver for the producers of smart electronics and chips. But beyond mobility, the expected roll out of intelligent assistants will include a broad variety of smart applications that have one common feature; they digitally respond to major demographic trends and they will demand strongly rising volumes of chips and miniaturized intelligent electronic components, modules and systems. One main feature of intelligence will be automated and certified security in data flows and communication as offered by exceet. However, the industrial markets are highly competitive and in some product areas characterized by declining prices. As outlined in the study "Microelectronics made in Germany – Driver for Innovation and Digitalization" published by the German ministry of education and research, differentiation parameters are even higher miniaturization and complexity, multi-functionality, autonomy and connectivity, reliability in secure architectures, energy efficiency and the integration of hardware and software competences.

EXCEET'S REVENUE BY MARKETS

(share of total net sales)



# NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

Increasing sales volumes generated by existing and new projects were finally able to partially compensate with a time lag for the missing sales out of the top line weakness at the beginning of the year. However, the lower sales attributed to a number of projects being at the end of their life cycle in Rotkreuz/CH and the lower request for PCB deliveries caused by the reduced production volumes of a few OEM customers at the end of the year was still impacting the revenue and margin development of 2016.

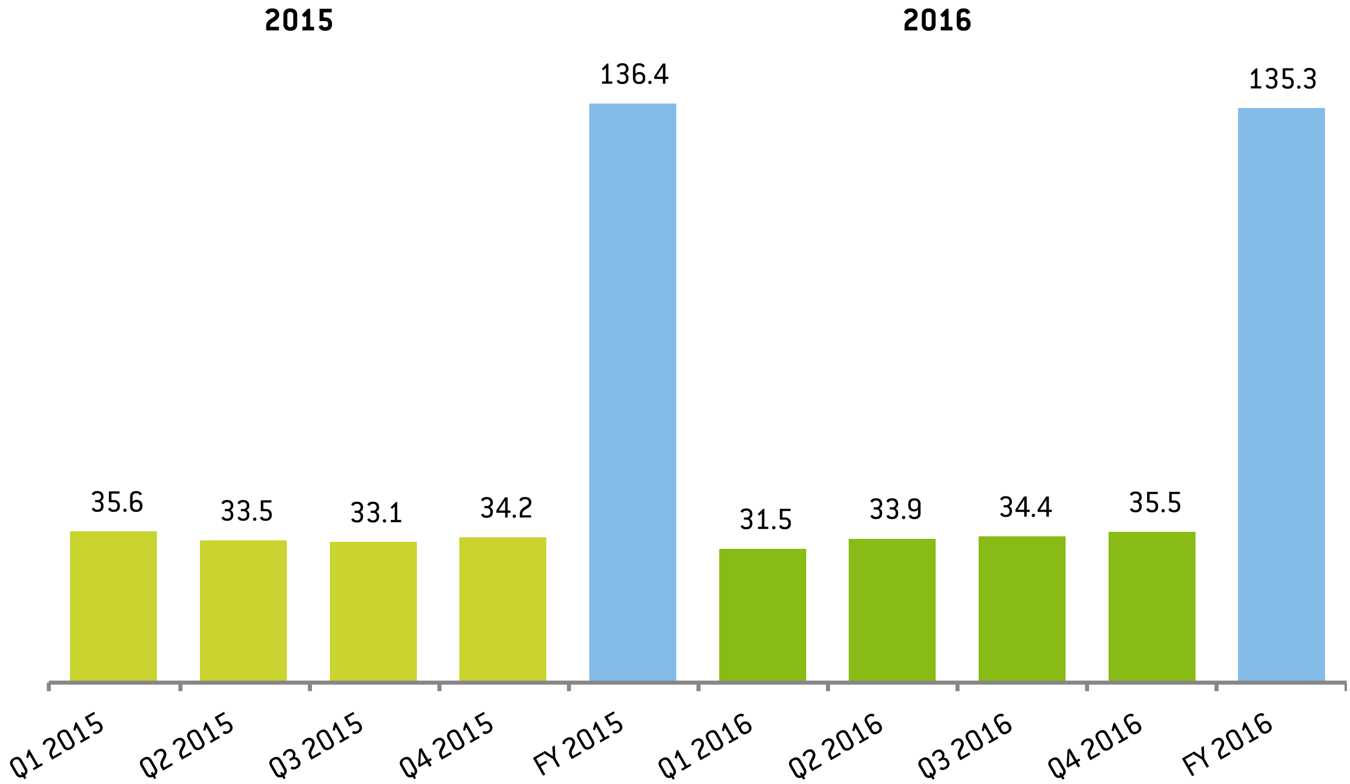
exceet's continued operation revenue of EUR 135.3 million (2015: EUR 136.4 million) decreased by 0.8%. The weaker exchange rates of the Swiss Franc and the US dollar versus the Euro reduced the consolidated net sales by 0.6% or EUR 0.9 million. On an organic basis, net sales 2016 declined by 0.2% (2015: decline of 8.7%).

On 31 December 2016 exceet's order backlog for the continued operations (excluding the sold card segment) amounted to EUR 92.2 million which is 19.9% higher as of 31 December 2015 (EUR 76.9 million) and reflects a book-to-bill ratio of 1.13 (2015: 1.00).

The Group achieved with its continued operations in 2016 sales of EUR 31.5 million in Q1, EUR 33.9 million in Q2, EUR 34.4 million in Q3 and EUR 35.5 million in the fourth quarter. This resulted in a steady upwards trend, ending with the strongest quarter in Q4 2016 since the beginning of 2015.

The combination of the reduced contribution out of the lower sales level, lower average margins out of the sales mix and inventory adjustments of EUR 0.7 million related to the downsizing of the operations in Rotkreuz/CH reduced the Gross Profit (continued operations) by EUR 3.3 million to EUR 17.2 million or 12.7% of net sales (2015: EUR 20.5 million or 15.0%). This topside effect on the EBITDA-Margin was diminished by a reduction of distribution costs of EUR 0.3 million and reduced administrative expenses of EUR 0.7 million. The EBITDA (continued operations) amounted to EUR 8.1 million or 6.0% of net sales (2015: EUR 10.0 million or 7.3%).

EXCEET'S QUARTERLY NET SALES DEVELOPMENT
(in EUR million)



Depreciations, amortizations and impairment charges (continued operations) in the amount of EUR 12.5 million were up by EUR 4.2 million against the previous year (2015: EUR 8.3 million). EUR 4.8 million (2015: EUR 5.0 million) relate to the depreciation of tangible assets, EUR 3.3 million (2015: EUR 3.3 million) relate to the amortization of intangible assets. In addition, exceet impaired 2016 the goodwill of exceet electronics AG in Switzerland by EUR 3.0 million to reflect expected lower future cash flows, the impairment of intangible assets related to customer relationships of EUR 1.0 million due to end-of-life projects of the downsized ECR AG operations in Rotkreuz/CH and also impaired capitalized development costs of EUR 0.4 million in exceet Secure Solutions GmbH.

The net financial loss of EUR 1.1 million (2015: net financial loss of EUR 1.9 million) includes a negative net foreign currency effect of EUR 0.3 million (2015: loss of EUR 2.6 million) and interest cost in the amount of EUR 0.7 million (2015: EUR 0.6 million). The foreign currency effect is non-cash and includes value adjustments of EUR 0.2 million on Euro intercompany loans given by the Swiss holding to finance other group companies (2015: minus EUR 2.1 million). These valuation adjustments reflect in 2015 the substantially weaker EUR against CHF rate of 1.0835 (31.12.2014: 1.2024). In 2015 a gain of EUR 1.4 million was realized out of the revaluation of the exceet warrants. The warrants expired on 27 July 2016. However, from this cancelation exceet reflected a small gain of Euro 20,000 out of the warrant revaluation (2015: gain of EUR 1.4 million).

The group result 2016 of minus EUR 31.4 million (2015: minus EUR 1.2 million), included the loss from discontinued operations of EUR 9.7 million and the deconsolidation loss out of the sale of the IDMS segment with EUR 14.6 million, the impairment of assets of EUR 4.4 million as well the loss from continued operations of EUR 2.7 million (2015: loss of EUR 1.4 million).

The calculation of basic earnings per share (EPS) on 31 December 2016 is based on the net loss from continued operations attributable to the shareholders of exceet Group SE of EUR 7.1 million for 2016 (2015: loss of EUR 1.4 million) and the weighted average number of 20,073,695 ordinary Class A Shares outstanding. The Class B/C Shares have been canceled as of 15 September 2016.

| Earnings per Share Continued Operations | | 2016 | 2015 |
|---|---|---|---|
| Profit/(Loss) for the year (in EUR 1,000) attributable to shareholders of the Group | Class A Shares | (7,121) | (797) |
| | Class B/C Shares | 0 | (565) |
| Weighted average number of ordinary shares outstanding | Class A Shares | 20,073,695 | 20,073,695 |
| | Class B/C Shares | 0 | 14,210,526 |
| **Basic earnings/(loss) per share (Euro/share)** | **Class A Shares** | **(0.35)** | **(0.04)** |
| | **Class B/C Shares** | **0.00** | **(0.04)** |

## SEGMENT REPORTING

### Electronic Components, Modules & Systems (ECMS)

Segment sales decreased slightly by 0.5% to EUR 126.2 million (2015: EUR 126.8 million) mainly caused that new projects which did not compensate the lower sales attributed to a number of projects being at the end of their life cycle in Rotkreuz/CH and the lower request for PCB deliveries caused by the reduced production volumes of a few OEM customers at the end of the year. In 2016, EBITDA reached EUR 12.9 million against EUR 15.1 million in 2015. The EBITDA margin decreased accordingly from 11.9% in 2015 to 10.3% in 2016. Main reason is the project mix and the not in line to the actual level of sales adjustable personnel costs due to the need to push sales and development activities for future projects.

### exceet Secure Solutions (ESS)

The ESS segment achieved sales (all third party net sales) of EUR 9.2 million during the reporting period (2015: EUR 9.6 million). The segment is focused on secure remote services, IT Security and industrial Internet of Things (IoT) projects and solutions. The technical development for a structured offering of secure connectivity in the market was continued in 2016. As of 31 December 2016 the costs of current projects of EUR 1.3 million (2015: EUR 0.3 million) have been capitalized as work in progress with expected future revenues.

**ID Management & Systems (IDMS) – discontinued operations**
The IDMS segment provided cards, personalization and related services for loyalty, payment and urban mobility markets. The segment was sold effective on 30 September 2016 (for further details see Group Consolidated Financial Statements note 29 "Discontinued Operations").

## BALANCE SHEET POSITIONS

As of 31 December 2016, the total assets of exceet Group amounted to EUR 151.8 million, compared to EUR 186.6 million as of 31 December 2015.

The non-current assets amounted to EUR 70.4 million (2015: EUR 96.9 million) and decreased by EUR 26.5 million whereof EUR 23.0 million were related to the IDMS segment. On a comparable basis this position included tangible assets of EUR 29.1 million (2015 on a comparable basis: EUR 28.1 million), intangible assets of EUR 38.6 million (2015 on a comparable basis: EUR 44.6 million) and other non-current assets of EUR 2.7 million (2015 on a comparable basis: EUR 1.2 million). The reduction of the intangible assets was driven by the regular amortization, the impairment of goodwill of EUR 3.0 million due to expected lower future cash flows of exceet electronics AG in Switzerland and the impairment of assets related to customer relationships of EUR 1.0 million due to the end-of-life projects of the downsized ECR AG operations in Rotkreuz/CH. The higher amount of other non-current assets of EUR 1.5 million includes mainly a working capital related loan to the IDMS segment of EUR 1.5 million, which was prolonged till 31 December 2017 with the sale of the IDMS segment.

Current assets amounted to EUR 81.4 million, compared to EUR 89.6 million at year-end 2015. The decrease of EUR 8.2 million is mainly caused out of the sale of the IDMS segment with EUR 13.7 million. Inventories rose by EUR 2.9 million to EUR 28.7 million (2015 on a comparable basis: EUR 25.8 million). Receivables stayed stable at EUR 19.0 million (2015 on a comparable basis: EUR 18.7 million). On a comparable basis current income tax receivables increased by EUR 0.4 million and other current asset positions by EUR 0.2 million.

At the end of the reporting period, exceet Group's equity amounted to EUR 84.1 million, against EUR 105.5 million as of 31 December 2015. This represents an equity ratio of 55.4% (2015: 56.5%).

The decrease of the current liabilities by EUR 2.1 million to EUR 23.7 million as of 31 December 2016 (2015: EUR 25.8 million) includes an decrease of EUR 7.9 million out of the sale of the IDMS segment as well the increase of trade payables of EUR 1.5 million, borrowings of EUR 4.6 million (EUR 4.7 million reclassified from long-term borrowings – see exceet Group Consolidated Financial Statements note 14 "Borrowings"), accruals of EUR 0.4 million and the net decrease of other smaller positions within the current liabilities of EUR 0.8 million.

Non-current liabilities decreased by EUR 11.2 million from EUR 55.2 million at year-end of 2015 to EUR 44.0 million. This change is based on the sale of the IDMS segment with EUR 4.2 million as well as the decreased long-term borrowings by EUR 6.5 million (EUR 4.7 million reclassified to short-term borrowings), the increased retirement benefit obligations by EUR 1.2 million, the decreased tax liabilities by EUR 1.2 million and the decrease of other non-current liabilities of EUR 0.5 million.

**Financial situation**
Cash and cash equivalents decreased from EUR 33.3 million to EUR 30.9 million. This decrease of EUR 2.4 million can mainly be attributed to the net received cash of EUR 9.9 million out of the sale of the IDMS segment, the negative free cash flow of EUR 10.7 million and the outflow of cash for financing activities - mainly financial leasing. The free cash flow of the continued operations (excluding the impact of the sold IDMS segment of EUR minus 3.9 million) amounts to EUR minus 6.8 million. This includes the cash inflow of EUR 6.4 million out of the operations, EUR 2.2 million for investments into the net working capital, EUR 7.1 million for capital expenditures (including EUR 1.4 million out of financial leasing), EUR 3.2 million for tax payments and EUR 0.8 million for interest payments.

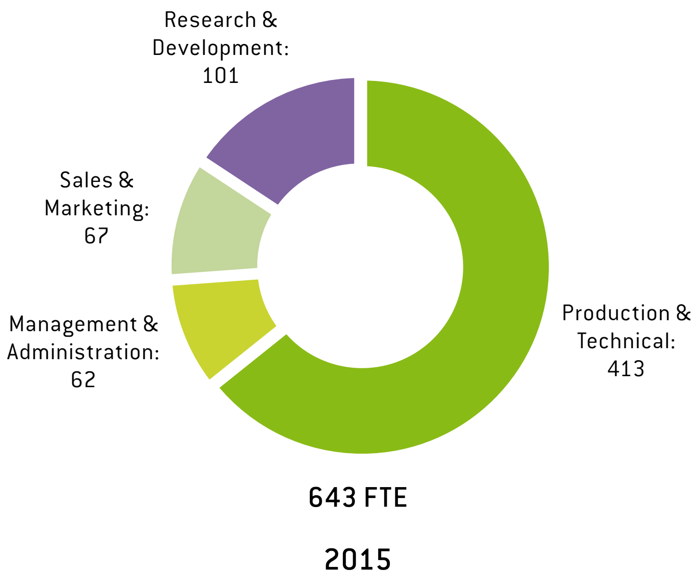
The net debt position as of 31 December 2016 amounts to EUR 5.4 million (2015: EUR 8.1 million). With the sale of the IDMS segment exceet is obliged to reduce his bank debt by EUR 4.7 million (CHF 5.0 million) as of 31 March 2017 (see exceet Group Consolidated Financial Statements note 14 "Borrowings").

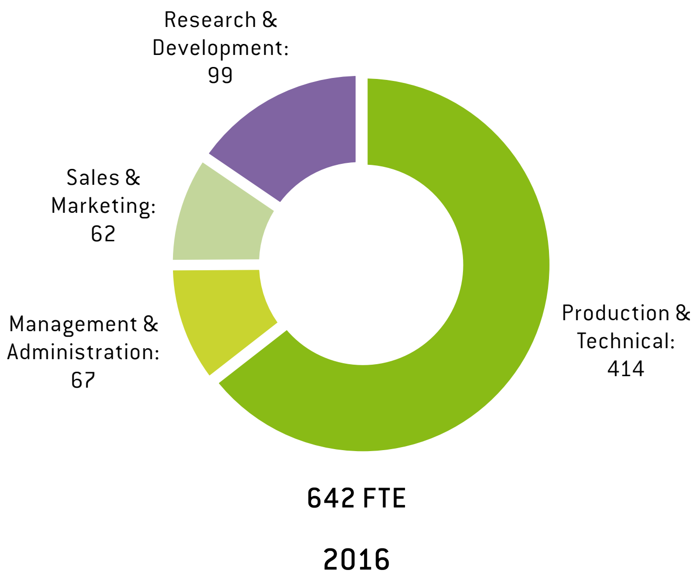
**Capital expenditures**
Net capital expenditures of continued operations, including financial leasing, of EUR 7.1 million (2015: EUR 4.7 million), representing 5.3% (2015: 3.4%) of revenues, were invested in property, plant, equipment and software during 2016. Main investments were EUR 2.2 million for equipment of the opto-electronic and wafer backend production as well EUR 2.5 million into the machinery and infrastructure of the PCB production.

## EMPLOYEES

As of 31 December 2016, the Group employed 642 FTE (2015: 1,021), representing a decrease of 379 FTE or 37.2% over the past year. The main reduction is related to the sale of the IDMS segment with 378 FTE. On the basis of continued operations, 308 FTE (2015: 297) were employed in Germany, 81 (2015: 67) in Austria, 238 (2015: 263) in Switzerland, and 14 FTE (2015: 16) in Romania and 1 FTE (2015: 0) in USA.

### EXCEET'S EMPLOYEES BY ACTIVITIES




### NON-FINANCIAL PERFORMANCE INDICATORS

**Staff as a key success factor**
exceet is an attractive employer, offering interesting job prospects in an international environment. The loyalty of our employees and their motivation and expertise represent important success factors, and a great competitive advantage.

The human resource strategy supports the core objectives of the corporate strategy. exceet's HR strategy focuses on competitiveness and diversity. Specifically, this strategy entails the forward-looking establishment of expertise through selected talent recruitment and promotion as well as the attractive and flexible structuring of working conditions.

In due consideration of individual qualification and the integration capacity of an applicant, exceet aims to enhance the quota of female staff on all hierarchy levels.

A further focus of personnel management is to support employees' personal and professional development. Due to the intensely competitive environment, special significance is also allocated to recruiting specialist and managerial staff to realize complex customer projects and to further standardize internal processes and systems.

The number of employees (full-time-equivalent) as of 31 December 2016 was 642 (continued operations 2015: 643), divided into production & technical: 414 (2015: 413), management & administration: 67 (2015: 62), sales & marketing: 62 (2015: 67), and research & development: 99 (2015: 101).

**Corporate responsibility**
exceet supports projects in the environmental, social and scientific areas, thereby reflecting the Group's corporate responsibility. exceet contributes actively to environmental protection through its careful handling of natural resources, avoidance and recycling of production waste, and development of energy-saving products. Product innovations that enable intelligent and efficient use of energy are an example of the Group's commitment in this field. The Group also benefits from close partnerships and collaborations with public and private research institutions and research and technology businesses, such as the Fraunhofer Institute of Reliability and Microintegration (IZM), the German Federal Ministry of Education and Research (BMBF) or the Leibniz Institute for High-Frequency Technology (Ferdinand-Braun-Institut, Leibniz-Institut für Höchstfrequenztechnik).

**Sustainability**
As a diversified technology group, exceet provides innovative products and solutions worldwide that secure sustainable success for our customers and therefore contributes continuously to global sustainable development. This is based on a responsible corporate management geared to long-term value creation.

**Development and technology investments**
The availability of qualified development capacities and state-of-the-art production technologies is key for exceet's business model. The research and development expenditures for the year 2016 amounted to EUR 7.9 million (2015: EUR 7.4 million), representing 5.8% of the Group's net sales. Due to this unchanged high level of investments in development and technology, exceet is expecting to keep the technology and quality leadership for customers benefit.

# OPPORTUNITIES AND RISK REPORT

exceet is exposed to numerous risks and opportunities as part of its business activity; these are invariably linked to the Group's commercial activities. exceet adopts a comprehensive risk management strategy through the Group for early detection and control of risks and to benefit from opportunities resulting from operating activities or improved market conditions. A balanced risk profile is observed in every decision-making instance. The risk policy is oriented on the objective of securing and enhancing exceet's position in its markets in order to achieve a long-term increase in the Company's value. The Board of Directors and the Management Board have established an internal control system for the diverse organizational, technical and commercial processes within the Group. A central component of exceet's risk policy is to take risks only if there is a high probability that the associated business activities will provide added value for the Company. The underlying requirement is that the risks must always remain transparent and manageable.

## OPPORTUNITY MANAGEMENT

The Management Board of the Group regularly debates the Group's strategic opportunities. The task of the Group's companies is to identify opportunities at the operational level and to improve earnings performance where possible.

## RISK MANAGEMENT

exceet manages company risks with a group-wide risk management system, which is an integral component of the business processes and a significant element of the decision-making in the company. This permits timely identification of potential risks arising in connection with business activities, as well as risk monitoring and limitation using suitable control measures. At the same time, the risk management system serves as a tool to help seize opportunities in the best possible manner in terms of the Group strategy. The risks relevant for exceet Group can be divided into external, i.e. market and sector-specific risks, as well as internal risks. The latter include strategic, financial, operational and company-related risks.

## SECTOR- AND MARKET-RELATED RISKS

Sustained weak economic development or a downturn of the economy, particularly in Europe, as well as upcoming trade barriers can have a negative impact on demand for exceet products. This would result in decreasing sales and margin pressure. exceet counters these risks by way of constantly improving its technology leadership position in all segments with permanent and comprehensive development activities and state-of-the art manufacturing processes. In addition exceet is constantly developing promising market segments and strictly managing its fixed costs and focussing on the core competences in smart and secure electronics.

## STRATEGIC RISKS

To improve the actual market position, exceet pursues part of its growth via strategic acquisitions in sectors and markets relevant to exceet. If the Company is not able to identify suitable companies in the future or not able to successfully integrate the acquired companies into the Group, this could have a negative impact on the Group's competitive position, growth opportunities and profitability. However, these risks are considered to be minimal, given the long-term experience of Management and the conservative acquisition policy.

## INTEREST RATE, LIQUIDITY AND CURRENCY RISKS

exceet is exposed to interest rate, liquidity and currency risks as part of its business activity. Derivative financial instruments are used from time to time in order to limit interest rates. This relates to specific hedging of the risks arising from operational business. Financial instruments entered into and yet to be entered into are continually monitored with the aid of the implemented risk management system.

The Group companies generate revenue mostly in Euro, Swiss francs and to a smaller extent in US dollars. Generally, foreign currencies are kept only if future payments are expected to be made in the respective currency. Foreign currency exposure is mitigated by balancing currency needs among the Group companies. However, the Group is exposed to foreign exchange risks, especially with regard to Swiss francs and US dollars. From time to time the Group is involved in hedging transactions. Liquidity risks arise where payment obligations cannot be fulfilled, can be only partially fulfilled, or are fulfilled with delay due to a lack of liquidity. Solvency is ensured by way of revolving liquidity planning. The Company also has adequate lines of credit to achieve short-term flexibility.

## CREDIT RISKS

Credit risks exist regarding financial institutions and customers. The credit risk with respect to financial institutions, which has gained significance in light of the global banking crisis, predominantly arises from the investment of liquid funds. In order to minimize a possible risk of default, financial instruments are mainly entered into with counterparties with prime credit ratings. The credit risk with respect to customers consists of granting terms of credit and the associated risk of default. Credit risk is managed on a group-wide basis. Credit risks arise from cash and cash equivalents, and deposits with banks and financial institutions. Credit exposures to customers, including outstanding receivables and committed transactions, are managed by the individual group companies.

## QUALITY RISKS

Ensuring maximum and consistent quality of all exceet products requires close collaboration with all contract partners. Therefore procurement, production and logistic risks are all monitored regularly to achieve the target of maximum and consistent quality. One risk factor is a potential decrease of product quality. exceet counters these risks with numerous regular audits and quality tests by independent testers and quality assurance measures.

## LEGAL RISKS

Legal risks in connection with product liability, warranties or employment law are comprehensively analyzed by the Legal Department and, where required, external specialist consultants. exceet is thus in a position to adequately counter potential risks in a timely manner. Despite these measures, the outcome of current or future actions cannot be predicted with certainty.

## PERSONNEL RISKS

exceet places great value on the proper and respectful treatment of all employees. However, the Group also depends heavily on the management board and other managers. Loss of managers could have a negative impact on the development of the Group. exceet counters this risk by creating a good working environment as well as attractive remuneration agreements, taking the Company's long-term objectives into consideration.

### IT RISKS

The availability and efficiency of IT infrastructure and applications is crucial for the economic performance of the Group. IT risks consist of the possible failure of operational and administrative IT systems which could impair business transactions. A failure of IT systems could entail existential risks for the Group. exceet therefore specifically invests in the expansion and continual development of modern IT systems in order to ensure functionality at all times and to increase the effectiveness of processes. Although all IT systems have multiple safeguards, it cannot be ruled out that data may be lost, for example as a result of fire, power failures, system errors, hacker attacks, fraud or terrorism. exceet has appointed data protection officers according to the legal requirements in all relevant areas.

### EVALUATION OF THE OVERALL RISK SITUATION

Risks that could threaten the continued existence of the Group are currently not present. The impact on the risk profil out of the disposal of the card activities is estimated to be slightly positive as exceet is now more focussed. Overall, there have been no significant changes regarding the Group as compared to the end of the 2015 financial year.

## REPORT ON EXPECTED DEVELOPMENTS

### OUTLOOK FOR 2017

From a current point of view, in 2017 a similar sales progression pattern as in 2016 can be considered probable. The management is confident that organic growth can be achieved in the current year, again with a better cumulative second half compared to the first half. Latest order backlog figures are giving confidence, but the general economic environment and possible effects on customers' behaviour seem to be fragile. Operating profitability as measured by EBITDA should have bottomed out in the last year and a solid base has been set for higher results again. As communicated earlier, a more favourable earnings development will be also supported by the adjusted management structure generating savings of up to EUR 2.0 million for the entire year.

