RoodMicrotec N.V.

Annual Report 2016

Rood95

Microtec N.V.

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Chamber of Commerce number 33251008

RoodMicrotec – powerful solutions

RoodMicrotec focuses on eXtended supply chain management, offering ASIC turnkey solutions for the industrial and automotive markets. In that, it is vital to collaborate closely with design houses, suppliers, foundries, institutes and other related parties to offer the optimal solution to our customers. In this process, RoodMicrotec's eXtended supply chain management solution ensures the weakest link is as strong as possible by putting our best efforts into and feeling responsible for the whole project as well as for the different disciplines within the project. This applies to both the internal business units (supply chain management, test operations, test engineering, failure & technology analysis and qualification & reliability investigation) and to the external parties.

RoodMicrotec has further strengthened the relationship with its main customers and design house partners during 2016. Our customer base consists of major industrial and automotive companies throughout Europe. The growing role of design houses is also very important in this market since the end customers need to have someone who can realize their ideas with high reliability and within a short time schedule.

Our relationships with suppliers and institutes are also essential to realizing turnkey projects. RoodMicrotec has excellent cooperation agreements with suppliers like assembly houses and wafer foundries in Asia as well as in Europe. Institutes are important to be able to be at the forefront of technology and to have access to additional resources and ideas in the realization of turnkey projects. RoodMicrotec has agreements with many institutes in Europe and participates in a number of advanced publicly funded projects.

RoodMicrotec is well positioned to offer eXtended supply chain management turnkey solutions to the industrial and automotive markets and is convinced that this is the way to bring success to all partners and customers.

Content

GENERAL

Preface by the CEO

I´m very pleased and excited to be allowed to lead such an excellent organization as RoodMicrotec in the path we have set forth for the future. The combination of a well-established company and a new direction with supply chain management for our customers makes the company well positioned for the future in the ever changing semiconductor business. In November we celebrated 30 years on the Amsterdam stock exchange by ringing the opening gong.

During 2016 we changed the management team when Philip Nijenhuis stepped down as CEO and I took over this role. At the same time Reinhard Pusch was promoted to COO handling our sales activities, supply chain management department and the very important area of funded projects. He will elaborate around these areas in the second part of this preface. In November we welcomed Arvid Ladega as our new CFO. With his vast knowledge in the financial area together with experience running small start-up companies, I´m convinced that we have found the right CFO for the future.

Two new board members, Herman Bartelink and Jeroen Tuik, were nominated and their appointment has since then been approved by an extraordinary general meeting. I´m looking forward working with the new supervisory board constellation in making the company a success.

We have also welcomed new people to our organization to speed-up the transition into a supply chain management company and have said good-bye to some long term employees that have well deserved moved into their retirement.

The growth in sales is lower than expected due to some delays in customer projects and market problems for our main customer. We however realized a 2% increase in sales and a 3% increase in gross margin, which is promising in a market that declined during 2016. The personnel and operating expenses are in line with 2016 which is according to our plans to prepare ourselves for the increase in the upcoming years. We have made significant invests in new equipment to enable us to follow the ever increasing demand of the electronic industry. This has increased the depreciation rate as well as the financing costs.

The Test Operations Business Unit prepares for the increase in orders with the new test equipment purchased in 2016. The new test system and a 12” wafer prober that joined the company’s equipment arsenal are installed and fully up and running. Our Failure & Technology Analysis business very much depends on the short term needs of our customers. We have a number of new customer contacts in this important part of our business which lead to new long term contracts.

Test Engineering and Qualification & Reliability Investigation saw substantial year-on-year rises in sales over the past 12 months, on the back of some large ongoing projects and the start of qualification in other big contracts. We see additional orders coming in to support qualification of standard components for the expanding automotive market.

I´m looking forward to the upcoming years and I am confident that we are on the right track to turn the company around to the leading supply chain provider in Europe.

Zwolle, 26 April 2017

Martin Sallenhag, CEO

Preface by the COO

I´m also excited and looking forward to be allowed to lead such an excellent organization as RoodMicrotec towards the future goals. The new direction that we are moving the company in and the vast know-how that the team has makes us very well prepared for the needs of our customers, especially in the supply chain management area where we see a great interest in our services.

During 2016 we changed our sales team with two new sales & marketing managers to focus on the new customers for SCM and all of our different services. The new persons bring different know-how into the company, from deep technical knowledge in the design and layout of ASICs to pure sales experience from different market areas. It is exciting for us to have new younger persons join the company bringing additional ideas how to sell our services and products. Both of the sales & marketing managers will cover Germany and Engin Eser will on top of this cover also France, Scandinavia and Eastern Europe. Alexander Jung will on top of Germany also cover Austria, Switzerland and Italy. With the present team of Dieter Schreiber who covers Germany, Austria and Benelux and Malkit Jhitta covering UK and the US we now have an excellent team to bring the company forward.

In our supply chain management unit we support our customers with a wide range of services. It ranges from design support through external partners, through package selection, test program development and qualification to the final production with test as well as logistics. During 2016 we have moved some main projects through the development phase into the industrialisation phase and are now ready for full volume production ramp up. Some other projects have just started the development phase so we are well prepared for the future in this area. In early 2017 we have strengthened our supply chain management team to be able to support our customers with an even higher standard of services. Sönke Hundertmakrk joined as manager for the business unit and Yasemin Gülmez joined as responsible for customer project management. I´m extra delighted to be able to welcome Yasemin to this unit since she has a wide knowledge of the company coming from the communication and logistics team. With this improved team we are well prepared to realize the challenges in supply chain management for the future.

During 2016 we have also added another publicly funded project to our portfolio. It is key for a company like RoodMicrotec to participate in these type of projects to be able to work on leading edge technology with well renowned medium and large scale companies in this area. The institutes also bring new and exciting ideas to these projects. The new project is a pan-European project called Europat-MASIP and it covers MEMS sensors, image sensors and RF solutions. Together with the already running projects, ParsiFAL and ScaleIT@Shopfloor we are now participating in very exciting projects that will take the European technology base to a new level.

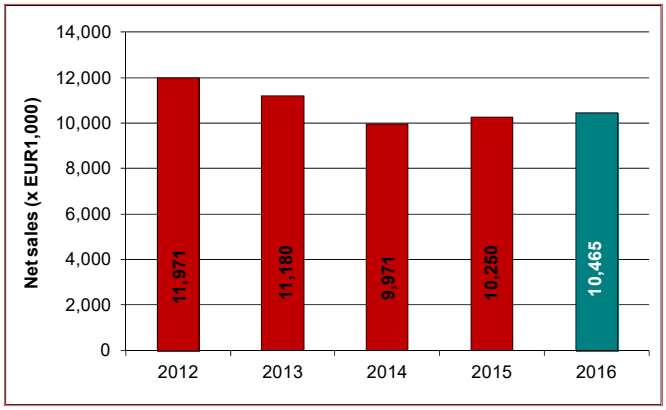
Based on the successful management of the different existing and new project we have won during 2016 we are well prepared for the upcoming challenges of the market in 2017 and onwards.

