

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

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Auditor's Report

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

Audit opinion

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

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit in such a way that misstatements and violations materially affecting the presentation of the picture of the net assets, financial position and results of operations conveyed by the consolidated financial statements, taking into account the principles of orderly accounting, and by the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and group management report are examined primarily on a test basis

within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the definition of the companies consolidated, the accounting and consolidation principles used, and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion pursuant to the findings gained during the audit, the consolidated financial statements comply with the IFRS, as are to be applied in the EU, and in addition to the commercial law regulations to be applied pursuant to Section 315a (1) of the HGB (German Commercial Code) and give a true and fair view of the net assets, financial position and results of operations of the Group, taking into account these regulations. The group management report accords with the consolidated financial statements, complies with the statutory requirements, conveys overall an accurate picture of the Group's position and accurately presents the opportunities and risks of future development.

Frankfurt/Main, March 22, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ulrich Störk
Wirtschaftsprüfer

ppa. Diana Plaum
Wirtschaftsprüfer

Balance sheet

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

Assets

013

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

Equity and liabilities

014

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

Income statement

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

Income statement

015

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

Statement of comprehensive income

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

Statement of comprehensive income

016

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

Statement of changes in equity

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

Statement of changes in equity

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

017

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

Statement of cash flows

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

Statement of cash flows

018

	2016	2015
	TEUR	TEUR
Note (23)		
Income before income taxes	-7,624	-12,705
Net interest income/loss	5,360	4,057
Depreciation and amortization of noncurrent assets	9,649	15,572
Reversal of write-downs of noncurrent assets	-54	0
Disposal of assets, net	-24	10
Depreciation/amortization of other noncurrent and current assets	894	0
Allowances for inventories and doubtful accounts	1,500	1,771
Change in provisions	-860	433
Changes in current and noncurrent assets and liabilities:		
– Inventories	254	-2,784
– Trade accounts receivables and gross amount due from customers for contract work	17,413	4,598
– Trade accounts payable and gross amount due to customers for contract work	-2,696	4,170*
– Other operating assets	-2,724	-368
– Other operating liabilities	-20,119	-5,122
– Income tax paid	-4,306	-2,147
– Income tax received	1,070	791
– Interest paid	-4,898	-3,795*
– Interest received	25	31
Net cash used in/provided by operating activities¹⁾	-7,140	4,512*
Proceeds from		
– Retirement/disposal of intangible assets	12	0
– Retirement/disposal of property, plant and equipment	67	65
Payments due to acquisition of		
– Intangible assets	-3,464	-3,302
– Property, plant and equipment	-3,776	-3,169*
– Subsidiaries		
Purchase price payments of €609 thousand (previous year: €2,672 thousand)		
There are no (conditional) purchase price payments that have not yet been made	-609	-2,672
Net cash used in investing activities	-7,770	-9,078*
Proceeds from raising of financial loans	21,835	18,338
Cash repayments of financial loans	-10,125	-16,661
Cash repayments of liabilities from finance leases	-526	-744*
Distributions to/withdrawals by non-controlling interests and profit shares of minority interests	-152	-1,267
Net cash provided by/used in financing activities	11,032	-334*
Net change in cash funds	-3,878	-4,900
Cash funds at start of period	10,722	15,622
Cash funds at end of period	6,844	10,722
¹⁾ Adjusted for factoring effects:		
Net cash provided by operating activities:	1,295	4,400*

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

General disclosures

1. Description of business activities

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

2. Accounting principles

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

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

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

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

019

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

Amendment to IAS 1 “Presentation of Financial Statements”: Disclosure Initiative

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

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

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

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

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

Amendment to IAS 19 “Employee Benefits”: Defined Benefit Plans: Employee Contributions

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

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

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

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

The change to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” adopted on December 18, 2014, comprises minor changes to these standards. In particular, it deals with various questions relating to exemption from the consolidation obligation under IFRS 10 if the parent company meets the definition of an “investment entity”. The regulation on adoption of the amendments to IFRS 10 “Consolidated Financial State-

ments”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” by the EU (“endorsement”) was published in the Official Journal of the EU on September 23, 2016. These changes must be applied to fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any effects on the consolidated financial statements.

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

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

IFRS 14 “Regulatory Deferral Accounts”

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

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

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

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

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

IAS 16 “Property, plant and equipment” and IAS 38 “Intangible Assets”

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

IAS 24 “Related Party Disclosures”

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

IFRS 2 “Share-based payment”

The amendment contains a clarification of the definition of “vesting conditions” by separate definitions for “performance conditions” and “service conditions” being included in Annex A of the standard. This specifies that a performance condition is a vesting condition that requires a certain period of service to be completed and certain performance targets to

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

IFRS 3 "Business Combinations"

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

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

IFRS 8 "Operating Segments"

The following clarifications have been newly included in IFRS 8:

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

IFRS 13 "Fair Value Measurement"

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

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

Annual Improvement Project (AIP) – Annual improvements to the IFRSs, 2012-2014 cycle (“Improvements to IFRS”)

The collection “Annual improvements to the IFRSs, 2012-2014 cycle” contains amendments to the following IFRSs:

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

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

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

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

IFRS 7 “Financial Instruments”: Disclosures

In accordance with IFRS 7.42C(c), the obligation of a selling entity to forward withheld payments from the sold financial assets to the purchaser of the receivables does not constitute a continuing involvement within the meaning of the disclosure provisions of IFRS 7.42E-H, if the criteria for a forwarding agreement within the meaning of IAS 39 are met. It was not clear up to now what that meant for servicing agreements (collection, dunning, etc.). The IASB has now clarified that servicing agreements in which the selling entity retains some of the opportunities or risks from the performance of the sold receivables establishes a continuing involvement within the meaning of IFRS 7.

That means, for example, that withholding a servicing obligation in exchange for receipt of a servicing fee may in principle constitute a continuing involvement. This is the case in particular if the servicing fee depends on the level of the withheld payments or the time of payment receipt. A fixed servicing fee that does not have to be paid in full due to problems in payment for the transferred financial assets likewise results in a continuing involvement being assumed for the purposes of the disclosure requirements. This assessment is irrespective of whether the agreed servicing fee represents a reasonable consideration for the services to be provided.

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

IAS 19 “Employee Benefits”

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

IAS 34 “Interim Financial Reporting”

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

Most of the changes relate to clarifications or corrections to existing International Financial Reporting Standards (IFRSs) or amendments due to changes previously made to the

IFRSs. The changes must be applied to fiscal years beginning on or after January 1, 2016. They can be applied before then. First-time application did not have any significant effects on the consolidated financial statements.

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

TABLE 020**IFRS standards to be applied in future fiscal years**

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

**Amendment to IAS 7 “Statement of Cash Flows”:
Disclosure Initiative**

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

**Amendment to IAS 12 “Income Taxes – Recognition of
Deferred Tax Assets for Unrealized Losses”**

On January 19, 2016, the IASB published an amendment to IAS 12 “Income Taxes” that clarifies the recognition of deferred tax assets for unrealized losses from available-for-sale financial assets. The amendment to IAS 12 clarifies that deferred tax assets must be applied to deductible temporary differences resulting from unrealized losses from available-for-sale financial assets in the form of debt instruments if the company has the ability and the intention to hold the securities until they recover their value (if applicable to their maturity). It also clarifies that there must be positive taxable income before reversal of the the deductible temporary differences before the deferred tax assets can be used, unless there are sufficient deferred tax liabilities. Accordingly, realization of a value above the IFRS carrying amount is conceivable for estimating the future taxable income, if there is

adequate proof that that is probable. The changes must be applied retrospectively to fiscal years beginning on or after January 1, 2017. Voluntary application before then – subject to any still outstanding endorsement – is permitted. First-time application will probably have no significant effects on the consolidated financial statements.

Amendment to IAS 40 “Investment Property – Transfers of Investment Property”

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

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

Amendment to IFRS 2 “Share-based Payment”

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

Accounting for cash-settled share-based payment transactions

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

Classification of share-based payment transactions with net settlement features

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

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

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

The newly added IFRS 2.B44A clarifies the following:

- a) The equity-settled grant is measured at the fair value of the granted equity instruments at the time of the modification and recognized in equity if the entity has already received goods and services.
- b) The liability recognized for the cash-settled grant at the time of the modification is derecognized.
- c) Any differences between the derecognized liability and the amount recognized in equity must be recognized in profit and loss.

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

Amendment to IFRS 4 “Insurance Contracts”

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

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

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

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

IFRS 9 “Financial Instruments”

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

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

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

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

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

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

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

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

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

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

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

Amendment to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

IFRS 15 “Revenue from Contracts with Customers”

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

IFRS 15 contains in particular extensive regulations on recognition of revenue from contracts with different service components (multi-component contracts). Under these regulations, revenue must be recognized if the customer has obtained control of the agreed goods and services and can obtain benefits from them. The revenue must be measured at the amount of consideration which an entity expects to receive. The new model envisages a five-step framework to determine revenue recognition, under which the customer contract and the separate performance obligations in it must first be identified. The transaction price for the cus-

tomers contract must then be determined and allocated to the individual performance obligations. Finally, under the new model, revenue to the amount of the allocated pro-rata transaction price must be recognized for each performance obligation, as soon as the agreed obligation has been satisfied or the customer has obtained control of it. A distinction must be made here – on the basis of defined criteria – between whether the performance obligation is satisfied at a point in time or over time. The new standard does not differentiate between different types of contract and performance, but defines uniform criteria on when performance has to be recognized as being at a point in time or over time. In addition, IFRS 15 expands existing disclosure requirements and introduces extensive qualitative and quantitative disclosures on contracts with customers, the main discretionary decisions and subsequent changes to them, and assets resulting from capitalized costs for obtaining or fulfilling contracts with customers so as to provide more useful information for decision-making for the target audience of the financial statements.

