2017 Annual Report

’Collaborative ability and entrepreneurship are the key skills of the future.’

Peter Drucker,
”Innovation and Entrepreneurship”

Key financial figures

Sales
(in kEUR)

2013	35,030
2014	47,075
2015	57,311
2016	64,273
2017	60,669

2017 **60,669**

Operating income
(in kEUR)

2013	2,023
2014	3,843
2015	5,268
2016	5,596
2017	4,096

2017 **4,096**

Financial income
(in kEUR)

2013	2,124
2014	2,157
2015	1,975
2016	1,336
2017	1,440

2017 **1,440**

Income before taxes
(in kEUR)

2013	4,147
2014	6,000
2015	7,243
2016	6,932
2017	5,536

2017 **5,536**

Net income
(in kEUR)

2013	3,361
2014	4,739
2015	4,864
2016	5,097
2017	4,235

2017 **4,235**

Earnings per share
undiluted (in EUR)

2013	0.26
2014	0.35
2015	0.37
2016	0.39
2017	0.39

2017 **0.39**

Operating cash flow
(in kEUR)

2013	1,294
2014	14,410
2015	-2,421
2016	5,930
2017	4,778

2017 **4,778**

Sales by employee
(in kEUR)

2013	100
2014	103
2015	108
2016	108
2017	95

2017 **95**

Balance sheet structure

Current assets	36%
Non current assets	64%
Equity	53%
Liabilities	47%

Equity **53%**

Sales by segments

Germany	64%
United Kingdom	23%
USA	8%
Others	5%

Germany 64%

Sales by clients' volume

Top 5	35%
Top 6-10	14%
Others	51%

Top 5 35%

Sales allocation by vertical markets

Automotive	29%
Consumer goods	27%
Financial services	12%
Telekommunikation/IT	11%
Others	21%

Automotive 29%

Portfolio structure of cash and marketable securities

Corporate and government bonds	56%
Bank deposit	44%

Corporate and government bonds 56%

Employees by function

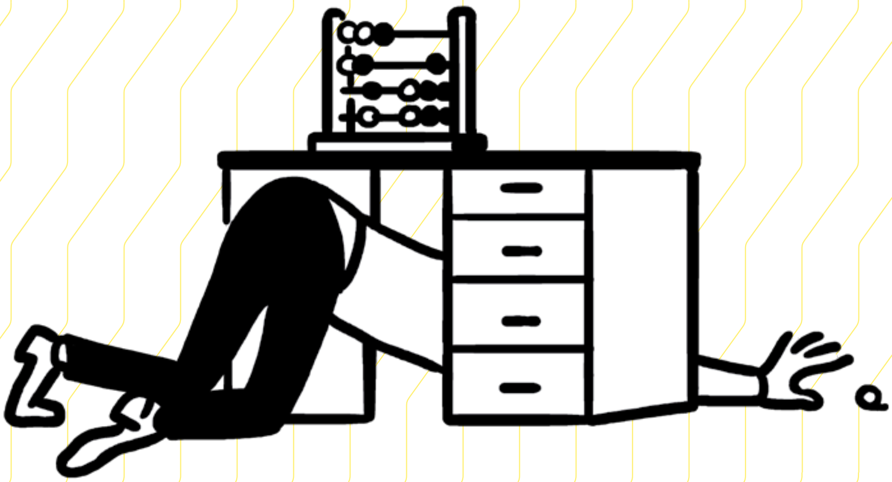
Online media	22%
Strategy/consulting	17%
Technology	17%
Design	15%
Project management	15%
Administration	14%

Online media 22%

Shareholder structure

WPP plc.	50.07%
Treasury stocks	0.55%
Free float	49.38%

WPP plc. 50.07%



Letter to the shareholders

Ladies and Gentlemen,
dear Shareholders,

The 2017 financial year was one of the most challenging in the Group's history. Market consolidation, the increasing dominance of the large consulting firms and above all the loss of our major client BMW Digital in Berlin were defining factors in the financial year and had an adverse impact on our performance.

60.7
Million EUR
Sales

1.4
Mio. EUR
Financial income

0.39
EUR Dividend
(proposed)

In summer last year we still expected to be able to close the year at around the same level as 2016, but events in the second half of the year brought some unforeseen losses. Having said that, we used these challenges to actively reorganise and restructure the Group, thereby putting it on a more stable and diversified footing. In addition to streamlining and realigning the existing portfolio, we successfully acquired two companies that are key to our strategic long-term positioning.

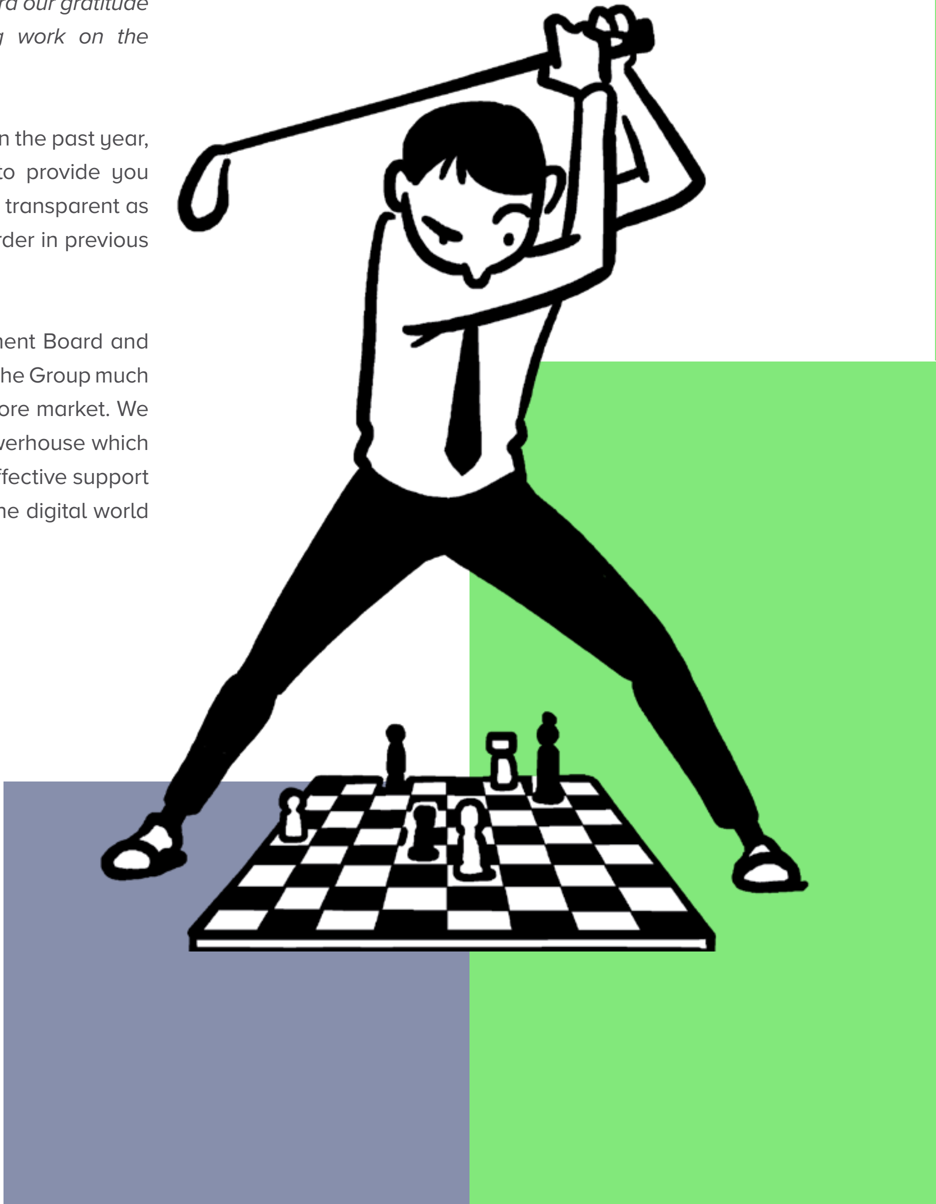
At EUR 60.7 million, net sales were 6 per cent below the previous year's figure. Operating income likewise declined significantly, falling to 27 per cent below the level of the prior year at EUR 4.1 million, reflecting a number of exceptional items. Despite these substantial negative effects, exceptionally strong financial income of EUR 1.4 million helped the Group to achieve annual net income of EUR 4.2 million. Earnings per share rose to EUR 0.39. The increase was due to the allocation of losses to minority interests, which had the effect of boosting earnings per share. In view of the continuing healthy, stable cash position, the Management Board and Supervisory Board have decided to propose a dividend of EUR 0.39 per share at the Annual General Meeting. This represents another increase in the dividend. SYZYGY shares thus remain a stable and attractive dividend stock for the ninth year in a row.

Before turning to the review of the past year, it is important to me to take this opportunity to express my thanks, on behalf of the entire Management Board, to our employees, who now number almost 700 worldwide. In these turbulent times, they have once again demonstrated to us how amazing and resilient the SYZYGY team is. Change processes are not a simple undertaking – entire textbooks are devoted to the subject. Through trust, enthusiasm and motivation, the SYZYGY team has repeatedly strengthened our resolve to make the right decisions and to take the right path. I would also particularly like to thank the Supervisory Board for the advice and support it wholeheartedly and actively provided at all times in 2017.

In this context, I would like to pay tribute to our Supervisory Board chairman, Ralf Hering, who died unexpectedly of heart failure on February 16, 2018. The news left us all deeply shocked. With the death of Ralf Hering we have lost one of the last true gentlemen in this industry. Ralf was always a brilliant sounding board, a shrewd adviser, a pillar of strength especially in challenging times, and also a friend in whom we could always trust. We will miss him a lot. On behalf of the Management Board and all staff, we would like to put on record our gratitude to Ralf Hering for his outstanding work on the Supervisory Board of SYZYGY AG.

Given the large number of changes in the past year, we have taken the joint decision to provide you with a review that is as detailed and transparent as possible. As a departure from the order in previous years, let's start at Group level:

In March of last year, the Management Board and Supervisory Board decided to focus the Group much more strongly on Germany as the core market. We intend to build a German digital powerhouse which can provide German industry with effective support as companies strive for success in the digital world of tomorrow. This will involve delivering customised transformation and communication solutions, which we will offer across three dimensions: **Strategy** – the right key decisions to achieve success in the digital world, **Product** – the design and development of digital products, services and platforms, and **Marketing** – effective activation of the right target groups. This will create a product offering of unique depth in the German market, enabling us to build even more comprehensive partnerships with our clients.



As a consequence of our increased focus on the German market, the Supervisory Board decided not to extend the appointment of Andy Stevens, who was chiefly responsible for international business activities. At the same time, the Supervisory Board complied with the Management Board's request to make responsibility for technology a board-level position. Frank Ladner was thus appointed Chief Technology Officer with effect from January 1, 2018.

Our individual regions and segments are reviewed below.

Core market Germany

The German subsidiaries were able to equal the previous year's sales, despite the loss of BMW. Having said that, it was mainly inorganic growth that filled the gap, with the existing companies growing only modestly. In June of last year, SYZYGY acquired a majority interest in performance marketing service provider Catbird Seat of Munich, which will trade under the SYZYGY brand. Together with the existing team in Hamburg, the SYZYGY Group is now one of the three biggest providers of performance marketing in Germany.

'We intend to build a digital powerhouse which can provide German industry with effective support as companies strive for success in the digital world of tomorrow.'

’We are fully committed to integration, consolidation and collaboration in the 2018 financial year.’

In October, the SYZYGY Group acquired a majority stake in Berlin-based strategy and consulting service provider diffferent. The acquisition of diffferent makes SYZYGY the first agency group capable of challenging the dominance of the big management consultancies, thanks to having almost 100 customer-facing staff. Diffferent will guarantee that the Group has access to clients at decision-maker level and, together with the other agencies, realise client projects from the idea through prototyping to implementation. Consulting now no longer ends with presenting the results, but leads directly into implementation and optimisation.

Following the loss of the BMW Digital platform account, Berlin-based agency Hi-ReS! was unable to stabilise its business due to a lack of sustainable prospects. In addition to some 80 redundancies, this operation impacted negatively on the Group in 2017, with a drop in sales of around EUR 6.0 million and a substantial 7-digit operating loss.

The technology business at the Bad Homburg location again performed well in 2017 and is increasingly taking on tasks for the wider SYZYGY Group. A particularly noteworthy aspect is the new German management and implementation role of the Bad Homburg team for our international client Mazda Motor Europe, which is headquartered in Leverkusen. The new building in Bad Homburg, which also serves as the headquarters of SYZYGY AG, has been extremely well received. It provides attractive, modern office space for our employees and visiting clients.

International business

International business is softening. While SYZYGY UK’s sales are holding up well, revenues at the subsidiaries in North America and Poland were lower. Creative production studio Ars Thanea in Poland failed to reach its sales targets and the main client in North America, Avis Budget Group, reduced its level of investment due to an extremely tough market situation. On the positive side, however, it should be noted that both the US and UK companies have successfully won business organically and we aim to build on this in 2018. Another highlight is the excellent collaboration between SYZYGY New York and SYZYGY London. In addition, our American colleagues won the prestigious The Drum Award for the second time in a row, which was awarded

Lars Lehne
Chief Executive Officer / CEO

Frank Ladner
Chief Technology Officer/ CTO

Erwin Greiner
Chief Financial Officer / CFO

in the "Best Use of Paid Search" category for work with client Avis Budget Group. This is a remarkable achievement for such a small team in the North American market.

As mentioned above, the growing complexity of the market on the one hand and the increasing diversity of our product range on the other have prompted us to recalibrate our service portfolio. While we used to speak of Media, Technology and Design, we now refer to services along the Strategy, Product and Marketing chain. Many of our existing services and much of what hugely differentiates us from the competition thanks to our recent acquisitions no longer fits into the old framework. We are much more broadly based, have extended the portfolio and, especially through strategy consultancy firm diffferent, we can now provide services that we were previously unable to offer. Later in this annual report we will provide a detailed insight into our current service portfolio and some case studies.

Outlook

In the last annual report, we promised we would focus on three key areas in order to remain competitive. Firstly, expanding the core business, which we managed impressively by acquiring Catbird Seat. Secondly, developing and expanding the Group's consulting and strategy expertise – where the acquisition of diffferent has catapulted us into a completely new league. Thirdly, seamless coverage of the digital value chain in order to offer customers holistic solutions. Although both acquisitions have helped in this regard, the gap in e-commerce and technology consulting has not yet been fully closed. In 2018, these areas have top priority with regard to both organic and inorganic investments.

We are fully committed to integration, consolidation and collaboration in the 2018 financial year. Acquisitions are only worthwhile and successful if their integration goes smoothly. This requires particular attention on the part of management in order to enable positive growth. In addition, we will make further adjustments to the brand portfolio as we develop and expand our services along the Strategy, Product and Marketing axis. We have clearly expressed our commitment to maximum collaboration and openness in the title of this annual report. That applies internally and externally, particularly with regard to strong long-term partnerships within the WPP network. We firmly believe that we can only successfully adapt to constantly changing market circumstances as a strong, united SYZYGY team with resilient external partnerships. These capabilities are the key to success in a hyper-dynamic market.

As a digital business partner for German and international companies we aim to provide customised solutions, substance, strong empathy and clear acceptance of responsibility. Our goal is to generate enriching brand experiences and to provide our clients with security and strength in an uncertain environment. Or in other words – We create happiness ;-)

Elsewhere in this annual report, Dr Paul Marsden will present two SYZYGY Group studies from the past year to demonstrate what we understand by empathy and responsibility and how we inspire and guide our clients with unique insights.

2017 has been a challenge, but it has also united us. The Group is stronger and more closely integrated than ever before. Team spirit has top priority and we have learnt how valuable, enriching and successful teamwork and international collaboration are. On the subject of teams, I would like to present the extended Management Board below. Here again, there have been changes and additions. It should be noted that from now on, ALL members of the extended Management Board will chiefly bear operational, production-related responsibility for the business. They will each also take on an additional subject-specific role for the Group, based on their qualifications. We are very much looking forward to this cooperation and to seeing new faces.

'The Group is stronger and more closely integrated than ever before.'

2018 will again be a year of double-digit sales growth. Operating income (EBIT) will rise in line with sales. The outlook is positive and we are heading into the coming 12 months with renewed motivation and vigour.

Best regards on behalf of the entire management team,

Lars Lehne
Chairman of the Management Board / CEO

Strategy

Alexander Kiock
Chief Strategy Officer / CSO
diffferent GmbH, Berlin

Dr. Paul Marsden
Chief Consumer Psychologist
SYZYGY Group, London

Product

Dirk Jehmlich
Chief Innovation Officer / CIO
diffferent GmbH, Berlin

Ron Hofer
Chief Experience Officer / CXO
USEEDS° GmbH, Berlin

Marketing

Florian Schmitt
Chief Creative Officer / CCO
SYZYGY Group, London

Phil Stelter
Chief Media Officer / CMO
Unique Digital Marketing Ltd., London

Hello! We are SYZYGY

700+ Talents

200+ Awards

1995 Founded

As a digital business partner for German and international companies, we welcome responsibility. We support our clients from initial idea through to market success – with substance, strong empathy and personalised solutions for transformation and communication.

Our services incorporate all three dimensions that are essential for success in the digital world:

Strategy – fundamental decisions tailored to each business

Product – design and development of digital products, services and platforms

Marketing – effective activation of the right target groups

Our goal: To give our clients security and strength in uncertain markets, and to help them create a rich and rewarding brand experience.
In short: **We create happiness!**

Business Consulting
Research & Innovation
Data Science
Technology
Content & Media
Brand & Purpose
Team Enablement

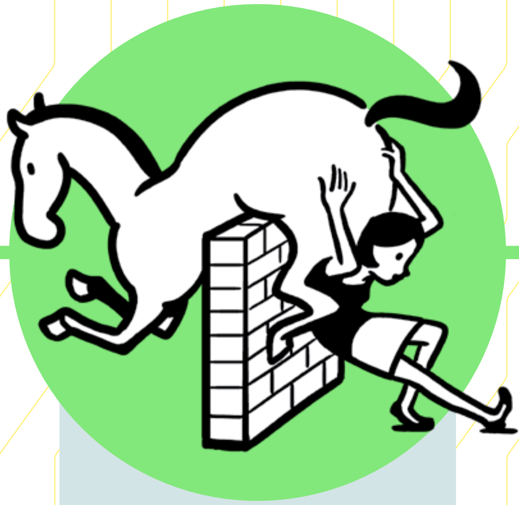
Strategy

In our strategy work, we lay the foundations for products, services and marketing campaigns that engage end users and help the business to succeed.

To do that, we bring together diverse perspectives – from user to technology, from brand to business – and break down the silo mentality.

Space for creativity and inspiration.
Our office locations: Bad Homburg, Berlin, Frankfurt, Hamburg, London, New York, Munich and Warsaw.

Our new building in Bad Homburg is also the headquarter of SYZYGY AG.



Experience Design
Service Design
Frontend Technology
UI Architecture & Build
Backend Technology
Platform Architecture & Build

Product

We create customer experiences and bring digital businesses to life.

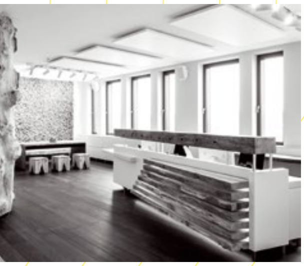
Whether as a platform, service or custom software solution, our digital products meet the highest standards in terms of quality, security and scalability.

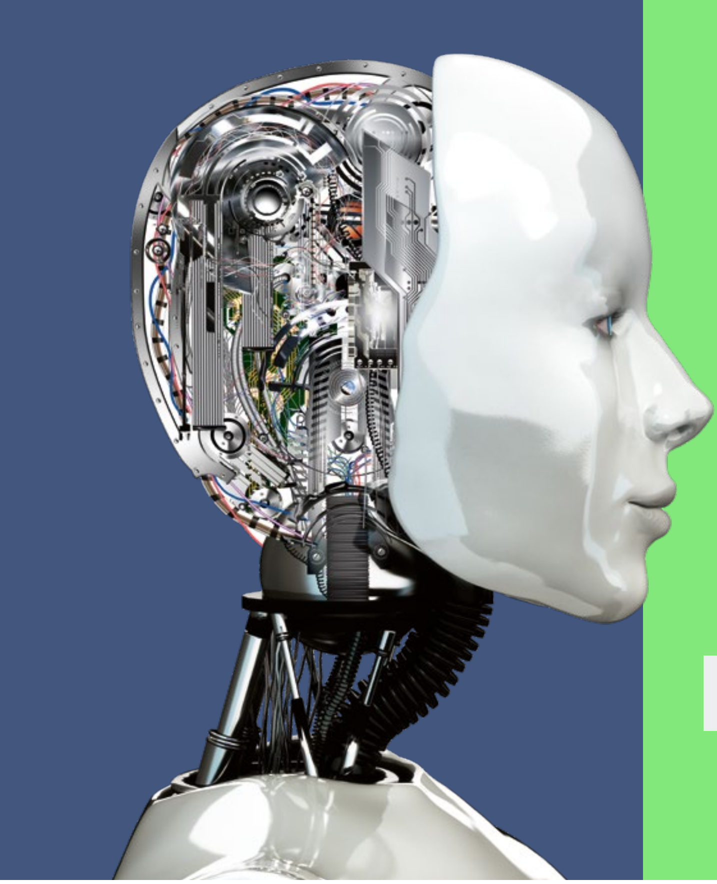
Campaigns
Creative Production
SEO
Paid Media
Social Media
Creative Technology
AR & VR

Marketing

Using creative content and optimised results across the entire marketing ecosystem, we help companies achieve their business goals and leverage the full potential of their brands.

We maximise relevance and minimise inefficiency by reaching target audiences more effectively, by increasing brand awareness and by inspiring users to act.





How Humans Feel About Artificial Intelligence

By Dr. Paul Marsden

SYZYGY agencies have collaborated to produce an international thought leadership report on Artificial Intelligence. Based on a survey of 6000 adult consumers across Germany, UK and US, our 'Sex, Lies and AI' report is helping clients better understand people's emotional relationship with emerging AI technology.

