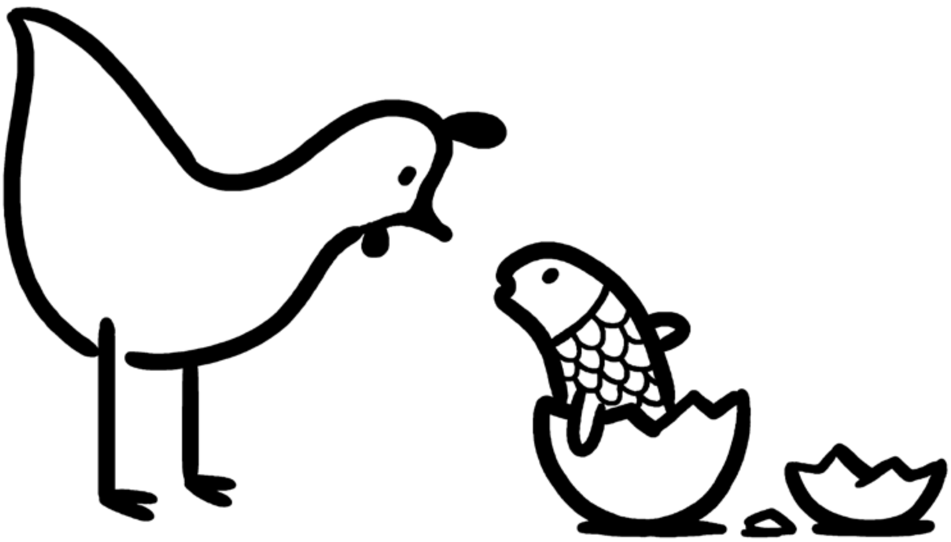
SYZYGY

"The job of every single business on the planet is to do just one thing – to make people happy. When you find ways to do that, you win."

Bernadette Jiwa, Meaningful



syzygy.net

Key financial figures

Sales
(in kEUR)

2012	31,115
2013	35,030
2014	47,075
2015	57,311
2016	64,273

2016 **64,273**

Operating income
(in kEUR)

2012	2,121
2013	2,023
2014	3,843
2015	5,268
2016	5,596

2016 **5,596**

Financial income
(in kEUR)

2012	1,283
2013	2,124
2014	2,157
2015	1,975
2016	1,336

2016 **1,336**

Income before taxes
(in kEUR)

2012	3,404
2013	4,147
2014	6,000
2015	7,243
2016	6,932

2016 **6,932**

Net income
(in kEUR)

2012	9,022
2013	3,361
2014	4,739
2015	4,864
2016	5,097

2016 **5,097**

Earnings per share (undiluted)
(in EUR)

2012	0.73
2013	0.26
2014	0.35
2015	0.37
2016	0.39

2016 **0.39**

Operating cash flow
(in kEUR)

2012	7,722
2013	1,294
2014	14,410
2015	-2,421
2016	5,930

2016 **5,948**

Sales by employee
(in kEUR)

2012	102
2013	100
2014	103
2015	108
2016	108

2016 **108**

Balance sheet structure
(in kEUR)

Current assets	53%
Non current assets	47%
Equity	62%
Liabilities	38%

Equity **62 %**

Sales by segments

Germany	62%
United Kingdom	22%
USA	11%
Others	5%

Germany **62%**

Sales by clients' volume

Top 5	40%
Top 6-10	14%
Others	46%

Top 5 **40%**

Sales allocation by vertical markets

Automotive	35%
Consumer goods	27%
Financial services	11%
Telekommunikation/IT	10%
Others	17%

Automotive **35%**

Portfolio structure of cash and marketable securities

Corporate and government bonds	70%
Bank deposit	30%

Corporate and government bonds **70%**

Employees by function

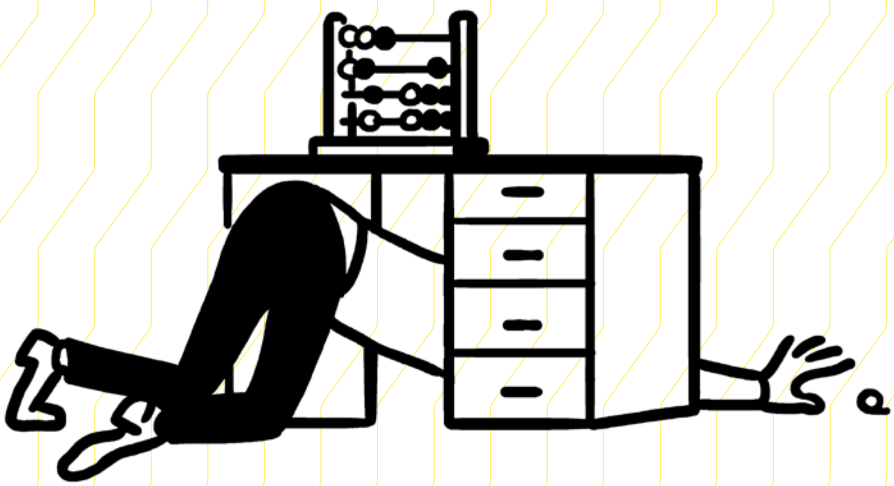
Online media	21%
Technology	21%
Design	20%
Project management	17%
Administration	11%
Strategy/consulting	10%

Online media/ Technology, each **21%**

Shareholder structure

WPP	51.78%
Treasury stocks	0.62%
Free float	47.60%

WPP **51.78%**



Letter to the shareholders

Ladies and Gentlemen,
dear Shareholders,

the 2016 financial year was an exciting period, both for the Group and for me as new chairman of the Management Board. First things first: we have improved the sales and profits of your company for another year in succession. We are delighted to be able to report the best result in the 22-year history of the SYZYGY Group.

At EUR 64.3 million, net sales were 12 per cent above the previous year's figure. We also boosted operating income by 6 per cent to EUR 5.6 million, even after allowing for extraordinary items. As a result, the Management Board and Supervisory Board have decided to propose a dividend of EUR 0.38 at the Annual General Meeting. This represents another increase in the dividend. SYZYGY shares remain a stable and attractive dividend stock for the eighth year in a row.

On behalf of the whole Management Board, I would like to take this opportunity to thank our staff worldwide, who now number more than 600. Their passion, their commitment, their ideas and their perseverance have made this result possible. This year, they have once again given their all to keep our clients happy, as well as the fans and buyers of our clients' brands. I would also particularly like to thank the Members of Supervisory Board for the advice and support they have wholeheartedly and actively provided at all times.

64.3
Million EUR
Sales

12%
Sales Growth

0.38
EUR Dvidend

Let's take a closer look at the results and then at our locations and business areas:

Core market Germany

The German companies performed exceptionally well, closing the year up 26 per cent. We successfully integrated user experience consultancy USEEDS°, which was acquired in April of the previous year. This addition has significantly sharpened the profile of the SYZYGY Group with regard to customer centricity and user experience, with these topics becoming an integral part of discussions with clients. USEEDS° plays a key role both in relation to existing clients and when acquiring new business. It is being actively integrated into the Group's services.

The technology business at the Bad Homburg site remains very stable. We are also pleased to report that our offices in Frankfurt and Munich posted growth through acquiring new clients: L'Oréal, BMW Lifestyle Group and Mercedes AMG. The Hamburg office, uniquedigital, was also very successful in acquiring new clients, especially in the second half of the year, with wins such as Lufthansa Miles & More, Wempe or Ahlers Group. Although the loss of part of the BMW account by our Berlin office, Hi-RES!, did not have any major adverse affect in the 2016 financial year, it will have an impact on the outlook for 2017.

International business

SYZYGY UK successfully defended its work for MAZDA in Europe against big-name competition. It also gained a major contract from Müller Milch for digital transformation. The global AVIS business, which we handle out of London and New York, is stable and the contract was successfully extended. Our US office posted its first successes in acquiring new business at the end of the year, and has made an excellent start to the new year. SYZYGY New York won three prestigious US prizes in the Performance Marketing sector (The Drum Digital Trading Awards) for its work on behalf of the AVIS Budget Group, thereby substantially raising the agency's profile and brand awareness in North America. Closer cooperation with a number of WPP agencies in the United States has also led to significant CGI (Computer Generated Imagery) production orders for Ars Thanea in Poland.

Technology
Services and products in the technology sector are undergoing major change. Invitations to tender are becoming significantly bigger and require almost unlimited manpower. Accordingly, major technology consultancies are playing an ever-increasing role in the market, while also seeking to offer creative solutions through strategic acquisitions. Tailored technology solutions, like the ones offered in the past by SYZYGY, are being replaced by global standards such as Salesforce and Adobe Marketing Cloud. Hosting products are moving from private to public cloud. Smaller technology firms such as SYZYGY must adapt and change in order to remain an excellent provider of enterprise-capable technology solutions for SMEs.

Our new Chief Technology Officer (CTO), Frank Ladner, will join the Group at the start of April 2017. His remit includes helping to bring about the necessary change and making us more flexible. With his outstanding technology and advisory expertise, Frank Ladner will be responsible for linking technology and marketing across multiple SYZYGY locations as well as working on key accounts. His appointment means that SYZYGY's three main areas of expertise – technology, media and creative – are each now headed by a proven specialist.

Production
Our closer links with WPP in the United States have led to strong growth at Polish subsidiary Ars Thanea. Ars Thanea animates and produces designs through its special CGI service for big-name customers such as Pfizer, Dell, Nike and Facebook. The strong start to 2017 shows that this business can be expanded even further. We will therefore intensify our cooperation with WPP in the UK and Germany, positioning ourselves as a Group-wide CGI production hub. A bridgehead to Asia is also a possibility.

Platform & Creative
Client wins such as L'Oréal, BMW Lifestyle Group, Mercedes AMG and Müller Milch are clear evidence that our services around platform and design are very much in demand and competitive. The latest launches by existing clients such as BMW Motorrad are impressive testimony to this. Some of our clients have been relying on our creative power for more than two decades, and we are increasingly receiving enquiries about solutions and services from major brands. Combined with an excellent strategy and user-centred thinking and action, as perfected by our subsidiary USEEDS°, we have a first-class market offering.

"Our technology business is still stable and we remain an excellent provider of enterprise-capable technology solutions for SMEs."

Media & Performance

Our data-driven performance approach is particularly appreciated by big clients with a strong focus on sales. In the US, it has resulted in the firm winning highly regarded national awards. We gained some big-name clients in both the UK and in Germany, especially in the second half of the year. First and foremost, Lufthansa Miles & More was won over by a proposal for a comprehensive data-driven solution, with SYZYGY taking responsibility for two key areas. Firstly, in addition to SEA we will also be responsible for all search engine optimisation. Secondly, SYZYGY will produce relevant content in connection with SEO and, in the medium term, produce user-optimised landing pages. This will involve assembling an editorial and production team.

Outlook

Digitisation is the topic of this decade. Across the social, political and economic spheres, huge swathes of our lives are being affected by digitisation. The SYZYGY Group's business activities are thus highly relevant both today and for the future. It is no longer possible to imagine life without digital products or services, let alone without the Internet. SYZYGY operates in all these areas, helping clients to overcome digital challenges. Having said that, the complexity of "digital" has increased dramatically. It is often viewed very one-dimensionally and frequently underestimated. Digital is more than a website or an app. Especially for companies, engaging with "digital" has become a major factor in ensuring their future viability. Digitisation is shifting from purely communicative execution to entrepreneurial decisions that affect the whole company. Business models are being challenged or re-invented, organisational structures changed, silos broken down, products re-imagined, distribution channels adapted and, of course, communication and marketing are also increasingly becoming digital. Companies need more guidance and advice from experienced experts that goes beyond communication and includes the ability to deliver excellent digital and technological projects. For the SYZYGY Group, this essentially means three things:

Firstly, a significant strengthening of the core business in order to remain competitive in major invitations to tender. **Secondly**, seamless and integrated mapping of the digital value chain in order to offer customers holistic solutions. **Lastly**, significant expansion and development of consulting and strategy skills. The Group will make targeted acquisitions to strengthen these areas, while the individual companies will develop their skill sets organically. Our focus will be on the core German market.

"Digitisation is the topic of this decade."

Lars Lehne
Chief Executive Officer / CEO

Andy Stevens
Management Board / President & COO

Erwin Greiner
Chief Financial Officer / CFO

We are starting the new financial year with a "sleeker" brand portfolio. The agencies in the SYZYGY Group are coming closer together under one umbrella brand: the media agencies uniquedigital in Hamburg and London were renamed SYZYGY in March, 2017. This is intended to further strengthen the Group's brand core, which comprises a combination of media, technology and creative services. We have also given SYZYGY a new corporate identity. This involves a greater focus on collaboration between locations and disciplines in order to further bolster our commitment to integrated service.

Dr Paul Marsden will discuss this in detail elsewhere in this annual report. As Aristotle famously stated, the whole is greater than the sum of its parts. The Group is therefore now moving forward as a unified, stronger entity under the SYZYGY brand. All this, together with the success already achieved in 2017, means that the outlook remains positive.

Despite currency fluctuations triggered by the forthcoming UK exit from the European Union and economic uncertainty due to the new administration in the US, we expect our growth trajectory to continue this year. Organic growth will tend to be modest due to the above-mentioned factors, while acquisitions could boost inorganic growth.

Yours,

Lars Lehne
Chief Executive Officer / CEO

Hello! We are SYZYGY.

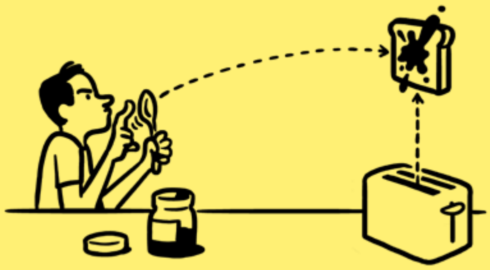
Our purpose is simple: The greatest happiness for the greatest number. That unbeatable feeling when digital simply works – the perfect alignment of Technology, Creative and Media. In astronomy this alignment is called a SYZYGY – 3 celestial bodies in harmony.

Creative

Our creative product covers the entire spectrum from ideation and innovation using our positive design approach to UX and customer experience design all the way to creative production services allowing us to craft work that is meaningful, useful and has emotional impact. Everything is integrated seamlessly with our Technology and Media products, helping us to put all three to the service of human happiness. Happy customers, happy clients.

Services:
- Design sprints
- Customer Experience Design
- Innovation & Service Design
- Content Strategy & Creation
- Creative Production (Still, Moving Image, CGI, Illustration)
- Creative Technology/AR & VR Studio

We are located in Bad Homburg, Berlin, Frankfurt, Hamburg, London, New York, Munich and Warsaw.



Media
In this complex and fast-changing landscape, we help our clients deliver the media mix that offers maximum results by reaching consumers with timely, relevant messages across paid, owned, and earned channels. At our heart is data and insight to ensure that we bring solutions that deliver tangible benefits. However our biggest asset is our team that helps navigate, inspire and lead our clients forward.

Services:
- Brand & Performance and Social Media
- Paid Search
- Search Engine Optimisation
- Data Science & Analytics
- Content Marketing

600+
Digital talents

200+
Awards

1995
founded

Technology
Technology enables everything we do. It is a key part of our DNA. Utilising enterprise and marketing technology we digitise business processes and create great experiences. With more than 130 technologists we architect, build and run innovative user interfaces and platforms for content delivery, CRM, sales, commerce and marketing automation. Our philosophy is to work without silos following agile project methodologies and state of the art software engineering techniques like continuous integration and test driven development. With our hosting services, we also offer managed hosting within our data centre or the cloud and operate more than 300 servers as of today.

Services:
- User Interface Architecture & Build
- Platform Architecture & Build
- Business Transformation
- Technology Innovation
- Technology Advisory
- Operations & Hosting

Digital Happiness

The geopolitical shocks of 2016 revealed how coming together is hard to do. Deeply divisive elections across Europe and the US are accentuating differences and deep divisions in identity, culture and values. Exacerbated by digital media that has become a vector for fake news, alternative facts and filter bubbles, the world around us is portrayed as a volatile, uncertain and negative place.

By Dr. Paul Marsden
Digital Strategist, SYZYGY Group

Against this backdrop of division and negativity, the diverse business units of SYZYGY took the positive decision in 2016 to come together as "One SYZYGY" with the belief that we are better and stronger together. By coming together, we can offer clients integrated, consolidated and inclusive solutions that transcend legacy silos based on traditional markets and specialities. Together we remain small enough to be nimble, flexible and entrepreneurial, but large enough to offer the advantages of scale, technology and investment. And by coming together as champions for digital data, media and technology, we're taking our place at the WPP table as the digital champions who represent the digital future of the Group.

A Positive Vision

Across the various business units of SYZYGY, there are differences in identity, culture and values. But there is one thing that unites us all, and that is the shared belief that digital makes things better. Whether we're building IT systems, creating CGI art or managing media investments, we believe in the positive power of digital technology to improve and enhance. It is this positivity that unites us in diversity; the idea that digital solutions can enrich and enhance people's lives, both personally and professionally.

So, in coming together, we have decided to unify the SYZYGY brand around our shared positivity. And because the simplest expression of positivity is happiness, our simple goal is to put our digital skills to the service of human happiness.

As part of the CI Refresh, we felt it was important to also communicate our culture and values. This was done in a book entitled Happy – An incomplete guide.
This guide tells you how we do things, the book will give you an idea of why we do things.

Not because happy people tend to buy more, more often and for more, but because we want to the world to be a happier place. And we believe digital can help. By connecting people, solving their problems and helping fulfil their potential, we believe digital technology can contribute to human happiness.

If happiness appears to be a lofty goal for a digital agency, it is also something very human to which we can all relate and aspire. We all want our clients and the people they service serve to be happy with our work. And happiness happens when our work does more than merely satisfy needs or requirements, but also evokes positive emotions. It is this focus on the emotional impact of our work that can make SYZYGY distinctive in a commoditised agency world of bits and bytes. The unbeatable happy feeling when digital is aligned in creating a positive experience.

Agents of Positive Change

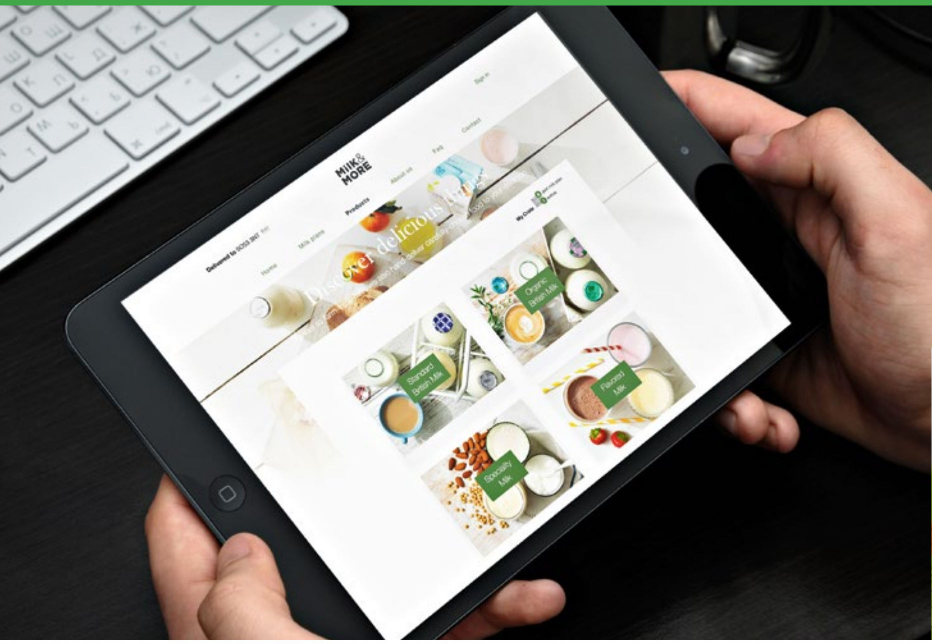
As specialists in advertising and marketing, we're all too aware of the dangers of empty brand promises. So, we're making our happiness promise real by investing in happiness. Our recent investment in USEEDS°, the innovative Berlin-based experience design agency, is helping us learn about designing more positive experiences for clients, audiences and customers. For example, we're rolling out empathy techniques to help us and our clients better understand what makes people happy in their markets. We are also embracing exciting new creative digital technology in VR and CGI to produce work that has the power to move and inspire. And we've set up a new agency blog, Digital Intelligence Today to share our practical learnings and insights about how to put digital the service of human happiness. Together with continued investment in new and existing talent, these and other initiatives make real our shared mission to become agents of positive change.

Two centuries ago, Thomas Jefferson suggested that "the care of human life and happiness... is the only legitimate object of good government". Together, we believe the same is true today of ourselves; the care of human life and happiness is the only legitimate object of a good agency. The pursuit of human happiness is what binds SYZYGY together and the goal that will help us and our clients thrive and flourish through 2017 and beyond.

Be Happy.

Digital Transformation

Müller: Milk & More



Utilising design thinking, co-creation and rapid prototyping, we helped dairy company Müller reinvent the milkman for the Uber generation.

The milkman has a special place in British hearts; it's a doorstep delivery service steeped in heritage and nostalgia. But traditional milk delivery - like all industries - is under threat of disruption. Supermarkets are scaling up delivery services while Amazon has also invested heavily in delivering fresh food to your door within one hour.

Global dairy company Müller owns a successful milk delivery service in the UK, but they realised that their service needed reinventing for the modern, digital customer. Müller came to SYZYGY to help them plan, build and test a next-generation solution. The goal: rethink the milkman service for the on-demand Uber era.

With the market moving so quickly, we recommended an accelerated "Design Thinking" approach built around a five-day "Design Sprint". Within one intensive week of co-creation involving Müller, their customers and SYZYGY, we had designed and tested a rapid prototype for a new app-based subscription service.

Our design sprint provided Müller with rapid insight as well as a mandate to progress with an evolved proposition. The next step on this continuous journey of refinement was a beta launch of a new delivery service to 200 invite-only customers across north London.

The Milk & More project shows how we can help brands to quickly test new products and initiatives without spending vast amounts on upfront R&D. After all, in the new world, the live project is the research phase.

Customer Experience (CX)

Consorsbank

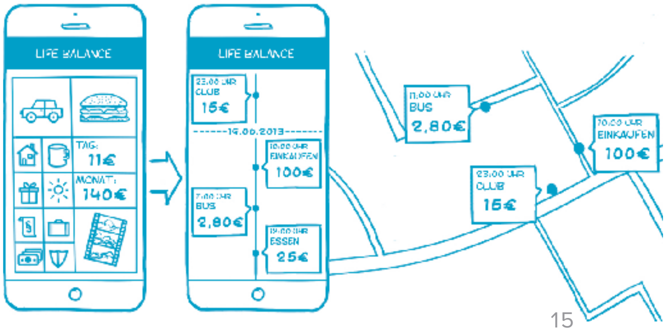
What kind of customer experience do young people expect from the bank of tomorrow? We captured valuable ideas for Consorsbank via an integrated co-creation campaign.

When it came to evolving the Cortal Consors brand, the requirements of a young target group were firmly centre stage. Accordingly, in spring 2012 we kicked off a co-creation campaign for the new brand, which was originally dubbed Hello Bank but subsequently launched as Consorsbank. The aim was to involve potential customers in the launch process and gain an in-depth understanding of what they want.

First of all, we sought to identify the questions that would enable development of innovative services – by asking Internet users to provide the relevant input. Three key questions emerged from the approximately 1,400 suggestions: How can I handle my money affairs simply and quickly? How can banking be made more personal? How can it become more inspiring?

We then developed 18 ideas for better banking as part of a three-day workshop in Berlin attended by six participants from the online campaign and a range of experts. The other participants were able to follow the workshop live online and actively join in. The total number of people taking part was over a thousand.

The outcome of the campaign was a deep exchange of ideas with the user community. Various ideas have already been implemented by Consorsbank, including "You Rate", a customer rating system for financial products, and a (modified) version of "Life Balance", a bank statement featuring a personalised analysis of income and outgoings.



Performance Marketing

Avis Budget Group

The Drum honoured our breakthrough performance media work for Avis with three Trading Desk USA Awards: Most Effective Use of Data, Best Paid Search Campaign, and "best in show" recognition through the Chairman's Award.

Really know your customer! SYZYGY seized the challenge, combining multiple sources of customer and business data to drive better customer experiences and boost revenue.

The travel and hospitality market is more saturated than ever with online travel agents, travel meta-search engines, and brands all competing for the same customer, based on price. For companies in the travel industry, it's never been easier to lose a sale. Those that fail to improve the customer experience, maximise revenue and manage costs risk being left behind.

Recognising the role of data-led insights to drive growth, SYZYGY was determined to better understand the consumer behaviours and external factors behind the rental decisions of Avis Budget Group consumers. While there is a multitude of data available from digital activity, it is difficult to collect, connect, analyse and activate disparate data sets from multiple sources. SYZYGY solved this challenge by creating a bespoke data warehouse, which merged multiple sets of Avis fleet, website booking and consumer data together with data from SYZYGY's media activity.

This unified data approach unlocked needle-moving insights into Avis customers. SYZYGY identified new audience segments and gained the ability to adjust bids and campaign messaging to maximize profitable bookings in real time. The digital team continues to conceive new ways to capture more volume at reduced cost.

Computer Generated Imagery (CGI)

Internet.org by Facebook

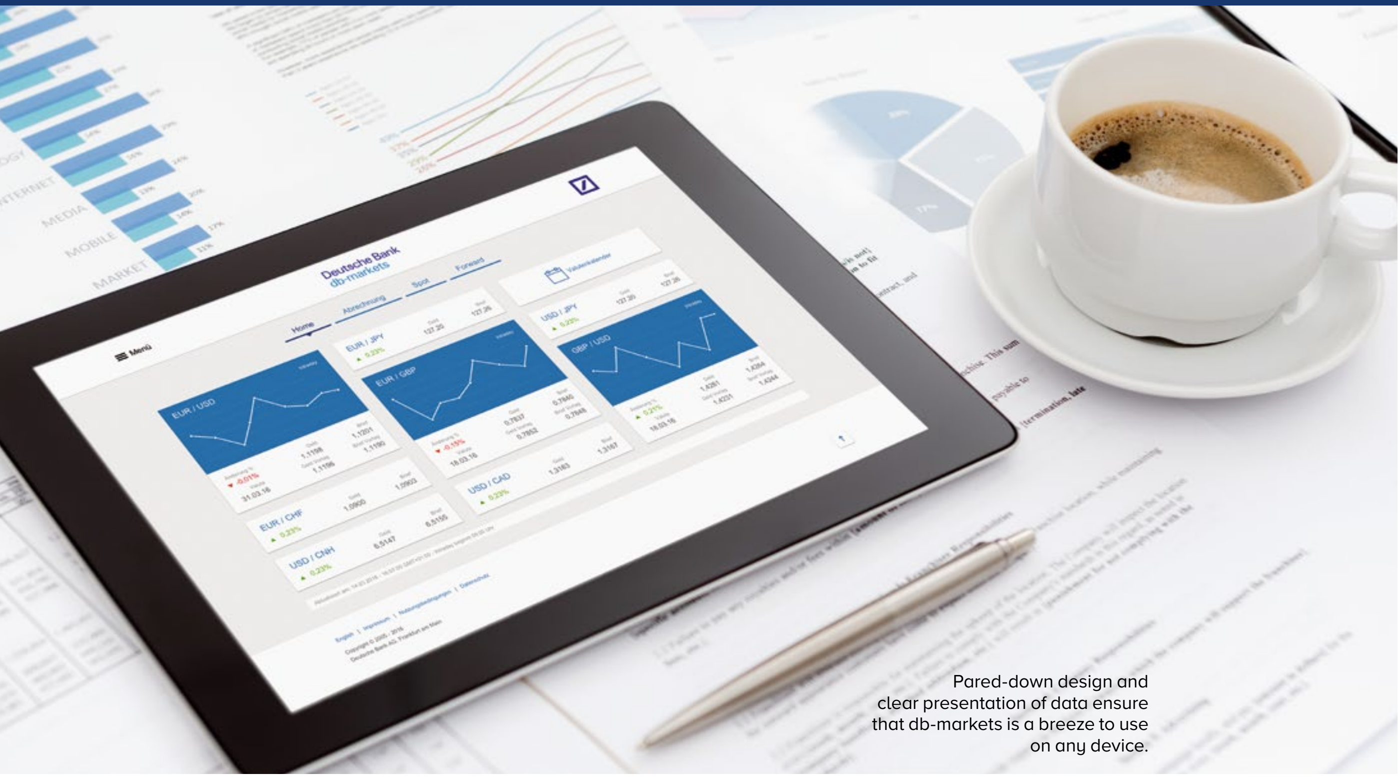
We created a series of print and digital ads with real cut-in-half objects to tell the story of an incomplete Internet.

In 2011, the United Nations declared Internet access a basic human right together with freedom of speech, gender equality, water and shelter. Yet half the world is still without access. Internet.org is a Facebook-led, global initiative with the goal of getting these 4.1 billion unconnected people online. The aim of our campaign was to raise awareness of Internet.org, and to educate people on the problem that the initiative is working to solve.

Because half the world is not connected to the Internet, we're missing out on half of what we could be discovering online: art, music, stories, knowledge and so much more. To tell the story of the Internet's missing potential, together with a New York-based agency, we created a series of print ads featuring real cut-in-half objects. As an extension of the visual treatment created for the campaign, we developed a series of CGI icons to illustrate Internet.org's suite of services and plus some assets necessary run an entire campaign – the campaign's typography, an illustration used in a comic book and a female portrait painting.