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

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

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

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

Clarifications on IFRS 15

“Revenue from Contracts with Customers”

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

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

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

IFRS 16 “Leases”

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

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

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

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

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

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

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

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

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

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

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

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

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

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

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

Annual Improvement Project (AIP) – Annual improvements to the IFRSs, 2014-2016 cycle (“Improvements to IFRS”)

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

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

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

IAS 28 “Investments in Associates and Joint Ventures”

Two amendments were made to IAS 28:

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

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

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

IFRS 12 “Disclosure of Interests in Other Entities”

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

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

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

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

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

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

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

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

General principles

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

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

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

Offsetting of assets and liabilities

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

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

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

Currency translation

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

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

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

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

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

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

Consolidation principles

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

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

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

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

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

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

Company acquisitions

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

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

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

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

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

Intangible assets – Goodwill

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

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

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

Other intangible assets

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

Useful lives of other intangible assets 021

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

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

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

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

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

Property, plant and equipment

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

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

Useful lives of property, plant and equipment 022

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

Financing costs are capitalized as acquisition or manufacturing costs in accordance with IAS 23 if they are directly attributable to a qualifying asset. This relates to assets for which borrowing costs can be directly attributed to the acquisition or production of a qualifying asset and for which a considerable period of usually more than twelve months is

required to put them into a usable state. In the past fiscal year or in the previous fiscal year before that, there were no borrowing costs that must be capitalized within the meaning of IAS 23.

Impairment of long-lived assets

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

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

Leasing

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

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

When the euromicron Group leases assets in a finance lease, the present value of the minimum lease payments is carried as the leasing receivable. The difference between the gross receivable (minimum lease payments before discounting) and the present value of the receivable is carried as unrealized financial income. Lease contracts are recog-

nized over the term of the lease in income in such a way that there is a constant rate of interest for the leasing receivable.

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

Inventories

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

Construction Contracts

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

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

Financial assets

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents are measured at nominal value.

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

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

Current and deferred taxes

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

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

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

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

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

Equity

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

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

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

Liabilities

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

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

Financial liabilities

Financial liabilities can basically be split into two categories:

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

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

Provisions for pensions and similar obligations

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

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

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

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

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

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

Other provisions

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

Sales

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

3. Discretionary decisions and uncertainties in estimates

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

Predictive estimates and assumptions are essentially made for the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidated companies

1. Companies included in the consolidated financial statements

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

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

There were the following changes to the consolidated companies apart from euromicron AG: [TABLE 023](#)

Number of consolidated companies	023	
	2016	2015
January 1st	22	26
First-time consolidation / newly established companies	2	0
Deconsolidation/ mergers within the Group	-1	-4
December 31st	23	22

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

2. Acquisition of companies and divisions

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

Establishment of SIM Asia PTE. LTD

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

Establishment of Netzikon GmbH

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

Liquidation of WCS Fiber Optic B.V.

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

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

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

3. Disclosures on company acquisitions from previous years

ATECS AG, Zug/Switzerland and Secure Information Management GmbH, Neustadt a. d. W.

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

On February 22, 2016, partial exercise of the existing purchase option was agreed effective March 31, 2016. 5% of the shares in ATECS AG and 5% of the shares in SIM GmbH were acquired. The purchase price for exercising the options was €400 thousand for the shares in ATECS AG and €100 thousand for the shares in SIM GmbH. The acquisition meant the stake held by euromicron AG in ATECS AG and SIM GmbH rose to 95% in each case. Due to the fact that the existing purchase options are designed as opposite put/call options that resulted in full consolidation of both companies in December 2013 following acquisition of 80% of the shares in them at the time, the purchase price obligations totaling €500 thousand resulting from exercise of the options were already carried under "Other current financial liabilities" in the financial statements at December 31, 2015.

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

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

MICROSENS GmbH & Co. KG, Hamm

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

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

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

List of companies included in the consolidated financial statements

024

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

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

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

Notes on the consolidated balance sheet

1. Fixed assets

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

a) Intangible assets

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

Goodwill

Goodwill developed as follows in the fiscal year:

TABLE 025

Goodwill	025	
	2016	2015
	€ thou.	€ thou.
Goodwill at January 1st	108,217	113,479
Additions	74	71
Disposals	0	-5,333
Goodwill at December 31st	108,291	108,217

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

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

Allocation of goodwill to CGUs	026	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Smart Buildings	67,931	67,857
Critical Infrastructures	35,129	35,129
Distribution	5,231	5,231
	108,291	108,217

Goodwill impairment test

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

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

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

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

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

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

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

TABLE 027

Interest assumed in the 2016 impairment test

027

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

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

Sensitivity analysis

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

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

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

Other intangible assets

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

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

b) Property, plant and equipment

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

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

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

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

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

of euromicron AG, Frankfurt/Main

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

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

028

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

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

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

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

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

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

c) Other noncurrent financial assets

The table below presents the components of the other non-current financial assets: **TABLE 030**

Other noncurrent financial assets	030	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Shares in Track Group Inc.	267	340
Long-term receivables from finance leases	163	326
Rent deposit / deposits by third parties	62	55
Other noncurrent financial assets	7	12
	499	733

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

year, the value impairment (€430 thousand) was partly recognized by a reduction in the recovery in value carried in the OCI in previous periods (€98 thousand) and partly recognized in the net financial result (€332 thousand).

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

Noncurrent receivables from finance leases	031	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Noncurrent receivables		
Gross receivables from finance leases	170	405
Financial income not yet realized	-7	-79
	163	326

Current receivables from finance leases	032	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Current receivables		
Gross receivables from finance leases	44	85
Financial income not yet realized	-5	-32
	39	53

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

Reconciliation of gross investments in finance leases	033	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Gross receivables from finance leases		
Up to 1 year	44	85
1 to 5 years	155	338
More than 5 years	15	67
	214	490
Financial income not yet realized	-12	-111
Net investment in finance leases	202	379

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

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

d) Other noncurrent assets

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

Other noncurrent assets	034	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Other noncurrent assets	32	61

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

2. Deferred tax assets

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

TABLE 035

Deferred tax assets	035	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Intangible assets	20	19
Inventories	17,527	19,833
Property, plant and equipment	146	0
Other receivables and other assets	152	141
Provisions	2,792	2,531
Liabilities from finance leases	340	459
Other liabilities	892	1,130
Loss carryforwards for corporation income tax/trade tax and income taxes abroad	3,478	4,147
Total deferred tax assets before netting off	25,347	28,260
Netting off	-24,934	-28,140
Total deferred tax assets after netting off	413	120

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

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

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

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

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

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

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

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

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

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

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

Assets held for sale and liabilities in connection with assets held for sale		036
	Dec. 31, 2016	
	€ thou.	
Inventories	86	
Gross amount due from customers for contract work	518	
Other assets	87	
Assets held for sale	691	
Provisions for pensions	36	
Personnel obligations	272	
Gross amount due to customers for contract work	11	
Liabilities in connection with assets held for sale	318	
Net assets	373	

4. Inventories

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

Inventories		037
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Raw materials and supplies	11,001	11,517
Work in progress	3,842	3,946
Finished goods and merchandise	13,079	14,718
Prepayments	459	582
	28,381	30,763

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

5. Receivables and other current assets

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

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

	038	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Trade accounts receivable (gross)	21,346	36,800
Allowances for doubtful accounts	-3,196	-3,552
Trade accounts receivable (net)	18,150	33,248
Gross amount due from customers for contract work	40,708	47,480
Claims for income tax refunds	765	1,496
Other current financial assets	5,520	2,879
Other current assets	2,287	2,304
	67,430	87,407

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

Trade accounts receivable

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

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

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

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

	039	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Balance at the beginning of the period	-3,552	-4,663
Allocation	-926	-726
Utilization	1,060	1,814
Reversals	222	23
Balance at the end of the period	-3,196	-3,552

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

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

Trade accounts receivable by times due

040

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

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

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

Individual companies in the euromicron Group sell some of their receivables from customers to factoring companies (buyers of the receivables). The overall program for the Group has a maximum volume of €40,000 thousand (previous year: €40,000 thousand). At December 31, 2016, receivables with a volume of €34,715 thousand (previous year: €20,321 thousand*) were sold by the entire Group. In accordance with IAS 39, sold receivables from customers are only derecognized if essentially all opportunities and risks of the sold receivables have been transferred to the buyer of the receivables. The risk of the customer becoming insolvent (risk of nonpayment) is transferred to the buyer of the receivables under the contractual arrangements. euromicron still bears the interest risk from delayed payments by customers. Since virtually all the opportunities and risks do not remain with euromicron and do not pass to the buyer of the receivables, euromicron carries the receivables at the amount of the continuing involvement of €293 thousand (previous year: €187 thousand); it is carried under "Other current financial assets". The continuing involvement

comprises the maximum amount that euromicron would have to pay to the buyer of the receivables up to receipt of payment relative to the carrying amount of the receivables sold on the reporting date. The continuing involvement is offset by an associated liability totaling €304 thousand (previous year: €199 thousand); it is carried under "Other current financial liabilities". The difference between the asset and liability items reflects the remaining claims from or obligations to the factoring company from the interest rate guarantee and the administration fees euromicron still has. In accordance with the requirements of IAS 39, the sold receivables are partly derecognized at the balance sheet date; the share remaining as continuing involvement is low compared with the total amount of sold receivables. Interest expenses and charges resulting from the sale of receivables are carried in the net financial result.

Gross amount due from customers for contract work

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

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

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

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

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

* The previous year's figure has been adjusted.