Over the past year, one technology trend has dominated all others in conversations with clients; artificial intelligence (AI). AI offers the opportunity to automate processes and functions, including marketing, with technology that behaves intelligently by replicating skills associated with human intelligence. As a result, and with the ability to perceive, learn, reason and manage, AI is a core component of many of our clients' digital transformation strategies.

Whilst our clients have access to a mountain of whitepapers selling AI-tech, there is little available on the human side of AI. How do people feel about AI in their lives – at home, at work and in society in general? For agencies selling AI technology to clients, or clients selling AI technology to consumers, this is a key question. If people feel positive about AI, they are more likely to accept it into their lives. If they don't, they won't.

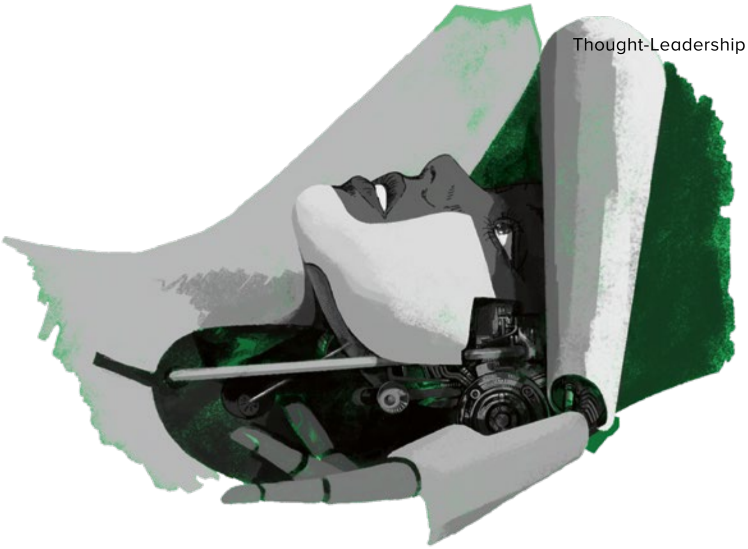
But do people feel positive about AI? Tech vendors are certainly positive about AI and many are enthusiastically evangelising AI as the Next Big Thing with almost religious fervour. Mainstream media is often less positive, often running sensationalist stories of the malevolent use or negative consequences of AI. Mass surveillance, privacy invasion, social manipulation, fake news, media bias, decision bias, cybercrime, job automation, killer cars and killer drones have all been associated with AI over the past year.

So, between tech hype and media hysteria, how do people feel about AI today?

We asked 6000 people in an international survey, and what we found surprised us.

AI, whatever.

Perhaps our most surprising finding is that most consumers don't seem to feel very much about AI at all. Although many are aware that AI is used in their devices and by organisations, this technology currently evokes neither strong positive nor negative emotions. Only one in ten people appear to have strong feelings towards AI, either one way or the other, and the typical emotional response to AI is neutral.



For example, we found that people feel neither particularly concerned nor enthusiastic about the use of AI in marketing. When asked how they would feel if they discovered that their favourite brand had been using AI technology to automatically track them, profile them, and then target them with personalised ads, only one in four would object. Even in Germany, with its trademark reticence to surveillance technology, most respondents felt unconcerned by the use of this hyper-targeting technology. It will be interesting to see if this hypothetical nonchalance translates to real-world response as digital agencies progressively roll out hyper-targeting solutions.

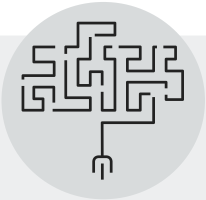
Sex, Lies and AI

In order to surface latent or hidden feelings towards AI, we also posed a series of AI-related moral dilemmas designed to evoke an emotional response. How do they feel about killer drones being used in warfare? (Answer: Fine). Should driverless cars be programmed to sacrifice passengers if this reduces overall harm? (Answer: Yes, but I wouldn't ride in one). How do they feel about AI in the workplace? (Answer: Threatened, 30% of my job could be automated by AI in the next five years). How do they feel about AI agents such as chatbots posing as humans? (Answer: Not good, it should be banned). How would they feel if their partner slept with a sex robot? (Answer: Not good, and it would count as cheating if they didn't tell me).

These questions revealed potential anxieties towards AI, particularly when AI is perceived as threatening human autonomy (driverless car scenarios), human relatedness (sex robot dilemmas) and human competence (job automation). These are important findings because autonomy, relatedness and competence are core drivers of human wellbeing (a trinity that we the 'ARC of Happiness'). So, whilst at a surface level our study found that most people feel little or neutral towards AI today, more emotive questioning suggests that AI sentiment could turn very negative if AI is perceived as eroding autonomy, relatedness and competence.

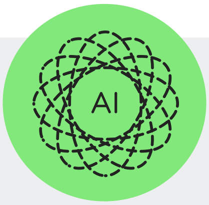
Future Positive

AI is like any other machine, either a benefit or a hazard. At SYZYGY, we believe in the positive power of digital technology to promote human happiness and wellbeing. Our latest research suggests that AI will only deliver on this positive potential if it can be used to enhance, rather than undermine, human autonomy, relatedness and competence. Our job is to help our clients make that happen.

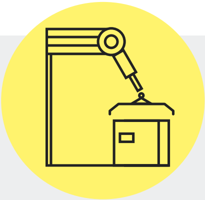


The public is open to businesses marketing their products and services with the help of AI

1 in 3
adults would be interesting in trialling new AI powered sex robots



35%
a large minority of the public also support AI in 'predictive policing'



33%
how much of your job could be replaced by AI within 5 years

How to Market to Millennials

By Dr. Paul Marsden

As part of our ongoing thought leadership program, SYZYGY agencies recently collaborated an international survey designed to help our clients appeal to Millennial consumers.

For many of our clients at SYZYGY, the demographic cohort of Millennials is now their priority target market. Aged from their early twenties to late thirties, Millennials are heavy users of financial services and online services. And in many markets, they are also the fastest growing segment of car buyers. In Germany alone, Millennials wield an estimated €400bn of annual purchasing power for consumer goods, services and investments.

However, as the first generation of digital natives, Millennials haven proven to be a challenging audience for many marketers. As a cohort, they tend to spurn the legacy media of linear TV and print. They also use their well-honed digital skills to fact-check online, block ads, cultivate banner blindness, and generally display a frustrating immunity to digital marketing. In addition, Millennials can be exasperatingly disloyal to brands that don't meet their high expectations of effortless, on-demand and competitively priced value.

It's all about me

To help our clients rise to the challenge of Millennial marketing, SYZYGY conducted an innovative digital insight study in 2017 designed to identify what Millennials want. With 1.8 billion Millennials worldwide, it's obvious that Millennials want different things. But generations, like people, have distinctive personalities. Of course, there are as many personality differences within generations as there are between generations, and generations differ between cultures and regions. Nevertheless, our global connected economy means that Millennials are influenced by what they share; a common life-stage, global media, new technology and the shared experience of major trends and events.

This is the foundational insight of 'generational marketing' that seeks to appeal to Millennials and other cohorts based on distinctive traits that are widely shared across a generation. And the one trait that has been most consistently and notoriously associated with Millennials is narcissism, indicating a robust sense of self-worth.

Our EgoTech study found a clear link between smartphone use and elevated narcissism among Millennials.

Dubbed 'Generation Me', it would seem that a combination of child-centric parenting, user-centric personal technology and selfie-centric social media has created a self-centric generation. And personality test results bear this out; whilst narcissism is a perfectly normal personality trait that we all share to some degree, Millennials tend to score highly on this dimension. For youth marketers, this insight has been invaluable over the last two decades. To win the heart, mind and wallet of the young Millennial, appeal to their emboldened ego.

The problem for our clients is that what may have been effective during Millennial adolescence, may no longer work now. Because personalities evolve over time, it is entirely possible that the signature narcissism of Millennials was merely a passing adolescent phase. If this is the case, then self-focused marketing campaigns targeting that many have worked in the past would no longer be effective.

Ego-Tech

To settle this issue, and dig deeper into the Millennial personality, SYZYGY agencies collaborated on an international study between 2016 and 2107 that involved administering personality tests to 3000 adult Millennials in Germany and the US. What we found is that adult Millennials continue to score highly on the personality dimension of narcissism. On average, Millennials in Germany and the US are about 10% more narcissistic than population norms. In addition, our research confirmed the empirical link between digital technology and narcissism. The more people use social media, on-demand apps or self-quantification tools such as fitness trackers, the more narcissistic they tend to be. To our knowledge, this SYZYGY study is the first to have confirmed this link.

This has been good news for our clients looking to appeal to Millennials. We have been able to make the evidence-based recommendations for campaigns that boost the Millennial ego, confirm their self-worth and promote self-actualisation. In addition, we have used our profiling research to identify seven marketing messages likely to have broad international appeal to Millennials, based on the seven sub-traits used to measure narcissism in personality tests;

1. Entitlement = 'Give me the best'
2. Superiority = 'Flatter my ego'
3. Vanity = 'Make me look good'
4. Exhibitionism = 'Help me flaunt it'
5. Exploitativeness = 'Put me in control'
6. Authority, = 'Give me influence'
7. Self-sufficiency = 'Help me help myself'.

Together, these messages combine to create what we at SYZYGY now call 'MVPs' – Millennial Value Propositions.

Monetizing Millennials

Across our clients, we are now using this insight-led MVP framework to work on an increasing number of Millennial briefs. This is providing our clients with a fresh evidence-based approach to user-centricity that sets SYZYGY apart from competitors. Additionally, since many of our clients are Millennials themselves, we are using the MVP framework in our pitches to appeal to client sensibilities beyond the written brief. It's the latest example of how SYZYGY is turning creative thought leadership into practical value for clients and into business wins for ourselves.

Digital Transformation

Deutsche Telekom

Digitisation offers a host of opportunities. We're helping Deutsche Telekom open up lucrative new markets and develop new working methods.

Digitisation begins in the mind. Like all major corporations, Deutsche Telekom faces a major challenge: to prepare management and staff throughout the business for new ways of thinking and working. Our role is to provide advice and support during this crucial mind-shift process. For example, we've designed enablement and learning projects to communicate new working methods, such as design thinking, agile management and digital collaboration. We've also demonstrated how these can be tested in the daily work routine.

Together with Deutsche Telekom, we're additionally developing new ideas for exciting product and service innovations. Our process extends from opportunity mapping and prototype development to business case analysis. Much of our work with Deutsche Telekom relates to smart home applications: Which technologies can improve comfort at home? How can we help older people to remain independent longer in their own homes?

We also assist Deutsche Telekom with strategic projects for developing the new business areas and business models made possible by digitisation.

On all projects, our main priority is to apply unconventional methods that create food for thought as well as insights from new perspectives. Invariably, this leads to exciting new ideas that improve people's lives and help the business grow.

Computer Generated Imagery (CGI)

Ford

Realistic images using the latest technology: How we set the scene for the new Ford Everest in China.

The Ford Everest reveals its true might and mobility in the toughest off-road terrain. Ahead of its launch in China, we were asked to create some exciting new images of this powerful SUV in its natural off-road environment.

So we headed off into the mountains of China with our sister agency, GTB Shanghai. While they shot the video for the TV ad, we trained our cameras on the landscape. At four separate locations, we captured a stunning range of backdrops that would really show the Everest in its element. For us, the surroundings were a much greater challenge, being up to 4,950 metres above sea level. None of the team were used to these altitudes, and we didn't have much time to acclimatise. Still, nothing would stop us from getting those shots.

And it was all worth it in the end. Back in the studio, we created a detailed CGI model of the new Ford Everest and merged it with the photographs we'd taken, using retouching as necessary. The result was a set of key visuals that were used in print and online ads throughout China, the rest of Asia and Australia. In each image, the car is flawless in detail and also realistically placed within the landscape.

Both Ford and GTB Shanghai were delighted with the results, and our partnership is set to continue. In fact, a new project is already under way.

Combining photography, 3D modelling and image manipulation, we created a powerful and effective key visual.

Performance Marketing

comdirect

Better use of data: How we used a strictly programmatic campaign to help comdirect improve the efficiency of online customer acquisition.

For many years, the German online bank comdirect has relied on performance-based advertising to acquire new customers. Rival providers use exactly the same method, which only increases the competition for clicks. In addition, most customers have a relatively low interest in financial products. The challenge for banks is therefore to continuously improve the efficiency of customer acquisition. So what's the best way of doing that?

Our proposal was to create a fully programmatic campaign for comdirect's free current account. Using this method, both media purchasing and ad management are entirely automated. To get a real measure of its performance, no other online media were purchased for a period of three months.

In addition, it was necessary to track all potential new customers across all touchpoints while ensuring compliance with data protection law. This enabled us to gain and leverage new insights on the interplay between the various channels. Using our demand-side platform, we were able to perform ongoing optimisation in real time. Third-party data and retargeting were used on the basis of previous campaigns.

Result: Despite added technology costs, the campaign achieved efficiencies in terms of both cost per lead and cost per order. There was a significant increase in click-through rate (CTR) for the data-enriched impressions, and an improvement in new customer conversions. Programmatic advertising is now the preferred online model at comdirect.

User Experience (UX)

Miele

Thinking from the user's perspective: How we're working with Miele to create human-centric innovations in products and services.

Miele is constantly renewing its reputation as a quality brand through its exceptional technical expertise. To remain successful, however, it is equally important to really understand what customers actually want. To help Miele do that, we created a human-centred innovation process, where new products are viewed through the customer's eyes: What is attractive? What isn't? What's missing? What should go?

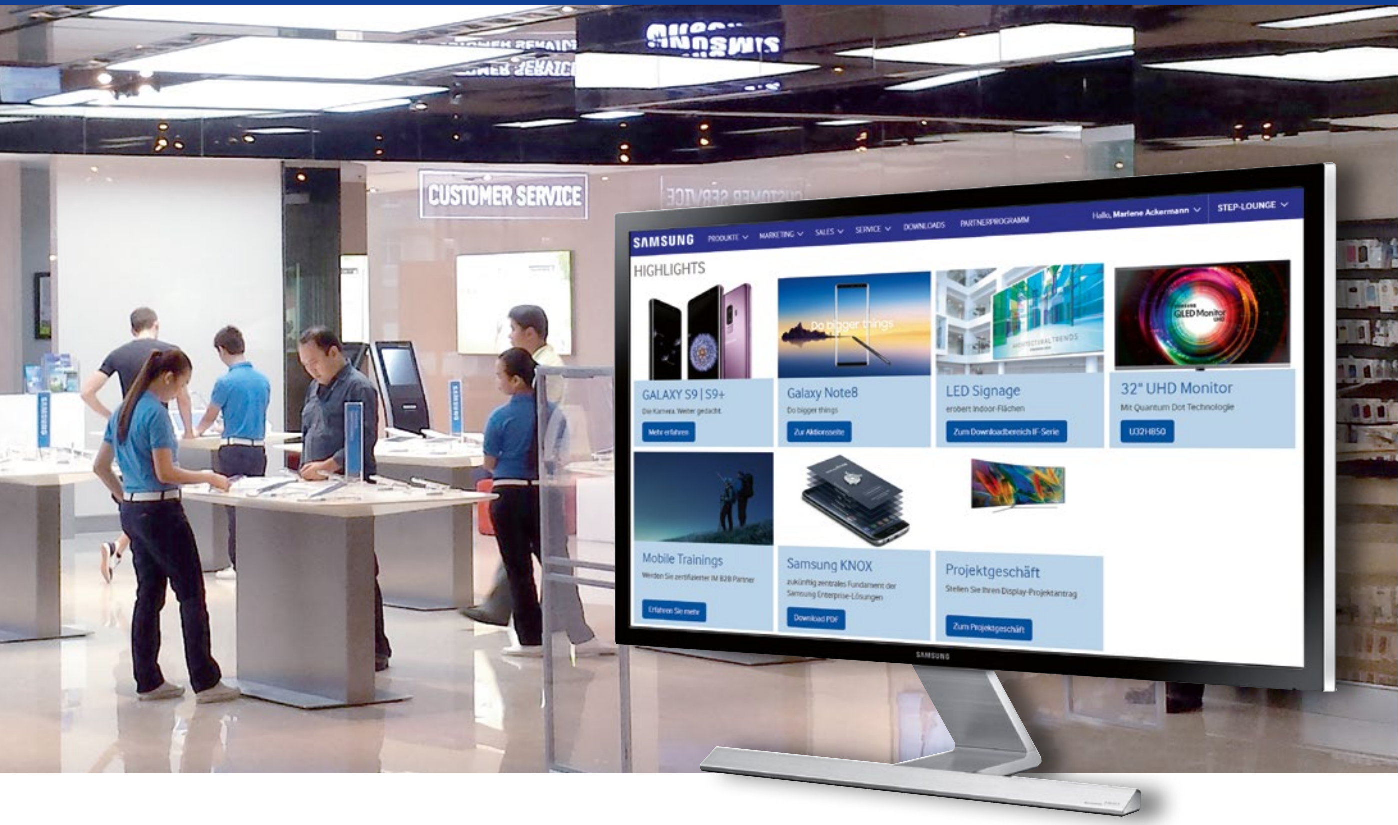
Together with the Miele Design Center, we're creating product and service innovations that are informed by this perspective. More than was perhaps anticipated, this customer-centric view has far-reaching implications for design, development, marketing and other disciplines. As such, we are not only providing the methodology and tools, we are also creating the impetus for a totally new attitude – a human-centred mindset that makes it easier to create a complete customer experience and optimise it going forward.

One example of this approach was the innovation project "Robot Vacuum Cleaner of the Future". Together with Miele staff and customers, we created the robot vacuum cleaner of the future. To do that, we used a range of methods, including ideation, research and testing. We also created and implemented a custom training package for Miele on the principles of design thinking. Thanks in part to this project, human-centred innovation is now an enterprise-wide practice at Miele.

Specially configured for Miele, our design thinking training promotes new perspectives and human-centred innovation throughout the company.

Technology

Samsung Electronics



Connecting with retail: How we created the new Samsung Partner Lounge to simplify processes and save time and work.

Samsung Electronics requires a seamless interface with its retail network. Head office in Germany uses the Samsung Partner Lounge to provide retail partners with direct access to product information, downloads, relevant materials, sales support and a range of sales and marketing tools.

To further improve that service, we carried out a complete revamp of the Samsung Partner Lounge in 2017. The new layout is clear and simple, making it easy to navigate and use. Content is also delivered much more quickly than before. For distributors, there is a dedicated area where they can submit smaller project requests and have them automatically approved. And there's a new Event Lounge offering information, videos and articles on Samsung events.

The new platform is fully integrated with the central backend systems. As a result, product pages are automatically visible on the site. Thanks to the service-oriented architecture, new systems and interfaces can be added as required. The new Samsung Partner Lounge was entirely implemented using the latest Microsoft technology. The frontend is based on the React framework.

The new Samsung Partner Lounge has been very well received on account of its simplified processes. As well as eliminating many manual tasks in head-office departments, it allows retailers to focus on their jobs: advising and selling to customers.

Platform

Techniker Krankenkasse

Together with German health insurer TK, we've created a user-oriented resource for all web users with an interest in health-related issues.

As more and more people spend more time online, they expect uninterrupted access to information and services. This presents a challenge for every type of business that wants to remain relevant for customers – and that includes health insurers. As digital lead agency for German health insurer TK, we're responsible for their platform strategy, customer experience design and frontend technology – in close collaboration with their own IT specialists. When TK asked us to relaunch their website, tk.de, it was the first step in the development of a more attractive and relevant health platform.

The platform needed to meet the three basic needs of existing and potential customers: information, inspiration and efficient self-service. We achieved this using intuitive service tools, simple processes and high-quality, highly relevant content. In particular, the platform had to be easy to navigate and easy to use – with responsive design, of course.

The new tk.de platform is simple and clean, with no superfluous elements. It is divided into two distinct areas: "Service" and "Gesund leben" (Healthy living). The latter is a magazine-style resource where you can search a range of categories or browse a varied selection of interesting health-related topics. User feedback is very positive, and we're looking forward to the next stage.

The stock

Development of SYZYGY's share price and relevant indices	2017	2016	Change
XETRA closing price (in EUR)	11.27	11.61	-3%
Overall performance including dividends	0.3%	36%	n.a.
Highest XETRA closing price (in EUR)	12.13	12.90	-6%
Lowest XETRA closing price (in EUR)	10.12	8.68	17%
DAX	12,912	11,481	13%
TecDAX	2,529	1,812	40%
DAXSubsector IT	4,574	2,465	86%
SDAX	11,887	9,519	25%

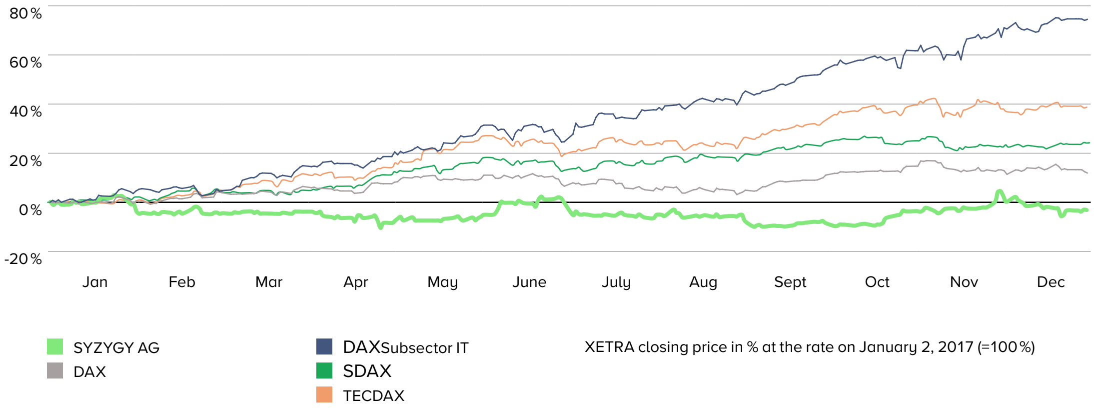
Key figures per share	2017	2016	Change
	EUR	EUR	
Ordinary Dividend	0.38	0.37	3%
Earnings per share	0.39	0.39	0%
Value per share	4.14	3.88	7%
Price-earnings ratio (P/E)	28.90	29.76	-3%
Dividend yield	3.4%	3.3%	n.a.
Return on Equity	7.6%	10.2%	n.a.
Total number of shares (non-par value bearer shares)	13,500	12,828	5%
thereof own shares (in Tsd.)	74	74	0%
Market capitalisation, basis XETRA closing price (in Mio. EUR)	152.15	148.87	2%
Freefloat in %	49.38	47.60	n.a.
Freefloat market capitalisation (in Mio. EUR)	83.40	70.89	18%
Average daily turnover:			
in shares (thereof XETRA 5,998)	7,040	9,337	-25%
in EUR (thereof XETRA 66,985)	78,722	96,132	-18%

Share data

ISIN	DE0005104806
WKN	510480
Symbol	SYZ
Reuters	SYZG.DE
Bloomberg	SYZ:GR
Founded	1995
Listed since	October 6, 2000
Listing segment	Regulated Market, Prime Standard

Stock exchanges	XETRA, Berlin, Dusseldorf, Frankfurt, Hamburg, Hannover, Munich, Stuttgart
Sector	IT-Services
Designated Sponsor	equinet Bank AG
Analysts	GBC AG (Cosmin Filker), equinet Bank AG (Simon Heilmann), WARBURG RESEARCH (Felix Ellmann), GSC Research (Thorsten Renner)

Performance of the SYZYGY share 2017 (indexed)



The stock market

Due to the many political uncertainties, the financial markets started the 2017 stock market year weighed down by a variety of concerns, although it was a successful year overall for the financial markets. The markets dismissed the political risks, including implementation of the US president's political objectives, the North Korea crisis, parliamentary elections in the UK and a German Bundestag election that failed to deliver a stable government.