The EBITDA margin, which reached 6.0% in 2016, is expected to improve visibly on a total year basis but a certain volatility of this figure on a quarterly basis has to be kept in mind due to the project type business of the Group. However, exceet's project cycle is developing favourably and cost structures have been improved. The already mentioned new management structure, starting 1 January 2017, leaves the management board consisting of the positions of CEO and CFO, currently held by the same person. The second level management team reports now directly to the management board and will be supported by limited group functions related to business and technical development as well as sales activities. Furthermore, exceet has now a dilution-free, transparent capital structure, which no longer has an impact on the financial results. The optimization of production by migrating activities and concentrating them, as it is the case with the shift of production activities from Rotkreuz/CH to Ebbs/AT, is a time consuming procedure. exceet's customers are involved into that process as they have to agree to it in principle and renew all necessary certifications. The downsized electronics operations in Rotkreuz/CH will focus further on the promising innovative Swiss market. The management is expecting a transformation period of up to two years until the operations at Rotkreuz/CH reach the initial turnover volume. The also Swiss-based PCB business in Küssnacht/CH will continue its successful track record.

The management is committed to its customers and to organic growth. A further focus will be placed on the improvement of the operational cash flow generation and on the effort to improve sustainably the EBITDA margin. The Group is well positioned in the field of smart and secure electronics by offering innovative support for development, industrialization and manufacturing.

### SUPPLEMENTARY REPORT

As published on 14 February 2017, Greenock S.à r.l., a major shareholder of exceet Group SE, has informed the Board of Directors of exceet Group SE that it has entered into discussions with a potential buyer of its stake in exceet at a price of Euro 3.90 to Euro 4.00 per share. exceet grants the potential buyer the opportunity to conduct a due diligence of exceet. However, the Board of Directors of exceet Group SE is not yet able to assess, whether the conditions precedent for the acquisition of Greenock's stake by the potential buyer and for the potential tender offer to the shareholders of exceet Group SE will be met or not.

Up to end of February 2017, no further noteworthy operational and structural changes or business transactions have occurred that would significantly change the net assets, financial position and results of operations of exceet Group as compared to 31 December 2016.

## CORPORATE GOVERNANCE

exceet Group SE recognizes the importance of corporate governance. The corporate governance rules of exceet Group SE are based on Luxembourg law, its articles of association (the "Articles"), and its internal regulations. The internal regulations comprise (i) the bylaws of the board of directors of exceet Group SE, approved on 13 September 2011 (the "Bylaws"), (ii) the charter of the audit committee, approved on 13 September 2011 (the "Charter of the Audit Committee"), and (iii) the charter of the compensation and appointment committee, approved on 13 September 2011 (the "Charter of the Compensation and Appointment Committee").

Electronic copies of the Articles, the Bylaws the Charter of the Audit Committee as well as of the Charter of the Compensation and Appointment Committee can be downloaded from the website of exceet Group SE at http://ir.exceet.lu/investor-relations/corporate-governance.

The main characteristics of exceet's internal control and risk management systems, as far as the establishment of financial information is concerned, can be found in the exceet Group Consolidated Financial Statements under note 2.8 "Financial risk management".

### THE BOARD OF DIRECTORS AND THE GROUP MANAGEMENT BOARD

The board of directors is responsible for the strategic orientation, the organizational principles and material financial aspects of exceet. Management of the business as such is delegated to the group management board. The authority and the responsibilities of the board of directors and its committees, as well as the rules governing authority over group management, are set out in the Bylaws.

### COMMITTEES OF THE BOARD OF DIRECTORS

The board of directors as a whole is supported by the audit committee to obtain information and to strengthen the supervision and coordination with the auditor. The audit committee consists of independent and non-executive directors. The compensation and appointment committee elaborates the principles concerning the remuneration of the board of directors and the group management board. The compensation and appointment committee consists of independent and non-executive directors. Both committees meet at least once a year.

### AUDITORS

PwC Société coopérative, Luxembourg, represented by lead auditor Philippe Duren, has been the statutory and group auditors of exceet Group SE and the exceet Group, respectively, since the financial year 2012. The auditors are elected by the annual general meeting of the shareholders of the Company for the term of office of one year.

Information on the composition and function of the administrative, management and supervisory bodies of the Company and its committees can be found in the exceet Group Consolidated Financial Statements under note 31 "Ultimate controlling parties and related-party transactions".

## TAKEOVER LAW

The following disclosures are made in compliance with article 11 of the Luxembourg law of 19 May 2006 on takeover bids, as amended (the "Takeover Law"):

### SHARES

The Company's issued share capital is set at Euro 311,960.16, represented by 20,523,695 shares (the

"Shares"). The Shares are listed on the regulated market of the Frankfurt Stock Exchange.

As of 31 December 2016, 450,000 Shares with a par value of Euro 0.0152 each, representing 2.2% of the issued share capital of the Company are held by its as treasury shares to cover the management stock option plan (see exceet Group Consolidated Financial Statements note 13 "Equity").

On 26 July 2016 the conversion rights of holders of Class B and Class C Shares contained in the Articles expired. At the extraordinary general meeting (the "EGM") held 15 September 2016, shareholders agreed to the decrease of the Company's issued share capital by an amount of Euro 216,000.00 from Euro 527,960.16 to Euro 311,960.16 through the cancelation of all (i) 5,210,526 redeemable Class B Shares and (ii) 9,000,000 redeemable Class C Shares from their holders at their accounting par value.

The public warrants of the Company (ISIN LU0472839819) expired on 26 July 2016 in accordance with clause 9.2 of their terms and conditions and have been automatically and immediately canceled on 27 July 2016.

A copy of the Articles can be accessed at http://ir.exceet.lu/investor-relations.

## RIGHTS ATTACHED TO THE SHARES

Each Share entitles the holder thereof to one vote. All Shares carry equal rights as provided for by Luxembourg Law and as set forth in the Articles, including rights to receive dividends (if declared) or liquidation proceeds.

Holders of the Shares and derivatives or other financial instruments linked to the Shares may be subject to notification obligations pursuant to the Luxembourg law of 11 January 2008 on transparency requirements regarding information about issuers whose securities are admitted to trading on a regulated market, as amended (the "Transparency Law"). The following description summarizes these obligations.

The Transparency Law provides that, if a person acquires or disposes of a shareholding in the Company Group SE, and if following the acquisition or disposal the proportion of voting rights held by the person reaches, exceeds or falls below one of the thresholds of 5%, 10%, 15%, 20%, 25%, 33.33%, 50% or 66.66%, of the total voting rights existing when the situation giving rise to a declaration occurs, such person must simultaneously notify the Company and the "Commission de Surveillance du Secteur Financier" (the "CSSF") of the proportion of voting rights held by it further to such event.

A person must also notify the Company and the CSSF of the proportion of his voting rights if that proportion reaches, exceeds or falls below the abovementioned thresholds as a result of events changing the breakdown of voting rights and on the basis of the information disclosed by the Company.

The same notification requirements apply to a natural person or legal entity to the extent he is entitled to acquire, to dispose of, or to exercise voting rights in any of the following cases or a combination of them:

(i) voting rights held by a third party with whom that person or entity has concluded an agreement, which obliges them to adopt, by concerted exercise of the voting rights they hold, a lasting common policy towards the management of the issuer;

(ii) voting rights held by a third party under an agreement concluded with that person or entity providing for the temporary transfer for consideration of the voting rights in question;

(iii) voting rights attaching to Shares which are lodged as collateral with that person or entity, provided the person or entity controls the voting rights and declares his intention of exercising them;

(iv) voting rights attaching to Shares in which that person or entity has the life interest;

(v) voting rights which are held, or may be exercised within the meaning of points (i) to (iv), by an undertaking controlled by that person or entity;

(vi) voting rights attaching to Shares deposited with that person or entity which the person or entity can exercise at his discretion in the absence of specific instructions from the shareholders;

(vii) voting rights held by a third party in its own name on behalf of that person or entity;

(viii) voting rights which that person or entity may exercise as a proxy where the person or entity can exercise the voting rights at his discretion in the absence of specific instructions from the shareholders.

The notification requirements as set out in article 12 of the Transparency Law also apply to a natural person or legal entity that holds, directly or indirectly:

(i) financial instruments that, on maturity, give the holder, under a formal agreement, either the unconditional right to acquire or the discretion as to his right to acquire, Shares to which voting rights are attached, already issued by the Company, or

(ii) financial instruments which are not included in point (i), but which are referenced to the Shares referred to in that point and with economic effect similar to that of the financial instruments referred to in that point, whether or not they confer a right to a physical settlement.

In addition, where the relevant thresholds are reached or passed upwards or downwards, the law provides for the notification of the aggregate amount of voting rights attached to Shares and those that are notifiable in connection with the special financial instruments set out in the preceding paragraph.

The notification to the Company and to the CSSF must be effected as soon as possible, but not later than six trading days following a transaction or four trading days following information of an event changing the breakdown of voting rights by the issuer. Upon receipt of the notification, but no later than three trading days thereafter, the Company must make public all the information contained in the notification as regulated information within the meaning of the Transparency Law.

Where within the 15 days preceding the date for which the general meeting of shareholders has been convened, the Company receives a notification or becomes aware of the fact that a notification has to be or should have been made in accordance with the Luxembourg Transparency Law, the Board of Directors may postpone the general meeting of shareholders for up to four weeks.

Among other exemptions, in accordance with article 8(4) of the Transparency Law, the disclosure requirements do not apply to the acquisition or disposal of a major holding by a market maker (teneur de marché) in securities insofar as the acquisition or disposal is effected in his capacity as a market maker in securities and insofar as the acquisition is not used by the market maker to intervene in the management of the Company.

Any shareholder together with any affiliate (as defined at article 7.4 of the Articles) and any shareholder with whom such a shareholder is acting as a group and whose aggregate shareholding exceeds two percent of the issued Shares at any time or any multiple thereof must provide the Company with written notice of such event within four business days of such event, as set out in article 7.4 of the Articles. The foregoing is without prejudice to the statutory notification obligations of shareholders of the Company and holders of other financial instruments related to the Shares.

For purposes of the Articles, "acting as a group" means, shareholders who cooperate on the basis of an agreement either express or tacit, either written or oral, for the purpose of acquiring, holding, voting or disposing of Shares. The board of directors of the Company determines if shareholders are acting as a group and, absent manifest error, the determination will be binding on such shareholders.

## RESTRICTIONS ON VOTING RIGHTS

Each Share issued and outstanding in the Company represents one vote.

The Articles do not provide for any voting restrictions. Shareholders' votes are exercisable by the persons who are shareholders on the record date as further set out in article 10 of the Articles, and proxies must be received by the Company a certain time before the date of the relevant shareholder meeting, as set out in article 11 of the Articles. In accordance with the provisions of the Articles, the board of directors of the Company may determine any such other conditions to be fulfilled by the shareholders willing to take part in any meeting of shareholders of the Company in person or by proxy.

The Company recognizes only one holder per Share. In case a Share is owned by several persons, they must designate a single person to be considered as the sole owner of such Share in relation to the Company. The Company is entitled to suspend the exercise of all rights attached to a Share held by several owners until one owner has been designated.

In accordance with article 28 of the Transparency Law and in accordance with article 7.4 of the Articles, the exercise of voting rights related to the Shares exceeding the fraction that should have been notified under the respective provisions as set out above is suspended. The suspension of the exercise of voting rights is lifted the moment the shareholder makes the relevant notification.

## SPECIAL CONTROL RIGHTS

There are no special control rights attached to any of the Shares.

## SHARE TRANSFER RESTRICTIONS

As at the date of this report all Shares are freely transferable.

## CONTRACTUAL TRANSFER RESTRICTIONS

Other than the restrictions set out in the Articles, exceet Group SE is not aware of any factors, including agreements between shareholders, which may result in restrictions on the transfer of Shares or voting rights attached thereto.

## SIGNIFICANT SHAREHOLDINGS

The details of shareholders holding 5% of the Shares or more as notified to the Company are published under "Notifications of Voting Rights" on the "Investor Relations" page at http://www.exceet.lu. Furthermore, as of 28 February 2017, the Company currently holds 450,000 own Shares (2.2% of the total outstanding Shares) as treasury shares. The major shareholders notified to the Company till 28 February 2017 are set out in the table:

| Shareholders | Number of Shares | Percentage of total shareholding notified [6] |
|---|---|---|
| Shareholder group: | | |
| Oranje-Nassau Participaties B.V. (Wendel) [1][2] | | |
| Eiflia Holding GmbH [1] | | |
| Greenock S.à r.l. [1][3] | 14,029,780 | 68.36% |
| Mr. Roland Lienau [1] | | |
| Mr. Ulrich Reutner [1] | | |
| Mr. Robert Wolny [1] | | |
| Mr. Jan Trommershausen [1] | | |
| The shareholdings of the following indirect shareholders are included in the group above: | | |
| Vorndran Mannheims Capital GmbH [4] | 6,949,808 | 33.86% |
| Wendel SA [5] | 5,708,427 | 27.80% |
| Shareholder group: | | |
| Argos-Funds [7][8] | | |
| Quaero Funds (CH) Swiss Mid and Small Cap Fund [7] | 1,824,124 | 8.89% |

[1] The holdings of Oranje-Nassau Participaties B.V., Eiflia Holding GmbH, Greenock S.à r.l., and Messrs Roland Lienau, Ulrich Reutner, Robert Wolny and Jan Trommershausen are aggregated by virtue of Article 9(a) of the Transparency Law

[2] Oranje-Nassau Participaties B.V. is controlled by Wendel SA

[3] Greenock Sá r.l. is controlled by Vorndran Mannheims Capital GmbH

[4] Vorndran Mannheims Capital GmbH, formerly Ventizz Holding GmbH & Co. KG, has notified that it holds the Shares indirectly via Greenock S.à r.l.

[5] Wendel SA has notified that it holds the Shares indirectly via Oranje-Nassau Participaties B.V.

[6] The Company has reduced the number of its outstanding Shares from 39,385,526 to 34,734,221 as of 21 November 2011 and from 34,734,221 to 20,523,695 as of 15 September 2016. Consequently the percentages indicated in this column diverge from the percentages notified to the Company.

[7] Argos-Funds, Luxembourg and Quaero Funds (CH) Swiss Mid and Small Cap Fund, Geneva are indirect holdings of Quaero Capital S.A., Geneva

[8] Argos Funds, Luxembourg holds over 5% individual

## SYSTEM OF CONTROL OF THE MANAGEMENT STOCK OPTION PLAN

exceet Group SE currently has a management stock option plan (see exceet Group Consolidated Financial Statements note 16 “Share-based payments”). The Company currently holds 450,000 Shares as Treasury Shares to cover obligations arising out of the management stock option plan. Prior to the allocation thereof to beneficiaries (and there are none allocated at the moment), voting rights attached to the treasury shares are suspended. Once the Treasury Shares will be allocated under the existing management stock option plan, the voting rights will become exercisable by the relevant beneficiaries.

## APPOINTMENT OF BOARD MEMBERS, AMENDMENTS TO THE ARTICLES

The appointment and replacement of the members of the board of directors are governed by Luxembourg law and articles 17 and 18 of the Articles. The Articles are amended in accordance with Luxembourg law and article 12 of the Articles.

## POWERS OF THE BOARD OF DIRECTORS

The board of directors is vested with the broadest powers to take any actions necessary or useful to fulfil the Company’s corporate object, with the exception of the actions reserved by law or by regulation or the Articles to the general meeting of shareholders.

## THE EFFECT OF A TAKEOVER BID ON SIGNIFICANT AGREEMENTS

The Company is party to finance agreements which terminates upon a change of control of the Company following a takeover bid (see exceet Group Consolidated Financial Statements note 14 “Borrowings”). No other significant agreements are known which take effect, alter or terminate in that case.

## AGREEMENTS WITH DIRECTORS AND EMPLOYEES

No agreements exist between exceet Group SE and the members of its board of directors or its employees that provide for compensation if the members of the board of directors or employees resign or are made redundant without valid reason, or if their employment ceases due to a takeover bid for the Company.

## RESPONSIBILITY STATEMENT

In accordance with article 3(2) c) of the Transparency Law the undersigned declares that, to the best of his knowledge, the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the undertakings included in the consolidation taken as a whole. The undersigned further declares that, to the best of his knowledge, the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties they face.

Luxembourg, 28 February 2017

Wolf-Günter Freese
Acting CEO & CFO

On behalf of the Board of Directors
and Management Board

exceet Group SE

## FORWARD-LOOKING STATEMENTS

This annual report contains statements that refer to the future. Forward-looking statements are generally characterized by terms such as “could”, “will”, “should”, “potential”, “intend”, “expect”, “seek”, “attempt”, “predict”, “estimate”, “overestimate”, “underestimate”, “believe”, “may”, “forecast”, “continue”, “plan”, “project” or similar terms and formulations. Forward-looking statements are based on certain assumptions, outline future expectations, describe future plans and strategies, contain predictions on the earnings and financial position or express other forward-looking information. The possibilities of predicting results or the actual effects of forward-looking plans and strategies are limited. Even though exceet Group SE assumes that the expectations expressed by these forward-looking statements are based on appropriate assumptions, the actual results and developments may deviate significantly from the information presented in the forward-looking statements. These forward-looking statements are subject to risks and uncertainties and depend on other factors, based on which the actual results in future periods may deviate significantly from the forecast results or communicated expectations. exceet Group SE does not intend, nor shall it undertake, to update the forward-looking statements on a regular basis, as these are based solely on the conditions present at the date of publication.

## FINANCIAL CALENDAR 2017

| Date | Publication |
|---|---|
| 2 May | Interim First Quarter Report 2017 (QI) |
| 3 May | Annual General Meeting of exceet Group SE in Luxembourg |
| 7 August | Interim First Half Year Report 2017 (QII) |
| 6 November | Interim 9 Months Report 2017 (QIII) |

exceet intend to be present on the German Equity Forum 2017 in Frankfurt/M., Germany (27 – 29 November 2017).

# EXCEET GROUP CONSOLIDATED FINANCIAL STATEMENTS

All comments within the accompanying notes are in EUR 1,000, if not stated otherwise.

# CONSOLIDATED BALANCE SHEET

| (in EUR 1,000) | Note | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Tangible assets | 5 | 29,086 | 34,425 |
| Intangible assets | 6 | 38,551 | 60,944 |
| Deferred tax assets | 7 | 1,206 | 1,362 |
| Other financial investments | | 1,517 | 30 |
| Other non-current receivables | 10 | 0 | 186 |
| **Total non-current assets** | | **70,360** | **96,947** |
| | | | |
| **Current assets** | | | |
| Inventories | 8 | 28,657 | 30,440 |
| Trade receivables, net | 9 | 18,953 | 22,720 |
| Other current receivables | 10 | 1,151 | 1,462 |
| Current income tax receivables | | 1,251 | 1,006 |
| Accrued income and prepaid expenses | 11 | 516 | 745 |
| Cash and cash equivalents | 12 | 30,874 | 33,256 |
| **Total current assets** | | **81,402** | **89,629** |
| **Total assets** | | **151,762** | **186,576** |
| | | | |
| EQUITY | | | |
| Share capital | 13 | 312 | 528 |
| Reserves | 13 | 83,830 | 104,960 |
| **Equity attributable to Shareholders of the parent company** | | **84,142** | **105,488** |
| **Total equity** | | **84,142** | **105,488** |
| | | | |
| LIABILITIES | | | |
| **Non-current liabilities** | | | |
| Borrowings | 14 | 29,358 | 37,045 |
| Retirement benefit obligations | 15 | 10,311 | 9,784 |
| Deferred tax liabilities | 7 | 2,635 | 5,486 |
| Provisions for other liabilities and charges | 20 | 603 | 1,301 |
| Other non-current liabilities | 19 | 1,054 | 1,633 |
| **Total non-current liabilities** | | **43,961** | **55,249** |
| | | | |
| **Current liabilities** | | | |
| Trade payables | | 8,077 | 9,191 |
| Other current liabilities | 19 | 2,281 | 4,258 |
| Accrued expenses and deferred income | 17 | 5,774 | 7,137 |
| Current income tax liabilities | | 594 | 600 |
| Borrowings | 14 | 6,933 | 4,273 |
| Other financial liabilities | 18 | 0 | 20 |
| Provisions for other liabilities and charges | 20 | 0 | 360 |
| **Total current liabilities** | | **23,659** | **25,839** |
| **Total liabilities** | | **67,620** | **81,088** |
| | | | |
| **Total equity and liabilities** | | **151,762** | **186,576** |

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED INCOME STATEMENT

| (in EUR 1,000) | Note | Continued Operations 2016 | Continued Operations 2015 |
|---|---|---|---|
| Revenue | | 135,322 | 136,396 |
| Cost of sales | 21-24 | (118,115) | (115,937) |
| **Gross profit** | | **17,207** | **20,459** |
| *Gross profit margin* | | *12.7%* | *15.0%* |
| | | | |
| Distribution expenses | 21-24 | (9,189) | (9,476) |
| Administrative expenses | 21-24 | (9,256) | (9,932) |
| Other operating expenses | 21-24 | (4,395) | 0 |
| Other operating income | 23 | 1,253 | 657 |
| **Operating result (EBIT)[1]** | | **(4,380)** | **1,708** |
| *EBIT margin* | | *(3.2%)* | *1.3%* |
| | | | |
| Financial income | | 1,627 | 5,536 |
| Financial expenses | | (2,707) | (8,789) |
| Changes in fair value in financial instruments | | 20 | 1,360 |
| **Financial result, net** | 25 | **(1,060)** | **(1,893)** |
| | | | |
| **Profit/(Loss) before income tax** | | **(5,440)** | **(185)** |
| Income tax expense | 7 | (1,681) | (1,177) |
| **Profit/(Loss) from continued operations** | | **(7,121)** | **(1,362)** |
| *Profit/(Loss) margin* | | *(5.3%)* | *(1.0%)* |
| | | | |
| **Profit/(Loss) from discontinued operations** | 29 | **(24,282)** | **195** |
| | | | |
| **Profit/(Loss) for the period** | | **(31,403)** | **(1,167)** |
| *Profit/(Loss) margin* | | *(23.2%)* | *(0.9%)* |
| | | | |
| PROFIT/(LOSS) ATTRIBUTABLE TO: | | | |
| Shareholders of the parent company | | (31,403) | (1,167) |
| | | | |
| EARNINGS PER SHARE IN EURO FROM CONTINUED OPERATIONS (BASIC = DILUTIVE) | 26 | | |
| Class A Shares | | (0.35) | (0.04) |
| Class B/C Shares | | n/a | (0.04) |
| | | | |
| EARNINGS PER SHARE IN EURO FROM DISCONTINUED OPERATIONS (BASIC = DILUTIVE) | 26 | | |
| Class A Shares | | (1.21) | 0.01 |
| Class B/C Shares | | n/a | 0.01 |
| | | | |
| EARNINGS PER SHARE IN EURO ON TOTAL GROUP BASIS (BASIC = DILUTIVE) | 26 | | |
| Class A Shares | | (1.56) | (0.03) |
| Class B/C Shares | | n/a | (0.03) |
| | | | |
| Operating result (EBIT) | | (4,380) | 1,708 |
| Depreciation, amortization and impairment charges | 5/6 | 12,486 | 8,299 |
| **Operating result before depreciation, amortization and impairment charges (EBITDA)[2]** | | **8,106** | **10,007** |
| *EBITDA margin* | | *6.0%* | *7.3%* |

[1] Earnings before Interest and Taxes
[2] Earnings before Interest, Taxes, Depreciation and Amortization

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (in EUR 1,000) | Note | 2016 | 2015 |
|---|---|---|---|
| **Profit/(Loss) for the period** | | **(31,403)** | **(1,167)** |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| **Items not to be reclassified to income statement:** | | | |
| Remeasurements of defined benefit obligations | 15 | (414) | 311 |
| Deferred tax effect on actuarial (gains)/losses | 7 | 110 | (197) |
| **Total items not to be reclassified to income statement** | | **(304)** | **114** |
| | | | |
| **Items to be reclassified to income statement:** | | | |
| Reclassification of foreign currency translation reserve | 29 | 10,507 | 0 |
| Currency translation differences | | 70 | 5,522 |
| **Total items to be reclassified to income statement** | | **10,577** | **5,522** |
| | | | |
| **Total comprehensive income for the period** | | (21,130) | 4,469 |
| | | | |
| Attributable to: | | | |
| Shareholders of the parent company | | (21,130) | 4,469 |
| | | | |
| Total comprehensive income for the period attributable to the Shareholders of the company | | | |
| Continued operations | | (7,355) | 10,034 |
| Discontinued operations | | (13,775) | (5,565) |
| Total comprehensive income for the period | | **(21,130)** | **4,469** |

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| (in EUR 1,000) | Note | 2016 | 2015 |
|---|---|---|---|
| **Profit/(Loss) before income tax [1]** | | **(31,136)** | **(146)** |
| Adjustment for non-cash transactions | | | |
| Amortization on intangible assets | 6 | 3,583 | 3,732 |
| Impairment on intangible assets | 6 | 12,895 | 0 |
| Depreciation on tangible assets | 5 | 6,166 | 6,779 |
| (Gains)/Losses on disposal of assets | 23/24 | (37) | (33) |
| Change of provisions | 20 | 264 | 566 |
| Release of earn-out provisions | 2.8/23 | (500) | 0 |
| Adjustments to retirement benefit obligations/prepaid costs | 15 | 587 | 774 |
| Financial (income)/expenses | 25/29 | 15,487 | 1,065 |
| Change in fair value in financial instruments | 25 | (20) | (1,401) |
| Other non-cash (income)/expenses | | (216) | 2,545 |
| **Operating net cash before changes in net working capital** | | **7,073** | **13,881** |
| | | | |
| Changes to net working capital | | | |
| - inventories | | (5,282) | 2,145 |
| - receivables | | (2,396) | (1,067) |
| - accrued income and prepaid expenses | | 6 | 101 |
| - liabilities | | 2,492 | 278 |
| - provisions for other liabilities and charges | | (427) | (109) |
| - accrued expenses and deferred income | | 514 | (297) |
| | | | |
| Tax received (prior periods) | | 314 | 170 |
| Tax paid | | (3,523) | (5,105) |
| Interest received | | 8 | 7 |
| Interest paid | | (909) | (926) |
| **Cashflows from operating activities** | | **(2,130)** | **9,078** |
| | | | |
| Disposal of subsidiaries, net of cash disposed | 29 | 9,926 | 0 |
| Purchase of tangible assets | 5 | (5,314) | (3,770) |
| Sale of tangible assets | 5 | 71 | 589 |
| Purchase of intangible assets | 6 | (1,488) | (665) |
| **Cashflows from investing activities** | | **3,195** | **(3,846)** |
| | | | |
| Decrease of capital | 13 | (216) | 0 |
| Increase of borrowings | | 7,437 | 5 |
| Repayments of borrowings | | (8,740) | (1,236) |
| Proceeds/(Repayments) of other non-current liabilities | | (75) | (10) |
| Proceeds from finance lease prepayments [2] | | 721 | 782 |
| Payments of finance lease liabilities | | (2,816) | (3,990) |
| **Cashflows from financing activities** | | **(3,689)** | **(4,449)** |
| | | | |
| **Net changes in cash and cash equivalents** | | **(2,624)** | **783** |
| | | | |
| **Cash and cash equivalents at 1 January** | 12 | **33,256** | **30,954** |
| Net changes in cash and cash equivalents | | (2,624) | 783 |
| Effect of exchange rate gains/(losses) | | 242 | 1,519 |
| **Cash and cash equivalents at 31 December** | 12 | **30,874** | **33,256** |

[1] Loss before income tax consists of loss before income tax from continued operations EUR 5,440 (2015: loss of EUR 185) and loss before income tax from discontinued operations of EUR 25,696 (2015: gain of EUR 39).