Claims for income tax refunds

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

Other current financial assets

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

Other current financial assets	041	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Receivables from factoring monies not yet paid out	3,180	2,137
Receivable from reimbursement of legal costs	1,350	0
Claims against former board members of euromicron AG	516	273
Continuing involvement (factoring)	293	187
Deposits	130	116
Receivables from finance leases	39	53
Recovery claims from excess payment of interest	0	51
Other	12	62
	5,520	2,879

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

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

Other current assets

The other current assets changed as follows: **TABLE 042**

Other current assets	042	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Prepayments and accrued income	1,196	1,077
Claims for refunds from other taxes	629	857
Claims against employees	94	132
Other	367	238
	2,287	2,304

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

6. Cash and cash equivalents

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

The cash and cash equivalents are as follows: **TABLE 043**

Cash and cash equivalents	043	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Cash in banking accounts	6,819	10,686
Cash on hand	25	36
	6,844	10,722

7. Equity

a) Subscribed capital and authorized capital

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

Shares in circulation	044	
	Dec. 31, 2016	Dec. 31, 2015
Shares in circulation at December 31	7,176,398	7,176,398

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

Treasury shares

At December 31, 2016, there is no authorization from the General Meeting for euromicron AG to acquire its own shares. As in the previous year, the company did not therefore hold any treasury shares that could be offset with equity in accordance with IAS 32.33 at December 31, 2016.

euromicron AG had been authorized to acquire its own shares in the period from June 10, 2011, to June 9, 2016, under a resolution adopted by the General Meeting on June 9, 2011. That resolution authorized euromicron AG to acquire its own shares at a maximum proportional amount of the capital stock of €1,310,539.74 for these shares. The Executive Board did not make use of the authorization to acquire treasury shares up to June 9, 2016. We refer you to pages 12 and 143 of the 2015 Annual Report of the euromicron Group for a detailed explanation.

b) Capital reserves

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

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

c) Currency translation reserve

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

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

d) Distributions in the fiscal year

There were no dividend payouts in fiscal year 2016.

e) Non-controlling interests

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

f) Disclosures on capital management in accordance with IAS 1

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

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

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

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

Net financial debt 046

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

The increase in net financial debt of €15,188 thousand is mainly attributable (to an amount of €8,435 thousand) to effects from the euromicron Group's factoring program. This change in practice made in the first quarter of 2016 (customer payments are now returned directly to the factoring company) resulted in an increase in the need for external financing of €21,786 thousand over the figure at December 31, 2015. The liabilities from customers' monies to be passed on, which are carried under the other financial liabilities, fell by the corresponding amount (see section 9). Before this change, customer payments from sold receivables were held in trust in local accounts and passed on to the

factoring company at regular times. On the other hand, there were positive cash effects to an amount of €13,351 thousand from an increase in the volume of factoring compared to that at December 31, 2015. These cash effects are a result of an increase of €14,394 thousand in sold receivables minus the increase in receivables from factoring monies not yet paid out (€1,043 thousand). In particular, cash effects from the sharp decrease in trade accounts payable (€3,081 thousand) and the higher balance of paid and received income taxes and interest (€2,989 thousand) increased net financial debt.

8. Provisions**a) Other provisions**

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

Provisions

047

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

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

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

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

b) Provisions for pensions and similar obligations

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

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

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

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

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

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

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

The plan assets measured at fair value changed as follows:

TABLE 049

Changes in the plan assets 049

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

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

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

The provision on the balance sheet changed as follows:

TABLE 050

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

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

Variation in the assumptions by +/-1% or +/-1 year

052

	2016		2015	
	+ 1% or + 1 year	-1% or -1 year	+ 1% or + 1 year	-1% or -1 year
Discount rate	-14.09%	17.94%	-13.82%	17.35%
Life expectancy	1.77%	-1.78%	1.49%	-1.59%
Age at expiry of financing	-2.19%	-1.67%	-3.37%	2.02%

A range of +/- 0.25% was used for the future pension trend.

TABLE 053

Variation in assumptions by +/-0,25%

053

	2016		2015	
	+0,25%	-0,25%	+0,25%	-0,25%
Future pension indexation	2.48%	-2.36%	2.27%	-2.24%

As in the previous year, the effects were determined using the same methods as for valuation of the commitment at the end of the year.

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

The following parameters, which are based on assumptions, were used to measure the future level of benefits:

TABLE 051

Measurement factors	2016	2015
	Discount rate	1.70%
Age at expiry of financing	63 years	63 years
Future pension indexation	1.75%	1.75%

The discount rates are based on the returns for high-quality corporate bonds with a corresponding term; the 2005 G mortality tables compiled by Heubeck were used as a basis for the biometric parameters. Since the pension commitments are mainly at euromicron Group companies in Germany, the parameters relate to the economic situation in Germany.

If the assumptions vary by +/- 1 percentage points or +/- 1 year, the effects on the DBO are as follows: **TABLE 052**

The pension payments anticipated in the subsequent year are €816 thousand (previous year: €810 thousand), while the anticipated contributions to the scheme cannot be estimated reliably at the balance sheet date.

The weighted average duration of the commitment at the balance sheet date is 17.06 years (previous year: 16.71 years).

Contributions of €7,594 thousand (previous year: €7,287 thousand*) were paid to the statutory pension insurance fund as part of defined contribution pension schemes.

9. Liabilities

The euromicron Group's liabilities on the balance sheet data are broken down as follows: [TABLE 054](#)

Liabilities	054	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Liabilities to banks	76,501	64,791
Liabilities from finance leases	1,309	1,709
Liabilities in connection with assets held for sale	318	0
Trade accounts payable	44,512	47,593
Gross amount due to customers for contract work	1,384	851
Liabilities from current income taxes	3,520	3,232
Other tax liabilities	8,078	7,141
Personnel obligations	9,176	8,876
Other financial liabilities	1,774	25,312
Other liabilities	5,325	3,562
	151,897	163,067

The euromicron Group's liabilities have the following terms:

[TABLE 055](#)

Term of the liabilities	055				Fair value with DVA
	Total	Due in			
		Up to 1 year	1 to 5 years	More than 5 years	
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	
Liabilities to banks	76,501	38,043	38,458	0	76,588
Liabilities from finance leases	1,309	466	778	65	– ¹⁾
Liabilities in connection with assets held for sale	318	318	0	0	– ¹⁾
Trade accounts payable	44,512	44,511	1	0	– ¹⁾
Gross amount due to customers for contract work	1,384	1,384	0	0	– ¹⁾
Liabilities from current income taxes	3,520	3,520	0	0	– ¹⁾
Other tax liabilities	8,078	8,078	0	0	– ¹⁾
Personnel obligations	9,176	9,176	0	0	– ¹⁾
Other financial liabilities	1,774	1,774	0	0	1,772
Other liabilities	5,325	5,178	147	0	– ¹⁾
	151,897	112,448	39,384	65	78,360
(Previous year)	163,067	140,727	22,206	134	90,114

¹⁾ The previous year's figure has been adjusted.

* The previous year's figure has been adjusted.

The fair value of the fixed-interest noncurrent liabilities is derived from the present values of the future interest payments and repayments, discounted at the current market interest rates, taking into account the credit risk of euromicron AG.

Liabilities to banks

The interest rates for liabilities to banks and overdrafts are fixed or variable and range from 1.10% to 8.25% (previous year: 1.08% to 8.25%). The high interest rates relate to terms for overdraft lines under individual agreements between subsidiaries and their banks, but are not used or are terminable at short notice (with a view to optimizing financing).

euromicron AG concluded a borrower's note loan with a volume of €24,500 thousand in fiscal year 2011. The loan consists of various tranches with different maturities. The bank retained €122.5 thousand (0.5%) as the arrangement fee; this affected net cash in 2011 and was recognized in the income statement in accordance with the German Commercial Code (HGB). In accordance with regulations in the IFRSs, the expense is distributed over the term of the agreement using the effective interest method. The loan liability was reduced by €122.5 thousand at the time it was disbursed. An amount of €5,000 thousand was repaid prematurely in fiscal year 2013 and a further amount of €5,000 thousand was repaid prematurely in fiscal year 2014. The remaining liabilities of €14,500 thousand from this borrower's note loan were repaid on time in July 2016. In fiscal year 2016, this resulted in a pro-rata amount of €15 thousand (previous year: €14 thousand), which was recognized in the income statement as an interest expense.

euromicron AG concluded a further borrower's note loan with a volume of €20,000 thousand in October 2014. The borrower's note loan consists of two tranches of €10,000 thousand each, one of which has a variable interest rate and the other has a fixed interest rate. Both tranches have a term of five years. The banks retained €80 thousand (0.4%) as the arrangement fee; this affected net cash in 2014 and was recognized in the income statement in accordance with the German Commercial Code (HGB). In accordance with regulations in the IFRSs, the expense is distributed over the term of the agreement using the effective interest method. The loan liability was reduced by €80 thousand at the time it was disbursed. When the borrower's note loan was concluded, euromicron AG also paid an incentive fee of €30 thousand, which was likewise recognized in the income statement in accordance with the German Commercial Code (HGB).

In accordance with regulations in the IFRSs, the expense is deferred and distributed over the term of the agreement using the effective interest method. In fiscal year 2016, these two circumstances resulted in a pro-rata amount totaling €22 thousand (previous year: €21 thousand), which was recognized in the income statement as an interest expense.

So as to ensure its solvency at all times, the euromicron Group maintains a liquidity reserve in the form of short-term credit lines and cash funds. The total unused credit line and cash funds ("free liquidity") at the end of the year was €43,112 thousand (previous year: €57,539 thousand). We refer you to the comments on net financial debt in section 7 f.) "Disclosures on capital management in accordance with IAS 1" for an explanation of the decline in free liquidity.

In principle, the companies in the euromicron Group are financed centrally through euromicron AG.

Liabilities from finance leases

The present value of the liabilities from finance leases and the future interest expense from finance leases are as follows:

TABLE 056 / 057

Liabilities from finance leases in 2016 056

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1,309	466	778	65
Interest	107	45	61	1
Minimum lease payments	1,416	511	839	66

Liabilities from finance leases in 2015 057

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1,709	516	1,059	134
Interest	158	62	92	4
Minimum lease payments	1,867	578	1,151	138

Liabilities in connection with assets held for sale

We refer you to section 3 "Assets held for sale and liabilities in connection with assets held for sale" for an explanation.

Trade accounts payable

Trade accounts payable in foreign currency (mainly USD and CHF) amount to €5,812 thousand (previous year: €2,425 thousand). The increase in trade accounts payable in foreign currency is mainly due to a higher purchasing volume in USD at individual Group companies at the reporting date.

Gross amount due to customers for contract work

The gross amount due to customers for contract work in fiscal year 2016 totaled €1,384 thousand (previous year: €851 thousand). This results from ongoing contracts in which the partial settlements exceed the incurred costs plus the reported profits (minus any losses).

Liabilities from current income taxes

There were liabilities from current income taxes of €3,520 thousand in fiscal year 2016 (previous year: €3,232 thousand), of which €3,123 thousand (previous year: €84 thousand) resulted from liabilities for anticipated tax arrears payable as a result of tax audits. Of this, an amount of €2,063 thousand (previous year: €0 thousand) is attributable to a liability for anticipated tax arrears payable by euromicron AG in connection with securities lending transactions conducted in the years 2010 to 2012. We refer in this regard to the explanations in section 20 "Income taxes" and section 24 c) "Contingent assets / contingent liabilities". There is also a liability for tax arrears on the part of ATECS AG (€1,057 thousand; previous year: €0 thousand) resulting from conclusion of the tax audit for assessment periods before it was acquired by euromicron AG. There are claims from rights of recourse against the former shareholders to the same amount; these were offset against existing liabilities of ATECS AG. That resulted in fiscal year 2016 in a decline in the item "Dividend/profit shares for minority interests", which is carried under "Other financial liabilities".