Zwolle, 26 April 2017

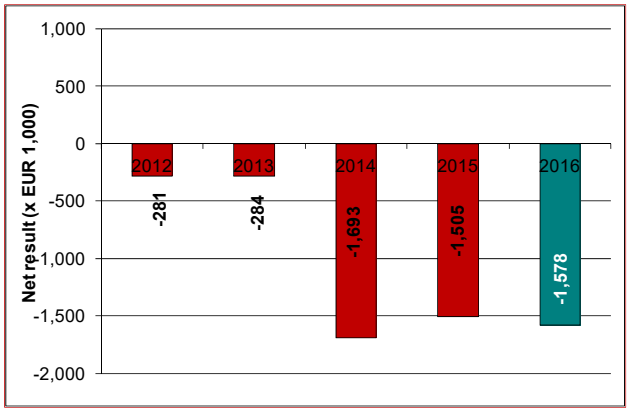
Reinhard Pusch, COO

RoodMicrotec in 2016

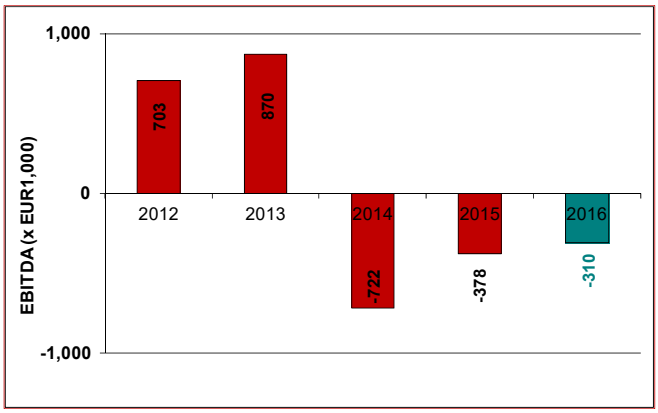
Net sales



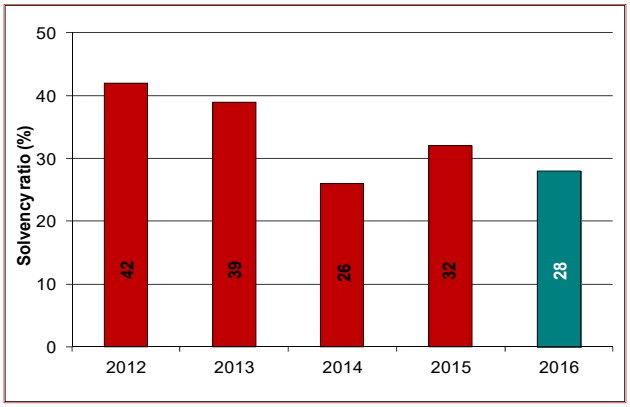
Net result



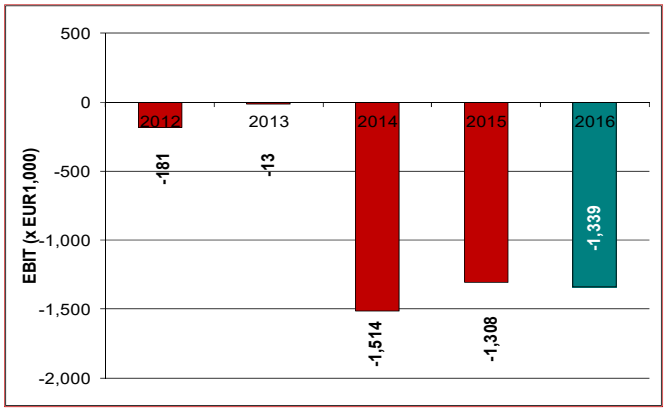
EBITDA



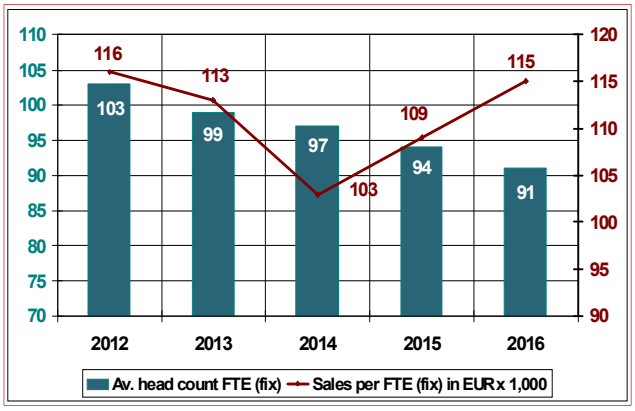
Solvency



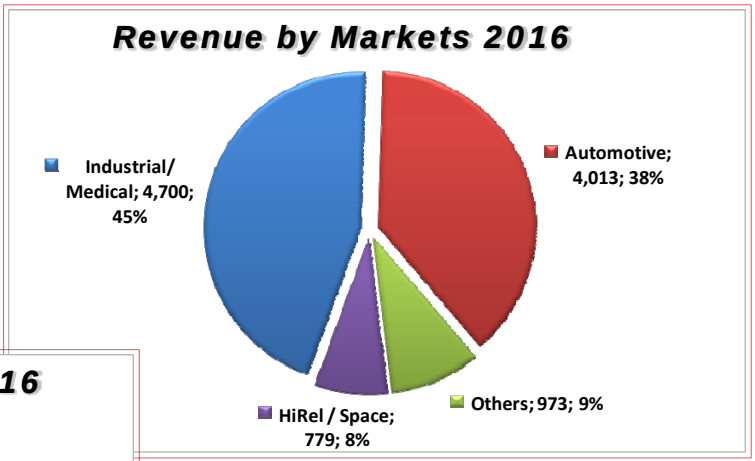
EBIT

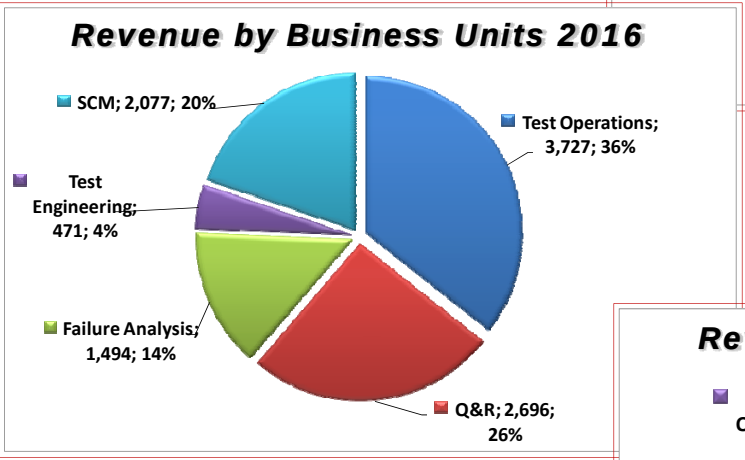


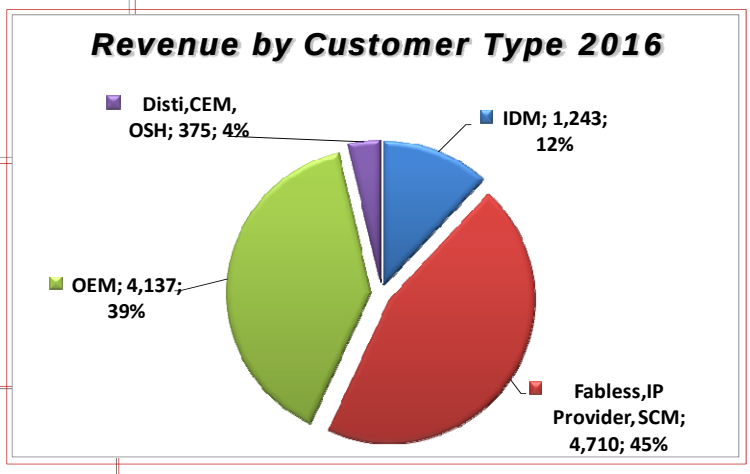
Sales per employee and head count

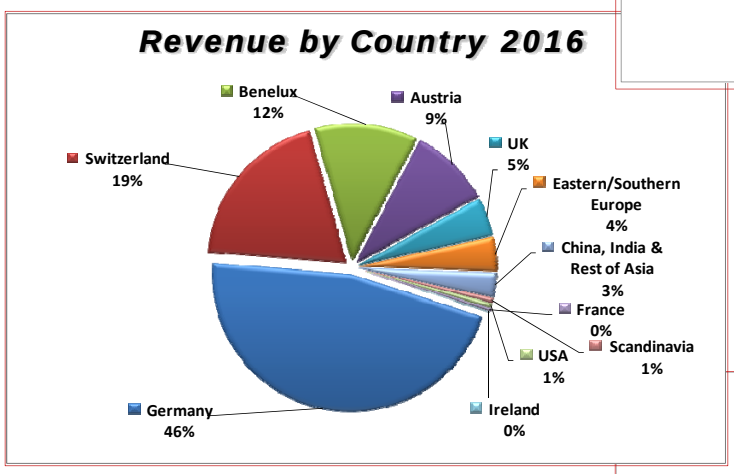


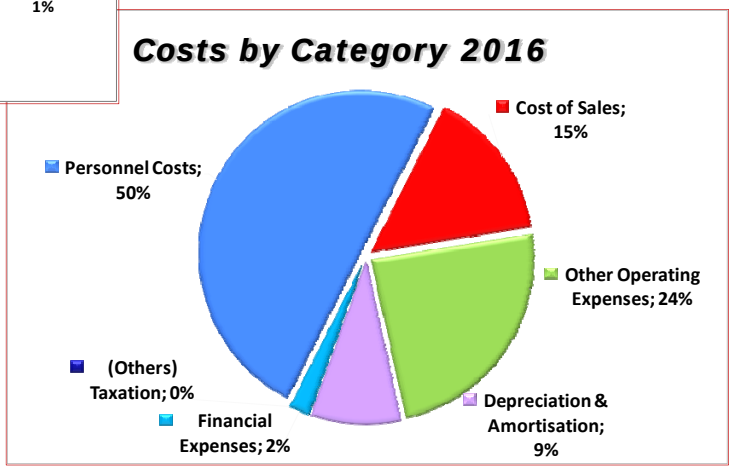
Key charts


Revenue by Markets 2016
Industrial/ Medical; 4,700; 45%
Automotive; 4,013; 38%
HiRel / Space; 779; 8%
Others; 973; 9%


Revenue by Business Units 2016
SCM; 2,077; 20%
Test Operations; 3,727; 36%
Test Engineering; 471; 4%
Failure Analysis; 1,494; 14%
Q&R; 2,696; 26%


Revenue by Customer Type 2016
Disti,CEM, OSH; 375; 4%
IDM; 1,243; 12%
OEM; 4,137; 39%
Fabless,IP Provider,SCM; 4,710; 45%


Revenue by Country 2016
Benelux 12%
Austria 9%
UK 5%
Switzerland 19%
Eastern/Southern Europe 4%
China, India & Rest of Asia 3%
France 0%
Scandinavia 1%
USA 1%
Germany 46%
Ireland 0%