[2] The exceet Group made prepayments to suppliers for equipment which have been reimbursed to exceet Group by the finance lease company. These payments amount to EUR 721 (2015: EUR 782). These cash flows have been presented in the Cash Flow Statement in the line proceeds from finance lease prepayments.

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (in EUR 1,000) | Note | Issued and paid-in share capital | Capital reserves | Treasury shares | Share-based payments IFRS 2 | Retained earnings | Foreign currency transl. diff. | Total Shareholders of the parent company |
|---|---|---|---|---|---|---|---|---|
| BALANCES AT 1 JANUARY 2016 | 13 | 528 | 65,485 | (4,525) | 202 | 28,762 | 15,036 | 105,488 |
| Profit/(Loss) for the period | | | | | | (31,403) | | (31,403) |
| **Other comprehensive income:** | | | | | | | | |
| Remeasurements of defined benefit obligations | 15 | | | | | (414) | | (414) |
| Deferred tax effect on remeasurements | 7 | | | | | 110 | | 110 |
| Reclassification of foreign currency translation reserve | 29 | | | | | | 10,507 | 10,507 |
| Currency translation differences | | | | | | | 70 | 70 |
| Total other comprehensive income/(loss) for the period | | 0 | 0 | 0 | 0 | (304) | 10,577 | 10,273 |
| Total comprehensive income/(loss) for the period | | 0 | 0 | 0 | 0 | (31,707) | 10,577 | (21,130) |
| | | | | | | | | |
| Cancelation of B/C Shares | 13 | (216) | | | | | | (216) |
| Total other equity effects | | (216) | 0 | 0 | 0 | 0 | 0 | (216) |
| | | | | | | | | |
| BALANCES AT 31 DECEMBER 2016 | | 312 | 65,485 | (4,525) | 202 | (2,945) | 25,613 | 84,142 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| BALANCES AT 1 JANUARY 2015 | 13 | 528 | 65,485 | (4,525) | 199 | 29,815 | 9,514 | 101,016 |
| Profit/(Loss) for the period | | | | | | (1,167) | | (1,167) |
| **Other comprehensive income:** | | | | | | | | |
| Remeasurements of defined benefit obligations | 15 | | | | | 311 | | 311 |
| Deferred tax effect on remeasurements | 7 | | | | | (197) | | (197) |
| Currency translation differences | | | | | | | 5,522 | 5,522 |
| Total other comprehensive income/(loss) for the period | | 0 | 0 | 0 | 0 | 114 | 5,522 | 5,636 |
| Total comprehensive income/(loss) for the period | | 0 | 0 | 0 | 0 | (1,053) | 5,522 | 4,469 |
| | | | | | | | | |
| Share-based payments | 16 | | | | 3 | | | 3 |
| Total other equity effects | | 0 | 0 | 0 | 3 | 0 | 0 | 3 |
| | | | | | | | | |
| BALANCES AT 31 DECEMBER 2015 | | 528 | 65,485 | (4,525) | 202 | 28,762 | 15,036 | 105,488 |

The accompanying notes are an integral part of the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

exceet Group SE (the "**Company**"), is incorporated as a Société Européenne under the law of Luxembourg. The Company was incorporated on 9 October 2009 as Helikos SE and renamed to exceet Group SE on 27 July 2011. The registered office is at 115 avenue Gaston Diderich, L-1420 Luxembourg. exceet Group SE carried out its initial public offering on the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) under the symbol "EXC" on 4 February 2010.

The consolidated exceet Group SE (the "**Group**" or "**exceet**") includes all companies in which exceet Group SE, directly or indirectly, exercises control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All companies consolidated into the Group are disclosed in note 30 "List of consolidated subsidiaries of exceet Group SE".

exceet is an international technology Group specialized in the development and production of intelligent, complex and secure electronics of small and mid-size volumes. The Group provides highly sophisticated solutions and distinguishes itself through its technical skill set in embedded intelligent electronics with a leading position in the health and industrial markets.

To focus the exceet Group on the electronic and secure solutions activities, the Board of exceet Group SE decided at the beginning of March 2016 to start a process to sell the business segment of ID Management & Systems (IDMS). This process was completed as of 30 September 2016 with the sale of the IDMS segment. As a consequence, the group's IFRS reporting is split in "Continued Operations" and "Discontinued Operations".

The continued operations of the Group are structured in two business segments: Electronic Components Modules & Systems (ECMS) and exceet Secure Solutions (ESS).

The ECMS segment (93% of Sales 2016) develops and produces innovative, complex and integrated electronic products, with a focus on miniaturization, cost optimization and a high degree of customization to suit the needs of the customers. The products and services of the ECMS segment are aimed primarily at customers in the sectors of medical and healthcare, industrial automation, security and avionics.

The ESS segment (7% of Sales 2016) is focused on secure connectivity mainly based on IT Security and industrial Internet of Things (IoT) projects and solutions. Within all IoT projects, the segment provides concept development, customer specific IoT hard- and software and especially process specific IT Security consulting, products and services. The segment also engages further in eHealth, eSignature and Hardware Security Module (HSM) related developments and sales activities.

exceet is mainly focusing on the markets in Europe, but is also active in the markets of USA and Asia-Pacific. The Group consists of 14 legal entities with 10 locations in Austria, Germany, Luxembourg, Romania, Switzerland and the USA. This setup allows the Group to benefit from specific local advantages (e.g. customer proximity) and to apply a flexible production process necessary to fulfill the specific requirements of customers.

The discontinued IDMS segment was engaged in design, development and production of contact and contactless smart cards, multifunction cards, card reading devices and related services. It consisted of 6 legal entities with business locations in Austria, The Czech Republic, Germany and the Netherlands.

The consolidated financial statements as of 31 December 2016 were approved by exceet Group SE's Board of Directors on 28 February 2017.

# 2. SIGNIFICANT ACCOUNTING POLICIES

## 2.1 BASIS OF PREPARATION

The consolidated financial statements of exceet are based on the financial statements of the individual group companies drawn up according to uniform accounting principles at 31 December 2016. They were drawn up in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the EU and comply with Luxembourg law. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of the public warrants and the earn-out liability that have been measured at fair value.

The accounting principles applied to the consolidated financial statements at 31 December 2016 have been amended to comply with all new and revised IFRS standards and interpretations adopted by the European Union (EU) with effective date in 2016:

- IFRS 11 (Amendment) "Accounting for Acquisitions of Interest in Joint Operations"
  (IASB and EU effective date: 1 January 2016)

  The amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11; and disclose the information required by IFRS 3 and other IFRSs for business combinations.

- IAS 1 (Amendment) "Disclosure Initiative – IASB and EU effective date 1 January 2016
  (IASB and EU effective date: 1 January 2016)

  The amendment addresses perceived impediments to preparers exercising their judgement in presenting their financial reports.

- IAS 16/38 (Amendment) "Clarification of Acceptable Methods of Depreciation and Amortization
  (IASB and EU effective date: 1 January 2016)

  The amendment clarifies that a depreciation method based on revenue generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment and that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

- "Annual improvement cycle 2012 - 2014"
  (IASB and EU effective date: 1 January 2016)

  The cycle 2012 – 2014 represents a collection of amendments to IFRSs in response to issues addressed during the cycle for annual improvements to IFRSs. The standards IFRS 5, IFRS 7, IAS 19 and IAS 34 are affected by these adaptations.

The above standards and amendments adopted by the Group have no impact on its consolidated financial statements.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 31 December 2016 and have not been applied in preparing these consolidated financial statements.

- IFRS 9 (New) "Financial instruments"
  (IASB and EU effective date: 1 January 2018)

  The standard covers the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized costs, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI for liabilities designated at fair value through profit or loss.

The Group is assessing the impact on the consolidated financial statements.

- IFRS 15 (New) "Revenue from contracts with customers"
(IASB and EU effective date: 1 January 2018)

The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The Group plans to adopt the new standard on the required effective date and has started the process to assess the impact of the new standard for its business models in the ECMS and ESS segments. In a first stage, local management has been informed about the new standard, and in the second stage the current basis-contracts of the segments will be reviewed, based on the new revenue recognition model.

- IFRS 16 (New) "Leases"
(IASB effective date: 1 January 2019 – EU endorsement outstanding)

The standard specifies how to recognise, measure, present and discloses leases. The standard demands from lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. For lessors the standard substantially carries forward the accounting requirements from IAS 17, accordingly a lessor continues to classify leases as operating or finance and to account for those two types of leases differently.

The Group is assessing the impact on the consolidated financial statements.

- IFRS 2(Amendment) "Share based payments"
(IASB effective date: 1 January 2018 – EU endorsement outstanding)

The three amendments eliminate diversity in practice in the classification and measurement of particular share-based payment transactions.

The Group does not expect an impact on the consolidated financial statements.

- IFRS 4 (Amendment) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
(IASB effective date: 1 January 2018 – EU endorsement outstanding)

The amendment provides two options for entities that issue insurance contracts within the scope of IFRS 4. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The Group does not expect an impact on the consolidated financial statements.

- IAS 7 (Amendment) "Disclosure Initiative"
(IASB effective date: 1 January 2017 – EU endorsement outstanding)

The amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Group is assessing the impact on the consolidated financial statements.

- IAS 12 (Amendment) "Recognition of Deferred Tax Assets for Unrealized Losses"
(IASB effective date: 1 January 2017 – EU endorsement outstanding)

The amendment clarifies the accounting for deferred tax assets related to debt instruments measured at fair value.

The Group is assessing the impact on the consolidated financial statements.

- IAS 40 (Amendment) “Transfer of Investment Property”
  (IASB effective date: 1 January 2018 – EU endorsement outstanding)

  The amendment clarifies the requirements on transfers to or from investment property.

  The Group does not expect an impact on the consolidated financial statements.

- IFRIC 22 (Interpretation) “Foreign Currency Translation and Advance Consideration”
  (IASB effective date: 1 January 2018 – EU endorsement outstanding)

  The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

  The Group is assessing the impact on the consolidated financial statements.

- “Annual improvement cycle 2014 - 2016”
  (IASB effective date: 1 January 2017 / 1 January 2018 – EU endorsement outstanding)

  The cycle 2014 – 2016 represents a collection of amendments to IFRSs in response to issues addressed during the cycle for annual improvements to IFRSs. The standards IFRS 1, IFRS 12 and IAS 28 are affected by these adaptations.

  The Group does not expect an impact on the consolidated financial statements.

  There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 2.2 PRINCIPLES OF CONSOLIDATION

### INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are fully consolidated. These are entities over which exceet Group SE directly or indirectly exercises control (see note 30 with a list of the group companies). The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Group companies acquired during the year are included in the consolidation from the date on which control over the acquired company is transferred to the Group, and are excluded from the consolidation as of the date the Group ceases to have control over the company. For the consolidated entities, 100% of assets, liabilities, income and expenses are included. Intercompany balances and transactions (including unrealized profit on intercompany inventories) are eliminated in full.

## 2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services. The operating business segments are based on Management’s internal reporting. The Group has two main business segments, representing different subsidiaries (see also section 1 “General information”). The Management Board’s decisions are based on the Management reporting.

## 2.4 CURRENCY TRANSLATION

### REPORTING CURRENCY AND FUNCTIONAL CURRENCY

Items contained in the subsidiaries’ financial statements are recognized in the currency of the primary economic environment in which the respective subsidiary operates (“Functional Currency”). Each entity within the Group determines its own functional currency. In principle, the functional currencies of the subsidiaries included in the consolidated financial statements are their respective local currencies.

The consolidated financial statements of exceet are prepared in Euro (EUR), the presentation currency of the Group. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

### FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated at the exchange rate of the functional currency prevailing on the date of the transaction. All resulting foreign exchange differences are recognized in the income statement.

Monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the balance sheet date. Exchange rate differences are recorded in the income statement. Non-monetary assets and liabilities are translated at the historical rate.

Foreign exchange rate differences on long-term inter-company loans (equity like loans) are recorded within other comprehensive income.

### GROUP COMPANIES

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the balance sheet date
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. At the time the foreign operation is partially disposed of or sold, these exchange differences that were recorded in equity are recognized into the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the transaction date rate.

## 2.5 ACCOUNTING AND VALUATION PRINCIPLES

### CASH AND CASH EQUIVALENTS

This item includes cash in hand and cash at banks and time deposits with original maturities of three months or less, and bank overdrafts. The cash flow statement summarizes the movements on cash and cash equivalents.

### TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables and other receivables initially are recorded at original invoice amount, which is considered to be at fair value, less provision made for impairment of these receivables. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows.

### INVENTORIES

Purchased raw materials, components and finished goods are valued at the lower of cost or net realizable value.

Purchased raw materials costs comprise of the average purchase cost.

The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. For these costs, the standard cost method is applied, which approximates historical cost determined on an average basis. Standard costs take into account normal levels of materials, supplies, labor, efficiency and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Manufactured finished goods and work in progress are valued at the lower of production cost or net realizable value. Provisions are established for slow-moving, obsolete and phase-out inventory.

## TANGIBLE ASSETS

Tangible assets are valued at acquisition cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories. Where an asset comprises several parts with different useful lives, each part of the asset is depreciated separately over its applicable useful life.

Land is not depreciated. The applicable useful lives are:

| | |
|---|---|
| • buildings | 30 - 50 years |
| • machinery & production facilities | 5 - 10 years |
| • equipment | 5 - 8 years |
| • vehicles | 4 years |
| • IT hardware | 3 years |

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy for owned assets. If there is reasonable certainty that the Group will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset.

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Subsequent expenditure on an item of tangible assets is capitalized at cost only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures for repair and maintenance which do not increase the estimated useful lives of the related assets are recognized as expenses in the period in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 5 "Tangible assets").

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other operating income/expenses in the income statement.

## LEASING

Assets that are held under leases which effectively transfer to the Group the risks and rewards of ownership (finance leases) are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Minimum lease payments are the payments over the lease term that the Group is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by the Group and reimbursed from the lessor, together with any amounts guaranteed by the Group or by a party related to the Group. Assets under financial leasing are depreciated over their estimated useful life. The corresponding financial obligations are classified as "current borrowings" or "non-current borrowings", depending on whether they are payable within or after 12 months.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

## INTANGIBLE ASSETS

Purchased intangible assets are measured initially at cost; intangible assets acquired in a business combination are measured at fair value. Intangible assets are recognized when they are identifiable and controlled by the Group, when it is probable that future economic benefits to the Group can be expected from the asset and when cost can be measured reliably. With respect to intangible assets, it must first of all be determined whether they have finite or indefinite useful lives. Intangible assets with a finite useful life are amortized over their useful life and shall be tested for possible impairment whenever an indication exists that such intangible asset may be impaired. The amortization period and the amortization method are reviewed at the end of each financial year. Amortization of intangible assets with finite useful lives is recognized in the income statement under the expense category that corresponds to the intangible asset's function. Intangible assets that are not ready to use are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### *Customer Base, Technology, Brands*

Customer base purchased or acquired through a business combination is amortized over a useful life. The useful life is estimated between 10 – 15 years. Purchased technology is amortized over a useful life; usually a period of 5 years and technology acquired through a business combination is amortized between 5 – 10 years, due to the additional know-how basis included (e.g. employees). Brands are amortized over 5 – 15 years depending on the useful life. For amortization, the Group applies the straight-line method. Except for goodwill, the Group has no intangible asset with an indefinite useful life.

### *Software*

Software is amortized over a useful life of 3 – 5 years, unless the software is part of a machine. In this case, the useful life could depend on the machine or the technical equipment.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

The directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

## BUSINESS COMBINATIONS AND GOODWILL

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred the amount on non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is tested at least annually for impairment and carried at cost, less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination.

## DISPOSAL OF SUBSIDIARIES

When the Group ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in the income statement. Amounts previously recognized in other comprehensive income that may be reclassified to the income statement are reclassified.

## DISCONTINUED OPERATIONS

A component of the Group is reclassified into “Discontinued Operations” if this divestment is intended, and if it fulfils the criteria for being classified as “held for sale” and for being presented as “Discontinued Operations”.

## BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## OTHER FINANCIAL LIABILITIES

Public warrants are treated as derivatives under IAS 32 as they will be settled net in a variable number of shares (not in cash).Therefore, they are classified as financial liabilities at fair value through profit or loss. The fair value is determined by the rating of the warrants on the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) at the reporting date.

Other financial liabilities such as trade and other payables as well as accrued expenses are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## PROVISIONS

A provision is only recorded if the Company has a present (legal or constructive) obligation arising from a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If a provision could not be recorded because not all of the aforementioned criteria were fulfilled, the relevant obligation is then disclosed as a contingent liability.

Provisions are reviewed at each balance sheet date and adjusted to the currently available best estimate. If the resulting interest rate effect is material, the provision is discounted to the present value of the estimated cash outflows necessary to settle the obligation. For provisions that are discounted, the increase in the provisions that reflect the time lapsed is recorded as interest expense. Where it is expected that another party will partly or fully settle the obligation that has been provided for, the reimbursement will only be recognized once it is virtually certain that the Group will receive the reimbursement.

## INCOME TAXES / DEFERRED INCOME TAXES

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company’s subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income. In this case, the tax is also recognized in other comprehensive income.

## REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, discounts and after eliminating intercompany sales. The Group recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity when specific criteria have been met for each of the Group's activities as described below.

The revenue of the Group mainly comprises revenues for the sale of goods. In addition, exceet generates revenues from the sale of services.

***Revenue from Sale of Electronic components***

Revenue from the sale of produced goods and prototypes is recorded as income at the time of delivery. Trade discounts and returns are deducted. The Group typically sells its products through purchase orders under contracts that include fixed or determinable prices and that generally do not include a right of return or similar provisions or other significant postdelivery obligations. Delivery does not occur until products have been shipped to the specified location and the risks of obsolescence and loss have been transferred to the customer.

***Revenue from Services***

The Group sells consulting, research and development services to its ECMS and ESS customers. Sales of services are recognized in the accounting period in which the services are rendered.

## IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group reviews at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is calculated. The recoverable amount of an asset or, where it is not possible to estimate the recoverable amount of an individual asset, a cash-generating unit, is the higher of its fair value less cost to sell and its value-in-use. Value-in-use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment of financial assets is described under the section on financial instruments.

## RELATED PARTIES

A party is related to an entity if the party directly or indirectly controls, is controlled by, or is under common control of the entity, has an interest in the entity that gives it significant influence over the entity, has joint control over the entity or is an associate or a joint venture of the entity. In addition, members of key management and close members of their families are also considered as related parties.

## RETIREMENT BENEFIT OBLIGATIONS

The Group has defined benefit pension plans. A defined benefit plan is a pension plan which defines the pension obligation amount that the employee will receive at retirement age. This amount usually depends on one or more factors, such as age, period of service and salary.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses, resulting from changes in actuarial assumptions and differences between assumptions and actual experiences, are recognized in the period in which they occur directly in the consolidated statement of comprehensive income. Past-service costs are recognized immediately in the income statement.

### SHARE-BASED PAYMENTS

The Group operates one equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (e.g. an entity's share price)
- Excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (e.g. the requirement for employees to save)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expenses are recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

It is the intention to use the currently held treasury shares for the settlement of the options at grant date.

### EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

### DEFINITION OF NON-GAAP MEASURES

Earnings before interest and taxes (EBIT) are a subtotal which includes all operating income and expenses before addition/deduction of financial income and expenses and income taxes.

Earnings before interest, taxes, depreciation and amortization (EBITDA) are a subtotal which includes all operating income and expenses before addition/deduction of depreciation of fixed assets, amortization of intangibles, impairment of assets, financial income and expenses and income taxes.

### GOVERNMENT GRANTS

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

## 2.6 FINANCIAL ASSETS

exceet classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reclassifies them whenever their intention or ability changes.

- Financial assets at fair value through profit or loss
  Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (see note 2.5 "Accounting and Valuation Principles").

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "Changes in fair value in financial instruments", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in the consolidated statement of comprehensive income.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in the section "2.5 Accounting and Valuation Principles – trade receivables and other receivables".

The fair value hierarchy has the following levels:

| | |
|---|---|
| Level 1: | Quoted prices in active markets for identical assets or liabilities |
| Level 2: | Inputs other than quoted prices included within in level 1 that are observable for the asset or liability, either directly (that is, alternative prices) or indirectly (that is, derived from prices) |
| Level 3: | Classification for asset or liabilities which are not valued on observable market data (that is, unobservable inputs, for instance estimation and assumptions) |

## 2.7 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### CRITICAL JUDGMENTS IN APPLYING ENTITY'S ACCOUNTING POLICIES

*Deferred tax*

Certain deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom in a reasonably timely manner.

### *Inventories*

For the valuation adjustment of inventories, Management uses judgment which is based on past experience. To determine the inventory provision, the past experience turnover of the inventory is used as the basis for the calculation.

### *Intangible and tangible assets*

exceet reviews regularly the useful life of its intangible assets with definite useful life and also if there are triggering events for a potential impairment. Such trigger events could be a change of the customer base, of the technology or reputation damage of the brand or the software not to be useful anymore. Such assessments are based on estimates which are substantially based on the continued benefit of the intangible asset for the Group.

The Group also regularly assesses the useful life of its tangible assets life and also if there are triggering events for a potential impairment. Such assessment is made on estimates which are based on the technical efficiency, the applicability and the continued use of the tangible assets.

## CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

### *Goodwill impairment*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.5. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations with an appropriate discount rate. These calculations require the use of estimates.

### *Provisions*

The Group is exposed to different risks. Management assumes at the current time that the provisions cover the different risks of the Group. However it is possible that the situation will change and the costs are not covered with the existing provisions or the costs are lower than expected. Any arising changes can have effects on future periods. For details refer to note 20 “Provisions for other liabilities and charges”.

### *Retirement benefit obligation*

Actuarial assumptions are made for the purpose of estimating future developments. These include estimates and assumptions relating to discount rates, the expected return on plan assets in individual countries and future wage trends. The actuary also uses statistical data such as mortality tables and staff turnover rates in the actuarial calculations performed with a view to determining employee benefit obligations. If these parameters change due to a change in economic or market conditions, the subsequent result can deviate considerably from the actuarial report and calculation.

Over the medium term, this deviation can have a significant effect on income and expenses arising from employee benefit plans. The carrying amounts of the plan assets and liabilities carried in the balance sheet are set out in note 15 “Retirement benefit obligations”.

### *Share-Based Payments*

For the Management Stock Option Program (MSOP), the Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 16 “Share-based payments”.

### *Income taxes*

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the provisions for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues on the basis of estimates of whether additional taxes are due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### *Acquisition related earn-out payment*

The basis for the calculation of potential earn-out payments were the agreed medium term plans. If the plan would not be met, the earn-out payment will differ from the estimated payment. Such adjustment has been recognized in the consolidated income statement.

## 2.8 FINANCIAL RISK MANAGEMENT

### FINANCIAL RISK FACTORS

The Group's activities are exposed to a variety of financial risks: market risks (including currency risk, fair value interest rate risk, cash flow interest rate risk, price risk and public warrant fair value risk), credit risk and liquidity risk. The Group's overall risk management system aims to identify key financial risks at an early juncture, both within the companies and at the Group level, to implement appropriate countermeasures to minimize potential adverse effects on the Group's financial performance.

### MARKET RISK

#### *Foreign exchange risk*

The Group companies generate revenue mostly in Euro (EUR), Swiss francs (CHF) and to a smaller extent in US dollars (USD). Most of the equipment and the raw materials are purchased from European manufacturers or distributors in Euro. Concerning the Swiss companies, the revenues generated do not fully cover the Company's demand for Euro from time to time. Sales teams try to price goods in CHF, so long as the market is accepting this.

The revenue generated in USD is generally used for the procurement of equipment, services or raw material and has usually balanced out in the past thus providing a natural hedge. The sales teams are instructed to either price the products in EUR and CHF, to include exchange rate adjustments in framework contracts or to include an adequate foreign exchange margin in the pricing.

Generally foreign currencies are only kept if future payments are expected to be made in a particular currency. Foreign currency exposure is mitigated by balancing the currency needs among the Group companies. These natural hedging procedures cover extensively the risks that occur. The Group might enter into hedging transactions from time to time.