In the previous year, there were liabilities from capital gains tax to be paid totaling €806 thousand at subsidiaries of euromicron AG, compared with receivables of €872 thousand from creditable capital gains tax due to euromicron AG, which were carried under "Claims for income tax refunds".

Personnel obligations

The personnel obligations (€9,176 thousand; previous year: €8,876 thousand) are made up of financial obligations totaling €5,334 thousand (previous year: €5,363 thousand) and non-financial obligations totaling €3,842 thousand (previous year: €3,513 thousand). The financial personnel obligations mainly comprise obligations from wages and salaries, severance payments and bonuses. The non-financial personnel obligations mainly comprise obligations from vacation and flexitime credit balances that have been not been used by employees, as well as obligations from semi-retirement.

Other financial liabilities

The other financial liabilities are composed as follows:

TABLE 058

Other financial liabilities	058	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Liabilities from preemptive rights	0	474
Other noncurrent financial liabilities	0	474
Customers' monies to be passed on	141	21,927
Dividend/profit shares for minority interests	334	1,712
Obligations from preemptive rights	987	1,000
Liability from the continuing involvement	304	199
Miscellaneous	8	0
Other current financial liabilities	1,774	24,838
Total of other financial liabilities	1,774	25,312

The decline of €21,786 thousand in liabilities from customers' monies to be passed on is attributable to a change in factoring practice made in the first quarter of 2016 (customer payments are now returned directly to the factoring company). Before this change, customer payments from sold receivables were held in trust in local accounts and passed on to the factoring company at regular times. On the other hand, this change increased the euromicron Group's need for external financing to a corresponding amount.

The liability from dividend/profit shares for minority interests fell by €1,378 thousand in fiscal year 2016. €1,151 thousand of this decline is due to offsetting of claims from rights of recourse against former shareholders of ATECS AG, which result from tax arrears (€1,057 thousand) and related interest payments (€94 thousand). We refer in this regard to the notes on the item "Liabilities from current income taxes".

At the euromicron Group, financial liabilities are all assigned to the category "Other financial liabilities measured at amortized cost" at the balance sheet date and measured at amortized costs using the effective interest method. Loan commission, which is not included as a transaction cost as part of the effective interest method, totaled €748 thousand (previous year: €227 thousand) and was recognized in the income statement.

Other liabilities

The other liabilities are composed as follows: [TABLE 059](#)

Other liabilities	059	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Liabilities from rent linearisation	146	170
Liabilities from retained security	1	9
Miscellaneous	0	10
Other noncurrent liabilities	147	189
Payments on account	2,854	1,690
Liabilities from social security (incl. mutual indemnity association)	1,079	911
Deferred income	841	421
Liabilities from compensation for members of the Supervisory Board	56	135
Liabilities from rent linearisation	31	31
Miscellaneous	316	185
Other current liabilities	5,178	3,373
Total for other liabilities	5,325	3,562

The payments on account include payments that cannot be set off. They also include payments on account from Construction Contracts in accordance with the percentage of completion method (€1,737 thousand; previous year: €66 thousand).

The contractually agreed (undiscounted) interest payments and repayments for the financial liabilities of the euromicron Group are shown below: [TABLE 060 / 061](#)

Cash flow from liabilities in 2016

060

	Carrying amount at Dec. 31, 2016	Cash flow in 2017 Up to 1 year			Cash flow 2018–2021 More than 1 year to 5 years			Cash flow 2022 et seq. More than 5 years		
		Interest		Repaym.	Interest		Repaym.	Interest		Repaym.
		Fixed	Variable		Fixed	Variable		Fixed	Variable	
		€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	76,501	1,227	201	38,043	668	367	38,458	0	0	0
Liabilities from finance leases	1,309	48	0	466	64	0	778	1	0	65
Trade accounts payable	44,512	0	0	44,511	0	0	1	0	0	0
Other financial liabilities	1,774	14	0	1,774	0	0	0	0	0	0
	124,096	1,289	201	84,794	732	367	39,237	1	0	65
(Previous year)	139,405	741	257	117,254	813	570	22,017	4	0	134

Cash flow from liabilities in 2015

061

	Carrying amount at Dec. 31, 2015	Cash flow in 2016 Up to 1 year			Cash flow 2017–2020 More than 1 year to 5 years			Cash flow 2021 et seq. More than 5 years		
		Interest		Repaym.	Interest		Repaym.	Interest		Repaym.
		Fixed	Variable		Fixed	Variable		Fixed	Variable	
		€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	64,791	652	257	44,307	707	570	20,484	0	0	0
Liabilities from finance leases	1,709	62	0	516	92	0	1,059	4	0	134
Trade accounts payable	47,593	0	0	47,593	0	0	0	0	0	0
Other financial liabilities	25,312	27	0	24,838	14	0	474	0	0	0
	139,405	741	257	117,254	813	570	22,017	4	0	134
(Previous year)	140,563	1,058	336	93,669	1,425	897	46,894	0	0	0

All financial instruments held on the balance sheet date December 31, 2016, and for which payments have already been contractually agreed were included. The variable interest payments from the financial instruments were calculated on the basis of the interest rates applicable on December 31, 2016 (previous year: December 31, 2015). Financial liabilities that can be repaid at any time have been assigned to the earliest possible time segment.

euromicron uses derivative financial instruments exclusively to hedge interest rate risks resulting from financial transactions. A decision on this is taken on a case-by-case basis. They are not held for the purposes of short-term speculation. No derivative financial instruments were held either at December 31, 2016, or at December 31, 2015.

10. Deferred tax liabilities

In accordance with IAS 12.39, no deferred tax liabilities were recognized on taxable temporary differences between the shares in subsidiaries compared with the tax carried of €631 thousand (previous year: €635 thousand), since euromicron AG is able to control the time at which the differences are reversed and it is likely that the temporary differences will not be reversed in the foreseeable future ("outside basis differences").

The deferred tax liabilities result from measurement differences in the following balance sheet items: [TABLE 062](#)

	Deferred tax liabilities	
	Dec. 31, 2016	Dec. 31, 2015
	€ thou.	€ thou.
Intangible assets	7,989	7,504
Property, plant and equipment	786	883
Inventories	18	22
Other receivables and other assets	20,938	24,075
Provisions	849	1,239
Other liabilities	24	23
Total deferred tax liabilities before netting off	30,604	33,746
Netting off	-24,934	-28,140
Total deferred tax liabilities after netting off	5,670	5,606

There are long-term deferred tax assets (after netting off) totaling €2,553 thousand (previous year: €3,436 thousand); they result from deferred tax assets on measurement differences for intangible assets and property, plant and equipment. In the previous year, these measurement differences related to intangible assets and property, plant and equipment.

11. Additional details on the financial instruments – Carrying amounts and fair values by measurement categories

Financial instruments by measurement category

	Measurement category acc. to IAS 39	Carrying amount at Dec. 31, 2016	Value carried acc. to IAS 39		
			Amortized acquisition cost	Acquisition cost	Fair value recognized directly in equity
			€ thou.	€ thou.	€ thou.
Assets					
Cash and cash equivalents	LaR ¹⁾	6,844		6,844	
Trade accounts receivable	LaR ¹⁾	18,150	18,150		
Gross amount due from customers for contract work	LaR ¹⁾	40,708	40,708		
Other financial assets	AfS ³⁾ LaR ¹⁾ IAS 17	6,019	5,550 202		267
Equity and liabilities					
Trade accounts payable	FLAC ²⁾	44,512	44,512		
Liabilities to banks	FLAC ²⁾	76,501	76,501		
Other financial liabilities	FLAC ²⁾	1,774	1,774		
Financial personnel obligations	FLAC ²⁾	5,334	5,334		
Liabilities from finance leases	IAS 17	1,309	1,309		

¹⁾ LaR = Loans and Receivables

²⁾ FLAC = Financial Liabilities Measured at Amortised Cost

³⁾ AfS = Available for Sale Financial Assets

063

Value carried in the balance sheet acc. to IAS 39

	Carrying amount at Dec. 31, 2015	Amortized acquisition cost	Acquisition cost	Fair value recognized directly in equity
	€ thou.	€ thou.	€ thou.	€ thou.
	10,722		10,722	
	33,248	33,248		
	47,480	47,480		
	3,612	2,892 380		340
	47,593	47,593		
	64,791	64,791		
	25,313	25,313		
	5,363	5,363		
	1,709	1,709		

Financial instruments are measured at fair value in accordance with IFRS 13 on three levels:

1. Level 1: Input factors in level 1 are (not adjusted) prices listed for identical assets or liabilities in active markets to which the company has access on the measurement date.
2. Level 2: Input factors in level 2 are market price listings other than those stated in level 1 which can be observed either directly or indirectly for the asset or liability.
3. Level 2: Input factors in level 3 are input factors that cannot be observed for the asset or liability.

The level model was applied for measuring the financial instruments reported at fair value at the euromicron Group. The fair values of the shares in Track Group Inc. (balance sheet item: "Other financial assets") were measured on the basis of the 1st level, since the share price can be observed on an active market.

The fair values for the fixed-interest noncurrent liabilities presented in section 9 "Liabilities" were measured on the basis of level 2. The fair value is derived from the present values of the future interest payments and repayments, discounted at the current market interest rates, taking into account the credit risk of euromicron AG.

The opposite put/call option for the remaining shares in ATECS AG, SIM GmbH and MICROSENS GmbH & Co. KG not held by euromicron were measured on the basis of the 2nd level. It is carried as "Obligations from preemptive rights" under the other financial liabilities. The fair value of the long-term components was calculated as the present value of the contractually agreed selling or purchase prices using a market rate of interest.

There were no transfers between the levels during the fiscal year. There is no collateral received for financial instruments at the euromicron Group.

Notes on the consolidated income statement

12. Sales

The Group's sales include sales from Construction Contracts totaling €130,731 thousand (previous year: €133,605 thousand*). The related production costs were €112,673 thousand (previous year: €123,388 thousand*).

As in the previous year, there were no changes in sales as a result of changes in the consolidated companies in fiscal year 2016.