Costs by Category 2016
Cost of Sales; 15%
Personnel Costs; 50%
Other Operating Expenses; 24%
(Others) Taxation; 0%
Financial Expenses; 2%
Depreciation & Amortisation; 9%

Key figures

31 December 2016
(X EUR 1,000)

	2016	2015	2014	2013	2012
Result					
Net sales	10,465	10,250	9,971	11,180	11,971
Gross margin	8,615	8,384	8,184	9,021	9,688
EBITDA	-310	-378	-722	870	703
EBIT (operating result)	-1.339	-1,308	-1,514	-13	-181
EBT	-1,587	-1,495	-1,675	-243	-507
Cash flow (net result and depreciation)	-549	-575	-901	599	603
Cash flow from operating activities	-452	-832	-246	17	899
Net result	-1,578	-1,505	-1,693	-284	-281
Capital, Debt & Liquidity Ratios					
Total assets	14,711	13,531	13,475	13,941	12,915
Group equity	4,053	4,321	3,564	5,396	5,457
Net debt	2,428	1,675	2,159	2,113	3,216
Capital (net debt + equity)	6,481	5,996	5,723	7,509	8,173
Gearing ratio (net debt/ capital)	37%	28%	38%	28%	37%
Solvency (group equity / total liabilities)	28%	32%	26%	39%	42%
Debt ratio (net debt / EBITDA)	-7,83	-4.43	-2.99	2.43	4.57
Net working capital	540	560	-125	-1.331	-1.422
Working capital ratio	0.97	1.27	0.95	0.68	0.63
Assets					
Tangible and intangible fixed assets	7,684	6,908	7,112	7,187	8,102
Investments in (in)tangible fixed assets	1,879	726	499	535	1,475
Depreciation of (in)tangible fixed assets	1,029	930	792	883	884
Data per share (x EUR 1,-)					
Group equity	0.06	0.08	0.08	0.14	0.15
Operating results	-0.00	-0.02	-0.03	0.00	-0.01
Cash flow	-0.01	-0.02	-0.00	0.00	0.03
Net result	-0.02	-0.03	-0.04	-0.01	-0.01
Share price: year end	0.20	0.27	0.25	0.16	0.15
Share price: highest	0.28	0.30	0.35	0.18	0.23
Share price: lowest	0.19	0.21	0.15	0.14	0.15
Issue of nominal shares					
At year end (x 1,000)	63,411	54,411	43,519	38,674	35,769
Number of FTE's (permanent)					
At year end	94	92	94	96	103
Average	91	94	97	99	103
Sales (total)/ Average FTE's (permanent)	115	109	103	113	116

Main developments during 2016

Two new contracts in automotive / aerospace sector

We secured two new orders with a Chinese market leader in the automotive industry and a European market leader in the aerospace industry.

Contract with German OEM (Original Equipment Manufacturer) in automotive & industrial area

A contract for 10 years with a sales volume of approx. EUR 4.5 million for a supply chain management project has been secured.

Sales channel agreement for Swiss market

The agreement to double sales to EUR 1.2 million by 2018 has been signed with Altec Electronic AG.

Framework agreement signed with leading test equipment manufacturer

SCM agreement with Rohde & Schwarz has been signed with further growth of our activities and future expansion of our relationship.

Publicly funded project

Winning a new publicly funded project (EU & German) opens us new and additional partnerships with all project participants. The consortium consists of well-known institutes and companies. This project belongs to the automotive market segment but also to the field of power and consumer electronics.

Strengthened relationship with large players

We strengthened our relationship with main assembly houses, important European design houses and foundries throughout the world. All top global players.

Big contracts for recurring business

Our long-term SCM-projects published earlier passed through several stages of the development phase in 2016 and will move into the industrialisation phase during 2017.

Certification and accreditation

Accreditation of our laboratories according ISO/IEC 17025 has been renewed. Our ISO 9001 certification also has been renewed in 2016 and adjusted to the new 2015 version of the standard.

Investment

To meet further demands and requirements of our customers the main investments were the Verigy 93k test system, a 12" wafer prober and the upgrade of our system for X-ray tomography with 3D x-ray and higher resolution for 2D applications.

RoodMicrotec at a glance

- RoodMicrotec is a semiconductor company supplying products (chips and packaged devices) and services to its focus sectors.
- RoodMicrotec manages the entire turnkey ASIC supply chain.
- RoodMicrotec is increasingly focusing on consultancy, product engineering, project management and logistics.
- As an independent company RoodMicrotec is never in competition with its customers.
- The company is knowledge and technology driven.
- 'Certified by RoodMicrotec' refers inter alia to qualification of products to stringent international standards such as the ISO/IEC 17025 in our accredited laboratory.

- 'Certified by RoodMicrotec' is valid for all processes, services and products by working according version 2015 of the ISO 9001 and maintaining the certification according this version.

- RoodMicrotec's key values are:
  - knowledge
  - flexibility
  - creativity

  All within the stringent framework of the processes of its customers in inter alia the automotive industry.

- At year-end 2016, the company had 91 (2015: 94) full-time employees (FTE).

- In 2016, the company realised EUR 10.5 million sales (2015: EUR 10.3 million).

We focus on

Automotive

- Electronic components for vehicle applications are a global driver of the semiconductor industry.

- Automotive devices are a combination of high complexity, high quality demands and high volumes: car infotainment and communication with the outside world up to self-driving cars.

- We are fully equipped with the fundamentals required for automotive projects.

- New opportunities are seen by a specific trend that the industrial sector and the HiRel industry will upgrade / adapt their requirements to automotive standards.

- We develop complex solutions and are a partner in the publicly funded project EuroPAT-MASIP.

Industrial

- In this sector the main focus is on Industry 4.0. / Internet of Things

- Industry 4.0 / Internet of Things means extensive networking, using innovative IT systems which enable entirely new production methods, like smart grid and smart metering. For example starting an oven remotely, opening and shutting down windows when the temperature changes, etcetera.

- We are developing (complex) solutions and are partner in two publicly funded projects: ParsiFAL 4.0 and ScaleIT@Shopfloor.

Healthcare

- High quality demand and device complexity is combined within healthcare applications / biological chips.

- Distinction between devices inside and outside the body, sometimes with a physical connection between the internal and external devices.

- Projects with long lead times due to complex test environments, which contain a number of biological elements such as temperature, humidity, acidity and heart rate.

- Our experience with image sensors offers excellent opportunities.

- We are working with partners on future solutions.

HiRel / Aerospace

- Space exploration, solar sensors for satellites, radio applications in (military) aviation.
- Very high quality and reliability demands.
- Long lead times and low volumes, but very high commercial value.
- We are working in a wide range of projects, mainly in Europe.

Customer categories

Our main focus is on Fabless Companies and OEMs (Original Equipment Manufacturers).

Fabless Companies, which are among the fastest growers in the industry, are even more motivated to protect their know-how. As a service provider, we are never in competition with Fabless Companies, so their intellectual property is maximally protected.

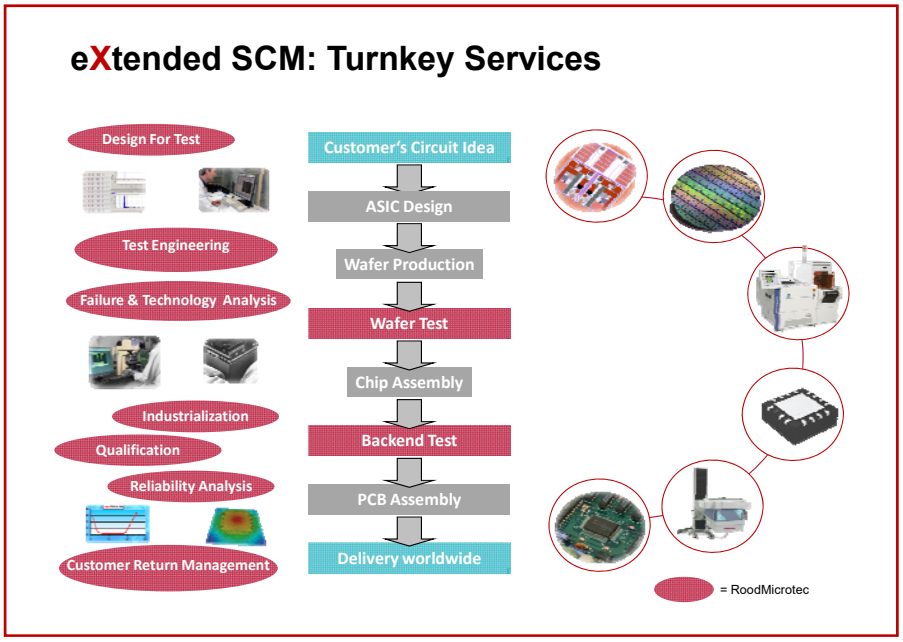
OEMs are becoming ever leaner and are contracting out their non-core activities, including semiconductor manufacturing facilities. It is vital for them to have a continuous supply of reliable highly qualified chips. They also often require tailored solutions. We are uniquely qualified to meet this requirements. Protection of specific features of their products may play an important role.