The global economy posted robust growth, with synchronised expansion of the economies in the US, Europe and Japan. European shares also benefited from rising corporate earnings, supported by low inflation rates, the expansionary monetary policy of the European Central Bank (ECB) and low interest rates.

Stable year in the global markets

The first half of the year was unusually stable on the stock exchanges, with markets rising. European shares were particularly in demand and the major indices reached new record highs. At the beginning of the year, many financial experts had warned of high political risks and more unsettled times, with the result that volatile market performance was expected.

Short-term uncertainty on the stock market was triggered when the US central bank raised interest rates for the second time in the course of the year, with technology stocks being the big losers.

Stock markets recovered in subsequent months, achieving significant premiums. In the short term, the Korea crisis and hurricane Irma had a negative impact on equity prices.

The stock markets continued to benefit from the strong performance of the global economy. Gross domestic product and economic sentiment barometers reached new record levels in many parts of the world in 2017. Before the end of the year, the tax reform introduced by American president Donald Trump was approved by Congress in the US. The resulting tax cuts for companies operating in America boosted the equity markets once again in the year under review.

In general, the technology-oriented indices rose more sharply than the cross-sector DAX. The frontrunner among the German indices was the TecDAX by some margin, which advanced 40 per cent after having ended the previous stock market year with a loss of one per cent. It was followed by the SDAX, with performance for the year of 25 per cent. Year-on-year, the DAX achieved an impressive gain of 13 per cent. At the beginning of November it reached 13,525 points, marking a new all-time high. The continuing loose monetary policy of central banks around the world contributed to this positive stock market performance. Technology stocks also set the pace on Wall Street. The Nasdaq Composite ended the stock market year up 28 per cent, while the Dow Jones closed with a rise of 25 per cent.

Performance of SYZYGY shares

The SYZYGY share price moved sideways in the course of the year and lost three per cent compared to the previous year's closing price. In the course of the 2017 financial year, SYZYGY shares remained largely unchanged as measured by the XETRA closing price of EUR 11.26 at the beginning of the new stock market year on January 2, 2017 and EUR 11.27 on December 29, 2017. In a two-year view, the SYZYGY share price rose by some 28 per cent.

SYZYGY shares traded at around EUR 11.50, supported by the publication of the provisional business figures with a double-digit growth rate for 2017 and the announcement that the dividend would be raised from EUR 0.37 to EUR 0.38. From the beginning of February, SYZYGY stock largely trended sideways until the beginning of June 2017, with weaker prices in May. After payment of the dividend of EUR 0.38 on July 3, 2017, the share price moved in a range between EUR 10.90 and EUR 11.40 until the end of August. From the beginning of September to mid-October, the share price then moved sideways at a slightly lower level of around EUR 10.60. Publication of the business figures for the nine-month period and the announcement of the closure of Hi-ReS! Berlin GmbH gave strong support to the share price, which rose to around EUR 12.00 by the end of November. Having gained eight per cent, SYZYGY shares reached their highest closing price on November 29, 2017, at EUR 12.13. Following a slight downward movement, the shares ended the 2017 stock exchange year with a closing price of EUR 11.27, equivalent to a decline of around 3 per cent compared to the 2016 closing price.

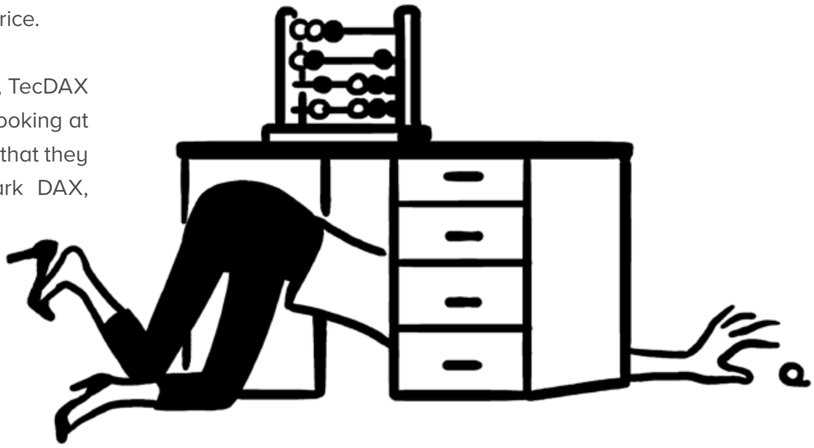
SYZYGY shares underperformed the DAX, TecDAX and DAX IT subsector in 2017. However, looking at the trend over the past three years shows that they significantly outperformed the benchmark DAX, SDAX and TecDAX indices.

SYZYGY shares remain an attractive dividend stock. Relative to the share price, they deliver a dividend yield of 3.4 per cent. In comparison, the German benchmark DAX offers a dividend yield of 2.4 per cent, the SDAX comes in at just 1.4 per cent, while the TecDAX returns 1.5 per cent.

Taking into account the dividend payment of EUR 0.38, SYZYGY shares returned 0.3 per cent overall. The liquidity of SYZYGY shares fell year-on-year, with an average of 7,000 shares being traded across all German stock exchanges each day (prior year: 9,300 shares/day).

In the assessment of various analysts and the financial press, SYZYGY stock was only experiencing a "pause" in growth in conjunction with a comprehensive and essential restructuring of the group. Despite successfully gaining new business, it was not possible to fully compensate for the loss of BMW as a client in Berlin. Thanks to sustained strong new business demand, our focus on Germany as a growth market and closer integration of the individual business areas, the changes made will pay off in 2018 and are expected to generate significant double-digit growth.

The Management Board and Supervisory Board will propose an increased dividend of EUR 0.39 (previous year EUR 0.38) at the Annual General Meeting scheduled for June 15, 2018. This is the seventh dividend increase in succession.



3.4% Dividend Yield

0.38 EUR Dividend

152.2 TEUR Market Capitalisation

Annual General Meeting

The ordinary Annual General Meeting of SYZYGY AG was held on June 30, 2017 in Frankfurt. Around 58 per cent of the voting capital attended the meeting. All the resolutions proposed by management, including the proposal to distribute a dividend of EUR 0.38 per eligible share, were approved almost unanimously. 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 roughly the same high level as in the previous year. In total, around EUR 4.9 million was distributed to our shareholders.

Shareholder structure

As at the reporting date, the total number of shares is 13,500,026. The shareholder structure changed as follows during the reporting period: WPP remains the biggest shareholder. Following the capital increases carried out in September and October 2017, the WPP Group holds a total of 50.07 per cent of SYZYGY's stock.

The Annual General Meeting held on July 8, 2016 had approved the creation of authorised capital of EUR 6,000,000. The Management Board and Supervisory Board made use of the authorisation and increased the company's share capital in two capital increases by a total of EUR 671,576 by issuing 671,576 new shares. The new shares were issued against contribution in kind of company shares in Catbird Seat GmbH and diffferent GmbH.

The freefloat as defined by Deutsche Börse was 49.39 per cent as at December 31, 2017.

Investor relations

SYZYGY AG pursues a transparent, prompt information policy and attaches great importance to an ongoing, comprehensive dialogue with interested parties such as shareholders, investors, analysts, financial journalists and members of the public. The concise presentations on business performance and forecasts in the annual report, quarterly reports, company news and the publication of a sustainability report were particularly important in the 2017 financial year.

The wide range of information on capital market-related topics, sustainability within the SYZYGY Group and SYZYGY shares can be obtained at any time on our investor relations website www.syzygy.net. The information on the website is available at all times, in German and English.

SYZYGY AG prepared a non-financial declaration for the 2016 reporting year in the form of the German Sustainability Code (DNK) issued by the German Council for Sustainable Development (RNE). The company presented it at the Annual General Meeting for the first time on June 30, 2017.

In addition to the provision of written information, representatives of the Management Board gave presentations to investors 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 Group. During the period under review, the Management Board attended the German Equity Forum in Frankfurt and the Zurich Capital Market Conference (ZKK). Visits were also made to a number of institutional investors in the course of one-on-one talks or round-table events. A roadshow was also held with equinet Bank AG in Frankfurt.

The management team was additionally 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, GSC Research GmbH, Warburg Bank and equinet Bank AG. 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 of the Supervisory Board

A total of eight ordinary meetings of the Supervisory Board were held together with the Management Board in the 2017 financial year, on January 24, March 30, April 26, May 11/12, June 29, July 20, October 20 and on December 18, 2017. The Supervisory Board and Management Board also held one extraordinary meeting, on November 27, 2017.

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 January 24, 2017 focused on discussing the provisional figures for 2016. The company's financial position was also discussed. In conclusion, the Management Board and Supervisory Board decided to propose a dividend of EUR 0.38 at the Annual General Meeting.

The accounts review meeting was held on March 30, 2017 in the presence of the auditor. After carefully reviewing all the documents, the Supervisory Board received detailed information on the financial statements for the 2016 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. The Supervisory Board also discussed details of the tender procedure to appoint an audit firm for the 2017 financial year. The bids were assessed in line with defined criteria and discussed. Four audit firms were then shortlisted for a presentation.

At the Supervisory Board meeting of April 26, 2017, 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 2017 were discussed and subsequently approved. Another focus of the meeting was to decide on the auditor to be proposed to the Annual General Meeting. Following a thorough discussion, the Supervisory Board proposed BDO AG Wirtschaftsprüfungsgesellschaft for election.

During the meeting, the agenda for the Annual General Meeting scheduled for June 30, 2017 was also agreed. M&A was another key topic, with the Management Board reporting on ongoing discussions.

At the meeting held on May 11/12, 2017, the Management Board provided information on current trading, the outlook for the second quarter and for the full 2017 financial year. The main focus of the two-day meeting was the strategic direction of the SYZYGY Group. It was decided to strengthen and expand the core business in Germany and to establish the consulting business as a major part of the service portfolio. Acquisitions should accordingly be made primarily in the German market. Internationally, the possibility of strategic partnerships within the WPP network should be examined.

At the meeting held on June 29, 2017, the Management Board discussed the current situation of Hi-ReS! Berlin. The Management Board informed the Supervisory Board about current trading and provided an outlook for the rest of the financial year. It also reported on the current status with regard to M&A. In addition, the SYZYGY Group's sustainability reporting was discussed in the presence of the Supervisory Board and approved.

The purpose of the ordinary meeting held on July 20, 2017 was to discuss and approve the business figures for the first half of 2017. The Management Board presented a detailed outlook for the rest of the financial year. It also provided information on the status of discussions with M&A candidate diffferent.

The ordinary Supervisory Board meeting of October 20, 2017 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. The current situation of Hi-ReS! Berlin GmbH was also discussed in detail, after which the Supervisory Board approved the closure of business operations at Hi-ReS! Berlin.

At an extraordinary Supervisory Board meeting held on November 27, 2017, Mr Andrew Stevens' membership of the Management Board was terminated with effect from December 31, 2017 and Mr Frank Ladner was appointed as a new Management Board member with effect from January 1, 2018.

The last meeting of the year was held on December 18, 2017. It dealt with the current state of business and the outlook for 2018. The Management Board presented the budget for the SYZYGY companies and discussed it with the Supervisory Board. Approval of the 2018 budget was postponed to the next meeting in 2018. The members of the Supervisory Board also dealt with implementation of the German Corporate Governance Code. The Management Board and Supervisory Board issued an updated declaration of conformity in accordance with Article 161 of the German Stock Corporation Act (AktG). This declaration is available on the company's website.

The first Supervisory Board meeting of the current financial year, 2018, was held on February 1, 2018. The provisional figures for 2017 were presented and the company's financial position was discussed. Following in-depth discussion and subsequent approval of the provisional figures, it was decided to propose a dividend of EUR 0.39 at the Annual General Meeting. In addition, the 2018 budget was discussed and approved by the Supervisory Board.

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

In the 2017 financial year, the Supervisory Board of SYZYGY AG consisted of Mr Ralf Hering in his capacity as Supervisory Board Chairman, Wilfried Beeck and Rupert Day. It thus continued 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.

'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.'

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 June 30, 2017 discharged the members of the Supervisory Board and Management Board in relation to the 2016 financial year.

Due to the unexpected death of Ralf Hering, the Management Board and Supervisory Board submitted an application to the District Court of Bad Homburg for Mr Andrew Payne to serve until the Annual General Meeting on June 15, 2018. Mr Andrew Payne is a financial expert at WPP and has known the company for around ten years through working with it as an associated company. The District Court of Bad Homburg approved the proposal on March 22, 2018. On March 27, 2018, the Supervisory Board elected Mr Wilfried Beeck as Chairman of the Supervisory Board and Mr Rupert Day as his deputy.

Composition of the Management Board

Until December 31, 2017, the Management Board of SYZYGY AG consisted of Mr Lars Lehne as CEO, Mr Erwin Greiner as Chief Financial Officer and Mr Andrew Stevens as an additional Management Board member.

Mr Andrew Stevens left the Management Board of SYZYGY AG with effect from December 31, 2017.

Frank Ladner, Chief Technology Officer, was appointed to the Management Board with effect from January 1, 2018. This move sees the technology function gaining management board status and being expanded accordingly.

Corporate governance

On December 18, 2017, 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 February 7, 2017.

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

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 2017 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 for the 2017 financial year on June 30, 2017. 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 2017 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

Ralf Hering
Chairman of the Supervisory Board
† February 16, 2018

Rupert Day
Supervisory Board

Wilfried Beeck
Chairman of the Supervisory Board
from March 27, 2018

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 2017 financial year from the members of the Management Board at its meeting of March 27, 2018. 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.

Sustainability reporting

To document the SYZYGY Group's focus on sustainability, SYZYGY has made a commitment to the German Sustainability Code (DNK). A non-financial declaration was issued for the 2016 reporting year, in the form of the DNK declaration of conformity. This was formally reviewed and given the DNK user signet by the DNK.

The declaration of conformity can be downloaded from the Investor Relations website at ir.syzygy.net.

SYZYGY will again issue a declaration of conformity for the 2017 reporting year in order to render the SYZYGY Group's commitment to sustainability transparent and comparable for clients, employees and other interested parties.

Thanks

The Supervisory Board mourns the loss of its Chairman, Ralf Hering, who died unexpectedly on February 16, 2018, aged just 61. Ralf Hering was appointed to the Supervisory Board of SYZYGY AG in May 2015 and had served as its Chairman since July 2016. With Ralf Hering's passing we have lost a businessman with long experience of the communications sector. He brought a wealth of valuable expertise to the company's boards at key stages of the SYZYGY Group's development.

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 27, 2018
The Supervisory Board

Wilfried Beeck

Wilfried Beeck
Chairman of 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 February 7, 2017.

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.

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

The Declaration of Conformity with the German Corporate Governance Code in accordance with section 161 of the AktG;

Relevant information on corporate governance practices applied at the company that go beyond statutory requirements;

A description of the working methods of the Management Board and Supervisory Board, and the composition and working methods of their committees;

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 February 7, 2017, 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 February 7, 2017 since making the last Declaration of Conformity on October 19, 2016. 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.
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 has not formed any committees due to its current size of three members. 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.

(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 and the Articles of Association. 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. 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 and a presentation are 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 2017 can be found in the Report of the Supervisory Board in SYZYGY AG's 2017 Annual Report, which will be available from March 29, 2018 on the Group's website at www.syzygy.net.

4. Total shareholdings of Management Board and Supervisory Board

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 2016 Annual Report.

The corresponding information for the 2017 financial year will be published on March 29, 2018 in the 2017 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.

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.

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 Chief Financial Officer on December 31, 2020. 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 consists solely of male members.

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. 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 exceeds a defined female quota of 30 per cent. 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.

6. Diversity statement

Description and objectives of the diversity statement

The diversity statement for the Supervisory Board and Management Board aims to achieve diversity in the composition of these two bodies in relation to background, age, origin and gender. The goal of the diversity statement is to ensure that there is a range of different backgrounds and fields of experience in the Supervisory Board and Management Board, and to boost competitiveness.

Implementation of the diversity statements

The diversity statements for the Supervisory Board and Management Board will be implemented, based on the defined aspects, in the recruitment objectives that the Supervisory Board applies in its decision on election proposals to the Annual General Meeting and on appointments to the Management Board.

Diversity-related recruitment objectives for the Management Board

The Supervisory Board works with the Management Board on succession planning for the Management Board.

When appointments are made to the Management Board, as wide a range of knowledge, skills and professional experience as possible (diversity) should be represented in order to meet the following objectives of the diversity statement:

In relation to educational and professional background, particular emphasis is placed on extensive experience in the communications and IT/software sector or many years of financial expertise.

In future appointments to the Management Board, or if it is expanded, women will be considered as this leads to greater diversity on the Board. Going forward, the company will seek a target quota of at least 30 per cent female Management Board members by the end of 2021.

There is no age limit for members of the Management Board.

Diversity-related recruitment objectives for the Supervisory Board

SYZYGY AG aims for maximum company-specific and industry-specific expertise on the Supervisory Board, irrespective of characteristics such as age or gender.

The Supervisory Board nevertheless supports an appropriate representation of women on the Supervisory Board. The statutory minimum proportion of 30 per cent is regarded as generally appropriate. The company will aim at a higher proportion of women if elections are upcoming or members are added to the board.

A particular focus in relation to educational and professional background is in-depth knowledge of the communications and digital sector, and an extensive skillset in accounting and internal control procedures.

Due to the international outlook of the SYZYGY Group, members with an international background will also be considered when making appointments to the Supervisory Board.

Position at the end of the financial year

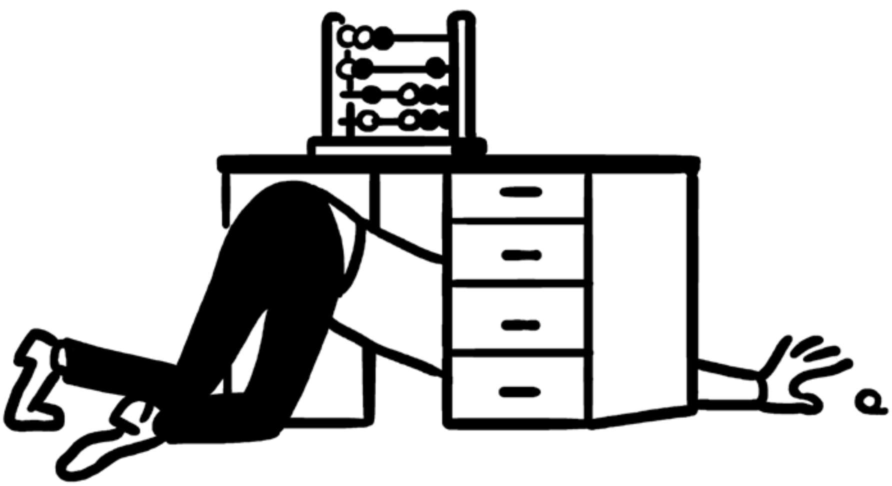
Representation of women on the Management Board and Supervisory Board was the only area where the objectives of the diversity statement for the Management Board and Supervisory Board were not met in the 2017 financial year.

The Supervisory Board is committed to implementing the diversity statement in full when deciding on election proposals to the Annual General Meeting or making appointments to the Management Board.

Bad Homburg v. d. H., December 18, 2017
SYZYGY AG

The Management Board and Supervisory Board

Financial statements



Group Management Report for the 2017 financial year

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 Group's results of operations, financial position and net assets in the 2017 financial year, as well as examining the expected future performance of the 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 315e [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. Overall, the Group had around 620 employees (previous year: 580) 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 eleven subsidiaries: Ars Thanea S.A., Catbird Seat GmbH, diffferent GmbH, Hi-ReS! London Ltd., SYZYGY Berlin GmbH (formerly Hi-ReS! Berlin GmbH), SYZYGY Deutschland GmbH, SYZYGY Digital Marketing Inc., SYZYGY UK Ltd., SYZYGY Media GmbH (formerly uniquedigital GmbH), Unique Digital Marketing Ltd. and USEEDS° GmbH. In June 2017, SYZYGY AG acquired 51 per cent of the shares in Catbird Seat GmbH. The digital performance marketing service provider has offices in Munich and Berlin. It specialises in tailored solutions covering analytics, search engine optimization (SEO), search engine advertising (SEA), real time advertising (RTA), content marketing and social media marketing.

In September 2017, SYZYGY AG acquired 70 per cent of the shares in diffferent GmbH. The stake enables the Company to enhance its services around strategy. In the course of unifying and merging the various brands, Hi-ReS! Berlin GmbH and uniquedigital GmbH were renamed last year: Hi-ReS! Berlin GmbH will trade under the name SYZYGY Berlin GmbH from now on, and uniquedigital GmbH is now called SYZYGY Media GmbH.