The combination of photography, 3D and retouching allowed us to create attention-grabbing visuals that have a strong visual and emotional impact.

Deutsche Bank



Pared-down design and clear presentation of data ensure that db-markets is a breeze to use on any device.

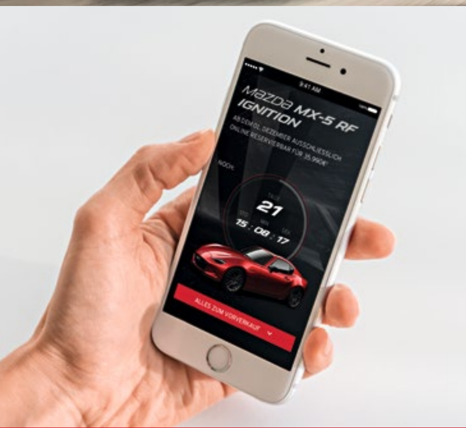
Complex technology with a user-friendly interface: we optimised Deutsche Bank's db-markets market data portal to meet the demands of mobile users.

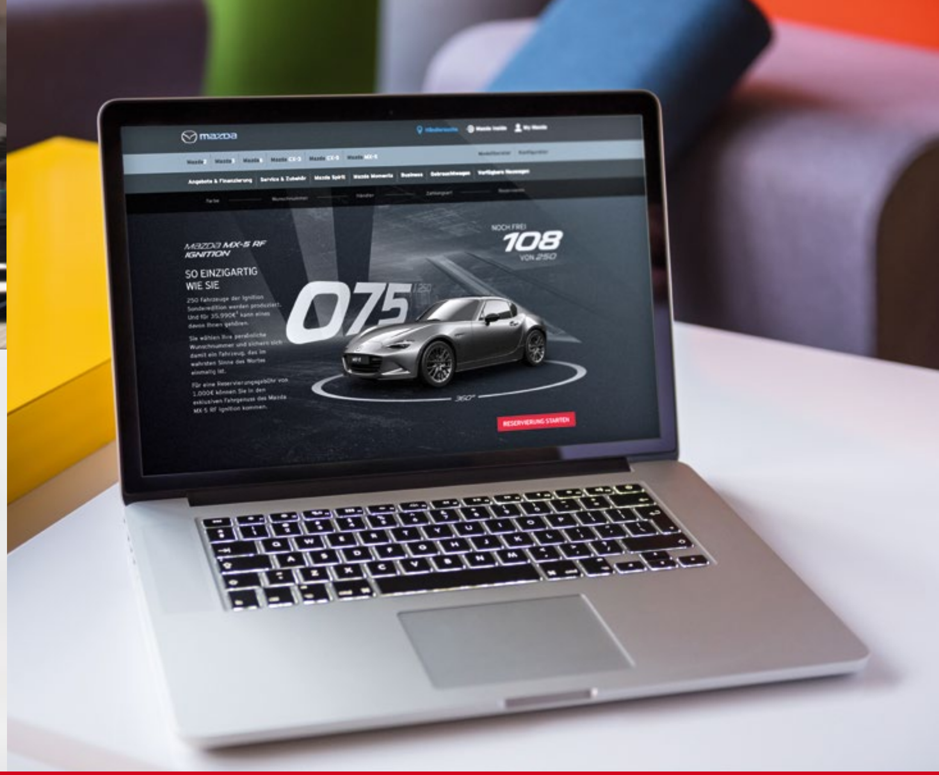
Deutsche Bank's db-markets portal has been offering quick and easy access to market data for many years. The free service is popular with staff and customers alike, and also with a host of other users who value convenient access to reliable information. In response to changes in the market, we realigned db-markets last year.

The new db-markets portal concentrates exclusively on the foreign exchange market, which is the most important aspect by far for users. The wide range of features available in the earlier version of the service has been pared down to the essentials. The new portal is not just more user-friendly – updates can also be performed more flexibly. Above all, db-markets is now optimised for use on any mobile device, thanks to RWD.

The ability to respond quickly to market changes is vital for investors, who therefore need fast access to data even when out and about.

The technology behind db-markets is a complete full-stack implementation model consisting of a front end, an application server linked to a back-end market data provider and an Oracle database for currency rate caching. We used the aptly-named middleware programming language Groovy for the project. The user remains unaware of the leaner design concealed behind the portal's complex, state-of-the-art technology – and that's how it should be.





Platform

Mazda Deutschland

The new Mazda MX-5 RF gets off to a flying start: creating a digital platform enabled us to generate interest in the new model, spark enthusiasm and stimulate sales.

The Mazda MX-5 has an established reputation as a classic roadster, and the success story continues with the stunning Mazda MX-5 RF Fastback. As a special treat for fans, 250 special limited edition Mazda MX-5 RF Ignition models were available ahead of the official launch – but only online. We were tasked with advertising and selling the new model and the exclusive special edition via digital channels.

Our response was to design a multifaceted digital platform where potential customers could obtain information on the Mazda MX-5 RF and also make an online reservation for the special edition. The platform allowed visitors to configure the new model and register for the "mazda inside" customer portal, where reservations kicked off on December 1, 2016. In the run-up, we grabbed the attention of the target audience through banner advertising and social media.

The results were impressive: all 250 Ignition models were reserved within 24 hours, with the data required for the purchase process being assigned to the relevant local dealers. A total of more than 100,000 potential customers visited the platform and almost 19,000 configurations were completed. In addition, a large number of users created new profiles on "mazda inside". Our strategy of putting together a complete digital package consisting of brand experience, information and e-commerce really ignited interest.

The stock

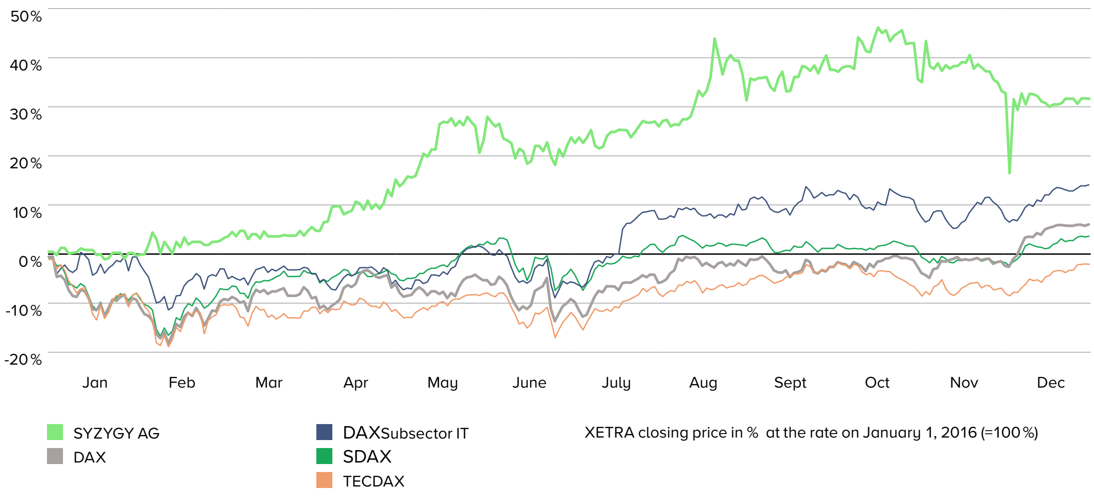
Development of SYZYGY's share price and relevant indices	2016	2015	Change
XETRA closing price (in EUR)	11.61	8.82	32%
Overall performance including dividends	36%	44%	n.a.
Highest XETRA closing price (in EUR)	12.90	9.70	33%
Lowest XETRA closing price (in EUR)	8.68	6.54	33%
DAX	11,481	10,743	7%
TecDAX	1,812	1,831	-1%
SDAX	9,519	9,099	5%

Key figures per share	2016	2015	Veränderung
	EUR	EUR	
Ordinary Dividend	0.37	0.35	6%
Earnings per share	0.39	0.37	5%
Value per share	3.88	3.99	-3%
Price-earnings ratio (P/E)	29.67	24.13	23%
Dividend yield	3.3%	4.2%	n.a.
Return on Equity	10.2%	9.5%	n.a.
Total number of shares (non-par value bearer shares)	12,828	12,828	–
thereof own shares	74	133	-44%
Market capitalisation, basis XETRA closing price (in Mio. EUR)	148.9	113.1	32%
Freefloat in %	47.6	48.5	n.a.
Freefloat market capitalisation (in Mio. EUR)	70.9	54.9	29%
Average daily turnover:			
in shares (thereof XETRA 7,634)	9,337	22,831	-59%
in EUR (thereof XETRA 81,438)	96,132	193,851	-50%

Aktiendaten

ISIN	DE0005104806
WKN	510480
Symbol	SYZ
Reuters	SYZG.DE
Bloomberg	SYZ:GR
Founded	1995
Listing segment	Regulated Market, Prime Standard
Stock exchanges	XETRA, Berlin, Dusseldorf, Frankfurt, Hamburg, Hannover, Munich, Stuttgart
Sector	Software
Designated Sponsor	equinet Bank AG
Analysts	GBC AG (Cosmin Filker), equinet Bank AG (Simon Heilmann), WARBURG RESEARCH (Felix Heilmann), GSC Research (Thorsten Renner)

Performance of the SYZYGY share 2016 (indexed)



SYZYGY in the capital market

Overall, 2016 was a very turbulent year, with various surprises in store. Although the outcomes of political events such as the Brexit vote, the presidential election in the US and the Italian referendum on constitutional reform were unexpected, they failed to trigger any major volatility in the financial markets.

European equities again benefited from the ongoing expansionary monetary policy being pursued by the European Central Bank (ECB) and from low interest rates. SYZYGY's share price rose 32 per cent in the course of the year. Taking a two-year view, the SYZYGY share price advanced by around 82 per cent. SYZYGY shares continue to outperform comparable indices such as the SDAX, TECDAX and DAX.

The Management Board and Supervisory Board will be proposing an increased dividend of EUR 0.38 (previous year EUR 0.37) at the Annual General Meeting scheduled for June 30, 2017. This marks the sixth dividend increase in succession.

Volatile year in the global markets

Global equity markets started 2016 with significant losses. Up to mid-February, they posted the worst start to a year for decades.

Concerns about the global economy – particularly with regard to China and for the first time also the US – and the continuing fall in commodity prices caused considerable volatility. Share prices were nevertheless boosted by the expansionary monetary policy pursued by the European Central Bank (ECB) and the prospect of a moderate interest rate hike by the US central bank.

In the subsequent months, the debate ahead of the UK referendum on remaining in the EU made investors reluctant to take risks. Following the Brexit vote in June, which initially resulted in a sharp fall in prices, equity markets recovered quite quickly and then posted substantial gains. In November, events were dominated by the US presidential election, but Donald Trump's victory caused only a brief period of uncertainty. Positive performance by US markets and the ECB's extension of its bond-buying programme saw stock markets rebound in the US, Europe and Japan.

The TecDAX technology index recorded a loss of one per cent over the stock market year. The index declined by 19 per cent in the period to mid-February and subsequently failed to convert this massive slump into annual gains. The SDAX achieved higher growth, advancing by 5 per cent over the year. Despite concerns about China's economy at the start of the year, followed by the Brexit vote in the summer and the US presidential election, the DAX posted growth of 7 per cent for the year. The Dow Jones Euro STOXX only managed a small gain of one per cent, while in the US the Dow Jones ended the year up 13 per cent.

Performance of SYZYGY shares

Buoyed by excellent business figures for 2015 and the announcement that the dividend would be increased from EUR 0.35 to EUR 0.37, SYZYGY shares outperformed the major indices by a significant margin. Starting at EUR 8.82, the SYZYGY share price moved sideways in the first quarter, before posting strong increases from April onwards, including gaining up to 27 per cent in May. Even when the DAX posted a loss of 10 per cent on the morning after Brexit at the end of June, SYZYGY shares remained immune. This positive trend continued in the weeks leading up to the date of the Annual General Meeting. After payment of the dividend of EUR 0.37 on 11 July, SYZYGY shares continued to post price gains, moving in a corridor between EUR 10.70 and EUR 11.30 until mid-August, when the share price exceeded EUR 12.00 for the first time. The highest closing level was reached on October 18, 2016, at EUR 12.90, representing a rise of 46 per cent. The announcement of the results for the 9-month period provided further support for the share price. Even in a highly volatile stock market environment, the share price thus remained largely stable. At the start of December, SYZYGY shares lost around 16 per cent in value within one day, falling from EUR 11.70 to EUR 10.25, only to recover again just as rapidly. This was followed by a sideways trend, after which SYZYGY shares ended the year at EUR 11.60, equivalent to a gain of around 32 per cent. This again represented significant outperformance compared to the DAX, TecDAX and DAX IT subsector.

Taking into account the dividend payment of EUR 0.37, SYZYGY shares returned 36 per cent overall. The liquidity of SYZYGY shares declined year-on-year, with an average of 9,300 shares being traded across all German stock exchanges each day (previous year: 22,800 shares/day).

Annual General Meeting

The Ordinary General Meeting of SYZYGY AG was held in Frankfurt on July 8, 2016. Around 57 per cent of the voting capital attended the meeting. All the resolutions put to the ballot by management were adopted almost unanimously. They included the proposal to create authorised capital of up to a total of EUR 6.0 million and the proposal to distribute a dividend of EUR 0.37 (previous year: EUR 0.35) per eligible share. Based on the XETRA closing price on the date of the General Meeting, the dividend yield was 3.4 per cent and thus remained at a high level (previous year: 3.8 per cent). In total, around EUR 4.7 million was distributed to our shareholders.

The amendment to the Articles of Association of SYZYGY AG necessitated by the creation of the authorised capital became effective at the end of September 2016 when it was entered in the commercial register.

Shareholder structure

As at the reporting date, the total number of shares is 12,828,450, as in the previous year. The shareholder structure changed as follows during the reporting period: WPP remains the largest shareholder. After completing the voluntary takeover offer on November 2, 2015, the WPP Group held a total of 50.48 per cent of the shares. During the 2016 financial year, WPP increased its shareholding by 1.3 per cent, with the result that it now holds 51.78 per cent of the shares in SYZYGY.

3.3% Dividend Yield

36% Overall Performance incl. Dividends

148.9 TEUR Market Capitalisation

The General Meeting of May 29, 2015 renewed the resolution to acquire treasury stock. The company did not make use of this authorisation in the 2016 financial year.

54,910 treasury shares were sold in the course of acquiring the shareholding in USEEDS°. Compared with the previous year, treasury stock decreased to 73,528 shares or 0.6 per cent.

The free float as defined by Deutsche Börse was 47.6 per cent as at December 31, 2016.

Investor relations

SYZYGY AG pursues a transparent, prompt information policy and attaches great importance to an ongoing, comprehensive dialogue with stakeholders such as shareholders, investors, analysts, financial journalists and interested members of the public. The provision of concise information on business performance and forecasts in the annual report, quarterly reports and company bulletins have particular importance in this respect.

The Investor Relations section of our website at www.syzygy.net offers a broad range of information on capital market-related topics and SYZYGY shares. The information on the website is available at all times, in German and English. In mid-2016, the English-language version of the Investor Relations section was re-designed and integrated into the agency group's website.

The many associated advantages include a responsive layout, meaning that our web content adapts easily to the individual device being used and appears on any screen in an optimised format.

Representatives of the management team delivered presentations at capital market conferences and roadshows in the year under review in order to showcase the business model and report regularly on the strategy and development of the agency group. The Management Board attended the German Equity Capital Forum in Frankfurt and the Munich Capital Market Conference (MKK). Visits were also made to a number of institutional investors for one-on-one talks or as part of round-table events. Roadshows were held with equinet Bank AG, Warburg Bank and Solventis Wertpapierhandelsbank.

The management team was also available to analysts, investors and representatives of the business and financial press for individual discussions.

Four analysts now provide regular up-to-date assessments and forecasts on the performance and future development of the Group. These are: GBC AG, equinet Bank AG, GSC Research GmbH and Warburg Bank. equinet Bank also holds the Designated Sponsoring mandate.

Report of the Supervisory Board

Dear Shareholders,

The Supervisory Board continuously monitored the work of the Management Board and provided support and advice throughout the past financial year. This included monitoring actions taken by the Management Board in terms of their legality, regularity, appropriateness and commercial viability.

The Management Board reported to the Supervisory Board regularly in writing or verbally, providing up-to-date, comprehensive information about recent developments as well as the economic and financial situation of the Group and its subsidiaries. The Supervisory Board was involved in all important decisions affecting the SYZYGY Group.

The Management Board fully complied with its duty to provide information. Reports provided by the Management Board complied with the legal requirements with regard to both content and scope, and also fully satisfied the Supervisory Board's information needs. The Supervisory Board also requested additional information where necessary. The Supervisory Board critically examined the information and reports provided, assessing them with regard to plausibility.

Meetings and attendance

A total of six ordinary meetings of the Supervisory Board were held together with the Management Board in the 2016 financial year, on February 1, March 29, April 21, July 7, October 19 and December 20, 2016. The Supervisory Board and Management Board also held three extraordinary meetings, on February 22, March 2, and May 30, 2016.

All Management Board and Supervisory Board members were either present at these meetings in person or took part by telephone and all important events were discussed and the necessary decisions taken.

Particularly significant topics discussed at the individual meetings are listed below:

The meeting held on February 1, 2016 focused on discussing the 2016 budget and the Group's strategic development. The provisional figures for 2015 and the company's financial position were also discussed. In conclusion, the Management Board and Supervisory Board decided to propose a dividend of EUR 0.37 at the Annual General Meeting.

At an extraordinary Supervisory Board meeting held on February 22, 2016, the budget for the 2016 financial year was approved. In addition, Mr Marco Seiler resigned from his office as Chairman of the Management Board of SYZYGY AG with effect from August 31, 2016. At the same meeting, the Supervisory Board appointed Mr Lars Lehne as an additional Management Board member effective April 1, 2016 and nominated him as Chairman of the Management Board with effect from September 1, 2016.

The Supervisory Board and Management Board again held an extraordinary meeting on March 2, 2016 to discuss M&A strategy and a specific takeover candidate. The main aspects discussed were the valuation parameters, the future business plan and the risks. The Management Board was tasked with continuing the negotiations and making the acquisition within the constraints of the agreed parameters.

The accounts review meeting was held on March 29, 2016 in the presence of the auditor. After carefully reviewing all the documents, the Supervisory Board received detailed information on the financial statements for the 2015 financial year from the members of the Management Board. The auditor presented the key aspects and results of his checks. All questions were answered by the Management Board and auditor to the Supervisory Board's full satisfaction. The Supervisory Board was thus able to verify that the audit had been conducted correctly and the audit reports properly prepared. Following the presentations, the annual financial statements and the consolidated financial statements were approved and adopted.

At the Supervisory Board meeting of April 21, 2016, the Management Board informed the Supervisory Board in detail about current business developments. In the course of this meeting, the figures for the first quarter of 2016 were discussed and subsequently approved. Another focus of the meeting was the Digital Innovation Day (DID 2016), which deals with various aspects of digital innovation and is a key element of the SYZYGY Group's marketing strategy. During the meeting, the agenda for the 2016 Annual General Meeting was also agreed. This included a decision to propose the appointment of BDO AG Wirtschaftsprüfungsgesellschaft as auditor to the Annual General Meeting. The profit and loss transfer agreement between SYZYGY AG and SYZYGY München GmbH was also discussed and approved.

In the course of an extraordinary Supervisory Board meeting held on May 30, 2016, the future composition of the Supervisory Board was discussed. Mr Michael Mädel resigned his seat on the Supervisory Board with effect from July 8, 2016, i.e. the end of the coming Annual General Meeting. During the meeting, Mr Rupert Day was proposed as a new member of the Supervisory Board to replace Mr Mädel for his remaining term of office. The item "Election to the Supervisory Board" was accordingly added to the agenda.

At the scheduled meeting held on July 7, 2016, the figures for the first half of 2016 were discussed and approved. The Management Board also presented the outlook for the rest of the financial year to the Supervisory Board. Topics including the Group's investment policy and the acquisition of potential M&A candidates were also discussed. In addition, Mr Lars Lehne was appointed by the Supervisory Board as new Chairman of the Management Board of SYZYGY AG, with immediate effect.

The ordinary Supervisory Board meeting of October 19, 2016 started off with a discussion of the nine-month figures, which were duly approved. The Management Board again presented an updated outlook for the rest of the year. Investment policy, potential acquisitions and the Group's strategic direction were also again discussed in more detail. The Corporate Governance Declaration for 2016 was also discussed and approved.

An explanation of the new provisions in the Market Abuse Regulation and compliance with them was another item on the agenda. The Management Board and Supervisory Board were informed about the new rules on insider trading and directors' dealings.

"Our thanks are due to the members of the Management Board and to all employees for their commitment, which is crucial to the success of the SYZYGY Group."

The last meeting of the year was held on December 20, 2016. It dealt with the current state of business and the outlook for 2017. The Supervisory Board approved the 2017 budget. Other topics discussed were the Group's new corporate identity and the current capital market environment, together with its impact on the investment policy.

The first Supervisory Board meeting of the current financial year, 2017, was held on January 24, 2017. The provisional figures for 2016 were presented and the company's financial position was discussed. Following in-depth discussion and subsequent approval of the provisional figures, the Supervisory Board decided to propose a dividend of EUR 0.38 at the Annual General Meeting.

There was also continual dialogue between the Management Board and Supervisory Board between these dates. In particular, the Management Board provided regular written reports about the company's performance and other important events.

Composition of the Supervisory Board and committees

Supervisory Board Chairman Mr Michael Mädel resigned with effect from July 8, 2016. Mr Rupert Day was elected in his place for the remaining term of office; he accepted his election to the Board. Following the Annual General Meeting on July 8, 2016, the Supervisory Board members elected Mr Ralf Hering as the new Chairman of the Supervisory Board.

The Supervisory Board of SYZYGY AG consists of Mr Ralf Hering as Chairman, Wilfried Beeck and Rupert Day. It continues to comprise three independent members who solely represent shareholder interests.

The term of office of all Supervisory Board members covers the period until conclusion of the General Meeting that discharges the members in relation to the 2018 financial year.

Due to its small size, the Supervisory Board did not form any committees during the year under review. Wilfried Beeck, a financial expert with extensive knowledge of accounting and internal control procedures, took a particular interest in the financial statements, auditing and the appointment of the auditor.

The Annual General Meeting held on July 8, 2016 discharged the members of the Supervisory Board and Management Board in relation to the 2015 financial year.

Composition of the Management Board

Mr Lars Lehne joined the company on April 1, 2016 as a member of the Management Board and took over as CEO with effect from July 7, 2016. Mr Lehne has been appointed for a period of three years up to March 31, 2019. Mr Marco Seiler stepped down as a member of the Management Board of SYZYGY AG with effect from August 31, 2016. Erwin Greiner's contract as a member of the Management Board was extended on December 21, 2016 for three years until December 31, 2020.

The Management Board of SYZYGY AG thus consists of Mr Lars Lehne as CEO, Mr Erwin Greiner as CFO and Mr Andrew Stevens as a further member of the Management Board responsible for international business.

Corporate governance

On October 19, 2016, the Supervisory Board and Management Board jointly published the declaration of conformity with the German Corporate Governance Code (DCGK) in accordance with Article 161 of the German Stock Corporation Act (AktG), as part of the more extensive Declaration on Corporate Governance. The Corporate Governance Declaration is based on the current version of the Code, dated May 5, 2015.

Ralf Hering
Chairman of
the Supervisory Board

SYZYGY AG broadly complies with the principles of the Code. The exceptions are presented in the relevant declaration and reasons given.

The remuneration report, which discloses the level of remuneration for the Management Board and Supervisory Board and how the remuneration is structured, must be published in the Management Report or Notes to the consolidated financial statements as specified in the Code, in accordance with the specimen tables attached to the Code. The remuneration for the Management Board and Supervisory Board is detailed in the Group Management Report, which is included in the 2016 Annual Report.

Annual and consolidated financial statements, appropriation of net profit

Following a proposal by the Supervisory Board, the Annual General Meeting appointed Frankfurt-based BDO AG Wirtschaftsprüfungsgesellschaft as auditor on July 8, 2016. The Supervisory Board has not identified any circumstances that could give rise to a lack of impartiality on the part of the auditor. The auditor himself has issued a statement of independence. Apart from auditing the financial statements, no audit-related services have been provided by BDO AG.

BDO AG audited the annual financial statements and Management Report, the consolidated financial statements and the Group Management Report for the 2016 financial year on behalf of the Supervisory Board and granted an unrestricted auditor's certificate in each case.

The annual financial statements were prepared in accordance with the provisions of the German Commercial Code (HGB) and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). All documents relating to the financial statements, audit reports and the Management Board's proposal regarding the appropriation of profits were provided to all members of the Supervisory Board in a timely manner for their deliberations. The auditor also reported to the Supervisory Board on the audit of the accounting-related internal control and risk management system, which did not reveal any weaknesses.

After carefully reviewing all documents, the Supervisory Board received detailed information on the financial statements for the 2016 financial year from the members of the Management Board at its meeting of March 30, 2017. The auditor also attended, presenting the key aspects and results of his checks. All questions were answered by the Management Board and auditor to the Supervisory Board's full satisfaction.
The Supervisory Board was thus able to verify that the audit had been conducted correctly and the audit reports properly prepared.

On the basis of its own checks and taking the audit reports into consideration, the Supervisory Board raised no objections. Consequently the Supervisory Board approved and adopted the annual financial statements and Management Report of SYZYGY AG and the consolidated financial statements and the Group Management Report. The Supervisory Board also approved the Management Board's proposal regarding the appropriation of net profit.

The Supervisory Board would like to thank the members of the Management Board and all employees of the SYZYGY Group for their commitment. We look forward to continuing to work together and wish you every success for the current financial year.

Bad Homburg, March 30, 2017
The Supervisory Board

Corporate Governance

In this declaration, the Management Board and Supervisory Board report on corporate governance as required under section 289a of the German Commercial Code (HGB) and on the corporate governance of SYZYGY AG in accordance with No. 3.10 of the German Corporate Governance Code ("DCGC" below). The DCGC describes internationally recognised principles of responsible and transparent company management and supervision. Since it was first adopted in 2002 it has been updated and extended on several occasions, most recently on May 5, 2015.

The Management Board and Supervisory Board are committed to a style of corporate management based on sustainability. They identify with the purpose of the DCGC, i.e. to promote trust-based management for the benefit of investors, employees and customers.

The DCGC includes recommendations. Companies can deviate from them, but are then obliged to disclose this in an annual Declaration of Conformity as required under section 161 of the German Public Companies Act (AktG) and to justify the deviations.

Since May 5, 2015, the Declaration on Corporate Governance additionally includes, in accordance with section 289a No. 4 of the German Commercial Code, the establishment of targets intended to facilitate equal participation of women and men in management positions.

The Declaration on Corporate Governance as defined in section 289a of the German Commercial Code covers the following:

1. The Declaration of Conformity with the German Corporate Governance Code in accordance with section 161 of the AktG;
2. Relevant information on corporate governance practices applied at the company that go beyond statutory requirements;
3. A description of the working methods of the Management Board and Supervisory Board, and the composition and working methods of their committees;
4. Information about the targets established for the female proportion of management positions and the extent to which these targets are reached.

1. Declaration by the Management Board and Supervisory Board of SYZYGY AG in relation to the German Corporate Governance Code as updated on May 5, 2015, pursuant to section 161 of the AktG

The Management Board and Supervisory Board of SYZYGY AG declare pursuant to section 161 of the AktG that the company has complied with the recommendations of the Government Commission's German Corporate Governance Code as updated on May 5, 2015 since making the last Declaration of Conformity on December 14, 2015. SYZYGY AG intends to continue complying with these recommendations, with the following exceptions:

(1) Diversity when filling managerial positions, in particular aiming for an appropriate consideration of women (No. 4.1.5):
The Management Board has already engaged with the DCGC's requirements for greater diversity, in particular for an appropriate consideration of women in managerial positions. In the interests of the company, when filling managerial positions the management of SYZYGY AG selects the individual who matches the requirements profile most closely on the basis of his or her professional qualifications and personal aptitude. Gender is not a primary factor when making a decision.

If several candidates, both male and female, all with equal qualifications, apply for the same vacant position, the Management Board will choose the person who adds to the diversity of the management team.

(2) Diversity when filling Management Board positions, in particular aiming for an appropriate consideration of women (No. 5.1.2): When filling Management Board positions, the decision for a particular candidate is also taken solely on the basis of professional qualifications and personal aptitude. If several candidates, both male and female, all with equal qualifications, apply for the same vacant position, the Supervisory Board will appoint the person who adds to the diversity of the Management Board.

(3) Formation of committees with sufficient expertise by the Supervisory Board as stipulated in No. 5.3.1, an Audit Committee as required in No. 5.3.2 and a nomination committee in accordance with No. 5.3.3: The Supervisory Board of SYZYGY AG comprises three persons. This size has proved to be very effective, since both general strategic topics and detailed issues can be discussed intensively in the plenary Supervisory Board sessions and decisions taken. Due to there being only three Supervisory Board members, we do not consider it appropriate to form committees.