The Group is exposed to foreign exchange risks especially with regards to CHF and USD.

As of 31 December 2016, the profits for the period would have been EUR 323 higher (2015: EUR 430) if the CHF had strengthened 10% against the EUR ceteris paribus. With a weaker CHF compared to EUR, profits would have been decreased by similar amounts. This effect is caused by foreign exchange gains/losses of CHF-denominated trade account receivables and trade account payables.

Similarly, as of 31 December 2016, the profits for the period would have been EUR 14 lower (2015: EUR 41) if the USD had weakened by 10% against the EUR ceteris paribus. With a stronger USD, profits would have increased by the same extent, mainly due to foreign exchange gains/losses of USD-denominated trade account receivables and trade account payables.

#### *Foreign exchange rates*

The exchange rates relevant to the annual financial statements were:

| | 31.12.2016 | Average 2016 | 31.12.2015 | Average 2015 |
|---|---|---|---|---|
| 1 CHF | 0.93 | 0.92 | 0.92 | 0.94 |
| 1 USD | 0.95 | 0.90 | 0.92 | 0.90 |

#### *Price risk*

The Group is not exposed to investment price risk; however, there is a material and raw material price risk for the production of electronic applications and smart cards.

### *ECMS Segment*

With a high value-added, the printed circuit board (PCB) factory has a low exposure to raw material prices. Raw material prices for epoxy and polyimide are to a less degree driven by the oil price, whereas copper, nickel and gold are purchased at spot rates. However, the total cost component of precious metal is low in relation to the average selling price and consequently the influence on the margin is limited. In extreme cases, the subsidiary is able to renegotiate selling prices with the clients to adjust for raw material price hikes.

Material content in electronic modules and systems can be high and this implies an associated price risk. The electronic component market is characterized by supply and demand. The actual component market is stable since 2012.

The Group, in close cooperation with its customers, guard effectively these risks with long-term supplier contracts and flexible inventory levels. Higher component costs and the cost of increased inventories are shared with the clients whenever possible. Inventories are at all times covered by open purchase orders from customers.

### *ESS Segment*

Most of the revenues within the ESS segment are generated through software, cloud services and professional services. These services are mainly based on human capital which is employed by the operations. Consequently the price risk is very limited.

### *Cash Flow and Fair Value Interest Rate Risk*

Cash flow risk is categorized as very low as a result of the Company's good liquidity position and strong cash flow generation.

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The duration for which the Group has fixed the interest rates depends on the current interest conditions in the market.

For some of the long-term borrowings, the Group has capped LIBOR or EURIBOR based variable interest rates thus limiting the interest rate risk.

Covenants, as agreed with the lending banks, determine the interest rate margin over the LIBOR or EURIBOR. This margin largely depends on business performance of the Group (leverage ratio). Compliance with the financial covenants means that the Group has good credit standing with banks and access to further financing resources. In addition, banks provide credit lines that also create scope for short-term financial maneuver.

### Sensitivity Analysis

If the interest rates of the different long-term borrowings would have been higher/lower by 100 basis points, with all other variables held constant, the Group would have had higher/lower interest expenses in 2016 of EUR 279 (2015: EUR 350). The Group's borrowings at variable and fixed rates are denominated in EUR and CHF.

## CREDIT RISK

Credit risk is managed on a Group basis. Credit risk arises from cash, cash equivalents and deposits with banks and financial institutions. Credit exposures to customers, including outstanding receivables and committed transactions are managed by individual Group companies. The ratings for the engaged banks and financial institutions are monitored regularly. Furthermore, the risk on cash and cash equivalents is minimized by the consideration of different financial institutions. For the risk control assessment of customers, the credit quality of the customer takes into account its financial position, past experience and other factors. Based on the varying customer structure within the Group, no specific individual credit limits are defined by the Group. Accounts receivables are regularly monitored and supported by an effective accounts receivables management method in close cooperation with key account managers.

The table below shows the trade receivables balances and loan balances of the counterparties of each subsidiary as per the balance sheet date. Management does not expect any losses from non-performance by these counterparties.

| TRADE RECEIVABLES (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| MAJOR COUNTERPARTIES WITH EXTERNAL CREDIT RATING[1] | | |
| AA | 395 | 1,593 |
| A+ | 2,605 | 3,859 |
| A | 0 | 1 |
| BBB | 2,340 | 1,716 |
| **Total counterparties with external credit rating** | **5,340** | **7,169** |
| | | |
| MAJOR COUNTERPARTIES WITHOUT EXTERNAL CREDIT RATING | | |
| Group 1 | 703 | 804 |
| Group 2 | 12,951 | 13,790 |
| Group 3 | 1,459 | 957 |
| **Total counterparties without external credit rating** | **15,113** | **15,551** |

Group 1 - new customers/related parties less than 6 months
Group 2 - existing customers/related parties since more than 6 months with no defaults in the past
Group 3 - existing customers/related parties since more than 6 months with some defaults in the past (all defaults were fully recovered)

[1] Source for external credit rating: Standard & Poor's

A loan of EUR 1,500 to the former Group company exceet Card Austria GmbH has been included within Group 2 in the table above.

The table below shows the bank balances rated:

| CASH AT BANK AND SHORT-TERM BANK DEPOSITS (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| BANKS WITH EXTERNAL CREDIT RATING[1] | | |
| AAA | 17,408 | 15,988 |
| AA+ | 0 | 0 |
| AA | 2,265 | 22 |
| AA- | 575 | 439 |
| A+ | 28 | 5,029 |
| A | 7,408 | 5,204 |
| A- | 89 | 1,285 |
| BBB | 2,490 | 4,814 |
| BB | 521 | 354 |
| not rated | 90 | 121 |
| **Total cash at bank and short-term bank deposits** | **30,874** | **33,256** |

[1] Source for external credit rating: Standard & Poor's

## LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group monitors its risk of suffering a shortage of funds on a monthly basis. In addition, Management monitors forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The following table analyses the maturity profile of the Group's financial liabilities. The amounts disclosed are the contractual undiscounted cash flows including accrued interest and do therefore not reconcile with the financial liabilities presented in the consolidated balance sheet.

| (in EUR 1,000) | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| BALANCES AT 31 DECEMBER 2016 | | | | | |
| Bank borrowings | 6,320 | 23,775 | 2,100 | 2,659 | 34,854 |
| Other borrowings | 1,164 | 689 | 818 | 0 | 2,671 |
| Trade payables | 8,077 | 0 | 0 | 0 | 8,077 |
| Other payables | 2,281 | 75 | 203 | 776 | 3,335 |
| | | | | | |
| BALANCES AT 31 DECEMBER 2015 | | | | | |
| Bank borrowings | 2,588 | 25,349 | 5,363 | 5,336 | 38,636 |
| Other borrowings | 2,393 | 1,247 | 922 | 122 | 4,684 |
| Trade payables | 9,191 | 0 | 0 | 0 | 9,191 |
| Other payables | 4,258 | 580 | 225 | 828 | 5,891 |

## CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide added value to the shareholders and benefits for other stakeholders; to maintain a favourable capital structure to reduce the cost of capital and to enable the Group to continue to focus on growth.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt. During the last few years, the Group's strategy was to maintain a gearing ratio of a maximum of 30%. The gearing ratios at 31 December 2016 and 2015 were as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Bank borrowings | 34,080 | 37,352 |
| Finance lease | 2,211 | 3,966 |
| Total borrowings | 36,291 | 41,318 |
| Less: cash and cash equivalents (note 12) | (30,874) | (33,256) |
| **Net (cash)/debt** | **5,417** | **8,062** |
| | | |
| Equity | 84,142 | 105,488 |
| Total equity and equity equivalents | 84,142 | 105,488 |
| **Total capital** | **89,559** | **113,550** |
| *Gearing ratio* | *6%* | *7%* |

The decrease in gearing ratio in 2016 resulted from a decrease in equity due to the loss related to the disposal of the IDMS segment (see note 29 "Disposal of Operations"), and the reduction of net debt, mainly influenced by the cash inflow from this disposal. (see the Consolidated Statement of Cash Flows).

## FAIR VALUE ESTIMATION

The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, alternative prices) or indirectly (that is, derived from prices)
Level 3: Classifications for assets or liabilities that are not valued on observable market data (that is, unobservable inputs, for instance estimation and assumptions)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016, respectively at 31 December 2015.

| (in EUR 1,000) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 31 DECEMBER 2016 | | | | |
| **Assets as per balance sheet** | | | | |
| Financial assets at fair value through profit or loss | | | | 0 |
| Interest cap | | | | 0 |
| **Total** | **0** | **0** | **0** | **0** |
| | | | | |
| **Liabilities as per balance sheet** | | | | |
| Financial liabilities at fair value through profit or loss | | | | 0 |
| Interest cap | | | | 0 |
| Public warrants | | | | 0 |
| Earn-out liability | | | | 0 |
| **Total** | **0** | **0** | **0** | **0** |
| | | | | |
| 31 DECEMBER 2015 | | | | |
| **Assets as per balance sheet** | | | | |
| Financial assets at fair value through profit or loss | | | | 0 |
| Interest cap | | | | 0 |
| **Total** | **0** | **0** | **0** | **0** |
| | | | | |
| **Liabilities as per balance sheet** | | | | |
| Financial liabilities at fair value through profit or loss | | | | 0 |
| Interest cap | | | | 0 |
| Public warrants | 20 | | | 20 |
| Earn-out liability | | | 998 | 998 |
| **Total** | **20** | **0** | **998** | **1,018** |

The group policy demands the recognition of transfers into or out of fair value hierarchy levels as of the date of the event or at the change of circumstances that caused the transfer. There were no transfers between the levels during the reporting period.

Level 1 public warrants were valued in 2015 on the quoted market price at the balance sheet date. The public warrants were listed on the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) until cancellation on 27 July 2016 due to expiration on 26 July 2016.

The level 3 fair value of the earn-out liability was related to the contingent consideration payable for the acquisition of Lucom GmbH. The fixed earn-out amount according the contract was based on the expected EBITDA performance in 2015 and 2016 of the company. The earn-out liability was limited, as an overperformance of EBITDA will not increase the earn-out liability, but an under performance will reduce the liability. The contingent consideration was payable in the years 2016 and 2017.

As Lucom GmbH met the earn-out targets in the financial year 2015, the full earn-out amount of EUR 500 for this performance was paid to the buyer on 29 February 2016 and the provision was released accordingly.

As of the balance sheet date, management used the final financial statement of Lucom GmbH for the year 2016 for the assessment of the probable performance of the entity. Based on these information the performance targets are not met and exceet has not to pay the earn-out stake for 2016. Therefore, the earn-out provision for the performance of the financial year 2016 was released to the income statement.

Management is assisted for the valuation of financial assets required for financial reporting purposes, including level 3 fair values, by the Group's finance department. Discussions of valuation processes and results are held regularly between the CFO and the finance department.

The following tables are presenting the changes in Level 3 instruments:

| (in EUR 1,000) | Total |
|---|---|
| **Balances at 1 January 2016** | **998** |
| Payment for earn-out of aquisition Lucom GmbH | (500) |
| (Gain)/Loss recognized in profit or loss | (498) |
| Currency translation differences | 0 |
| **Balances at 31 December 2016** | **0** |
| **Total (gains)/losses for the period included in profit or loss (note 23)** | **(498)** |
| | |
| **Balances at 1 January 2015** | **993** |
| Provisions for earn-out of aquisition Lucom GmbH | 0 |
| (Gain)/Loss recognized in profit or loss | 5 |
| Currency translation differences | 0 |
| **Balances at 31 December 2015** | **998** |
| **Total (gains)/losses for the period included in profit or loss (note 25)** | **5** |

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# 3. SEGMENT INFORMATION

The Group has two main business segments, Electronic Components Modules & Systems (ECMS) and exceet Secure Solutions (ESS), representing different subsidiaries. The segment information is presented on the same basis as for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the Group's Chief Operating Decision Maker – Management Board. In addition, the Group has a third segment "Corporate and others" for reporting purposes, which only includes the investment companies. Companies of exceet Group SE, which have been subject to the reverse asset acquisition, have been assigned to the segment "Corporate and others".

## The segment results are as follows:

| 2016 (in EUR 1,000) | ECMS | ESS | Corporate and others | Inter-segment elimination | Continued Operations |
|---|---|---|---|---|---|
| External revenue | 126,145 | 9,177 | 0 | | 135,322 |
| Inter-segment revenue | 46 | 14 | 247 | (307) | 0 |
| **Total revenue** | **126,191** | **9,191** | **247** | **(307)** | **135,322** |
| | | | | | |
| **EBITDA** | **12,938** | **(1,230)** | **(3,602)** | | **8,106** |
| *EBITDA Margin* | *10.3%* | *(13.4%)* | | | *6.0%* |
| Depreciation, amortization and impairment | (11,389) | (890) | (207) | | (12,486) |
| **EBIT** | **1,549** | **(2,120)** | **(3,809)** | **0** | **(4,380)** |
| *EBIT Margin* | *1.2%* | *(23.1%)* | | | *(3.2%)* |
| | | | | | |
| Financial income | 785 | 3 | 1,109 | (270) | 1,627 |
| Financial expense | (1,355) | (90) | (1,532) | 270 | (2,707) |
| Changes in fair value in financial instruments | 0 | 0 | 20 | | 20 |
| **Financial result – net** | **(570)** | **(87)** | **(403)** | **0** | **(1,060)** |
| | | | | | |
| **Profit/(Loss) before income tax** | **979** | **(2,207)** | **(4,212)** | **0** | **(5,440)** |
| Income tax | (1,206) | (206) | (269) | | (1,681) |
| **Profit/(Loss) for the period** | **(227)** | **(2,413)** | **(4,481)** | **0** | **(7,121)** |
| | | | | | |
| Non-current assets | 61,580 | 7,079 | 1,701 | | 70,360 |
| Current assets | 63,791 | 3,634 | 13,977 | | 81,402 |
| Liabilities | 38,715 | 2,435 | 26,470 | | 67,620 |
| Capital expenditure tangible assets | 5,512 | 185 | 2 | | 5,699 |
| Capital expenditure intangible assets | 281 | 1,093 | 88 | | 1,462 |
| Depreciation tangible assets | (4,659) | (99) | (37) | | (4,795) |
| Amortization intangible assets | (2,671) | (455) | (170) | | (3,296) |
| Impairment intangible assets | (1,032) | (336) | 0 | | (1,368) |
| Impairment of goodwill | (3,027) | 0 | 0 | | (3,027) |

| 2015 (in EUR 1,000) | ECMS | ESS | Corporate and others | Inter-segment elimination | Continued Operations |
|---|---|---|---|---|---|
| External revenue | 126,753 | 9,643 | 0 | | 136,396 |
| Inter-segment revenue | 76 | 2 | 307 | (385) | 0 |
| **Total revenue** | **126,829** | **9,645** | **307** | **(385)** | **136,396** |
| | | | | | |
| **EBITDA** | **15,107** | **(379)** | **(4,721)** | | **10,007** |
| *EBITDA Margin* | *11.9%* | *(3.9%)* | | | *7.3%* |
| Depreciation, amortization and impairment | (7,570) | (534) | (195) | | (8,299) |
| **EBIT** | **7,537** | **(913)** | **(4,916)** | **0** | **1,708** |
| *EBIT Margin* | *5.9%* | *(9.5%)* | | | *1.3%* |
| | | | | | |
| Financial income | 1,338 | 1 | 4,580 | (383) | 5,536 |
| Financial expense | (2,105) | (73) | (6,994) | 383 | (8,789) |
| Changes in fair value in financial instruments | 0 | 0 | 1,360 | | 1,360 |
| **Financial result – net** | **(767)** | **(72)** | **(1,054)** | **0** | **(1,893)** |
| | | | | | |
| **Profit/(Loss) before income tax** | **6,770** | **(985)** | **(5,970)** | **0** | **(185)** |
| Income tax | (898) | (60) | (219) | | (1,177) |
| **Profit/(Loss) for the period** | **5,872** | **(1,045)** | **(6,189)** | **0** | **(1,362)** |
| | | | | | |
| Non-current assets | 66,195 | 7,450 | 312 | | 73,957 |
| Current assets | 62,769 | 2,666 | 10,447 | | 75,882 |
| Liabilities | 39,156 | 4,097 | 25,709 | | 68,962 |
| Capital expenditure tangible assets | 3,858 | 138 | 32 | | 4,028 |
| Capital expenditure intangible assets | 201 | 340 | 98 | | 639 |
| Depreciation tangible assets | (4,828) | (85) | (48) | | (4,961) |
| Amortization intangible assets | (2,742) | (449) | (147) | | (3,338) |
| Impairment intangible assets | 0 | 0 | 0 | | 0 |
| Impairment of goodwill | 0 | 0 | 0 | | 0 |

## *Entity-wide information*

Breakdown of the revenue from all segments is as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Revenue | | |
| - Electronic components | 124,893 | 127,235 |
| - Services | 10,429 | 9,161 |
| **Total** | **135,322** | **136,396** |

## *Top customer information*

In 2016, 9.0% (2015: 10.6%) of total revenue of the Group was generated with one client from ECMS. There is no single customer with a share of revenue greater than 10% of total Group revenue in 2016.

## *Breakdown of the revenue and non-current assets by geographic segments*

In addition, a breakdown of sales and is presented by country of end customer, which shows the geographic segments according to the country in which the products are used. Non-current assets are allocated based on where the assets are located.

| | Revenue | | | | Non-current Assets | | | |
|---|---|---|---|---|---|---|---|---|
| (in EUR 1,000) | 2016 | *in %* | 2015 | *in %* | 2016 | *in %* | 2015 | *in %* |
| Germany | 55,989 | *41.4%* | 55,475 | *40.7%* | 27,189 | *38.6%* | 35,365 | *36.5%* |
| Switzerland | 26,333 | *19.5%* | 31,695 | *23.2%* | 35,656 | *50.7%* | 39,393 | *40.6%* |
| Austria | 8,463 | *6.2%* | 6,721 | *4.9%* | 7,504 | *10.7%* | 19,458 | *20.1%* |
| Rest of Europe | 28,113 | *20.8%* | 25,308 | *18.6%* | 10 | *0.0%* | 2,730 | *2.8%* |
| **Total Europe** | **118,898** | ***87.9%*** | **119,199** | ***87.4%*** | **70,359** | ***100.0%*** | **96,946** | ***100.0%*** |
| North & South America | 5,055 | *3.7%* | 4,964 | *3.6%* | 1 | *0.0%* | 1 | *0.0%* |
| Asia (incl. Australia) | 11,206 | *8.3%* | 12,030 | *8.8%* | 0 | *0.0%* | 0 | *0.0%* |
| Middle East & Africa | 163 | *0.1%* | 203 | *0.2%* | 0 | *0.0%* | 0 | *0.0%* |
| **Total** | **135,322** | ***100.0%*** | **136,396** | ***100.0%*** | **70,360** | ***100.0%*** | **96,947** | ***100.0%*** |

# 4. FINANCIAL INSTRUMENTS BY CATEGORY

| 31 DECEMBER 2016 (in EUR 1,000) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| ASSETS AS PER BALANCE SHEET | | | |
| Loan | 1,500 | | 1,500 |
| Trade and other receivables (excluding prepayments) | 21,343 | | 21,343 |
| Cash and cash equivalents | 30,874 | | 30,874 |
| **Total** | **53,717** | **0** | **53,717** |

| 31 DECEMBER 2016 (in EUR 1,000) | Other financial liabilities at amortized cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|
| LIABILITIES AS PER BALANCE SHEET | | | |
| Borrowings (excluding finance lease liabilities) | 34,080 | | 34,080 |
| Finance lease liabilities | 2,211 | | 2,211 |
| Public Warrants | | 0 | 0 |
| Earn-out liabilities (current and non-current) | | 0 | 0 |
| Trade and other payables (excluding non-financial liabilities) | 11,412 | | 11,412 |
| Accrued expenses and prepaid income | 5,774 | | 5,774 |
| **Total** | **53,477** | **0** | **53,477** |

| 31 DECEMBER 2015 (in EUR 1,000) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| ASSETS AS PER BALANCE SHEET | | | |
| Trade and other receivables (excluding prepayments) | 25,255 | | 25,255 |
| Cash and cash equivalents | 33,256 | | 33,256 |
| **Total** | **58,511** | **0** | **58,511** |

| 31 DECEMBER 2015 (in EUR 1,000) | Other financial liabilities at amortized cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|
| LIABILITIES AS PER BALANCE SHEET | | | |
| Borrowings (excluding finance lease liabilities) | 37,352 | | 37,352 |
| Finance lease liabilities | 3,966 | | 3,966 |
| Public Warrants | | 20 | 20 |
| Earn-out liabilities (current and non-current) | | 998 | 998 |
| Trade and other payables (excluding non-financial liabilities) | 15,082 | | 15,082 |
| Accrued expenses and prepaid income | 7,137 | | 7,137 |
| **Total** | **63,537** | **1,018** | **64,555** |

# 5. TANGIBLE ASSETS

| 2016 (in EUR 1,000) | Land & building | Production facilities & machinery | Equipment | Vehicles | IT Hardware | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| ACQUISITION COSTS | | | | | | | |
| **As of 1 January 2016** | **21,071** | **58,284** | **6,500** | **327** | **2,707** | **1,114** | **90,003** |
| Disposal of subsidiaries (note 29) | (3,131) | (23,822) | (1,392) | (192) | (1,175) | (43) | (29,755) |
| Additions | 69 | 4,878 | 579 | 91 | 587 | 925 | 7,129 |
| Disposals | (25) | (923) | (31) | (27) | (29) | (2) | (1,037) |
| Transfer to other category | 273 | 1,138 | (8) | 0 | 0 | (1,403) | 0 |
| Currency translation differences | 50 | 217 | 43 | 1 | 7 | 3 | 321 |
| **As of 31 December 2016** | **18,307** | **39,772** | **5,691** | **200** | **2,097** | **594** | **66,661** |
| | | | | | | | |
| ACCUMULATED DEPRECIATION | | | | | | | |
| **As of 1 January 2016** | **(5,234)** | **(43,654)** | **(4,181)** | **(220)** | **(2,185)** | **0** | **(55,474)** |
| Disposal of subsidiaries (Note 29) | 2,724 | 18,423 | 995 | 81 | 1,064 | 0 | 23,287 |
| Additions | (657) | (4,506) | (632) | (44) | (327) | 0 | (6,166) |
| Disposals | 25 | 911 | 31 | 12 | 24 | 0 | 1,003 |
| Transfer to other category | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | (15) | (172) | (32) | (1) | (5) | 0 | (225) |
| **As of 31 December 2016** | **(3,157)** | **(28,998)** | **(3,819)** | **(172)** | **(1,429)** | **0** | **(37,575)** |
| | | | | | | | |
| ACCUMULATED IMPAIRMENT | | | | | | | |
| **As of 1 January 2016** | **0** | **(104)** | **0** | **0** | **0** | **0** | **(104)** |
| Disposal of subsidiaries (Note 29) | 0 | 104 | 0 | 0 | 0 | 0 | 104 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **As of 31 December 2016** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| | | | | | | | |
| **Net book value as of 1 January 2016** | **15,837** | **14,526** | **2,319** | **107** | **522** | **1,114** | **34,425** |
| **Net book value as of 31 December 2016** | **15,150** | **10,774** | **1,872** | **28** | **668** | **594** | **29,086** |

| 2015 (in EUR 1,000) | Land & building | Production facilities & machinery | Equipment | Vehicles | IT Hardware | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| ACQUISITION COSTS | | | | | | | |
| **As of 1 January 2015** | **20,439** | **54,047** | **5,781** | **279** | **2,517** | **322** | **83,385** |
| Aquisition of subsidiaries (note 29) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 84 | 4,138 | 358 | 39 | 416 | 1,223 | 6,258 |
| Disposals | 0 | (1,927) | (71) | (8) | (294) | (301) | (2,601) |
| Transfer to other category | 0 | 124 | 12 | 0 | 0 | (136) | 0 |
| Currency translation differences | 548 | 1,902 | 420 | 17 | 68 | 6 | 2,961 |
| **As of 31 December 2015** | **21,071** | **58,284** | **6,500** | **327** | **2,707** | **1,114** | **90,003** |
| | | | | | | | |
| ACCUMULATED DEPRECIATION | | | | | | | |
| **As of 1 January 2015** | **(4,470)** | **(39,020)** | **(3,336)** | **(168)** | **(2,041)** | **0** | **(49,035)** |
| Additions | (639) | (5,008) | (700) | (52) | (380) | 0 | (6,779) |
| Disposals | 0 | 1,683 | 70 | 8 | 292 | 0 | 2,053 |
| Transfer to other category | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | (125) | (1,309) | (215) | (8) | (56) | 0 | (1,713) |
| **As of 31 December 2015** | **(5,234)** | **(43,654)** | **(4,181)** | **(220)** | **(2,185)** | **0** | **(55,474)** |
| | | | | | | | |
| ACCUMULATED IMPAIRMENT | | | | | | | |
| **As of 1 January 2015** | **0** | **(104)** | **0** | **0** | **0** | **0** | **(104)** |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **As of 31 December 2015** | **0** | **(104)** | **0** | **0** | **0** | **0** | **(104)** |
| | | | | | | | |
| **Net book value as of 1 January 2015** | **15,969** | **14,923** | **2,445** | **111** | **476** | **322** | **34,246** |
| **Net book value as of 31 December 2015** | **15,837** | **14,526** | **2,319** | **107** | **522** | **1,114** | **34,425** |

Production facilities and machinery includes the following amounts where the Group is a lessee under a finance lease:

### Production facilities and machinery

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Cost - capitalized finance leases | 14,252 | 19,839 |
| Accumulated depreciation | (10,247) | (13,024) |
| **Net book amount** | **4,005** | **6,815** |

The Group leases various production facilities and machinery under non-cancellable finance lease agreements. The lease terms are 4 to 5 years. The Group purchased fixed assets through finance lease arrangements of EUR 1,977 (2015: EUR 2,488).

Depreciation expense of EUR 4,974 (2015: EUR 5,535) has been charged in “cost of sales”, EUR 860 (2015: EUR 886) in “administrative expenses”, EUR 332 (2015: EUR 358) in “distribution costs”.