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. Performance marketing and 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 and animations 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 targets (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 19 prizes in 14 different contests for 9 different projects, including the Max Award, Performance Marketing Awards and the MII Awards. For its work on behalf of Mazda, SYZYGY received several awards at national level, including various Silver awards at the Autovision/Otto Car Awards and Winner with two projects in the categories Cross-Device Marketing and Online Video at the MII Awards. SYZYGY took Silver in the Website - Vehicles section with a project for BMW's motorcycle business. At international level, Addison Lee projects in particular achieved very good results; SYZYGY twice received the Winner accolade at the Performance Marketing Awards and the Biddable Media Awards. The work of SYZYGY Digital Marketing in the US was recognised with two Drum Awards: a project for Avis received The Drum Search Award USA in the category Best Attribution Solution and The Drum Digital Trading Award USA in the category Best Use of Paid Search as part of a Programmatic Strategy.

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.

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

The SYZYGY Group has introduced cross-company specialist responsibilities for media, innovation, strategy and creative services at the first management level below the Management Board. The objective is to establish particular specialist areas through representatives of the operating units in the Group and at the sister companies. Innovation topics are discussed and presented to employees during workshops, internal specialist events, presentations and training sessions. The respective managers with specialist responsibility are presented on page 11 of the annual report.

3. Economic report

3.1 General economic development

The global economy continued to be characterised by expansion and growth in 2017. Contrary to the expectations of most analysts, political risks and uncertainties failed to dampen economic growth or the financial markets. The experts at the ifo Institute reported that the ifo climate rating for the world economy reached 17.1 points at the end of 2017, marking its highest level since 2011. They see a positive trend in virtually all regions, apart from the Middle East and North Africa. Further growth is expected for emerging and developing countries, with the outlook being less optimistic in the advanced economies. Global gross domestic product (GDP) set a new record in 2017 of approximately USD 79.3 trillion.

The Eurozone economy also performed robustly in 2017, growing by 2.5 per cent due to sustained consumer spending, higher growth in the global economy and falling unemployment. Performance last year was significantly stronger than in 2016, when growth of 1.7 per cent was recorded. Economic output increased in the second half of 2017 in particular, rising by 0.7 per cent in the third quarter and 0.6 per cent in the fourth quarter. The economists at the EU Commission likewise confirm an end to the years of crisis in Europe, which saw weak economic performance and, in some cases, shrinking economies.

They expect an increase in GDP of 2.4 per cent in 2017 for the Eurozone countries and throughout the wider EU. This positive trend is reflected in the final data for the IHS Markit Composite Index Eurozone – Purchasing Managers' Index: the figure has remained above 50 points for 55 consecutive months and thus above the level that indicates growth. According to this analysis, the French, German, Italian and Irish economies all made a notable contribution. A similar trend can be seen in the IHS Markit Eurozone Service Index, which showed particularly strong performance in the German and French service sectors, where the highest levels since 2011 were recorded. The average annual inflation rate in the Eurozone was 1.5 per cent. This is below the 2 per cent mark that the European Central Bank considers ideal for economic development. At 9.1 per cent in the Eurozone and 7.7 per cent across the wider EU, the unemployment rate last year was at its lowest level since 2009. The accompanying improvement in the labour market remains the basis for the recovery and underpins consumer spending.

The German economy also experienced a steady and broadly-based upswing in 2017, posting higher growth than in recent years. In the first quarter the economy expanded by 0.9 per cent. This then dropped back to sustained strong growth of between 0.6 (Q2 and Q4) and 0.7 per cent (Q3). German GDP accordingly grew by 2.2 per cent, the highest growth since 2011. While in previous years consumer spending was the driving force for the economy, in 2017 foreign trade played an increasing role against the backdrop of an overall improvement in the global economic environment. This scenario supported German exports. Industry also performed relatively strongly, with impressive growth in the first two quarters of 2017 in particular. Private consumer spending rose sharply by 2.0 per cent in 2017, supported by increasing employment and higher wages. Sentiment in the retail trade is and remains extremely good. The ifo Business Survey shows that retailers' expectations in the final quarter were at their highest level since 1991. Apart from a few dips, the ifo Business Climate Index charted an upward trend.

In January 2017, it stood at 109.8, but climbed to 116.2 points by July. After edging down in September to 115.4 points, it continued its rally until December, ending the year at 117.2 points. The labour market also proved robust and performed well in 2017. Employment in Germany rose by 1.5 per cent to an annual average of 44.3 million people in gainful employment, marking a record high. The unemployment rate was 5.3 per cent in December 2017, one percentage point below the figure of 6.3 per cent recorded at the beginning of the year. Consumer prices increased by 1.8 per cent last year, representing the highest growth in five years. In December, the inflation rate stood at 1.7 per cent, having ranged between 1.5 and 2.2 per cent in the individual months. Reports indicate that this was due to increases in energy and food prices as well as higher rents.

Although economic performance in the US, the world's largest economy, slightly trailed the Eurozone, the country did see a strong increase, with growth of 2.3 per cent compared to 2016 (1.5 per cent). Consumer spending remains the biggest growth driver, backed by low unemployment and gradually rising incomes. Companies are also investing more, since earnings are higher compared to the previous year. America's balance of trade again posted a deficit in 2017, with imports growing more than exports. In December, the figure was almost USD 64 billion. The unemployment rate was 4.1 per cent in 2017, representing virtually full employment. Average inflation in the US last year was 2.1 per cent.

The British economy recorded growth of 1.5 per cent in the year after the referendum on withdrawal from the European Union, marginally beating the expectation of 1.4 per cent. Figures compiled by the Office for National Statistics indicate that economic output grew by 0.5 per cent in the last quarter of 2017, slightly higher than the level in the summer and above expectations. The service sector is the backbone of the UK economy, accounting for almost 80 per cent of GDP.

The decline in the value of the pound is leading to rising prices, with inflation increasing to 3 per cent and eroding consumer purchasing power. Unemployment is historically low at 4.4 per cent, but experts fear this may not remain the case with weaker growth.

In Poland, GDP growth in real terms was 3.8 per cent, consumer price inflation was 1.9 per cent and unemployment stood at 4.8 per cent. Economists expect that economic growth will become more entrenched, but at a slower pace. In 2017, the strongest growth in consumer spending since 2008 was the driving force behind the robust performance of the economy.

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 2017. The budget increase of 3 per cent worldwide calculated by research institute WARC also takes digital media into account. In this segment, mobile in particular remains the clear winner in terms of growth in 2017. The survey found that it posted growth of 5.9 per cent, accounting for 20.6 per cent of all global advertising spend last year. The latest Ad Spend Report by Dentsu Aegis Network (DAN) also reports 3.1 per cent growth in global advertising spend in 2017, while spending on digital marketing increased 15 per cent.

Total advertising budgets in Germany saw a moderate rise in the low single-digit range, slightly down on the previous year. A recent survey of net advertising spending conducted by Dentsu Aegis Network indicates an increase of 2.2 per cent in 2017, while Nielsen calculated growth in gross advertising investment of 1.9 per cent. Despite the strong economy, low unemployment figures and free-spending consumers, companies are cautious in their advertising investments. In line with the global trend, mobile continues its strong expansion, with a growth rate of 39.3 per cent. While the Nielsen figures for the first half of 2017 indicate that online ad spend shrank by 3.3 per cent, the analysis for the full year 2017 shows growth of 2.3 per cent for the Internet. The decline does not mean that digital channels are becoming less important; rather, it indicates a shift away from display and into digital channels such as search, programmatic or social media. Experts from Zenith predicted in their Advertising Expenditure Forecasts in December 2017 that digital advertising spend in Germany could account for a market share of 34 per cent. Analysis conducted by consultancy Schickler exclusively for HORIZONT indicates sales growth of 9 per cent net for online advertising. In addition, the consultants expect a strong increase in the proportion of advertising delivered via apps. In 2017, it stood at 37 per cent and is expected to rise to 50 per cent this year.

Advertising activity in the US and the UK has cooled considerably, according to a Gartner survey. The consulting firm expects stagnating sales in 2017. The ratio of advertising budgets to corporate revenues fell in 2017 to 11.3 per cent (previous year: 12.1 per cent). This also provides clear evidence of the ongoing trend for switching budgets from traditional to digital media, reflecting changes in media usage habits among target audiences. In addition, previous budget increases have so far not fulfilled, or only partly fulfilled, the high expectations placed in them. For the US, the latest Ad Spend Report from Dentsu Aegis Network forecasts growth of 2.6 per cent in 2017; back in June, 3.6 per cent had been expected. The US remains the number one advertising market worldwide. In 2018, it is expected to account for 37 per cent of the total advertising market.

The analysts at Advertising Association/WARC published their AA/WARC Expenditure Report in January 2018, citing growth in the UK's advertising spend of 3.5 per cent, or GBP 551 million, in the first three quarters of 2017. The estimate for the full year 2017 is for an increase of 3.4 per cent, i.e. 0.3 per cent above the expectation in October 2017 for the year as a whole. Here again, the growth drivers are mobile at 30.7 per cent and the Internet at 9.9 per cent. The WARC study suggests that the UK experienced a record high in the third quarter, marking 17 quarters of growth in a row. The latest Ad Spend Report from Dentsu Aegis Network forecasts growth of 3.2 per cent for the UK in 2017; back in June, 4.0 per cent had been expected.

Consumers in Poland are in the mood to spend, which has a correspondingly positive affect on advertising budgets. The Internet in particular is a beneficiary of this trend: in the first two quarters of 2017, it accounted for almost one third of advertising spend. Media agency Starcom expects an increase in advertising spend of 2.0 to 2.5 per cent in the past year. As in the other markets, advertising activity is also shifting to the Internet. Online expenditure increased by 10 per cent in the first quarter of 2017 alone, compared to the prior-year quarter.

All in all, the SYZYGY Group thus operated in a positive market environment. The European economy continues to expand, as indicated by growth and widespread positive sentiment. Performance in the Group's core market, Germany, was robust. The trend towards increasing budgets for digital advertising continued, with mobile formats in particular achieving above-average growth rates.

3.3 Employees

The headcount at the SYZYGY Group increased again in the period covered by the report. As at December 31, 2017, the Group had a total of 621 permanent employees, 43 or 7 per cent more than as at the reporting date in the previous year. The Group added around 100 people to the headcount through the acquisition of Catbird Seat and diffferent in the course of the financial year. At SYZYGY Berlin, the workforce was cut by approximately 65 per cent due to the loss of the BMW account. The number of freelancers was largely unchanged at 54 persons (previous year: 56 persons).

422 people or 68 per cent (previous year: 352 persons) of the entire staff worked in the seven German companies as at the reporting date. In addition, 117 or 19 per cent (previous year: 133 persons) were employed in the British agencies. As at year-end, 67 people or 11 per cent (previous year: 76 persons) worked for Ars Thanea, while the number of employees at SYZYGY Digital Marketing in New York fell by 12 per cent to 15 employees (previous year: 17 persons).

In terms of employees by function, there were only minor changes during the period under review. Technology, creative services and project management each recorded a slight decline compared to the previous year: the technology percentage went down from 21 to 17 per cent, creative services decreased by 24 employees to 15 per cent, and the share attributable to project management was around 2 per cent lower than in the 2016 financial year, at 15 per cent. The acquisition of diffferent led to strategy consulting expanding by 7 percentage points to 17 per cent. In administration and in online marketing, the number of employees also increased within the context of overall developments. In percentage terms, the share accounted for by online marketing rose from 21 to 22 per cent compared to the previous year, while administration grew by 3 percentage points to 14 per cent. The SYZYGY Group employed 591 people on average during the year (previous year: 540 persons). Including an average of 47 freelance employees, annualised sales per head were around kEUR 95 (previous year: kEUR 108).

3.4 Investments, research and development

Other intangible assets and fixed assets increased significantly to EUR 7.8 million (previous year: EUR 3.2 million). Relocation to new rented premises in Bad Homburg, London and Berlin in particular resulted in additions to leasehold improvements of EUR 3.4 million (previous year: EUR 0.3 million) and to operating and office equipment of EUR 1.7 million, as well as EUR 0.4 million due to first-time consolidation of Catbird Seat and diffferent. No investment in research and development was made in the period covered by this report.

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

3.5.1 Results of operations

In the 2016 Group Management Report, the SYZYGY Group forecast that it would be able to increase sales again in the 2017 financial year, but assumed only a modest rise 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. SYZYGY expected operating income (EBIT) to slightly exceed the increase in net sales.

SYZYGY failed to meet its forecasts, achieving sales of EUR 60.7 million (a decrease of 6 per cent over the previous year). At EUR 4.1 million, EBIT was down 27 per cent and likewise below expectations. Earnings per share of EUR 0.39 remained unchanged compared to the previous year.

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

The Germany segment is once again the strongest in the Group, increasing from 62 to 65 per cent of total sales. Both the UK segment at 22 per cent and the other segments at 5 per cent remained stable in terms of sales performance in the year under review. The US now generates 8 per cent (previous year: 11 per cent) of sales. These figures reflect results before consolidation.

SYZYGY generated 29 per cent of its sales from clients in the automotive industry, 6 percentage points fewer than in the prior year. The consumer goods sector accounted for around 27 per cent of sales (as in the previous year), while 12 per cent was generated with companies from the financial sector (previous year: 11 per cent). The proportion of sales attributable to clients from the IT and telecommunications industry increased slightly from 10 per cent to 11 per cent. Some 21 per cent of sales (previous year: 17 per cent) came from firms that cannot be assigned to any of these four key areas. The automotive segment not only declined in

	2013	2014	2015	2016	2017
Sales in kEUR	35,030	47,075	57,311	64,273	60,669
EBIT in kEUR	2,023	3,843	5,268	5,596	4,096
EBIT margin in %	5.8	8.2	9.2	8.7	6.8
Earnings per share in EUR	0.26	0.35	0.37	0.39	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 increased by 7 per cent to EUR 152.2 million, sales declined slightly by 6 per cent to EUR 60.7 million compared to the previous year. This is due to the loss of the BMW account at SYZYGY Berlin, coupled with a downturn in business.

terms of its share of sales, it also failed to post any growth in absolute terms. On the other hand, sales attributable to companies that do not fall into the four categories performed well, both in percentage and in absolute terms.

49 per cent of SYZYGY's sales were generated from its ten largest clients, a figure that is 5 percentage points below the previous year's level.

3.5.3 Operating expenses and depreciation

The cost of sales totalled EUR 46.2 million. This represents a decrease of 3 per cent and thus a slightly slower decline than in the previous year. The gross margin fell slightly by 2 percentage points to 24 per cent as a result.

Sales and marketing costs were stable at EUR 6.3 million. In addition to personnel expenses, this item also includes the cost of merging the brands within the SYZYGY Group. The media business of uniquedigital in Hamburg and Unique Digital Marketing in London was brought under the SYZYGY brand in the reporting period.

General administrative expenses increased by 9 per cent to EUR 7.4 million. This includes legal, notary and capital increase costs of EUR 0.4 million from M&A transactions.

At EUR 2.1 million, depreciation of fixed assets and amortisation of other intangible assets were above the previous year's figure of EUR 1.8 million. There were no unscheduled write-downs on goodwill in the 2017 financial year.

3.5.4 Operating income (EBIT) and EBIT margin

Operating income (EBIT) fell disproportionately relative to sales by 27 per cent, declining from EUR 5.6 million in the prior year to EUR 4.1 million. As a consequence, the Group's profitability also declined, with the EBIT margin falling from 8.7 per cent in the previous year to 6.8 per cent in the 2017 financial year. The fall in profitability was largely due to restructuring at SYZYGY Berlin. The headcount at that location was reduced by approximately 65 per cent over the course of the year. In addition, special charges were incurred by the changes at Management Board level, as well as costs associated with acquisitions and the merging of brands.

3.5.5 Financial income

SYZYGY again generated strong financial income of EUR 1.4 million in the reporting period, 8 per cent above the previous year's level (2016: EUR 1.3 million), through active management of cash and cash equivalents. The result corresponds to a return of 8.8 per cent (previous year: 6.0 per cent) on average available liquidity reserves, and of 12.8 per cent (previous year: 7.8 per cent) on the average market value of the securities portfolio. The main contributors to this excellent 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 fell by 20 per cent to EUR 5.5 million (previous year: EUR 6.9 million) in the reporting period, net income after taxes also decreased by 17 per cent to EUR 4.2 million (previous year: EUR 5.1 million). The tax rate went down to 24 per cent (previous year: 26 per cent) in the financial year. The slight decline is primarily due to the fact that in the previous year a substantial share of profits was generated in New York, which has significantly higher tax rates than other countries. In addition, the tax rate in the UK was reduced in 2017.

Undiluted earnings per share were EUR 0.39, based on the average available 12,920 thousand shares qualifying for participation in the profits and after deducting non-controlling shares of EUR -0.8 million, thus remaining at the previous year's level.

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 0.39).

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.

All segments reported a decline in sales in the reporting period. Only Polish agency Ars Thanea, which is reported in other segments, posted an increase of 8 per cent. The German companies achieved sales of EUR 40.3 million, comparable with the previous year's level but down slightly by 2 per cent (previous year: EUR 41.2 million). Inorganic growth through the acquisition of Catbird Seat and diffferent was unable to fully offset the loss of business at SYZYGY Berlin. EBIT saw a significantly disproportionate decline, falling by 38 per cent to EUR 3.3 million (previous year: EUR 5.3 million). The EBIT margin thus fell to 8 per cent (previous year: 13 per cent). The UK companies generated sales revenues of EUR 14.6 million, putting them 3 per cent below the previous year's level of EUR 15.0 million. The decline in the British pound from an average of GBP/EUR 1.22 in 2016 to GBP/EUR 1.14 in the reporting year had a negative currency effect of around EUR 1.0 million on sales volumes, resulting in a corresponding drop in sales revenues. The operating income of the British companies amounted to EUR 0.9 million in 2017 (previous year: EUR 2.0 million), 55 per cent below the previous year's level. The EBIT margin was 6 per cent (previous year: 13 per cent).

The US segment also reported a fall in sales during the period covered by the report. Sales of EUR 5.3 million were generated by the company in 2017 (previous year: EUR 7.4 million). The performance of EBIT, meanwhile, was significantly more positive, at EUR 0.9 million (previous year: EUR 0.8 million), corresponding to an EBIT margin of 17 per cent (previous year: 11 per cent).

Polish agency Ars Thanea, which is reported under other segments, boosted its sales slightly by EUR 0.2 million to EUR 3.4 million. Operating income was EUR -0.2 million in the reporting period.

Overall, 65 per cent of sales (based on the share of the Group's sales before consolidation) came from the Germany segment (previous year: 62 per cent), 22 per cent from the UK (previous year: 22 per cent), 8 per cent from the US (previous year: 11 per cent) and 5 per cent from the other segments (previous year: 5 per cent). The respective shares of operating income are 59 per cent (previous year: 62 per cent), 22 per cent (previous year: 23 per cent), 22 per cent (previous year: 10 per cent) and -3 per cent (previous year: 5 per cent).

3.5.8 Financial position

The SYZYGY Group had overall liquidity (total cash, cash equivalents and securities) amounting to EUR 16.0 million as at December 31, 2017. This represents a decrease of 28 per cent on the previous year's figure of EUR 22.2 million, largely due to the acquisition of shares in Catbird Seat and diffferent. The acquisitions were settled half in cash and half in shares. The new shares were created via capital increases based on authorised capital against contributions in kind. In addition, a dividend of EUR 4.8 million was financed from the – as expected – positive operating cash flow of EUR 4.8 million.

At EUR 7.0 million, cash and cash equivalents represented around 44 per cent of cash reserves (previous year: EUR 6.6 million). These funds were earmarked for liabilities becoming due in the short term. The proportion of securities decreased to 56 per cent, having fallen by 42 per cent to EUR 9.0 million in the reporting period. The average weighted residual maturity of the bonds was 7.3 years (previous year: 7.3 years). Please refer to the notes to the financial statements, section 6, for further details of the investment strategy.

In addition, SYZYGY AG took out a bank loan in the amount of EUR 5.0 million, which will be repaid over five years.

Total cash flow of the SYZYGY Group amounted to EUR 0.4 million as at year-end (previous year: EUR 2.7 million), after taking exchange rate changes into account. This amount comprises positive operating cash flow of EUR 4.8 million, cash flow from investment operations of EUR -3.9 million and cash flow from financing activities of EUR -0.3 million. Net income of EUR 4.2 million, higher accounts receivable of EUR 2.6 million (previous year: EUR -0.4 million) and a EUR 2.3 million increase in advance payments received from clients are the main factors behind this positive operating cash flow

Cash flow from investment operations was negative at EUR -3.9 million (previous year: EUR 2.1 million), resulting chiefly from active management of liquidity reserves. The sale of securities worth EUR 19.3 million was partly offset by purchases totalling EUR 11.8 million. In addition, outflows for the acquisition of consolidated companies in the amount of EUR 6.6 million and investments in intangible assets and fixed assets of EUR 5.3 million had a significant impact in this respect.

Both the payment of the ordinary dividend of EUR 4.8 million (previous year: EUR 4.7 million) and the taking out of loans from banks of EUR 4.8 million affect cash flow from financing activities and more or less balance each other out.

The Company also has a credit line for EUR 3.5 million (previous year: EUR 4.0 million) with Commerzbank AG which had not been used as at the balance sheet date.

3.5.9 Asset situation

Total assets increased by 29 per cent in the period covered by the report to reach EUR 104.6 million.

Non-current assets increased by 75 per cent to EUR 66.5 million in the reporting period. This increase is attributable to the acquisition of 70 per cent of the shares in diffferent and 51 per cent of the shares in Catbird Seat in the 2017 financial year. The cash and cash equivalents item went up from EUR 6.6 million to EUR 7.0 million in 2017. In contrast, securities holdings were down 42 per cent at EUR 9.0 million. Accounts payable increased by 10 per cent to EUR 20.3 million (previous year: EUR 18.5 million). Other assets fell slightly by EUR 0.2 million to EUR 1.9 million in the financial year. Current assets declined by a total of EUR 4.6 million (11 per cent) to EUR 38.1 million.