(4) Specification of concrete objectives regarding the composition of the Supervisory Board, an age limit and diversity on the Supervisory Board (No. 5.4.1): Since SYZYGY AG was established, the company has been committed to serving the interests of shareholders, employees and customers by having a Supervisory Board with the greatest possible professional expertise, both company-specific and industry-specific, regardless of attributes such as age or gender. A particular focus in this respect is in-depth knowledge of the communications and digital sector, an international outlook and an extensive skillset in accounting and internal control procedures. In its current composition, the Supervisory Board satisfies these requirements in full. Due to the small size of the Supervisory Board, the company does not produce a written specification of detailed requirements. The Supervisory Board also does not specify an age limit and a normal limit for the appointment period, since it does not consider stipulations of this kind to be useful in this professional context. Likewise, proposals for the election of Supervisory Board members are, in the company's interest, based primarily on the required knowledge, skills and professional experience. When making proposals in future, the Supervisory Board will take into account diversity aspects, in particular with regard to an appropriate representation of women, while giving due regard to the company-specific situation.

(5) Compensation of Supervisory Board members (No. 5.4.6): All Supervisory Board members receive the same compensation by mutual agreement, since all members have comparable workloads.

2. Corporate governance practices

The Management Board of SYZYGY AG runs the business with the due care of a prudent and conscientious businessman, in compliance with the statutory requirements, the provisions of its Articles of Association and the German Corporate Governance Code (DCGC) in accordance with section 161 of the AktG (German Public Companies Act), with the exceptions stated in the corresponding declaration. There are no relevant corporate governance practices at SYZYGY AG that go beyond these requirements.

3. Working methods of the Management Board and Supervisory Board

Dual management system

As required by law, SYZYGY AG operates a dual management system in which the Management Board manages the company independently, while the Supervisory Board is responsible for monitoring the actions of the Management Board. The two boards are strictly separate, both in terms of the persons appointed to them and their competencies.

Composition and working methods of the Management Board

The Management Board of SYZYGY AG comprises three persons: Chief Executive Officer, Chief Operating Officer and a Chief Financial Officer. Since the Management Board has only three members, no committees have been or will be formed.
The Management Board conducts the business of the company in accordance with the law, the Articles of Association and its Rules of Procedure. It defines long-term objectives for the good of the company and its sustained growth, both for the Group and its subsidiaries, and develops strategies on that basis. In doing so, it works closely with the company's Supervisory Board in the context of a trusting relationship.

Each member of the Management Board is responsible for specific business areas, for which he takes personal responsibility. When performing their duties the members cooperate and inform each other of important measures and activities in their respective area of responsibility. Responsibility for overall management is borne collectively by all Management Board members.

Management Board meetings may be convened by any member of the Management Board. They are held at regular intervals and additionally as required. The Management Board adopts resolutions by simple majority, unless unanimity is required by law. Transactions that may only be conducted with the consent of the Supervisory Board are laid down in the Rules of Procedure. Management Board resolutions are documented and archived.
The Chairman of the Management Board acts as spokesperson. He coordinates the individual business areas and represents the company externally.
SYZYGY AG has taken out D&O insurance for all members of the Management Board and Supervisory Board. In accordance with the current Corporate Governance Code, this provides for an excess in the amount prescribed by law.

Composition and working methods of the Supervisory Board

The Supervisory Board of SYZYGY AG has three members. In line with statutory requirements, one of these members is a financial expert with extensive knowledge of accounting and internal control procedures.

When performing its duties, the Supervisory Board works together with the other boards of the company for the good of the enterprise. It monitors and advises on the Management Board's actions in terms of legality, regularity, appropriateness and commercial viability.

The Management Board reports to the Supervisory Board regularly in writing or verbally, providing up-to-date, comprehensive information about recent developments as well as the economic and financial situation of the Group and its subsidiaries. The Supervisory Board is directly involved in all important decisions affecting the SYZYGY Group. Supervisory Board meetings are held regularly once a quarter and additionally as required. Meetings are convened in writing by the Chairman with fourteen days' notice. A written agenda is distributed to the members of the Supervisory Board before each meeting. Resolutions require a majority of the votes cast or are adopted unanimously, as the case may be.

The company's performance is discussed at every meeting of the Supervisory Board. The Supervisory Board also requests additional information from the Management Board. In particular, the Supervisory Board studies the quarterly reports on a regular basis and approves them following discussion with the Management Board.
The Supervisory Board Chairman coordinates the work of the Board and chairs the meetings. Each year he outlines the work of the Supervisory Board in his report to the shareholders and Annual General Meeting.
More detailed information on the work of the Supervisory Board throughout 2016 can be found in the Report of the Supervisory Board in SYZYGY AG's 2016 Annual Report, which will be available from March 30, 2017 on the Group's website at www.syzygy.net.

4. Total shareholdings of Management Board and Supervisory Board

According to No. 6.2 of the DCGC, the total ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members shall be reported in the Corporate Governance Report if these holdings exceed 1 per cent of the shares issued by the company. At the time of publishing the Declaration of Conformity, Management Board and Supervisory Board members do not hold shares issued by the company that exceed 1 per cent of the total issued. Shareholdings are disclosed in the quarterly and annual reports. The long-term incentive schemes are based on the price performance of SYZYGY shares. When options are exercised or stock-based remuneration programmes (phantom stocks) are implemented, new shares are not issued; rather, the difference between the option price and the exercise price is paid in cash.

Since the remuneration for the Management Board is included in the Management Report, the relevant information for the financial year is contained in the 2015 Annual Report.

The corresponding information for the 2016 financial year will be published on March 30, 2017 in the 2016 Annual Report.

5. Target figures for equal participation of women and men in management positions

The Management Board and Supervisory Board have already engaged with the DCGC's requirements for greater diversity, in particular for an appropriate consideration of women in managerial positions, on the Management Board and on the Supervisory Board. When filling managerial positions and when appointing Management Board members and in determining the composition of the Supervisory Board, SYZYGY AG is primarily under an obligation to serve the interests of the company; the candidate's qualifications and personal aptitude for the relevant duties must thus be the main consideration when filling vacant positions. Diversity is not defined solely by gender or nationality, but also and especially by professional diversity and a balanced mix of expertise from different specialist areas.

The German "Law on Equal Participation of Women and Men in Management Positions in the Private and Public Sector", which came into force on May 1, 2015, requires the definition of target figures for the female quota on the Supervisory Board, on the Management Board and in the two top management levels below the Management Board. The target figures for the Supervisory Board and Management Board are set by the Supervisory Board, while the figures for the two top management levels are defined by the Management Board. The targets were established by September 30, 2015 and must be reached by June 30, 2017.

At present, the Supervisory Board consists of three members, each with extensive experience in the communications and software sector, as well as international relationships with clients and agencies. The Supervisory Board is elected to serve until the General Meeting that discharges the members in relation to the 2018 financial year. Consequently, the next Supervisory Board elections are expected to be held in 2019. If all the Supervisory Board members remain in office for the full term, the Supervisory Board will consist solely of male members until the reference date, June 30, 2017. In these circumstances, the Supervisory Board decided when setting a target figure not to change the current female quota on the Supervisory Board in the period up to June 30, 2017.

In the past year, there was no increase in the female quota. It was not possible to utilize an unexpected vacancy on the Supervisory Board in this respect due to the qualifications required and time constraints.

SYZYGY AG does seek to promote women. At the next Supervisory Board elections, it will endeavour to propose a female candidate to the General Meeting, such that a target quota of at least 30 per cent will be in place for the next Supervisory Board elections.

The Management Board of SYZYGY AG comprises three male members, each with extensive experience in the communications and software sector or many years of financial expertise. The existing Management Board contracts have each been concluded for a period of three years and end in the case of the Finance Director on December 31, 2017. The Chief Operating Officer's contract runs until June 30, 2018 and that of the Chief Executive Officer until March 31, 2019.

If all the Management Board members remain in office for the full term and no further Management Board members are appointed, the Management Board will consist solely of male members until the reference date, June 30, 2017. In these circumstances, the Supervisory Board decided when setting a target figure not to change the current female quota on the Management Board in the period up to June 30, 2017.

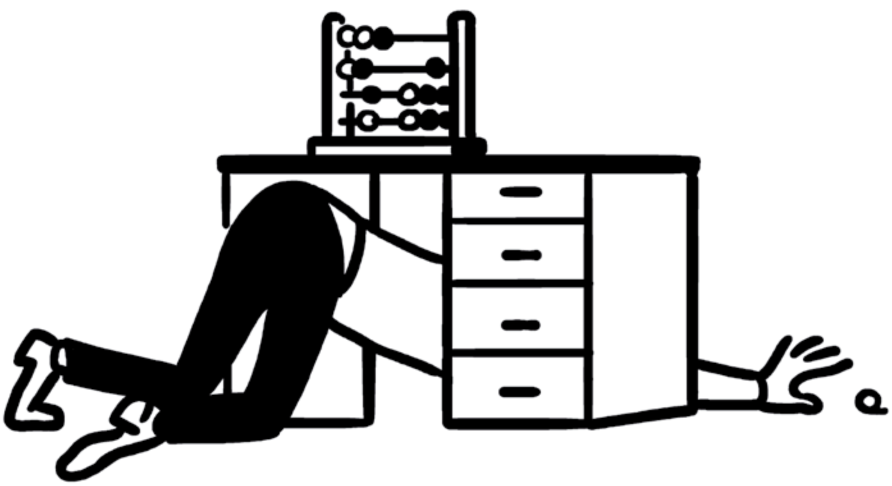
SYZYGY AG does seek to promote women. In future appointments to the Management Board or if the Management Board is expanded, the company will consider the person who adds greater diversity to the Management Board, in addition to professional qualifications and personal aptitude. The female quota was unchanged during the past year. It was not possible to utilize a short-term vacancy on the Management Board to increase the quota. The Company considered the desire for greater diversity on the Management Board but within the given time frame there were no candidates with comparable professional qualifications and personal aptitude. Going forward, the company will seek a target quota of at least 30 per cent female Management Board members.

The current make-up of the first and second management level of SYZYGY AG below the Management Board is two thirds male employees and one third female, so a female quota of 30 per cent has already been reached. As such, the Management Board of SYZYGY AG has decided to maintain a female quota of at least 30 percent in the first and second management level during the period up to June 30, 2017. SYZYGY AG does seek to promote women. With regard to future staff development and the nomination of senior managers, it will take gender diversity into consideration as one of the criteria.

Bad Homburg v. d. H., October 19, 2016
SYZYGY AG

The Management Board and Supervisory Board

Financial statements



Management Report

1. General

The following Group Management Report provides information on the performance of the SYZYGY Group (hereinafter referred to as "SYZYGY", the "Group" or the "Company"). It shows the changes in the earnings, financial situation and net assets of the Group in the 2016 financial year. It also deals with the expected future development of business and the principal risks and opportunities.

The consolidated financial statements on which the Group Management Report is based were prepared in accordance with Article 315 of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 315a [1] of the HGB. The financial year corresponds to the calendar year.

SYZYGY AG has been a fully consolidated company of WPP plc., St. Helier, Jersey, since November 2015 by virtue of control.

2. Group profile

2.1 Business activities and structure

The SYZYGY Group is an international provider of creative, technological and media services for digital marketing. In total, the Group had around 580 employees (previous year: 480) at locations in Germany, the UK, Poland and the US as at the balance sheet date.

The Group consists of SYZYGY AG as the holding company and nine subsidiaries: Ars Thanea S.A., Hi-ReS! Berlin GmbH, Hi-ReS! London Ltd, SYZYGY Deutschland GmbH, SYZYGY Digital Marketing Inc., SYZYGY UK Ltd, uniquedigital GmbH, Unique Digital Marketing Ltd and USEEDS° GmbH. In the period under review, SYZYGY München GmbH was retroactively merged with SYZYGY Deutschland GmbH as acquiring legal entity with effect from January 1, 2016. In April 2016, SYZYGY AG acquired 70 per cent of the shares in Berlin-based company USEEDS° GmbH. The stake in USEEDS° GmbH enables the Group to enhance its services around the customer experience.

The SYZYGY Group's operating units cover the entire digital marketing value chain: from strategic consulting to project planning, concepts and design to technical realisation of brand platforms, business applications, websites, hosting, digital campaigns and mobile apps. Online marketing services such as media planning, search engine marketing/optimisation and affiliate programmes are also a major business area. In addition, SYZYGY helps clients meet customer experience and usability requirements and assists them at every stage of the user-centred design process. Digital illustrations, animations and the development of games for smartphones and tablets round off the range of services.

The business focus is on the automotive, telecommunications/IT and consumer goods industries, as well as financial services.

2.2 Group management

The organisational structure of the SYZYGY Group is decentralised. As the management holding company, SYZYGY AG manages the subsidiaries on the basis of financial and corporate objectives (management by objectives). The management teams in the individual companies operate largely independently, within the constraints of their targets and budgets. A control and reporting system is in place for management and monitoring purposes within the Group. It compares the financial figures against the budget on a monthly basis, while also highlighting key opportunities and risks.

DRS 20 stipulates that financial and non-financial performance indicators must be included in reporting if they are also used for the Group's internal management.

Financial performance indicators

The main financial performance indicators used for managing the SYZYGY Group are sales and earnings before interest and taxes (EBIT). They are presented and explained in detail in the following Group Management Report.

Non-financial performance indicators

SYZYGY does not use any non-financial performance indicators for managing the Group or for management decision-making.

In line with its style of corporate management, which is based on sustainable growth, SYZYGY has nonetheless identified non-financial performance indicators that are considered to be important for the long-term success of the Group. Some of these are listed below, even though they are not used explicitly as key indicators for managing the business.

Employees

As a service provider, the Group's performance depends to a very significant extent on the skill and commitment of its employees. In order to retain them and gain new talent, SYZYGY seeks to offer its staff an interesting, diverse and pleasant working environment. This includes regular internal and external training and development activities, attractive locations that provide an inspiring work environment and welcoming office space with room for creativity, interaction and personal contacts, an open and communicative management culture, flexible working hours, cooperation with universities to promote the next generation of talent, and corporate events. SYZYGY has also introduced a standardised pension scheme in the form of direct insurance, which is subsidised by the Company.

Awards

Winning prestigious awards for creative work and efficiency is an important indicator of the Group's performance. It also enhances the Group's attractiveness to (potential) clients and employees. SYZYGY regularly participates in national and international competitions. During the period covered by the report, it won a total of 23 prizes in 12 different contests for 7 different projects, including the German Digital Award, Client Award and the Creativity International Awards. For its work on behalf of BMW Motorrad, SYZYGY has received several awards at national level, including the Client Award in the Online category, Winner with two projects in the Motorcycle Brand Contest 2016 and, not least, Silver at the Annual Multimedia Award. SYZYGY gained Bronze in the German Digital Award with a project for its client Daimler AG. At international level, Avis in particular achieved very good results; the Digital Trading Award US 2016 saw the firm pick up awards in no fewer than three categories.

Capacity for innovation

Digital marketing is in a constant state of flux. Innovative technologies and changes in user behaviour require ongoing adaptation of the service portfolio and the constant development of internal skillsets.

With the aim of anticipating this change and playing an active role in shaping it, the SYZYGY Group organised a Digital Innovation Day, at which international thought leaders and bestselling authors discussed innovation issues relating to digital marketing.

At operational level, regular training and development activities ensure that employees in software development, IT management, design, information architecture, consulting and project management are at all times familiar with the latest technologies, design principles and methods.

3. Economic report

3.1 General economic development

The global economy continued to expand in 2016, with growth in the summer half of the year higher than at the start of the year. The economic recovery was driven by both the emerging markets and established economies. The global political landscape has seen drastic change in recent months, which may have far-reaching and uncertain consequences for the world's economy. As yet, however, these events have not had the anticipated negative impact on the economy.

Economic performance in the Eurozone proved to be more stable in 2016 than expected in an environment dominated by concerns around the banks, the Brexit vote, Donald Trump's victory in the US presidential elections and rejection of constitutional reform in Italy. According to Eurostat figures, the economy across the 19 countries of the monetary union grew by 1.7 per cent last year. This falls short of 2015, when a rise in gross domestic product (GDP) of 2 per cent was achieved. Looking at all 28 EU states, the economy grew by 1.9 per cent (2015: 2.2 per cent) in 2016. In each of the last two quarters of 2016, GDP rose by 0.4 per cent compared with the previous quarter.

Employment levels in the single currency area came close to the record set in 2008, with the figure of 9.6 per cent unemployed being the lowest in over seven years. This improvement in the labour market remains the basis for the recovery and is supporting personal spending.

At the end of 2016, the Eurozone economy recorded its strongest growth since May 2011. The overall index for production by the private sector in the Eurozone, which comprises industry and services, rose to 54.4 points. This was confirmed by an IHS Markit Institute publication. Eurozone exports stagnated last year. Eurostat figures indicate that Eurozone countries exported goods worth around EUR 2 trillion, while imports fell by 2 per cent to just under EUR 1.8 trillion. The export surplus of EUR 274 billion represents a EUR 35 billion increase year-on-year. The main driver of the surplus is Germany, which exports far more than it imports.

The loose monetary policy being pursued by the European Central Bank (ECB) is leading businesses and households to take out more loans; they are investing and consuming.

Inflation (HICP – harmonised indices of consumer prices) in the Eurozone rose in 2016, climbing from 0.3 per cent in January to 1.1 per cent in December, in large part due to higher oil prices. This brings inflation closer to the target of just under 2 per cent, a level which the ECB considers ideal in terms of maintaining currency stability.

The German economy also posted robust performance in 2016, experiencing a modest upturn. The sharp rise in the population (partly caused by the influx of refugees) and buoyant personal consumption were the key factors in this respect. Public-sector expenditure also increased strongly and contributed to expansion of the German economy. There was an above-average rise in construction spending, while investment in equipment was surprisingly weak, given the low cost of finance. One of the main reasons for the modest level of economic growth is the limited increase in exports of goods and services. This is due mostly to the fact that key trading partners in the Eurozone are recovering only slowly, together with more subdued growth in China combined with low commodity prices, which affect the capacity of many emerging markets to absorb German products. The increase in exports nevertheless led to a new record of EUR 1.2 trillion, corresponding to a rise of 1.2 per cent. Business in the Eurozone grew by 2.2 per cent, while trade with worldwide partners declined by 0.2 per cent.

According to figures from the Federal Office of Statistics, German GDP grew by 1.9 per cent over the whole year 2016, the highest rate in the past five years. Although German economic output was up just 0.1 per cent in the third quarter, it grew by 0.4 per cent in the last quarter of 2016 compared with the previous quarter. The labour market situation is exceptionally favourable: in October 2016, the unemployment rate in Germany was 5.8 per cent, the lowest level for 25 years.

The ifo Business Climate Index started the new year at 107.3 points. Apart from two small setbacks in February and August, it climbed steadily to 111.0 points in December 2016. At < 0.5 per cent, inflation remained relatively low in 2016 until August, but then rose markedly to reach 1.7 per cent in December on the back of higher energy prices.

The US economy was unable to keep pace with the Eurozone. Gross domestic product in the US grew 1.6 per cent in 2016, the lowest level in the past five years. The continuing weakness of the euro is undermining US corporations that sell products in the Eurozone. Uncertainty is also being generated by the prospect of the more expansive fiscal policy announced by US President Donald Trump during his election campaign, together with a much more protectionist policy on foreign trade.

Eurostat figures show that the UK economy defied all the gloomy predictions to post growth of 2.0 per cent in the year of the referendum on exiting the European Union. According to the Office for National Statistics (ONS), economic output grew in both the third and last quarters of 2016 by 0.6 per cent over the previous quarter, thus exceeding the expectations of analysts. Strong consumer spending was an important factor in ensuring that the UK economy did not feel any negative effects, at least for the time being. Although there was some turbulence in the financial markets immediately after the vote, they quickly calmed down again and by late summer most indices had surpassed the levels seen in May 2016. However, economists warn that imported goods are set to become more expensive due to the substantial fall in sterling, leading to higher inflation.

3.2 Advertising market performance

Advertising market statistics only have limited information value as reference figures for the performance of the SYZYGY Group. This is partly due to the different survey methods used, many of which are not transparent, which means the results are not readily comparable and can even be contradictory in some cases. Also, gross advertising figures do not provide any insight into actual cash flows because they are calculated using list prices and do not take account of discounts and special terms.

In addition, the SYZYGY Group only generates part of its sales through the digital advertising covered by the statistics, such as placing banners and video ads, search engine marketing and optimisation, or affiliate programmes. Budgets that are available for the creative and technological development of brand platforms, business applications or mobile apps, for example, are not covered by the surveys. Although changes in media budgets do provide indications as to general shifts in advertisers’ media strategy, it cannot be simply assumed that all areas of the multi-faceted digital sector will be directly affected in the same way.

As in previous years, advertisers substantially increased their budgets for advertising generally and for digital advertising in particular in 2016. The budget increase of 4.4 per cent worldwide calculated by the Carat media network also takes digital media into account. Digital media remain the clear winners in 2016 as far as growth is concerned, rising 15.6 per cent according to this survey. At 28 per cent of total advertising revenue, digital media have gained additional market share.

In Germany, overall advertising budgets rose by a low single-digit amount, although much more strongly than in the previous year. The latest figures from Nielsen for the gross advertising market indicate an increase of 4.9 per cent in 2016 (previous year: 3.5 per cent), while Carat calculated growth in advertising spend of 2.3 per cent (2015: 1.6 per cent) in its forecast of September 2016. Germany is thus in fifth place among the major advertising markets. Digital advertising grew by 9.2 per cent in Germany last year, resulting in a market share of 32.5 per cent of national advertising spend. It has now almost drawn level with the medium that has traditionally seen the strongest sales, i.e. television, which currently has a market share of 32.7 per cent. Among the digital media, online video and social media are at the forefront, with growth of 24.2 per cent and 21.9 per cent, respectively, while at 10.2 per cent the growth curve for display advertising in 2016 was significantly flatter than in 2015 (36.7 per cent).

According to the Carat Ad Spend Report, the advertising industry in the UK grew by an impressive 5.4 per cent again, outperforming all other European countries (Western Europe saw growth of 2.9 per cent). The UK is thus the fourth largest advertising market in the world after the US, China and Japan. As expected, digital advertising performed even better. Despite the fact that the UK, along with the US, is the most highly developed market for digital marketing worldwide, growth in 2016 remained strong at 13.9 per cent, with a market share of 53.6 per cent. The Carat forecast identifies online video as the most significant driver in the digital environment, posting growth of 44.9 per cent. Expenditure on social media was up 32.7 per cent.

The advertising industry in the US grew by 5.0 per cent last year, exceeding previous estimates. As the largest advertising market in the world, it accounts for almost 40 per cent of total global advertising revenue. Expenditure on digital advertising increased by 16.7 per cent. This was primarily due to online video with growth of 50 per cent, mobile advertising at 49 per cent and social media up 45 per cent.

All in all, the SYZYGY Group thus operated in a positive market environment. Although the European economy continued to exhibit weaknesses and risks, the recovery remains intact. The trend has been robust in the Group’s two core markets, Germany and the UK, and has been marked by growth and widespread positive sentiment. The trend towards increasing budgets for digital advertising continues, with mobile formats in particular achieving above-average growth rates.

3.3 Employees

The headcount at the SYZYGY Group rose sharply in the period covered by the report.
As at December 31, 2016, the Group had a total of 578 permanent employees, 97 people or 20 per cent more than as at the reporting date in the previous year. Around half of the increase is due to the acquisition of CX consultants USEEDS in April 2016. The number of freelancers also increased slightly, rising from 49 to 56 persons year-on-year.

352 people or 61 per cent (previous year: 287 people) worked in the five German companies and 133 or 23 per cent (previous year: 112 people) in the UK agencies. Ars Thanea employed 76 members of staff or 13 per cent (previous year: 71 people) as at year-end. The number of employees at SYZYGY Digital Marketing Inc. in New York rose from 11 to 17.

In terms of employees by function, there were only minor changes during the period under review. The creative services and strategy consulting areas remained unchanged compared with the previous year, accounting for 20 per cent and 10 per cent, respectively. In online marketing and in administration, the number of employees rose in line with the overall trend. In percentage terms, the proportion in online marketing edged up from 19 to 21 per cent, while administration saw a one percentage point change, to 11 per cent. Project management experienced a small dip, declining from 18 to 17 per cent. 120 people worked in technology-related roles, representing a slight drop in relative terms from 23 to 21 per cent.
The SYZYGY Group employed 540 people on average during the year (previous year: 483). Including an average of 54 freelance employees, annualised sales per head were unchanged at around EUR 108,000.

3.4 Investments, research and development

At around EUR 3.2 million, other intangible assets and fixed assets remained largely unchanged compared with the prior year (EUR 3.3 million). Depreciation of EUR 1.8 million was applied in 2016, most of which was attributable to replacement purchases of office equipment of around EUR 0.9 million (previous year: EUR 0.8 million) and new leasehold improvements in Munich amounting to EUR 0.5 million (previous year: EUR 0.2 million). There was no investment in research and development in the period covered by the report.

3.5 Net assets, financial position and results of operations of the SYZYGY Group

3.5.1 Results of operations

In the 2015 Group Management Report, the SYZYGY Group forecast that it would be able to increase its sales organically in the 2016 financial year by "at least 10 per cent to more than EUR 63.0 million". An increase in EBIT "in line with sales" was anticipated.

SYZYGY exceeded its own growth forecasts, achieving sales of EUR 64.3 million (an increase of 12 per cent over the previous year). At EUR 5.6 million, EBIT was up 6 per cent, slightly below expectations. Earnings per share of EUR 0.39 represent an increase of 5 per cent over the previous year.

The following table shows the multi-year trend in key financial figures:

	2012	2013	2014	2015	2016
Sales in kEUR	31,115	35,030	47,075	57,311	64,273
EBIT in kEUR	2,121	2,023	3,843	5,268	5,596
EBIT margin	6.8%	5.8%	8.2%	9.2%	8.7%
Earnings per share in EUR	0.72	0.26	0.35	0.37	0.39

3.5.2 Sales

The SYZYGY Group reports billings and sales. The sales figures are arrived at by deducting media costs from billings. Media costs are incurred in the online marketing subsidiaries as transitory items on the revenue and expenses side.

While billings dipped slightly by 1 per cent to EUR 142.8 million, sales reached EUR 64.3 million, marking a new record and representing a 12 per cent rise compared with 2015.

The key factors behind this strong performance include the acquisition of new clients, major growth of business with existing clients and expansion into new markets.

The Germany segment is once again the strongest in the Group, climbing from 55 to 62 per cent. The share attributable to the UK segment went down from 27 to 22 per cent. The United States now represents 11 per cent (previous year: 13 per cent) of sales, while the proportion of other segments remained unchanged at 5 per cent. The figures stated above are based on the results before consolidation.

SYZYGY generated 35 per cent of its sales from clients in the automotive industry, 3 percentage points fewer than in the prior year. The consumer goods sector accounted for around 27 per cent of sales (previous year: 29 per cent), while 11 per cent was generated with companies from the financial industry (previous year: 8 per cent). The proportion of sales attributable to clients from IT and telecommunications went down marginally from 11 to 10 per cent. Some 17 per cent of sales (previous year: 15 per cent) came from firms that cannot be assigned to any of these four key areas. In absolute terms, growth was achieved across all industries.

54 per cent of SYZYGY's sales were generated from its ten largest clients, i.e. 7 percentage points below the prior-year level.

3.5.3 Operating expenses and depreciation

The cost of sales totalled EUR 47.4 million. This represents an increase of 17 per cent and thus a slightly bigger rise than in the previous year. As a result, gross margin declined slightly by 3 percentage points to 26 per cent.

Sales and marketing costs rose only slightly by 3 per cent to EUR 6.3 million. In addition to personnel expenses, this item also includes the cost of holding the Digital Innovation Day.

General administrative expenses rose slightly below the growth in sales, increasing by 9 per cent to EUR 6.8 million.

At EUR 1.8 million, scheduled depreciation of fixed assets and amortisation of other intangible assets were above the previous year's figure of EUR 1.1 million. No unscheduled write-downs of goodwill were applied in the 2016 financial year.

3.5.4 Operating income (EBIT) and EBIT margin

Operating income (EBIT) rose less strongly than sales, increasing by 6 per cent from EUR 5.3 million in the prior year to EUR 5.6 million in the period covered by the report. As a consequence, the Group's profitability also fell, with the EBIT margin decreasing from 9.2 per cent in the previous year to 8.7 per cent in the 2016 financial year. The drop in profitability is primarily due to lower margins in the media business, with personnel costs continuing to rise. Special charges were also incurred for restructuring at Hi-ReS! Berlin and in association with the Management Board change at SYZYGY AG.

3.5.5 Financial income

SYZYGY again generated strong financial income of EUR 1.3 million in the reporting period through active management of cash and cash equivalents, although this figure fell short of the previous year's level (2015: EUR 2.0 million). The result corresponds to a return of 6.0 per cent (previous year: 6.6 per cent) on average available liquidity reserves, and 7.8 per cent on the average market value of the securities portfolio. The main contributors to this good result include interest income from corporate bonds and the realisation of gains on securities.

3.5.6 Income taxes, net income, earnings per share

While pre-tax income declined slightly in the reporting period, falling by 4 per cent to EUR 6.9 million (previous year: EUR 7.2 million), net income after taxes increased by 5 per cent to EUR 5.1 million (previous year: EUR 4.9 million). This is due to a much lower tax rate of 26 per cent in the financial year (previous year: 33 per cent). There are two main reasons for the drop in taxes: firstly, a substantial share of profits was generated in New York last year, which has considerably higher tax rates than other countries; additionally, the tax rate was cut in the UK in 2016.