Our business units

Supply Chain Management (SCM) / eXtended SCM

RoodMicrotec provides comprehensive services, from the beginning of the development process (together with design partners), all the way up to delivery to its customers, including engineering support, test engineering, wafer test, assembly (through partners), final test, qualification & reliability investigation, failure & technology analysis and logistics.

RoodMicrotec handles the complete (turnkey) industrialisation of ASICs from GDSII data up to the final product including all automotive-specific Quality Assurance activities.



Test Engineering

Complete test solutions for a wide range of devices like sensors, mixed-signal, digital, analogue or RF ICs. Carrying out characterisation, production and qualification to the highest standards as it is required by the automotive and high-reliability sectors. Extensive know-how on several tester platforms.

Test Operations

Complete semiconductor segment is covered, with focus geared towards wafer and semiconductor component tests. The customers include OEMs, Fabless Companies, distributors, IDMs and other customers in the automotive, industrial, healthcare, telecommunications and HiRel markets.

Failure & Technology Analysis

RoodMicrotec's extensively equipped failure & technology analysis laboratory is capable of providing failure, construction and qualification-related analysis of all kinds of electronic parts like wafers, integrated circuits, discrete components, electromechanical components, printed circuit boards and complete printed board assemblies. The various types of analytical investigations can be performed as part of a reliability assessment, including focused ion beam (FIB) services and consulting and/or line surveys concerning electrostatic discharge (ESD) and certification of ESD materials.

Qualification & Reliability Investigation

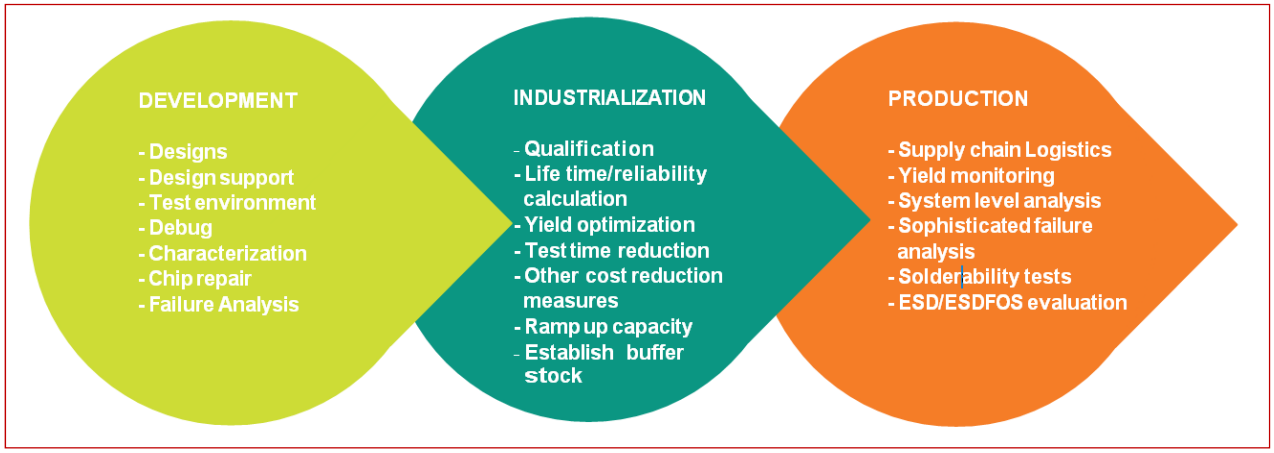
Electrical/electronic qualification of customer components under extreme conditions such as climatic and temperature changes as well as vibration and mechanical shock.

Optical and mechanical qualification focuses on image sensors (digital photography, high speed image processing, X-ray technology) and on mechanical investigations of semiconductors on boards.

Automotive Competence Centre (ACC)

Our 'virtual' ACC team consists of members of different business units with the goal to strengthen knowledge within the company and market it as a service. This team is fully equipped with the fundamentals required for the automotive industry and their projects.

Our services for the product life cycle



Shareholder information

Listing

RoodMicrotec N.V. is a public limited liability company with its registered office in Zwolle, the Netherlands and has a listing on the Euronext Amsterdam Stock Exchange since 1986 for shares and warrants:

- Shares, ISIN CODE : NL0000440477
- Warrants series III,ISIN CODE: NL0011556972, exercisable until 31 December 2018, exercise price EUR 0.21

RoodMicrotec NV has secured bond listed on NPEX The Hague since 2014 under ISIN code NL0010811030.

Major Holdings in Listed Companies Disclosure Act

As at December 2016 RoodMicrotec has received the following reports in the context of the disclosure requirements of the Major Holding and Capital Interests in Securities-Issuing Institutions pursuant to the (Dutch) Financial Supervision Act (Wft):

	Percentage	Date reported
Kuikens B.V./ M.H.B. Kok	11.21%	2 May 2014
Sitimo Ltd	5.61%	30 December 2016
P.C. van Leeuwen	5.48%	2 November 2015
Ph.M.G. Nijenhuis	4.97%	29 December 2016
W.L. Kemper	3.12%	26 August 2016

Changes in the number of shares (x 1,000)

Position as at 1 January 2016	Position as at 31 December 2016
54,411	63,411

At 31 December 2016, the company held 4,100 of its own shares (2015: 4,100).

Regulation to prevent insider trading

We comply with the disclosure and notification requirements in the Rules on preventing market abuse and on operating in markets in financial instruments in accordance with Article 5.4 of the Wft (Financial Supervision Act) and the Decree on Market Abuse (Besluit marktmisbruik Wft). A broad circle of employees and consultants have signed a declaration binding them to abide by these insider rules. The members of the Board of Management and the Supervisory Board also comply with the disclosure requirements of Major Holdings and Capital Interests in Securities-Issuing Institutions pursuant to Wft. The Netherlands Authority for the Financial Markets (AFM) monitors compliance with these statutory provisions.

Dividend

So far, we have not distributed any dividend since our financial position excluded it. The management prefers to allow the company to grow and further improve its financial health over the next few years. The management prefers to use the company's own resources to finance growth, and strives to raise the market value of the share through such growth. In the next few years, we will seek a balance between the intended debt reduction, essential investment and a fair return for investors. The Board of Management proposes in view of the negative results not to distribute any dividend for the 2016 financial year. Our priority is balanced debt management without jeopardising growth.

Investor relations

We are well aware of the importance of active and open communication with our stakeholders. For this reason, since 2006 we have pursued an active investor relations policy through meetings and conference calls with press, analysts and investors.

High on the agenda not only for this year but also the next few years is intensifying the communication with our shareholders and bondholders. This is partly in view of our bond loan issue in 2014, which has raised the number of stakeholders in RoodMicrotec greatly. In this context, we are organising meetings for our shareholders and bondholders when expedient.

As in the past years, we will again raise our profile in 2017 by organising seminars highlighting our core activities and the corresponding services to Fabless Companies and OEMs. The objective is to communicate our specific knowledge and share it with our customers and partners. We will further intensify our focus on publicity for all areas.

Communication with the various target groups is also done through the company's website, www.roodmicrotec.com, and our newsletter.

Liquidity provider

In order to promote trade in the RoodMicrotec N.V. share and to optimise the company's relationship with its shareholders, NIBC Markets N.V. (former SNS Securities N.V.) in Amsterdam has been engaged as liquidity provider.

Analysts

The company does not pay fees to analysts for preparing reports; analysts' reports are evaluated only for factual inaccuracies.

Annual general meeting of shareholders 2016

The report of this meeting may be inspected on the website.

Financial agenda

8 June 2017	Annual general meeting of shareholders
9 June 2017	Annual bondholders meeting
6 July 2017	Publication sales figures first half 2017
24 August 2017	Publication interim report 2017
24 August 2017	Conference call for press and analysts

Vision and mission

Vision

Two major changes in the world will be of great importance for the future of our company: increasing outsourcing of activities and the fact that we are living in a technology driven world. We anticipate that an increasing number of product design companies will focus on the segments in which they have a strong position, but also that many of these often vertically integrated companies will outsource non-core activities to rationalise their operations. Such activities would be supply chain management (SCM), turnkey solutions, testing, assembly and engineering.

Rapid technological innovation e.g. IoT (Internet of Things) is driving growth in the semiconductor industry. More and more people are connected to each other and to equipment. Equipment is also connected to and communicating with other equipment. And this is only the beginning. We are entering the fourth industrial revolution: Industry 4.0, the collective term for embracing a number of contemporary automation, data exchange and manufacturing technologies. In this context the automotive and industrial markets will be growth engines for the semiconductor market. In the automotive sector the main drivers are electric cars, connected cars, autonomous driving and car-to-car communication.

The developments described above will create a market for specialised service providers focusing on supporting leaner OEMs and Fabless Companies. We are such a specialised service provider, and we have the knowledge to offer these OEMs and Fabless Companies high-quality products, both independently and within our Supply Chain Management. This forms the basis for our growth potential.

Mission

To be a knowledge and technology driven service provider in the field of modern devices that is able to handle the whole chain for complex requirements as well as individual services.