On the liabilities side of the balance sheet, equity increased by 12 per cent compared to the previous year to stand at EUR 55.9 million, representing 53 per cent of the balance sheet total. This rise is due to the increase in additional paid-in capital of EUR 6.5 million, or 32 per cent, to EUR 27.1 million. Other net income fell marginally to EUR -1.8 million (previous year: EUR -1.5 million). Both the value of treasury shares and profit reserves remained at the previous year's level, while subscribed capital increased slightly by 5 per cent to EUR 13.5 million.

Non-current liabilities posted a rise of EUR 15.0 million to EUR 21.9 million, chiefly as a result of commitments arising from forward and option transactions for the acquisition of shares in Catbird Seat and diffferent, as well as remeasurement of the USEEDS shares to be acquired in the future and of the earn-out relating to the acquisition of Ars Thanea.

Current liabilities and provisions increased only slightly by EUR 2.4 million to reach EUR 26.4 million. The main factor in this respect was the rise in advance payments received, from EUR 4.6 million in the previous year to EUR 6.4 million as at the reporting date. There were only small changes in the other items. Tax liabilities were up from EUR 0.2 million in the previous year to EUR 0.3 million in the reporting year, while other provisions rose by 6 per cent to EUR 9.2 million. Other liabilities, which principally comprise VAT liabilities, saw a slight decline of EUR 0.2 million to EUR 2.8 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 management 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 General economic development in the main markets of the SYZYGY Group

Expert assessments of the economic climate are unanimously positive: as the ifo Institute announced, the global economic climate has improved considerably. In the first quarter of 2018, the Institute's indicator rose from 17.1 to 26.0 points, the highest figure since autumn 2007. Its economists rate the current economic situation as highly positive, the economic outlook also saw an exceptional improvement, and the global recovery is becoming embedded. Expectations rose sharply, particularly in the US, the European Union and Asian emerging economies and developing countries. In line with this trend, the International Monetary Fund also upgraded its growth forecast. The IMF expects that the global economy will accelerate strongly this year and next. It expects growth rates of 3.9 per cent for both 2018 and 2019, thus correcting the forecast of 3.7 per cent made in October 2017. Experts expect prices to rise in the world economy during the current year. The robust levels of economic activity in Europe and Asia, together with the tax reform in the US, are delivering a booming global economy.

Sentiment is similarly positive in Europe. The EU Commission expects significantly higher growth, with the economy in Europe gaining momentum after years of crisis. The Commission has once again revised its forecasts for the Eurozone and for the EU as a whole significantly upward, stating that the situation is better than at any time in the past 10 years. It expects the economy in the Eurozone countries to grow by 2.3 per cent in 2018, exceeding the autumn forecast of 2.1 per cent. For the EU as a whole, the Commission predicts 2.3 per cent growth for 2018 and 2.1 per cent for 2019 (excluding the United Kingdom, which is expected to exit the EU in March 2019). The IHS Markit Composite Index Eurozone figures show that growth in the Eurozone approached a 12-year high in January 2018. The chief economist at IHS Markit, Chris Williamson, expects the Eurozone to start the new year with plenty of momentum, leading to a strong, broad-based recovery, with increasing demand boosting job creation and capacity being almost fully utilised.

The German economy is also flying high. At the beginning of the year, the economic barometer of the German Institute for Economic Research in Berlin (DIW) rose to its highest level in seven years. The DIW index now stands at 118 points for Q1, nearly 4 points higher than in the last quarter of 2017. This makes it likely that the German economy will post strong gains in the first quarter of the year and grow by 0.7 per cent compared to the previous quarter. Both industrial companies and service providers are optimistic about the future as a result of strong order books and buoyant demand from within the country and abroad, causing companies to increase their investment spending again. Given record employment figures and rising wages, consumer spending is also adding to demand and supporting growth. The strong global economic upturn, which now also encompasses the Eurozone, is having a positive impact on the German economy. A rising euro/dollar exchange rate is making exports from the monetary union more expensive and could slow the pace down. China is undergoing a structural shift towards more consumer spending, which could result in a declining outlook for exports. Experts at the ifo Institute and the Kiel Institute for the World Economy (IfW) share the positive assessment and raised their forecasts for German GDP growth from 2.0 to 2.6 per cent (ifo) and from 2.2 to 2.5 per cent (IfW). Rising inflation is expected as a result of the strong economy. The ifo Institute expects an inflation rate of 2.2 per cent for 2019, taking it above 2 per cent for the first time in years. The European Central Bank regards 2 per cent as consistent with stable prices. The economic boom is also having a positive impact on the German labour market. In 2019, the number of people in employment is expected to reach 45.2 million, the highest on record. The German economy is heading towards a boom phase, with capacity fully utilised and labour market shortages. However, experts are warning of the risk of the economy overheating.

The US economy also made a strong start to the new year. The key indicators all signal economic growth. US GDP growth is expected to be 2.5 per cent in 2018, with an increase of 2.1 per cent in 2019 and 2.0 per cent in 2020. The unemployment rate will fall to 3.9 per cent in 2018 and 2019, before rising to 4.0 per cent again in 2020. This places the forecasts below the figures for 2016 of 4.7 per cent and 2017 of 4.1 per cent, and well below the US central bank's target of 6.7 per cent. Consumers and businesses are confident about the country's future performance, resulting in robust personal consumption and an increase in corporate investment. The infrastructure programme announced by US president Donald Trump is expected to provide an additional stimulus, leading to investment of USD 1 trillion.

In their economic outlook for the United Kingdom, economists at the EU Commission in Brussels expect reduced GDP growth of only 1.4 per cent this year and 1.1 per cent in 2019. They attribute this to the political and economic uncertainty arising from Brexit and the ongoing negotiations on withdrawal. In its UK Economic Outlook, PwC shares the assessment of the EU Commission, likewise forecasting 1.4 per cent growth for 2018. Inflation is predicted to remain stable at 2.7 per cent, although still relatively high. This will be accompanied by a weak trend in wages, despite the UK unemployment rate also being at a historically low level. As a result, the rise in consumer spending will decline from 1.6 per cent in 2017 to 1.1 per cent.

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.

In its outlook for the development of the global advertising industry, the WARC research institute forecasts that the advertising market will grow by 4.7 per cent to USD 572 billion this year. The forecasts from Zenith, predicting a rise of 4.1 per cent to USD 578 billion, closely mirror this assessment. The Winter Olympics, the Football World Cup and elections to the US House of Representatives in the autumn are the main factors underpinning these optimistic expectations. The WARC analysts expect that 2018 will be an excellent year for global advertising. Advertising investment will grow at its strongest rate since 2010 and 2011, while mobile remains a key factor in global growth. In their Global Ad Spending Forecast, the market researchers at Dentsu Aegis Network assume growth of 3.6 per cent for the overall advertising market in 2018. This represents a downgrading of their assessment of June 2017, which stood at 4.3 per cent.

The advertising industry in the US is likewise positive about the future. Dentsu Aegis considers 3.2 per cent growth to be likely.

Although the forecasts for Germany are lower, they are optimistic overall. According to the Global Ad Spend Forecast by Dentsu Aegis, the German advertising market will grow by 2.6 per cent to EUR 16.2 billion this year. The network sees a possible rise of 3 per cent in 2019. Digital media will be the frontrunners in 2018; with a market share of 36.3 per cent, they are set to outpace the TV segment. TV advertising will only make up 32 per cent of total expenditure. The drivers of growth in digital media will be mobile and social media in particular. These segments will grow by 38.2 and 22.0 per cent, respectively. The Mobile Advertising Forecast from Zenith again predicts huge growth for mobile advertising, with this being the first year in which more advertising euros are spent on mobile than on desktop advertising. An analysis by consultancy Schickler also forecasts continuing growth for the digital advertising market. Its figures suggest that 9 per cent more, or EUR 9.2 billion, will be spent on online advertising.

In the UK, the overall market will grow by 2.9 per cent in 2018, according to the Dentsu Aegis Global Ad Spend Forecast. This represents a downgrading of the forecast of 5.9 percent made by the network in summer 2017. The Expenditure Report by the Advertising Association/WARC is slightly more pessimistic, with a growth estimate of 2.8 per cent for 2018. Here again, growth will be driven by the digital segment, which is expected to grow 7.3 per cent, with mobile gaining 20.7 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 other relevant markets; 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 more and more widespread, 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 double-digit sales growth in the current financial year, with a rise in the EBIT margin in the upper single-digit range. Growth is expected chiefly in Germany, while the performance of all other segments will be broadly unchanged.

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 net assets, the 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 49 per cent of the SYZYGY Group's sales are generated from its ten largest clients. The concentration on the ten largest clients has declined from 54 per cent in the previous year to 49 per cent. The largest single client accounted for 9 per cent of sales. While the top 3 clients generated 28 per cent of the Group's sales in the previous year, this figure saw a further decline to 24 per cent in 2017.

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 by the Finance Director. Investment strategy relating to liquid funds is geared towards long-term income. Liquid funds are therefore invested in corporate bonds and other fixed interest securities in a manner designed to ensure risk diversification. All fixed income 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 just under 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 8 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 held by foreign subsidiaries and securities denominated in foreign currency. 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.

Brexit risk

The UK's withdrawal from the European Union is giving rise not only to uncertainty regarding the future performance of the British economy, but also regarding the wider European economy. Since the negotiations on the country's exit have not yet been completed, the actual impact is not foreseeable at present. For this reason, accurate forecasts are still not possible, apart from identifying the existing uncertainty. The UK market is an important market for the SYZYGY Group. The fact that SYZYGY operates primarily in Germany should tend to mitigate the risk, since any financial companies that relocate from the UK can be served by agencies in Germany.

The risk 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 unscheduled write-down or impairment of the book value of the acquisition could prove necessary for assets acquired as part of the acquisition or for acquired goodwill.

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 in this respect, 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 allow 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 315e [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 group 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 keeping with Article 315 [4] 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. Total remuneration comprises the following components:

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

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

Performancerelated remuneration includes two components:

Short-term profit participation based on the targets (both financial and qualitative) for the business year, payable after the annual and consolidated financial statements are 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 February 7, 2017, in the form of the remuneration granted, as follows:

	Lars Lehne, CEO			
Benefits granted	2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	300	225	300	300
Fringe benefits	14	10	14	14
Total	**314**	**235**	**314**	**314**
One-year variable remuneration	99	74	0	99
Phantom stock programme	0	365	0	0
Total	**99**	**439**	**0**	**99**
Pension expenses	21	16	21	21
Total remuneration	**434**	**690**	**335**	**434**

	Andrew P. Stevens, COO			
Benefits granted	2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	251	268	251	251
Fringe benefits	15	16	15	15
Total	**266**	**284**	**266**	**266**
One-year variable remuneration	38	40	0	225
Phantom stock programme	0	147	0	0
Total	**38**	**187**	**0**	**225**
Pension expenses	13	13	13	13
Total remuneration	**317**	**484**	**279**	**504**

Benefits granted	Erwin Greiner, CFO 2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	180	168	180	180
Fringe benefits	12	12	12	12
Total	**192**	**180**	**192**	**192**
One-year variable remuneration	54	25	0	54
Phantom stock programme	0	77	0	0
Total	**54**	**102**	**0**	**54**
Pension expenses	16	11	16	16
Total remuneration	**262**	**293**	**208**	**262**

Benefits granted	Marco Seiler, CEO (Exit: 08/31/2016) 2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	0	183	0	0
Fringe benefits	0	10	0	0
Total	**0**	**193**	**0**	**0**
One-year variable remuneration	0	28	0	0
Phantom stock programme	0	0	0	0
Total	**0**	**28**	**0**	**0**
Pension expenses	0	8	0	0
Total remuneration	**0**	**229**	**0**	**0**

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 February 7, 2017, 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.

Payment	Lars Lehne, CEO 2017	2016	Andrew P. Stevens, COO 2017	2016	Erwin Greiner, CFO 2017	2016	Marco Seiler (Exit: 08/31/2016) 2017	2016
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	300	225	251	268	180	168	0	183
Fringe benefits	14	10	15	16	12	12	0	10
Total	**314**	**235**	**266**	**284**	**192**	**180**	**0**	**193**
One-year variable remuneration	74	0	19	41	34	25	0	67
Phantom stock programme	0	0	112	0	76	0	0	0
2012 option scheme	0	0	0	0	79	224	0	0
Total	**74**	**0**	**131**	**41**	**189**	**249**	**0**	**67**
Pension expenses	21	16	13	13	16	11	0	8
Total remuneration	**409**	**251**	**410**	**338**	**397**	**440**	**0**	**268**

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 component 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.

A detailed presentation of the remuneration of the Supervisory Board for the 2017 financial year can be found in the notes to the SYZYGY AG financial statements according to HGB (German Commercial Code).

8. Disclosure relating to acquisition in accordance with Article 315a [1] of the Handelsgesetzbuch (HGB – German Commercial Code)

The common stock of SYZYGY AG amounts to EUR 13,500,026 and is divided into 13,500,026 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 continues to hold the majority of shares. As at the reporting date, it held a 50.07 per cent stake in SYZYGY AG.

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 by up to an overall maximum of EUR 6,000,000.00 in the period to July 8, 2021 by issuing new bearer shares against cash contributions and/or contributions in kind (authorised capital 2016). In the 2017 financial year, two capital increases totalling EUR 671,576 were carried out. As a result, the outstanding authorised capital as at December 31, 2017 was EUR 5,328.424.

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 1.0 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. Group Declaration on Corporate Governance in accordance with Article 315d of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with Article 289f of the HGB

On December 18, 2017 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 Corporate Governance at https://www.syzygy.net/global/en/investor-relations/corporate-governance/2017.

11. Non-financial declaration in accordance with Article 315c HGB

SYZYGY AG is exempt from preparing a non-financial declaration in accordance with Article 315b (2) sentence 2, HGB. The parent company, WPP plc., St. Helier, Jersey, publishes the non-financial declaration on its website at http://www.wpp.com/wpp/sustainability/.

Bad Homburg v.d.H., March 27, 2018
SYZYGY AG

Management Board

Lars Lehne

Frank Ladner

Erwin Greiner

SYZYGY AG, Bad Homburg v.d.H.

Consolidated balance sheet as at December 31, 2017

Assets		12/31/2017	12/31/2016
	Note	kEUR	kEUR
Non-current assets			
Goodwill	(3.1)	58,165	33,797
Other Fixed assets, net	(3.2)	7,834	3,231
Fixed Asset Investments	(3.3)	200	0
Other assets	(3.4)	219	625
Deferred tax assets	(3.5)	35	469
Total non-current assets		**66,453**	**38,122**
Current assets			
Cash and cash equivalents	(3.6)	7,017	6,571
Marketable securities	(3.6)	8,964	15,581
Accounts receivable, net	(3.7)	20,279	18,525
Prepaid expenses and other current assets	(3.8)	1,865	2,062
Total current assets		**38,125**	**42,739**
Total assets		**104,578**	**80,861**

Equity and Liabilities		12/31/2017	12/31/2016
	Note	kEUR	kEUR
Equity			
Common stock*	(3.9.1)	13,500	12,828
Additional paid-in capital	(3.9.3)	27,069	20,537
Own shares	(3.9.4)	-407	-407
Accumulated other comprehensive income	(3.9.5)	-1,815	-1,537
Retained earnings	(3.9.6)	18,033	18,071
Equity attributable to shareholders of SYZYGY AG		**56,380**	**49,492**
Minorities		-447	293
Total Equity		**55,933**	**49,785**
Non-current liabilities			
Long term liability	(3.13)	21,871	6,879
Deferred tax liabilities	(5.7)	411	238
Total non-current liabilities		**22,282**	**7,117**
Current liabilities			
Tax accruals	(3.12)	255	203
Accrued expenses	(3.11)	9,216	8,668
Customer advances		6,376	4,632
Accounts payable	(3.11)	7,754	7,434
Other current liabilities	(3.13)	2,762	3,022
Total current liabilities		**26,363**	**23,959**
Total liabilities and equity		**104,578**	**80,861**

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

SYZYGY AG, Bad Homburg v.d.H.

Consolidated statement of comprehensive income as at December 31, 2017

		January–December		
		2017	2016	Change
	Note	kEUR	kEUR	
Billings	(5.1)	**152,165**	**142,804**	**7%**
Media costs	(5.1)	-91,496	-78,531	17%
Sales	(5.1)	**60,669**	**64,273**	**-6%**
Cost of revenues		-46,150	-47,434	-3%
Sales and marketing expenses		-6,271	-6,341	-1%
General and administrative expenses		-7,389	-6,787	9%
Other operating income/expense, net	(5.2)	3,237	1,885	72%
Operating profit (EBIT)		**4,096**	**5,596**	**-27%**
Financial income, net	(5.6)	1,440	1,336	8%
Earnings before taxes (EBT)		**5,536**	**6,932**	**-20%**
Income taxes	(5.7)	-1,301	-1,835	-29%
Total net income of the period		**4,235**	**5,097**	**-17%**
thereof net income share to other shareholders		-754	115	n.a.
thereof net income share to shareholders of SYZYGY AG		4,989	4,982	0%
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)	-149	-2,412	n.a.
Net unrealized gains/losses on marketable securities, net of tax	(3.6)	-115	207	n.a.
Other comprehensive income		**-264**	**-2,205**	**-88%**
Comprehensive income		**3,971**	**2,892**	**37%**
thereof income share to other shareholders		-740	121	n.a.
thereof income share to shareholders of SYZYGY AG		4,711	2,771	70%
Earnings per share from total operations (basic in EUR)	(6.1)	0.39	0.39	0%

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

SYZYGY AG, Bad Homburg v.d.H.

Statement of changes in equity as at December 31, 2017

	Number of shares	Common stock	Additional paid-in capital	Own shares	Retained earnings	Accum. other comprehensive income: Foreign exchange currency	Accum. other comprehensive 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, 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 comprehensive 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
Sale of own shares			231	332				563	0	563
Payment to minorities								0	-140	-140
December 31, 2016	**12,828**	**12,828**	**20,537**	**-407**	**18,071**	**-1,827**	**290**	**49,492**	**293**	**49,785**
January 1, 2017	**12,828**	**12,828**	**20,537**	**-407**	**18,071**	**-1,827**	**290**	**49,492**	**293**	**49,785**
Net income of the period					4,989			4,989	-754	4,235
Other comprehensive income						-163	-115	-278	14	-264
Comprehensive income					**4,989**	**-163**	**-115**	**4,711**	**-740**	**3,971**
Capital increase	672	672	6,532					7,204	0	7,204
Dividend					-4,847			-4,847	0	-4,847
Payment to minorities					-180			-180		-180
December 31, 2017	**13,500**	**13,500**	**27,069**	**-407**	**18,033**	**-1,990**	**175**	**56,380**	**-447**	**55,933**

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

SYZYGY AG, Bad Homburg v.d.H.

Consolidated statement of Cash Flows as at December 31, 2017

	2017	2016
	kEUR	kEUR
Period net income	4,235	5,097
Adjustments to reconcile income from operations to net cash provided by operating activities		
– Depreciation on fixed assets	2,083	1,778
– Profit (-) and loss (+) on sale of securities	-1,254	-504
– Profit (-)/loss (+) on sale of fixed assets	87	8
– changes in Earn-Out liablities	-3,175	-1,011
– Profit (-)/Loss(+) on sale of fixed asset investments	-106	0
– Other non-cash income and expenses	349	458
Changes in operating assets and liabilities:		
– Accounts receivable and other assets	2,623	-440
– Customer advances	1,547	-792
– Accounts payable and other liabilities	-1,512	1,892
– Tax accruals and payables, deferred taxes	-99	-556
Cash flows provided by operating activities	**4,778**	**5,930**
Changes in other non-current assets	468	-16
Investments in fixed assets	-5,263	-1,167
Purchases of marketable securities	-11,809	-12,151
Proceeds from sale of marketable securities	19,256	20,110
Changes from fixed asset investments	80	0
Acquisition of consolidated entities less liquid funds	-6,598	-4,655
Cash flows used in investing activities	**-3,866**	**2,121**
Change in bank loans	4,762	0
dividend paid to minority shareholders	-180	-140
dividend paid to shareholders of SYZYGY AG	-4,847	-4,717
Cash flows from financing activities	**-265**	**-4,857**
Total	**647**	**3,194**
Cash and cash equivalents at the beginning of the period	**6,571**	**3,841**
Exchange rate differences	-201	-464
Cash and cash equivalents at the end of the period	**7,017**	**6,571**

The accompanying notes are an integral part of the financial statements.
Operating cashflow includes paid interest in the amount of kEUR 50 (previous: kEUR 27), received interest in the amount of kEUR 822 (previous: kEUR 1,076), tax refunds in the amount of kEUR 352 (previous: kEUR 42) as well as paid taxes in the amount of kEUR 1,201 (previous: year: kEUR 1,987).

Notes to the consolidated Financial Statements for the 2017 financial year

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 2017 financial year were 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, 2017, as they are to be applied in the European Union and in line with the supplementary provisions of Article 315e [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, Horexstraße 28, 61352 Bad Homburg v. d. H.

1.2 Business activity of the Group

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 their new business activities.

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 global companies 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 and animations 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, 2017, 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)
- Catbird Seat GmbH, Munich, Germany (Catbird Seat for short)
- diffferent GmbH, Berlin, Germany (diffferent for short)
- Hi-ReS! London Ltd., London, United Kingdom (Hi-ReS! LON for short)
- SYZYGY Berlin GmbH, Berlin, Germany (SYZYGY Berlin for short, formerly Hi-ReS! Berlin GmbH)
- SYZYGY Deutschland GmbH, Bad Homburg v.d.H., Germany (SYZYGY Deutschland for short)
- SYZYGY Digital Marketing Inc., New York City, United States (SYZYGY NY for short)
- SYZYGY Media GmbH, Hamburg, Germany (SYZYGY Media for short, formerly uniquedigital GmbH)
- SYZYGY UK Ltd., London, United Kingdom (SYZYGY UK 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 net 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.

As at June 1, 2017, SYZYGY AG acquired 51 percent of the shares in Catbird Seat with the aim of expanding its service portfolio and in particular strengthening its performance marketing capabilities. Control was transferred on June 1, 2017. The purchase price of kEUR 3,940 was settled by way of kEUR 1,970 in cash and the transfer of 181,576 new shares in SYZYGY AG worth kEUR 1,970.