Undiluted earnings per share were EUR 0.39, based on the average available 12,734 (in thousands) shares qualifying for participation in the profits and after deducting non-controlling shares of EUR 0.1 million. This represents an increase of 5 per cent in earnings per share compared with the previous year.

Since the Company adopted a resolution to pay the difference between exercise price and share price in cash if outstanding stock options are exercised, diluted earnings per share were EUR 0.39 (previous year: EUR 0.37).

3.5.7 Segment reporting

In accordance with IFRS 8, which is based on the management approach, SYZYGY uses geographical criteria to report segments and thus distinguishes between Germany, the UK, the United States and other segments. The latter category includes Ars Thanea. Under IFRS 8.13, this company is not big enough to be reported as a geographically independent segment.

The Germany segment made a major contribution to the strong performance of the SYZYGY Group. The German companies boosted their sales by EUR 8.5 million or 26 per cent to EUR 41.2 million. Of this, EUR 5.6 million is attributable to inorganic growth through the acquisition of USEEDS, while EUR 2.9 million is accounted for by organic growth of the German companies, generated through acquiring new clients and expanding existing client accounts. The increase in EBIT of 3 per cent to EUR 5.3 million lagged sales. The EBIT margin was thus 13 per cent (previous year: 16 per cent). The UK companies generated sales of EUR 15.0 million, 8 per cent below the previous year's level. The fall in the British pound from an average of GBP/EUR 1.38 in 2015 to GBP/EUR 1.22 in the year covered by the report caused a negative currency effect on sales volumes of around EUR 2.0 million, which accordingly resulted in the reported drop in sales. The operating income of the British companies amounted to EUR 2.0 million, i.e. roughly equivalent to previous year's level and 1 percentage point higher. The slightly higher profitability is due especially to lower losses at Hi-ReS! London, with the result that the EBIT margin rose marginally by 1 percentage point from 12 to 13 per cent.

The performance of the United States segment during the reporting period was similar to that seen in the previous year, with the company generating sales of EUR 7.4 million in 2016. EBIT declined sharply to EUR 0.8 million (previous year: EUR 2.1 million), corresponding to an EBIT margin of 11 per cent (previous year: 29 per cent).

The Polish agency, Ars Thanea, which is reported under "Other segments", boosted its sales slightly by EUR 0.2 million to EUR 3.2 million. Operating income in the period under review was EUR 0.4 million, 84 per cent higher than the previous year's figure.

Overall, 62 per cent of sales (based on the share of the Group's sales before consolidation) came from the Germany segment (previous year: 55 per cent), 22 per cent from the UK (previous year: 27 per cent), 11 per cent from the United States (previous year: 13 per cent) and 5 per cent from the other segments (previous year: 5 per cent). The respective shares of operating income are 62 per cent (previous year: 54 per cent), 23 per cent (previous year: 20 per cent), 10 per cent (previous year: 23 per cent) and 5 per cent (previous year: 3 per cent).

3.5.8 Financial position

The SYZYGY Group had overall liquidity (total cash, cash equivalents and securities) amounting to EUR 22.2 million as at December 31, 2016, representing a decrease of 17 per cent on the previous year's figure of EUR 26.8 million. This development is largely due to the acquisition of the shares in USEEDS° GmbH. The acquisition was mainly paid for in cash, with a small part settled in treasury shares. In addition, a dividend of EUR 4.7 million was financed from positive operating cash flow of EUR 5.9 million.

At EUR 6.6 million, cash and cash equivalents represented around 30 per cent of cash reserves (previous year: EUR 3.8 million). These funds were earmarked for liabilities becoming due in the short term. The proportion of securities decreased to 70 per cent, having fallen by 32 per cent to EUR 15.6 million in the reporting period. The average weighted residual maturity of the bonds was 7.3 years. Please refer to the notes to the financial statements, sections 6.3.2. and 6.3.3, for further details of the investment strategy.

Total cash flow of the SYZYGY Group amounted to EUR 3.2 million as at year-end (previous year: EUR -9.7 million). This amount comprises positive operating cash flow of EUR 5.9 million, cash flow from investment operations of EUR 2.1 million and cash flow from financing activities of EUR -4.9 million. The main contributors to this positive operating cash flow were the net income of EUR 5.1 million, increased accounts payable of EUR 1.9 million (previous year: EUR -5.5 million) and accounts receivable of EUR -0.4 million marginal lower.

Cash flow from investment operations amounted to EUR 2.1 million, resulting chiefly from active management of liquidity reserves. The sale of securities worth EUR 20.1 million was partly offset by purchases totalling EUR 12.2 million. Investments in intangible assets and fixed assets remained almost unchanged and also reduced the cash flow from investment operations by a further EUR 1.2 million (previous year: EUR 1.1 million).

The main factor impacting cash flow from financing activities was the payment of an ordinary dividend of EUR 4.7 million (previous year: EUR 4.4 million).

The Company also has a credit line for EUR 4.0 million (previous year: 2.0 million) with Commerzbank AG which had not been used as at the balance sheet date.

3.5.9 Asset situation

Total assets were up 4 per cent in the period covered by the report, at EUR 80.9 million.

Non-current assets increased by around 26 per cent to EUR 38.1 million in the reporting period. This increase is attributable to the acquisition of 70 per cent of the shares in CX specialist USEEDS in April 2016. The cash and cash equivalents item increased from EUR 3.8 million to EUR 6.6 million in 2016. By contrast, securities holdings were down 32 per cent at EUR 15.6 million. Accounts receivable remained largely unchanged at EUR 18.5 million (previous year: EUR 18.6 million). Other assets rose slightly by EUR 0.3 million to EUR 2.1 million. Current assets declined by a total of EUR 4.4 million to EUR 42.7 million (9 per cent).

With regard to liabilities, there were only minor changes to equity.

At EUR 49.8 million (62 per cent of total assets), equity was marginally below the figure of EUR 51.2 million (66 per cent of total assets) as at December 31, 2015. The decline is attributable to negative other comprehensive income of EUR -1.5 million (previous year: EUR 0.7 million). Of this amount, EUR -2.4 million is due to currency translation effects in non-EUR business operations and EUR 0.2 million to as yet unrealised gains and losses on securities. Additional paid-in capital remained almost unchanged at EUR 20.5 million (previous year: EUR 20.3 million). The value of treasury shares was down marginally by EUR 0.3 million due to the sale of treasury shares in the period under review, with the relevant item standing at EUR 0.4 million (previous year: EUR 0.7 million). Profit reserves went up slightly, from EUR 17.8 million in the previous year to EUR 18.1 million.

Non-current liabilities rose EUR 4.6 million to EUR 7.1 million due to commitments resulting from forward and option transactions for the acquisition of further shares in USEEDS.

Current liabilities remained almost unchanged at EUR 24.0 million. There were small shifts within the items. For example, tax liabilities went down from EUR 1.1 million in the previous year to EUR 0.2 million in the year under review, while advance payments received dropped by 15 per cent to EUR 4.6 million. By contrast, other provisions increased by 22 per cent to EUR 8.7 million and other liabilities, which principally comprise VAT liabilities, saw a small rise due to the growth of the Group, increasing by EUR 0.6 million to EUR 3.0 million.

4. Outlook

4.1 Forecasts

As with any private-sector business, the SYZYGY Group is subject to external influences over which it has no control. Changes in the general economic environment and sentiment, both actual and perceived, can have a positive or negative impact on the Group's growth.

All statements about the future of the Group are based on information and findings that were known and available at the time this report was prepared. Since this information is subject to constant change, forecasts invariably involve a number of uncertainties. As a result, actual results may differ in subsequent periods.

The SYZYGY Group draws up its forecasts on the basis of its organic development. Acquisitions can have a positive or negative effect on the future growth of the Group.

Business performance can also benefit from the acquisition of major new clients and from expanding existing client relationships by gaining additional budgets above and beyond scheduled projects.

4.2 Expected economic development in the main markets of the SYZYGY Group

Most experts believe that the overall economic situation in the Eurozone remains stable. The KfW economic barometer for the Eurozone sees the Eurozone economy gaining further momentum and forecasts modest growth of 1.5 per cent for this year, almost unchanged from last year. The economic researchers at the European Commission likewise forecast moderate growth of 1.5 per cent for the Eurozone and 1.6 per cent for the wider EU. In the Eurozone Economic Outlook, economists from the ifo, Insee and Istat institutes are also upbeat about the current year. According to their findings, disposable income should continue to rise as employment increases and higher nominal wages are paid; furthermore, the continuing favourable finance conditions will support ongoing strong investment. In addition, the global economic recovery by advanced economies and emerging markets alike will continue to boost external demand. According to the ZEW financial market report published in January 2017, the economic outlook for the Eurozone is brightening further. The relevant indicator rose sharply and the economic situation was rated more favourably than at any time since summer 2011.

Economic momentum in the Eurozone will continue to be adversely affected by the structural weaknesses of some member countries and despite the ECB's supportive monetary policy of low interest rates will continue to increase only modestly. Experts from the ifo Institute expect a slower pace of expansion in the emerging markets in 2017. Brazil and Russia will benefit from oil prices that are no longer falling and a small recovery in the prices of other commodities. India should also continue to grow strongly, while the rate of expansion is forecast to continue falling in China.

On the other hand, a positive impetus could come from a US economy that remains geared towards expansion. The experts at the ifo Institute expect that the American economy will grow faster than that of the Eurozone in the next two years. The ZEW financial market report sees ongoing positive economic expectations for the US, although there is also uncertainty about the specific form that US President Donald Trump's economic plans will take. The US central bank has highlighted the impact of political uncertainty on the economy.

In Germany, estimates by DIW Berlin for gross domestic product assume slightly reduced growth of 1.2 per cent this year and 1.6 per cent in 2018. The IfW's winter forecast paints a slightly more optimistic picture, predicting German GDP growth of 1.7 per cent in the current year and 2.0 per cent next year. The DIW Economic Barometer predicts a mixed year for the German economy in 2017. Looking at the first half of the year, the institute forecasts strong growth rates and expects the economy to perform extremely well on the back of robust exports and ongoing strong consumer spending. Over the medium term, however, the economists are concerned by the risks posed by the protectionist economic measures announced in the US, the UK's decision to leave the EU and rising inflation.

In their annual economic outlook for developments in the UK, PwC experts expect reduced GDP growth of just 1.2 per cent. They attribute this to the political and economic uncertainty resulting from Brexit and the forthcoming negotiations. The weaker pound and rising prices for imported goods will mean that consumer spending will increase by around 2 per cent this year.

4.3 Advertising market

The following comments on forecasts for the trend in advertising spending are subject to the same reservations as discussed in section 3.2 above. Although they provide indications as to general trends and shifts in media budgets, they are only suitable to a very limited extent as a benchmark for the expected performance of the SYZYGY Group.

Driven by the increasing importance of smartphones and tablets plus catch-up effects in emerging markets, digital advertising budgets will continue to grow at a disproportionate rate.

According to media agency Magna Global, factors such as a new US president, uncertainty following Brexit and a lack of major sporting events could make 2017 a challenging year for the global advertising market. Accordingly, it forecasts growth of only 3.6 per cent. The Global Ad Spend forecast from Carat and media network Group M are a little more optimistic, predicting an increase in global advertising spend of 4.0 and 4.4 per cent, respectively. The digital element will be 33 per cent. The Group M agency expects that of each newly invested advertising dollar, 77 cents will be allocated to digital media.

The report from Magna Global expects growth in digital advertising spend of 17 per cent in 2017. Social media, mobile and social video will make the biggest contribution to this trend, supported by the video boom on Facebook. For the first time, conventional banner and desktop advertising is not set to grow, or will even experience a slight decline. The digital sector will overtake TV in 2017, accounting for around 40 per cent of all worldwide advertising spend. This estimate is confirmed by an outlook from the Zenith Adspend forecast, which indicates that advertising expenditure for the Internet (mobile and desktop) will rise from 33.8 per cent in 2016 to 41.4 per cent in 2019.

Although the forecasts for Germany are lower, they are optimistic overall. The German advertising market is expected to grow by 2.1 per cent to EUR 20.2 billion this year, according to Magna Global and the Global Ad Spend report from Carat. A survey of the members of the German Advertising Association (ZAW) at the end of 2016 indicates that they view the outlook for advertising sales, employment and the economy as mostly stable to positive.

The experts forecast a rise of 9.6 per cent for the digital sector. The German Online Marketing Group (OVK), part of the German Association for the Digital Economy (BVDW), is more cautious, forecasting a 7 per cent increase for the digital advertising market in 2017. The analysis of digital media spending by NetzwerkReklame rounds off the mainstream market studies such as that of Nielsen. For 2017, it forecasts a rise in expenditure on digital advertising in Germany to EUR 9.5 billion. As a result, digital will overtake spending on print media (EUR 8.6 billion).

In the UK, the overall market will grow by 3.3 per cent in 2017, according to the Zenith Adspend forecast. The media firm is thus abandoning its forecast of 4.0 per cent, which was made before the Brexit decision. Growth of 4.2 per cent is forecast for 2018. The Carat Ad Spend Report is somewhat more optimistic, with a growth estimate of 4.6 per cent for 2017. Here again, growth will be driven by the digital sector, which is expected to expand by 11.5 per cent.

4.4 Expected performance of the SYZYGY Group

Two factors provide the SYZYGY Group with a very favourable backdrop for further growth: the generally positive macroeconomic outlook for Germany and the UK, and the ongoing shift of marketing budgets to the digital channel. Having said that, purely online advertising, to which the above statistics refer, represents just one aspect of the complex digital marketing sector and only makes up part of the Group's portfolio of services.

Conventional marketing tools such as print and broadcast advertising, mail shots and outdoor advertising are losing effectiveness and reach. Customers are now extremely well-informed thanks to the Internet and are becoming ever more demanding and impatient. Consumer goods manufacturers are increasingly confronted with the challenge of creating additional added value for their customers, above and beyond the benefits of the product itself.

Technology can help companies make their products more desirable and, in doing so, boost their relevance. Online brand platforms play a key role in acquiring customers and generating loyalty. Marketing managers have recognised the importance and complexity of such platforms – and thus also the need to make available the sums required for development and maintenance. This has resulted in larger budgets and longer project duration.

As smartphones and tablets become ever more prevalent, brand perception will increasingly be influenced by apps that add value for the user, whether for entertainment or by offering a wide range of services to enhance the user's private and professional life. With the support of experienced and technologically sophisticated brand specialists such as SYZYGY, digital marketing offers huge potential for companies to create innovative services, find new ways of building customer loyalty and deliver a compelling and entertaining shopping experience.

The Management Board of SYZYGY AG expects to be able to increase sales again in the current financial year. SYZYGY is forecasting only a modest rise in sales in the lower single-digit range due to the uncertainty in the UK arising from the current lack of clarity around the outcome of Brexit, and political and economic uncertainty in the US. Operating income (EBIT) will rise slightly ahead of sales. All the individual segments will contribute in roughly equal measure to this growth.

Any acquisitions, which are part of the SYZYGY Group's growth strategy, may affect these forecasts positively or negatively. The results of the SYZYGY Group will be determined by the performance of the operating units and the future interest income of SYZYGY AG.

5. Risks and opportunities of future business development

Material risk factors relate to economic trends in the advertising sector in the markets relevant to SYZYGY and, in particular, the technological momentum of the markets for Internet services.

The Management Board of SYZYGY AG monitors risks on an ongoing basis in order to counter negative effects on the net assets, financial position and results of operations at an early stage. Risk assessment relates to the extent of a potential impact on earnings and finances, and also to the likelihood that a risk factor may have an impact.

It is just as important to identify opportunities and make use of them. A functioning system for managing risk and opportunities is therefore an important element of a sustainable management approach.

The information currently available shows no indication of risks that would jeopardise the continued existence of SYZYGY AG and its subsidiaries as a going concern.

5.1 Material risks

Operating risk

Approximately 54 per cent of the SYZYGY Group's sales are generated from its ten largest clients. The dependence on the ten largest clients was reduced in 2016, from 61 to 54 per cent. The largest single client now generates 10 per cent of sales, while in the previous year two clients each generated more than 10 per cent of Group sales.

SYZYGY's sales are not protected by long-term contracts. Sales are usually generated on the basis of individual contracts that cover a limited period. All planning in relation to sales performance is thus necessarily subject to a large degree of uncertainty.

Sales are predominantly based on fixed price agreements, meaning that unforeseeable losses may be incurred if the calculated project budget is unexpectedly exceeded. SYZYGY also assumes the usual guarantee and liability commitments associated with the project, which can lead to projects being hit by follow-on costs.

The services SYZYGY performs have public impact, so any defects in quality in the execution of one of its projects may cause widespread damage to SYZYGY's image. This kind of damage has the potential to have a significantly negative impact on future business development.

This risk is regarded as low due to very stable long-term client relationships, especially with the top 10 clients.

Investment risk

Available liquidity reserves are actively managed at SYZYGY AG by the Finance Director. Investment strategy relating to liquid funds is geared towards longterm income. Liquid funds are therefore invested in corporate bonds and other fixed-interest securities in a manner designed to ensure risk diversification. All fixedincome securities are subject to interest rate and default risk. A rise in long-term interest rates has a negative effect on the price of such securities, while a decline has a positive impact.

SYZYGY minimises default risk by investing in a diversified range of securities with good credit ratings, i.e. largely investment grade. The risk of a significant adverse impact on financial income is assessed as low overall.

Economic risk

The state of the economy can affect companies' basic willingness to invest in advertising and marketing campaigns. A downturn can lead to reduced order volumes and thus to a corresponding drop in sales for SYZYGY. Any capacity adjustments which may be necessary become effective with a time lag and may result in restructuring costs. The risk is assessed as low.

Currency risk

SYZYGY generates more than a quarter of its sales in the UK, so exchange rate fluctuations between sterling/the US dollar and the euro can affect sales and annual net income positively or negatively in the event of deviation from the rate used for planning purposes. Nevertheless, SYZYGY does not enter into any hedging transactions because sales in the UK market are countered by expenses in sterling. SYZYGY is thus only exposed to foreign exchange risk in terms of the amount of the annual net income of the company in the respective country.

This applies equally to the companies in the USA and Poland, which generate around 11 per cent and 5 per cent of Group sales in total.

SYZYGY AG holds a portion of its assets in foreign currencies, in particular assets of the foreign subsidiaries and securities denominated in foreign currencies. In addition, obligations arising from the acquisition of companies exist in the respective currency of the seller. Here again, SYZYGY does not enter into any direct hedging transactions because the risks for SYZYGY AG's results of operations arising from these foreign currency positions are rated as low due to their size.

Risk arising from currency fluctuations is assessed as low.

Personnel risk

The Group's performance in the services segment depends to a very significant extent on the performance of its employees. Because of their specific skills, some individuals are particularly important. If the Group is unable to retain these employees, or continuously attract and retain new, highly qualified employees, SYZYGY's success could be at risk. The risk is assessed as low.

Risks from acquisitions

Company acquisitions have been and remain part of SYZYGY's growth policy. The success of acquisitions depends on how well the new acquisition can be integrated into the existing structure and the extent to which the Company is able to generate the desired synergies. If an acquisition cannot be successfully integrated, the possible decrease in value will entail impairment losses. In these circumstances an exceptional depreciation of the book value of the acquisition/ of goodwill could prove necessary. The risk is assessed as low.

5.2 Opportunities

The increasing number of products and channels has pushed traditional marketing tools to their limits. It is also apparent that brand loyalty is decreasing. The Internet opens up opportunities for brands to engage directly with customers and to deliver real added value above and beyond the actual advertising message.

Online brand platforms play a key role in this respect. More and more, they are becoming the central focus of the increasingly complex marketing mix deployed by major companies. This is reflected in larger projects with longer implementation times.

Intelligent content marketing enables companies to achieve much greater reach than with conventional corporate communications. Up-to-date content and offerings with a high degree of relevance for people represent a huge opportunity to reinforce customer loyalty. Mobile devices play a crucial role here, since they have become a key element of daily life for many people. Apps that assist the user, provide entertainment or information can make a decisive contribution towards a positive perception of the brand. Digital communication offers brands almost unlimited opportunities for developing innovative services, finding new ways of building customer loyalty and delivering a compelling shopping experience.

SYZYGY is one of the leading digital agencies in Germany and the UK, with more than 20 years' experience in developing and implementing digital communication. A strong technology division and an internationally recognised creative team allows SYZYGY to present itself as the partner of choice for new digital marketing challenges.

While digital agencies have long been perceived as specialists in a niche market, they are now increasingly being engaged to handle strategic brand management. The ongoing shift in marketing budgets towards digital channels bears witness to the fact that companies are turning more and more to digital marketing for their communication needs. SYZYGY expects this trend to continue.

Additional business opportunities may be gained through closer integration with the WPP Group, and international expansion of the SYZYGY Group could be supported by WPP.

6. Internal control system

The risk early warning systems used are based on monthly reporting. This reporting includes new business activities and the qualitative performance of the subsidiaries, in addition to financial reporting (budget, updated forecast and actual figures). A risk management system is integrated into financial reporting which ensures that risk identification, risk communication and monitoring of operational risk takes place at quarterly intervals. Risks are then aggregated and managed at the level of SYZYGY AG, or action is initiated by SYZYGY AG. The internal control system is supplemented by approval procedures for financial transactions (dual-control principle) and is supported by separation of functions and access rules in the IT system.

After preparation of the SYZYGY Group's quarterly reports, they are examined and approved by the Supervisory Board of SYZYGY AG.

Accounting-related internal control system

The accounting-related internal control system comprises policies, procedures and measures to ensure that the accounting has been conducted correctly. For these purposes the consolidated financial statements and the Group Management Report of the SYZYGY Group are prepared in accordance with IFRS (International Financial Reporting Standards), as they are to be applied in the European Union, and in line with the supplementary provisions of Article 315a [1] of the Handelsgesetzbuch (HGB – German Commercial Code).

The Central Finance Department of SYZYGY AG controls the processes for preparing the single-entity financial statements and consolidated financial statements and for compiling the management report for the SYZYGY Group. Accounting standards and other bulletins are analysed on an ongoing basis for their impact on SYZYGY Group accounting. Consistent financial reporting throughout the Group and a financial calendar applicable to all entities within the Group ensures that the accounting process is standardised and up-to-date.

In accordance with Article 315 [2] No. 5 of the German Commercial Code, one of the ways the accounting requirements of SYZYGY AG are implemented in the subsidiaries is that a largely standard bookkeeping system with a standard chart of accounts is used across the SYZYGY Group. All subsidiaries are subject to a review once a quarter by the Central Finance Department of SYZYGY AG. This involves analysing, checking and ensuring compliance with accounting requirements and scrutinising the procedures for processing data.

In addition, accounting staff are kept up to date with statutory requirements via regular internal and external training courses.

7. Remuneration report

7.1 Remuneration system for the Management Board

The remuneration system for the Management Board is laid down by the SYZYGY AG Supervisory Board. The overall remuneration package comprises the following components:

- non-performancerelated remuneration
- performancerelated remuneration
- other benefits.

The non-performancerelated remuneration is paid each month as a basic salary.

Performancebased remuneration includes two components:

Short-term profit participation based on annual targets and the financial targets for the business year, payable after the financial statements and consolidated statements have been audited.

In addition, the Management Board has been granted long-term variable components of remuneration based on the performance of the share price. These share price-based bonus agreements provide that up to 40 per cent of allocated options or phantom stocks shall be exercisable after two years, and a further 60 per cent after three years. Both long-term schemes stipulate that the difference between a base price on issue of the options or phantom stocks and the share price on exercise of the options or phantom stocks shall be paid out.

The members of the Management Board receive other benefits in the form of payment of contributions to pension, health and accident insurance as well as private use of a company car or a car allowance.

The remuneration for the Management Board is presented in table format in accordance with section 4.2.5 of the German Corporate Governance Code as updated on May 5, 2015, in the form of the remuneration granted, as follows:

	Lars Lehne, CEO (joined: 04/01/2016)			
Benefits granted	2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	225	0	225	225
Fringe benefits	10	0	10	10
Total	**235**	**0**	**235**	**235**
One-year variable remuneration	74	0	0	74
Multi-year variable remuneration				
Phantom stock programme	365	0	0	1,710
Total	**439**	**0**	**0**	**1,784**
Pension expenses	21	0	21	21
Total remuneration	**695**	**0**	**256**	**2,040**

	Andrew P. Stevens, COO			
Benefits granted	2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	268	290	268	268
Fringe benefits	16	18	16	16
Total	**284**	**308**	**284**	**284**
One-year variable remuneration	40	41	0	40
Multi-year variable remuneration				
Phantom stock programme	147	155	0	842
Total	**187**	**196**	**0**	**882**
Pension expenses	13	15	13	13
Total remuneration	**484**	**519**	**297**	**1,179**

	Erwin Greiner, CFO			
Benefits granted	2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	168	168	168	168
Fringe benefits	12	12	12	12
Total	**180**	**180**	**180**	**180**
One-year variable remuneration	25	25	0	25
Multi-year variable remuneration				
Phantom stock programme	77	81	0	527
Total	**102**	**106**	**0**	**552**
Pension expenses	11	15	11	11
Total remuneration	**293**	**301**	**191**	**743**

	Marco Seiler, CEO (left: 08/31/2016)			
Benefits granted	2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	183	263	183	183
Fringe benefits	10	15	10	10
Total	**193**	**278**	**193**	**193**
One-year variable remuneration	28	39	0	28
Multi-year variable remuneration				
Phantom stock programme	0	155	0	0
Total	**28**	**194**	**0**	**28**
Pension expenses	8	12	8	8
Total remuneration	**229**	**484**	**201**	**229**

In addition, the remuneration for the Management Board is presented in table format in accordance with section 4.2.5 of the German Corporate Governance Code as updated on May 5, 2015, in the form of the remuneration paid. In the case of the multi-year variable components of remuneration, this remuneration paid includes payments accumulated over several years.

	Lars Lehne, CEO		A. P. Stevens, COO		Erwin Greiner, CFO		Marco Seiler, CEO	
Payment	2016	2015	2016	2015	2016	2015	2016	2015
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	225	–	268	290	168	168	183	263
Fringe benefits	10	–	16	18	12	12	10	15
Total	**235**	**–**	**284**	**308**	**180**	**180**	**193**	**278**
One-year variable remuneration	0	–	41	41	25	10	67	37
Multi-year variable remuneration								
Phantom stock programme	0	–	0	120	0	208	0	120
Option scheme 2012	0	–	0	629	224	137	0	424
Total	**0**	**–**	**41**	**790**	**249**	**355**	**67**	**581**
Pension expenses	21	–	13	15	11	15	8	15
Total remuneration	**256**	**–**	**338**	**1,113**	**440**	**550**	**268**	**874**

On February 22, 2016, Marco Seiler, Chairman of the Management Board of SYZYGY AG, stepped down with effect from August 31, 2016. Mr Lars Lehne was appointed to the Management Board with effect from April 1, 2016 and took over as Chairman of the Management Board with effect from July 8, 2016.

Commitments in the event of termination

No retirement benefits have been promised to the Management Board of SYZYGY AG. If an employment contract is terminated prematurely, a severance payment will be made in line with legal obligations, being the amount of the outstanding, appropriate on-target salary for the remainder of the contract period.

Management Board contracts include a post-contractual competition ban for a period of 12 months. In this case, the Management Board member will additionally receive compensation of 50 per cent of their most recently received average contractual payments over the previous 24 months.

7.2 Remuneration system for the Supervisory Board

Remuneration of the Supervisory Board is set out in Article 6 (8) of SYZYGY AG's Articles of Association and dates from a resolution passed by the Annual General Meeting on June 6, 2014. In addition to having their expenses reimbursed, each member of the Supervisory Board receives remuneration consisting of a fixed and a variable component. The fixed remuneration amounts to EUR 20,000 per year.

This remuneration increases by a variable remuneration element of EUR 5,000 if the Company's market capitalisation has risen by at least 20 per cent in the financial year concerned.

The capitalisation figures used for this purpose are based on the mean closing price of the stock in the Xetra trading system on the Frankfurt Stock Exchange during the first five trading days of a financial year and during the first five trading days of the subsequent financial year. Supervisory Board members who have not been in office for the whole of the financial year are remunerated on a pro rata basis.

Details of the remuneration of the Supervisory Board for the 2016 financial year can be found in the notes to the financial statements.

8. Disclosure relating to acquisition in accordance with Article 315 [4] of the Handelsgesetzbuch (HGB – German Commercial Code)

- The common stock of SYZYGY AG amounts to EUR 12,828,450 and is divided into 12,828,450 ordinary nopar value bearer shares. Different classes of shares were not formed.

- SYZYGY shares are not subject to restrictions on transferability. SYZYGY AG is not aware of any restrictions relating to the exercise of voting rights or to the transfer of SYZYGY shares.

- At the balance sheet date, SYZYGY AG held 73,528 treasury shares, which grant the Company no voting rights or other rights.

- The WPP Group increased its shareholding from 50.48 per cent to 51.79 per cent in the 2016 financial year.

- None of the SYZYGY AG shares issued carry special rights.

- SYZYGY AG does not exercise voting control in the case of employees with an interest in the capital.

- The requirements for appointment and dismissal of members of the Management Board are in accordance with Article 84 of the Aktiengesetz (AktG – German Stock Corporation Act). SYZYGY AG's Articles of Association also stipulate that the Management Board must be composed of at least two people. Changes to the Articles of Association can only be made by the Annual General Meeting, in line with Article 119 of the AktG. The Articles of Association, together with Article 179 of the AktG, permit the Supervisory Board to agree changes to the Articles of Association which only concern the wording.