SWOT analysis

Strengths

- A leading position as SCM partner for Fabless Companies and OEMs in Europe within the automotive and industrial sectors.
- Good market penetration in Europe
- Highly experienced, excellent knowledge, flexible and creative
- Customer know-how is very well protected
- Open for partnerships and collaboration throughout the whole supply chain
- State-of-the-art equipment

Weaknesses

- Size of the company
- Presence outside Europe
- Limited brand awareness
- Poor financial net result
- Cash position

Opportunities

- Growing importance of technological applications and technology based connectivity
- Long-term contracts in our focus sectors
- Consortiums created in order to develop new technologies and applications
- Publicly funded projects
- Growing automotive and industrial markets

Threats

- Projects delayed by customers
- The risk that the development of new products also moves to Asia
- General semiconductor production in Europe will continue to decline in relation to Far East
- The cyclical nature of the semiconductor market
- The tight labour market for highly qualified specialised personnel

Targets

Quantitative

- Sales growth allows us to invest in the expert knowledge in the company and so bring about essential cost reductions.
- Our long-term objective is a substantial growth in turnover, whereby we expect that in 2020 our turnover will approximately be 75% higher compared to the total turnover of over EUR 10 million in 2015.
- EBITDA to rise to at least 10-15% of sales.
- Working as we do in a high-tech environment, investments in production equipment and innovation are vital in order to be able to provide the desired technological solutions.
- EBIT to rise to 5-10% of sales.
- EBIT is the benchmark for the profitability of our operations. It is highly dependent on the internal efficiency of the company. We therefore strive to continuously optimise our operations.
- Net result of between 4% and 10% of sales, which we only can achieve if we raise production volumes, sales and efficiency.
- A strong solvency ratio of between 38-50% helps us to strengthen confidence among customers, to guarantee continuity, to obtain loans and secure growth.

- We strive for a working capital of a gross margin between 1.0 and 1.5. As a service provider and project organisation this is a key element of our balance sheet. We must be able to secure sufficient funding to invest promptly in projects. Working capital is therefore vital to our future growth.

- The debt ratio (net interest bearing debt divided by EBITDA), our target is between 1.0 and 4.0, is important for growth financing and for obtaining long-term projects. This ratio gives us a solid position that can be defended vis-à-vis the bank syndicates.

Qualitative

- To take full responsibility as a supply chain specialist for every step in the supply chain. This means that we will be involved on a long-term basis in the whole project, from the very beginning up to mass production. This will bring us far more predictable and stable recurring revenues.

- To improve brand awareness of RoodMicrotec. Being a relatively small company is not a problem as long as the company is well known and recognised in the market.

- To be an important player in the automotive and fourth industrial revolution (Industry 4.0 and IoT) by becoming one of the preferred partners in various consortiums that are developing new technologies and applications and by increasing our scale through partnerships. We can achieve this by holding on to our key values (knowledge, flexibility and creativity.

Strategy

- We will remain focussing on automotive and industrial markets to grow further in both sectors.

- We will continue to work with Fabless Companies to show that RoodMicrotec is a competitive SCM partner and encourage them to strengthen the partnership with our company.

- We will continue to work with OEMs to show that RoodMicrotec can offer competitive eXtended SCM in conjunction with design companies.

- We will intensify our focus to look for smaller, faster turnaround opportunities in Failure & Technology Analysis, Qualification & Reliability Investigation and Test Operations.

- We will continue to strengthen our internal quality system through maintaining the certification according the version 2015 of ISO 9001, in addition with focus on risk assessment, which is especially important for automotive customers.

- For further strengthening our technical position for automotive, industrial, Industry 4.0 and IoT we will invest in new high-technological equipment to be able to service the market.

The above items will result in a good combination of long-term contracts with long lead times and short-term orders with short lead times. In future we certainly need short-term orders to generate cash flow while continuing to focus on long-term contracts, which will bring much more stable and predictable recurring revenues and underpin our role as the supply chain specialist.

Furthermore, we will:

- Establish direct contact with Tier 1 customers as an ASIC provider.
  This will enable us to take on more of the tasks in the complete flow, generating higher sales volumes.

- Strengthen relationships with customers, suppliers and appropriate partners (foundries, assemblers, design houses, OEMs and system houses). This will make us stronger as well as a better known and important player.

- Continue to focus on development of new technologies and special requirements from the market, such as optical sensors, MEMS and RF solutions for the automotive and industrial requirements.

- Strengthen our brand awareness in the market by organising seminars on qualification, failure analysis, outsourcing and supply chain activities.

Board of Management

Martin Sallenhag, CEO & Director

Martin Sallenhag joined RoodMicrotec in March 2015 as CTO and was appointed CEO and Managing Director in June 2016. He is responsible for the overall management of the company together with COO Reinhard Pusch and specifically managing the engineering departments, quality, human resources, purchasing and IT. He has over 25 years of experience in the semiconductor business in various management positions within Samsung Electronics, Dialog Semiconductor and Ericsson. He holds a Master of Science degree in Electrical Engineering from Lund University with focus on Mixed Signal ASIC design.

Reinhard Pusch, COO & Director

Reinhard Pusch joined RoodMicrotec in July 2004 as CSO and Managing Director and was appointed COO and Managing Director in June 2016. He is responsible for the overall management of the company together with CEO Martin Sallenhag and specifically managing the sales organization, supply chain management and funded projects. He has 27 years of experience in qualification and test of electronic and optoelectronic components for the telecommunication market. During his time in Alcatel he has experience in various management positions.

Arvid Ladega, CFO

Arvid Ladega joined RoodMicrotec in November 2016 as CFO. He is responsible for the finance department with special focus on investor relationships with the main investors in Holland. He has extensive experience as CFO in the industrial sector, having served in that capacity for almost seven years at Turn Key Pipeline Services B.V. and five years at Bartels Engineering, both in the Netherlands. He also held a senior financial position at Wasco Coatings Europe, subsidiary to its Malaysian listed holder. Arvid has a bachelor degree in economics.

REPORT OF THE BOARD OF MANAGEMENT

Developments within RoodMicrotec

Our total sales increased by 2% despite the somewhat negative development of the European semiconductor industry (97% of RoodMicrotec sales is realised in European countries). Total industry sales in Europe were $ 32.7 billion in 2016, a decrease of -4.5% compared to the 2015 sales. Worldwide semiconductor industry showed a growth of 1.1%.

Although our total sales of EUR 10.5 million (2015: EUR 10.3 million) were lower than expected, 2016 was again a year marked by positive developments. In 2016 the order value increased by 20%. The quote portfolio remains on a high level and a major part of the offers are converted into orders (hit rate). In 2016, the book-to-bill ratio was above 1.0 in all quarters.

Our strategic move to larger and long-term projects is yielding more stable and predictable recurring sales. In 2016 we again succeeded in concluding a number of long-term contracts with reputed companies in our focus sectors.

While we have talked of 'orders' in recent times, the term 'contract' would be more accurate. A contract is concluded for a specific period and for a certain estimated volume. During the term of the contract we receive specific orders for work to be performed by us, which we subsequently invoice.

A contract starts during the development phase with an order for e.g. engineering. At that stage we already send invoices for work completed, but these concern relatively small amounts. Completing the development phase the projects enter the industrialisation phase with e.g. qualification processes. Finalising theses phase then volume production starts. In this phase turnover will vary, but is expected to rise year-on-year. We estimate that each contract concluded so far will generate significant recurring revenue per year after reaching the volume production phase.

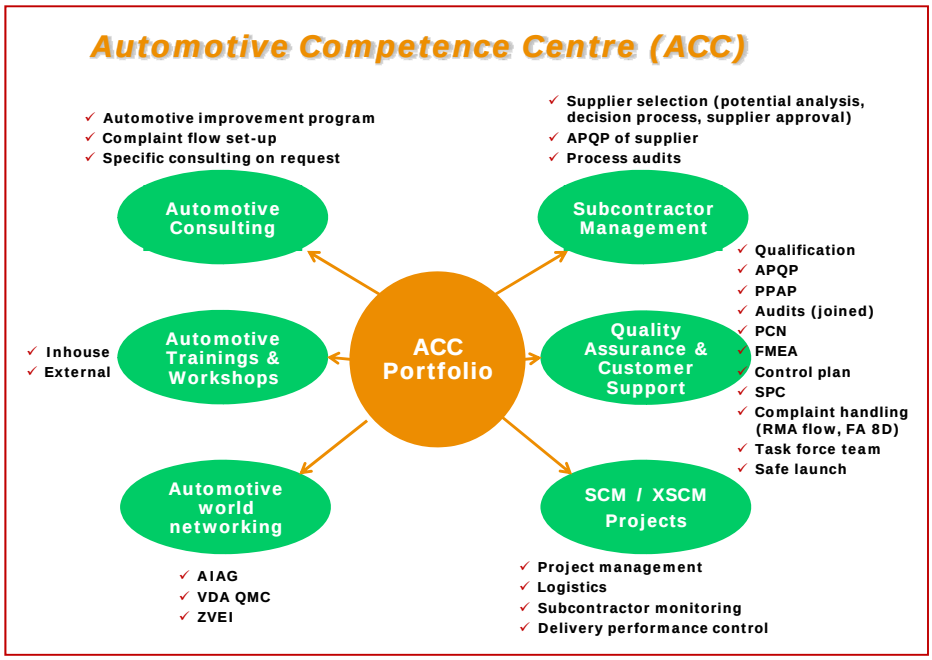
Automotive

Our Automotive Competence Centre, a virtual group, consisting of specialists of all RoodMicrotec competence departments, is able to offer a new and enlarged service portfolio especially for the demands to quality and safety for automotive projects.