EUR 15,159 (2015: EUR 15,581) of land and buildings are secured for bank borrowings. Furthermore, EUR 4,814 (2015: EUR 3,908) machinery and equipment are pledged for borrowing facilities (see note 28 “Pledged Assets”).

### Commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 984 | 920 |
| Intangible assets | 0 | 13 |
| **Total** | **984** | **933** |

# 6. INTANGIBLE ASSETS

| 2016 (in EUR 1,000) | Goodwill | Customer base | Technology | Brand | Software | Intangible assets under construction | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| ACQUISITION COSTS | | | | | | | | |
| **As of 1 January 2016** | **39,965** | **31,432** | **6,988** | **2,449** | **5,951** | **1,132** | **35** | **87,952** |
| Disposal of subsidiaries (note 29) | (14,452) | (2,665) | 0 | (566) | (1,305) | 0 | (8) | (18,996) |
| Additions | 0 | 0 | 0 | 100 | 359 | 1,029 | 0 | 1,488 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to other category | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 168 | 156 | 39 | 13 | 27 | 0 | 0 | 403 |
| **As of 31 December 2016** | **25,681** | **28,923** | **7,027** | **1,996** | **5,032** | **2,161** | **27** | **70,847** |
| ACCUMULATED AMORTIZATION | | | | | | | | |
| **As of 1 January 2016** | **0** | **(15,000)** | **(4,874)** | **(1,791)** | **(4,818)** | **0** | **(27)** | **(26,510)** |
| Disposal of subsidiaries (note 29) | 0 | 1,162 | 0 | 553 | 1,224 | 0 | 0 | 2,939 |
| Additions | 0 | (2,029) | (535) | (238) | (783) | 0 | 0 | (3,585) |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to other category | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 0 | (106) | (37) | (13) | (29) | 0 | 0 | (185) |
| **As of 31 December 2016** | **0** | **(15,973)** | **(5,446)** | **(1,489)** | **(4,406)** | **0** | **(27)** | **(27,341)** |
| ACCUMULATED IMPAIRMENT | | | | | | | | |
| **As of 1 January 2016** | **0** | **0** | **0** | **0** | **0** | **(498)** | **0** | **(498)** |
| Disposal of subsidiaries (note 29) | 8,500 | 0 | 0 | 0 | 0 | 0 | 0 | 8,500 |
| Additions | (11,527) | (1,032) | 0 | 0 | 0 | (336) | 0 | (12,895) |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to other category | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | (46) | (16) | 0 | 0 | 0 | 0 | 0 | (62) |
| **As of 31 December 2016** | **(3,073)** | **(1,048)** | **0** | **0** | **0** | **(834)** | **0** | **(4,955)** |
| **Net book value as of 1 January 2016** | **39,965** | **16,432** | **2,114** | **658** | **1,133** | **634** | **8** | **60,944** |
| **Net book value as of 31 December 2016** | **22,608** | **11,902** | **1,581** | **507** | **626** | **1,327** | **0** | **38,551** |

| 2015 (in EUR 1,000) | Goodwill | Customer base | Technology | Brand | Software | Intangible assets under construction | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **ACQUISITION COSTS** | | | | | | | | |
| **As of 1 January 2015** | **38,112** | **29,708** | **6,553** | **2,312** | **5,576** | **840** | **27** | **83,128** |
| Aquisition of subsidiaries (note 29) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 | 0 | 359 | 298 | 8 | 665 |
| Disposals | 0 | 0 | 0 | 0 | (257) | 0 | 0 | (257) |
| Transfer to other category | 0 | 0 | 0 | 0 | 6 | (6) | 0 | 0 |
| Currency translation differences | 1,853 | 1,724 | 435 | 137 | 267 | 0 | 0 | 4,416 |
| **As of 31 December 2015** | **39,965** | **31,432** | **6,988** | **2,449** | **5,951** | **1,132** | **35** | **87,952** |
| | | | | | | | | |
| **ACCUMULATED AMORTIZATION** | | | | | | | | |
| **As of 1 January 2015** | **0** | **(12,043)** | **(3,989)** | **(1,451)** | **(4,057)** | **0** | **(27)** | **(21,567)** |
| Additions | 0 | (2,109) | (541) | (248) | (834) | 0 | 0 | (3,732) |
| Disposals | 0 | 0 | 0 | 0 | 249 | 0 | 0 | 249 |
| Transfer to other category | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 0 | (848) | (344) | (92) | (176) | 0 | 0 | (1,460) |
| **As of 31 December 2015** | **0** | **(15,000)** | **(4,874)** | **(1,791)** | **(4,818)** | **0** | **(27)** | **(26,510)** |
| | | | | | | | | |
| **ACCUMULATED IMPAIRMENT** | | | | | | | | |
| **As of 1 January 2015** | **0** | **0** | **0** | **0** | **0** | **(498)** | **0** | **(498)** |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to other category | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **As of 31 December 2015** | **0** | **0** | **0** | **0** | **0** | **(498)** | **0** | **(498)** |
| | | | | | | | | |
| **Net book value as of 1 January 2015** | **38,112** | **17,665** | **2,564** | **861** | **1,519** | **342** | **0** | **61,063** |
| **Net book value as of 31 December 2015** | **39,965** | **16,432** | **2,114** | **658** | **1,133** | **634** | **8** | **60,944** |

The amortization expense of EUR 3,585 (2015: EUR 3,732) has been charged in “cost of sales”.

Expecting lower future cash flows, an impairment of EUR 1,032 was recognized in customer base, due to end-of-life projects within the downsized ECR AG operations in Switzerland. The customer base in relation to ECR AG amounts now (after currency translation effects of EUR 16) to EUR 1,089 (31.12.2015: EUR 2,550). Another impairment of EUR 336 was recognized within assets under construction of the ESS segment related to a software development project.

## *Impairment tests for goodwill*

Management reviews the business performance by entity and by segment level reflecting the lowest operational level of cash-generating units (CGUs).

Summary of the goodwill allocation and movements:

| 2016 (in EUR 1,000) | Opening | Impairment | Disposal | Currency translation difference | Closing |
|---|---|---|---|---|---|
| GS Swiss PCB AG | 4,722 | | | 42 | 4,764 |
| ECR AG | 3,757 | | | 34 | 3,791 |
| exceet electronics AG [1] | 10,262 | (3,027) | | 46 | 7,281 |
| exceet electronics GesmbH [2] | 793 | | | | 793 |
| exceet electronics GmbH [3] | 3,280 | | | | 3,280 |
| **ECMS Segment** | **22,814** | **(3,027)** | **0** | **122** | **19,909** |
| | | | | | |
| exceet Secure Solutions GmbH [4] | 380 | | | | 380 |
| Lucom GmbH Elektrokomponenten und Systeme | 2,319 | | | | 2,319 |
| **ESS Segment** | **2,699** | **0** | **0** | **0** | **2,699** |
| | | | | | |
| **IDMS Segment** | **14,452** | **(8,500)** | **(5,952)** | | **0** |
| **Total** | **39,965** | **(11,527)** | **(5,952)** | **122** | **22,608** |

| 2015 (in EUR 1,000) | Opening | Impairment | Disposal | Currency translation difference | Closing |
|---|---|---|---|---|---|
| GS Swiss PCB AG | 4,255 | | | 467 | 4,722 |
| ECR AG | 3,386 | | | 371 | 3,757 |
| exceet electronics AG [1] | 9,247 | | | 1,015 | 10,262 |
| exceet electronics GesmbH [2] | 793 | | | | 793 |
| exceet electronics GmbH [3] | 3,280 | | | | 3,280 |
| **ECMS Segment** | **20,961** | **0** | **0** | **1,853** | **22,814** |
| | | | | | |
| exceet Secure Solutions GmbH [4] | 380 | | | | 380 |
| Lucom GmbH Elektrokomponenten und Systeme | 2,319 | | | | 2,319 |
| **ESS Segment** | **2,699** | **0** | **0** | **0** | **2,699** |
| | | | | | |
| **IDMS Segment** | **14,452** | | | | **14,452** |
| **Total** | **38,112** | **0** | **0** | **1,853** | **39,965** |

[1] former Mikrap AG
[2] former Contec Steuerung & Automation GmbH
[3] former as electronics GmbH
[4] former Authentidate International AG

The recoverable amount of all CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate.

Key assumptions used for value-in-use calculations:

| CASH-GENERATING UNIT (CGU) | Compound annual revenue growth rate (av. next five years) | | Gross margin growth rate (av. next five years) | | Long term growth rate | | Pre-tax Discount rate | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| GS Swiss PCB AG | 5% | 6% | 4% | 6% | 1% | 1% | 6.3% | 6.9% |
| ECR AG | 10% | -1% | 15% | 2% | 1% | 1% | 6.3% | 6.9% |
| exceet electronics AG | 7% | 3% | 8% | 4% | 1% | 1% | 6.3% | 6.9% |
| exceet electronics GesmbH | 15% | 10% | 12% | 11% | 1% | 1% | 7.9% | 9.1% |
| exceet electronics GmbH | 5% | 6% | 6% | 6% | 1% | 1% | 8.4% | 9.6% |
| exceet Secure Solutions GmbH | 15% | 24% | 18% | 25% | 1% | 1% | 8.4% | 9.6% |
| Lucom GmbH Elektrokomponenten und Systeme | 7% | 5% | 6% | 4% | 1% | 1% | 8.4% | 9.6% |
| IDMS Segment | n/a | 4% | n/a | 4% | n/a | 1% | n/a | 9.4% |

The estimated recoverable amount for all cash generating units exceeds the carrying amount. Management considers the assumed gross margin will not change so significantly as to eliminate this excess.

**Compound annual revenue growth / Gross margin growth**
Budgeted revenues and gross margins are based on past performance and the expectation for the market and customer developments (medium-term planning) over the course of the next five years. The gross margin varies depending on the operating function of the companies and their customer mix.

**Long term growth rate**
The long term growth rate is estimated at 1% (2015: 1%) and used to extrapolate cash flows beyond the forecast period of five years.

**Pre-tax Discount rate**
Discount rates are used on a pre-tax basis and represent the current market assessment of the risks specific to each CGU. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC) depending on the country in which the Group operates. The WACC takes debt and equity into account. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service in the different countries of operation. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

**exceet electronics AG / exceet electronics GesmbH**
Due to the reorganization of the swiss market activities, management initiated as of 30 September 2016 a review of the performance of exceet electronics AG and subsequently of the recoverable amount of this cash generating unit (CGU). Calculations based on the pre-tax cash flow of the CGU, taking into account the actual performance and expected business development, showed the carrying amount to exceed the recoverable amount. Therefore management decided to recognize an impairment loss of EUR 3,027 against the CGU's goodwill. The goodwill amount in relation to exceet electronics AG amounts now (after currency translation effects of EUR 46) to EUR 7,281 (31.12.2015: EUR 10,262).

***Sensitivity analysis***

The Group has performed a sensitivity analysis on the following critical factors of the calculation:

- If the estimated annual revenue growth rate at 31 December 2016 would be 1 percentage point lower than management's estimates at 31 December 2016 (for example, 4.0% instead of 5.0%).
- If the estimated gross margin (Net sales less material costs) at 31 December 2016 would be 1 percentage point lower than management's estimates at 31 December 2016 (for example, 32% instead of 33%).
- If the estimated pre-tax discount rate applied to the discounted cash flows would be 1 percentage point higher than management's estimates (for example, 7.3% instead of 6.3%).

The valuation headroom (i.e. the estimated recoverable amount exceeding the carrying amount) and and the impact of changes in key assumptions on this headroom, are shown in the following table:

| | | Impact on the headroom of the test | | | |
|---|---|---|---|---|---|
| CASH-GENERATING UNIT (CGU) | Valuation Headroom based on assumptions 2016 | Volume growth rate ( -1 percentage point) | Gross margin rate ( -1 percentage point) | Discount rate ( +1 percentage point) | Combination of all factors |
| exceet electronics AG | 402 | (597) | (1,552) | (2,821) | (4,970) |
| exceet Secure Solutions GmbH | 2,750 | (322) | (1,453) | (1,190) | (2,965) |
| ECR AG | 6,949 | (535) | (3,706) | (2,908) | (7,149) |
| exceet electronics GesmbH | 7,709 | (801) | (3,440) | (2,844) | (7,085) |

For exceet electronics AG the changes in the key assumptions might lead to recognize an impairment. Also the combination of all three factors might lead to recognize an impairment.

For ECR AG and exceet Secure Solutions GmbH only the combination off all three key assumptions might lead to an impairment, each key assumption individually would have only reduced the headroom of the CGU.

For exceet electronics GesmbH the model shows that changes in the key assumptions would just reduce the value in use by not leading to recognize any impairment even when combining the factors.

The compound effect of all the changes of the underlying key assumptions for the above listed CGUs might result in an impairment loss on Goodwill of EUR 4,983.

# 7. DEFERRED TAXES / INCOME TAXES

### *Income taxes*

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Total current income tax | (2,848) | (2,776) |
| Total deferred tax | 2,581 | 1,755 |
| **Total income tax recognized in income statement** | **(267)** | **(1,021)** |
| Total deferred tax directly recognized in other comprehensive income | 110 | (197) |
| **Total income tax expense** | **(157)** | **(1,218)** |

| **Income tax expense is attributable to:** | | |
|---|---|---|
| Loss from continued operations | (1,681) | (1,177) |
| Loss from discontinued operations | 1,414 | 156 |
| **Total income tax recognized in income statement** | **(267)** | **(1,021)** |
| Total income tax directly recognized in other comprehensive income attributable to continued operations | 110 | (197) |
| **Total income tax expense** | **(157)** | **(1,218)** |

### *Reconciliation of tax expense*

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Profit/(Loss) from continued operations before income tax expense | (5,440) | (185) |
| Profit/(Loss) from discontinued operations before income tax expense | (25,696) | 39 |
| | (31,136) | (146) |
| ***Group effective taxe rate*** | **8.24%** | **2480.82%** |
| Tax calculated at average domestic tax rates applicable to profits in the respective jurisdictions | 2,566 | (3,622) |
| Non-taxable income / additional taxable expenses | 388 | 4,005 |
| Non-deductible expenses / additional taxable income | (721) | (1,210) |
| Unrecognized tax loss carryforwards attributable to continued operations | (359) | (296) |
| Unrecognized tax loss carryforwards attributable to discontinued operations | (2,781) | (415) |
| Effect of changes in local tax rates | 10 | 493 |
| Write off intercompany loan | (936) | (310) |
| Release of intercompany loan (attributable to discontinued operations) | 1,580 | 405 |
| Tax effect from prior years | (14) | (71) |
| **Total income tax (current & deferred)** | **(267)** | **(1,021)** |
| *in % of earnings before tax* | *-0.86%* | *-699.32%* |

In the current year, the composition of the Group effective tax rate is mainly due to the loss from the discontinued operations realized in non-taxable entities and additionally the change in the mix of profit and loss of Group companies located in countries with different tax rates. In 2015 for some of the loss making subsidiaries no deferred tax asset was booked as it is not likely that these entities will generate taxable income in the foreseeable future. As a result the tax calculated at average domestic tax rates has significantly changed compared to prior year.

EUR 320 (2015: EUR 3,543) of "Non-taxable income" and EUR 538 (2015: EUR 1,031) of "Non-deductible expense" resulted out of the year-end currency adjustment (EUR/CHF) of a convertible bond between Group companies with different tax rates (see individual financial statements of exceet Group SE note 4).

At December 31, 2016, unremitted earnings have been retained by consolidated entities for reinvestment. Therefore, no provision is made for income taxes that would be payable upon the distribution of these earnings. If these earnings were remitted, an income tax charge could result based on the tax statutes currently in effect.

### *Deferred taxes*

The gross movement on the deferred income tax accounts is as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| **At 1 January** | **(4,124)** | **(5,410)** |
| Income statement charge | 2,581 | 1,755 |
| Directly recognized in other comprehensive income | 110 | (197) |
| Currency translation difference | 4 | (272) |
| **At 31 December** | **(1,429)** | **(4,124)** |

### *Composition of deferred taxes in the balance sheet*

Deferred tax assets and liabilities are presented on a net basis if a legally enforceable right exists to offset current tax receivables against tax payables and if the deferred taxes exist in the same tax jurisdiction. The following amounts remain after offsetting:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| DEFERRED TAX ASSETS | | |
| Deferred tax assets, realized after 12 months | 1,035 | 1,204 |
| Deferred tax assets, realized within 12 months | 171 | 158 |
| **Total deferred tax assets** | **1,206** | **1,362** |
| | | |
| DEFERRED TAX LIABILITIES | | |
| Deferred tax liabilities, realized after 12 months | (1,671) | (4,243) |
| Deferred tax liabilities, realized within 12 months | (964) | (1,243) |
| **Total deferred tax liabilities** | **(2,635)** | **(5,486)** |
| **Total deferred tax** | **(1,429)** | **(4,124)** |

The changes in deferred tax assets and liabilities in the current year, without taking into account the netting of open items within the same tax jurisdiction, are determined as follows:

| (in EUR 1,000) | Intangible assets | Tangible assets | Inventories | Provisions | Pension liability | Capitalized tax losses carry-forwards | Others | Total |
|---|---|---|---|---|---|---|---|---|
| DEFERRED TAX ASSETS | | | | | | | | |
| **1 January 2016** | **338** | **2** | **184** | **8** | **1,219** | **2,287** | **371** | **4,409** |
| Disposal of subsidiaries (note 29) | (338) | | | | | (40) | (352) | (730) |
| Movements via income statement | | | (23) | | 70 | 368 | 36 | 451 |
| Movements via OCI | | | | | 110 | | | 110 |
| Currency translation differences | | | | | 12 | 5 | | 17 |
| **31 December 2016** | **0** | **2** | **161** | **8** | **1,411** | **2,620** | **55** | **4,257** |
| | | | | | | | | |
| **1 January 2015** | **364** | **37** | **110** | **6** | **1,193** | **2,293** | **367** | **4,370** |
| Movements via income statement | (26) | (35) | 74 | 2 | 116 | (6) | 4 | 129 |
| Movements via OCI | 0 | 0 | 0 | 0 | (197) | 0 | 0 | (197) |
| Currency translation differences | 0 | 0 | 0 | 0 | 107 | 0 | 0 | 107 |
| **31 December 2015** | **338** | **2** | **184** | **8** | **1,219** | **2,287** | **371** | **4,409** |

| (in EUR 1,000) | Intangible assets | Tangible assets | Inventories | Provisions | Pension liability | Longterm Liabilities | Others | Total |
|---|---|---|---|---|---|---|---|---|
| DEFERRED TAX LIABILITIES | | | | | | | | |
| **1 January 2016** | **(4,374)** | **(802)** | **(1,076)** | **(102)** | **0** | **(2,092)** | **(87)** | **(8,533)** |
| Disposal of subsidiaries (note 29) | 223 | 357 | | | | | | 580 |
| Movements via income statement | 657 | 76 | 262 | 10 | | 1,311 | 9 | 2,325 |
| Result of changed tax rate | | (18) | (23) | | | | (3) | (44) |
| Currency translation differences | (5) | (2) | (7) | | | | | (14) |
| **31 December 2016** | **(3,499)** | **(389)** | **(844)** | **(92)** | **0** | **(781)** | **(81)** | **(5,686)** |
| | | | | | | | | |
| **1 January 2015** | **(4,767)** | **(959)** | **(1,362)** | **(106)** | **0** | **(2,497)** | **(89)** | **(9,780)** |
| Movements via income statement | 558 | 203 | 438 | 11 | 0 | 405 | 11 | 1,626 |
| Currency translation differences | (165) | (46) | (152) | (7) | 0 | 0 | (9) | (379) |
| **31 December 2015** | **(4,374)** | **(802)** | **(1,076)** | **(102)** | **0** | **(2,092)** | **(87)** | **(8,533)** |

Group companies have uncapitalized tax losses of EUR 21,198 (2015: EUR 40,342) as it is uncertain that the companies can utilize them. Of those tax losses EUR 16,981 (2015: EUR 35,601) have no expiry date and the remaining EUR 4,217 (2015: EUR 4,741) will expire in two to seven years (2015: three to nine years).

# 8. INVENTORIES

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Raw materials | 20,189 | 20,029 |
| Work in progress and semi-finished products | 4,609 | 6,089 |
| Finished goods | 8,097 | 8,324 |
| Inventory provision | (4,238) | (4,002) |
| **Total** | **28,657** | **30,440** |

The cost of inventories recognized as expenses and included in “cost of sales” amounted to EUR 70,048 (2015: EUR 67,111).

No Inventories are pledged (2015: EUR 0) (see note 28 “Pledged assets”).

# 9. TRADE RECEIVABLES, NET

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Trade accounts receivable, gross - due from third parties | 19,253 | 22,892 |
| Provision for impairment | (300) | (172) |
| **Total** | **18,953** | **22,720** |

As of 31 December 2016 trade receivables of EUR 412 (2015: EUR 412) were impaired. The amount of the total provision for these receivables amounts to EUR 300 as of 31 December 2016 (2015: EUR 172). In total there are EUR 0 (2015: EUR 2,049) insured, including EUR 0 (2015: EUR 1,461) receivables which are not due.

The ageing of the impaired receivables (referred to the due date of the receivables) is as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Not due and past due up to 3 months | 0 | 3 |
| Past due over 3 to 6 months | 36 | 285 |
| Past due over 6 to 12 months | 257 | 16 |
| Past due over 12 months | 119 | 108 |
| **Total** | **412** | **412** |

As of 31 December 2016 trade receivables of EUR 3,477 (2015: EUR 2,936) were past due since up to 3 months but were not impaired. This decision is made based on no recent history of default of these customers.

The following table shows the movements of the provision for impairment for trade receivables:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| **At 1 January** | **172** | **109** |
| Disposal of subsidiaries (note 29) | (2) | 0 |
| Charged/(credited) to the income statement | | |
| - additional provisions | 141 | 87 |
| - unused amounts reversed | (12) | (17) |
| Used during the year | 0 | (7) |
| Currency translation differences | 1 | 0 |
| **At 31 December** | **300** | **172** |

The gross amounts of the Group's trade receivables are denominated in the following currencies:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| EUR | 13,845 | 15,766 |
| CHF | 4,407 | 6,046 |
| USD | 1,001 | 1,060 |
| GBP | 0 | 20 |
| **Total** | **19,253** | **22,892** |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Accounts receivables in the amount of EUR 8,203 (2015: EUR 10,325) are pledged (see note 28 "Pledged assets").

# 10. OTHER RECEIVABLES

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Short-term deposit | 124 | 73 |
| Social securities | 196 | 109 |
| Payables with debit balances | 7 | 45 |
| Value added tax/withholding tax | 546 | 681 |
| Payments in advance | 12 | 203 |
| Services not yet invoiced | 165 | 118 |
| Others | 101 | 233 |
| **Total other current receivables** | **1,151** | **1,462** |
| | | |
| Long-term deposit | 0 | 186 |
| **Total other non-current receivables** | **0** | **186** |

Other receivables in the amount of EUR 485 (2015: EUR 506) are pledged (see note 28 “Pledged assets”).

# 11. ACCRUED INCOME AND PREPAID EXPENSES

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Insurance companies | 28 | 204 |
| Social costs | 2 | 0 |
| Rents | 28 | 53 |
| Maintenance contracts | 184 | 179 |
| Exhibition | 70 | 92 |
| Credit note for goods | 119 | 82 |
| Fees | 38 | 53 |
| Others | 47 | 82 |
| **Total** | **516** | **745** |

Accrued income and prepaid expenses primarily comprise prepaid expenses which will be reflected in expenses.

# 12. CASH AND CASH EQUIVALENTS

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Cash at bank and on hand | 30,532 | 32,844 |
| Short-term bank deposits | 342 | 412 |
| **Total** | **30,874** | **33,256** |

The risk that these assets will be subject to changes in value is minimal.

No cash and cash equivalents were pledged in 2016 (2015: EUR 0) (see note 28 “Pledged assets”).

# 13. EQUITY

### *Share capital of exceet Group SE*

On 26 July 2016 the conversion right for holders of Class B and Class C Shares expired as per the articles of association of the Company. At the extraordinary general meeting (the "EGM") held 15 September 2016, shareholders agreed to the decrease of the Company's issued share capital by an amount of Euro 216,000.00 from Euro 527,960.16 to Euro 311,960.16 through the cancelation of all (i) 5,210,526 redeemable Class B Shares and (ii) 9,000,000 redeemable Class C Shares from their holders at their accounting par value.

With resolution at the EGM, the issued share capital is set at 20,523,695 shares, issued as Class A Shares ("Public Shares"), with 20,073,695 Class A Shares listed on the stock exchange and 450,000 own Class A Shares held by the Company (Treasury Shares).