Under IFRS 3.62, the acquisition led to an addition of cash amounting to kEUR 612, the acquisition of current assets of kEUR 1,560 (of which receivables totalling kEUR 1,438) and of non-current assets worth kEUR 77. The transferred receivables do not include any receivables that are likely to be unrecoverable. Liabilities totalling kEUR 2,077 were also acquired, giving rise to equity in the amount of kEUR 172.

SYZYGY furthermore agreed the acquisition of a further 19 per cent of the shares in Catbird Seat in the first quarter of 2020. As a result, ”present ownership” applies to SYZYGY at the date of acquisition with regard to the additional shares. The price of the additional shares will depend on the future business performance of Catbird Seat in the period 2017 to 2019.

In addition, there is a mutual put/call option on the outstanding 30 per cent of the shares. This option can be exercised in the first quarter of 2023 at the earliest, but no later than in 2027. The purchase price will be based on business performance in the six years prior to the exercise date.

Due to the structure as a mutual put/call option, SYZYGY currently expects that exercise by at least one contracting party is highly likely. As a result, ”present ownership” also applies to SYZYGY with regard to these shares at the date of acquisition. Consequently, first-time consolidation has been applied in the 2017 financial year on the basis of a 100% shareholding. The financial liabilities resulting from the expected exercise of the forward purchase and the option are recognised at fair value as at the balance sheet date in the amount of kEUR 4,920 and reported in other non-current liabilities. This figure is based on the assumption that the options will be exercised at the beginning of the exercise period. If the options are exercised at the end of the exercise period in 2027, a total amount of kEUR 8,530 would arise.

A difference of around kEUR 8,688 was allocated to the fair value of the brand (kEUR 285) and the fair value of the order backlog (kEUR 70), which gives rise to reverse deferred tax liabilities of kEUR 110. The residual difference is reported as goodwill of kEUR 8,443, denominated in euros and reported in the Germany segment. Factors contributing to this goodwill include the expertise of the employees and achievable synergies. This goodwill is not deductible for tax purposes.

Ancillary costs of kEUR 126 were incurred during the acquisition. These are reported in the statement of comprehensive income under the item ”General administrative expenses”.

Since the acquisition date on June 1, 2017, Catbird Seat has contributed sales of kEUR 2,742 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 4,616 for the whole financial year. The share of consolidated net income for the period since the acquisition date was kEUR 496; it would have amounted to kEUR 414 for the whole financial year.

Furthermore, SYZYGY AG acquired 70 per cent of the shares in diffferent as at September 25, 2017, with the aim of expanding its service portfolio and in particular strengthening its strategy and consulting capabilities. Control was also transferred on September 25, 2017. For simplification purposes, the shareholding was not included in the consolidated financial statements until October 1. The purchase price of kEUR 11,097 was settled by way of kEUR 5,863 in cash and the transfer of 490,000 new shares in SYZYGY AG worth kEUR 5,234.

Under IFRS 3.62, the acquisition led to an addition of cash amounting to kEUR 623, the acquisition of current assets of kEUR 2,965 (of which receivables of kEUR 1,715) and of non-current assets worth kEUR 508. The transferred receivables do not include any receivables that are likely to be unrecoverable. Current liabilities totalling kEUR 1,012 and non-current liabilities of kEUR 427 were also acquired, giving rise to equity in the amount of kEUR 2,657.

In addition, there is a mutual put/call option on the outstanding 30 per cent of the shares. This option can be exercised in the first quarter of 2022 at the earliest, but no later than in 2027. The purchase price will be based on business performance in the four years prior to the exercise date.

Due to the structure as a mutual put/call option, SYZYGY currently expects that exercise by at least one contracting party is highly likely. As a result, ”present ownership” also applies to SYZYGY with regard to these shares at the date of acquisition. Consequently, first-time consolidation has been applied in the 2017 financial year on the basis of a 100% shareholding. The financial liabilities resulting from the expected exercise of the forward purchase and the option are recognised at fair value as at the balance sheet date in the amount of kEUR 7,737 and reported in other non-current liabilities. The amount depends on the date on which the option is exercised. It lies in a bandwidth between kEUR 6,427 if the options are exercised in full in 2022 and kEUR 13,708 if the options are not exercised until the last possible date, in 2027.

A difference of around kEUR 16,177 was allocated to the fair value of the order backlog (kEUR 171) and reverse deferred tax liabilities (kEUR 53), as well as brand value (kEUR 560) and reverse deferred tax liabilities (kEUR 174). The residual difference is reported as goodwill of kEUR 15,673, denominated in euros and reported in the Germany segment. Factors contributing to this goodwill include the expertise of the employees and achievable synergies. This goodwill is not deductible for tax purposes.

Ancillary costs of kEUR 175 were incurred during the acquisition. These are reported in the statement of comprehensive income under the item ”General administrative expenses”.

Since the date of full consolidation on October 1, 2017, diffferent has contributed sales of kEUR 2,431 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 7,796 for the whole financial year. The share of consolidated net income for the period since the acquisition date was kEUR 168; it would have amounted to kEUR -233 for the whole financial year.

New information on the actual performance of Ars Thanea led to adjustments in the forecast earnings for the remaining earn-out period both last year and in the current financial year. As a result, the expected payment obligations of kEUR 1,331 in the 2016 financial year were reduced to kEUR 499 in the 2017 financial year. The change in the fair value of the financial liability in the amount of kEUR 832 (previous year: kEUR 1,011) was recognised in the year under review in the statement of comprehensive income under ”Other operating income/expenses, net”.

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 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/expenses (net)".

When consolidating expenses and revenues, inter-company revenues are charged against the corresponding expenditures. If impairments have been recognised in individual financial statements for the shares of consolidated companies or valuation allowances 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 the time of acquisition on the basis of their proportion of the identifiable net assets of the acquired company. Changes in the Group's shareholding in a subsidiary that do not lead to a loss of control are recognised as equity capital transactions.

Each contingent obligation for counterperformance is measured at fair value at the time of acquisition. If the contingent counterperformance is classified as equity, it is not re-measured and any settlement is recognised in equity capital. In all other cases, any subsequent changes to the fair value of the contingent counterperformance is 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 determine whether there is any impairment of the acquired goodwill, it is necessary to establish the value in use of the cash generating unit to which the goodwill was 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 turn out to be lower than estimated, a material 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 relies primarily on a careful estimate of the degree of completion. The key parameters in this respect are the calculated total contract costs, the costs still to be incurred until completion, the total contract proceeds 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 likely that performance and consideration relating to the transaction will not balance each other out 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 commitments). For this purpose, the Management Board establishes appropriate procedures and input parameters for measurement at fair value. The Group uses observable market data as far as possible to determine the fair value of assets and liabilities. If Level 1 input parameters of this type are not available, other appropriate measurement techniques are used and estimates are applied. Details of the measurement techniques and input parameters used in determining the fair value are provided in section 6.6.

Actual results may differ from these estimates and assumptions. 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. Differences resulting from the translation of foreign business operations into the Group currency are recognised in the statement of comprehensive income under other net income and carried in equity under other net income. When a foreign business operation is sold, all accumulated translation differences resulting from this business operation that are attributable to the Group are reclassified into the statement of comprehensive income. 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 or production costs and for accumulated depreciation and amortisation.

When preparing the financial statements of each individual Group company, business transactions that are denominated in a currency other than the functional currency of the Group company are translated at the exchange rate applicable 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 valued at fair value are translated at the exchange rates that were applicable at the time of determining the fair value. Non-monetary items valued at acquisition or production costs are translated using the exchange rate prevailing at the first time they are recognised 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:

2017	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
GBP/EUR	1.14	1.13

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

2017	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR/USD	1.13	1.20

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

2017	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR/PLN	4.26	4.18

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

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

IFRS and amendments to IFRS that are mandatory for the first time as at December 31, 2017

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (in this context, paragraph 28) stipulates that companies must explain the effects caused by the initial adoption of new standards and interpretations, or changes to them.

The following disclosures are required in this respect:

a. the title of the standard or interpretation causing the change;
b. if applicable, a notice that the accounting policy is being changed in compliance with the transitional provisions;
c. the nature of the change in accounting policy;
d. if applicable, a description of the transitional provisions;
e. if applicable, the transitional provisions that might have an effect on future periods;
f. the amount of the adjustment for the current period and, to the extent practicable, each prior period presented:
   (i) for each financial statement line item affected; and
   (ii) for basic and diluted earnings per share, only if the entity is applying IAS 33 Earnings per share;
g. the amount of the adjustment relating to periods before those presented, to the extent practicable; and
h. if retrospective application is impracticable under IAS 8.19(a) or (b) for a specific prior period, or for periods before those presented, the circumstances leading to that situation, with an explanation and description of how the change in accounting policy was applied and from what date.

The following new or amended standards (and interpretations) are mandatory for the first time in relation to financial years ending on December 31, 2017:

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:

- **Amendments to IAS 12: Income Taxes**

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

Unrealised losses on debt instruments measured at fair value, but which are measured at cost for tax purposes, give rise to deductible temporary differences. This applies regardless of whether the debt instrument‘s holder expects to recover the carrying amount of the debt instrument, by holding it until maturity and receiving all the contractual payments, or whether he intends to sell the instrument. The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity must assess a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity must assess a deferred tax asset in combination with other deferred tax assets of the same (permissible) type.

These changes to IAS 12 do not have any impact on the Group’s net assets, financial position or results of operations.

- **Amendments to IAS 7: Statement of Cash Flows**

The amendments in Disclosure Initiative (Amendments to IAS 7) are driven by the objective that entities should provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. This is a departure from the December 2014 exposure draft that had proposed that such a reconciliation should be required.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

These changes to IAS 7 do not have any impact on the Group's net assets, financial position or results of operations. SYZYGY has implemented the additional requirements for Notes disclosures in the 2017 consolidated financial statements.

Annual Improvements to IFRS (AIP) – 2014-2016 Cycle

- **IFRS 1 First-Time Adoption of International Financial Reporting Standards:**

The short-term exemptions in paragraphs E3–E7 of IFRS 1 have been deleted because they have now served their intended purpose.

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

- **IFRS 12 Disclosure of Interests in Other Entities**

This clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

- **IAS 28 Investments in Associates and Joint Ventures**

It was clarified that the voting right to measure a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, at fair value, recognised in the comprehensive income, in an associate or is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

These changes to IAS 28 do not have any impact on the Group's net assets, financial position or 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.

The impact of first-time application of the amended version of IFRS 9 on the SYZYGY Group's consolidated net assets, financial position and results of operations was examined. As a rule, SYZYGY invests in securities in which payment flows, representing solely capital repayments and interest payments, are assured by contract. The company holds these securities both with the intention of holding them and selling them. As a result, SYZYGY does not expect any changes to accounting.

The impact of first-time application of amended IFRS 15 on the SYZYGY Group's consolidated net assets, financial position and results of operations has been examined and SYZYGY expects that there will be no material impact on accounting as a result of the amendment to IFRS 15. SYZYGY does, however, expect disclosures in the Notes to be expanded. Most of SYZYGY's sales are generated from contracts with clients that are structured as time and material agreements for the provision of services. This involves agreeing separate performance obligations in respect of clients. There are also a limited number of fixed-price contracts, in which the service is provided to the client over a period of time (IFRS 15.35(a)). As a consequence, SYZYGY expects to continue recognising revenue generated under these contracts according to the percentage of completion method.

The impact of first-time application of amended IFRS 16 on the SYZYGY Group's consolidated net assets, financial position and results of operations has been examined and SYZYGY expects that total assets will increase by around EUR 30 million. As this increase is reflected both in assets and in liabilities, but not in equity, the equity ratio will fall. At the current level of interest rates, SYZYGY expects only a marginal effect on operating income (EBIT) and on financial income. As a rule, the right-of-use asset value (cash value plus initial direct costs less lease incentive) of the leasing or rental payments is recognised as an asset and amortised over the life of the agreements. A rental or leasing liability is recognised in the same amount as the asset. The difference between payment flow and amortisation is recognised as an expense in financial income and is dependent on the underlying interest rate.

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
IFRS 16 Leases	January 13, 2016	October 31, 2017	January 1, 2019
Clarification to IFRS 15 Revenue from Contracts with Customers	April 12, 2016	October 31, 2017	January 1, 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 12, 2016	November 3, 2017	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 to omit the transposition procedure for this interim standard and instead to wait for the final standard.	
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 11, 2014	Deferred	Deferred indefinitely
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 20, 2016	Q1/2018	January 1, 2018
Annual Improvements to IFRS (AIP) – 2014-2016 Cycle	December 8,2016	Q1/2018	January 1, 2018/ January 1, 2017
IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 8, 2016	Q1/2018	January 1, 2018
Amendments to IAS 40: Transfers of Investment Property	December 8, 2016	Q1/2018	January 1, 2018
IFRS 17 Insurance Contracts	May 18, 2017	n/a	January 1, 2021
IFRIC 23 Uncertainty over Income Tax Treatments	June 7, 2017	2018	January 1, 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	October 12, 2017	2018	January 1, 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	October 12, 2017	2018	January 1, 2019
Annual Improvements to IFRS (AIP) – 2015-2017 Cycle	December 12, 2017	2018	January 1, 2019

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, brand equity and software.

Intangible assets not arising from acquisition of a company are accounted for in 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 on a straight-line basis over five years, provided their useful life can be determined. 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 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 are measured in the same way as individually acquired intangible assets, i.e. at their acquisition cost less accumulated amortisation and any unscheduled accumulated write-downs (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 acquisition cost. The goodwill resulting from a company acquisition is carried at acquisition cost less any impairments that are required, and reported separately in the consolidated balance sheet. For the purposes of the impairment test, a breakdown is applied to the goodwill of those cash generating units that are expected to benefit from the synergies of the merger.

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. 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. Leasehold improvements and operating and office equipment are depreciated on a straight-line basis, normally over a period of between three and fourteen years.

If indications of impairment of 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 original cost.

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. 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 recognised immediately in the statement of comprehensive income. 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 using the effective interest method less impairment and, depending on their maturities, are reported as current or non-current assets. Impairment losses are recognised in the statement of comprehensive income. 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 impairment. 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 assets. Unrealised gains or losses are taken into account in other net income until derecognition of the financial asset, while allowing for tax effects. 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 measures all financial liabilities at amortised acquisition cost, apart from any long-term purchase price commitment, using the effective interest method. 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 or 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 the adjusted fair value on the valuation date. These values usually correspond to market values in the financial markets. Unrealised gains and losses are reported in the ”Other net 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 statement of comprehensive income. 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 net 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 determined 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 from a previous 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 (time and material), 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 companies operate. 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.

2013 stock option programme

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 3 years. If the employee leaves the SYZYGY Group prior to the end of the period, all claims arising from the stock option programme will 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 programme 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

A phantom stock programme was also 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 operating income in the statement of comprehensive income 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 58,165 (previous year: kEUR 33,797) arose from the acquisitions of SYZYGY Media, Unique Digital UK, Hi-ReS! LON, Ars Thanea, USEEDS, Catbird Seat and diffferent.

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:

- SYZYGY Media
- Unique Digital UK
- Hi-ReS! LON
- Ars Thanea
- USEEDS
- Catbird Seat
- diffferent

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

2017 in kEUR	Goodwill	Recoverable amount
diffferent	15,723	59,312
USEEDS	10,178	35,409
SYZYGY Media	8,841	29,004
Catbird Seat	8,686	43,861
Unique Digital UK	8,024	29,113
Ars Thanea	6,713	11,595
Hi-ReS! LON	0	0
Total	**58,165**	**208,294**

2016 in kEUR	Goodwill	Recoverable amount
USEEDS	10,285	40,295
SYZYGY Media	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**	**83,886**

An impairment test of goodwill and of intangible assets with indefinite useful lives was conducted as at December 31, 2017. 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, 2017. The forecasts are based on financial planning approved by Supervisory Board and updated each year. Business planning continues to be updated on a rolling basis over 5 years. It is developed by the management team together with the Management Board.

The most important assumptions underlying the determination of value in use include assumptions of growth rates, margin development and discount rate, as well as a perpetuity/terminal value of 1 per cent. This corresponds approximately to the long-term inflation target of the European Central Bank. SYZYGY expects that the digital sector will grow more strongly in future.

In the case of the Unique Digital UK and Hi-ReS! LON cash generating units in the UK, a risk-free interest rate of 1.82 per cent (previous year: 1.97 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent) and a sector beta of 0.33 (previous year: 0.53) were used as a basis, producing a WACC (Weighted Average Cost of Capital) of 3.9 per cent after tax (previous year: 5.3 per cent), or 4.8 per cent before tax (previous year: 6.6 per cent). An average tax rate of 19 per cent was applied (previous year: 20 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 plans for 2018 are based on expected sales growth of 2 per cent (previous year: 17 per cent) and sales growth of 9 to 10 per cent p.a. (previous year: 8 to 10 per cent) from 2019 to 2022, and a terminal value of 1 per cent (previous year: 0 per cent). For 2018, the growth rate corresponds exactly to the budget plans of the cash generating units, 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 7 per cent in 2018 (previous year: 12 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 8,024 is allocated.

In the case of Hi-ReS! LON, management identified a need for complete impairment in previous years which was recorded in the statement of comprehensive income under ”Other operating income/expenses, net” and recognised for the UK segment. The goodwill of this cash generating unit is therefore kEUR 0 (previous year: kEUR 0).

In the case of SYZYGY Media, USEEDS, Catbird Seat and diffferent in Germany, a risk-free interest rate of 1.25 per cent (previous year: 1.04 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent) and a sector beta of 0.33 (previous year: 0.53) were used as a basis, producing a WACC (Weighted Average Cost of Capital) of 3.3 per cent after tax (previous year: 4.4 per cent), or 4.8 per cent before tax (previous year: 6.2 per cent). An average tax rate of 31 per cent was applied (previous year: 31 per cent).

The business plan for SYZYGY Media envisages sales growth of 10 per cent (previous year: 7 per cent) for 2018 and 3 to 4 per cent p.a. sales growth (previous year: 7 to 9 per cent) for the years 2019 to 2022. The terminal value is set at 1 per cent growth (previous year: 0 per cent).

The business plan for USEEDS envisages sales growth of 9 per cent for 2018 (previous year: 4 per cent) and 15 per cent p.a. sales growth for the years 2019 to 2022 (previous year: 15 per cent). The terminal value is set at 1 per cent growth (previous year: 0 per cent).

The business plan for Catbird Seat envisages sales growth of 8 per cent in 2018, 19 per cent p.a. in 2019 and 15 per cent p.a. for the years 2020 to 2022. The terminal value is set at 1 per cent growth.

The business plan for diffferent envisages sales growth of 32 per cent for 2018 and 13 per cent p.a. sales growth for the years 2019 to 2022. The terminal value is set at 1 per cent growth.

Market research institutes expect the online advertising market in Germany to grow by around 9 per cent in 2018 (previous year: 10 per cent). Based on the underlying information, management did not identify any need in the updated analysis for impairment at SYZYGY Media, to which unchanged goodwill of kEUR 8,841 is allocated, or at USEEDS, to which goodwill of kEUR 10,178 is allocated. Management also did not identify any need for impairment at the recently acquired companies. As a result, Catbird Seat is allocated goodwill of kEUR 8,686 and diffferent is allocated goodwill of kEUR 15,723.

In the case of Ars Thanea in Poland, a risk-free interest rate of 1.25 per cent (previous year: 1.04 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent), a sector beta of 0.33 (previous year: 0.53), a country-specific risk premium of 0.98 per cent (previous year: 1.21 per cent) and an inflation differential of 100.45 per cent (previous year: 100.21 per cent) were assumed, producing a WACC (Weighted Average Cost of Capital) of 4.8 per cent after tax (previous year: 5.8 per cent), or 5.9 per cent before tax (previous year: 7.1 per cent). An unchanged average tax rate of 19 per cent was applied. The business plan envisages sales growth of 14 per cent for 2018 (previous year: 38 per cent) and 10 per cent p.a. for the years 2019 to 2022 (previous year: 10 per cent). The terminal value is set at 1 per cent growth (previous year: 0 per cent).

Market research institutes expect the online advertising market in Poland to grow by 9 per cent in 2018 (previous year: 17 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 6,713 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 extent in Germany and consequently a drop of around 30 per cent in values in use (previous year: 20 per cent) due to the higher discount factor. The effect on values in use in the UK would be similar. This would not lead to impairment of any CGU. If the growth rates for the companies decline by 50 per cent from 2019 onwards, there would still be no need for a write-down.

In Poland, a rise of 100 basis points in the interest rate for 30-year government bonds would lead to recognition of an impairment of kEUR 506.

3.2 Goodwill, other intangible assets and fixed assets

Changes are as follows in the financial year:

2017 in kEUR	Goodwill	Other intangible assets	Leasehold improvements	Operating and office equipment	Total
Acquisition or production costs at January 1, 2017	**35,861**	**2,017**	**2,724**	**7,063**	**47,665**
Additions	366	145	3,426	1,667	5,604
Disposals	-180	-367	-968	-3,249	-4,764
Addition from first-time consolidation	24,116	1,090	137	341	25,684
Exchange rate changes	-2	26	-67	-51	-94
Acquisition or production costs at December 31, 2017	**60,161**	**2,911**	**5,252**	**5,771**	**74,095**
Accumulated amortisation, depreciation and write-downs January 1, 2017	**2,064**	**1,242**	**1,711**	**5,620**	**10,637**
Additions	0	664	494	925	2,083
Disposals	0	-367	-935	-3,195	-4,497
Exchange rate changes	-68	-1	-25	-33	-127
Accumulated amortisation, depreciation and write-downs December 31, 2017	**1,996**	**1,538**	**1,245**	**3,317**	**8,096**
Carrying value at December 31, 2017	**58,165**	**1,373**	**4,007**	**2,454**	**65,999**

Changes are as follows in the previous year:

2016 in kEUR	Goodwill	Other intangible assets	Leasehold improvements	Operating 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**

Other intangible assets include brand names worth kEUR 1,181 (previous year: kEUR 630) after foreign currency effects. This brand equity is due to first-time consolidation of Hi-ReS! LON, Unique Digital UK, Ars Thanea, USEEDS, Catbird Seat and diffferent. It is allocable to the UK segment in the amount of kEUR 123 (previous year: kEUR 127) and to the Germany segment in the amount of kEUR 0 (previous year: kEUR 174) and has an indefinite useful life, since there is no foreseeable end to the economic life of these brands. Brand equity for Ars Thanea amounting to kEUR 26 (previous year: kEUR 48) is also included. This was likewise added in the course of acquiring the company and will be amortised on a straight-line basis over a period of 5 years. This brand equity is allocated to the ”Other segments” segment. Brand equity for USEEDS, Catbird Seat and diffferent amounting to kEUR 1,032 (previous year: kEUR 281) is also included. This was likewise added in the course of acquiring the companies and will be amortised on a straight-line basis over a period of 5 years. This brand equity is allocated to the Germany segment.