Consolidated sales are divided into those from the sale of goods totaling €203,899 thousand (previous year: €214,436 thousand) and from the provision of services totaling €121,414 thousand (previous year: €130,451 thousand).

13. Own work capitalized

Own work capitalized totals €2,808 thousand (previous year: €2,942 thousand) and results to an amount of €2,342 thousand (previous year: €2,413 thousand) from capitalization of development costs, to an amount of €191 thousand (previous year: €215 thousand) from own work capitalized for self-developed software and IT solutions and to an amount of €275 thousand (previous year: €314 thousand) from own work capitalized for property, plant and equipment.

* The previous year's figure has been adjusted.

14. Other operating income

The other operating income is composed as follows:

TABLE 064

Other operating income	064	
	2016	2015
	€ thou.	€ thou.
Income from claims for reimbursement of legal costs	1,350	0
Income from claims from rights of recourse against former shareholders of ATECS AG (due to payments of tax arrears)	1,151	0
Currency gains	547	740
Income from claims against former board members of euromicron AG	260	0
Rental income	247	287
Reduction in allowances for doubtful accounts	222	23
Refunds for health insurance/reintegration/passed-on charges	83	275
Compensation paid from insurance	45	103
Income from retirement of noncurrent assets	36	37
Income from damages	19	32
Income from cash received from written-down receivables	15	36
Revenue from the reversal of the earn-out liability for SIM/ATECS	0	999
Other	524	541
	4,499	3,073

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

The income from claims from rights of recourse against former shareholders of ATECS AG (€1,151 thousand; previous year: €0 thousand) is due to payment of tax arrears (€1,057 thousand) and related interest payments (€94 thousand) as a result of the tax audit for a period before the company was acquired by euromicron AG. The resultant claim was offset with existing liabilities owed by ATECS AG to the former shareholders. We refer in this regard to the notes in section 9 "Liabilities from current income taxes" and "Other financial liabilities".

The "Other" item contains a large number of individual items; a presentation of them is dispensed with.

15. Cost of materials

The cost of materials is composed of: TABLE 065

Cost of materials	065	
	2016	2015
	€ thou.	€ thou.
Cost of raw materials and supplies and goods purchased	120,550	124,096
Cost of purchased services	50,956	65,787
	171,506	189,883

16. Personnel costs

The personnel costs are composed as follows: TABLE 066

Personnel costs	066	
	2016	2015
	€ thou.	€ thou.
Wages and salaries	92,019	91,344
Social security	17,038	16,531
	109,057	107,875

Average number of employees per year: TABLE 067

Employees	067	
	2016	2015
Hourly-paid employees	919	920
Salaried employees	823	828
Trainees	62	77
	1,804	1,825

17. Other operating expenses

Other operating expenses are composed as follows:

TABLE 068

Other operating expenses	068	
	2016	2015
	€ thou.	€ thou.
Vehicle and travel expenses	12,369	13,621
Rent/room costs	5,814	6,996
Legal and consulting costs	5,632	6,214
IT costs	2,180	2,471
Shipping costs	2,093	1,956
Communication expenses	1,944	1,956
Trade fair/advertising costs	1,884	1,741
Commissions	1,221	2,106
Personnel leasing	1,054	1,346
Further training costs	928	994
Allocation of allowances for receivables	926	726
Impairments of current assets/ telecommunications business	894	0
Operating costs	792	750
Maintenance and repair	636	831
Currency losses	605	780
Administrative expenses	454	390
Losses of receivables	237	53
Expenses incidental to monetary transactions	112	160
Miscellaneous	4,032	4,013
	43,809	47,104

18. Depreciation/amortization and impairment of goodwill

Amortization and depreciation in the fiscal year is composed as follows: TABLE 069

Depreciation/amortization and impairment of goodwill	069	
	2016	2015
	€ thou.	€ thou.
Impairment of goodwill	0	5,333
	0	5,333
Amortization of intangible assets	4,791	6,653
of which impairments	80	859
Depreciation of tangible assets	4,857	3,585
of which impairments	1,288	80
	9,648	10,238

Dormant reserves totaling €15 thousand before deferred taxes were identified and carried as part of purchase price allocation in the acquisition of a division by way of an asset deal in 2016. The amortization and depreciation for this in fiscal year 2016 was €2 thousand.

19. Net interest income/loss

Net interest/income loss is composed as follows: **TABLE 070**

Net interest income/loss	070	
	2016	2015
	€ thou.	€ thou.
Interest income	152	66
Interest expenses	-5,439	-3,791
Net interest income/loss	-5,287	-3,725

The total interest income and total interest expense for financial instruments not carried at fair value in accordance with IAS 39 are shown in the table below: **TABLE 071**

Total interest income and expense	071	
	2016	2015
	€ thou.	€ thou.
Total interest expense	-4,784	-3,536
Total interest income	18	31

The other financial expenses (€73 thousand; previous year: €332 thousand) comprise the cost from the impairment of available-for-sale assets (shares in Track Group Inc.).

Net gains and losses from financial instruments for the measurement categories at the euromicron Group are presented in the following: **TABLE 072**

Net gains and losses from financial instruments	072	
	2016	2015
	€ thou.	€ thou.
Loans and receivables	-770	-671
Available-for-sale financial assets	-73	-430
of which carried in the other profit/loss	0	-98
of which carried in the income statement	-73	-332
Financial liabilities measured at amortized cost	-4,847	-3,544

The net gains and losses from financial instruments comprise measurement gains and losses, discount amortization, the recognition and reversal of impairment write-downs, gains and losses from currency translation and interest and losses from their disposal. Net gains or net losses from available-for-sale financial assets contain income from write-downs/write-ups, and the transfers of valuation effects from equity when the assets are sold or disposed of.

20. Income taxes

Income taxes	073	
	2016	2015
	€ thou.	€ thou.
Current taxes in Germany	3,137	347
Deferred taxes in Germany	696	-804
Current taxes abroad	1,119	937
Deferred taxes abroad	-107	-56
	4,845	424

In fiscal year 2016, an increase in deferred tax assets totaling €701 thousand (previous year: a reduction of €434 thousand) was recognized directly in equity. As in the previous year, it results in 2016 solely from deferred tax assets that had to be recognized in the other profit/loss as part of the application of IAS 19 R. In 2016, as in the previous year, there were no deferred tax liabilities from company acquisitions that were taken directly to equity. Application of the net interest method resulted in the year under review in deferred tax expenses of €118 thousand (previous year: €78 thousand) which did not result in recognition of deferred tax liabilities in the balance sheet, since there was a balancing entry in the other profit/loss.

The items "Current taxes in Germany" and "Current taxes abroad" (totaling €4,256 thousand; previous year: €1,284 thousand) include income taxes for previous years of €3,203 thousand (previous year: €55 thousand) and tax refunds for previous years of €119 thousand (previous year: €73 thousand). Of the tax expenses for previous years, €2,063 thousand (previous year: €0 thousand) relates to expenses that were incurred due to the ongoing tax audit of euromicron AG for the years 2010 to 2012 due to the change in jurisdiction on the issue of economic ownership in the case of securities lending transactions used as part of the provision for risks. In addition, €1,057 thousand (previous year: €0) relate to formation of a liability for tax arrears of ATECS AG payable as a result of a tax audit for assessment periods before the company was acquired by euromicron AG. There was income from claims from rights of recourse against the former shareholders to the same amount; it has been recognized under the other operating income.

The item "Deferred taxes in Germany" (€696 thousand; previous year: € -804 thousand) includes deferred tax expenses of €1,391 thousand (previous year: €0 thousand) resulting from the anticipated utilization of corporation income tax loss carryforwards on which deferred tax assets have been recognized; it likewise results from the tax risks from securi-

ties lending transactions in the years 2010 to 2012. There is also a deferred tax expense of €2,006 thousand (previous year: €0 thousand) resulting from the derecognition of deferred tax assets on loss carryforwards of euromicron Deutschland GmbH prior to the integrated inter-company relationship that can no longer be used during the term of the integrated inter-company relationship under German income tax law established with euromicron AG in 2016.

The table below presents a reconciliation of the tax expense expected in the fiscal year to the tax expense actually disclosed. As in the previous year, the expected tax expense is calculated from a total tax rate of 30.00% and the income before taxes. The total tax rate is calculated from a corporation income tax rate, including solidarity surcharge, of 15.825% and the effective average trade tax rate of 14.175%.

TABLE 074

Tax reconciliation	074	
	2016	2015
	€ thou.	€ thou.
Income before income taxes	-7,624	-12,705
Expected tax expense	-2,287	-3,811
Non-deductible expenses	331	318
Tax expenses/income not related to the period	3,084	-18
Effect from derecognition of deferred tax assets on loss carryforwards incurred before joining a tax group, that can no longer be used	2,006	0
Effect from adjustment of deferred taxes formed in previous years on loss carryforwards/temporary differences	1,483	243
Non-recognition of deferred taxes on losses of the current year	326	2,477
Effect from impairments with no impact on taxes (goodwill, etc.)	22	1,499
Tax rate differentials	-138	36
Recognition of deferred taxes on loss carryforwards (not recognized in previous periods)	-20	-25
Effect from reversal of the earn-out liability (no impact on taxes)	0	-294
Other	38	-1
Actual tax expense	4,845	424
Effective tax rate	-63.5%	-3.3%

21. Share of non-controlling interests in consolidated net income for the period

The consolidated net income for the period for non-controlling interests relates solely to Qubix S.p.A., Padua, Italy (10%). The non-controlling interests should be regarded as not being material in relation to the consolidated financial statements.

22. Earnings per share

Undiluted earnings per share are calculated as follows:

TABLE 075

Undiluted earnings per share	075	
	2016	2015
Earnings for euromicron AG shareholders in € thousand	-12,655	-13,253
Weighted average number of shares issued	7,176,398	7,176,398
Undiluted earnings per share in €	-1.76	-1.85

The earnings for euromicron AG shareholders correspond to the consolidated net loss for the year minus the earnings for non-controlling interests.

The method of calculating diluted earnings per share is basically the same as that for calculating undiluted earnings per share. However, the quantities included in the calculation must also be adjusted for all equity dilution effects resulting from potential shares. There was no dilution effect at the time the consolidated financial statements were prepared. As a result, both figures are the same.