- The Annual General Meeting's resolution of May 29, 2009 authorised the Management Board to increase the common stock of SYZYGY AG, with the agreement of the Supervisory Board, by up to EUR 1,200,000 in the period to May 28, 2014 by issuing a total of 1,200,000 option rights for one SYZYGY AG nopar value share each (contingent capital 2009). At the Annual General Meeting on June 6, 2014, a resolution was adopted to reduce contingent capital 2009 by EUR 900,000 to EUR 300,000.

- The Annual General Meeting's resolution of June 6, 2014 authorised the Management Board to increase the common stock of SYZYGY AG, with the agreement of the Supervisory Board, by EUR 900,000 in the period to June 5, 2019 by issuing a total of 900,000 option rights for one SYZYGY AG nopar value share each (contingent capital 2014).

- In line with the Annual General Meeting's resolution of May 29, 2015, the Management Board is authorised, within 5 years, to buy back shares up to a total of 10 per cent of the common stock via the stock exchange or via a public offer to buy directed at all shareholders.

- The Annual General Meeting's resolution of July 8, 2016 authorises the Management Board to increase the common stock of the company, with the agreement of the Supervisory Board, on one occasion or on several occasions up to an overall maximum of EUR 6,000,000 in the period to July 8, 2021 by issuing new bearer shares against cash contributions and/or contributions in kind (Authorised Capital 2016).

- SYZYGY AG has made no material agreements that would be triggered by a change of control.

- No compensation agreements have been entered into with members of the Management Board or employees for the event of a takeover bid. Holders of share options or phantom stocks can, however, exercise their options or phantom stocks within a period of six weeks after completion of the takeover offer at the intrinsic value then prevailing or a minimum price of EUR 1 per option.

9. Declaration by the Management Board in relation to Article 312 of the AktG (German Stock Corporation Act)

WPP plc. has held a majority of the shares in SYZYGY AG since November 2015. It is consequently the controlling company within the meaning of Article 17 (2) of the AktG (German Stock Corporation Act). SYZYGY is thus required to prepare a dependency report in accordance with Article 312 of the AktG. SYZYGY AG received appropriate consideration for each legal transaction in the case of the legal transactions listed in the report with regard to relationships with affiliated companies, according to the circumstances known to us at the time when the legal transactions were conducted. No measures were taken or not taken on behalf of or in the interests of the controlling company or an associated company of the controlling company.

10. Declaration on Corporate Governance in accordance with Article 289a of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 315 (5) of the HGB

On October 19, 2016 the Management Board and Supervisory Board issued and published an updated declaration relating to the Corporate Governance Code. Operation of the Management Board and Supervisory Board is also described in the declaration on corporate governance.

Both declarations can be viewed on our company website under "Investor Relations" at www.syzygy.net.

Bad Homburg v.d.H., March 27, 2017
SYZYGY AG

The Management Board

Lars Lehne

Andrew P. Stevens

Erwin Greiner

Consolidated balance sheet

Assets		12/31/2016	12/31/2015
	Notes	kEUR	kEUR
Non-current assets			
Goodwill	(3.1)	33,797	25,080
Other Fixed assets, net	(3.2)	3,231	3,345
Other assets	(3.4)	625	674
Deferred tax assets	(3.5)	469	1,259
Total non-current assets		**38,122**	**30,358**
Current assets			
Cash and cash equivalents	(3.6)	6,571	3,841
Marketable securities	(3.6)	15,581	22,946
Accounts receivable, net	(3.7)	18,525	18,632
Prepaid expenses and other current assets	(3.8)	2,062	1,762
Total current assets		**42,739**	**47,181**
Total assets		**80,861**	**77,539**

Equity and Liabilities		12/31/2016	12/31/2015
	Notes	kEUR	kEUR
Equity			
Common stock*	(3.9.1)	12,828	12,828
Additional paid-in capital	(3.9.3)	20,537	20,306
Own shares	(3.9.4)	-407	-739
Accumulated other comprehensive income	(3.9.5)	-1,537	674
Retained earnings	(3.9.6)	18,071	17,806
Equity attributable to shareholders of SYZYGY AG		**49,492**	**50,875**
Minorities		293	312
Total Equity		**49,785**	**51,187**
Non-current liabilities			
Long term liability	(3.13)	6,879	2,342
Deferred tax liabilities	(5.7)	238	146
Total non-current liabilities		**7,117**	**2,488**
Current liabilities			
Tax accruals	(3.12)	203	1,127
Accrued expenses	(3.11)	8,668	7,125
Customer advances		4,632	5,430
Accounts payable	(3.11)	7,434	7,797
Other current liabilities	(3.13)	3,022	2,385
Total current liabilities		**23,959**	**23,864**
Total liabilities and equity		**80,861**	**77,539**

* Contingent Capital kEUR 1,200 (prior year: kEUR 1,200).
The accompanying notes are an integral part of the financial statements.

Consolidated statement of comprehensive income

		January–December		
		2016	2015	Change
	Notes	kEUR	kEUR	
Billings	(5.1)	**142.804**	**143.919**	**-1%**
Media costs	(5.1)	-78,531	-86,608	-9%
Sales	(5.1)	**64,273**	**57,311**	**12%**
Cost of revenues		-47,434	-40,615	17%
Sales and marketing expenses		-6,341	-6,151	3%
General and administrative expenses		-6,787	-6,205	9%
Other operating income/expense, net	(5.2)	1,885	928	103%
Operating profit (EBIT)		**5,596**	**5,268**	**6%**
Financial income, net	(5.6)	1,336	1,975	-32%
Income before taxes (EBT)		**6,932**	**7,243**	**-4%**
Income taxes	(5.7)	-1,835	-2,379	-23%
Total net income		**5,097**	**4,864**	**5%**
thereof net income share to other shareholders		115	225	-49%
thereof net income share to shareholders of SYZYGY AG		4,982	4,639	7%
Items that will not be reclassified to profit and loss:		**0**	**0**	**n.a.**
Items that will or may be reclassified to profit and loss:				
Currency translation adjustment from foreign business operations	(5.8)	-2,412	1,029	-334%
Net unrealized gains/ losses on mark. sec., net of tax	(3.6)	207	-1,401	n.a.
Other comprehensive income		**-2,205**	**-372**	**n.a.**
Comprehensive income		**2,892**	**4,492**	**-36%**
thereof income share to other shareholders		121	221	-45%
thereof income share to shareholders of SYZYGY AG		2,771	4,271	-35%
Earnings per share from continued operations (basic and diluted in EUR)	(6.1)	0.39	0.37	5%

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

Statement of changes in equity

	Number of shares	Common stock	Additional paid-in capital	Own shares	Retained earnings	Accum. other compre-hensive income: Foreign exchange currency	Accum. other compre-hensive income: Unrealised gains and losses	Equity attributable to shareholders of SYZYGY AG	Minority interest	Total equity
	in 1,000	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
January 1, 2015	**12,828**	**12,828**	**20,294**	**-831**	**17,610**	**-442**	**1,484**	**50,943**	**91**	**51,034**
Net income of the period					4,639			4,639	225	4,864
Other compre-hensive income						1,033	-1,401	-368	-4	-372
Comprehensive income					**4,639**	**1,033**	**-1,401**	**4,271**	**221**	**4,492**
Dividend					-4,443			-4,443		-4,443
Sales of own shares			12	92				104		104
December 31, 2015	**12,828**	**12,828**	**20,306**	**-739**	**17,806**	**591**	**83**	**50,875**	**312**	**51,187**
January 1, 2016	**12,828**	**12,828**	**20,306**	**-739**	**17,806**	**591**	**83**	**50,875**	**312**	**51,187**
Net income of the period					4,982			4,982	115	5,097
Other compre-hensive income						-2,418	207	-2,211	6	-2,205
Comprehensive income					**4,982**	**-2,418**	**207**	**2,771**	**121**	**2,892**
Dividend					-4,717			-4,717	0	-4,717
Sales of own shares			231	332				563		563
Dividend to minority shareholders								0	-140	-140
December 31, 2016	**12,828**	**12,828**	**20,537**	**-407**	**18,071**	**-1,827**	**290**	**49,492**	**293**	**49,785**

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

Consolidated statement of Cash Flows

	2016	2015
	kEUR	kEUR
Period net income	5,097	4,864
Adjustments to reconcile income from operations to net cash provided by operating activities		
– Depreciation on fixed assets	1,778	2,122
– Profit (-) and loss (+) on sale of securities	-504	-848
– Profit (-)/loss (+) on sale of fixed assets	8	23
– Changes in Earn-Out liablities	-1,011	-1,031
– Other non-cash income and expenses	458	-47
Changes in operating assets and liabilities:		
– Accounts receivable and other assets	-440	-1,812
– Customer advances	-792	-1,752
– Accounts payable and other liabilities	1,892	-5,453
– Tax accruals and payables, deferred taxes	-556	1,513
Cash flows provided by operating activities	**5,930**	**-2,421**
Changes in other non-current assets	-16	266
Investments in fixed assets	-1,167	-1,105
Purchases of marketable securities	-12,151	-40,792
Proceeds from sale of marketable securities	20,110	38,816
Acquisition of consolidated entities less liquid funds	-4,655	0
Cash flows used in investing activities	**2,121**	**-2,815**
Dividend paid to minority shareholders	-140	0
Dividend paid to shareholders of SYZYGY AG	-4,717	-4,443
Cash flows from financing activities	**-4,857**	**-4,443**
Total	**3,194**	**-9,679**
Cash and cash equivalents at the beginning of the period	**3,841**	**13,017**
Exchange rate differences	-464	503
Cash and cash equivalents at the end of the period	**6,571**	**3,841**

The accompanying notes are an integral part of the financial statements.
Operating cashflow includes paid interest in the amount of kEUR 27 (prior year: kEUR 1), received interest in the amount of kEUR 1.076 (prior year: kEUR 1.129) as well as received taxes in the amount of kEUR 42 (prior year: kEUR 0) and paid taxes in the amount of kEUR 1.987 (prior year: kEUR 842).

Notes to the consolidated Financial Statements

1. Accounting principles and methods

1.1 General

The consolidated financial statements of SYZYGY AG ("SYZYGY", "SYZYGY Group", "Group" or "Company" in the following) for the 2016 financial year have been prepared in accordance with the principles of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in the applicable version as at December 31, 2016, as they are to be applied in the European Union and in line with the supplementary provisions of Article 315a [1] of the Handelsgesetzbuch (HGB – German Commercial Code). The consolidated financial statements were prepared on the basis of historical cost of acquisition or production. This excludes certain financial instruments that are carried at fair value as at the reporting date. An explanation is provided in relation to the relevant accounting and valuation methods. The financial year corresponds to the calendar year.

The Company was entered in the Commercial Register at the District Court of Bad Homburg (HRB 6877) on May 1, 2000 under the company name SYZYGY AG. The Company's registered office is located in Bad Homburg v. d. H., Germany. Its address is: SYZYGY AG, Im Atzelnest 3, 61352 Bad Homburg v. d. H.

1.2 Business activity

The SYZYGY Group is an international provider of creative, technological and media services for digital marketing.

SYZYGY AG acts as a management holding company that provides its subsidiaries with central services relating to strategy, design, planning, technology development, accounting, IT infrastructure and finance. SYZYGY AG also supports the subsidiaries in new business activities and generates sales from projects with third parties.

As operating entities, the subsidiaries are responsible for providing consultancy and other services. With branches in Bad Homburg v. d. H., Berlin, Frankfurt/Main, Hamburg, London, Munich, New York and Warsaw, they offer large corporations an integrated portfolio of solutions, from strategic consulting to project planning, concepts and design to technical realisation of brand platforms, business applications, websites, hosting, online campaigns and mobile apps. Online media services such as media planning, search engine marketing/optimisation and affiliate programmes are also a major business area. In addition, SYZYGY helps clients meet customer experience and usability requirements and assists them at every stage of the user-centred design process. Digital illustrations, animations and gaming round off the range of services.

The Group's business focus is on the automotive, telecommunications/IT and consumer goods industries, as well as financial services.

1.3 Scope of consolidation

The consolidated financial statements are based on the financial statements of the companies consolidated in the Group, which were prepared in accordance with IFRS-compliant accounting and valuation principles. The reporting dates for these companies correspond to the reporting date for the Group.

As at December 31, 2016, the following subsidiaries were included in the consolidated financial statements of SYZYGY AG as the top-level parent company and fully consolidated. In the case of these companies, SYZYGY AG can exercise the power of disposal, is exposed to fluctuating returns from the subsidiaries and can influence the level of returns due to its power of disposal:

- Ars Thanea S.A., Warsaw, Poland (Ars Thanea for short, formerly Ars Thanea Rozbicki S.K.A.)
- Hi-ReS! Berlin GmbH, Berlin, Germany (Hi-ReS! BER for short)
- Hi-ReS! London Ltd, London, United Kingdom (Hi-ReS! LON for short)
- SYZYGY Deutschland GmbH, Bad Homburg v. d. H., Germany (SYZYGY Deutschland for short)
- SYZYGY Digital Marketing Inc., New York City, United States of America (SYZYGY NY for short)
- SYZYGY UK Ltd, London, United Kingdom (SYZYGY UK for short)
- uniquedigital GmbH, Hamburg, Germany (uniquedigital for short)
- Unique Digital Marketing Ltd, London, United Kingdom (Unique Digital UK for short)
- USEEDS° GmbH, Berlin, Germany (USEEDS for short)

A subsidiary is incorporated into the consolidated financial statements from the date on which SYZYGY AG gains control over the subsidiary until the date on which control by the Company ends. The income generated by subsidiaries acquired or sold in the course of the year is recognised accordingly in the consolidated statement of comprehensive income from the actual date of acquisition or up to the actual date of disposal and is recorded under "Other comprehensive income".

The profit or loss and every component of other comprehensive income are allocable to the shareholders of SYZYGY AG and the non-controlling shares. This remains the case even if it results in non-controlling shares posting a negative balance.

In April 2016, SYZYGY AG acquired 70 per cent of the shares in USEEDS, with the aim of expanding its portfolio and in particular to enhance its services around the customer experience. The purchase price of kEUR 5,381 was settled through a cash payment of kEUR 4,879 and the transfer of 54,910 treasury shares worth kEUR 502. Control was transferred on April 11, 2016. In accordance with IFRS 3.62, the purchase gives rise to an acquisition of cash in the amount of kEUR 224, an acquisition of current assets in the amount of kEUR 569 (of which receivables totalling kEUR 504) and other assets amounting to kEUR 65, plus non-current assets in the amount of kEUR 144. Liabilities amounting to kEUR 613 were also acquired, resulting in equity capital of kEUR 324.

In addition, SYZYGY agreed to acquire a further 10 per cent of the shares in USEEDS in the first quarter of 2019. As a result, this involves a transfer of the opportunities and risks typically associated with ownership ("present ownership") for SYZYGY with regard to these additional shares as well. From an economic viewpoint, this transfer occurs at the time of acquisition. The price of these shares depends on the future business performance of USEEDS in the period 2016 to 2018. Furthermore, a reciprocal put/call option was agreed for the sale or acquisition of the outstanding 20 per cent of the shares in USEEDS. This option can be exercised in 2022, either in full or in part. Another option for partial exercise is in place for 2026. The price of these additional shares depends on the future business performance of USEEDS in the three preceding years. Because the instrument is structured as a reciprocal put/call option, SYZYGY expects that it is highly likely that it will be exercised by at least one party, based on current circumstances. As a result, this involves present ownership for SYZYGY with regard to these shares as well, with effect from the time of acquisition. Accordingly, first-time consolidation is being applied in the 2016 financial year, on the basis of a 100 per cent shareholding.

The financial liabilities resulting from the anticipated exercise of the options have been recognised at fair value on the balance sheet date in the amount of kEUR 5,319 and reported in other non-current liabilities.

A difference of around kEUR 10,376 was allocated to a trademark right (kEUR 330), the stated earnings before taxes for the order backlog (kEUR 134) and reverse deferred tax liabilities (kEUR 144). The residual difference is reported as goodwill of kEUR 10,056 in the Germany segment, denominated in EUR. This goodwill is not deductible for tax purposes. IFRS 3 stipulates that the final purchase price allocation must be concluded no later than one year after completion of the transaction. As such, at the end of the financial year it constitutes preliminary accounting for the acquired assets and liabilities.

Ancillary expenses of kEUR 41 were incurred in the course of the acquisition. These are reported in the statement of comprehensive income under "General administration costs".

Since the acquisition date on April 11, 2016, USEEDS has contributed sales of kEUR 5,576 to the Group's sales as reported in the statement of comprehensive income. The contribution to the Group's sales would have amounted to kEUR 6,706 for the full financial year. The share of consolidated net income for the period since the acquisition date was kEUR 764; the figure for the full financial year would have been kEUR 613.

Both in the previous year and in the current financial year, new information about the actual performance of Ars Thanea led to adjustments to the forecast earnings for the remaining earn-out period. As a result, the expected obligations towards other parties decreased from kEUR 2,342 in the 2015 financial year to kEUR 1,331 in the 2016 financial year. The change in the fair value of the financial liability amounting to kEUR 1,011 (previous year: kEUR 1,031) was recognised in the statement of comprehensive income in the year covered by the report, under "Other operating income/expenses, net".

SYZYGY München GmbH was retroactively merged with SYZYGY Deutschland GmbH as the acquiring legal entity with effect from January 1, 2016. The merger application was made on August 23, 2016 and the merger was entered in the commercial register on October 7, 2016. All assets and liabilities were transferred from SYZYGY München GmbH to SYZYGY Deutschland GmbH. The merger does not have any impact on the Group's net assets, financial position and results of operations.

1.4 Principles of consolidation

The assets and liabilities included in the consolidated financial statements have been reported in line with the standardised accounting and measurement guidelines applicable to SYZYGY in accordance with IFRS.

Capital consolidation is performed in accordance with IFRS 3 using the purchase method. The carrying values of the subsidiaries are offset against the subsidiary's re-measured equity at the time of acquisition. For this purpose, assets, liabilities and contingent liabilities are recognised at their current fair value. The residual difference on the assets side is reported as goodwill.

Any negative difference is recognised in the income statement, following another assessment (remeasurement). Transaction costs are recorded directly in the income statement. In line with IFRS 3, existing and purchased goodwill is not amortised, but rather tested for impairment at least once a year or if there are indications of impairment losses, in accordance with the provisions of IAS 36, using a single-stage test procedure.

To eliminate inter-company accounts, receivables and payables between consolidated subsidiaries are not considered. The differences arising from elimination of inter-company accounts are recognised in the consolidated statement of comprehensive income and reported in "Other operating income and expenses".

When consolidating expenses and revenues, inter-company revenues are charged against the corresponding expenditures. If valuation allowances have been recognised in individual financial statements for the shares of consolidated companies or for inter-company receivables, these are reversed during consolidation.

There are no factors that would lead to the elimination of inter-company profits in the consolidated financial statements.

Non-controlling shares are measured at their proportion corresponding to the identifiable net assets of the company acquired as at the time of the acquisition. Changes to the stake held by the Group in a subsidiary company that do not result in a loss of control are recorded as equity transactions.

Any obligation to pay contingent consideration is measured at fair value at the time of the acquisition. If the contingent consideration is classified as equity capital, it is not re-measured and a payment in lieu is recorded in equity capital. Apart from this, subsequent changes to the fair value of contingent considerations are recognised in profit or loss.

Income tax effects are taken into account and deferred taxes are recognised during consolidation procedures that affect income.

1.5 Estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets, liabilities and financial obligations at the reporting date and income and expenses during the reporting period.

Measurement of tangible fixed assets and intangible assets requires estimates for calculating fair value at the date of acquisition, if they were acquired as part of a business combination. The expected useful life of these assets must also be estimated. Assessments made by management are used as a basis for determining the fair value of assets.

In order to establish that the acquired goodwill is impaired, it is necessary to determine the value in use of the cash generating unit to which the goodwill has been allocated. Calculation of the value in use requires an estimate of future cash flows from the cash generating unit and an appropriate discount rate for calculating the cash value. If the actual expected future cash flows are lower than estimated, a considerable impairment may result. Section 3.1, Goodwill, contains further details.

Management establishes provisions for doubtful receivables to take account of expected losses resulting from the insolvency of customers. The criteria that management uses to assess provisions for doubtful receivables include the breakdown by maturity of the balances receivable and experience of derecognising receivables in the past, customers' credit ratings and changes in payment behaviour. If the financial position of customers deteriorates, the actual derecognition may exceed the scope of the expected derecognition.

The SYZYGY Group accounts for long-term contracts for services according to the percentage of completion method. This method requires an accurate estimate of the degree to which the project is complete. The key parameters are the total cost of the order as calculated, the costs still to be incurred before completion, the total proceeds of the order and the risks associated with the contract.

When determining deferred tax assets and liabilities, the expected actual income tax must also be calculated for each tax object, with an assessment being made of temporary differences resulting from the different treatment of certain items between the financial statements for IFRS purposes and for tax reporting purposes and with regard to the future usability of tax loss carry-forwards. Any temporary differences will result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Deferred tax assets are recognised to the extent that they are likely to be used. If there is a change in the impairment test for deferred tax assets, the recognised deferred tax assets (as originally established) must be reduced and recognised in net income or such that net income is not affected, or adjusted deferred tax assets must be capitalised and recognised in net income or such that net income is not affected.

The recognition and measurement of provisions depend to a large extent on estimates made by management. The judgement that a financial liability has arisen or quantification of the possible amount of the payment obligation is based on an assessment of the particular situation by management. Provisions for expected losses are established if it is highly unlikely that performance and consideration relating to the transaction will balance each other and this loss can be reliably estimated.

Some of the Group's assets and liabilities are recognised at fair value for the purposes of these consolidated financial statements (particularly securities and contingent purchase price liabilities). The Management Board defines appropriate valuation procedures and input parameters for measurement at fair value. As far as possible, the Group uses observable market data to determine the fair value of assets and liabilities. If such Level 1 input parameters are not available, other suitable measurement techniques are chosen and estimates made. Details of the measurement techniques and input parameters used in determining the fair values are provided in chapter 6.6.

Actual amounts may differ from these estimates. Assumptions and estimates are always made on the basis of the most recent information available at the time. If the outcome deviates from expectations, the relevant items will be adjusted if necessary.

Please see the presentation of the individual items in the consolidated financial statements for the carrying amounts of the assets and liabilities subject to estimation uncertainties as at the reporting date.

1.6 Foreign currency translation

The notion of a functional currency is applied to translation of financial statements of consolidated companies prepared in foreign currencies.
Since the foreign subsidiaries are economically independent, the local currency is the functional currency of these companies. For this reason, in accordance with the modified reporting date method for establishing exchange rates as defined in IAS 21.38 ff, assets and liabilities are translated using the exchange rate at the balance sheet date, whereas income and expenses are translated at the average annual exchange rate and equity at historical rates. Currency translation differences resulting from the conversion of non-EUR business operations into the Group currency are recorded in other income in the statement of comprehensive income and accumulated in "Other comprehensive income" in equity capital. On the sale of a non-EUR business operation, all accumulated translation differences attributable to the Group from the business operation are reclassified to the statement of profit or loss. In accounting for fixed assets, the position is converted at the start and at the end of the financial year using the exchange rate at the respective date and the remaining items are converted at average rates of exchange. Any difference is shown as an exchange rate difference in a separate line, both for acquisition/production costs and for accumulated depreciation and amortisation.When preparing the financial statements of each Group company, business transactions denominated in currencies other than the functional currency of the Group company are translated at the exchange rate applying on the date of the transaction. On each reporting date, monetary items in foreign currency are valued at the end of the year in accordance with IAS 21 using the exchange rate at the closing date. Non-monetary items in foreign currency, which are measured at fair value, are converted at the exchange rates that applied at the time of determining the fair value. Non-monetary items measured at cost of acquisition or production are converted at the exchange rate applying when they were first included in the accounts. Any resulting foreign currency gains or losses are directly recognised in the income statement.

SYZYGY used the following exchange rates in the year under review:

2016	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
GBP / EUR	1.22	1.17

2015	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
GBP / EUR	1.38	1.36

2016	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR / USD	1.11	1.05

2015	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR / USD	1.11	1.09

2016	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR / PLN	4.36	4.41

2015	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR / PLN	4.19	4.26

1.7 Adoption of published standards (IFRS) and interpretations (IFRIC)

The following new or amended standards and interpretations are mandatory for the first time in relation to financial years ending on December 31, 2016.

In the course of the financial year, SYZYGY AG observed the following bulletins or amendments to bulletins issued by the IASB for the first time:

- **IAS 19: Employee contributions to defined benefit plans**

The amendments to IAS 19 cover a narrow range of application relating to accounting for the contributions paid by employees and third parties under defined benefit plans (IAS 19.92 f.). Specifically, this amendment to IAS 19 clarified the point in time at which the reduction in service cost or the pension obligation to be recognised occurs, or the period of time for which it occurs.

These changes to IAS 19 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 16 and IAS 41: Bearer Plants**

The amendments to IAS 16 and IAS 41 relate to the accounting treatment of plants that are used solely to grow agricultural products. As a result of the amendment, these bearer plants have been included within the scope of IAS 16 and excluded from the scope of IAS 41. They are therefore subject to subsequent measurement rules as applicable to fixed assets. Valuation at fair value through profit and loss no longer applies to these assets.

These changes to IAS 16 and IAS 41 do not have any impact on the Group's net assets, financial position and results of operations.

- **IFRS 11: Joint Arrangements**

The amendments to IFRS 11 relate to the accounting for acquisitions of interests in joint operations that constitute a business. The acquirer must account for these interests in line with the principles laid down in IFRS 3 (Business Combinations) and other IFRS, unless these principles conflict with the provisions of IFRS 11. The following points must be observed when accounting for interests in joint operations if they constitute a business:

a) Identifiable assets and liabilities must be measured at fair value.

b) Acquisition-related costs must be recorded as expense. Exceptions to this rule are debt or equity issuance costs.

c) Deferred taxes must be recognised in accordance with IAS 12 (Income Taxes).

d) Any goodwill or bargain purchase gain must be recognised.

e) Impairment tests must be performed on the cash generating units to which goodwill has been allocated, in line with the requirements of IAS 36 (Impairment of Assets).

f) Information required relevant to business combinations must be disclosed.

These changes to IFRS 11 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation**

For the purposes of IFRS accounting, revenue-based methods are not considered to be an appropriate method of amortisation, since amortisation geared towards the future expectation of revenues is not – as required in IAS 16 and IAS 38 – based on consumption of the underlying assets. This applies both to property, plant and equipment under IAS 16 and to intangible assets covered by IAS 38.
In the case of intangible assets, however, a revenue-based amortisation method may be used in limited circumstances (rebuttable presumption; IAS 38.98A). This could be the case, for example, if the achievement of a revenue threshold is the predominant limiting factor. It must also be demonstrated that revenue and the consumption of economic benefits are highly correlated. Guidelines were also added to both IAS 16 and IAS 38, explaining that expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset.

These changes to IAS 16 and IAS 38 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 1: Disclosure Initiative**

Materiality

In relation to the concept of materiality, in particular to disclosures in the notes to the financial statements, this amendment clarifies the following:

a) Information should not be obscured by aggregating.

b) Materiality considerations must apply to all parts of the financial statements.

c) Even when a standard requires a specific disclosure, materiality considerations do apply.

Statement of financial position and statement of profit or loss and other comprehensive income

a) The list of line items to be presented in an IFRS statement can be disaggregated and aggregated as relevant. The amendment provides further guidance in relation to additional items, headings and subtotals.

b) An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Disclosures

The amendment clarifies that the disclosures need not be presented in the order listed in IAS 1.114. Instead, understandability and comparability should be considered when determining the order of the disclosures. The amendment introduced new examples into the standard. It also removed guidance and examples with regard to the identification of significant accounting policies.

These changes to IAS 1 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 27: Equity Method in Separate Financial Statements**

The amendment re-enables use of the equity method presented in IAS 28 to account for shares in subsidiaries, joint ventures and associated entities in the single-entity financial statements of an investor (this option had been removed in 2003).

These changes to IAS 27 do not have any impact on the Group's net assets, financial position and results of operations.

- **Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception**

The amendments relate to various provisions in the context of applying the consolidation exception for investment entities.

a) IFRS 10.4 (a) (iv) states that the exemption from the requirement to prepare consolidated financial statements also applies to parent entities that are themselves subsidiaries of an investment entity.

b) As required under IFRS 10.31, the subsidiaries of an investment entity are measured at fair value (i.e. not consolidated). Under IFRS 10.32, however, this does not apply to an investment entity's subsidiary which is itself not an investment entity and where the subsidiary, as its main purpose and business activity, provides services that relate to the investment entity's investment activities. IFRS 10 requires such subsidiaries to be consolidated.

c) Investment entities that measure their subsidiaries at fair value generally fall within the scope of IFRS 12 (Disclosure of Interests in Other Entities).

d) If an entity which is itself not an investment entity holds shares in an associated company or joint venture that is an investment entity, it may, in applying the equity method and notwithstanding the provision in IAS 28.36, retain the measurement at fair value that this investment entity (associated company or joint venture) applies to its shares in subsidiaries.

These changes to IFRS 10, IFRS 12 and IAS 28 do not have any impact on the Group's net assets, financial position and results of operations.