RoodMicrotec aims to be the first point of contact for automotive customers wishing to subcontract individual services such as component qualification, or searching for a component manufacturer to develop a new component and deliver it to the corresponding customer's site under agreed accountability. The selection of suitable subcontractors for the manufacturing of wafers, assemblies (enclosures) and component testing can be coordinated together with our specialists.

Full quality assurance, from quality planning and component release through to customer feedback/complaints processing is being handled in cooperation with all competence centres at RoodMicrotec and – as required – any partners brought in to deal with specialist areas.

Taking over the full responsibility for supplier management which can also include on-site process audits, consultancy services, trainings courses and workshops to automotive customers is a further element in our portfolio.



Our efforts resulted in further acceptance and recommendation from the automotive sector:

- Two of our automotive projects finalised the development phase and are now entering the industrialisation phase.
- With a German automotive and industrial client a significant new SCM contract has been secured, sales volume is due to generate EUR 4.5 million over the next 10 years.

Industrial

Industry 4.0 is migrating into most of the industrial applications. It is mainly based on different sensors detecting all kind of information as current, voltage, magnetic, light, temperature, shock, humidity, etc. combined with an intelligent integrated circuit and a transmission function RFID, ZigBee, etc.

There is an increasing demand on such Mixed Signal integrated circuits to reduce space, save energy or create faster performing systems.

Beside the framework agreement signed with Rhode & Schwarz for Supply Chain Management several additional SCM projects for new and existing customers could be secured.

The sales channel agreement with the Swiss company Altec Electronic AG is bearing fruits. These projects were industrialized during the first half of 2016 and started to production phase in the second half of 2016 and will go for 10 years.

The 10-year contract with a sales volume over this life cycle of approx. EUR 9 million which we signed in 2015 with an OEM (Original Equipment Manufacturer) to engineer a new product, has finished the engineering phase and is reaching the end of the industrialisation phase. The volume production, mainly testing, will start in the second half 2017. The speciality in this project is the long industrialisation phase combined with a product life time with more than 20 years.

Healthcare

The order we received for test development for a first biological chip in a series of new products has passed the development phase and is entering the industrialisation phase.

Further activities started in 2016 regarding intelligent implants, especially developing new test methods for encapsulated ASICs for in-body applications.

Publicly funded projects

In the reporting year we could gain the European / German funded project EuroPAT-MASIP and two additional projects are still pending for approval.

We want to increase our participation at publicly funded projects in the fields of Automotive, power electronics, Industry 4.0, IoT and biotechnology. Being partner in a consortium with leading technology companies enables us to new market potentials and know-how, also we have short ways to key players of the market.

Two publicly funded projects reported earlier successfully run their first year at RoodMicrotec. We are making big steps in those projects towards industrialisation of technologies which will be developed in these projects.

For the year 2017 we expect several new publicly funded projects in different fields. We want to expand our possibilities in developing new technologies so we can provide new services to the market.

Running Project ParsiFAL 4.0

The ParsiFAL 4.0 project started on 1 November 2015. The aim is to realise a thin flex foil with integrated electronic chips for sensors, microcontrollers, wireless interfaces and energy harvesting components for Industry 4.0. It is an important step forward that will have applications in many different markets. The project is approx. 50% publicly funded by BMBF (Bundesministerium für Bildung und Forschung/Federal Ministry of Education and Research).

The first application will be for Festo AG & Co.KG and will be used as a flexible control unit for independent automation equipment (smart sensor system). The second application for Bosch will be a flexible foil used as an information label on shipments, especially in the food and pharmaceutical industries, whose products are very sensitive to high temperatures and vibration. With several sensors the conditions during transit can be recorded.

The partners are RoodMicrotec GmbH, Festo AG & Co.KG, Bosch GmbH, Hahn-Schickard Gesellschaft für angewandte Forschung e.V., Institut für Mikroelektronik Stuttgart, Infineon Technologie AG, Micronas GmbH, Stackforce GmbH, Würth Elektronik GmbH Co & Co.KG.

Running Project ScaleIT@Shopfloor

The negotiations for the ScaleIT@Shopfloor project were finalised in December 2015; the project started on 1 January 2016 and will run for 3 years.

The project should prepare high-tech companies for the start of Industry 4.0. Currently there are still many manual processes in high-tech companies' production lines. In Industry 4.0, production should have a high degree of automation and intelligent networking. That is why with our partners in the project ScaleIT@Shopfloor we want to achieve solutions in the area of intelligent test devices and also process concepts which can be introduced into production.

In the first step our partner 'Feinmetall' will produce an intelligent test card, which we will implement at an intelligent electronic test system workstation that we will build. This workstation should interact with the test card from Feinmetall and also with all our IT and electric test system. The benefits from this system are ad hoc data, e.g. necessary information for the operator, status for the ERP system, and data for the quality system or staff. Another important point is that we automatically get the conditions during operation, like hit-downs, contacts, operational temperature and also decisions about calibration or maintenance.

For RoodMicrotec the funded ScaleIT@Shopfloor project is a great opportunity to be one of the leading companies in our sector in Industry 4.0. Through the coalition of companies in the project, we see the project as being very well matched to our goal.

The partners are:
RoodMicrotec GmbH, Bull GmbH, Carl Zeiss 3D Automation GmbH, digiraster GmbH, Feinmetall GmbH, Karlsruhe Institute of Technology (Pervasive Computing Systems / TECO), microTEC Südwest e.V., Ondics GmbH, Sick AG, Smart HMI GmbH, Universität Stuttgart, Institut für Arbeitswissenschaften und Technologiemanagement IAT, Fraunhofer Gesellschaft zur Förderung der angewandten Forschung e. V., Fraunhofer Institute für Arbeitswirtschaft und Organisation IAO.

Starting Project EuroPAT-MASIP

With the Project EuroPAT-MASIP (European Packaging Assembly and Test pilot for Manufacturing of Advanced System in Package) RoodMicrotec has also been allocated EUR 850,000 in public funding over the next three years, approved by the ECSEL Joint Undertaking, a public/private partnership for the development of the European electronic components and systems industry. The organisation has granted a total of EUR 7.2 million in EU funding for the EuroPAT-MASIP project, for which RoodMicrotec is one of the 27 submitting partners. The proposed project was deemed to make a significant contribution to European competitiveness and job creation in the electronics industry.

The funded project involves the development of ASICs (Application Specific Integrated Circuits) for a MEMS gyroscope, for an image sensor, and for a Radio Frequency (RF) ASIC. Through its participation in the project, RoodMicrotec will be able to refine its existing expertise in all three areas. Project is due to start mid 2017. Special task for RoodMicrotec in this project is the project leadership for TEST.

Partners of the submitted project are:
RoodMicrotec GmbH, 3DiS Technologies, Advanced Vacuum Distribution Europe AB, Afore Oy, AMIC Angewandte Micro Messtechnik GmbH, Berliner Nanotest und Design GmbH, BESI Austria GmbH, BESI Netherlands BV, Commissariat al Energie Atomique et aux Energies Alternatives, Connaught Electronics Limited, ELMOS Semiconductor AG, EV Group E. Thallner GmbH, Fraunhofer Gesellschaft zur Förderung der angewandten Forschung e.V., INNOSENT GmbH, KETEK, micro analog systems Oy, MURATA Electronics Oy, Nanium S.A., Nokian Tyres plc., NXP Semiconductors France SAS, PAC TECH Packaging Technologies GmbH, Packaging SIP, Semilab Felvezeto Fizikal Laboratorium Reszvenytarsasag, SENCIO BV, Silicon Radar GmbH, Spinverse Innovation Management Oy, Teknologian tutkimuskeskus VTT Oy, TexEDA Design GmbH

Collaboration / partnerships

We have concluded major collaboration agreements with several European leading and most successful Fabless Companies (design houses). These design houses develop many high-grade microchips every year. Due to their growth, the design houses felt a need to select a specialist supplier who could support it in manufacturing high-grade microchips (high-reliability chips) and in their growth process. Our experience, knowledge and infrastructure, including our equipment, proved to be a perfect match to the design house's needs. Depending on the product (the chip), we will provide both individual services and backend manufacturing services.

In 2016 we announced our partnership with Altec Electronic AG, Switzerland by signing a sales channel agreement as well as the framework agreement regarding Supply Chain Management with Rohde & Schwarz. Cooperation with Chinese and European market leaders in the automotive and industrial industry has been started with first orders. In addition other well-known companies and institutes showed interest in forming a partnership with us.