Appropriation of net income

The annual financial statements of euromicron AG at December 31, 2016, in accordance with the German Commercial Code (HGB) disclose net accumulated losses of € -40,916,954.67 (previous year: loss of € -28,184,220.00).

Other details

23. Notes on the statement of cash flows

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

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

The cash used in operating activities in fiscal year 2016 was € -7,140 thousand, whereas in the previous year there was net cash provided by operating activities totaling €4,512 thousand. However, comparison of these figures is not meaningful due to effects from factoring (change in the volume of factoring used at the balance sheet date, the receivables from retained factoring monies and the liabilities from customers' monies to be passed on). A detailed presentation of these effects can be found in section 2.3 "Net assets, financial position and results of operations", sub-section "Financial position", in the 2016 group management report. Aggregated reconciliation to a cash flow from operating activities adjusted for factoring effects supplies the following comparative figures: TABLE 078

Adjusted cash flow

076

	Cash flow from operating activities acc. to statement of cash flows	Effects from factoring and customers' monies to be passed on includ- ed in the above	Adjusted cash flow from operating activities
	€ thou.	€ thou.	€ thou.
2015*	4,512	-112	4,400
2016	-7,140	8,435	1,295

* The previous year's figure has been adjusted.

After adjustment for factoring effects, there is net cash provided by operating activities totaling €1,295 thousand in fiscal year 2016 compared with net cash provided by operating activities totaling €4,400 thousand in the previous year. As a result, the cash flow from operating activities in fiscal year 2016 fell by €-3,105 thousand. This is due in particular to cash effects from the sharp decrease in trade accounts payable: Whereas the reduction in trade accounts payable resulted in a negative cash flow effect of €-3,081 thousand in 2016, the cash flow of the previous year was impacted positively to an amount of €3,355 thousand by the increase in trade accounts payable. In total, this effect explains a cash flow change of €-6,436 thousand. In addition, the balance of paid and received income taxes and interest resulted in net cash used in operating activities increasing by €-2,989 year on year. On the other hand, there were positive cash flow effects from the intensified measures to optimize working capital in 2016 in the area of inventories, gross amounts due from and to customers for contract work, trade accounts payable (before factoring) and payments on account. The change in these items resulted in 2016 in positive effects on the cash flow from operating activities of €4,981 thousand, which were €6,278 thousand higher than in the previous year (negative effect on the cash flow from operating activities of €-1,297). It should also be noted in this regard that the Group's sales in December 2016 were €44,184 thousand, €5,649 thousand higher than the comparative figure for December 2015 (€38,535 thousand), which resulted in a corresponding increase in working capital. Excluding this effect, working capital (before factoring) at December 31, 2016, would have fallen more sharply, which would have had corresponding positive effects on the cash flow from operating activities.

Under the contractual trust agreement, trade accounts receivable of €2,471 thousand were contributed to the plan assets in fiscal year 2016. Receivables of €1,173 thousand were withdrawn from the plan assets in the previous year.

Net cash used in investing activities is derived from the net cash from the disposal of assets and the net cash used for investments in property, plant and equipment and intangible assets, as well as company acquisitions. The net cash used in the fiscal year was €-7,770 or €1,308 lower than in the previous year (€-9,078 thousand). This is mainly attributable to the fact that purchase price payments from company acquisitions were lower by €2,063 thousand (2016: €-609 thousand; 2015: €-2,672 thousand). Net cash used in purchasing intangible assets (€-3,464 thousand; previous year: €-3,302 thousand) and property, plant and equipment (€-3,776 thousand; previous year: €-3,169 thousand) in 2016 was €769 thousand above the level of the previous year.

The net cash provided by financing activities in fiscal year 2016 was €11,032 thousand (previous year: net cash used of €-334 thousand). The net cash inflow in fiscal year 2016 was mainly due to the raising of new loans, which exceeded the net cash used to repay loans by €11,710 thousand (previous year: net cash provided of €1,677 thousand). On the other hand, there were cash repayments of liabilities from finance leases totaling €-526 thousand (previous year: €-744 thousand) and distributions to non-controlling shareholders and from profit shares of minority interests totaling €-152 thousand (previous year: €-1,267 thousand).

24. Contingencies and other financial obligations

a) Contingencies

The euromicron Group does not have any contingencies in favor of third parties.

b) Other financial obligations

There are the following other financial obligations on the balance sheet date: [TABLE 077](#)

Other financial obligations in 2016

077

	Total	Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Acceptance liability (bill of exchange)	2,985	2,985	0	0
Lease agreements	23,742	8,513	14,814	415
Purchase obligation	17,252	17,252	0	0
	43,979	28,750	14,814	415
Previous year	31,561	19,594	10,748	1,219

The purchase obligation relates to orders for order-related goods and services; orders of intangible assets or tangible assets were insignificant.

Obligations as part of operating lease agreements comprise the future minimum lease payments from unterminable agreements and mainly relate to rental and leasing agreements for operating and office equipment, such as cars, office machines or PC workstations, and communications technology and total €23,742 thousand (previous year: €19,919 thousand). In fiscal year 2016, payments from these leasing arrangements totaling €9,475 thousand (previous year: €10,593 thousand) were recognized in the income statement. Conditional lease payments of €25 thousand (previous year: €50 thousand) were carried. Future proceeds of €0 thousand (previous year: €72 thousand) are expected from subleasing as part of operating lease agreements up to when they can be terminated for the first time.

c) Contingent assets/contingent liabilities

At December 31, 2016, contingent assets of up to €4 million were identified as part of possible claims for damages against former board members of the company. Due to uncertainty as to when they might arise and their amount, these contingent assets were not recognized at December 31, 2016.

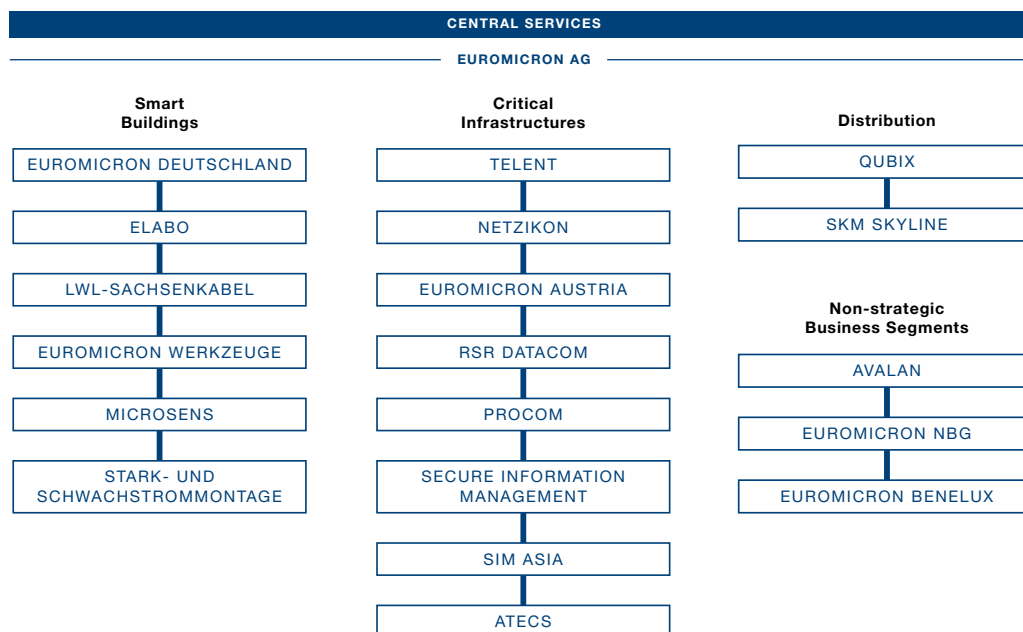
In fiscal year 2016, there was a contingent liability in connection with securities lending transactions. There is a risk that amounts of tax withheld as part of dividend payments (capital gains tax and solidarity surcharge) might no longer be able to be offset by euromicron AG due to the change in jurisdiction on the issue of securities lending transactions. That would result in the company paying tax arrears of €5,782 thousand and interest of €1,131 thousand. Due to the many doubts about the lawfulness of this change in terms of procedural law and content, an appeal has been lodged and suspension of execution applied for. The fiscal authorities have already granted the suspension of execution. In addition, this issue means that euromicron AG has contingent assets to the same amount due to claims from rights of recourse against the securities lender and former board members of euromicron AG. These claims have been underpinned by a legal opinion from a specialist external attorney. Consequently, no outflow of liquidity is expected in total.

25. Segment reporting

The Executive Board is the main decision-maker in the Group. The business segments were identified on the basis of the internal reporting the Executive Board uses to allocate resources and assess earnings strength.

Under its strategic alignment, the euromicron Group focuses on the three main business areas of “Smart Buildings”, “Critical Infrastructures” and “Distribution”. Controlling and the reporting structure are in line with the orientation toward the target markets and the underlying value chain within the Group.

Segment structure



Description of the segments:

All the activities of the euromicron Group in the target markets of “Digital Buildings” and “Smart Industry” are pooled in the “Smart Buildings” segment. In the target market of “Digital Buildings”, euromicron provides infrastructure-related intelligent solutions, such as “Smart Office”, “Smart Energy” or “Smart Lighting”. Services relating to building or process automation, light control, access control, video surveillance, fire prevention or support services as part of efficient energy and building management are planned, implemented and operated as part of that. The focus in the target market of “Smart Industry” is on digitizing and networking development, production and service processes in industry. The euromicron Group develops holistic approaches and the related processes for and with its customers and implements them in a forward-looking way that protects investments. This segment also includes services relating to the equipment of data centers with innovative connector systems.

The “Critical Infrastructures” segment deals with vital business infrastructures whose failure is highly problematic. Such infrastructures may be the digital mobile radio system at an airport or the communications network of Deutsche Bahn or a power utility, for example. System integration comprises the planning, production and operation of digitized critical infrastructures. In addition, the technology manufacturing companies in this segment round out the product portfolio in this target market with their professional video, audio and special technology solutions for sensitive security restricted areas.

The “Distribution” segment advises and supplies customers in a vendor-independent manner in all matters relating to active and passive network components in the fiber-optic and copper arena.