Annual Improvement to IFRS – 2010-2012 Cycle

- **IFRS 2 Share-based Payment**

The definitions of "vesting condition" and "market condition" are explained by defining "performance condition" and "service condition". Both conditions were previously combined in the definition of "vesting condition" and were not defined separately.

These changes to IFRS 2 do not have any impact on the Group's net assets, financial position and results of operations.

- **IFRS 3 Business Combinations**

The amendment states that contingent considerations should be classified either as a liability or as an equity instrument on the basis of IAS 32 Financial Instruments: Presentation. Contingent considerations that are not classified as equity capital are re-measured at fair value on each reporting date. The changes in fair value are recognised either in profit or loss.

These amendments to IFRS 3 do not result in any change to accounting as currently practiced.

- **IFRS 8 Operating Segments**

If operating segments are combined for reporting purposes, additional disclosure obligations become necessary. The comments are intended to clarify the judgements made by management in recognising similar economic characteristics of the segments when applying the aggregation criteria of IFRS 8 Operating Segments.

Another amendment relates to the provision that it is only necessary to transfer the assets of the entire reportable segments if the segment's assets are usually reported internally.

These changes to IFRS 8 do not have any impact on the Group's net assets, financial position and results of operations.

- **IFRS 13 Fair Value Measurement**

The amendment clarifies that current liabilities and receivables with no stated interest rate may continue to be measured at invoice amounts without discounting when the effect of discounting is immaterial. A previous amendment had given the impression that an existing practical simplification, eliminating the need to discount, had been deleted.

These changes to IFRS 13 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 16 Property, Plant and Equipment**

This amendment addresses calculation of the accumulated depreciation or amortisation when revaluing property, plant and equipment and intangible assets. The net carrying amount of an asset is adjusted for the revalued amount, and either:

a) the entire accumulated depreciation or amortisation amounts are adjusted;
or
b) the accumulated depreciation or amortisation is offset against the gross carrying amount.

These changes to IAS 16 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 24 Related Party Disclosures**

The amendment makes it clear that an entity that provides management services for the reporting entity (or the parent of the reporting entity) is regarded as a related party entity of the reporting entity. It is not necessary to conduct an analysis of the total amounts attributable to IAS 24.17 categories.

These changes to IAS 24 do not have any impact on the Group's net assets, financial position and results of operations.

Annual Improvements to IFRS – 2012-2014 Cycle

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

The guidelines additionally included in the standards relate to the relationship between IFRS 5 and IFRIC 17. They explain the procedure for cases in which an entity reclassifies an asset from "held for sale" to "held for distribution to owners". The reverse case is also covered by the rules that have now been included in the standard.

These changes to IFRS 5 do not have any impact on the Group's net assets, financial position and results of operations.

- **IFRS 7 Financial Instruments: Disclosures**

The amendment adds additional guidance to clarify whether a contract for managing a portfolio of sold financial assets constitutes continuing involvement, and under what circumstances this may be the case. Depending on this decision, the disclosures indicated in IFRS 7.42E–42H shall (or shall not) be provided by the reporting entity.

The amendment also makes it clear that, due to the amendment relating to the disclosure on offsetting financial assets and financial liabilities required by IFRS 7, the relevant disclosures on the offsetting of financial assets and liabilities are not required in all interim financial statements published after March 1, 2013.

These changes to IFRS 7 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 19 Employee Benefits**

With regard to the choice of interest rate for determining the cash value of the entity's benefit obligations, the amendment clarifies that the same currency should be used for the interest rate and the commitment resulting from the value of the post-employment benefits. IAS 19.83 states that the discount rate shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The amendment additionally refers to the need to ensure that the currencies are the same when making the choice, i.e. it is only permitted to use government bond market yields in the relevant currency if there is no liquid market for top-rated fixed-interest corporate bonds in the currency (or in the "currency zone", with "in the country" no longer used).

These changes to IAS 19 do not have any impact on the Group's net assets, financial position and results of operations.

- **IAS 34 Interim Financial Reporting**

IAS 34.16A requires that selected additional information shall be included in the Notes to the interim report, in addition to disclosures of significant events and transactions. However, this information is only to be included in the Notes to the interim report if it has not already been provided elsewhere in the interim report. The amendment defines "elsewhere" as a document that is accessible together with the interim financial statements and to which the interim report refers.

These changes to IAS 34 do not have any impact on the Group's net assets, financial position and results of operations.

Standards and interpretations that have been published and transposed into EU law, but are not yet mandatorily effective

The following standards and interpretations had been published by the IASB up to the balance sheet date and transposed into EU law, but do not apply to SYZYGY AG until the subsequent period. SYZYGY AG did not opt for early adoption.

First-time adoption of IFRS 15 is not expected to have a material impact on the SYZYGY Group's net assets, financial position and results of operations. Having said that, a detailed assessment is still ongoing.

The impact of first-time application of the amended IFRS 9 on the SYZYGY Group's consolidated net assets, financial position and results of operations is currently still being examined. SYZYGY generally invests in securities for which cash flows, consisting solely of capital repayment and interest payments, are assured by contract. The company holds these securities both with the intention of holding them and of selling them. As a result, SYZYGY does not expect material changes to its accounting. Nonetheless, SYZYGY will analyse in greater detail the characteristics of the contractual cash flows of all permissible instruments and the associated business model before SYZYGY definitively establishes the classification under IFRS 9.

Amendment / Standard	Publication date	Date of transposition into EU law	Adoption date (EU)
IFRS 15 Revenue from Contracts with Customers (including amendments to IFRS 15 Effective Date of IFRS 15)	September 11, 2015	September 22, 2016	January 1, 2018
IFRS 9 Financial Instruments	July 24, 2014	November 22, 2016	January 1, 2018

Standards and interpretations that have been published but not yet transposed into EU law and are not yet effective

The following standards and interpretations had been published by the IASB up to the balance sheet date, but not yet transposed into EU law. They have also not yet been adopted by SYZYGY AG.

Amendment / Standard	Publication date	Expected transposition into EU law	Adoption date (EU)
IFRS 14 Regulatory Deferral Accounts	January 30, 2014	The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.	
IFRS 16 Leases	January 13, 2016	H2/2017	January 1, 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 11, 2014	Postponed	Postponed indefinitely
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	January 19, 2016	Q2/2017	January 1, 2017
Amendments to IAS 7: Disclosure Initiative	January 29, 2016	Q2/2017	January 1, 2017
Clarification of IFRS 15: Revenue from Contracts with Customers	April 12, 2016	Q2/2017	January 1, 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 20, 2016	H2/2017	January 1, 2018
Amendments to IFRS 4: Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts	September 12, 2016	2017	January 1, 2018
Annual Improvements to IFRS (AIP) – 2014-2016 Cycle	December 8, 2016	H2/2017	January 1, 2018 January 1, 2017
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	December 8, 2016	H2/2017	January 1, 2018
Amendments to IAS 40: Transfers of Investment Property	December 8, 2016	H2/2017	January 1, 2018

The impact of first-time application of these standards on the SYZYGY Group's consolidated net assets, financial position and results of operations is currently still being examined.

1.8 Other information

Unless stated otherwise, amounts in SYZYGY's consolidated financial statements are in thousands of euros. The accounts are based on the assumption that the business will be continued as a going concern.

In accordance with application of IAS 1, the balance sheet is divided into non-current and current assets and liabilities. Assets and liabilities which are due within one year are regarded as current. Irrespective of their maturity, inventories and accounts receivable and payable are also regarded as current if they are not sold, consumed, or become due within one year, but are sold, consumed, or become due within the normal course of the operating cycle. Deferred tax assets or tax liabilities are always assigned to non-current assets or liabilities, respectively.

The statement of comprehensive income was prepared in accordance with IAS 1.103 using the cost of sales method for expenses and income to be reported as net income. Sales are shown against the expenses incurred in generating them. These expenses can be allocated to the functional areas production, sales, and general administration.

2. Significant accounting policies

2.1 Intangible assets, goodwill and fixed assets
Intangible assets comprise goodwill, orders on hand, brand equity and software.

Intangible assets that were not acquired in the course of a company acquisition are accounted for on the balance sheet and initially measured in accordance with IAS 38. Consequently, individually purchased intangible assets are recognised at cost and amortised using the straight-line method over their expected useful life if they have a determinable useful life. Brand names are generally amortised using the straight-line method over five years, if their useful life is determinable. Orders on hand are amortised within one year. The expense resulting from amortisation and, if applicable, from impairments is reported under function costs in the statement of comprehensive income, according to the allocation of assets to the functional areas of the company.

Intangible assets that are not goodwill-related and which arose from acquisition of a company are measured at their fair value at the time of the acquisition in accordance with IFRS 3. In subsequent periods, these intangible assets as well as intangible assets purchased separately are valued at acquisition cost less accumulated depreciation and any accumulated unscheduled depreciation (impairments). If the fair value of assets which have been the subject of an unscheduled write-down increases, the increase is recorded as a reversal, up to the amount of the original cost of acquisition. The goodwill resulting from a company acquisition is recorded at acquisition cost less any impairments required and is reported separately in the consolidated balance sheet. For the purposes of the impairment test, a split-up is applied to the goodwill of the cash generating units which are expected to benefit from the synergies produced by the company combination.

In accordance with IFRS 3 in conjunction with IAS 36 and 38, intangible assets with an indeterminable useful life and goodwill from company acquisitions are not amortised but tested for impairment at least once a year. When carrying out the impairment test, the carrying amounts of the equity capital of the cash generating units underlying the goodwill, including the carrying amounts of the goodwill allocated to the respective cash generating unit, are compared on December 31 with the recoverable amounts of these cash generating units. The recoverable amount is the higher of the fair value less costs to sell and the value in use. SYZYGY defines the individual companies as cash generating units. The values in use are determined using the discounted cash flow (DCF) method. Future cash flows to be discounted using the DCF method are determined using medium-term planning for financial and asset positions and results of operations. Past experience, knowledge of current operational results and management estimates of future developments are all reflected in this planning. Market and sector forecasts by leading industry analysts are also regularly taken into account; please see the corresponding comments in the Management Report. Management estimates of future developments in particular, such as sales performance, involve a high degree of uncertainty. If the carrying amount to be tested exceeds the recoverable amount according to the DCF method, impairment applies and the value is written down to the recoverable amount.

Fixed assets include leasehold improvements and other equipment and are carried at cost less accumulated depreciation and impairment losses. Leasehold improvements are depreciated on a straight-line basis over their estimated useful life or the term of the lease, whichever is shorter. Operational and office equipment is depreciated on a straight-line basis, normally over a period of between three and thirteen years.

If indications of impairment losses on non-current intangible assets or fixed assets occur, a decision needs to be made in accordance with IAS 36 as to whether the fixed assets concerned should be written down to their market value or fair value. This is the case if the recoverable amount is lower than the carrying amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. When determining the value in use, the estimated future cash flows are discounted using an input tax interest rate. If reasons for impairment losses on non-current intangible assets – except for goodwill – and fixed assets cease to apply, the write-downs are reversed, up to the amount of the original cost of acquisition.

The expected useful lives and methods of depreciation and amortisation are reviewed on each reporting date and all the changes to estimates are taken into account in advance.

2.2 Financial instruments

A financial instrument as defined in IAS 32 is a contractual right or a contractual obligation that results in an inflow or outflow, respectively, of financial assets or the issue of equity rights. On the one hand they comprise non-derivative financial instruments such as receivables, accounts payable and securities, and on the other, financial receivables, financial debt and other financial liabilities.

Non-derivative financial instruments

Non-derivative financial instruments are accounted for as at the date of performance, i.e. the date on which the asset is delivered to or by SYZYGY AG. Non-derivative financial instruments are classified into one of the following four categories, depending on their particular purpose. The classification is reviewed as at the balance sheet date, when it is a factor in reporting assets as non-current or current. It is also a factor in deciding whether the asset is measured at acquisition cost or at fair value.

Changes to the fair value of financial assets "measured at fair value through profit and loss" – which are either categorised accordingly on first recognition (fair value option) or are classified as "held for trading" – are recorded immediately in the income statement. They are furthermore reported as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. The fair value option is not applied in the SYZYGY Group.

- "Financial assets held to maturity" – which include fixed or determinable payments as at the date of first-time recognition, have a fixed maturity and are expected to be held until then – are recorded at amortised cost and, depending on their maturities, are reported as current or non-current assets. Impairment losses are recognised in the income statement. At present, no financial assets are classified as "held to maturity".

- Loans and receivables – which have fixed or determinable payments and are not quoted on an active market – are measured at amortised cost, using the effective interest method less any impairments. Depending on their maturities, they are reported on the balance sheet as current or non-current financial assets.

- "Financial assets available for sale" – which have been designated as available for sale as at the date of first-time recognition and have not been allocated to the other categories – are carried at fair value and, depending on their saleability, are reported on the balance sheet as current or non-current financial assets. Unrealised gains or losses are recorded in other comprehensive income until derecognition of the financial asset, while bearing tax effects in mind. In the event that the fair value falls below the acquisition cost significantly or for an extended period, the expense is immediately recognised in the income statement. Reversals of impairment losses on equity instruments are recorded in equity. Reversals of impairment losses on debt capital instruments are recognised in net income. If a price quoted on an active market is not available and the fair value cannot be reliably established, the financial assets are carried at acquisition cost.

The liabilities resulting from non-derivative financial instruments may either be carried at their amortised acquisition cost or as financial liabilities measured at fair value through profit and loss. SYZYGY AG measures all financial liabilities at amortised acquisition cost using the effective interest method, except for any long-term contingent purchase price commitments. This corresponds to the acquisition cost, taking into consideration repayments, issue costs and the amortisation of a premium (agio) or discount (disagio). Financial obligations with fixed or determinable payments which are not financial debts or derivative financial liabilities and are not quoted on a market are reported on the balance sheet as accounts payable under other liabilities in accordance with their maturities.

In relation to the disclosures required under IFRS 7, classes are formed in line with the items reported on the balance sheet or the measurement category used in accordance with IAS 39.

No hybrid or derivative financial instruments are used in the SYZYGY Group.

Securities classified as available-for-sale in accordance with IAS 39 are carried at cost when first reported, generally corresponding to fair value, and subsequently at fair value, which usually corresponds to market values in the financial markets. Unrealised gains and losses are reported in the "Other comprehensive income" item in equity capital and in the statement of comprehensive income in "Change in unrealised gains and losses on available-for-sale securities which does not affect income". Exceptions include non-temporary impairment losses, and gains and losses from foreign currency translation of monetary items, which are recognised in the income statement. If an available-for-sale security is sold or a long-lasting or significant impairment is detected, the gains and losses previously accumulated in other comprehensive income are recognised in net income. Impairment of equity instruments recognised in income in the past is not reversed in net income. In contrast, reversals of impairment losses on debt capital instruments are recognised in net income.

Changes in interest rates may lead to fluctuation in the price of fixed-income securities, depending on their duration. No hedging is entered into in this regard.

2.3 Accounts receivable

Accounts receivable are recorded at the time of revenue recognition, i.e. on delivery to the client. Recognisable risks are taken into account by making value adjustments through separate value adjustment accounts. Accounts receivable are stated at their nominal value if no allowances are necessary due to default risk. Receivables due after more than one year are discounted in line with market rates. Services performed as part of fixed-price projects which are realised according to the percentage of completion method (PoC) as defined in IAS 18.20 ff. in conjunction with IAS 11 are also shown in accounts receivable (see also section 2.9, Revenue recognition).

2.4 Treasury stock

Treasury stock is reported as a reduction in equity. The total purchase cost is disclosed as an item to be deducted from equity.

Gains and losses from the sale of treasury stock are allocated to additional paid-in capital such that net income is not affected.

2.5 Deferred taxes

Deferred tax assets and liabilities are recognised for temporary differences between the valuations in the consolidated balance sheet in accordance with IFRS and the tax accounts and with regard to tax losses carried forward. Deferred tax liabilities are generally recognised for all taxable temporary differences; deferred tax assets are recognised insofar as it is likely that taxable profits are available for which the deductible temporary differences can be used.

Deferred tax assets and liabilities are shown separately in the balance sheet, unless they can be offset against each other for submission to the same tax authority. Deferred taxes are stated using the statutory tax rates expected to apply in the countries in question at the time of realisation.

The carrying amount of deferred tax assets is examined every year on the reporting date and is marked down if it is no longer likely that a taxable profit will be available against which the deductible temporary difference or the loss carry-forward for income tax purposes can be applied.

2.6 Accounts payable and other provisions
In accordance with IAS 39, current liabilities are shown at the time of acquisition at the settlement amount, which approximates to their market value. Non-current liabilities are valued at amortised cost according to the effective interest method by discounting the settlement amount, a process which is continued until maturity.

Other provisions are formed if a legal or de facto obligation to a third party exists resulting from a past event, the claim is probable and the amount payable can be reliably assessed. In determining other provisions, all applicable costs are taken into consideration.

2.7 Contingent liabilities
Contingent liabilities are potential obligations resulting from past events, whose existence is conditional on the occurrence or non-occurrence of one or more uncertain future events that are not fully under the control of the Group. Contingent liabilities are also present obligations resulting from past events, in which the outflow of resources with economic benefit is unlikely or in which the scope of the obligation cannot be reliably estimated.

Contingent liabilities are carried at fair value if they were acquired in the course of a company acquisition. Contingent liabilities that were not acquired in the course of a company acquisition are not recognised in the accounts.

2.8 Other assets and liabilities
Other assets and liabilities are recognised at their nominal value or settlement amount. Any impairments of other assets are taken into account through individual value adjustments.

2.9 Revenue recognition
SYZYGY generates sales from consulting and development services and from implementing advertising campaigns.

Sales from consulting services and from production of digital media content are recognised when the services are rendered in accordance with the terms of the contractual agreement, the payment is reasonably assured and the invoice amount is fixed or determinable.

Consulting services on a fixed-price basis are recognised in line with the percentage of completion method. The percentage of completion of a project is calculated by the ratio of realised time units to all the time units planned for completion of the project. Regular adjustments are made, based on updated planning. Provisions for expected losses on contracts are established in full in the period in which such losses become apparent.

With some projects, milestones are specified. In these cases, sales associated with a separate milestone are recognised when the Company has performed all work related to the milestone and the client has accepted the performance.

The Company also provides services for the planning and implementing of advertising campaigns on the Internet (media services). This involves purchasing advertising space, on the Company's own account in some cases, which is then billed when the service is provided. The cost of purchasing advertising space ("media costs") is passed on to the client when billing the media services, together with a fixed fee or a fee calculated in relation to the actual media costs. Revenue from media services is generally realised at the same time as the advertisement is published, or afterwards. The entire amount chargeable to clients is recognised as billings. The amount less transitory items and/or media costs is recognised as sales.

Income from interest and comparable items is recognised if it is likely that the economic benefit will accrue to the Group and the amount of the income can be determined reliably. Interest income is recognised on an accrual basis in relation to the particular period, based on the outstanding nominal amount and using the relevant effective interest rate.

2.10 Expenses for operating leases

Under current IFRS rules, the beneficial ownership of leased assets is attributed to the contracting partner in a leasing arrangement who bears the major opportunities and risks associated with the leased asset.

In an operating lease, the lessor bears the major opportunities and risks, with the result that the leased asset is recognised on the lessor's balance sheet. The leasing instalments paid by the lessee during the period of the leasing arrangement are recognised in the income statement.

2.11 Advertising expenses

Advertising expenses are included in the consolidated statement of comprehensive income at the time they are incurred.

2.12 Income taxes

Actual income taxes are determined on the basis of the tax rules applicable in the countries in which the respective company operates. In accordance with IAS 12, calculation of deferred taxes includes tax deferments on different valuations of assets and liabilities in the accounts prepared for financial accounting purposes (IFRS) and the accounts prepared for tax purposes. Current and deferred taxes are recognised as an expense or income unless they are associated with items whose changes in value are recognised directly in equity. In such cases, the deferred tax is also recognised directly in equity.

2.13 Earnings per share

Earnings per share are calculated in accordance with IAS 33 and correspond to total net income of the Group divided by the weighted average number of shares in circulation during the financial year. The acquisition of treasury stock reduces the number of shares in circulation accordingly.

In addition to the outstanding shares, all outstanding options which have not been exercised and whose intrinsic value during the reporting period was positive are taken into consideration when calculating diluted earnings.

2.14 Stock-based remuneration programmes

2012 stock option programme

According to IFRS 2, the cost of issuing stock options should be recorded in the income statement as a personnel expense (bonus agreement based on share price). The Supervisory Board and Management Board agreed in 2015 that settlement should be made in cash.

The market value of the option is determined as at the balance sheet date and the relevant expense is recognised up to the exercise date on a pro rata basis. The Group's obligation was reported as a provision.

Stock option programme 2013

In the 2013 financial year, the Group set up a stock option programme whereby the Group undertook to transfer a certain number of shares to employees after three years. If the employee leaves the SYZYGY Group prior to the end of the period, all claims arising from the stock option programme lapse without compensation. Alternatively, the employee is entitled to receive the market value as at the date of transfer in cash, instead of the shares. This share-based remuneration with the counterparty's freedom to choose the method of payment is structured such that both settlement alternatives have the same fair value. As a result, according to IFRS 2.37 the fair value of the equity component is zero and thus corresponds to the fair value of the compound financial instrument of the debt component. Consequently, SYZYGY recognises the expenses pro rata temporis as a provision from the date of commitment to the stock programme.

Phantom stock programme

In addition, a phantom stock programme was launched in 2015 and modified in the 2016 financial year. Under this arrangement the eligible employee receives the difference between the share price on the date of granting and the share price on exercise of the phantom stocks as a special payment. 40 per cent of the phantom stocks granted (Tranche 1) are not exercisable until at least 2 years have elapsed and will lapse after 3 years at the latest, while 60 per cent of the phantom stocks granted (Tranche 2) are not exercisable until at least 3 years have elapsed and will lapse after 4 years at the latest. The maximum price increase (cap) is limited to 60 per cent for Tranche 1 and to 90 per cent in the case of Tranche 2. There is also a change of control clause in this programme. It stipulates that the options may be exercised extraordinarily within a period of 6 weeks after a takeover offer is completed. Just as in the 2012 stock option programme, it involves share-based remuneration with cash settlement as defined in IFRS 2. As a consequence, the accounting principles described above are applied.

2.15 Government benefits

An unconditional government benefit is recognised as other income in profit or loss as soon as entitlement to the benefit arises. Other government benefits are initially recognised as deferred income items at fair value if there is reasonable certainty that they will be granted and the Group will satisfy the conditions associated with the benefit. These government benefits are then recognised as income on a scheduled basis over the useful life of the asset.

Benefits that compensate the Group for expenses incurred are recognised as deferred income items and entered as income on a scheduled basis in the periods in which the expenses are recorded.

3. Notes to the consolidated balance sheet

3.1 Goodwill

Reported goodwill of kEUR 33,797 (previous year: kEUR 25,080) arose from the acquisition of uniquedigital, Unique Digital UK, Hi-ReS! LON, Ars Thanea and USEEDS.

SYZYGY defines the individual companies as cash generating units. The values in use are determined using the discounted cash flow (DCF) method. Future cash flows to be discounted using the DCF method are determined using medium-term planning for financial and asset positions and results of operations.

Goodwill acquired in the course of business combinations was allocated to the following cash generating units for impairment testing:

- uniquedigital
- Unique Digital UK
- Hi-ReS! LON
- Ars Thanea
- USEEDS

The following table shows the carrying amounts of the goodwill allocated to the cash generating units and the recoverable amounts.

in kEUR	Goodwill	Recoverable amount
2016		
USEEDS	10,285	40,295
uniquedigital	8,841	14,822
Unique Digital UK	8,308	15,066
Ars Thanea	6,363	13,703
Hi-ReS! LON	0	0
Total	**33,797**	**83,866**

in kEUR	Goodwill	Recoverable amount
2015		
USEEDS	0	0
uniquedigital	8,841	20,852
Unique Digital UK	9,657	21,600
Ars Thanea	6,582	16,257
Hi-ReS! LON	0	0
Total	**25,080**	**58,709**

in kEUR	Goodwill	Recoverable amount
2014		
USEEDS	0	0
uniquedigital	8,841	11,893
Unique Digital UK	9,089	17,732
Ars Thanea	6,513	20,218
Hi-ReS! LON	919	1.218
Total	**25,362**	**51,061**

An impairment test of goodwill and of intangible assets with indefinite useful lives was conducted as at December 31, 2016. The recoverable amount for the cash generating units was calculated on the basis of the value in use using cash flow forecasts as at December 31, 2016. The forecasts are based on financial planning approved by management for a period of the next five years, updated each year.

The most important assumptions underlying the determination of value in use include assumptions of growth rates, margin development and discount rate.

In the case of the Unique Digital UK and Hi-ReS! LON cash generating units in the UK, a risk-free interest rate of 1.97 per cent (previous year: 2.62 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent) and a sector beta of 0.53 (previous year: 0.45) were used as a basis, producing a WACC (Weighted Average Cost of Capital) of 5.3 per cent after tax (previous year: 5.5 per cent), or 6.6 per cent before tax (previous year: 6.9 per cent). An average tax rate of 20 per cent was applied (previous year: 21 per cent). The relevant business plans are based on Hi-ReS! LON ceasing to generate sales from 2016 onwards. In the case of Unique Digital UK, the business plan for 2017 is based on expected sales growth of 17 per cent (previous year: 21 per cent) and sales growth of 8 to 10 per cent p.a. (previous year: 8 to 10 per cent) from 2018 to 2021, and a terminal value of 0 per cent. For 2017, the growth rate corresponds exactly to the budget plans of the cash generating unit, while subsequent developments are in line with the general market performance of the respective country.

Market research institutes expect the online advertising market in the UK to grow by around 12 per cent in 2017 (previous year: 14 per cent). Based on the underlying information, management did not identify any need in the updated analysis for impairment at Unique Digital UK, to which goodwill of kEUR 8,308 is allocated.

In the case of Hi-ReS! LON, management identified a need in the previous year for complete impairment in the amount of kEUR 973 after exchange rate changes, which is recorded in the statement of comprehensive income under "Other operating income/expenses, net" and was also recognised in the UK segment. The goodwill of this cash generating unit remains at kEUR 0 (previous year: kEUR 0).

In the case of uniquedigital and USEEDS in Germany, a risk-free interest rate of 1.04 per cent (previous year: 1.55 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent) and a sector beta of 0.53 (previous year: 0.45) were used as a basis, producing a WACC (Weighted Average Cost of Capital) of 4.4 per cent after tax (previous year: 4.4 per cent), or 6.2 per cent before tax (previous year: 6.3 per cent). An unchanged average tax rate of 30 per cent was applied.

The business plan for uniquedigital envisages sales growth of 7 per cent (previous year: 6 per cent) for 2017 and 7 to 9 per cent p.a. sales growth (previous year: 8 to 10 per cent) for the years 2018 to 2021. The terminal value is set at 0 per cent growth.

In the case of USEEDS, the business plan assumes sales growth of 4 per cent for 2017, 15 per cent p.a. sales growth for the period 2018 to 2020 and 10 per cent p.a. sales growth for 2021. The terminal value is set at 0 per cent growth.

Market research institutes expect the online advertising market in Germany to grow by around 10 per cent in 2017 (previous year: 10 per cent). Based on the underlying information, management did not identify any need in the analysis for impairment at uniquedigital, to which unchanged goodwill of kEUR 8,841 is allocated, nor for USEEDS, to which goodwill of kEUR 10,285 is allocated.

In the case of Ars Thanea in Poland, a risk-free interest rate of 1.04 per cent (previous year: 1.55 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent), a sector beta of 0.53 (previous year: 0.87), a country-specific risk premium of 1.21 per cent (previous year: 1.26 per cent) and an inflation differential of 100.21 per cent (previous year: 100.42 per cent) were assumed, producing a WACC (Weighted Average Cost of Capital) of 5.8 per cent after tax (previous year: 8.7 per cent), or 7.1 per cent before tax (previous year: 10.8 per cent). An unchanged average tax rate of 19 per cent was applied. The business plan envisages sales growth of 38 per cent for 2017 (previous year: 52 per cent), and 10 per cent p.a. for 2018 to 2021 (previous year: 15 to 25 per cent). The terminal value is set at 0 per cent, as in the prior year.

Market research institutes expect the online advertising market in Poland to grow by 17 per cent in 2017 (previous year: 15 to 19 per cent). Based on the underlying information, management did not identify any need in the analysis for impairment at Ars Thanea, to which goodwill of kEUR 6,363 is allocated.

If the key assumptions regarding interest rates, growth rates and margin development change, different values in use for the cash generating units will result. A rise of 100 basis points in the interest rate for 30-year government bonds would result in a rise in WACC before tax of the same amount in Germany and consequently a 20 per cent drop in values in use (previous year: 14 per cent) due to the higher discount factor. The effect on values in use in the UK and Poland would be similar. However, this would not result in impairment of any CGU.

If the sales growth rates at the companies decline to 5 per cent p.a. from 2018 onwards, there would still be no need for impairment.