Operating 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

In the 2017 financial year, SYZYGY took a stake in next media accelerator 2 Beteiligungsgesellschaft mbH & Co. KG, Hamburg, with a limited partner‘s capital contribution of kEUR 200, which currently represents 2 per cent of the limited liability capital. The purchase price commitment will be repaid in annual tranches of kEUR 40 until 2021. SYZYGY assumes that the acquisition cost corresponds approximately to fair value.

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

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 219 (previous year: kEUR 625). As in the previous year, they exclusively comprise rent deposits.

3.5 Deferred tax assets

Deferred tax assets of kEUR 35 (previous year: kEUR 469) were reported in the financial year, of which kEUR 96 was attributable to loss carry-forwards at SYZYGY AG (previous year: kEUR 626). There are also deferred tax liabilities resulting from different valuations for the securities, amounting to kEUR 108 (previous year: kEUR 225), which were offset. Non-tax deductible provisions at SYZYGY AG resulted in deferred tax assets of kEUR 16 (previous year: kEUR 62).

At SYZYGY Deutschland, deferred tax assets amounting to kEUR 5 (previous year: kEUR 6) were recognised due to different valuations of fixed assets.

kEUR 16 is attributable to loss carry-forwards at Ars Thanea, with total deferred tax assets of kEUR 26. 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:

in kEUR	12/31/2017	12/31/2016
Cash and cash equivalents	7,017	6,571

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 market value. Changes in value are recorded in other net 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, 2017 was kEUR 179 above the acquisition cost (previous year: kEUR 564). kEUR 299 (previous year: kEUR: 879) was attributable to unrealised price gains and kEUR 120 (previous year: kEUR 315) to unrealised price losses. Security purchases and sales are recorded on the value date. Of the unrealised profits and losses as at December 31, 2016 that had previously been recorded in other comprehensive income, kEUR 612 of valuation gains (previous year: kEUR 734) and kEUR 28 of valuation losses (previous year: kEUR 535) were realised in 2017.

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 after tax which does not affect income” in the statement of comprehensive income.

12/31/2017 in kEUR	Acquisition cost	Unrealised gains	Unrealised losses	Carrying value/ market value
Securities (available-for-sale)	8,785	299	-120	**8,964**

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**

The following table shows the maturities of securities as per December 31, 2017:

in kEUR	< 1 year	1–5 years	5–10 years	Indefinite	Total
Securities (available-for-sale)	0	2,730	6,234	0	**8,964**

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 performance of the securities portfolio is dependent on changes in interest rates and credit spreads. On average, the portfolio has a duration of around 5.4 (previous year: 7.3). 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 5.4 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, PLN and GBP.

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

3.7 Accounts receivable

This item comprises the following:

in kEUR	12/31/2017	12/31/2016
Accounts receivable	18,058	17,023
Accounts receivable in line with PoC method	2,221	1,502
Total	**20,279**	**18,525**

Receivables and sales of kEUR 2,221 (previous year: kEUR 1,502) are recorded in line with the percentage of completion method for services not yet billed. Costs of kEUR 2,071 (previous year: kEUR 1,371) were incurred for projects realised using the percentage of completion method. This results in a margin of kEUR 150 (previous year: kEUR 131).

According to IAS 39, accounts receivable are financial assets that fall into the ”Loans and receivables” valuation category. The table below 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 the reporting year.

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

Accounts receivable in kEUR	0–30 days	31–60 days	61–90 days	91–120 days	121–180 days	181 days – 1 year	More than 1 year	Total
as of December 31, 2017	16,603	2,566	358	238	204	310	0	**20,279**
as of December 31, 2016	15,446	2,238	344	284	5	208	0	**18,525**

3.8 Other current assets

Other current assets as of December 31, 2017 and 2016 consist of the following:

in kEUR	12/31/2017	12/31/2016
Tax receivables	758	524
Prepaid expenses	685	948
Interest receivables	47	358
Other	375	232
Total	**1,865**	**2,062**

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, 2017	10	36	1	**47**
As of Dec. 31, 2016	98	71	189	**358**

3.9 Equity

3.9.1 Subscribed capital

As of December 31, 2017, the fully paid-up subscribed capital of SYZYGY AG amounted to EUR 13,500,026 (previous year: EUR 12,828,450). It comprised 13,500,026 (previous year: 12,828,450) no-par value bearer shares. These shares have a stated value of EUR 1.00.

In the 2017 financial year, SYZYGY carried out two capital increases against contributions in kind from authorised capital.

On June 30, 2017, the Management Board decided with the approval of the Supervisory Board to increase the Company's share capital by EUR 181,576 to EUR 13,010,026 against contribution in kind of 51 per cent of the shares in Catbird Seat GmbH, Munich. Shareholders' subscription rights were excluded and the owners of the contributed shares were entitled to subscribe to the new shares. The capital increase was fully subscribed and entered in the Commercial Register on August 15, 2017.

On September 19, 2017, the Management Board decided with the approval of the Supervisory Board (granted on September 21, 2017) to increase the Company's share capital by EUR 490,000 to EUR 13,500,026 against contribution in kind of 70 per cent of the shares in diffferent GmbH, Berlin. Shareholders' subscription rights were excluded and the owners of the contributed shares were entitled to subscribe to the new shares. The capital increase was fully subscribed and entered in the Commercial Register on October 27, 2017.

Authorised capital now amounts to EUR 5,328,424 following the two capital increases.

As at December 31, 2017, 73,528 no-par value shares (previous year: 73,528) belonged to treasury stock.

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

in thousands	Shares	Percentage
WPP plc., St. Helier	6,760	50.07
Free float	6,666	49.38
Treasury stock	74	0.55
Total	**13,500**	**100.00**

3.9.2 Authorised and contingent capital

On July 8, 2016, the Annual General Meeting approved the creation of authorised capital of kEUR 6,000. Accordingly, the Management Board is authorised, subject to the approval of the Supervisory Board, to issue additional no-par value bearer shares, which may be issued until July 8, 2021. In accordance with this authorisation, the Management Board and Supervisory Board carried out two capital increases against contributions in kind in 2017. As a result, the remaining authorised capital now amounts to EUR 5,328,424.

The capital authorised by the Annual General Meeting on May 27, 2011 in the amount of kEUR 6,000 expired on May 27, 2016. In the previous year, the Management Board and Supervisory Board did not make use of the authorisation to issue new shares in relation to this authorised capital.

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.

Additional paid-in capital increased by a total of kEUR 6,532 due to the two capital increases carried out during the financial year.

In 2016, gains from the sale of treasury shares of kEUR 231 were realised 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.

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.

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

As at December 31, 2017, SYZYGY thus held 73,528 treasury shares at an average acquisition cost of EUR 5.54.

3.9.5 Other net income

Changes in equity after tax summarised under other net income amounted to kEUR -278 (previous year: kEUR -2,211) in the 2017 financial year and can be attributed to unrealised losses from securities after tax (kEUR 115; previous year: gains of kEUR 207) and losses from currency translation in non-EUR business operations (kEUR 163; previous year: kEUR 2,418). All changes can be reclassified (recycling) and are consequently only recorded temporarily in other net income. They may be reclassified to the statement of comprehensive income at a later stage.

3.9.6 Profit reserves

The consolidated financial statements showed profit reserves of kEUR 18,033 (previous year: kEUR 18,071) as of December 31, 2017. The change in profit reserves during the financial year corresponds to net income attributable to the shareholders of SYZYGY AG in the amount of kEUR 4,989 (previous year: kEUR 4,982) less the distributed dividend of kEUR 4,847 (previous year: kEUR 4,717) and distributions to minority shareholders of subsidiaries which, due to present ownership of 100 per cent, i.e. without showing non-controlling shares, are consolidated, in the amount of kEUR 180 (previous year: kEUR 0).

Dividend distributions are based on the distributable part of retained earnings disclosed in the annual financial statements of SYZYGY AG according to HGB (German Commercial Code). On June 30, 2017, the Annual General Meeting of SYZYGY AG approved a dividend of EUR 0.38 per eligible share (previous year: EUR 0.37), which was distributed starting on July 5, 2017. The remaining retained earnings of kEUR 6,976 (previous year: kEUR 6,726) were carried forward to new account

In the previous year, retained earnings were adjusted to take account of the sale of treasury stock worth kEUR 332.

As of December 31, 2017, the financial statements of SYZYGY AG showed retained earnings of kEUR 8,007 (previous year: kEUR 11,823).

3.10 Stock-based compensation

2012 option plan

In the 2012 financial year, the "2012 Stock Option Plan" 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, so the last possible exercise date was June 27, 2017. All outstanding options were exercised by the expiry date of June 27, 2017, such that no more options were held as at December 31, 2017. Since the Company pays the difference between the exercise price and share price in cash, the obligations were recorded in a provision on a pro rata basis in the previous year. As at December 31, 2017, there are no obligations arising from the 2012 option programme.

The parameters used in the previous year to value the issued options on the basis of the binomial model were as follows:

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

Changes in issued options:

in EUR	Number of options	Exercise price	Fair value
As at: December 31, 2016	**10,000**	**3.11**	**8.50**
New allocation	0	–	–
Exercised	10,000	3.11	7.91
Expired	0	–	–
As at: December 31, 2017	**0**	**–**	**–**

Of the 300,000 options, a total of 48,000 were exercised in 2014, a total of 216,000 options in 2015, a total of 26,000 options in 2016, of which 18,000 were exercised on May 19, 2016 and 8,000 on October 19, 2016. In 2017, the remaining 10,000 options were exercised on April 21, 2017. In 2017, a payment of kEUR 79 was made due to the exercise of options, at a fair value of EUR 7.91 per option. As of December 31, 2017, provisions for the exercise of options amounted to kEUR 0 (previous year: kEUR 85). Accordingly, in 2017 the provisions created in the previous year were consumed in the amount of kEUR 79 (previous year: kEUR 145) and income of kEUR 6 (previous year: expense of kEUR 79) was obtained from reversal.

No further options were issued in the 2017 financial year. There were also no options that were forfeited or had lapsed.

2013 stock option programme

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 3 years. If the employee leaves the SYZYGY Group prior to the end of the period, all claims arising from the stock option programme will 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 100,000 shares are outstanding, of which 50,000 from 2015, a further 20,000 from 2016 and 30,000 from 2017. 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 560 was recognised as at the key date (previous year: kEUR 471). The allocation recognised in profit or loss was kEUR 338 in the financial year (previous year: kEUR 518).

in kEUR	Number of options	Fair value
As at: Dec. 31, 2016	**90,000**	**1,045**
New allocation	30,000	338
Exercised	-20,000	-219
Expired	0	–
Change in value	0	-37
As at: Dec. 31, 2017	**100,000**	**1,127**

Phantom stock programme 2015

The phantom stock plan was set up 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.

Andrew P. Stevens held a total of 120,000 phantom stocks as at December 31, 2016. Of that amount, he exercised 48,000 in the 2017 financial year, leaving 72,000 phantom stocks outstanding. Erwin Greiner held 75,000 phantom stocks, of which 30,000 were exercised in the 2017 financial year, leaving 45,000 outstanding. The exercise price is EUR 9.00 for the phantom stocks of both Andrew P. Stevens and Erwin Greiner. As at April 1, 2016, Chairman of the Management Board Lars Lehne received a total of 240,000 phantom stocks with an exercise price of EUR 9.13, which are still fully outstanding. Payments of kEUR 188 were made in the 2017 financial year due to the exercise of the phantom stocks. Provisions amounted to kEUR 624 as at December 31, 2017, resulting in expenditure of kEUR 206 in the year under review for allocations to provisions.

In addition, Erwin Greiner was allocated 80,000 phantom stocks and Frank Ladner 55,000 phantom stocks on February 6, 2018, in each case with the term beginning on December 29, 2017, at an exercise price of EUR 11.25.

The fair value of the phantom stocks on December 31, 2017 is calculated as the volume-weighted average of the difference between the exercise prices and the stock price as at the reporting date, December 31, 2017.

in EUR	Number of options	Exercise price	Fair value
As at: December 31, 2016	**435,000**	**–**	**2.54**
Exercised I	-48,000	11.34	2.34
Exercised II	-30,000	11.54	2.54
Expired	0	–	–
As at: December 31, 2017	**357,000**	**–**	**2.44**

3.11 Accounts payable and other provisions

As at December 31, 2017 and 2016, accounts payable and other provisions consisted of:

in kEUR	12/31/2017	12/31/2016
Accounts payable	**7,754**	**7,434**
Other provisions:		
– Obligations towards other parties	6,131	5,291
– Personnel-related provisions	2,840	3,019
– Other	245	358
Total other provisions	**9,216**	**8,668**

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

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

Statement of changes in provisions as of December 31, 2017 in kEUR	Carrying value 01/01/2017	Usage	Reversal	Addition	Carrying value 12/31/2017
Obligations towards other parties	5,291	-5,110	-6	5,956	6,131
Personnel-related provisions	3,019	-2,209	-6	2,036	2,840
Other	358	-352	0	239	245
Total other provisions	**8,668**	**-7,671**	**-12**	**8,231**	**9,216**

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
Obligations towards other parties	4,684	-4,018	-270	4,895	5,291
Personnel-related provisions	2,068	-973	-23	1,947	3,019
Other	373	-373	0	358	358
Total other provisions	**7,125**	**-5,364**	**-293**	**7,200**	**8,668**

3.12 Income tax liabilities

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

in kEUR	12/31/2017	12/31/2016
German income taxes	246	32
Polish income taxes	12	11
British income taxes	-3	160
Total	**255**	**203**

3.13 Other liabilities

The components of other liabilities are detailed in the following:

in kEUR	12/31/2017	12/31/2016
Financial liabilities due to contingent purchase price payments	16,292	6,650
Non-current liabilities to banks	5,164	0
German VAT	1,822	1,761
Social security, salary and church taxes	708	674
Liabilities arising from future profit distributions to minority shareholders	415	229
British VAT	55	380
Polish VAT	-208	-61
Other	385	268
Total	**24,633**	**9,901**

The following table shows the maturities of other liabilities as at December 31, 2017:

in kEUR	< 1 year	1–5 years	5–10 years	Indefinite	Total
Other liabilities	2,762	12,808	9,063	0	**24,633**

The following table shows the maturities of other 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**

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 Catbird Seat, diffferent, SYZYGY Berlin, SYZYGY Deutschland, SYZYGY Media 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 and is thus presented under "Other segments".

All segments offer large companies an integrated spectrum of corporate Internet solutions, from strategic consulting to project planning, conception and design to 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 on the geographical regions in relation to segment sales and non-current assets can be derived from the segment disclosures summarised 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.

SYZYGY did not generate more than 10 per cent of consolidated sales with any single client in the Germany segment (previous year: EUR 6.5 million).

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

12/31/2017 in kEUR	Germany	United Kingdom	United States	Other segments	Central functions	Consolidation	Total
Billings	75,110	45,364	31,244	3,418	2,450	-5,421	**152,165**
Media costs	-34,811	-30,720	-25,965	0	0	0	**-91,496**
Sales	40,299	14,644	5,279	3,418	2,450	-5,421	**60,669**
Of which internal sales	3,344	140	120	1,817	0	-5,421	**0**
Operating income (EBIT)	3,309	898	921	-159	-873	0	**4,096**
Financial income	135	-1	6	-5	7,565	-6,260	**1,440**
Earnings before taxes (EBT)	3,444	897	927	-164	6,692	-6,260	**5,536**
Assets	69,975	20,314	3,176	7,994	90,476	-87,357	**104,578**
Of which non-current assets	47,675	10,103	226	6,928	1,067	0	**65,999**
Of which goodwill	43,428	8,024	0	6,713	0	0	**58,165**
Investments	2,359	1,923	1	135	1,186	0	**5,604**
Depreciation and amortisation	1,514	216	94	101	158	0	**2,083**
Impairment loss for goodwill	0	0	0	0	0	0	**0**
Segment liabilities	22,402	7,332	2,437	463	31,497	-15,486	**48,645**
Employees at the balance sheet date	398	117	15	67	24	0	**621**

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**

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 companies 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 2017, the SYZYGY Group generated sales of kEUR 44,944 from design and technical realisation (previous year: kEUR 48,112) and billings of kEUR 110,573 (previous year: kEUR 96,006) from online marketing. Online marketing includes media costs of kEUR 91,497 (previous year: kEUR 78,531), resulting in sales of kEUR 19,076 (previous year: kEUR 17,475). Internal sales of kEUR 455 (previous year: kEUR 195) were conducted between the product areas as well as sales to or from the parent company amounting to kEUR 2,897 (previous year: kEUR 1,115), 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	2017	2016
Time value measurement of earn-out and options liabilities	3,053	1,011
Employee usage of company cars	156	122
Subletting	139	13
Exchange rate effects	131	502
Refund of ancillary costs	31	12
Refund from health insurance funds	23	37
Reversal of provisions	12	287
Amortisation of corporate assets	-554	-208
Other	246	109
Total	**3,237**	**1,885**

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	2017	2016
Cost of purchased services	8,281	11,342

5.4 Personnel expenses

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

in kEUR	2017	2016
Salaries and wages	31,935	29,693
Social security	4,752	4,384
Total	**36,687**	**34,077**

In 2017, the average number of full-time employees in the SYZYGY Group was 591 (year: 540 employees).

By the end of the 2017 financial year, the total number of SYZYGY employees had increased to 621 (previous year: 578 employees). The employees are distributed across the following functional areas within the Company:

Number of persons	12/31/2017	12/31/2016	Average in 2017	Average in 2016
Strategy/consulting/ project management	199	157	167	149
Online marketing/ online media	137	121	129	109
Technology	103	120	113	111
Design	94	118	108	112
Administration	88	62	74	59
Total	**621**	**578**	**591**	**540**

5.5 Depreciation and write-downs

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

in kEUR	2017	2016
Amortisation of intangible assets	664	304
Depreciation of fixed assets	1,419	1,474
Total	**2,083**	**1,778**

The 2017 financial year includes an impairment of the Hi-ReS! brand in the amount of kEUR 196. The previous year did not include any impairments of intangible assets.

5.6 Financial income

in kEUR	2017	2016
Interest and similar income	667	880
Income from the sale of securities, net	820	504
Interest expense and similar expenses	-46	-48
Total	**1,441**	**1,336**

Interest and similar income includes interest payments received of kEUR 822 (previous year: kEUR 1,076).

Income from the sale of securities includes gains of kEUR 1,381 (previous year: kEUR 834) and losses of kEUR 561 (previous year: kEUR 330).

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 expense includes interest expense as defined in section 233a of the German Fiscal Code (Abgabenordnung, AO).

5.7 Income taxes

in kEUR	2017	2016
Current domestic income taxes	645	562
Current foreign income taxes	327	639
Subtotal of current income taxes	972	1,201
Deferred taxes	329	634
Total	**1,301**	**1,835**

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 payable by the SYZYGY AG group changed marginally compared 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 per cent, as in the previous year.

In the UK, there has been a general tax rate of 20 per cent since April 1, 2016; a rate of 19 per cent applies from April 1, 2017.

In the US, there is a federal tax of 34 per cent plus local taxes applicable to SYZYGY NY of around two per cent.

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 121 net in the 2017 financial year (previous year: kEUR 83). Due to the use of loss carry-forwards, tax expense was reduced by kEUR 530 (previous year: kEUR 616). Deferred tax assets and liabilities can be summarised as follows:

in kEUR	2017	2016
Deferred taxes (assets)		
Loss carry-forwards at SYZYGY AG	96	626
Provisions	16	62
Loss carry-forwards at Ars Thanea	16	0
Fixed assets	5	6
Current assets (securities)	-108	-225
Other	10	0
Total	**35**	**469**

in kEUR	2017	2016
Deferred taxes (liabilities)		
diffferent brand	164	0
Catbird Seat brand	88	0
USEEDS brand	67	87
Fixed assets	43	19
Unique Digital brand	30	32
Accounts receivable	14	29
Ars Thanea brand	5	10
Hi-ReS! brand	0	61
Total	**411**	**238**

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 0 for corporation tax (previous year: kEUR 1,252) and kEUR 636 for trade tax (previous year: kEUR 2,844), which will be used in the next five years and for which deferred tax assets have been fully created.

The deferred tax liabilities result from first-time consolidation of subsidiaries in the amount of kEUR 355 (previous year: kEUR 189), and in the amount of kEUR 57 (previous year: kEUR 48) 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, as well as due to different valuations of accounts receivable at Ars Thanea.

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

in kEUR	2017	2016
Income before taxes	5,536	6,932
Income tax charge at a tax rate of 31 per cent (previous year: 31%)	1,716	2,149
Expected taxable value of income not subject to tax/non-deductible expenditure	-975	77
Differences in tax rates	-97	-152
Tax effect on loss carry-forwards for which no deferred tax assets were recognised	701	0
Tax arrears from previous years	0	102
Tax refunds from previous years	-121	-185
Other	77	-156
Actual income tax	**1,301**	**1,835**

The tax rate differences result from an average tax rate of 31 per cent in Germany compared with about 36 per cent in the US, 19.3 per cent in the UK and 19 per cent in Poland. In the United Kingdom, a tax rate of 19 per cent applies since April 1, 2017. Deferred taxes were accounted for taking future tax rates into consideration. In the 2017 financial year, deferred tax liabilities of kEUR 86 (previous year: kEUR 144) were attributable to items that were offset directly against equity. The change in the valuation differences of kEUR 58 (previous year: kEUR 106) is recorded in other comprehensive income. 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 125 (previous year: kEUR 138), 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 -149 (previous year: kEUR -2,412) are recorded in other net income for the period such that net income is not affected and aggregated in other net 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:

	2017	2016
Weighted average number of shares (in thsd.), diluted and basic	12,920	12,734
Net income of SYZYGY AG shareholders (kEUR)	4,989	4,982
Earnings per share, diluted and basic (EUR)	0.39	0.39

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 2017, operating cash flow amounted to kEUR 4,778 (previous year: kEUR 5,930). The cash and cash equivalents comprise exclusively cash and cash equivalents with a contractual remaining term to maturity of less than 3 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 832 from reduction of the earn-out liability associated with acquiring Ars Thanea (previous year: kEUR 1,011). The Group obtained income of kEUR 2,343 from reduction of the earn-out liability associated with acquiring the outstanding shares in USEEDS (previous year: kEUR 0).