Share capital of exceet Group SE has developed as follows:

| | Euro |
|---|---|
| **Balance at 1 January 2016** | **527,960.16** |
| Cancelation of B/C Shares as of 15 September 2016 | (216,000.00) |
| **Balance at 31 December 2016** | **311,960.16** |
| | |
| **Balance at 1 January 2015** | **527,960.16** |
| **Balance at 31 December 2015** | **527,960.16** |

| | Total Shares | Class A Shares | Class B Shares | Class C Shares |
|---|---|---|---|---|
| **Number of shares issued as at 1 January 2016** | **34,734,221** | **20,523,695** | **5,210,526** | **9,000,000** |
| Cancelation of B/C Shares as of 15 September 2016 | (14,210,526) | 0 | (5,210,526) | (9,000,000) |
| **Number of shares issued as at 31 December 2016** | **20,523,695** | **20,523,695** | **0** | **0** |
| | | | | |
| **Number of shares issued as at 1 January 2015** | **34,734,221** | **20,523,695** | **5,210,526** | **9,000,000** |
| **Number of shares issued as at 31 December 2015** | **34,734,221** | **20,523,695** | **5,210,526** | **9,000,000** |

Class B and Class C Shares were redeemable Shares in the sense of the Luxembourg Company Law and were split into six separate classes of shares, with rights identical to those of the Public Shares, except as described below:

### *Conversion into Public Shares*

The Class B and Class C Shares would be automatically converted into Public Shares, at a ratio of one Public Share for each Founding Share as follows:

- 2,105,263 Class B2 Shares will be converted into Public Shares if the Daily VWAP (as defined hereafter) on any 20 out of any 30 consecutive Trading Days following consummation of the reverse asset acquisition is at least equal to Euro 14.00.
- 2,105,263 Class B3 Shares will be converted into Public Shares if the Daily VWAP (as defined hereafter) on any 20 out of any 30 consecutive Trading Days following consummation of the reverse asset acquisition is at least equal to Euro 16.00.
- 1,000,000 Class B4 Shares will be converted into Public Shares if the Daily VWAP (as defined hereafter) on any 20 out of 30 consecutive Trading Days following consummation of the reverse asset acquisition is at least equal to Euro 12.00.
- 3,000,000 Class C1 Shares will be converted into Public Shares if the Daily VWAP (as defined hereafter) on any 20 out of any 30 consecutive Trading Days following consummation of the reverse asset acquisition is at least equal to Euro 12.00.
- 3,000,000 Class C2 Shares will be converted into Public Shares if the Daily VWAP (as defined hereafter) on any 20 out of any 30 consecutive Trading Days following consummation of the reverse asset acquisition is at least equal to Euro 13.00.
- 3,000,000 Class C3 Shares will be converted into Public Shares if the Daily VWAP (as defined hereafter) on any 20 out of any 30 consecutive Trading Days following consummation of the reverse asset acquisition is at least equal to Euro 15.00.

For this purpose, the "Daily VWAP" means, for any trading day, the per Public Share volume-weighted average price on Xetra as reported by Bloomberg for such trading day (or if such volume-weighted average price is unavailable from Bloomberg, the volume weighted average share price of the Public Shares on such trading day determined by an internationally recognized investment bank selected by the Company).

In connection with the aforementioned conversion, the Board of Directors shall be given all powers to implement the conversion of Class B Shares and Class C Shares into Public Shares and to make any statement, cast votes, sign all minutes of meetings and other documents, appear in front of a Luxembourg notary to state the occurrence of the conversion and make relevant amendments to the Articles of Association, do everything which is lawful, necessary or simply useful in view of the accomplishment and fulfillment of such conversion.

Any Class B or Class C Shares not converted to Public Shares on or prior to the fifth anniversary of the consummation of the reverse asset acquisition will no longer be convertible into Public Shares and will be redeemed within six months of such date at a redemption price per Class B Shares and Class C Shares corresponding to the accounting par value of such Class B Shares and Class C Shares (subject to availability of sufficient funds).

All remaining Class B and C Shares were redeemed at the par value as of 15 October 2016.

### *Dividend rights*

Each Public Share is entitled to receive the same amount of dividend. Class B and C Shares dividend rights were limited to one Eurocent (Euro 0.01) per Share.

### *Voting rights*

All shares are entitled to one vote at any ordinary or extraordinary general meeting of shareholders.

### *Transfer restrictions*

The shares are freely transferable, subject to the provisions of the law and these articles of association. All rights and obligations attached to any share are passed to any transferee thereof.

For Class B and C Shares the following transfer restriction existed:

- Class B Shares may be transferred only to existing holders of Class B Shares and their affiliates (as defined hereafter);
- Class B Shares may be transferred only in the event of death of a B Shareholder, to the successors of such B Shareholder;
- Class C Shares may be transferred only to members of management of exceet Group SE and/or members of management of affiliates of exceet Group SE;
- Class C Shares may be transferred as in-kind distributions to direct shareholders who held Class C Shares on the date of consummation of the reversed asset acquisition, but only after (and including) the last day of a twenty-four (24) month period beginning with the date of consummation of the reversed asset acquisition; or
- Class C Shares may be transferred in the event of death of a C Shareholder, to the successors of such C Shareholder.

"Affiliate" of, or person "affiliated" with, a specified person, is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified and the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of shares, by contract, or otherwise.

## *Other Reserves*

| (in EUR 1,000) | |
|---|---|
| **Balance at 1 January 2016** | **104,960** |
| Total comprehensive income for the period | (21,130) |
| Share-based payments | 0 |
| **Balance at 31 December 2016** | **83,830** |
| | |
| **Balance at 1 January 2015** | **100,488** |
| Total comprehensive income for the period | 4,469 |
| Share-based payments | 3 |
| **Balance at 31 December 2015** | **104,960** |

# 14. BORROWINGS

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| NON-CURRENT | | |
| Bank borrowings | 27,926 | 35,013 |
| Finance lease liabilities (note 27) | 1,432 | 2,032 |
| Total non-current borrowings | 29,358 | 37,045 |
| | | |
| CURRENT | | |
| Bank borrowings | 6,154 | 2,339 |
| Finance lease liabilities (note 27) | 779 | 1,934 |
| Other loans | 0 | 0 |
| Total current borrowings | 6,933 | 4,273 |
| **Total borrowings** | **36,291** | **41,318** |

Bank borrowings are denominated to 81% in CHF (2015: 73%) and 19% (2015: 27%) in EUR.

The main facility agreement offers exceet a possible maximal amount of EUR 27.9 million (CHF 30.0 million). This facility is valid until 28 February 2018 and exceet used thereof EUR 24.7 million (CHF 26.5 million). The bank has the right for an extraordinary termination with the consequence of immediate repayment of outstanding debt there under and payment of a prepayment penalty, if, inter alia, a certain leverage ratio (defined as net debt divided by EBITDA) is exceeded; certain operation measures are not met or in the case of change of control of the Group. Further two loan facilities in accordance with the main facility agreement with Swiss operational subsidiaries in the amount of CHF 10.0 million (EUR 9.3 million) contain general market conditions and requirements, including restrictions due to change of control. As in prior year, in 2016 all covenant tests confirmed compliance with the financial covenants. The nominal value of the total bank borrowings is EUR 34,080 (2015: EUR 37,352).

With the sale of the card business (IDMS) exceet is obliged to reduce its bank borrowing debt by EUR 4.7 million (CHF 5.0 million) as of 31 March 2017. Additionally the Group agreed to reduce the facility agreement by EUR 2.8 million (CHF 3.0 million) at the same date.

The total bank borrowings are secured liabilities. Bank borrowings in the amount of EUR 8,092 (2015: EUR 8,558) are secured by land and buildings of the Group (see note 5 "Tangible assets"). Bank borrowings of EUR 24,676 (2015: EUR 24,458) are additionally secured by shares of certain subsidiaries (GS Swiss PCB AG, ECR AG, exceet electronics AG, AEMtec GmbH) of the exceet Group AG, EUR 2,555 (2015: EUR 4,047) by assigned trade receivables and EUR 184 (2015: EUR 289) by machinery (see note 28 "Pledged assets").

The exposure of the Group's borrowings to interest rate changes and the contractually fixed interest repricing dates at the balance sheet dates are as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| 6 months or less | 28,166 | 32,472 |
| 6 - 12 months | 842 | 1,406 |
| 1 - 2 years | 3,447 | 3,695 |
| 2 - 5 years | 1,930 | 1,608 |
| Over 5 years | 1,906 | 2,137 |
| **Total** | **36,291** | **41,318** |

As per 31 December 2016, the borrowings within interest repricing dates of 6 months or less are mainly non-current with floating interest rates.

The carrying amounts and fair value of the non-current borrowings are as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| CARRYING AMOUNT | | |
| Bank borrowings | 27,926 | 35,013 |
| Finance lease liabilities | 1,432 | 2,032 |
| **Total** | **29,358** | **37,045** |
| | | |
| FAIR VALUE | | |
| Bank borrowings | 28,592 | 36,234 |
| Finance lease liabilities | 1,432 | 2,032 |
| **Total** | **30,024** | **38,266** |

The fair values of bank borrowings are level 2 fair values and were determined based actual interest rates.

The Group has the following undrawn borrowing facilities:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Floating rate: | | |
| - Expiring within one year | 5,692 | 6,566 |
| - Expiring beyond one year | 5,459 | 5,430 |
| Fixed rate: | | |
| - Expiring within one year | 0 | 0 |
| - Expiring beyond one year | 0 | 0 |
| **Total** | **11,151** | **11,996** |

The facilities have been arranged to help finance the operational activities if required. The granted current account lines are normally not fully utilized.

# 15. RETIREMENT BENEFIT OBLIGATIONS

Contributions to retirement benefit plans are generally calculated based on the salary of the insured employees. In Switzerland, pension obligations are covered by legally segregated assets. The retirement benefit scheme of the Group's subsidiaries located in Switzerland is organized as a legally independent pension fund according to Swiss Law (BVG). The pension fund provides benefits in the event of retirement, death or disability. The plans' benefits are based on age, years of service, salary and on an individual old age account. The plan is financed by contributions paid by the employees and by the employer.

The retirement benefit obligation for the German subsidiary, AEMtec GmbH, Berlin, is an obligation due to the former employees of Infineon Technologies AG (predecessor of AEMtec GmbH). Employees of Infineon Technologies AG were transferred to the new founded AEMtec GmbH. For these employees, the retirement benefit obligation went over to AEMtec GmbH by 31 March 2000. The amount of the obligation depends on different factors such as staff membership, age and salary. The obligation is unfunded.

With the disposal of the IDMS-segment the retirement benefit obligation for the German subsidiary, exceet Card AG (former PPC Card Systems GmbH, Paderborn), were transferred to the buyer.

The net periodic pension cost and the defined benefit obligations have been calculated using the projected unit credit method.

The amount recognized in the balance sheet is composed as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Present value of funded obligation | (53,271) | (51,352) |
| Fair value of plan asset | 44,523 | 42,921 |
| | (8,748) | (8,431) |
| Present value of unfunded obligation | (1,563) | (1,353) |
| **Liability in the balance sheet** | **(10,311)** | **(9,784)** |

## Movement of the defined benefit obligation:

| 2016<br>(in EUR 1,000) | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| **At 1 January 2016** | **(52,705)** | **42,921** | **(9,784)** |
| | | | |
| Disposal of IDMS Segment | 676 | (52) | 624 |
| | | | |
| Current service cost | (2,154) | | (2,154) |
| -Plan amendments | 317 | | 317 |
| Interest on obligation / assets | (543) | 444 | (99) |
| Administration expense | | (60) | (60) |
| **Total amount recorded in the income statement** | **(2,380)** | **384** | **(1,996)** |
| | | | |
| REMEASUREMENTS | | | |
| -Return on plan assets | | 1,512 | 1,512 |
| -Gain / (loss) from change in demographic assumptions | 305 | | 305 |
| -Gain / (loss) from change in economic assumptions | (2,851) | | (2,851) |
| -Gain / (loss) from experience | 620 | | 620 |
| **Total remeasurements** | **(1,926)** | **1,512** | **(414)** |
| | | | |
| CONTRIBUTIONS | | | |
| -Company contributions | | 1,330 | 1,330 |
| -Plan participants | (1,129) | 1,129 | 0 |
| **Total contributions** | **(1,129)** | **2,459** | **1,330** |
| | | | |
| PAYMENTS FOR PLAN | | | |
| -Benefit payments | 3,104 | (3,104) | 0 |
| -Benefits paid by employer | 9 | 0 | 9 |
| **Total payments for Plan** | **3,113** | **(3,104)** | **9** |
| | | | |
| **Exchange differences** | **(483)** | **403** | **(80)** |
| | | | |
| **At 31 December 2016** | **(54,834)** | **44,523** | **(10,311)** |

| 2015<br>(in EUR 1,000) | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| **At 1 January 2015** | **(46,077)** | **37,554** | **(8,523)** |
| Current service cost | (2,193) | | (2,193) |
| Interest on obligation / assets | (627) | 509 | (118) |
| Administration expense | | (61) | (61) |
| **Total amount recorded in the income statement** | **(2,820)** | **448** | **(2,372)** |
| | | | |
| REMEASUREMENTS | | | |
| -Return on plan assets | | 99 | 99 |
| -Gain / (loss) from change in demographic assumptions | | | 0 |
| -Gain / (loss) from change in economic assumptions | | | 0 |
| -Gain / (loss) from experience | 212 | | 212 |
| **Total remeasurements** | **212** | **99** | **311** |
| | | | |
| CONTRIBUTIONS | | | |
| -Company contributions | | 1,498 | 1,498 |
| -Plan participants | (1,263) | 1,263 | 0 |
| **Total contributions** | **(1,263)** | **2,761** | **1,498** |
| | | | |
| Payments for Plan | | | |
| -Benefit payments | 2,039 | (2,039) | 0 |
| -Benefits paid by employer | 20 | | 20 |
| **Total payments for Plan** | **2,059** | **(2,039)** | **20** |
| | | | |
| **Exchange differences** | **(4,816)** | **4,098** | **(718)** |
| | | | |
| **At 31 December 2015** | **(52,705)** | **42,921** | **(9,784)** |

Of the total charge of EUR 1,996 (2015: EUR 2,372), EUR 1,438 (2015: EUR 1,717) were included in "cost of sales", EUR 275 (2015: EUR 313) in "administrative expenses", EUR 283 (2015: EUR 342) in "distribution costs".

The significant actuarial assumptions are as follows:

### *Swiss pension plan*

The average life expectancy for Swiss pension plans was calculated on the basis of BVG2015 Generation tables (2015: BVG2010 Generation tables). The disability rates were also calculated on the basis of BVG2015 (2015: BVG2010).

| | 2016 | 2015 |
|---|---|---|
| *Discount rate* | *0.70%* | *1.05%* |
| *Inflation rate* | *1.00%* | *1.00%* |
| *Interest on old age accounts* | *1.00%* | *1.25%* |
| *Future salary increases* | *1.00%* | *1.00%* |
| *Labor turnover rate* | *6.00%* | *5.79%* |

Life expectancy at age 65 (years):

| | 2016 | 2015 |
|---|---|---|
| - Retiring at the end of the reporting period | | |
| *- Male* | *22.26* | *21.49* |
| *- Female* | *24.32* | *23.96* |
| - Retiring 20 years after the end of the reporting period | | |
| *- Male* | *24.18* | *23.24* |
| *- Female* | *26.22* | *25.67* |

### *German pension plans*

The average life expectancy for the German pension plans is based on the biometric basis values by Prof. Dr. Klaus Heubeck, according to the German law.

| | 2016 | 2015 |
|---|---|---|
| *Discount rate* | *2.00%* | *2.50%* |
| *Inflation rate* | *1.75%* | *1.75%* |
| *Pension indexation* | *1.75%* | *1.75%* |

Average retirement age (years):

| | 2016 | 2015 |
|---|---|---|
| *- Male* | *65* | *65* |
| *- Female* | *65* | *65* |

## SENSITIVITY OF THE DEFINED BENEFIT OBLIGATION TO CHANGES IN THE PRINCIPAL ASSUMPTIONS

Impact on defined benefit obligation:

| | | Switzerland | AEMtec GmbH | Total Group |
|---|---|---|---|---|
| Discount rate | - 0.25% | increase of 4.7% | increase of 5.8% | increase of 4.7% |
| | + 0.25% | decrease of 4.3% | decrease of 5.3% | decrease of 4.4% |
| Salary increase | - 0.25% | decrease of 0.4% | n/a | decrease of 0.4% |
| | + 0.25% | increase of 0.5% | n/a | increase of 0.5% |
| Pension indexation | - 0.25% | n/a | decrease of 3.5% | decrease of 0.1% |
| | + 0.25% | n/a | increase of 3.7% | increase of 0.1% |

As of the balance sheet date, the plan assets comprise the following items:

| (in EUR 1,000) | 2016 | in % | 2015 | in % |
|---|---|---|---|---|
| Equities | 11,236 | *25.2%* | 10,611 | *24.7%* |
| Bonds | 22,036 | *49.5%* | 21,895 | *51.0%* |
| Real estate | 6,667 | *15.0%* | 6,226 | *14.5%* |
| Qualified insurance policies | 1,303 | *2.9%* | 412 | *1.0%* |
| Cash and cash equivalents | 1,507 | *3.4%* | 2,099 | *4.9%* |
| Other | 1,774 | *4.0%* | 1,678 | *3.9%* |
| **Total** | **44,523** | ***100.0%*** | **42,921** | ***100.0%*** |

The qualified insurance policies are based on unquoted prices, all other categories are based on quoted prices in an active market.

The investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The main proportions of assets are invested in bonds and equities, although the Group also invests in property, hedge funds and cash. The Group believes that bonds and equities offer the best returns in the long term with an acceptable level of risk. The expected long-term return is based on past experience and on expected future returns.

The Group expects EUR 1,211 (2015: EUR 1,433) in contributions to be paid to the defined benefits plans in 2017.

The weighted average duration of the defined benefit obligation for the Swiss pension plans is 20 years, for the German pension plans the weighted average duration is 23 years.

# 16. SHARE-BASED PAYMENTS

In January 2012, the Company announced the implementation of the Management Stock Option Program (MSOP), pursuant to which up to 450,000 options to acquire Class A Shares of the Company to be granted to selected current and future executives of the Company and its affiliated enterprises. On 21 November 2011, the Board of Directors approved the reservation of 450,000 listed Class A Shares held as Treasury Shares by the Company to be used for the settlement of the MSOP granted.

In August 2012, two executives of the Company were awarded with 66,667 options each with the following terms:

i) The total number of options granted is divided into four equal tranches, where each tranche is characterized by a different strike price of Euro 7.00, Euro 12.00, Euro 13.00 and Euro 16.00;
ii) The options can only be exercised in pre-defined periods, if the volume-weighted average share price, as defined in the Articles of the Company, rises above the strike prices defined above;
iii) The options have a contractual option term of five years from the grant date and the Group has no legal or constructive obligation to repurchase or settle the options in cash;
iv) Options are conditional on the beneficiary's continuing employment with the Company and expire immediately with no compensation should the employment be terminated; and
v) The beneficiary receives one Class A Share for each option exercised with no further payment required.

In 2015 and 2016 no options were awarded with the MSOP to any employee. The options expire in August 2017.

Movements in the number of share options outstanding their related weighted average exercise prices are as follows:

| | 2016<br>Average exercise price per share option in Euro | Share options |
|---|---|---|
| At 1 January 2016 | 12.00 | 66,667 |
| At 31 December 2016 | 12.00 | 66,667 |

| | 2015<br>Average exercise price per share option in Euro | Share options |
|---|---|---|
| At 1 January 2015 | 12.00 | 66,667 |
| At 31 December 2015 | 12.00 | 66,667 |

The stock option plans have been granted to two individuals. As one of the individuals left the company in the year 2012, the stock option plan of this person has been forfeited in line with the rules of the stock option plan.

Out of the 66,667 outstanding options (2015: 66,667 options), none of the options were exercisable as at 31 December 2016.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Grant date | Expiry date | Exercise price per share option in Euro | Share options |
|---|---|---|---|
| August 2012 | August 2017 | 7.00 | 16,667 |
| August 2012 | August 2017 | 12.00 | 16,667 |
| August 2012 | August 2017 | 13.00 | 16,667 |
| August 2012 | August 2017 | 16.00 | 16,666 |
| **2012** | | | **66,667** |

The weighted average fair value of options granted during the period was determined using the Monte Carlo simulation based on the logarithmical calculation of the base values over five years on the Gaussian distribution model. Simulation is performed for each beneficiary and individual share options tranche with the following assumptions:

| FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS BY STRIKE PRICE | Euro 7.00 | Euro 12.00 | Euro 13.00 | Euro 16.00 |
|---|---|---|---|---|
| **Fair value at grand date** | **4.04** | **2.82** | **2.64** | **2.21** |
| Share price at grant date | 4.87 | 4.87 | 4.87 | 4.87 |
| Excercise price | 7.00 | 12.00 | 13.00 | 16.00 |
| Expected volatility | 50.5% | 50.5% | 50.5% | 50.5% |
| Option life (expected weighted average life) in months | 14 | 26 | 28 | 32 |
| Expected dividend | 0 | 0 | 0 | 0 |
| Risk-free interest rate used | 0.46% | 0.46% | 0.46% | 0.46% |

Expected volatility was based on an average from the peer group of the Group as the Company does not have a sufficient historical data for its own shares. Risk-free interest rates used were based on the corresponding EURO-swap and forward rate on the grant date. The estimated fair value of the share options will be charged to the income statement over the estimated option life. In 2016 EUR 0 (2015: EUR 3) has been recognized in personnel costs and in equity (see notes 13 "Equity" and 22 "Personnel costs").

# 17. ACCRUED EXPENSES AND DEFERRED INCOME

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Incentives for employees | 2,374 | 2,765 |
| Holiday and overtime | 912 | 1,381 |
| Social securities | 215 | 471 |
| Salaries | 312 | 412 |
| Audit and consulting fees | 410 | 480 |
| Goods received without invoice | 665 | 461 |
| Warranties | 0 | 174 |
| Provisions, third party | 28 | 31 |
| Accrued outstanding bills | 98 | 51 |
| Cost of shipment | 0 | 20 |
| Interest | 89 | 116 |
| Accrued licence cost | 581 | 446 |
| Credit note for client | 0 | 16 |
| Others | 90 | 313 |
| **Total accrued expenses and deferred income** | **5,774** | **7,137** |

# 18. OTHER FINANCIAL LIABILITIES

exceet Group SE completed its initial public offering of 20,000,000 units consisting each of one share and one warrant, both traded on the Frankfurt Stock Exchange, at an initial price of Euro 10.00 raising hence a total of EUR 200,000.

Public Warrants were treated as derivatives under IAS 32 as they will be settled net in shares (not in cash). Therefore, they were classified as financial liabilities at fair value through profit or loss.

The exceet Public Warrants (ISIN LU0472839819) expired on 26 July 2016 in accordance with clause 9.2 of their terms and conditions and have been automatically and immediately canceled on 27 July 2016, hence no fair value was recorded at 31 December 2016 (31.12.2015: EUR 20).

# 19. OTHER LIABILITIES

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Prepayments | 318 | 645 |
| Value-added tax | 475 | 1,232 |
| Other taxes payable | 314 | 360 |
| Social securities | 723 | 998 |
| Government grants | 65 | 60 |
| Earn-out from acquisition | 0 | 500 |
| Grant for purchase of equipment from customer | 110 | 110 |
| Others | 276 | 353 |
| **Total other current liabilities** | **2,281** | **4,258** |

The position "Others" contains liabilities to consultants and other third parties.

The position in the balance sheet of other non-current liabilities included EUR 950 (2015: EUR 1,022) of government grants. In 2015 the position also included EUR 498 (discounted) as remaining contingent consideration for the acquisition of Lucom GmbH Elektrokomponenten und Systeme which was released in other income in 2016 (see note 23 "Other operating income").

# 20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

| (in EUR 1,000) | Guarantees | Reconstruction obligations | Social provisions | Others | Total |
|---|---|---|---|---|---|
| 2016 | | | | | |
| **At 1 January 2016** | **334** | **145** | **894** | **288** | **1,661** |
| Disposal of subsidiaries (note 29) | (260) | (145) | (446) | (44) | (895) |
| Charged/(credited) to the income statement | | | | | |
| -Additional provisions | 63 | 0 | 182 | 19 | 264 |
| -Unused amounts reversed | | | | | |
| Used during year | (21) | 0 | (323) | (83) | (427) |
| Currency translation differences | | | | | |
| **At 31 December 2016** | **116** | **0** | **307** | **180** | **603** |

| (in EUR 1,000) | Guarantees | Reconstruction obligations | Social provisions | Others | Total |
|---|---|---|---|---|---|
| 2015 | | | | | |
| **At 1 January 2015** | **189** | **145** | **583** | **291** | **1,208** |
| Disposal of subsidiaries (note 29) | 0 | 0 | 0 | 0 | 0 |
| Charged/(credited) to the income statement | | | | | |
| -Additional provisions | 311 | 0 | 337 | 53 | 701 |
| -Unused amounts reversed | (88) | 0 | 0 | (47) | (135) |
| Used during year | (78) | 0 | (26) | (17) | (121) |
| Currency translation differences | 0 | 0 | 0 | 8 | 8 |
| **At 31 December 2015** | **334** | **145** | **894** | **288** | **1,661** |

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| ANALYSIS OF TOTAL PROVISIONS | | |
| Non-current | 603 | 1,301 |
| Current | 0 | 360 |
| **Total provisions** | **603** | **1,661** |

### *Guarantees*

The Group recognizes guarantee provision to cover warranty claims. The calculation of this provision is based on past experience of warranty claims and returns. The actual costs for warranty and returns may differ from these estimates.

### *Reconstruction obligations*

The Group provides for costs associated to asset retirement obligations in connection with any legal or contractual obligation associated with the retirement of a tangible asset or from lease agreements.

### *Social provisions*

The amount provided covers the legally required provisions for possible severance payments in Austria.

### *Others*

Other provisions include provisions for anniversaries of EUR 145 (2015: EUR 148) and provisions for storage of business documents EUR 35 (2015: EUR 78). In prior year EUR 62 further other provisions.

# 21. EXPENSES BY NATURE

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Raw materials and consumables used | 70,506 | 67,360 |
| Changes in inventories of finished goods and work in progress | (112) | 605 |
| Personnel cost (note 22) | 46,859 | 47,888 |
| Repair and maintenance expense | 2,072 | 1,963 |
| Leasing expense (note 27) | 395 | 388 |
| Rental expense (note 27) | 1,187 | 1,210 |
| Administrative expense | 3,489 | 3,357 |
| Marketing and acquisition expense | 1,263 | 1,290 |
| Other expense (note 24) | 2,810 | 2,985 |
| Depreciation, amortization and impairment charges (note 5/6) | 12,486 | 8,299 |
| **Total cost of sales, distribution costs, admin & other expenses** | **140,955** | **135,345** |

Development costs of EUR 8,224 (2015: EUR 7,459) are included in above expenses by nature.

Administrative expenses include EUR 275 (2015: EUR 284) of audit costs and no costs (2015: EUR 0) for non-audit services charged by the Group auditor.