These developments and also the fact that we are really accepted by a number of big players in the market (assembly houses, wafer fabs and Electronic Manufacturing Services Companies) proves that we are recognised as a serious player. This, along with concluding contracts and receiving orders, is very important for our reputation and our visibility in the market, and therefore crucial for our future growth.

Other developments

We strengthened our know-how in different areas such as project management, design and management and the Automotive Competence Centre. We also have some new highly experienced and talented people on board. All in all we have a strong, dedicated and ambitious team.

In order to become a well recognised player it is necessary to increase our brand awareness. As the Dutch proverb *onbekend maakt onbemind* (unknown, unloved) illustrates. Last year we worked hard on increasing our visibility by publishing several technical articles, by giving presentations around Europe during exhibitions and conferences, by publishing newsletters and by organising seminars. Our seminars are a growing event - in our first seminar last year we had again 40 attendees. A second seminar has been held in Switzerland in cooperation with IG exact (Network of Excellence in Applied Electronics and Technologies) and also here the 45 participants gave us positive feedback.

Market development and trends

Rapid technological innovation is driving growth in the semiconductor industry. As more and more cutting-edge devices emerge, such as electric cars and hybrids, medical applications, smart phones and wearable devices, the number of semiconductor components in daily use is ever expanding. The advance of digitisation and the IoT will further increase demand for semiconductor products. Taken together, these factors will drive solid growth for the global semiconductor market over the next five years.

The RoodMicrotec management team is very positive about the future development of the company, as five of six important projects in the key strategic focus automotive and industrial/healthcare sectors will enter the industrialisation or the production phase in 2017. These projects will generate a combined turnover of up to EUR 10 million per year when they have all been ramped up for full production. Industry wide, growth of semiconductor businesses in Europe saw a 4.5% decrease, which is due to get back on track with a projected 3.6% increase in 2017 (WSTS Forecast Summary February 2017). The management therefore reinforces its outlook for an increase in sales turnover of 75% by 2020.

PwC's analysis of the global semiconductor market of May 2015 suggests that between 2014 and 2019 billings will increase by US$ 96 billion to US$ 432 billion, corresponding to a compound annual growth rate (CAGR) of 5.2%. This analysis assumes that there won't be an economic downturn in the period to 2019 and that the technological progress will maintain its high pace and that the scaling down of semiconductor feature sizes will continue.

In Asia, China will continue to expand its semiconductor market leadership and increase its market share. In contrast, Japan will grow only by an annual rate of 1.5% in the projected period. Europe and the Americas will see moderate annual growth rates to 2019 of 3.9% and 4.5% respectively. For the rest of the world, growth will be concentrated in Taiwan, South Korea and Singapore.

The following key findings in the PwC report support our strategic choice for our focus markets:

1. The automotive and industrial markets will both drive significant growth in demand for semiconductors.

2. The IoT is the next growth engine for the semiconductor industry, particularly for the sensor, communications and industrial segments.

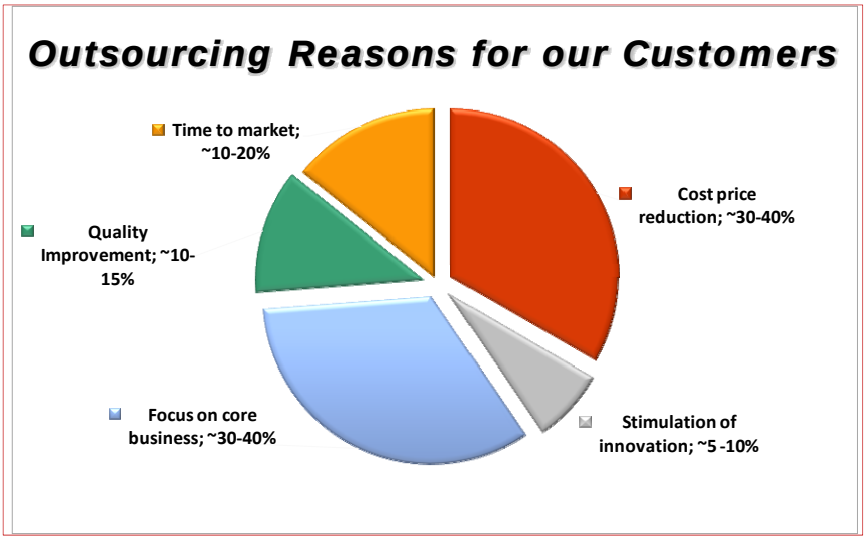
Outsourcing

To best combat competition from Asia more and more medium-sized companies are working together to raise their joint products and services to a higher level. OEMs still developing ASICs or other chips in-house will increasingly outsource this work to independent service providers like RoodMicrotec. We expect that this outsourcing trend continues. Partly due to our infrastructure, we are in an excellent position to profit from this.

We are highly experienced in a wide range of services, such as test engineering, failure & technology analysis and qualification & reliability investigations. With shock proofing, thermal load and electrostatic discharge tests, we are uniquely able to investigate whether products will function under all conditions and predict their expected life.

Another benefit is that as an independent service provider we are never in competition with the Intellectual Property (IP) of other companies; in fact we can protect our customers' IP.

Outsourcing of activities by OEMs creates a win-win situation for both parties. By transferring ASIC development and production to us, OEMs can focus on their core activities: application and sales of mechanical and electro-technical products. For OEMs, outsourcing also means considerable cost savings, quality improvements and shorter time-to-market. The projects outsourced to us will run several years, providing us with a solid base and predictable sales.



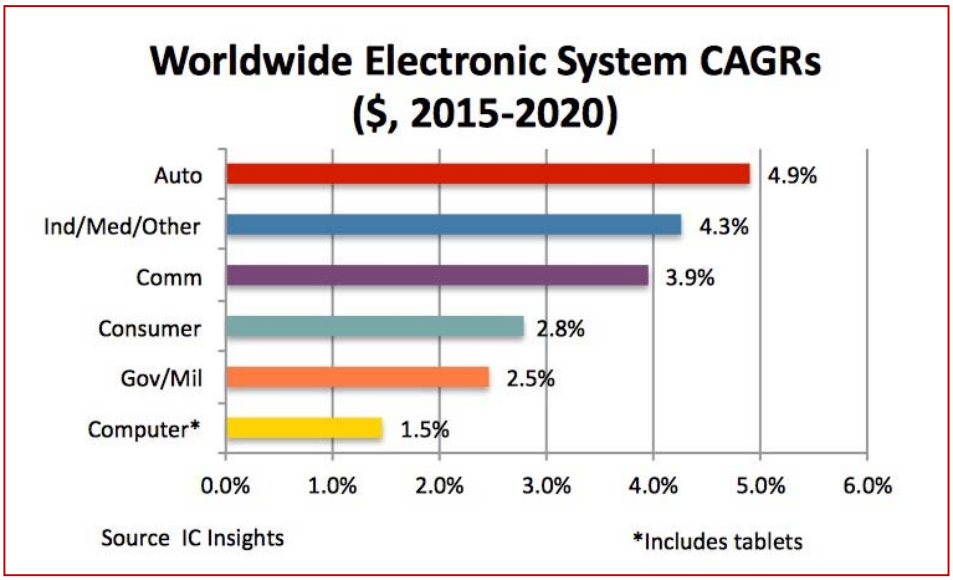
Automotive

Although conventional cars are still the most important driver for the semiconductor industry, the worldwide market for electric cars and hybrids is growing fast. The growth of this market will lead to additional demands on electronic equipment and create a positive impact on the semiconductor industry. PwC expects that the CAGR of semiconductor content sales market will reach 20.5% for electric cars and hybrids in the period to 2019.

Although conventional cars are still selling well, electric cars and hybrids are rapidly gaining ground. Furthermore, the semiconductor content of cars is not only growing quickly, as they rely on greater intelligence, connectivity and sophisticated electronics (autonomous drive, car-to-car communication), but the nature of the automotive industry model is also shifting in new directions. Conventional cars will eventually disappear. Concepts of product ownership will give way to service propositions to deliver mobility to consumers who will pay only for what they use. Creating and managing the systems to deliver that mobility will depend heavily on complex electronics.

Semiconductor companies focusing on the automotive industry as a key market will need to have a laser-sharp focus on quality from product design through to production and will require stringent program change control in order to profit from the growth opportunity the automotive sector offers *(source: PwC)*.

Within our Automotive Competence Centre we have established our own competencies in the automotive field to fulfil the high reliability and safety requirements automotive clients are asking for. We are a partner in the EuroPAT-MASIP-project which is dedicated towards the automotive market which will gain further experience, knowledge and further contacts within this market segment.



Industrial (Industry 4.0, IoT) / Healthcare

The growth of industrial semiconductor sales is generally accepted to show a high degree of correlation to GDP growth. As the economic recovery progresses in the period to 2019, it is therefore likely to see high growth in the industrial segment. The expected growth rate will be 4.3% CAGR in 2015-2020 (Source: IC Insights 8th November 2016).