3.2 Goodwill, other intangible assets and fixed assets

Changes are as follows in the financial year:

2016 in kEUR	Goodwill	Other intan-gible assets	Leasehold improvements	Operational and office equipment	Total
Acquisition or production costs at January 1, 2016	**27,468**	**1,516**	**2,424**	**6,741**	**38,149**
Additions	229	113	262	786	1,390
Disposals	0	-36	0	-318	-354
Addition from first-time consolidation	10,056	488	43	67	10,654
Exchange rate changes	-1,892	-64	-5	-213	-2,174
Acquisition or production costs at December 31, 2016	**35,861**	**2,017**	**2,724**	**7,063**	**47,665**
Accumulated amortisation, depreciation and write-downs January 1, 2016	**2,388**	**985**	**1,176**	**5,175**	**9,724**
Additions	0	304	543	931	1,778
Disposals	0	-36	0	-310	-346
Exchange rate changes	-324	-11	-8	-176	-519
Accumulated amortisation, depreciation and write-downs December 31, 2016	**2,064**	**1,242**	**1,711**	**5,620**	**10,637**
Carrying value at December 31, 2016	**33,797**	**775**	**1,013**	**1,443**	**37,028**

Changes are as follows in the previous year:

2015 in kEUR	Goodwill	Other intan-gible assets	Leasehold improvements	Operational and office equipment	Total
Acquisition or production costs at January 1, 2015	**26,694**	**1,428**	**2,135**	**5,949**	**36,206**
Additions	0	75	238	763	1,076
Disposals	0	-12	0	-80	-92
Exchange rate changes	774	25	51	109	959
Acquisition or production costs at December 31, 2015	**27,468**	**1,516**	**2,424**	**6,741**	**38,149**
Accumulated amortisation, depreciation and write-downs January 1, 2015	**1,332**	**902**	**934**	**4,341**	**7,509**
Additions	973	92	232	825	2,122
Disposals	0	-12	0	-58	-70
Exchange rate changes	83	3	10	67	163
Accumulated amortisation, depreciation and write-downs December 31, 2015	**2,388**	**985**	**1,176**	**5,175**	**9,724**
Carrying value at December 31, 2015	**25,080**	**531**	**1,248**	**1,566**	**28,425**

Other intangible assets include brand names worth kEUR 630 (prior year: kEUR 426) after foreign currency effects. These brand names are due to first-time consolidation of Hi-ReS! LON, Unique Digital UK, Ars Thanea and USEEDS. They are allocable to the UK segment in the amount of kEUR 127 (previous year: kEUR 148) and to the Germany segment in the amount of kEUR 174 (previous year: kEUR 202) and have an indefinite useful life, since there is no foreseeable end to the economic life of these brands. Brand names for Ars Thanea amounting to kEUR 48 (previous year: kEUR 76) are also included. They were likewise added in the course of acquiring the company and will be amortised on a straight-line basis over a period of five years. This brand equity is allocated to the "Other segments" segment. Brand names for USEEDS worth kEUR 281 (previous year: kEUR 0) are also included. They were likewise added in the course of acquiring the company and will be amortised on a straight-line basis over a period of five years. These brand names are allocated to the Germany segment.

Operational and office equipment mainly refers to hardware and office fittings. There were no indications of a need for impairments in the financial year.

3.3 Financial investments measured at equity

As in the previous year, there were no financial investments measured at equity in the current financial year.

3.4 Other non-current assets

Other non-current assets comprise financial assets in the "Loans and receivables" valuation category and are recognised in the amount of kEUR 625 (previous year: kEUR 674). They relate to rent deposits of kEUR 625 (previous year: kEUR 673), which were mainly attributable to SYZYGY UK.

3.5 Deferred tax assets

Deferred tax assets of kEUR 469 (previous year: kEUR 1,259) were reported in the financial year, of which kEUR 626 was attributable to loss carry-forwards at SYZYGY AG (previous year: kEUR 1,242). There are also deferred tax liabilities resulting from different valuations for the securities, amounting to kEUR 225 (previous year: kEUR 53), which were offset. Non-tax deductible provisions at SYZYGY AG resulted in deferred tax assets of kEUR 62 (previous year: kEUR 62).

At SYZYGY Deutschland GmbH, deferred tax assets amounting to kEUR 6 (previous year: kEUR 8) were recognised due to different valuations of SYZYGY Deutschland's fixed assets. The composition of deferred tax assets is disclosed in section 5.7, Income taxes.

3.6 Cash and cash equivalents and securities

Cash, bank deposits and time deposits with remaining terms to maturity (counted from the date of acquisition) of under 3 months are shown in the table below:

kEUR	12/31/2016	12/31/2015
Cash and cash equivalents	6,571	3,841

The cash and cash equivalents disclosed in the consolidated statement of cash flows comprise exclusively the amounts indicated in this balance sheet item. There are no restrictions on disposal of the assets indicated here.

The "Securities" item covers debt instruments publicly issued by governments or companies.

As in the previous year, all securities held are financial assets classified as available-for-sale as at the balance sheet date and are therefore recognised at fair value. Changes in value are recorded in "Other comprehensive income" such that they are not recognised in the income statement. As can be seen in the following table, the market value of all securities as at December 31, 2016 was kEUR 564 above the acquisition cost (previous year: kEUR 120). kEUR 879 (previous year: kEUR 1,180) was attributable to unrealised price gains and kEUR 315 (previous year: kEUR 1,060) to unrealised price losses. Security purchases and sales are recorded on the value date.

Of the unrealised profits and losses as at December 31, 2015 that had previously been recorded in other comprehensive income, kEUR 734 of valuation gains (previous year: kEUR 624) and kEUR 535 of valuation losses (previous year: kEUR 119) were realised in 2016.

Market value is determined using quoted market prices. The unrealised price gains and losses are reported in "Change in unrealised gains and losses on available-for-sale securities which does not affect income" in the statement of comprehensive income.

12/31/2016 in kEUR	Acquisition cost	Unrealised gains	Unrealised losses	Carrying value/ market value
Securities (available-for-sale)	15,017	879	-315	**15,581**

12/31/2015 in kEUR	Acquisition cost	Unrealised gains	Unrealised losses	Carrying value/ market value
Securities (available-for-sale)	22,826	1,180	-1,060	**22,946**

The following table shows the maturities of securities as per December 31, 2016:

in kEUR	< 1 year	1–5 years	5–10 years	Indefinite	Total
Securities (available-for-sale)	0	3,824	11,757	0	**15,581**

The following table shows the maturities of securities as per December 31, 2015:

in kEUR	< 1 year	1–5 years	5-10 years	Indefinite	Total
Securities (available-for-sale)	0	5,345	17,601	0	**22,946**

The performance of the securities portfolio is dependent on changes in interest rates and credit spreads. On average, the portfolio has a duration of around 7.3 (previous year: 7.2). This means that if credit spreads rise by 100 basis points and interest rates stay the same, the value of the securities portfolio will decline by around 7.3 per cent.

SYZYGY reduces default risk on securities by ensuring that a rating of at least BBB- (i.e. investment grade) is required in the case of new investments. All investments are continually monitored with regard to changes in rating and the investment decision is reviewed. As a matter of policy, maximum exposure to a single issuer is limited to EUR 2.0 million. In the case of new investments with a BBB- rating, exposure is limited to EUR 1.0 million. All securities with a maturity date are also subject to price changes which depend on credit spread changes and the remaining term to maturity. Some of the securities are also subject to exchange rate fluctuations. Although SYZYGY invests chiefly in EUR, it also holds securities denominated in USD and PLN. An allocation to bonds with a rating below investment grade was no longer made in the financial year (previous year: up to EUR 4.0 million).

The associated risks and sensitivity analyses are presented in section 6.3, Risk and capital management.

3.7 Accounts receivable

These items comprise the following:

in kEUR	12/31/2016	12/31/2015
Accounts receivable	17,023	17,972
Accounts receivable in line with PoC method	1,502	660
Total	**18,525**	**18,632**

Receivables and sales of kEUR 1,502 (previous year: kEUR 660) are recorded in line with the percentage of completion method for services not yet billed. Costs of kEUR 1,371 (previous year: kEUR 599) were incurred for projects realised using the percentage of completion method. This results in a margin of kEUR 131 (previous year: kEUR 61).

According to IAS 39, accounts receivable are financial assets that fall into the "Loans and receivables" valuation category. The following table shows the term structure of receivables.

Appropriate individual value adjustments are made for recognisable default risks, while uncollectable receivables are written off. As in the previous year, no individual value adjustments were made in this financial year.

Of which: not written down at the reporting date and overdue in subsequent time periods

Accounts receivable in kEUR	0–90 days	91–180 days	181–360 days	More than 360 days	Total
As of December 31, 2016	18,028	289	208	0	**18,525**
As of December 31, 2015	18,310	285	15	22	**18,632**

3.8 Other current assets

Other current assets as of December 31, 2016 and 2015 consist of the following:

in kEUR	12/31/2016	12/31/2015
Prepaid expenses	948	716
Tax receivables	524	266
Interest receivables	358	570
Other	232	210
Total	**2,062**	**1,762**

All other current assets are due within 12 months. As financial assets, interest receivables fall into the "Loans and receivables" valuation category in accordance with IAS 39 and represent realisable financial instruments. They are shown in the following breakdown by maturity:

Interest receivables in kEUR	0–90 days	91–180 days	181–360 days	Total
As of Dec. 31, 2016	98	71	189	**358**
As of Dec. 31, 2015	96	120	354	**570**

3.9 Equity

3.9.1 Subscribed capital

As of December 31, 2016, SYZYGY AG's fully paid-up subscribed capital amounted to EUR 12,828,450, as in the previous year. It comprised 12,828,450 no-par value bearer shares. These shares have an accounting par value of EUR 1.00. At December 31, 2016, 73,528 of them belonged to treasury stock (previous year: 133,438 shares).

The shareholders' structure of the Company at the reporting date was as follows:

In thousands	Shares	Percentage
WPP plc, St. Helier	6,643	51.79
Free float	6,111	47.63
Treasury stock	74	0.58
Total	**12,828**	**100.0**

3.9.2 Authorised and contingent capital

On July 8, 2016, the Annual General Meeting approved authorised capital amounting to kEUR 6,000. Accordingly, the Management Board is authorised, subject to the approval of the Supervisory Board, to issue additional ordinary no-par value bearer shares, which may be issued until the period ending July 8, 2021. The Management Board and Supervisory Board did not make any use of this authorisation in 2016. The authorised capital of kEUR 6,000, which was approved by the Annual General Meeting on May 27, 2011, expired on May 27, 2016. The Management Board and Supervisory Board did not make any use of this authorisation to issue new shares in respect of this authorised capital in 2015 and 2016.

Furthermore, at the Annual General Meeting on May 29, 2009, the Management Board was authorised to issue a maximum of 1,200,000 additional shares in connection with the employee stock-based compensation plan (contingent capital 2009). At the Annual General Meeting on June 6, 2014, this contingent capital was reduced from EUR 1,200,000 to EUR 300,000. Furthermore, at the Annual General Meeting on June 6, 2014, contingent capital 2014 amounting to EUR 900,000 was approved (contingent capital 2014).

In the 2012 financial year, a total of 300,000 options were issued at the exercise price of EUR 3.11 effective June 27, 2012, relating to contingent capital 2009. Section 3.10 contains details of the stock option programme.

Contingent capital 2014 has not been used so far.

3.9.3 Additional paid-in capital

Additional paid-in capital includes the premium on the nominal amount resulting from the issue of shares by SYZYGY AG.

In 2016, gains from the sale of treasury stock of kEUR 231 were realised (previous year: kEUR 12) and allocated to additional paid-in capital.

3.9.4 Treasury stock

SYZYGY is authorised to resell or call in treasury shares or to offer treasury shares to third parties in the course of acquiring companies. Treasury shares do not entitle SYZYGY to any dividend or voting rights. The extent of the share buyback is shown as a separate item to be deducted from equity.

In the course of the acquisition of USEEDS, 54,910 treasury shares were transferred to the seller in 2016, and 5,000 treasury shares were transferred to an employee under the stock option programme. The income obtained amounting to kEUR 231 was allocated to additional paid-in capital.

On May 29, 2015, the Annual General Meeting authorised the Management Board to acquire a maximum of 10 per cent of SYZYGY's outstanding shares until May 28, 2020. SYZYGY is authorised to resell or call in treasury shares, to offer them to employees of the Company as compensation, or to offer treasury shares to third parties in the course of acquiring companies. As at December 31, 2016, the Company held 73,528 treasury shares (previous year: 133,438) at an average acquisition cost of EUR 5.54.

3.9.5 Other comprehensive income

Other comprehensive income after tax summarised under "Other comprehensive income" amounted to kEUR -2,211 (previous year: kEUR -368) in the 2016 financial year and can be attributed to unrealised gains from securities after tax (kEUR 207; previous year: losses of kEUR 1,401) and losses from currency translation in non-EUR business operations (kEUR -2,418; previous year: gains of kEUR 1,033). All changes can be reclassified (recycling) and are consequently only recorded temporarily in other comprehensive income. They may be reclassified to the statement of profit or loss at a later stage.

3.9.6 Profit reserves

The consolidated financial statements showed profit reserves of kEUR 18,071 (previous year: kEUR 17,806) as of December 31, 2016. The change in the profit reserves during the financial year corresponds to net income of kEUR 4,982 (previous year: 4,639) less the distributed dividend of kEUR 4,717 (previous year: kEUR 4,443).

Dividend distributions are based on the distributable part disclosed in the annual financial statements of SYZYGY AG prepared according to the HGB (German Commercial Code). On July 8, 2016, the Annual General Meeting approved a dividend of EUR 0.37 per share (previous year: EUR 0.35), which was distributed starting on July 11, 2016. After adjusting the retained earnings to take account of the sale of treasury shares amounting to kEUR 332 (previous year: kEUR 92), the remaining retained earnings of kEUR 6,726 (previous year: kEUR 8,742) were carried forward to new account and recorded accordingly in the single-entity financial statements of SYZYGY AG.

As of December 31, 2016, the financial statements of SYZYGY AG showed retained earnings of kEUR 11,823 (previous year: kEUR 11,111).

3.10 Stock-based compensation

Option plan 2012

In the 2012 financial year, the "Stock Option Plan 2012" was approved, providing for the issue of up to 1,200,000 options to employees.

On June 27, 2012, the Company issued a total of 300,000 options at an exercise price of EUR 3.11. Of these options, 40 per cent can be exercised after two years and a further 60 per cent after three years, provided the share price has risen at least 20 per cent above the exercise price.

The options expire after five years. Instead of issuing shares, SYZYGY pays in cash the difference between the exercise price and the share price at the time of exercise. The obligations are accordingly recorded in a provision on a pro rata basis.

The parameters used in valuation of the issued options on the basis of the binomial model are as follows:

	12/31/2016	12/31/2015
Expected term of the options	up to 0.5 years	up to 1.5 years
Risk-free interest rate	0.0%	1.0%
Expected dividend yield	3.3%	4.2%
Expected volatility	30%	30%
Exercise price	EUR 3.11	EUR 3.11
Share price as of the balance sheet date	EUR 11.61	EUR 8.81

When carrying out the valuation, it was assumed that the options would be exercised on the earliest possible date. Volatility is based on the closing prices of SYZYGY shares in the past two years.

Changes in issued options:

in EUR	Number of options	Exercise price	Fair value
As at: December 31, 2015	**36,000**	**3.11**	**5.71**
New allocation	0	–	–
Exercised	26,000	3.11	8.60
Expired	0	–	–
As at: December 31, 2016	**10,000**	**3.11**	**8.50**

Of the 300,000 options, a total of 48,000 options were exercised in 2014. In 2015 a total of 216,000 options and in 2016 a total of 26,000 options were exercised, of which 18,000 on May 19, 2016 and 8,000 on October 19, 2016. The remaining 10,000 options may be exercised at any time and will lapse on June 27, 2017. In 2016, a payment of kEUR 224 was made due to the exercise of options. This represents an average fair value for the exercised options of EUR 8.60 per option. As of December 31, 2016, provisions for the exercise of options amounted to kEUR 85 (previous year: kEUR 205). In 2016, the provisions created in the previous year were consumed in the amount of kEUR 145 (previous year: kEUR 613) and an expense was incurred in 2016 due to payments of kEUR 79 (previous year: kEUR 577). There were also expenses for the allocation made to provisions and recognised in profit or loss of kEUR 25 (previous year: kEUR 103).

No further options were issued in the 2016 financial year. There were also no options that were forfeited or had lapsed.

Stock option programme 2013

In the 2013 financial year, the Group set up a stock option programme whereby the Group undertook to transfer a certain number of shares to employees after three years. If the employee leaves the SYZYGY Group prior to the end of the period, all claims arising from the stock option programme lapse without compensation. Alternatively, the employee is entitled to receive the market value as at the date of transfer in cash, instead of the shares. As at the reporting date, commitments for a total of 90,000 shares are outstanding, of which 20,000 from 2014, a further 50,000 from 2015 and 20,000 in 2016. The expenses are recognised pro rata temporis from the date of commitment to the stock programme, with the result that a provision for claims arising from the stock option programme in the amount of kEUR 471 (previous year: kEUR 274) was recognised as at the key date. The allocation recognised in profit or loss was kEUR 518 in the financial year (previous year: kEUR 196).

in kEUR	Number of options	Fair value
As at: Dec. 31, 2015	**90,000**	**793**
New allocation	20,000	235
Exercised	-20,000	-243
Expired	0	0
Change in value	0	260
As at: Dec. 31, 2016	**90,000**	**1,045**

Phantom stock programme 2015

The phantom stock plan was set up as a new scheme in 2015. Under this arrangement the eligible employee receives the difference between the share price on the date of granting and the share price on exercise of the phantom stocks as a special payment. 40 per cent of the phantom stocks granted (Tranche 1) are not exercisable until at least 2 years have elapsed and will lapse after 3 years at the latest, while 60 per cent of the phantom stocks granted (Tranche 2) are not exercisable until at least 3 years have elapsed and will lapse after 4 years at the latest. The maximum price increase (cap) is limited to 60 per cent for Tranche 1 and to 90 per cent in the case of Tranche 2.

Marco Seiler exercised all his phantom stocks in 2015 and received no further entitlement under the phantom stock programme in 2016. Due to the takeover offer by WPP, Andrew P. Stevens and Erwin Greiner exercised all their phantom stocks in 2015. The Supervisory Board renewed the original programme in relation to the exercised phantom stocks of Andrew P. Stevens and Erwin Greiner in April 2016. It set the base price at EUR 9.00, taking into account the original duration of the phantom stock programme launched in 2015.

As a result, Andrew P. Stevens holds 120,000 phantom stocks and Erwin Greiner holds 75,000 phantom stocks, with an exercise price of EUR 9.00 in each case. The new Chairman of the Management Board, Lars Lehne, received a total of 240,000 phantom stocks on April 1, 2016, with an exercise price of EUR 9.13. The Group thus incurred an expense of kEUR 522 in the 2016 financial year as a provision for entitlements arising from the Phantom Stock Plan 2016.

in EUR	Number of options	Exercise price	Fair value
As at: December 31, 2015	**0**	**0**	**0**
New allocation I	240,000	9.13	2.48
New allocation II	195,000	9.00	2.61
Exercised	0	0	0
Expired	0	0	0
As at: December 31, 2016	**435,000**	**0**	**2.54**

3.11 Accounts payable and other provisions

As at December 31, 2016 and 2015, accounts payable and other provisions consisted of:

in kEUR	12/31/2016	12/31/2015
Accounts payable	7,434	7,797
Other provisions:		
– Obligations towards other parties	5,291	4,684
– Personnel-related provisions	3,019	2,068
– Other	358	373
Total	**16,102**	**14,922**

Personnel-related provisions mainly comprise the employee stock-based compensation plans described in section 3.10, employee bonuses and holidays. All accounts payable are due within one year and can be allocated to the "Financial liabilities at amortised costs" valuation category.

Obligations towards other parties primarily relate to outstanding invoices and customer bonuses.

Statement of changes in provisions as of December 31, 2016 in kEUR	Carrying value 01/01/2016	Usage	Reversal	Addition	Carrying value 12/31/2016
Outstanding invoices	4,684	-4,018	-270	4,895	5,291
Personnel-related provisions	2,068	-973	-23	1,947	3,019
Other provisions	373	-373	0	358	358
Total	**7,125**	**-5,364**	**-293**	**7,200**	**8,668**

Statement of changes in provisions as of December 31, 2015 in kEUR	Carrying value 01/01/2015	Usage	Reversal	Addition	Carrying value 12/31/2015
Outstanding invoices	5,721	-5,172	-189	4,324	4,684
Personnel-related provisions	2,129	-1,591	-18	1,548	2,068
Other provisions	322	-322	0	373	373
Total	**8,172**	**-7,085**	**-207**	**6,245**	**7,125**

3.12 Tax liabilities

The breakdown of income tax liabilities is shown in the following table:

in kEUR	12/31/2016	12/31/2015
British income taxes	160	120
German income taxes	32	117
Polish income taxes	11	0
American income taxes	0	890
Total	**203**	**1,127**

3.13 Other liabilities

The components of other liabilities are detailed in the following:

in kEUR	12/31/2016	12/31/2015
Financial liabilities due to contingent purchase price payments	6,650	2,342
German VAT	1,761	1,012
Social security, salary and church taxes	674	633
British VAT	380	383
Polish VAT	-61	-1
Other	497	358
Total	**9,901**	**4,727**

The following table shows the maturities of other current liabilities and other non-current liabilities as at December 31, 2016:

in kEUR	< 1 year	1–5 years	5–10 years	Indefinite	Total
Other liabilities	3,022	2,451	4,428	0	**9,901**

The following table shows the maturities of other current liabilities and other non-current liabilities as at December 31, 2015:

in kEUR	< 1 year	1–5 years	5–10 years	Indefinite	Total
Other liabilities	2,385	2,342	0	0	**4,727**

Liabilities due to contingent purchase price payments constitute financial liabilities and fall into the "Financial liabilities at fair value through profit or loss" valuation category. Other liabilities excluding tax liabilities have been allocated to the "Financial liabilities at amortised costs" valuation category.

4. Segment reporting

Application of IFRS 8 requires segment reporting in accordance with the Group's management approach. SYZYGY thus bases segment reporting on geographical lines.

As the holding company, SYZYGY AG mainly delivers services to the operating units and therefore needs to be considered separately as a provider of central functions. The UK segment consists of SYZYGY UK, Unique Digital UK and Hi-ReS! LON. The Germany segment comprises Hi-ReS! BER, SYZYGY Deutschland, uniquedigital and USEEDS. SYZYGY NY has formed a separate United States segment since 2015. Ars Thanea does not fulfil the size criteria to qualify as an independent geographical segment. For this reason it is presented under "Other segments".

All segments offer large corporations an integrated portfolio of corporate Internet solutions: from strategic consulting to project planning, concepts, design and technical realisation. SYZYGY's services are complemented by search engine marketing and online media planning.

The individual segments apply the same accounting principles as the consolidated entity.

The criteria primarily used by SYZYGY AG to assess the performance of the segments include sales and EBIT. Sales to third parties are allocated on the basis of the registered office of the company unit that makes the sale. Information about the geographical areas in relation to segment sales and non-current assets is provided in the segment summary below. Sales included in segment reporting consist of sales to external clients and intersegment sales. Transactions within segments, which are charged at market prices, were eliminated.

Segment assets are equivalent to total assets plus the goodwill attributable to the respective segment, less receivables attributable to companies in the same segment.

Segment investments comprise investments in intangible assets and fixed assets.

Segment liabilities correspond to total liabilities excluding equity plus minority shares attributable to the respective segment, less liabilities attributable to companies in the same segment.

12/31/2016 in kEUR	Germany	United Kingdom	United States	Other segments	Central functions	Consolidation	Total
Billings	72,629	35,603	33,933	3,175	600	-3,136	**142,804**
Media costs	-31,411	-20,630	-26,490	0	0	0	**-78,531**
Sales	41,218	14,973	7,443	3,175	600	-3,136	**64,273**
Of which internal sales	1,234	634	0	1,268	0	-3,136	**0**
Operating income (EBIT)	5,279	1,950	805	435	-2,875	2	**5,596**
Financial income	95	1	0	-10	8,971	-7,721	**1,336**
Earnings before taxes (EBT)	5,374	1,951	805	425	6,096	-7,719	**6,932**
Assets	41,071	17,540	4,007	7,723	65,512	-54,992	**80,861**
Of which non-current assets	21,386	8,709	363	6,533	37	0	**37,028**
Of which goodwill	19,126	8,308	0	6,363	0	0	**33,797**
Investments	991	251	57	69	22	0	**1,390**
Depreciation and amortisation	1,325	231	100	105	17	0	**1,778**
Impairment loss for goodwill	0	0	0	0	0	0	**0**
Segment liabilities	14,822	4,842	3,199	455	14,522	-6,764	**31,076**
Employees at the balance sheet date	330	133	17	76	22	0	**578**

12/31/2015 in kEUR	Germany	United Kingdom	United States	Other segments	Central functions	Consolidation	Total
Billings	69,041	33,802	40,173	3,004	323	-2,424	**143,919**
Media costs	-36,354	-17,499	-32,755	0	0	0	**-86,608**
Sales	32,687	16,303	7,418	3,004	323	-2,424	**57,311**
Of which internal sales	517	1,730	0	177	0	-2,424	**0**
Operating income (EBIT)	5,141	1,933	2,128	236	-4,389	219	**5,268**
Financial income	148	10	-28	-12	8,950	-7,093	**1,975**
Earnings before taxes (EBT)	5,289	1,943	2,100	224	4,561	-6,874	**7,243**
Assets	22,392	21,120	7,306	8,101	59,748	-41,128	**77,539**
Of which non-current assets	11,092	10,105	398	6,798	32	0	**28,425**
Of which goodwill	8,841	9,657	0	6,582	0	0	**25,080**
Investments	894	72	44	42	23	1	**1,076**
Depreciation and amortisation	722	221	89	101	16	0	**1,149**
Impairment loss for goodwill	0	973	0	0	0	0	**973**
Segment liabilities	12,470	6,257	6,434	942	9,465	-9,216	**26,352**
Employees at the balance sheet date	267	112	11	71	20	0	**481**

As in the previous year, SYZYGY generated more than 10 per cent (EUR 6.5 million) of consolidated sales with one client in the Germany segment (previous year: EUR 5.8 million).

In 2016, more than 10 per cent of consolidated sales was no longer generated with one client in the US segment (previous year: EUR 8.0 million).

Please see the comments under 5.1 "Sales" for disclosure of sales to external clients for each group of comparable services.

5. Notes on the statement of comprehensive income

5.1 Sales

The sales figures include sales revenue from the product areas online marketing and design and technical realisation. The sales figures are arrived at by deducting media costs from billings. Media costs are incurred in the online marketing subsidiaries as transitory items. Billings include all invoices to third parties, i.e. both our own (in the design and technical realisation product area) and those in our own name and for the account of a third party (online marketing). In 2016, the SYZYGY Group generated sales of kEUR 48,112 from design and technical realisation (previous year: kEUR 40,156) and billings of kEUR 96,006 (previous year: kEUR 104,311) from online marketing. Online marketing includes media costs of kEUR 78,531 (previous year: kEUR 86,608), resulting in sales of kEUR 17,475 (previous year: kEUR 17,703). Internal sales of kEUR 195 (previous year: kEUR 424) were conducted between the product areas as well as sales to or from the parent company amounting to kEUR 1,115 (previous year: kEUR 447), which were completely eliminated in the consolidated financial statements.

5.2 Other operating income and expenses

Other operating income and expenses consist of the following:

in kEUR	2016	2015
Fair value measurement of earn-out liability	1,011	1,031
Exchange rate effects	502	364
Release of provisions	287	185
Employee usage of company cars	122	103
Refund from health insurance funds	37	58
Subletting	13	8
Refund of ancillary costs	12	20
Amortisation of corporate assets	-208	-25
Investment grant	0	154
Impairment of goodwill at Hi-ReS! London	0	-973
Other	109	3
Total	**1,885**	**928**

5.3 Cost of purchased services

The cost of purchased services, which is included in the "Cost of sales" item in the statement of comprehensive income, mainly comprises expenses for freelance workers and outsourced services:

in kEUR	2016	2015
Cost of purchased services	11,342	10,027

5.4 Personnel expenses

Personnel expenses, which are included in various items within the consolidated statement of comprehensive income, are as follows:

in kEUR	2016	2015
Salaries and wages	29,693	29,243
Social security	4,384	3,759
Total	**34,077**	**33,002**

In 2016, the average number of full-time employees in the SYZYGY Group was 540 (previous year: 483 employees).

By the end of the 2016 financial year, the total number of SYZYGY employees had risen to 578 (previous year: 481 employees). The employees are distributed across the following functional areas within the Company:

Number of persons	12/31/ 2016	12/31/ 2015	Aver- age in 2016	Aver- age in 2015
Strategy/consulting/ project management	157	133	149	128
Online marketing/ online media	121	91	109	92
Technology	120	109	111	112
Creative services	118	95	112	97
Administration	62	53	59	54
Total	**578**	**481**	**540**	**483**

5.5 Depreciation and amortisation

Depreciation and amortisation, which is included in various items within the consolidated statement of comprehensive income, comprises the following:

in kEUR	2016	2015
Amortisation of intangible assets	304	1,065
Depreciation of fixed assets	1,474	1,057
Total	**1,778**	**2,122**

In the previous year, the "Amortisation of intangible assets" item included an impairment of goodwill for Hi-ReS! LON in the amount of kEUR 973. No impairments of intangible assets were recorded in the 2016 financial year.