“All other segments” consists of the “Non-strategic Business Segments” and “Central Services”. The Non-strategic Business Segments include the business units that have been identified by the Executive Board as no longer being of relevance at Avalan GmbH (in liquidation), euromicron NBG Fiber Optics GmbH, euromicron benelux S.A. and WCS Fiber Optic B.V. (liquidated effective October 24, 2016), whose business operations were discontinued. The “Central Services” area mainly includes euromicron AG as the strategic management holding company. euromicron AG also pools the corporate departments of financing, Group controlling and accounting, taxes, legal affairs, human resources, purchasing, IT, corporate marketing, investor relations and innovation management, which act as service providers within the Group.

The reconciliation contains the consolidation of the cross-segment network of services and various other items that cannot be assigned to the individual areas, since the Executive Board believes they do not reflect the services provided by the areas.

Control factors

The Executive Board assesses the earnings strength of the business segments on the basis of operating EBITDA and the operating EBITDA margin (operating EBITDA relative to sales). Operating EBITDA excludes effects from one-off expenses in the business segments, such as reorganization costs due to personnel measures. Apart from these key figures, sales and the working capital ratio (working capital used relative to sales) are the most important control factors.

The sales and earnings, as well as the current assets and liabilities included in the working capital, that are reported to the main decision-maker are measured in accordance with the same principles and standards as in euromicron’s consolidated financial statements. Transactions within and between the segments are reflected at market prices (at arm’s length principle).

The working capital is calculated from the total of inventories, trade accounts receivable and the gross amount due from customers for contract work minus trade accounts payable, the gross amount due to customers for contract work and received prepayments.

Segment reporting

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

Segment reporting

	Smart Buildings		Critical Infrastructures		Distribution	
	2016	2015	2016	2015	2016	2015
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
External sales	191,243	193,479	113,403	120,807	20,678	20,017
Sales within the Group	2,471	4,391	595	638	1,925	2,437
Total sales	193,714	197,870	113,998	121,445	22,603	22,454
EBITDA	4,174	7,502	6,547	7,886	3,145	2,538
EBITDA margin	2.2%	3.8%	5.7%	6.5%	13.9%	11.3%
of which reorganization costs	1,774	2,574	606	217	0	0
Operating EBITDA	5,948	10,076	7,153	8,103	3,145	2,538
Operating EBITDA margin	3.1%	5.1%	6.3%	6.7%	13.9%	11.3%
Amortization and depreciation	-5,588	-5,672	-2,003	-2,089	-369	-562
impairments of property, plant and equipment, intangible assets and goodwill	-879	-190	-489	0	0	0
EBIT	-2,293	1,640	4,055	5,797	2,776	1,976
of which reorganization costs	2,264	2,610	1,095	217	0	0
Operating EBIT	-29	4,250	5,150	6,014	2,776	1,976
Order books	65,664	53,264	55,822	50,494	2,006	1,433
Working capital	53,552	59,877	1,923	15,129	3,852	4,258
Working capital ratio	27.6%	30.3%	1.7%	12.5%	17.0%	19.0%

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Total for all operating segments that must be reported		All other segments				Total for the segments		Reconciliation		Group	
		Non-strategic Business Segments		Central Services							
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
325,324	334,303	-11	10,584	0	0	325,313	344,887	0	0	325,313	344,887
4,991	7,466	13	283	0	0	5,004	7,749	-5,004	-7,749	0	0
330,315	341,769	2	10,867	0	0	330,317	352,636	-5,004	-7,749	325,313	344,887
13,866	17,926	-445	-4,995	-6,036	-7,007	7,385	5,924	0	999	7,385	6,923
4.2%	5.2%					2.2%	1.7%			2.3%	2.0%
2,380	2,791	445	1,765	2,937	2,279	5,762	6,835	0	0	5,762	6,835
16,246	20,717	0	-3,230	-3,099	-4,728	13,147	12,759	0	999	13,147	13,758
4.9%	6.1%	0.0%	-29.7%			4.0%	3.6%			4.0%	4.0%
7,960	-8,323	0	-303	-321	-637	-8,281	-9,263	0	0	-8,281	-9,263
-1,368	-190	0	-5,730	0	-388	-1,368	-6,308	0	0	-1,368	-6,308
4,538	9,413	-445	-11,028	-6,357	-8,032	-2,264	-9,647		999	-2,264	-8,648
3,359	2,827	445	7,494	2,937	2,850	6,741	13,171	0	0	6,741	13,171
7,897	12,240	0	-3,534	-3,420	-5,182	4,477	3,524	0	999	4,477	4,523
123,492	105,191	0	0	0	0	123,492	105,191	-238	-1,834	123,254	103,357
59,327	79,264	-93	48	-1,304	-981	57,930	78,331	-19,442	-16,974	38,488	61,357
18.0%	23.2%					17.5%	22.2%			11.8%	17.8%

CONSOLIDATED FINANCIAL STATEMENTS

Explanation of selected items

The reconciliation with the working capital item includes off-setting and netting off of the plan assets, consisting of trade accounts receivable, with the relevant provisions for pensions. For an explanation of the composition of the reorganization costs, we refer you to our comments in the management report (section 2.2 “Course of business”, subsection “Development of the segments”, and section 2.3 “Net assets, financial position and results of operations”, subsection “Results of operations”).

Sales by region

Sales in Germany were €274.3 million (previous year: €291.3 million), in the Euro zone €35.7 million (previous year: €35.2 million) and in the Rest of the World €15.3 million (previous year: €18.4 million). The sales relate to the geographical location of the customers.

Sales by category

Breakdown of sales for all products and services: Consolidated sales are divided into those from the sale of goods totaling €203,899 thousand (previous year: €214,436 thousand) and from the provision of services totaling €121,414 thousand (previous year: €130,451 thousand).

Sales by customer

There are sales exceeding the thresholds defined by IFRS 8.34 with one customer (previous year: one customer). These sales total €33,656 thousand and were generated in the segments “Smart Buildings” and “Critical Infrastructures”.

Noncurrent assets

In accordance with IFRS 8.33b, noncurrent assets are €116,023 thousand in Germany (previous year: €116,669 thousand), €24,741 thousand (previous year: €25,168 thousand) in other European countries, and €41 thousand (previous year: €0 thousand) in non-European countries. They are composed of:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Other financial assets
- Other assets

26. Risk management**Principles of risk management**

As a result of its business activity, the euromicron Group is exposed to various risks. They are countered by a risk man-

agement system that has been implemented throughout the Group and is closely geared to its business strategy. The internal control system and compliance policies are inseparable from the risk management system. They ensure that financial reporting is performed correctly and the rules of conduct are observed by employees. The existing system of controls and policies enables the euromicron Group to comply with the stipulations of the corporate governance guidelines. The focus is in particular on finance and accounting, controlling and taxes, legal and compliance and the main operating processes.

Risk control

The concrete risks to which the euromicron Group is exposed in terms of assets, liabilities and strategic alignment are mainly in changes in the market situation, financing situation and interest rates. To minimize them, the basic elements of the business and financial policy are defined by the Executive Board and monitored by the Supervisory Board. In turn, Finance and Accounting, Controlling and Taxes are responsible for operationally implementing the financial policy and constant risk management.

Market risks

In principle, the euromicron Group is dependent on economic trends in the Euro zone; the German market accounts for 84.3% (previous year: 84.5%) of sales and so is crucial to the Group's success. Germany is also the area of activity of most of the euromicron Group's operating units, which are benefiting from investments in communications, security and data networks. Apart from economic risks, euromicron is subject to the fundamental risks relating to other market players and pressure on prices. euromicron tackles these challenges by nurturing intensive contacts with customers and special solutions in niche markets so as to be able to offer top-quality products and services at competitive prices.

Risks of default

Due to its broad customer base and financing activity, the euromicron Group is subject to the risk of defaults, which it reflects by means of individual allowances for doubtful accounts. However, an unusually high risk exposure cannot be discerned. Only one customer accounted for more than 10% of consolidated sales in fiscal year 2016 (previous year: one customer). In addition, the risk of default is minimized by Group-wide monitoring of accounts receivable. Moreover, credit sale insurance policies were concluded for specific companies.

The maximum risk of default is to the carrying amounts of the financial assets carried on the balance sheet which are not secured by credit sale insurance policies.

Financing and liquidity risks

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

A further financial risk for the euromicron Group is the provision of sufficient liquidity for the subsidiaries' business operations. euromicron AG must ensure that the receivables resulting from financing of the operating units through the cash pool retain value. This is achieved by permanent and standardized finance management and reporting that constantly monitors and assesses the subsidiaries' activities and assigns measures to them.

With regard to the measures to secure future liquidity, please refer to the comments in section 3.2 "Risk report and salient features of the risk management system" in the group management report for 2016.

Interest rate risks

Interest rate risks are restricted exclusively to the Euro zone. To protect against these risks, the euromicron Group relies on a balanced mix of a variable and fixed financing structure. Interest rate derivatives can also be used to optimize the net interest income/loss on a case-by-case basis. As in the previous year, however, there were no interest rate derivatives at December 31, 2016.

The financing that was contractually agreed and utilized at December 31, 2016, will result in interest expenses of around €2.6 million by the end of their term (previous year: €2.3 million). A sensitivity analysis is used to assess the interest rate risks. This shows the effects of different market interest rates on interest payments, interest income and interest expenses.

The euromicron Group complies with these stipulations and applies further assumptions:

- Changes in market interest rates for original financial instruments with a fixed rate have an impact on the result only if these instruments are measured at their fair value. All financial instruments with a fixed rate that are measured at their amortized acquisition cost are not therefore exposed to the risk of any change in interest rates.
- Changes in market interest rates for original financial instruments that have a variable rate and whose interest payments are not designated as a hedged item as part of cash flow hedges against risks of interest rate changes have an effect on the net interest income/loss and are included in calculation as part of the earnings-oriented sensitivity analysis.

If the average market level for interest rates in 2016 had been 50 base points higher, income before taxes at the euromicron Group would have been €203 thousand lower. There would have been no effects if the average market level for interest rates had been lower. The hypothetical impact on income is mainly the result of the original financial instruments with a variable rate of interest and factoring.

Internal control system

In order to comply with statutory requirements, the euromicron Group continued to focus in fiscal year 2016 on monitoring its main corporate processes. In particular, the internal controls are aimed at minimizing operational risks and avoiding mistakes in sensitive areas of the company. For example, the company ensures that key functions are kept strictly separate from each other and that the four eyes principle is applied comprehensively. Moreover, Finance and Accounting, Controlling and Taxes very closely observe changes in accounting and employees are given extensive training by external consultants if and when required.