The movement of liabilities to cash flow from financing activities can be reconciled as follows:

		Liabilities to banks	Financial liabilities	Total
		kEUR	kEUR	kEUR
12/31/2016		0	6,879	**6,879**
Change affecting payments	Cash inflow	5,000	0	**5,000**
	(Net) new addition of financial liabilities	5,000	0	**5,000**
	Cash outflow	-238	-180	**-418**
	(Net) repayment of financial liabilities	-238	-180	**-418**
Change not affecting payments	(Net) effects from first-time consolidation	0	13,059	**13,059**
	Remeasurement of earn-outs	0	-832	**-832**
	Remeasurement of call options	0	-2,343	**-2,343**
	Income to be transferred to fully consolidated companies	0	366	**366**
	Outstanding contributions for equity interests	0	160	**160**
12/31/2017		4,762	19,053	**23,815**
Overall change		4,762	10,230	**14,992**

		Liabilities to banks	Financial liabilities	Total
		kEUR	kEUR	kEUR
12/31/2015		0	2,342	**2,342**
Change affecting payments	Cash inflow	0		**0**
	(Net) new addition of financial liabilities	0		**0**
	Cash outflow	0		**0**
	(Net) repayment of financial liabilities	0	0	**0**
Change not affecting payments	(Net) effects from first-time consolidation	0	5,319	**5,319**
	Remeasurement of earn-outs	0	-1,011	**-1,011**
	Remeasurement of call options	0	0	**0**
	Income to be transferred to fully consolidated companies	0	229	**229**
	Outstanding contributions for equity interests	0	0	**0**
12/31/2016		0	6,879	**6,879**
Overall change		0	4,537	**4,537**

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 one 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 69 (previous year: kEUR 48).

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 217 (previous year: kEUR 454) when selling these bonds or re-assessing their market value.

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 net income".

As at the balance sheet date, EUR 9.0 million (previous year: EUR 15.6 million) was invested in a securities portfolio with a duration of around 5.4 (previous year: 7.3) 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 5.4 per cent (previous year: 7.3 per cent). This would lead to a change in the fair value of around kEUR 484 (previous year: kEUR 1,122). 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. If the duration of the securities portfolio is 5.4 years (previous year: 7.3 years) and average credit spreads widen by 100 basis points, the portfolio's value would fall by 5.4 per cent (previous year: 7.3 per cent). This would lead to a change in fair value of around kEUR 484 for SYZYGY (previous year: kEUR 1,122).

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 2017 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 a high equity ratio, since this strengthens the competitiveness of a service provider such as SYZYGY. As IFRS 16 becomes effective starting from 2019, with a resulting increase in total assets of some EUR 30 million, SYZYGY will no longer be able to meet the former target of 60-80 per cent.

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	2017	2016
Equity according to the balance sheet	55,933	49,785
Debt capital	48,645	31,076
Total capital	104,578	80,861
Equity ratio	53%	62%
Net income for the period	4,235	5,097
Return on equity	8%	10%

At the end of the 2017 financial year, SYZYGY only has liabilities to banks in the amount of kEUR 5,164 (previous year: kEUR 0); 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 546 (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 no longer provides a guarantee for the operational business relating to a subsidiary's client amounting to kEUR 175. At present there are no indications that the subsidiaries will be unable to comply with their agreements. SYZYGY has agreed two indefinite guarantee loans of kEUR 546 (previous year: kEUR 537) with two financial institutions, for which annual commission of 0.3 and 0.5 per cent respectively is charged. A time deposit in the amount of the guarantee loan of kEUR 82 serves as security for one guarantee loan. In the previous year, a securities portfolio held by SYZYGY served as security for this guarantee loan, with a carrying value of kEUR 2,670.

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	12/31/2017	12/31/2016
Within 1 year	3,329	2,224
1–5 years	13,438	3,817
More than 5 years	14,444	2,288
Total	**31,211**	**8,329**

Total expenses for rent in 2017 amounted to kEUR 4,052 (prior year: kEUR 3,095). Income of kEUR 139 was obtained from subletting in 2017 (previous year: kEUR 13). In 2017, kEUR 157 (prior year: kEUR 143) were 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 bonds. 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 value of financial assets and liabilities that are regularly measured at fair value:

12/31/2017 in kEUR	Level 1	Level 2	Level 3	Total
Securities	8,964	–	–	8,964
Total financial assets	**8,964**	**–**	**–**	**8,964**
Conditional purchase price commitment	–	–	17,109	17,109
Total financial liabilities	–	–	**17,109**	**17,109**

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**

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

Financial assets and liabilities that are not measured at fair value, in kEUR	2017 Loans and Receivables	2017 Financial Liabilities at Amortised Costs	2016 Loans and Receivables	2016 Financial Liabilities at Amortised Costs
Other non-current assets	219	–	625	–
Cash and cash equivalents	7,017	–	6,571	–
Accounts receivable	20,279	–	18,525	–
Interest receivables in other current assets	47	–	358	–
Accounts payable	–	7,754	–	7,434
Loans to banks	–	5,164	–	–
Total	**27,562**	**12,918**	**26,079**	**7,434**

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	792	-111
Catbird Seat GmbH, Munich, Germany	51	668	414
diffferent GmbH, Berlin, Germany	70	2,825	-233
Hi-ReS! London Ltd., London, UK	100	0	499
SYZYGY Berlin GmbH, Berlin, Germany	99	-1,202	-2,262
SYZYGY Deutschland GmbH, Bad Homburg v. d. H., Germany[2]	100	130	-66
SYZYGY Digital Marketing Inc., New York City, USA	100	596	630
SYZYGY UK Ltd., London, UK[1]	100	1,912	33
Unique Digital Marketing Ltd., London, UK[1]	100	6,617	691
SYZYGY Media GmbH, Hamburg, Germany[3]	100	40	0
USEEDS° GmbH, Berlin, Germany	70	731	243

1 – Unique Digital Marketing Ltd. holds 100 per cent of the shares in SYZYGY UK Ltd., which operates in the UK. SYZYGY UK Ltd. is thus an indirect holding.
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 SYZYGY Media 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 113 (previous year: kEUR 112) for auditing services relating to the consolidated financial statements and the financial statements of the parent company. As in the previous year, no other assurance services or non-audit services were provided by BDO AG Wirtschaftsprüfungsgesellschaft.

6.9 Information on associated companies and persons

The associated persons include the boards of SYZYGY AG and companies on which SYZYGY can exert a material 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 over 50 per cent in the course of a voluntary takeover offer. As a result, all companies in the WPP Group are likewise qualified as associated persons and companies.

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

In 2017, SYZYGY generated sales of kEUR 617 (previous year: kEUR 668) with the WPP Group for client projects. Of this amount, receivables of kEUR 22 (previous year: kEUR 0) were still outstanding as at the reporting date. During the financial year, SYZYGY also made use of administrative and operational services provided by the WPP Group with a value of kEUR 123 (previous year: kEUR 13). Liabilities of kEUR 2 were still outstanding as at the reporting date.

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 that were not included in the consolidated financial statements were carried out with associated parties in 2017 and 2016.

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

SYZYGY Deutschland GmbH and SYZYGY Media 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
Chairman of the Management Board
Managing Director, SYZYGY Deutschland GmbH
Managing Director, SYZYGY Berlin GmbH
Managing Director, Catbird Seat GmbH
Managing Director, diffferent GmbH
Director, SYZYGY Digital Marketing Inc.

Andrew P. Stevens, London
Member of the Management Board
until December 31, 2017
Director, Unique Digital Marketing Ltd.
Director, SYZYGY UK Ltd.
Director, SYZYGY Digital Marketing Inc.
Member of the Supervisory Board, Ars Thanea S.A.

Erwin Greiner, Bad Nauheim
Finance Director
Director, SYZYGY UK Ltd.
Director, Unique Digital Marketing Ltd.
Director, Hi-ReS! London Ltd.
Director, SYZYGY Digital Marketing Inc.
Member of the Supervisory Board, Ars Thanea S.A.

Frank Ladner, Frankfurt am Main
Member of the Management Board
since January 1, 2018

The members of the Management Board did not hold supervisory board membership or any similar positions outside the SYZYGY Group in 2017.

In the 2017 financial year, total remuneration of the Management Board amounted to kEUR 1,216 (previous year: kEUR 1,297). Lars Lehne received a basic salary of kEUR 300, fringe benefits of kEUR 14 and a variable salary of kEUR 74. Andrew P. Stevens received a basic salary of kEUR 251, fringe benefits of kEUR 15 and a variable salary of kEUR 131. Erwin Greiner received a basic salary of kEUR 180, fringe benefits of kEUR 12 and a variable salary of kEUR 189.

Erwin Greiner exercised a total of 10,000 options (previous year: 26,000 options) in 2017. He no longer holds any options as at the reporting date, nor do any of the other members of the Management Board.

In the 2016 financial year, total remuneration of the Management Board amounted to kEUR 1,302. 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 resigned from the Company on August 31, 2016 and in that period he received a basic salary of kEUR 183, fringe benefits of kEUR 10 and a variable salary of kEUR 67. Due to a prohibition on competition, Marco Seiler also received a payment of kEUR 94 as compensation for non-competition.

The variable salary includes the inflow from exercise of the 2012 option programme and the phantom stock programme.

A phantom stock programme was also 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.

Andrew P. Stevens held a total of 120,000 phantom stocks as at December 31, 2016. Of that amount, he exercised 48,000 in the 2017 financial year, leaving 72,000 phantom stocks outstanding as at the reporting date. Erwin Greiner held 75,000 phantom stocks, of which 30,000 were exercised in the financial year, leaving 45,000 outstanding as at the reporting date. The exercise price is EUR 9.00 for the phantom stocks of both Andrew P. Stevens and Erwin Greiner. On April 1, 2016, Chairman of the Management Board Lars Lehne received a total of 240,000 phantom stocks with an exercise price of EUR 9.13, which are still fully outstanding.

The benefits granted in the financial year are shown in the table below:

	Lars Lehne, CEO			
Benefits granted	2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	300	225	300	300
Fringe benefits	14	10	14	14
Total	**314**	**235**	**314**	**314**
One-year variable remuneration	99	74	0	99
Phantom stock programme	0	365	0	0
Total	**99**	**439**	**0**	**99**
Pension expenses	21	16	21	21
Total remuneration	**434**	**690**	**335**	**434**

	Andrew P. Stevens, COO			
Benefits granted	2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	251	268	251	251
Fringe benefits	15	16	15	15
Total	**266**	**284**	**266**	**266**
One-year variable remuneration	38	40	0	225
Phantom stock programme	0	147	0	0
Total	**38**	**187**	**0**	**225**
Pension expenses	13	13	13	13
Total remuneration	**317**	**484**	**279**	**504**

	Erwin Greiner, CFO			
Benefits granted	2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	180	168	180	180
Fringe benefits	12	12	12	12
Total	**192**	**180**	**192**	**192**
One-year variable remuneration	54	25	0	54
Phantom stock programme	0	77	0	0
Total	**54**	**102**	**0**	**54**
Pension expenses	16	11	16	16
Total remuneration	**262**	**293**	**208**	**262**

Benefits granted	Marco Seiler, CEO (Exit: 08/31/2016) 2017	2016	2017 Minimum	2017 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	0	183	0	0
Fringe benefits	0	10	0	0
Total	**0**	**193**	**0**	**0**
One-year variable remuneration	0	28	0	0
Phantom stock programme	0	0	0	0
Total	**0**	**28**	**0**	**0**
Pension expenses	0	8	0	0
Total remuneration	**0**	**229**	**0**	**0**

6.12.2 Supervisory Board

Ralf Hering
Supervisory Board Chairman
died on February 16, 2018
Principal Partner, Hering Schuppener
Unternehmensberatung für Kommunikation GmbH,
Dusseldorf

Wilfried Beeck
Supervisory Board Chairman
since March 27, 2018
CEO, ePages Software GmbH, Hamburg

Rupert Day
Member of the Supervisory Board
CEO, tenthavenue Ltd., London

Andrew Robertson Payne
Member of the Supervisory Board
since March 22, 2018
Group Associates Controller, WPP 2005 Ltd.,
London

The Supervisory Board members each received fixed remuneration of kEUR 20 (previous year: kEUR 20) for the 2017 financial year. In the previous year, the Supervisory Board members additionally received variable remuneration of kEUR 5.

6.13 Directors' dealings

Management Board: Shares [Number of Shares]	Lars Lehne	Andrew P. Stevens	Erwin Greiner	Total
As at: December 31, 2016	**10,000**	**0**	**0**	**10,000**
Purchases	0	0	0	0
Sales	0	0	0	0
As at: December 31, 2017	**10,000**	**0**	**0**	**10,000**

Management Board: Phantom Stocks [Number of Phantom Stocks]	Lars Lehne	Andrew P. Stevens	Erwin Greiner	Total
As at: December 31, 2016	**240,000**	**120,000**	**75,000**	**435,000**
Additions	0	0	0	0
Disposals	0	-48,000	-30,000	-78,000
As at: December 31, 2017	**240,000**	**72,000**	**45,000**	**357,000**

Management Board: Options [Number of Options]	Lars Lehne	Andrew P. Stevens	Erwin Greiner	Total
As at: December 31, 2016	**0**	**0**	**10,000**	**10,000**
Purchases	0	0	0	0
Disposals	0	0	-10,000	-10,000
As at: December 31, 2017	**0**	**0**	**0**	**0**

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

Management Board: Phantom Stocks [Number of Phantom Stocks]	Lars Lehne	Andrew P. Stevens	Erwin Greiner	Total
As at: December 31, 2015	**0**	**120,000**	**75,000**	**195,000**
Additions	240,000	0	0	240,000
Disposals	0	0	0	0
As at: December 31, 2016	**240,000**	**120,000**	**75,000**	**435,000**

Management Board: Options [Number of Options]	Lars Lehne	Andrew P. Stevens	Erwin Greiner	Marco Seiler	Total
As at: December 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: December 31, 2016	**0**	**0**	**10,000**	**0**	**10,000**

Supervisory Board: Shares [Number of Shares]	Ralf Hering	Wilfried Beeck	Rupert Day	Total
As at: December 31, 2016	**0**	**10,000**	**0**	**10,000**
Purchases	0	0	0	0
Sales	0	0	0	0
As at: December 31, 2017	**0**	**10,000**	**0**	**10,000**

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

The members of the Supervisory Board do not hold any options or phantom shares. 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 elected 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)

In 2017 there were no notifications in accordance with Article 160 Section 1 No. 8 of the Aktiengesetz (AktG – German Public Companies Act).

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 December 18, 2017 and is available to all shareholders on the Group's website (https://www.syzygy.net/global/en/investor-relations/corporate-governance/2017).

6.16 Date of authorisation for publication

The Management Board adopted and approved the consolidated financial statements for publication on March 27, 2018.

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, 2018
SYZYGY AG

Management Board

Lars Lehne

Frank Ladner

Erwin Greiner

Independant auditors' report

To the SYZYGY AG, Bad Homburg v. d. Höhe

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of SYZYGY AG, Bad Homburg v. d. Höhe and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SYZYGY AG for the financial year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the chapter "other information".

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those parts of the group management report listed in the chapter "other information".

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

We identified the following matters as key audit matters:

1. Impairment of goodwill
2. Accounting for business combinations

1. Impairment of goodwill

Facts and circumstances

In the consolidated financial statements of SYZYGY AG, under the balance sheet item "Non-Current Assets", goodwill at an amount of EUR 58.2 million is reported, representing 55.6 % of consolidated total assets. The goodwill was assigned to cash-generating units.

Cash-generating units with goodwill are subject to impairment tests by the company at least once a year as well as to an additional impairment test if there are any indications of an impairment. The valuation is thereby undertaken by means of a valuation model, using the discounted cash flow method. If the carrying amount of a cash-generating unit is higher than its recoverable amount, the carrying amount is written down to the recoverable amount.

Assessing the recoverability of goodwill is complex and requires that the executive directors make numerous estimates and use significant judgment, especially with regard to the amount of future cash flows, a sustainable growth rate for cash flows expected for a forecast beyond the detailed budget period, and the discount rate to be used. This is a key audit matter due to the significance of the goodwill balance in the consolidated financial statements of SYZYGY AG and because of considerable uncertainties associated with such a measurement.

The disclosures made by SYZYGY AG on goodwill are contained in sections 2.1 and 3.1, as well as in 3.2 on pages 76 to 77 and 83 to 87 of the notes to the consolidated financial statements.

Audit response

In the context of our audit we evaluated the appropriateness of the material assumptions and judgement-related parameters, as well as the method of calculation of the impairment test, also involving our valuation specialists. We gained an understanding of the planning system and planning processes of the executive directors as well as of the significant assumptions used by them. We reconciled the prognosis on future cash flows in the detailed planning period with the business planning prepared by the executive directors and approved by the supervisory board and determined reasonableness of the company's historical forecasting accuracy by means of an analysis of budget-to-actual variances in the past and for the financial year 2017. We examined the underlying budget assumptions and growth rates assumed for the expected cash flows beyond the detailed budget period by comparing past developments considering industry-specific market expectations and the company specific situation. Furthermore, we critically analysed the discount rates used on the basis of the average costs of capital of a peer group. Our audit also encompassed sensitivity analyses made by SYZYGY AG. Regarding the effects of possible changes in costs of capital and the growth rates assumed, we additionally performed our own sensitivity analyses.

2. Accounting for Business Combinations

Facts and circumstances

In the financial year 2017, by purchase contract of September 25, 2017 officially recorded by a notary, the company acquired a 70 % share in diffferent GmbH, with registered address in Berlin. Regarding the remaining 30 % share, an agreement on a mutual call-and-put option was concluded exercisable for the first time in the year 2022, according to which the exercise price will be calculated based on the future profit situation of diffferent GmbH, Berlin.

Furthermore, by purchase contract of June 1, 2017 officially recorded by a notary, the company purchased a 51 % share in Catbird Seat GmbH, with registered address in Munich. A further 19 % share of Catbird Seat GmbH is to be sold and transferred to SYZYGY AG by way of a share purchase and transfer contract to be concluded in March 2020. For the remaining 30 % share, a mutual call-and-put option has been agreed, this to be exercisable for the first time in the year 2023. The purchase prices for the 19 % and 30 % shares in Catbird Seat GmbH are to be determined in keeping with contractually specified formulae that in each case are dependent on the future profit situation of Catbird Seat GmbH.

In both cases, due to the agreed call-and-put options, a full consolidation of each acquired business took place without reporting non-controlling interests. The purchase-price components for the business combinations that were paid for in cash and by the issue and transfer of new shares amounted to EUR 15.0 million. To this sum, the contingent consideration for exercising the call-and-put options measured at fair value of EUR 12.7 million and correspondingly recorded as financial liability at the balance sheet date must be added as part of the acquisition costs.

The purchased assets and liabilities are in principle to be reported at their fair value as of the acquisition date. Considering acquired net assets of EUR 2.8 million attributable to SYZYGY AG, as well as other intangible assets amounting to EUR 0.8 million after deducting deferred taxes, lead to a goodwill of EUR 24.1 million.

Due to the all over significant effects of the business combinations on the assets, liabilities and financial position of the SYZYGY Group and to the complexity of the accounting evaluation of the call-and-put options, as well as to the discretionary leeway in the valuation of the acquired assets and liabilities, these business combinations represent a key audit matter of our audit.

The disclosures of SYZYGY AG on the business acquisitions are contained in section 1.3 on pages 66 to 67 of the notes to the consolidated financial statements.

Audit response

In the context of our audit of the accounting treatment of the business combinations we initially examined and sought to understand the respective contractual agreements relating to the business combinations. We evaluated whether the acquisition date had been appropriately taken into account in the present consolidated financial statements.

We then assessed the effects of the agreement on the call-and-put options in view of reporting non-controlling interest, as well as of the accounting of the related contingent consideration. In assessing the valuation of these future contingent considerations as part of the acquisition costs, we managed to gain an understanding of the methods and processes of the planning calculations on which these considerations were based and came to understand the assumptions made, including the expected growth rates, and their plausibility considering branch-specific market expectations. We reconciled the discounting rates used with the available market data.

We furthermore assessed the valuation of the acquired assets and liabilities for the business combinations measured at fair value at the time of the initial consolidation. To the extent that thereby fair values were determined on the basis of valuation models, we have assessed the appropriateness and the suitable application of the models, as well as the plausibility of the assumptions thereby made as to the underlying parameters, particularly as to future cash flows, discount rates and growth rates. Furthermore, we audited the allocation of goodwill to the cash-generating units.

In addition to this we assessed the completeness and correctness of the disclosures required in the notes pursuant to IFRS 3.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the non-financial statement included in section 11. of the group management report,
- the statement on corporate governance included in section 10. of the group management report and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 30, 2017. We were engaged by the supervisory board on October 18, 2017.

We have been the group auditor of the SYZYGY AG without interruption since the financial year 2004.

We declare that the opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the Engagement

The German Public Auditor responsible for the engagement is Alexander Gebhardt.

Frankfurt am Main, March 27, 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

gez. Wendt	gez. Gebhardt
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial calendar 2018

3-Month-Report (English version: 05/09) 05/04	**Annual General Meeting, Frankfurt** 06/15	**Half-Year-Report** (English version: 08/10) 08/03
9-Month-Report (English version: 11/09) 11/02	**German Equity Forum, Frankfurt** 11/26-28	**MKK – Munich Capital Market Conference** 11/11-12

All dates are subjects to change.

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