5.6 Financial income

in kEUR	2016	2015
Interest and similar income	880	1,128
Income from the sale of securities, net	504	848
Interest expense and similar expenses	-48	-1
Total	**1,336**	**1,975**

Interest and similar income includes interest payments received of kEUR 1,076 (previous year: kEUR 1,129).

Income from the sale of securities includes gains of kEUR 834 (previous year: kEUR 1,252) and losses of kEUR 330 (previous year: kEUR 404).

Interest and similar income, interest expense and similar expenses and income from the sale of securities are mainly derived from the available-for-sale valuation category. Interest expenses also include interest expenses pursuant to article 233a of the German Fiscal Code (Abgabenordnung, AO).

5.7 Income taxes

in kEUR	2016	2015
Current foreign income taxes	639	1,362
Current domestic income taxes	562	392
Subtotal of current income taxes	1,201	1,754
Deferred taxes	634	625
Total	**1,835**	**2,379**

In Germany, a uniform corporation tax rate of 15 per cent applies. The tax rate amounts to 15.8 per cent when the solidarity surcharge of 5.5 per cent is taken into account. The tax rate for trade tax changed marginally for the SYZYGY AG group in comparison with the previous year. The allocation of trade tax between the Bad Homburg v. d. H., Frankfurt, Hamburg and Munich locations is weighted on the basis of the total salaries at the respective locations, with trade tax rates unchanged. The applicable tax rate for the group parent was 31.0 per cent, as in the previous year. In the UK, there has been a general tax rate of 21 per cent since April 1, 2014; a general tax rate of 20 per cent applies from April 1, 2016.

In the United States, there is a general federal tax of 34 per cent. The addition of local taxes in the state of New York produces an effective tax rate of 45 per cent for 2016, as in the previous year.

In Poland, there has been a uniform tax rate of 19 per cent on corporate profits since January 1, 2015.

SYZYGY received an income tax refund of kEUR 83 net in the 2016 financial year (previous year: kEUR 144). Due to the use of loss carry-forwards, tax expense was reduced by kEUR 616 (previous year: kEUR 608). Deferred tax assets and liabilities can be summarised as follows:

in kEUR	2016	2015
Deferred taxes (assets)		
Loss carry-forwards at SYZYGY AG	626	1,242
Provisions	62	62
Fixed assets	6	8
Current assets (securities)	-225	-53
Total	**469**	**1,259**

in kEUR	2016	2015
Deferred taxes (liabilities)		
USEEDS brand	87	0
Hi-ReS brand	61	63
Unique Digital brand	32	31
Accounts receivable	29	0
Fixed assets	19	38
Ars Thanea brand	10	14
Total	**238**	**146**

The deferred tax assets at SYZYGY AG as the parent company are recorded on loss carry-forwards and on the different valuations of provisions; these were netted against deferred tax liabilities resulting from valuation differences for securities.

Other deferred tax assets result from differences in the useful lives of the assets between valuations in accordance with IFRS and the tax accounts at SYZYGY Deutschland GmbH.

SYZYGY AG has usable tax loss carry-forwards of kEUR 1,252 for corporation tax (previous year: kEUR 3,228) and kEUR 2,844 for trade tax (previous year: kEUR 4,861), which will be used in the next five years and for which deferred tax assets have been created in full.

The deferred tax liabilities result from first-time consolidation of Ars Thanea, Hi-ReS! LON, Unique Digital UK and USEEDS, plus kEUR 48 (previous year: kEUR 38) due to differences in the useful lives of the assets between valuations in accordance with IFRS and the tax accounts at SYZYGY UK and Unique Digital UK, and due to different valuations of accounts receivable at Ars Thanea.

Income taxes for the financial year can be transferred to the profit for the period as follows:

in kEUR	2016	2015
Income before taxes	6,932	7,243
Income tax charge at a tax rate of 31 per cent (previous year: 31 per cent)	2,149	2,245
Expected tax value of non-tax deductible expenditure	77	115
Differences in tax rates	-152	78
Use of tax loss carry-forwards and change	0	-158
Additional tax payment for previous years	102	0
Tax refunds for previous years	-185	0
Other	-156	99
Actual income tax	**1,835**	**2,379**

The tax rate differences result from an average tax rate of 31.0 per cent in Germany compared with 45 per cent in the US, 20.3 per cent in the UK and 19 per cent in Poland. A tax rate of 19 per cent applies in the UK starting from April 1, 2017. Deferred taxes were accounted for taking future tax rates into consideration. In the 2016 financial year, deferred tax liabilities of kEUR 144 (previous year: kEUR 37) were attributable to items that were offset directly against equity. The change in the valuation differences of kEUR 106 is recorded in other comprehensive income (previous year: kEUR -629). These amounts resulted essentially from taking into account price gains and losses on securities held as current assets such that net income was not affected.

As at the balance sheet date, there were taxable temporary differences in connection with shares held in subsidiaries amounting to kEUR 138 (previous year: kEUR 177), for which no deferred tax liabilities have been recognised.

5.8 Notes on currency translation

In accordance with IAS 21.52 in conjunction with IAS 39.9, currency translation differences of kEUR -2,412 (previous year: kEUR 1,029) are recorded in other comprehensive income such that net income is not affected and carried under "Other comprehensive income".

6. Other notes

6.1 Earnings per share

Earnings per share from continuing operations – diluted and basic – are calculated in accordance with IAS 33 as follows:

	2016	2015
Weighted average number of shares (in thsd.), diluted and basic	12,734	12,689
Net income of SYZYGY AG shareholders (in kEUR)	4,982	4,639
Earnings per share – diluted and basic (in EUR)	0.39	0.37

6.2 Consolidated statement of cash flows

When preparing the consolidated statement of cash flows in accordance with IAS 7, the indirect method is used to prepare the cash flow from operating activities and the direct method is used for cash flow from investment and financing activities. In 2016, operating cash flow amounted to kEUR 5,930 (previous year: kEUR -2,421). The cash and cash equivalents comprise exclusively cash and cash equivalents with a contractual remaining term to maturity of less than three months.

In the course of the financial year, the Group conducted the following non-cash investment and financing transactions, which are reflected accordingly in a correction item in the consolidated statement of cash flows:

The Group obtained income of kEUR 1,011 from reduction of the earn-out liability associated with acquiring Ars Thanea (previous year: kEUR 1,031).

6.3 Risk and capital management

With regard to assets, liabilities and planned transactions, SYZYGY is subject to risk arising from changes in currency and interest rates as well as the creditworthiness of securities issuers.

6.3.1 Currency risk

SYZYGY generates around a third of its sales outside Germany, so exchange rate fluctuation between sterling/the US dollar/the Polish zloty and the euro can have a positive or negative impact on securities and liabilities denominated in these currencies, and on sales and annual net income, in the event of deviation from the rate used for planning purposes. The assets and liabilities of the foreign operating companies are translated into the reporting currency at the balance sheet date and are therefore subject to translation risk. No hedging of currency risk currently takes place in the SYZYGY Group. In terms of operations, the Group companies conduct their activities predominantly in their respective functional currency. SYZYGY chooses not to hedge these cash flows since the costs and benefits of such cash flow hedges do not appear appropriate and the risk to the Group's net assets, financial position and results of operations is regarded as immaterial.

IFRS 7 requires the use of market risk sensitivity analysis to show the effects of hypothetical changes to relevant risk variables on profit or loss and equity. It is assumed that the portfolio as at the reporting date is representative of the year as a whole.

Currency sensitivity analysis is based on the following assumptions:

Most securities, cash and cash equivalents, receivables and accounts payable are directly denominated in euros, the functional currency of SYZYGY AG.

In contrast, the earn-out obligation to the former shareholders in Ars Thanea is due (in 2019) in Polish zloty. The currency risk associated with this liability has been largely offset by the purchase of Polish government bonds denominated in zloty. A depreciation of the Polish zloty by around 10 per cent would give rise to an additional expense of kEUR 48 (previous year: kEUR 115).

SYZYGY's portfolio also includes bonds issued in US dollars. If the US dollar were to lose 10 per cent of its value against the euro, SYZYGY would have to bear currency losses of kEUR 454 when selling these bonds or re-assessing their market value (previous year: kEUR 288).

Lastly, SYZYGY regularly receives profit distributions in non-EUR currency from its foreign subsidiaries, chiefly in the UK. These distributions are exchanged into euro when received.

6.3.2 Interest risk

SYZYGY is only subject to interest risk with regard to securities. There are no material financial liabilities which can create interest risk. Cash and cash equivalents were invested at variable rates on overnight terms.

Sensitivity analyses regarding interest rate changes must be presented in accordance with IFRS 7. Since SYZYGY classifies securities as available-for-sale as per IAS 39, interest rate changes have no immediate impact on the Group's earnings. Unrealised gains and losses are recognised in other comprehensive income and carried in equity under "Other comprehensive income".

As at the balance sheet date, EUR 15.6 million (previous year: EUR 22.9 million) was invested in a securities portfolio with a duration of around 7.3 years (previous year: 7.2 years). An interest rate change of 100 basis points with regard to these investments would result in a change in the fair value of the portfolio of around 7.3 per cent (previous year: 7.2 per cent).
This would lead to a change in the fair value of around kEUR 1,122 (previous year: kEUR 1,649). Increases in interest rates have a negative effect on performance of the portfolio, while decreases have a positive effect.

6.3.3 Credit and default risk – risk of changes in credit spreads

SYZYGY is exposed to credit and default risk from operations and also with regard to securities investments. SYZYGY reduces default risk on securities by ensuring that a rating of at least BBB– (i.e. investment grade) is required in the case of new investments. All investments are continually monitored with regard to changes in rating and the investment decision is reviewed. As a matter of policy, maximum exposure to a single issuer is limited to EUR 2.0 million. All securities are also subject to price changes which depend on credit spread changes and the remaining term to maturity. A widening of credit spreads in a risk class leads to a corresponding price decrease, depending on the duration of a security. Given that the duration of the securities portfolio is 7.3 years (previous year: 7.2 years), if average credit spreads widen by 100 basis points the portfolio's value would fall by 7.3 per cent (previous year: 7.2 per cent). This would lead to a change in the fair value of around kEUR 1,122 (previous year: kEUR 1,649) at SYZYGY.

On the operational side, default risk is continuously monitored at the level of the individual companies. SYZYGY mainly works for large customers with excellent credit ratings and thus generally does not suffer any bad debts. The volume of receivables due from individual customers is also not such that it involves an exceptional concentration of risk.

The maximum default risk is equivalent to the carrying amounts of financial assets in the balance sheet.

6.3.4 Derivative financial instruments

As in the previous year, SYZYGY did not use derivative financial instruments for risk diversification and portfolio structuring in the 2016 financial year.

6.3.5 Capital management

SYZYGY's capital management policy is primarily aimed at financing both organic and inorganic growth and ensuring the ongoing course of business in the operating companies. SYZYGY aims to have an equity ratio within the target range of 60 per cent to 80 per cent, since this strengthens the competitiveness of a service provider such as SYZYGY. A further capital management objective over the medium term is to raise the return on equity to over 10 per cent. In order to achieve these objectives, SYZYGY is seeking organic and inorganic growth together with an increase in profitability.

The key figures with regard to capital management are as follows:

in kEUR	2016	2015
Equity according to the balance sheet	49,785	51,187
Debt capital	31,076	26,352
Total capital	80,861	77,539
Equity ratio	62%	66%
Net income for the period	5,097	4,864
Return on equity	10%	10%

SYZYGY does not have any liabilities to banks as at the end of the 2016 financial year (previous year: kEUR 216); debt capital primarily comprises accounts payable, future obligations arising from the acquisition of companies and tax liabilities.

6.3.6 Liquidity risk

SYZYGY has implemented a liquidity management system. In order to provide financial flexibility and ensure solvency at all times, SYZYGY holds a liquidity reserve in the form of cash and securities that can be converted into cash at any time.

6.4 Contingent liabilities

As at the balance sheet date, the Group's contingent liabilities requiring disclosure amounted to kEUR 362 (previous year: kEUR 362) arising from the provision of rent guarantees for rental space in Bad Homburg v. d. H., Berlin, Frankfurt, Hamburg and Munich. The risk of a claim being made in relation to the guarantees depends on the ability of the companies occupying the rental space to service the obligations resulting from the tenancy and their business operations. SYZYGY has also granted a guarantee for the operational business relating to a subsidiary's client amounting to kEUR 175 (prior year: kEUR 175). At present there are no indications that the subsidiaries will be unable to comply with their agreements. SYZYGY has agreed an indefinite guarantee loan of kEUR 537 (previous year: kEUR 537) with a financial institution, for which annual commission of 0.3 per cent is charged. A securities portfolio held by SYZYGY serves as collateral and has a carrying value of kEUR 2,670 (previous year: kEUR 6,996).

6.5 Other financial obligations

The Group companies have concluded leasing and rental agreements with regard to various office premises and vehicles. The future minimum annual payments resulting from these agreements amount to:

in kEUR	12/31/2016	12/31/2015
Within 1 year	2,224	2,746
1–5 years	3,817	3,927
More than 5 years	2,288	0
Total	**8,329**	**6,673**

Total expenses for rent in 2016 amounted to kEUR 3,095 (prior year: kEUR 2,851). Income of kEUR 13 was obtained from subletting in 2016 (previous year: kEUR 8). In 2016, kEUR 143 (previous year: kEUR 154) was spent on leasing obligations.

6.6 Recognised financial assets and liabilities by measurement level

The following table shows financial assets and liabilities recognised at fair value, broken down by measurement level. The measurement levels are defined as follows:

Level 1:
Financial instruments traded on active markets, whose quoted prices were adopted without change for measurement purposes.

Level 2:
Measurement is carried out on the basis of the relevant procedures, using factors that are derived directly or indirectly from observable market data.

Level 3:
Measurement is carried out on the basis of the relevant procedures, using factors that are not based exclusively on observable market data.

Securities are measured on the basis of observable quotation of the individual bond prices. The valuation of contingent purchase price commitments is based on earnings forecasts for the Ars Thanea subsidiary and for USEEDS over the earn-out period.

The following table shows the Group's other financial assets and liabilities. It does not include any information on the fair value of the financial assets and liabilities that were not measured at fair value, since in all cases the carrying value is a reasonable approximation to fair value.

Fair values of financial assets and liabilities that are usually measured at fair value:

12/31/2016 in kEUR	Level 1	Level 2	Level 3	Total
Securities	15,581	–	–	**15,581**
Total financial assets	**15,581**	**–**	**–**	**15,581**
Conditional purchase price commitment	–	–	6,650	**6,650**
Total financial liabilities	**–**	**–**	**6,650**	**6,650**

12/31/2015 in kEUR	Level 1	Level 2	Level 3	Total
Securities	22,946	–	–	**22,946**
Total financial assets	**22,946**	**–**	**–**	**22,946**
Conditional purchase price commitment	–	–	2,342	**2,342**
Total financial liabilities	**–**	**–**	**2,342**	**2,342**

Fair values of financial assets and liabilities that are not measured at fair value, but for which the fair value must be stated:

	2016		2015	
Financial assets and liabilities that are not measured at fair value in kEUR	Loans and Receivables	Financial Liabilities at Amortized Costs	Loans and Receivables	Financial Liabilities at Amortized Costs
Other non-current assets	625	–	674	–
Cash and cash equivalents	6,571	–	3,841	–
Accounts receivable	18,525	–	18,632	–
Interest receivables in other current assets	358	–	570	–
Accounts payable	–	7,434	–	7,797
Total	**26,079**	**7,434**	**23,717**	**7,797**

6.7 Statement of controlled investments

SYZYGY AG holds direct or indirect investments in the following companies:

	Share	Equity	Net income
	%	kEUR	kEUR
Ars Thanea S.A., Warsaw, Poland	70	857	378
Hi-ReS! Berlin GmbH, Berlin, Germany	60	60	5
Hi-ReS! London Ltd, London, UK	100	-512	-140
SYZYGY Deutschland GmbH, Bad Homburg v. d. H., Germany[2]	100	196	-238
SYZYGY Digital Marketing Inc., New York City, USA	100	808	629
SYZYGY UK Ltd, London, UK[1]	100	1,946	819
Unique Digital Marketing Ltd, London, UK[1]	100	6,142	1,844
uniquedigital GmbH, Hamburg, Germany[3]	100	40	0
USEEDS° GmbH, Berlin, Germany	100	1,088	613

1 – Unique Digital Marketing Ltd holds 100 per cent of the shares in SYZYGY UK Ltd, which operates in the UK. The holding in SYZYGY UK Ltd is therefore indirect.
2 – There is a controlling and profit and loss transfer agreement in place between SYZYGY Deutschland GmbH and SYZYGY AG in favour of SYZYGY AG.
3 – There is a profit and loss transfer agreement in place between uniquedigital GmbH and SYZYGY AG in favour of SYZYGY AG.

6.8 Auditor's fee

The auditor, BDO AG Wirtschaftsprüfungsgesellschaft, charged a total fee, including outlay, of kEUR 112 (previous year: kEUR 105) for auditing services relating to the consolidated financial statements and the financial statements of the parent company. BDO AG Wirtschaftsprüfungsgesellschaft provided no other auditing services (previous year: kEUR 7).

6.9 Information on associated companies and persons

The associated parties include the boards of SYZYGY AG and companies on which SYZYGY can exert a major influence. SYZYGY AG has been a controlled and fully consolidated company of WPP plc, St. Helier, Jersey, since November 2015, after the WPP Group increased its shareholding in SYZYGY AG from just under 30 per cent to a current level of 51.8 per cent in the course of a voluntary takeover offer. As a result, all companies in the WPP Group are likewise qualified as associated parties.

Balances and business transactions between SYZYGY AG and its subsidiaries that are associated parties were eliminated in the course of consolidation and will not be discussed any further. Details of transactions between the Group and other associated parties are disclosed below. As a matter of policy, all transactions with associated parties are concluded on normal market terms.

In 2016, SYZYGY generated sales of kEUR 668 (previous year: kEUR 78) with the WPP Group for client projects. Of this amount, receivables of kEUR 0 (previous year: kEUR 47) were still outstanding as at the reporting date. During the financial year, SYZYGY also made use of administrative services provided by the WPP Group with a value of kEUR 13 (previous year: kEUR 14). The resulting liabilities were settled in the same year.

With the exception of remuneration for members of the Management Board and their transactions with SYZYGY shares (see section 6.12.1 and 6.13) and compensation for the Supervisory Board and their transactions with SYZYGY shares (see section 6.12.2 and 6.13), no transactions not included in the consolidated financial statements were carried out with associated parties in 2016 and 2015.

6.10 Exemption according to Article 264 Section 3 of the Handelsgesetzbuch (HGB – German Commercial Code)

SYZYGY Deutschland GmbH and uniquedigital GmbH have availed themselves of the exemption according to Article 264 Section 3 of the HGB (German Commercial Code).

6.11 Events after the balance sheet date

No material events occurred that could have a material impact on the Group's net assets, financial position and results of operations.

6.12 Parent company boards

6.12.1 Management Board

Lars Lehne, Hamburg
(from 01.04.2016)
Chief Executive Officer since 08.07.2016
Managing Director, SYZYGY Deutschland GmbH
Managing Director, Hi-ReS! Berlin GmbH

Andrew P. Stevens, London
Chief Operating Officer
Director, Unique Digital Marketing Ltd
Director, SYZYGY UK Ltd
Director, SYZYGY Digital Marketing Inc.

Erwin Greiner, Bad Nauheim
Chief Financial Officer
Director, SYZYGY UK Ltd
Director, Unique Digital Marketing Ltd
Director, Hi-ReS! London Ltd.

Marco Seiler, Bad Homburg v. d. H.
(until 31.08.2016)
Chief Executive Officer
(until 08.07.2016)
Managing Director, SYZYGY Deutschland GmbH
Managing Director, Hi-ReS! Berlin GmbH

The members of the Management Board do not hold supervisory board membership or any similar supervisory positions.

In 2016, total remuneration of the Management Board amounted to kEUR 1,302 (previous year: kEUR 2,536). Lars Lehne received a basic salary of kEUR 225, fringe benefits of kEUR 10 and a variable salary of kEUR 0. Andrew P. Stevens received a basic salary of kEUR 268, fringe benefits of kEUR 16 and a variable salary of kEUR 41. Erwin Greiner received a basic salary of kEUR 168, fringe benefits of kEUR 12 and a variable salary of kEUR 249.

Marco Seiler left the company on August 31, 2016. In the relevant period he received a basic salary of kEUR 183, fringe benefits of kEUR 10 and a variable salary of kEUR 67. Marco Seiler also received a payment of kEUR 94 as compensation for the prohibition on competition to which he is subject.

Erwin Greiner exercised a total of 26,000 options in 2016; at the reporting date he still holds 10,000 options. The other members of the Management Board no longer hold any options.

In the 2015 financial year, total remuneration of the Management Board amounted to kEUR 2,536. Marco Seiler received a basic salary of kEUR 263, fringe benefits of kEUR 15 and a variable salary of kEUR 581. Andrew P. Stevens received a basic salary of kEUR 290, fringe benefits of kEUR 18 and a variable salary of kEUR 790. Erwin Greiner received a basic salary of kEUR 168, fringe benefits of kEUR 12 and a variable salary of kEUR 355. The variable salary includes the inflow resulting from exercise of the 2012 option scheme and the phantom stock programme.

In addition, a new phantom stock programme was launched in 2015. Under this arrangement the eligible employee receives the difference between the share price on the date of granting and the share price on exercise of the phantom stocks as a special payment. 40 per cent of the phantom stocks granted (Tranche 1) are not exercisable until at least 2 years have elapsed and will lapse after 3 years at the latest, while 60 per cent of the phantom stocks granted (Tranche 2) are not exercisable until at least 3 years have elapsed and will lapse after 4 years at the latest. The maximum price increase is limited to 60 per cent for Tranche 1 and to 90 per cent in the case of Tranche 2.

Marco Seiler exercised all his phantom stocks in 2015 and received no further entitlement under the phantom stock programme in 2016. Due to the takeover offer by WPP, Andrew P. Stevens and Erwin Greiner exercised all their phantom stocks in 2015. The Supervisory Board renewed the programme in relation to the exercised phantom stocks of Andrew P. Stevens and Erwin Greiner in April 2016. It set the base price at EUR 9.00, taking into account the original duration of the phantom stock programme launched in 2015.

As a result, Andrew P. Stevens holds 120,000 phantom stocks and Erwin Greiner holds 75,000 phantom stocks, with an exercise price of EUR 9.00 in each case. The new Chairman of the Management Board, Lars Lehne, received a total of 240,000 phantom stocks on April 1, 2016, with a base price of EUR 9.13. The benefits granted in the financial year are shown in the table below:

	Lars Lehne, CEO (joined: 04/01/2016)			
Benefits granted	2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	225	0	225	225
Fringe benefits	10	0	10	10
Total	**235**	**0**	**235**	**235**
One-year variable remuneration	74	0	0	74
Multi-year variable remuneration				
Phantom stock programme	365	0	0	1,710
Total	**439**	**0**	**0**	**1,784**
Pension expenses	21	0	21	21
Total remuneration	**695**	**0**	**256**	**2,040**

	Andrew P. Stevens, COO			
Benefits granted	2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	268	290	268	268
Fringe benefits	16	18	16	16
Total	**284**	**308**	**284**	**284**
One-year variable remuneration	40	41	0	40
Multi-year variable remuneration				
Phantom stock programme	147	155	0	842
Total	**187**	**196**	**0**	**882**
Pension expenses	13	15	13	13
Total remuneration	**484**	**519**	**297**	**1,179**

Benefits granted	Erwin Greiner, CFO 2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	168	168	168	168
Fringe benefits	12	12	12	12
Total	**180**	**180**	**180**	**180**
One-year variable remuneration	25	25	0	25
Multi-year variable remuneration				
Phantom stock programme	77	81	0	527
Total	**102**	**106**	**0**	**552**
Pension expenses	11	15	11	11
Total remuneration	**293**	**301**	**191**	**743**

Benefits granted	Marco Seiler, CEO (left: 08/31/2016) 2016	2015	2016 Minimum	2016 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	183	263	183	183
Fringe benefits	10	15	10	10
Total	**193**	**278**	**193**	**193**
One-year variable remuneration	28	39	0	28
Multi-year variable remuneration				
Phantom stock programme	0	155	0	0
Total	**28**	**194**	**0**	**28**
Pension expenses	8	12	8	8
Total remuneration	**229**	**484**	**201**	**229**

6.12.2 Supervisory Board

Ralf Hering
Supervisory Board Chairman
Principal Partner, Hering Schuppener
Unternehmensberatung für Kommunikation GmbH,
Düsseldorf

Wilfried Beeck
Supervisory Board
CEO, ePages Software GmbH, Hamburg

Rupert Day (from 08.07.2016)
Supervisory Board
CEO, tenthavenue Ltd., London

Michael Mädel (until 08.07.2016)
Supervisory Board Chairman
Self-employed consultant

The Supervisory Board members each received remuneration of kEUR 25 (previous year: kEUR 25) for their work in the 2016 financial year, of which kEUR 20 (previous year: kEUR 20) is fixed in each case and kEUR 5 is variable, as in the previous year. The remuneration for Michael Mädel and Rupert Day is split into months on a pro rata basis.

6.13 Directors' dealings

Management Board: Shares [Number of shares]	Lars Lehne	Andrew P. Stevens	Erwin Greiner	Marco Seiler	Total
As at: Dec. 31, 2015	**0**	**0**	**0**	**0**	**0**
Purchases	10,000	0	0	0	10,000
Sales	0	0	0	0	0
As at: Dec. 31, 2016	**10,000**	**0**	**0**	**0**	**10,000**

Supervisory Board: Shares [Number of shares]	Ralf Hering	Wilfried Beeck	Rupert Day	Michael Mädel	Total
As at: Dec. 31, /2015	**0**	**0**	**0**	**0**	**0**
Purchases	0	10,000	0	0	10,000
Sales	0	0	0	0	0
As at: Dec. 31, 2016	**0**	**10,000**	**0**	**0**	**10,000**

Management Board: Options [Number of shares]	Lars Lehne	Andrew P. Stevens	Erwin Greiner	Marco Seiler	Total
As at: Dec. 31, 2015	**0**	**0**	**36,000**	**0**	**36,000**
Purchases	0	0	0	0	0
Disposals	0	0	-26,000	0	-26,000
As at: Dec. 31, 2016	**0**	**0**	**10,000**	**0**	**10,000**

Management Board: Shares [Number of shares]	Marco Seiler	Andrew P. Stevens	Erwin Greiner	Total
As at: Dec. 31, 2014	**538,121**	**325,000**	**0**	**863,121**
Purchases	0	0	0	0
Sales	-538,121	-325,000	0	-863,121
As at: Dec. 31, 2015	**0**	**0**	**0**	**0**

Supervisory Board: Shares [Number of shares]	Michael Mädel	Wilfried Beeck	Ralf Hering	Total
As at: Dec. 31, 2014	**20,000**	**120,000**	**0**	**140,000**
Purchases	0	0	0	0
Sales	-20,000	-120,000	0	-140,000
As at: Dec. 31, 2015	**0**	**0**	**0**	**0**

Management Board: Options [Number of shares]	Marco Seiler	Andrew P. Stevens	Erwin Greiner	Total
As at: Dec. 31, 2014	**72,000**	**120,000**	**60,000**	**252,000**
Purchases	0	0	0	0
Disposals	-72,000	-120,000	-24,000	-216,000
As at: Dec. 31, 2015	**0**	**0**	**36,000**	**36,000**

The members of the Supervisory Board do not hold any options. Marco Seiler stepped down from the Management Board on August 31, 2016. Michael Mädel stepped down from the Supervisory Board after the Annual General Meeting held on July 8, 2016. Rupert Day was appointed to the Supervisory Board on July 8, 2016.

6.14 Disclosures in accordance with Article 160 Section 1 No. 8 of the Aktiengesetz (AktG – German Public Companies Act)

No disclosures in accordance with Article 160 Section 1 No. 8 of the Aktiengesetz (AktG – German Public Companies Act) were made in 2016.

6.15 Declaration of Compliance with the German Corporate Governance Code in accordance with Article 161, AktG

The declaration of compliance with the German Corporate Governance Code in accordance with Article 161 of the AktG (German Public Companies Act) was issued on October 19, 2016 and is available to all shareholders on the Group's website www.syzygy.net in the Investor Relations section.

6.16 Date of authorisation for publication

The Management Board approved the consolidated financial statements and cleared them for publication on March 27, 2017.

Responsibility statement by the legal representatives

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Bad Homburg v. d. H., March 27, 2017
SYZYGY AG

The Management Board

Lars Lehne

Andrew P. Stevens

Erwin Greiner

Independant auditors' report

We have audited the consolidated financial statements prepared by the SYZYGY AG, Bad Homburg v. d. Höhe, comprising the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2016 to December 31, 2016.

The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; [IDW]). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in 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 as to possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the 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 those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the 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, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRS as adopted by the EU, the supplementary requirements of German commercial law pursuant to Sec. 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, March 27, 2017

BDO AG
Wirtschaftsprüfungsgesellschaft

sgd. Wendt	sgd. Gebhardt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditors)	

Financial calendar 2017

3-Month-Report (English version: 05/12) **05/05**	**Annual General Meeting, Frankfurt** **06/30**	**Half-Year-Report** (English version: 08/15) **08/08**
Zurich Capital Market Conference **09/06**	**9-Month-Report** (English version: 11/09) **11/02**	**German Equity Forum, Frankfurt** **11/27**

All dates are subjects to change.

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