The controls are carried out throughout the Group and their suitability and comprehensiveness are reviewed regularly on a test basis.

Appropriate measures to minimize risks from project business were implemented in previous years. Further enhancement of these structures was also a focus of the euromicron Group's risk management activities in 2016. For further details, please refer to the comments in section 3.2 "Risk report and salient features of the risk management system" in the group management report for 2016.

In fiscal year 2016, euromicron AG's risk identification system complied with the measures to set up a suitable risk identification system specified by Section 91 (2) AktG (German Stock Corporation Law). The risk identification system is suitable for promptly detecting developments that might jeopardize the company's continued existence.

Compliance

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

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

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

27. Related parties

Persons and companies are regarded as related parties if they control the euromicron Group or exert a significant influence on its financial and business policy or the euromicron Group has a significant influence over them.

Companies connected to members of the Executive Board and Supervisory Board did not receive any payments for goods or services provided in the year under review, with the following exceptions.

Advice on labor law and legal matters by Beiten Burckhardt Rechtsanwaltsgesellschaft mbH resulted in a fee of €32,000; there are still liabilities of €3 thousand from this at December 31, 2016. In exchange for the supply of goods, Keymile GmbH received €4,345 thousand in the year under review, of which there were still unpaid liabilities of €163 thousand at the end of the year under review. In addition, the euromicron Group provided services totaling €4 thousand for Keymile GmbH.

The auditing firm LKC Kemper Czarske v. Gronau Berz was commissioned to prepare expert opinions in connection with legal and accounting matters. A fee totaling €33 thousand was paid for the services.

Business transactions with related parties are conducted at the same prices as with outside third parties (at arm's length). Further relations with members of the Executive Board and Supervisory Board are explained in section 33.

Apart from that, there were no transactions with other related parties or companies. There are no further receivables due from or liabilities toward related parties.

28. Declaration on the Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Law)

In fiscal year 2016, euromicron AG largely complied with the recommendations of the German Corporate Governance Code in its version dated May 5, 2015, which was published in the Federal Official Gazette on June 12, 2015. The exceptions are listed in the declaration on conformance by the Executive Board and Supervisory Board dated December 8, 2016, which can be read on the company's homepage at: <https://www.euromicron.de/en/investor-relations/declaration-on-conformance-2016>.

29. Stock option program/securities transactions requiring disclosure

There is currently no new stock option program or comparable incentive system based on securities. The members of the Executive Board and Supervisory Board do not hold more than 1% of the shares issued by euromicron AG directly or indirectly.

30. Auditors' fees

The item "Other operating expenses" contains fees for the group auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, of €811 thousand (previous year: €835 thousand). €536 thousand (previous year: €560 thousand) relate to auditing of the financial statements of the companies and the Group. They include expenses of €19 thousand (previous year: €73 thousand) not related to the period. They also include costs for other confirmation or valuation services of €0 thousand (previous year: €4 thousand), tax consulting services of €262 thousand (previous year: €263 thousand), of which €26 thousand (previous year: €40 thousand) are not related to the period, and other services of €13 thousand (previous year: €8 thousand) for euromicron AG or its subsidiaries.

31. Significant events after the balance sheet date

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

Under the notarized purchase agreement dated December 21, 2016, telent GmbH acquired 75% of the shares in Koramis GmbH, Saarbrücken, an IT-security company that specializes in industrial security. As a result of this acquisition, telent GmbH is expanding its value chain to include cybersecurity for critical infrastructures and industrial infrastructures. The date of acquisition is January 1, 2017. The purchase price was €1,648 thousand. The provisionally measured assets of Koramis GmbH were composed of property, plant and equipment (€270 thousand), inventories (€125 thousand), trade accounts receivable (€650 thousand) and other assets (€90 thousand). The provisionally measured liabilities comprised trade payables (€199 thousand) and other liabilities (€301 thousand). The purchase price allocation as part of the acquisition of Koramis GmbH is still provisional at the time euromicron's 2016 Annual Report is published. The provisional goodwill of €1,040 thousand resulting from the difference between the total purchase price (€1,648 thousand) and the provisionally measured net assets (€635 thousand), including minority interests (€27 thousand), is mainly attributable to the well-trained workforce in the field of IT security. 36 employees were taken over. The number of consolidated companies increased by one as a result of the acquisition.

Exercise of the preemptive right relating to 2.5% of the shares in Microsens GmbH & Co. KG and in Microsens Beteiligungs GmbH

On January 12, 2017, an agreement was reached to exercise the existing preemptive right relating to 2.5% of the minority interests in Microsens GmbH & Co. KG and 2.5% of the minority interests in Microsens Beteiligungs GmbH effective January 31, 2016. The purchase price is €225 thousand for the shares in Microsens GmbH & Co. KG and €1 thousand for the shares in Microsens Beteiligungs GmbH. The purchase price was paid on January 25, 2017. The acquisition meant the stake held by euromicron AG in Microsens GmbH & Co. KG and Microsens Beteiligungs GmbH was 97.5% in each case. Due to the fact that the existing purchase options are designed as opposite put/call options, both companies were already fully included in the consolidated financial statements. The purchase price obligations resulting from the opposite put/call options were likewise already carried under "Other current financial liabilities" in the consolidated financial statements at December 31, 2016. The pro-rata purchase price obligation for the exercised part of the put/call option was €226 thousand and that for a conditional purchase price component was an amount of €25 thousand. Since the original acquisition of MICROSENS GmbH & Co. KG falls under the scope of IFRS 3 (2004 version), the €25 thousand from the conditional purchase price component, which does not have to be paid due to the fact that the targets were not achieved, was treated as an adjustment to the purchase price in accordance with IFRS 3.33 (2004 version) and the goodwill from the acquisition was reduced by that amount.

Conclusion of an agreement to sell the "Telecommunications" division of euromicron Deutschland GmbH

An agreement to sell the "Telecommunications" division of euromicron Deutschland GmbH was concluded on March 15, 2017. Under it, euromicron Deutschland GmbH will transfer all customer, supplier and other agreements connected with this business as part of an asset deal. The division's employees will also be transferred to the purchaser. The closing date is expected to be April 30, 2017; that depends on the occurrence of certain, customary suspensive conditions specified in the purchase agreement.

32. Publication of the consolidated financial statements

On March 28, 2017, the audited consolidated financial statements and group management report of euromicron AG are to be released for publication as of March 29, 2017, by the Supervisory Board following their submission by the Executive Board and deposited with the operator of the electronic Federal Official Gazette.

euromicron AG makes use of the provision under Section 264 (3) German Commercial Code (HGB) that exempts subsidiaries of euromicron AG from the obligation to prepare notes and/or a management report and to audit and disclose annual financial statements and management reports and fulfills all the necessary conditions. This goes for all subsidiaries (see "List of companies included in the consolidated financial statements" in the section "Consolidated companies") with the exception of the following. Exceptions are ATECS AG, Zug/Switzerland, Avalan GmbH (in liquidation), Spiesen-Elversberg, euromicron austria GmbH, Seekirchen/Austria, euromicron benelux S.A., Ellange/Luxembourg, euromicron holding GmbH, Seekirchen/Austria, euromicron NBG Fiber Optics GmbH, Seekirchen/Austria, Microsens Beteiligungs GmbH, Hamm, MICROSENS Sp.z o.o., Wroclaw/Poland, Netzikon GmbH, Backnang, RSR Datacom Verwaltungs GmbH, Essen, Qubix S.p.A., Padua/Italy, Secure Information Management (Asia Pacific) Pte. Ltd., Singapore and WCS Fiber Optic B.V. (in liquidation), Amersfoort/Netherlands, which disclose their annual financial statements in accordance with their respective national regulations.

33. Supervisory Board and Executive Board

a) Executive Board

Bettina Meyer

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

Jürgen Hansjosten

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

b) Supervisory Board

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

Dr. Franz-Stephan von Gronau, Chairman

Certified public accountant, lawyer, tax consultant Partner of the firm LKC Kemper Czarske v. Gronau Berz GbR, Munich

Josef Martin Ortolf, Deputy Chairman

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

Dr. Andreas de Forestier

Managing Director of DBE Liegenschaften GmbH, Munich

Managing Director of KEA Vermögensverwaltungs-gesellschaft mbH, Hamm

Managing Director of KEA Zweitmarktgesellschaft mbH, Hamm

Chairman of the Supervisory Board of CP Consulting-partner AG, Cologne

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

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

Evelyne Freitag, Chairwoman

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

Rolf Unterberger, Deputy Chairman

Graduate in industrial engineering, business consultant and Managing Director of RMU Capital GmbH, Munich; Managing Director of Executive Interim Partners GmbH, Munich; CEO of Keymile GmbH,

Hanover; Managing Director of HYTEC Gerätebau GmbH, Mannheim; Member of the Advisory Board of Melboss Music, Palo Alto (CA), U.S.

Dr. Alexander Kirsch

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

The term of office of the members of the Supervisory Board expires at the end of the General Meeting that decides on discharge of them for fiscal year 2020.

At its constituent meeting, the Supervisory Board elected Ms. Evelyne Freitag as its Chairwoman and Mr. Rolf Unterberger as its Deputy Chairman.

c) Remuneration of the board members

In total, the members of the Supervisory Board received compensation of €135 thousand (previous year: €135 thousand) in accordance with the Articles of Association; it consists solely of fixed compensation. The fixed compensation for members of the Supervisory Board is €30 thousand, with the Chairman/Chairwoman of the Supervisory Board receiving twice and his/her deputy one-and-a-half times the fixed compensation.

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

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

As in the previous year, the total compensation for the Executive Board consists solely of short-term benefits.

As in 2015, no expenses from the pension commitments to Executive Board members were recognized in fiscal year 2016.

The disclosures required for listed stock corporations pursuant to Section 314 (1) No. 6a a Sentences 5 to 8 of the German Commercial Code (HGB) are contained in the Compensation Report, which is part of the management report. Additional presentation of the information included in that report in the notes is therefore dispensed with.

34. Declaration by the legal representatives

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

Frankfurt/Main, March 22, 2017

Bettina Meyer
Spokeswoman of the
Executive Board

Jürgen Hansjosten
Member of the
Executive Board