# 22. PERSONNEL COSTS

Personnel costs comprise the following cost items:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Salaries | 38,293 | 38,939 |
| Social contributions | 5,564 | 5,358 |
| Defined benefit plan expenses (note 15) | 1,996 | 2,372 |
| Share-based payments (note 16) | 0 | 3 |
| Other personnel expenses | 1,006 | 1,216 |
| **Total** | **46,859** | **47,888** |

Average staff headcount (FTE) for 2016 amounts to 639 (2015: 637), split into production & technical of 408 (2015: 419); management & administration of 67 (2015: 69); sales & marketing of 65 (2015: 64) and research & development of 99 (2015: 85).

# 23. OTHER OPERATING INCOME

Other operating income includes the following items:

| (in EUR 1,000) | **2016** | **2015** |
|---|---|---|
| Release of earn-out provision | 500 | 0 |
| Income from insurance company | 226 | 99 |
| Government benefits | 288 | 199 |
| Gain on sale of tangible assets | 13 | 6 |
| Income from delivery | 20 | 20 |
| Income from release of other liabilities | 0 | 69 |
| Income from services | 0 | 8 |
| Income from employees | 115 | 102 |
| Others | 91 | 154 |
| **Total other operating income** | **1,253** | **657** |

Release of earn-out provision is related to the release of earn-out liability from the acquisition of Lucom GmbH (EUR 500).

# 24. OTHER EXPENSES

Other expenses result from the following items:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Energy costs | 1,080 | 1,105 |
| Freight costs | 337 | 345 |
| Waste disposal and cleaning costs | 434 | 583 |
| Insurance costs | 585 | 570 |
| Book loss of sales of equipment | 3 | 19 |
| Other tax and government requirements | 44 | 41 |
| Vehicle Costs | 121 | 89 |
| Costs for claims | 16 | 67 |
| Others | 190 | 166 |
| **Total other expenses** | **2,810** | **2,985** |

# 25. FINANCIAL RESULT

The financial results are derived as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Interest income | 7 | 3 |
| Foreign currency exchange gains | 1,618 | 5,526 |
| Other financial income | 2 | 7 |
| **Financial income** | **1,627** | **5,536** |
| | | |
| Interest expenses | (639) | (532) |
| Financial leasing expense | (64) | (70) |
| Foreign currency exchange losses | (1,898) | (8,080) |
| Other financial expenses | (106) | (107) |
| **Financial expenses** | **(2,707)** | **(8,789)** |
| | | |
| Net fair value gain on other financial liabilities (note 18) | 20 | 1,360 |
| Net fair value loss on other financial liabilities (note 18) | | |
| **Changes in fair value in financial instruments** | **20** | **1,360** |
| | | |
| **Total financial result** | **(1,060)** | **(1,893)** |

# 26. EARNINGS PER SHARE

Earnings per shares (EPS) are calculated by dividing the profit or loss attributable to the ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period excluding ordinary shares purchased by the Group and held as Treasury Shares.

Due to different rights to receive dividends (see note 13 "Equity"), exceet Group SE has two classes of ordinary shares. Disclosure of EPS amounts is required for both classes of ordinary shares.

### a) Basic earnings per share continued operations

The calculation of basic EPS at 31 December 2016 is based on the loss from continued operations attributable to the owners of the parent of EUR 7,121 for 2016 (2015: Loss of EUR 1,362) and the weighted average number of ordinary shares outstanding of 20,073,695 Class A Shares. As of 15 September 2016 the Class B/C Shares have been canceled. For the same period in the previous year the notional weighted average numbers of ordinary shares outstanding were 20,073,695 Class A Shares and 14,210,526 Class B/C Shares respectively.

### c) Dilutive earnings per share

Diluted EPS are calculated by increasing the average number of shares outstanding by the total number of potential shares arising from option rights. The Group has outstanding 66,667 share options from the Management Stock Option Program (MSOP). The share options are not dilutive as the average market price of the ordinary shares is below the exercise price of the share options.

Should the share options of the Management Stock Option Program (MSOP) be exercised, the total number of Class A Shares would increase by 66,667 to 20,140,362 Class A Shares, having minor impact on the EPS. Share options from the MSOP not exercised within the contractual time frame expire without any redemption and have no dilutive impact on the EPS.

| BASIC EARNINGS PER SHARE CONTINUED OPERATIONS | | 2016 | 2015 |
|---|---|---|---|
| Profit / (Loss) for continued operations for the year (EUR 1,000) attributable to equity holders of the Company | Class A Shares | (7,121) | (797) |
| | Class B/C Shares | 0 | (565) |
| Weighted average number of ordinary shares outstanding | Class A Shares | 20,073,695 | 20,073,695 |
| | Class B/C Shares | 0 | 14,210,526 |
| **Basic earnings / (loss) per share (Euro/share)** | **Class A Shares** | **(0.35)** | **(0.04)** |
| | **Class B/C Shares** | **0.00** | **(0.04)** |

### b) Basic earnings per share discontinued operations

The calculation of basic EPS at 31 December 2016 is based on the loss from discontinued operations attributable to the owners of the parent of EUR 24,282 for 2016 (2015: Profit of EUR 195) and the weighted average number of ordinary shares outstanding of 20,073,695 Class A Shares. As of 15 September 2016 the Class B/C Shares have been cancelled. For the same period in the previous year the notional weighted average numbers of ordinary shares outstanding were 20,073,695 Class A Shares and 14,210,526 Class B/C Shares respectively.

As described in the annual report of exceet consolidated financial statements note 13 "Equity", Class B and C Shares that are not converted to Public Shares on or prior to the fifth anniversary of the consummation of the reversed asset acquisition will no longer be convertible into Public Shares and will be redeemed. As of the extraordinary general meeting held 15 September 2016 Class B/C Shares have been redeemed and been canceled.

| BASIC EARNINGS PER SHARE DISCONTINUED OPERATIONS | | 2016 | 2015 |
|---|---|---|---|
| Profit / (Loss) for discontinued operations for the year (EUR 1,000) attributable to equity holders of the Company | Class A Shares | (24,282) | 114 |
| | Class B/C Shares | 0 | 81 |
| Weighted average number of ordinary shares outstanding | Class A Shares | 20,073,695 | 20,073,695 |
| | Class B/C Shares | 0 | 14,210,526 |
| **Basic earnings / (loss) per share (Euro/share)** | **Class A Shares** | **(1.21)** | **0.01** |
| | **Class B/C Shares** | **0.00** | **0.01** |

# 27. OTHER FINANCIAL OBLIGATIONS/ COMMITMENTS AND CONTINGENCIES

## 27.1 RENTAL AND LEASE CONTRACTS

Description of rental and lease contracts:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| OPERATING LEASE OBLIGATIONS (RENTAL) AS OF 31 DECEMBER | | |
| < 1 year | 1,437 | 2,556 |
| > 1 - 5 years | 2,726 | 5,014 |
| More than 5 years | 0 | 279 |
| **Total** | **4,163** | **7,849** |

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| FINANCE LEASE OBLIGATIONS AS OF 31 DECEMBER | | |
| < 1 year | 799 | 2,021 |
| > 1 - 5 years | 1,449 | 1,983 |
| More than 5 years | 0 | 122 |
| **Total** | **2,248** | **4,126** |
| Future finance charges on finance lease | (37) | (160) |
| **Present value of finance lease liabilities** | **2,211** | **3,966** |

The present value of finance lease liabilities is as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| < 1 year | 779 | 1,934 |
| > 1 - 5 years | 1,432 | 1,912 |
| More than 5 years | 0 | 120 |
| **Present value of future lease liabilities** | **2,211** | **3,966** |

In the financial year 2016, the rental and leasing expenses amounted to EUR 1,582 (2015: EUR 1,598).

## 27.2 CONTINGENT LIABILITIES

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those already provided for (see note 20 “Provisions for other liabilities and charges”).

# 28. PLEDGED ASSETS

The Company has the following pledged assets:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Land and building | 15,159 | 15,581 |
| Pledged accounts receivables | 8,203 | 10,325 |
| Pledged other receivables | 485 | 506 |
| Pledged machinery and equipment | 4,814 | 3,908 |
| Pledged inventories | 0 | 0 |
| Pledged cash | 0 | 0 |
| **Total pledged assets** | **28,661** | **30,320** |

Bank borrowings are secured by land and building, receivables, machinery and equipment (see note 14 "Borrowings").

# 29. DISCONTINUED OPERATIONS

## 29.1 DIVESTMENT OF SUBSIDIARIES

The following table shows the cash flows of the divestments made in 2016, and the transaction costs which were directly recognized in the income statement:

| (in EUR 1,000) | 2016 | 2015 | Date of deconsolidation |
|---|---|---|---|
| CASH FLOW FROM DIVESTMENT, NET OF CASH DISPOSED | | | |
| Cash inflow on divestment of IDMS Segment | 9,926 | | 30 September 2016 |
| **Total** | **9,926** | **0** | |
| TRANSACTION COSTS DIRECTLY RECOGNIZED IN THE INCOME STATEMENT UNDER DISCONTINUED OPERATIONS | | | |
| IDMS Segment | 412 | | |
| **Total** | **412** | **0** | |

The transaction costs were directly recognized within discontinued operations as administrative expenses.

On 2 March 2016 the Group announced its intention to sell the business segment IDMS and initiated a process to locate a buyer. The associated assets and liabilities were consequently presented as held for sale in the interim reports of 2016. The assets and liabilities of the discontinued operations classified as held for sale are measured at the lower of their carrying value and fair value less cost to sell. Fair value less cost to sell has been determined based on the valuation of the expected business performance and the expected sales proceed from a third party buyer.

Based on actual value indications from the capital market, the carrying value of IDMS (discontinued operations) was impaired by EUR 8,500 as per 30 June 2016 and allocated to Goodwill.

As of 30 September 2016 the Business segment and the corresponding intercompany loans hold within the Group were sold with effect on the same date. The financial information relating to the discontinued operation for the period to the date of disposal is set below.

| (in EUR 1,000) | |
|---|---|
| DISPOSAL CONSIDERATION | |
| Consideration received | 11,500 |
| Carrying amount of net assets disposed | (15,559) |
| **Loss on Disposal before reclassification of foreign currency translation reserve** | **(4,059)** |
| | |
| Reclassification of foreign currency translation reserve | (10,507) |
| **Loss on Disposal** | **(14,566)** |

The carrying amount of assets and liabilities as at the date of sale (30 September 2016) were:

| (in EUR 1,000) | |
|---|---|
| CARRYING VALUE | |
| Cash and cash equivalents | 1,574 |
| Tangible assets | 6,364 |
| Intangible assets | 7,557 |
| Inventory | 6,764 |
| Trade receivables (including allowance) | 5,928 |
| Other receivables | 923 |
| Accrued income and deferred expenses | 224 |
| Trade payables | (4,495) |
| Other liabilities | (1,227) |
| Borrowings | (4,509) |
| Accrued expenses and deferred income | (1,901) |
| Retirement benefit obligation | (624) |
| Provisions | (895) |
| Current income tax liability | (124) |
| **Net assets disposed** | **15,559** |

| (in EUR 1,000) | |
|---|---|
| Consideration settled in cash | 11,500 |
| Cash and cash equivalents in subsidiaries disposed | (1,574) |
| **Cash inflow on divestment, net of cash** | **9,926** |

The financial performance of the discontinued operations for the first nine months 2016 and the full year 2015 is as follows:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| FINANCIAL PERFORMANCE | | |
| External revenue | 33,185 | 45,208 |
| Expenses | (35,815) | (45,169) |
| Profit/(Loss) before fair value adjustment and income tax | (2,630) | 39 |
| Fair value adjustment - Impairment of Goodwill | (8,500) | 0 |
| Profit/(Loss) before income tax | (11,130) | 39 |
| Income tax | 1,414 | 156 |
| **Profit/(Loss) from discontinued operations** | **(9,716)** | **195** |
| | | |
| Loss on Disposal of discontinued operations | (14,566) | 0 |
| **Loss from discontinued operations** | **(24,282)** | **195** |
| | | |
| Remeasurement of defined benefit obligation | 0 | (16) |
| Exchange difference on translation of discontinued operations | 10,507 | (5,070) |
| **Comprehensive income from discontinued operations** | **(13,775)** | **(4,891)** |
| | | |
| PROFIT/(LOSS) ATTRIBUTABLE TO: | | |
| Shareholders of the parent company | (24,282) | 195 |
| | | |
| EARNINGS PER SHARE IN EURO FROM DISCONTINUED OPERATIONS (BASIC = DILUTIVE) | | |
| Class A Shares | 1.21 | 0.01 |
| Class B/C Shares | n/a | 0.01 |
| | | |
| CASH FLOW INFORMATION | | |
| Net Cash inflow / (outflow) from operating activities | (2,457) | 1,470 |
| Net Cash inflow / (outflow) from investing activities | (1,043) | (636) |
| Net Cash inflow / (outflow) from financing activities | 904 | (218) |
| **Net increase / (decrease) in cash generated by discontinued operations** | **(2,596)** | **616** |

At 31 December 2015, the following assets and liabilities have been allocated the IDMS segment.

(in EUR 1,000)

| | |
|---|---|
| **ASSETS** | |
| Tangible assets | 6,336 |
| Intangible assets [1] | 16,318 |
| Deferred tax assets | 150 |
| Other non-current receivables | 186 |
| Inventories | 4,647 |
| Trade receivables, net | 4,021 |
| Other current receivables | 501 |
| Current income tax receivables | 168 |
| Accrued income and prepaid expenses | 240 |
| Cash and cash equivalents | 4,170 |
| **Total assets** | **36,737** |

| | |
|---|---|
| **LIABILITIES** | |
| Borrowings [2] | 3,118 |
| Retirement benefit obligations | 624 |
| Deferred tax liabilities | 1,681 |
| Provisions for other liabilities and charges | 1,086 |
| Other non-current liabilities | 7 |
| Trade payables | 2,601 |
| Other current liabilities | 1,191 |
| Accrued expenses and deferred income | 1,812 |
| Current income tax liabilities | 6 |
| **Total liabilities** | **12,126** |

[1] Incl. Goodwill of EUR 14,452 .

[2] Net debt for discontinued operations amount to EUR -1,052 based on third party borrowings EUR 3,118 less cash and cash equivalents of EUR 4,170.

# 30. LIST OF CONSOLIDATED SUBSIDIARIES OF EXCEET GROUP SE

| Company | Country | Year of acquisition[1] | Segment | Activity | Ref. | Share capital | Share in the capital | Share of the votes |
|---|---|---|---|---|---|---|---|---|
| CONTINUED OPERATIONS | | | | | | | | |
| exceet Holding AG [2] | SUI | 2011 | C&O | Holding | 1 | CHF 100,000 | 100% | 100% |
| exceet Group AG | SUI | 2006 | C&O | Holding & Services | 1 | CHF 25,528,040 | 100% | 100% |
| exceet Austria GmbH | AUT | 2011 | C&O | Holding | 2 | EUR 35,000 | 100% | 100% |
| GS Swiss PCB AG | SUI | 2006 | ECMS | Manufacturing & Sales | 3 | CHF 1,350,000 | 100% | 100% |
| ECR AG | SUI | 2006 | ECMS | Manufacturing & Sales | 1 | CHF 500,000 | 100% | 100% |
| AEMtec GmbH | GER | 2008 | ECMS | Manufacturing & Sales | 4 | EUR 2,250,000 | 100% | 100% |
| exceet electronics AG [3] | SUI | 2008 | ECMS | Manufacturing & Sales | 1 | CHF 1,000,000 | 100% | 100% |
| exceet electronics GesmbH [4][5][6] | AUT | 2011 | ECMS | Manufacturing & Sales | 2 | EUR 54,000 | 100% | 100% |
| exceet electronics GmbH [7] | GER | 2012 | ECMS | Development & Sales | 5 | EUR 102,150 | 100% | 100% |
| exceet Medtec Romania S.R.L. [8] | ROU | 2014 | ECMS | Development | 6 | RON 1,000 | 100% | 100% |
| exceet USA, Inc. | USA | 2015 | ECMS | Sales | 7 | USD 10 | 100% | 100% |
| exceet Secure Solutions GmbH [9][10][11] | GER | 2011 | ESS | Development & Sales | 8 | EUR 1,000,000 | 100% | 100% |
| Lucom GmbH Elektrokomponenten und Systeme [12] | GER | 2014 | ESS | Development & Services | 9 | EUR 26,000 | 100% | 100% |
| DISCONTINUED OPERATIONS (sold as of 30 September 2016) | | | | | | | | |
| exceet Card Group AG | GER | 2009 | IDMS | Holding & Services | | EUR 7,595,389 | | |
| exceet Card Austria GmbH [13] | AUT | 2009 | IDMS | Manufacturing & Sales | | EUR 35,000 | | |
| idVation GmbH [14] | GER | 2009 | IDMS | Development & Services | | EUR 25,000 | | |
| exceet Card Nederland B.V. [15] | NED | 2009 | IDMS | Manufacturing & Sales | | EUR 226,900 | | |
| exceet Card AG [16][17] | GER | 2010 | IDMS | Manufacturing & Sales | | EUR 6,315,584 | | |
| exceet CZ s.r.o. [18] | CZE | 2010 | IDMS | Manufacturing | | CZK 1,500,000 | | |

[1] Year of acquisition refers to exceet Group AG point of view

[2] exceet Holding AG (former: Helikos AG) was renamed by 9.5.2014

[3] exceet electronics AG (former: Mikrap AG) was renamed by 30.12.2014

[4] exceet electronics GesmbH (former: Contec Steuerungstechnik & Automation Gesellschaft m.b.H.) was renamed by 28.1.2015

[5] exceet electronics GesmbH (former: Contec Steuerungstechnik & Automation Gesellschaft m.b.H.) and Inplastor GmbH have been merged in December 2014 retroactively as per 28.3.2014

[6] exceet Austria GmbH holds 99.34% of the share capital of exceet electronics GesmbH and exceet Group AG 0.66% of the share capital of exceet electronics GesmbH

[7] exceet electronics GmbH (former: as electronics GmbH) was renamed by 5.1.2015

[8] exceet Medtec Romania S.R.L. (former: Valtronic Technologies Romania S.R.L.) was renamed by 20.6.2014

[9] exceet Secure Solutions AG (former: AuthentiDate International AG) has been renamed by 13.8.2014

[10] exceet Secure Solutions AG and exceet Secure Solutions Deutschland GmbH have been merged on 15 August 2016 retroactively as per 1 January 2016

[11] exceet Secure Solutions GmbH (former: exceet Secure Solutions AG) has been renamed by 6.10.2016

[12] exceet Secure Solutions GmbH holds 100% of the share capital of Lucom GmbH Elektrokomponenten und Systeme

[13] exceet Card Group AG held 100% of the share capital of exceet Card Austria GmbH

[14] exceet Card Austria GmbH held 100% of the share capital of idVation GmbH

[15] exceet Card AG held 100% of the share capital of exceet Card Nederland B.V.

[16] NovaCard Informationssysteme GmbH and exceet Card AG had been merged in February 2013 retroactively as per 1.1.2013

[17] PPC Card Systems GmbH and exceet Card AG had been merged in August 2012 retroactively as per 1.1.2012

[18] exceet Card Austria GmbH held 100% of the share capital of exceet CZ s.r.o.

| Ref. | Address | | |
|---|---|---|---|
| 1 | Riedstrasse 1 | CH-6343 Rotkreuz | Switzerland |
| 2 | Wildbichler Strasse 2E | A-6341 Ebbs | Austria |
| 3 | Fännring 8 | CH-6403 Küssnacht a. R. | Switzerland |
| 4 | James-Franck-Strasse 10 | D-12489 Berlin | Germany |
| 5 | Kantstrasse 10 | D-72663 Grossbettlingen | Germany |
| 6 | 1 Decembrie 1918 Blvd., No. 1G, Sector 3 | RO-032451 Bukarest | Romania |
| 7 | 100 Sylvan Road, Suite G-700 | Woburn, Massachusetts 01801 | USA |
| 8 | Rethelstrasse 47 | D-40237 Düsseldorf | Germany |
| 9 | Ansbacher Str. 2a | D-90513 Zirndorf | Germany |

On 15 August 2016 exceet Secure Solutions AG and exceet Secure Solutions Deutschland GmbH have been merged retroactively as per 1 January 2016.

As of 15 September 2015 exceet USA, Inc. was incorporated and is a 100% subsidiary of exceet Group AG.

In the effort of Group branding strategy, several companies have changed their legal name to incorporate "exceet" as per the following table:

| New name | Previous name | Date of change |
|---|---|---|
| exceet Secure Solutions GmbH | exceet Secure Solutions AG | 6 October 2016 |
| exceet Secure Solutions Deutschland GmbH | Authentidate Deutschland GmbH | 20 September 2015 |
| exceet electronics GesmbH | Contec Steuerungstechnik & Automation GmbH | 28 January 2015 |
| exceet electronics GmbH | as electronics GmbH | 5 January 2015 |

# 31. ULTIMATE CONTROLLING PARTIES AND RELATED-PARTY TRANSACTIONS

The Company has no ultimate controlling party.

Entities and natural persons (and their families) are considered related parties if they have the possibility to control the exceet Group SE or to exert a significant influence on its financial and business policies. For the purpose of assessing the significant influence exercised by related parties on the financial or business policies of the exceet Group SE, the existence of fiduciary relationships is taken into account in addition, to the existing control relationships.

## RELATED ENTITIES

The following entities are to be considered related parties:

Greenock S.à r.l. (Ventizz) New York, USA (shareholder)
Oranje-Nassau Participaties B.V., Amsterdam, Netherlands (shareholder)
Eiflia Holding GmbH, Bonn, Germany (shareholder)
Acrema, St. Gallen, Switzerland (shareholder)
White Hills Management & Co S.C.S. (director)

## RELATED PERSONS

### Board of Directors

- Hans Hofstetter, Chairman of the Board of Directors
- Dirk-Jan van Ommeren
- Dr. Hagen Hultzsch
- Roland Lienau
- Guido Bollue as Representative of White Hills Management & Co S.C.S.
- Wolf-Günter Freese

## MEMBERS OF THE MANAGEMENT BOARD

Wolf-Günter Freese
Acting Chief Executive Officer & Chief Financial Officer

As of 2 March 2016 Chief Financial Officer Mr. Wolf-Günter Freese took over the functions of Mr. Ulrich Reutner as acting CEO. With the sale of the ID Management Systems (IDMS) business activities Mr. Robert Wolny (COO IDMS) left exceet at the end of September 2016. In addition, Mr. Jan Trommershausen resigned from his functions as COO electronic Components Modules & Systems (ECMS) due to the organizational adjustments implemented in January 2017. The remuneration of members of the Management Board and the Board of Directors is disclosed in note 32 "Remuneration of members of Board of Directors and the Management Board".

## TRANSACTIONS WITH RELATED PARTIES

The Group had legal charges in 2016 of EUR 80 (2015: EUR 75). In addition, the Group had no outstanding balances at 31 December 2016 and 2015. For remuneration to Members of Board of Directors and the Management Board see note 32.

## CONTINGENT LIABILITIES TOWARDS RELATED PARTIES

No contingent liabilities towards related parties.

# 32. REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

The following remuneration relates to the financial year 2016:

| (in EUR 1,000) | 2016 | 2015 |
|---|---|---|
| Remuneration for meetings | 180 | 150 |
| **Total remuneration to the Board of Directors** | **180** | **150** |
| | | |
| Salaries and social cost payments to Management Board | 1,581 | 1,925 |
| Share-based payments to Management Board (note 16) | 0 | 3 |
| Post employment benefits payments to Management Board | 139 | 185 |
| **Total payments to Management Board** | **1,720** | **2,113** |

The payments to the Management Board in 2016 include costs for Ulrich Reutner (former CEO) until 2 March 2016 and costs for Robert Wolny (former COO – IDMS) until 30 September 2016 according to the changes in the Management.

The members of the Management Board and the Board of Directors hold the following shares and options:

| | 2016 Total Shares | 2015 Total Shares |
|---|---|---|
| Jan Trommershausen | 47,683 | 101,593 |
| **Total** | **47,683** | **101,593** |

| | Options 1 January 2016 | Granted during financial year | Vested during financial year | Closing position 31 December 2016 |
|---|---|---|---|---|
| Jan Trommershausen | 66,667 | 0 | 0 | 66,667 |
| **Total** | **66,667** | **0** | **0** | **66,667** |

| | Options 1 January 2015 | Granted during financial year | Vested during financial year | Closing position 31 December 2015 |
|---|---|---|---|---|
| Jan Trommershausen | 66,667 | 0 | 0 | 66,667 |
| **Total** | **66,667** | **0** | **0** | **66,667** |

| BOARD OF DIRECTORS | 2016 Total shares | 2015 Total shares |
|---|---|---|
| Hans Hofstetter, Chairman of the Board of Directors | 220,000 | 220,000 |
| Dirk-Jan van Ommeren | 0 | 0 |
| Roland Lienau | 63,377 | 350,216 |
| Dr. Hagen Hultzsch | 0 | 0 |
| White Hills Management & Co S.C.S., represented by Guido Bollue | 0 | 0 |
| Wolf-Günter Freese | 0 | 0 |
| **Total** | **283,377** | **570,216** |

At the extraordinary general meeting (the "EGM") held 15 September 2016, shareholders agreed to the cancelation of all (i) 5,210,526 redeemable Class B Shares and (ii) 9,000,000 redeemable Class C Shares from their holders at their accounting par value. Therefore in 2016 only Class A Shares are included in total shares. See further details in note 13 "Equity".

# 33. EVENTS AFTER THE BALANCE SHEET DATE

## EXCEET GRANTS POTENTIAL BUYER OF A SIGNIFICANT EQUITY STAKE THE OPPORTUNITY TO CONDUCT A DUE DILIGENCE

As published on 14 February 2017, Greenock S.à r.l., a major shareholder of exceet Group SE, has informed the Board of Directors of exceet Group SE that it has entered into discussions with a potential buyer of its stake in exceet at a price of Euro 3.90 to Euro 4.00 per share. exceet grants the potential buyer the opportunity to conduct a due diligence of exceet. However, the Board of Directors of exceet Group SE is not yet able to assess, whether the conditions precedent for the acquisition of Greenock's stake by the potential buyer and for the potential tender offer to the shareholders of exceet Group SE will be met or not.

There were no other events since the balance sheet date on 31 December 2016 that would require adjustment of assets or liabilities of disclosure.

# AUDIT REPORT

To the Shareholders of
exceet Group SE

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of exceet Group SE and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

### BOARD OF DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### RESPONSIBILITY OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of exceet Group SE and its subsidiaries as of 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg*
*T: +352 494848 1, F:+352 494848 2900, www.pwc.lu*

*Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)*
*R.C.S. Luxembourg B 65 477*

## OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## OTHER MATTER

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and included in the Corporate Governance Statement is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société cooperative
Luxembourg, 28 February 2017
Represented by

Philippe Duren

# EXCEET GROUP SE MANAGEMENT REPORT

All figures presented should be read as in Euro, if not stated otherwise.

## STRUCTURE & REPORTING

exceet Group SE (hereafter the "Company" or "exceet") is a company incorporated as a Société Européenne under the law of Luxembourg and listed on the regulated Frankfurt Stock Exchange (WKN: A0YF5P / ISIN:LU0472835155) in the Prime Standard segment.

exceet Group SE is a holding Company and holds a group of subsidiaries in the electronic and security industry. For further details in relation to the subsidiaries please refer to the exceet Group consolidated financial statements.

The Company has a total of 13 subsidiaries located in four European countries (Austria, Germany, Switzerland and Romania) and the USA. This setup allows the companies to benefit from specific local advantages (e.g. customer proximity) and to apply flexible development and production processes necessary to fulfill the requirements of customers.

## THE COMPANY'S STRATEGIC POSITIONING

The Company's purpose is the creation, holding, development and realization of a portfolio, consisting of interests and rights of any kind and of any other form of investment in entities in the Grand Duchy of Luxembourg and in foreign entities, whether such entities exist or are to be created, especially by way of subscription, acquisition by purchase, sale or exchange of securities or rights of any kind whatsoever, such as equity instruments, debt instruments, patents and licenses, as well as the administration and control of such portfolio.

The main objective of exceet Group SE is to hold directly or indirectly operating subsidiaries, wherein exceet Group SE, directly or indirectly, has a majority of the voting rights and is able to determine the financial and business policies based on the so-called control concept.

For further details please refer to the exceet Group Management Report and the consolidated articles of the association of exceet Group SE[1].

## THE COMPANY'S FUTURE OBJECTIVES

As the exceet Group's legal parent company, the Company is to remain and act as the holding company listed on the regulated market of the Frankfurt Stock Exchange.

The objectives of the Company's operating units are:
- increase market share in its core markets leveraging on long-term customers
- extending the customer base through new applications
- internal sharing of technical competences and qualifications
- further geographical market presence
- being ready to participate in the process of further industry consolidation

## MAJOR EVENTS DURING THE REPORTING PERIOD

Shareholders agreed to the decrease of the Company's issued share capital by an amount of Euro 216,000.00 from Euro 527,960.16 to Euro 311,960.16 through the cancelation of all (i) 5,210,526 redeemable Class B Shares and (ii) 9,000,000 redeemable Class C Shares from their holders at their accounting par value. Further details are described in note 6 of the financial statements.

## NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

exceet Group SE, as a holding company, is subject to operating expenses in nature and does not have any operational profit.

The other external expenses for the Company were EUR 344,439 (2015: EUR 243,303), this comprises mainly of costs in connection with Investor Relations, legal fees, audit fees, as well as rent and insurance charges and fees for tax compliance. The other operating charges of EUR 202,553 (2015: EUR 171,567) were mainly compensation of the Company's independent directors

[1] http://ir.exceet.ch/fileadmin/exceet/downloads/ir/corp_govern/EGM_Exceet_Group_SE_09_16_executed_.PDF

for their services on the Board of Directors in the amount of EUR 180,000 (2015: EUR 150,000).

The revaluation loss of own shares amounted to EUR 666,000 (2015: EUR 571,500) and is due to the current lower share price according to XETRA as per 31 December 2016.

In 2015 the other income from financial fixed assets from affiliated undertakings of EUR 4,405,263 was the result of a reversal of previously recognized value adjustment on the convertible loan according to the foreign exchange rate at 31 December 2015. In 2016 no value adjustment on the convertible loan was necessary. The interest income for the year 2016 is EUR 9,375 (2015: EUR 10,001).

In 2015 the extraordinary income was due to an overstatement of accrued charges in the amount of EUR 13,943.

Total charges and income resulted in a loss for the financial year of EUR 1,210,837 (2015: gain of EUR 3,430,502).

### BALANCE SHEET POSITIONS

As at 31 December 2016 exceet's balance sheet revealed total assets of EUR 189,935,009, compared to EUR 191,317,237 at the end of the previous year. This decrease was mainly the result of the lower valuation of own shares of EUR 1,125,000 (2015: EUR 1,791,000) and the lower cash at bank balance of EUR 89,415 (2015: EUR 563,893).

Fixed assets amounted to EUR 188,693,579 (2015: EUR 188,934,204). The decrease in the fixed assets is the result of the lower loan receivable from exceet Group AG of EUR 821,875 (2015: EUR 1,062,500) which is included in loans to affiliated undertakings of EUR 115,721,875 (2015: EUR 115,962,500).

Current assets amounted to EUR 1,214,415 (2015: EUR 2,354,893); comprising own shares of EUR 1,125,000 (2015: EUR 1,791,000) and cash and cash equivalents positions of EUR 89,415 (2015: EUR 563,893).

The prepayments amount to EUR 27,015 (2015: EUR 28,140).

Capital and reserves moved from EUR 191,085,012 as per 31 December 2015, to EUR 189,658,175 as per 31 December 2016, reflecting the loss of the financial year of EUR 1,210,837 (2015: gain of EUR 3,430,502). Capital and reserves include a special non-distributable reserve for own shares created according to provisions of the law for an amount of EUR 4,525,313.

Non subordinated debts increased to EUR 276,834 from EUR 232,225 in prior year. As per 31 December 2016 the amount represents only trade creditors.

## EMPLOYEES

As at 31 December 2016, there were no employees in the Company. For further information concerning employees regarding the exceet Group, please refer to the exceet Group Management Report pages 4 to 25.

## DEVELOPMENT AND TECHNOLOGY INVESTMENTS

In 2016, no development expenditures occurred within the Company. For details concerning development expenditure of the exceet Group please refer to the exceet Group consolidated financial statements note 21 “Expenses by nature”.

## OTHER DISCLOSURES

For information regarding:

- NON-FINANCIAL PERFORMANCE INDICATORS
- OPPORTUNITIES AND RISK REPORT
- REPORT ON EXPECTED DEVELOPMENTS
- CORPORATE GOVERNANCE
- TAKEOVER LAW
- FORWARD-LOOKING STATEMENTS
- FINANCIAL CALENDAR

Please refer to the exceet Group Management Report pages 4 to 25.

# RESPONSIBILITY STATEMENT

In accordance with article 3(2) c) of the Transparency Law the undersigned declares that, to the best of his knowledge, the Annual Accounts in accordance with Luxembourg Law give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company. The undersigned further declares that, to the best of his knowledge, the Management Report includes a fair review of the development and performance of the business and the position of the Company, together with the description of the principal risks and uncertainties it faces.

Luxembourg, 28 February 2017

Wolf-Günter Freese
Acting CEO & CFO

On behalf of the Board of Directors
and Management Board

exceet Group SE

# EXCEET GROUP SE FINANCIAL STATEMENTS

# BALANCE SHEET

| (in EUR) | Note | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| ASSETS | | | |
| **Fixed assets** | | | |
| **Financial assets** | | | |
| Shares in affiliated undertakings | 3 | 72,971,704 | 72,971,704 |
| Loans to affiliated undertakings | 4 | 115,721,875 | 115,962,500 |
| **Total fixed assets** | | **188,693,579** | **188,934,204** |
| | | | |
| **Current assets** | | | |
| **Investments** | | | |
| Own Shares | 5 | 1,125,000 | 1,791,000 |
| **Cash at bank and in hand** | | **89,415** | **563,893** |
| **Total current assets** | | **1,214,415** | **2,354,893** |
| **Prepayments** | | **27,015** | **28,140** |
| **Total assets** | | **189,935,009** | **191,317,237** |
| | | | |
| CAPITAL, RESERVES AND LIABILITIES | | | |
| **Capital and reserves** | | | |
| Subscribed capital | | 311,960 | 527,960 |
| Share premium account | | 198,928,074 | 198,928,074 |
| **Reserves** | | | |
| Reserve for own shares | 5 | 4,525,313 | 4,525,313 |
| Profit or (loss) brought forward | | (12,896,335) | (16,326,837) |
| Profit or (loss) for the financial year | | (1,210,837) | 3,430,502 |
| **Total capital and reserves** | 6 | **189,658,175** | **191,085,012** |
| | | | |
| **Creditors** | | | |
| **Trade creditors** | | | |
| Becoming due and payable within one year | 7 | 276,834 | 232,225 |
| **Total creditors** | | **276,834** | **232,225** |
| **Total capital, reserves and liabilities** | | **189,935,009** | **191,317,237** |

The accompanying notes form an integral part of these annual accounts.

# PROFIT AND LOSS ACCOUNT

| (in EUR) | Note | 2016 | 2015 |
|---|---|---|---|
| Other operating income | | 0 | 13,943 |
| Other external expenses | 8 | (344,439) | (243,303) |
| Other operating charges | 9 | (202,553) | (171,567) |
| Income from participating interests | | | |
| - derived from affiliated undertakings | 4 | 9,375 | 4,415,264 |
| Value adjustments in respect of financial assets and of investments held as current assets | 5 | (666,000) | (571,500) |
| Interest payable and similar expenses | | | |
| - other interest and similar expenses | | (110) | 0 |
| Tax on profit or (loss) | | 0 | (3,210) |
| **Profit or (loss) after taxation** | | **(1,203,727)** | **3,439,627** |
| Other taxes (net wealth tax) | | (7,110) | (9,125) |
| **Profit or (loss) for the financial year** | | **(1,210,837)** | **3,430,502** |

The accompanying notes form an integral part of these annual accounts.

# NOTES TO THE STATUTORY FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

exceet Group SE (hereafter the "Company") is a Luxembourg Company incorporated as a Société Européenne and subject to the general company law of Luxembourg. The Company was incorporated on 9 October 2009, as Helikos SE and renamed to exceet Group SE on 27 July 2011. The Company is established for an unlimited period. The registered office of the Company is located in Luxembourg at 115 avenue Gaston Diderich, L-1420. The Company is registered with the Register of Commerce and Companies of Luxembourg under the section B number 148.525. exceet Group SE carried out its initial public offering on the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) under the symbol "EXC" on 4 February 2010.

The Company's purpose is the creation, holding, development and realization of a portfolio, consisting of interests and rights of any kind and of any other form of investment in entities in the Grand Duchy of Luxembourg and in foreign entities, whether such entities exist or are to be created, especially by way of subscription, acquisition by purchase, sale or exchange of securities or rights of any kind whatsoever, such as equity instruments, debt instruments, patents and licenses, as well as the administration and control of such portfolio. The main objective of exceet Group SE is to hold directly or indirectly operating subsidiaries, wherein exceet Group SE, directly or indirectly, has a majority of the voting rights and is able to determine the financial and business policies based on the so-called control concept.

The Company may further grant any form of security for the performance of any obligations of the Company or of any entity in which it holds a direct or indirect interest or right of any kind or in which the Company has invested in any other manner or which forms part of the same group of entities as the Company and lend funds or otherwise assist any entity in which it holds a direct or indirect interest or right of any kind or in which the Company has invested in any other manner or which forms part of the same group of companies as the Company.

The Company may borrow in any form and may issue any kind of notes, bonds and debentures and generally issue any debt, equity and/or hybrid securities in accordance with Luxembourg law.

The Company may carry out any commercial, industrial, financial, real estate or intellectual property activities which it may deem useful in accomplishment of these purposes.

The accounting period of the Company is from 1 January to 31 December. The Company also prepares consolidated financial statements, which are published according to the provisions of the Luxembourg Law. For further details please refer to the exceet Group consolidated financial statements on pages 26 to 105.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 2.1 BASIS OF PREPARATION

The annual accounts of the Company are prepared in accordance with current Luxembourg legal and regulatory requirements under the historical cost convention.

Accounting policies and valuation rules are, besides the ones laid down by the modified Law of 19 December 2002, as amended on 18 December 2015, determined and applied by the Board of Directors of the Company.

The preparation of annual accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the annual accounts in the period in which the assumptions changed. The Board of Directors believes that the underlying assumptions are appropriate and that the annual accounts therefore present the financial position and results fairly.

The annual accounts have been prepared in accordance with the valuation rules and accounting policies described below.

Presentation of the comparative financial data: following the amendment of the Luxembourgish law of 19 December 2002, adopted on 18 December 2015, some figures for the year ended 31 December 2015 have been reclassified to ensure comparability with the figures for the year ended 31 December 2016.

## 2.2 FOREIGN CURRENCY TRANSLATION

The Company maintains its accounting records in Euro (EUR). The annual accounts are expressed in this currency.

Transactions denominated in foreign currencies other than EUR are translated separately into EUR at the exchange rates ruling at the date of transaction.

Fixed assets, which are expressed in currencies other than EUR, are translated into EUR at the exchange rate effective at the date of the transaction. No subsequent translation adjustments are recorded at each balance sheet date. At the balance sheet date, these assets remain translated at historical exchange rates.

All other assets, including long term loans disclosed under fixed assets, expressed in currencies other than EUR are valued individually at the lower of their value translated into EUR at historical exchange rates or at exchange rates prevailing at balance sheet date. Unrealized exchange losses resulting from this conversion are recorded in the profit and loss accounts of the year. The exchange gains are recorded in the profit and loss account at the moment of their realization.

Liabilities expressed in currencies other than EUR are valued individually at the higher of their value translated into EUR at historical exchange rates or at the exchange rates prevailing at balance sheet date. Unrealized exchange losses resulting from this conversion are recorded in the profit and loss accounts of the year. The exchange gains are recorded in the profit and loss account at the moment of their realization.

Realized exchange gains and losses are reflected in the profit and loss account of the year.

## 2.3 FINANCIAL ASSETS

Financial assets, including shares in affiliated undertakings and loans to these undertakings, are valued at their acquisition cost including the expenses incidental hereto. Value adjustments are made in respect of financial assets to recognize a durable reduction in their value. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

## 2.4 DEBTORS

Debtors are stated at their nominal value. Value adjustments are recorded if the net realizable value is lower than the book value. These value adjustments are not continued if the reasons for which the value adjuments were made have ceased to apply.

## 2.5 PREPAYMENTS

Prepayments include expenditure incurred during the financial year but relating to a subsequent financial year.

## 2.6 OWN SHARES

Own shares are recorded at acquisition cost. In accordance with article 49.5 of the Law on Commercial companies, a non-distributable reserve ("Reserve for own shares") was credited for an equivalent amount from "Profit or loss brought forward". A value adjustment for own shares is recorded in profit and loss when the market value is lower than the acquisition cost, without any impact on the non-distributable reserve. If the share price increases and the impairment is no longer considered durable, a reversal of value adjustments will be recognized in profit and loss without any impact on the non-distributable reserve.

## 2.7 DEBTS

Debts are recorded at their reimbursement value. Where the amount repayable on account is greater than the amount received, the difference is shown as an asset and is written off over the period of the debt based on a linear method.

# 3. FINANCIAL ASSETS - SHARES IN AFFILIATED UNDERTAKINGS

Undertakings in which the Company holds at least 20% of the share capital are as follows:

| Name | Registered office | Percentage of ownership | Last balance sheet date | Net equity * (EUR) | Loss for the financial year * (EUR) |
|---|---|---|---|---|---|
| exceet Holding AG | Risch, Canton of Zug, Switzerland | 100% | 31 December 2016 | 42,636,201 | 10,539 |

* according to unaudited financial statements under Swiss Code of Obligations

At balance sheet date, the Board of Directors has assessed that no value adjustment is deemed required.

# 4. FINANCIAL ASSETS - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

| (in EUR) | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Convertible loan | 114,900,000 | 114,900,000 |
| Loan receivable from exceet Group AG | 821,875 | 1,062,500 |
| **Total amounts owed by affiliated undertakings** | **115,721,875** | **115,962,500** |

### Convertible Loan

This caption corresponds to a long-term interest free convertible loan granted on 26 July 2011, by the Company to its fully owned subsidiary exceet Holding AG for an amount of CHF 132,858,871, being the equivalent of EUR 114,900,000 according to the foreign exchange rate applicable at the date of the transaction.

This loan is repayable in CHF on 30 June 2062, and bears no interest.

The loan shall be subordinated to all present and future obligations of exceet Holding AG whether secured or unsecured and shall, in case of insolvency or a liquidation of exceet Holding AG, rank pari passu with the residual recovery rights of exceet Holding AG shareholder(s).

Under certain circumstances, exceet Holding AG has the exclusive right to convert all or part of the unpaid principal amount of this loan into its shares. The loan is convertible into exceet Holding AG shares at a fixed ratio determined by dividing the outstanding principal amount of the loan at the conversion date by the par value of exceet Holding AG shares. Rounding differences, if any are repayable in cash to the Company. At balance sheet date, the outstanding principal amount of the loan amounts to CHF 132,858,871, being the equivalent of EUR 114,900,000 (2015: EUR 114,900,000) according to the historical exchange rate applicable at the end of the balance sheet date. The convertible loan is valued at the lower of its value translated into EUR at historical exchange rates or at exchange rates prevailing at balance sheet date. The equivalent according to the actual foreign exchange rate at 31 December 2016 amounts to EUR 123,716,188 (2015: EUR 122,620,102). In prior year a value adjustment of EUR 4,405,264 had been reversed according to previously recognised foreign exchange losses.

At balance sheet date, the fair value of the loan receivable from exceet Holding AG is not lower than its net book value as reflected in the Company's annual accounts.

### Loan receivable from exceet Group AG

On 25 May 2012, the Company granted an interest bearing loan of EUR 1,000,000 to exceet Group AG, an affiliate of the Company. The interest bearing loan has been reduced to EUR 750,000 as per 14 October 2016. The interest rate is according to the Swiss Federal Tax Administration (official annual notification of Swiss Federal Tax Administration). The rate can change annually.

The interest income for the year is EUR 9,375 (2015: EUR 10,000) and remains unpaid at the balance sheet date.

At balance sheet date, the fair value of the loan receivable from exceet Group AG is not lower than its net book value as reflected in the Company's annual accounts.

The loan is regarded as long term.

# 5. OWN SHARES

The Board of Directors of the Company resolved on 21 November 2011, upon key points of the Management Stock Option Program, pursuant to which up to 450,000 options for the acquisition of Class A Shares can be granted to selected current and future executives of the Company and its affiliated undertakings.

At balance sheet date, the market value of the listed shares of the Company (ISIN LU0472835155) was EUR 2.34 (2015: EUR 3.90) based on the information made available by the Frankfurt Stock Exchange and EUR 2.50 (2015: EUR 3.98) based on the information made available by XETRA. On that basis, the 450,000 unlisted Class A Shares held in treasury by the Company at balance sheet date would be valued at EUR 1,053,000 (2015: EUR 1,755,000) according to the Frankfurt stock Exchange and EUR 1,125,000 according to XETRA (2015: EUR 1,791,000). A value adjustment (loss) of EUR 666,000 (2015: EUR 571,500) was recognized on own shares. The value provided by XETRA of EUR 1,125,000 (2015: EUR 1,791,000) equals the book value at balance sheet date after the value adjustment. The nominal value of the shares is EUR 0.0152. On that basis the 450,000 own shares have a nominal value of EUR 6,840.

# 6. EQUITY

Changes in equity are as follows:

| (in EUR) | Subscribed capital | Share premium account | Reserve for own shares | Profit or (loss) brought forward | Profit or (loss) for the financial year | Total capital and reserves |
|---|---|---|---|---|---|---|
| Class A | 311,960 | | | | | |
| Class B | 79,200 | | | | | |
| Class C | 136,800 | | | | | |
| **Opening balance 1 January 2016** | **527,960** | **198,928,074** | **4,525,313** | **(16,326,837)** | **3,430,502** | **191,085,012** |
| Cancelation of B/C Shares | (216,000) | | | | | (216,000) |
| Allocation of prior year result | | | | 3,430,502 | (3,430,502) | 0 |
| Result for the financial year | | | | | (1,210,837) | (1,210,837) |
| **Closing balance 31 December 2016** | **311,960** | **198,928,074** | **4,525,313** | **(12,896,335)** | **(1,210,837)** | **189,658,175** |

On 26 July 2016 the conversion right for holders of Class B and Class C Shares contained in the articles of association of the Company expired. At the extraordinary general meeting (the "EGM") held 15 September 2016, shareholders agreed to the decrease of the Company's issued share capital by an amount of Euro 216,000.00 from Euro 527,960.16 to Euro 311,960.16 through the cancelation of all (i) 5,210,526 redeemable Class B Shares and (ii) 9,000,000 redeemable Class C Shares from their holders at their accounting par value.

With resolution at the EGM, the issued share capital is set at 20,523,695 shares, issued as Class A Shares ("Public Shares"), with 20,073,695 Class A Shares listed on the stock exchange and 450,000 own Class A Shares held by the Company (Treasury Shares).

As at 31 December 2016 the issued share capital equals the authorized share capital. As at 31 December 2015, the Company's authorized capital, including the issued share capital, was set at EUR 694,266, consisting of a total of 45,675,397 shares out of which may be issued an additional amount of 10,941,176 Class A Shares.

For further details please refer to the exceet Group consolidated financial statements note 13 "Equity".

### Legal Reserve

Under the Luxembourg law, 5% of the net profit of the year, net of any losses brought forward, must be allocated to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distribution.

### Reserve for own shares

As at 31 December 2016, the Company held 450,000 listed Class A Shares having an acquisition cost of EUR 4,525,313. Accordingly, a non-distributable reserve is maintained for the same amount under the caption "Reserve for own shares".

# 7. TRADE CREDITORS

This caption includes amounts for invoices payable to suppliers and for accrued charges for invoices received after balance sheet date regarding expenses incurred during the financial year ended 31 December 2016. They are becoming due and payable within one year.

| (in EUR) | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Third party invoices payable | 83,214 | 47,261 |
| Intercompany invoices payable | 0 | 7,219 |
| Invoice not received for tax compliance services | 4,600 | 5,000 |
| Invoice not received for audit services | 17,145 | 17,145 |
| Invoice not received for directors remuneration | 163,333 | 150,000 |
| Other invoices not received | 8,542 | 5,600 |
| Total trade creditors | 276,834 | 232,225 |

# 8. OTHER EXTERNAL CHARGES

The other external expenses are including mainly costs for Investor Relations, legal fees, audit fees, rent and insurance charges, fees for tax compliance and travel costs of Board of Directors. The costs of the audit of the exceet Group SE financial statements amount to EUR 57,745.

# 9. OTHER OPERATING CHARGES

The other operating charges result mainly from the compensation of the Company's independent directors for their services on its Board of Directors as well as the annual charges of CSSF and charges for listing to the Frankfurt Stock Exchange.

# 10. EMOLUMENTS GRANTED TO THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

An amount of EUR 180,000 (2015: EUR 150,000) has been recognized in profit and loss statement. Thereof EUR 163,333 (2015: EUR 150,000) have not been paid yet to the Board of Directors for the financial year 2016 (for further details please refer to the exceet Group consolidated financial statements note 32 “Remuneration of members of Board of Directors and the Management Board”). For details to the Management Stock Option Program please refer to the exceet Group consolidated financial statements note 16 “Share-based payments”.

# 11. OFF-BALANCE SHEET COMMITMENTS

### Warrants

The exceet Public Warrants (ISIN LU0472839819) expired on 26 July 2016 in accordance with clause 9.2 of their terms and conditions and have been automatically and immediately canceled on 27 July 2016.

### Commitment to pay the remaining amount of exceet Holding AG’s unpaid capital

The Company commits itself at the first request of the Board of Directors of exceet Holding AG to pay up the rest of this contribution. Such commitment represents CHF 50,000 (EUR 46,559) pursuant to the foreign exchange rate applicable as at 31 December 2016.

### Letter of guarantee

Further to that the company has issued a letter of guarantee for exceet Secure Solutions GmbH to one of exceet Secure Solutions GmbH suppliers to guarantee due performance of business agreements. The credit limit due to the letter of guarantee with this supplier amounts to EUR 250,000.

# 12. SUBSEQUENT EVENTS

As published on 14 February 2017, Greenock S.à r.l., a major shareholder of exceet Group SE, has informed the Board of Directors of exceet Group SE that it has entered into discussions with a potential buyer of its stake in exceet at a price of EUR 3.90 to EUR 4.00 per share. exceet grants the potential buyer the opportunity to conduct a due diligence of exceet. However, the Board of Directors of exceet Group SE is not yet able to assess, whether the conditions precedent for the acquisition of Greenock’s stake by the potential buyer and for the potential tender offer to the shareholders of exceet Group SE will be met or not.

# AUDIT REPORT

To the Shareholders of
exceet Group SE

## REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts of exceet Group SE, which comprise the balance sheet as at 31 December 2016, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

### BOARD OF DIRECTORS' RESPONSIBILITY FOR THE ANNUAL ACCOUNTS

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

### RESPONSIBILITY OF THE "RÉVISEUR D'ENTREPRISES AGRÉÉ"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the annual accounts give a true and fair view of the financial position of exceet Group SE as of 31 December 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

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*R.C.S. Luxembourg B 65 477*

## OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report and the Corporate Governance Statement but does not include the annual accounts and our report of the réviseur d'entreprises agréé thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## OTHER MATTER

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The management report is consistent with the annual accounts and has been prepared in accordance with the applicable legal requirements.

The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and included in the Corporate Governance Statement as published on the Company's website is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Luxembourg, 28 February 2017
Represented by

Philippe Duren

# IMPRINT

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## RESPONSIBLE FOR THE CONTENTS

exceet Group SE

## PHOTO CREDITS

The images used in this report show illustrated comic strips of nanorobots on a printed circuit board assembly. Artworks by Robert Patz.

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