Within the industrial applications medical devices will also see a growth in demand and applications. With the development of connected medical devices, health services are gradually shifting from a clinical setting to the home environment. From fitness trackers that monitor activity to flexible patches that can detect heart rate, body temperature and more, these applications will fuel capital investment in healthcare and contribute to the growth in industrial applications of semiconductors.

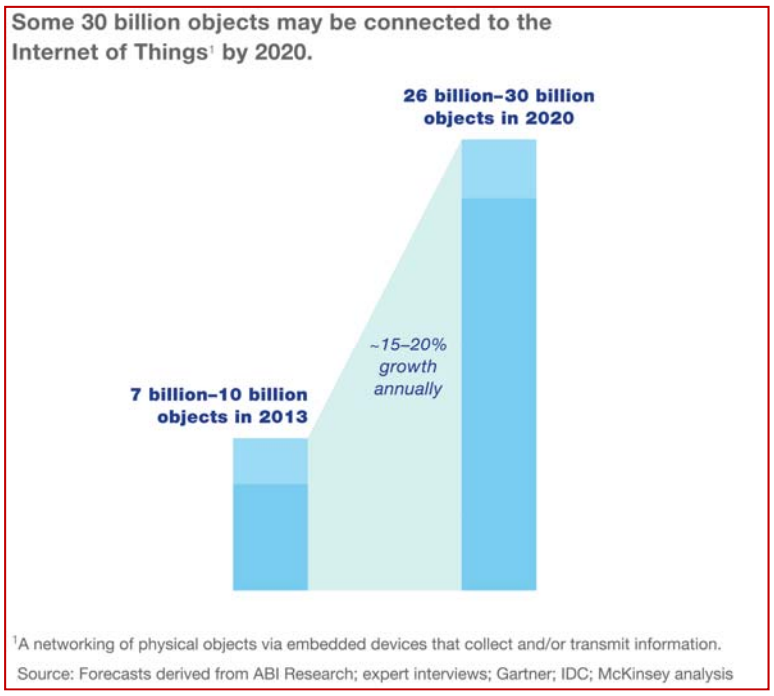
The basic principle of Industry 4.0/IoT is that by connecting machines, equipment and systems, businesses are creating intelligent networks along the entire value chain that can control each other autonomously.

Characteristic for industrial production in an Industry 4.0 environment are strong customisation of products under the conditions of high flexible (mass) production. The required automation technology is improved by the introduction of methods of self-optimisation, self-configuration, self-diagnosis, cognition and intelligent support of workers in their increasingly complex work. Some examples for Industry 4.0 are machines that can predict failures and trigger maintenance processes autonomously or self-organising logistics that react to unexpected changes in production.

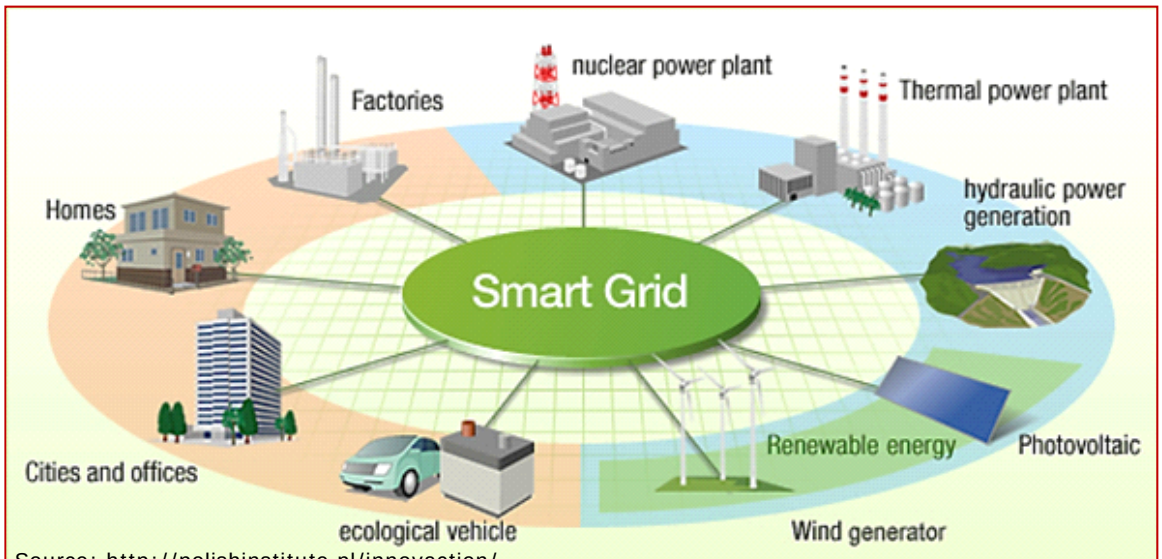
IoT will be the next growth engine for the semiconductor industry. In addition to Industry 4.0, IoT describes the complete world of different sensors within the electronics and is connected to detect and control temperature, humidity, light, electricity, etc. in all kind of different applications in the home (electricity, refrigerator, light, body, etc.), in cars (car-to-car communication, internal car communication), in agriculture, in healthcare and elsewhere.

In each case, the connected devices that transmit information across the relevant networks rely on innovations from semiconductor players — highly integrated microchip designs, for instance, and very low-power functions in certain applications. The semiconductor companies that can effectively deliver these and other innovations to OEMs and others that are building Internet of Things products and applications will play an important role in the development of the market. That market, in turn, may represent a significant growth opportunity for semiconductor players.

Analysts have predicted that the installed base for Internet of Things devices will grow from around 10 billion connected devices today to as many as 30 billion devices (or more) by 2020. Each of these devices will require, at a minimum, a microcontroller to add intelligence to the device, one or more sensors to allow for data collection, one or more chips to allow for connectivity and data transmission, and a memory component. For semiconductor players, this represents a direct growth opportunity *(source: McKinsey report Winter2015).*



In this field we are also active whilst working on smart metering/smart grid together with one of our main customers. This is also for us a strong expanding market.



Source: http://polishinstitute.pl/innovaction/

High customer expectations

In the semiconductor industry, and especially the sectors we focus on, customers have high expectations not only for reliability and quality. They also expect excellent service, on-time delivery, know-how and support. And in addition to our strategy in which we contribute more actively to new product development (co-creating and co-operation) and in which we are responsible for the supply chain management, they also expect us to come up with pro-active solutions during the whole process. For these customers we are the experts. As a consequence we are responsible for each step in the process. We are fully aware of this and are acting accordingly. The way we have set up the procedures in our Automotive Competence Centre as well as in the entire company is completely in line with this urge for responsibility.

Networking

We do not need to be very big, we need to have strong partners – therefore in our industry it is essential to be part of networks and being active in them. For that reason we have partnerships or work very closely with inter alia institutes, like the Fraunhofer IIS, wafer fabs, assembly houses, design houses and universities (Ulm, Stuttgart, Karlsruhe, Regensburg, Duisburg) as well as industry groups and clusters. The publicly funded projects mentioned earlier are a good example of a consortium of partners. We each have a great deal of experience and knowledge and by sharing this it makes everyone stronger and this may lead to more innovations. One plus one equals more than two.

Quality management

Our company's success is the success of our customers, employees and investors. This is the main guiding principle of our quality management system.

This requires continuous improvement of quality management and its processes and procedures and demands a high level of dedication and commitment from our employees. Management determines the quantifiable quality objectives for the company with clear and objective evaluation and target cascading for the business units. Following this, it defines targets for the business units and business unit managers.

It is very important to focus more on the quality management system using the quality relevant automotive tools such as APQP, PPAP and RMA. Process instruction and introduction within RoodMicrotec is an intensive process, and training is needed to implement the processes effectively and successfully. The devotion to the automotive tools is key for SCM projects in the automotive industry. A professional FMEA / Risk Management tool has been installed and is active in use for the new SCM projects started in 2016.

Our integrated quality management system is based on international DIN EN ISO 9001 standards. In addition, our quality management is broadly consistent with the Automotive Specification TS 16949. Our ISO 9001 certification has been renewed in 2016 and adjusted to the new 2015 version of the standard.

RoodMicrotec's laboratories for qualification & reliability investigation (electronic, mechanical and optical qualifications) and failure & technology analysis in Nördlingen and Stuttgart are accredited by the DAkkS, the German accreditation body, as compliant with ISO/IEC 17025, 'General requirements for the competence of testing and calibration laboratories'. This accreditation is valid only for the scope of accreditation which is listed in the appendix of the certificate (PL-12120-01-01 and PL-12120-01-02).

For 2017 the preparation for an AEO (Authorised Economic Operator) declaration is planned.

With the extended use of electronics in automotive applications in general it is important to strive for zero defects. This philosophy has been used within RoodMicrotec in the past as well but will be reinforced in the coming years.

With our products and services, we aim to exceed customer expectations in terms of quality and price.

Human resources and sustainability

Changes, such as poverty in developing countries, demographic changes, globalisation, youth unemployment, climate change and natural resource utilisation issues, are affecting our environment and the people living in it. These forces are shaping our business by creating new markets and opening up new opportunities. They also cause significant risks that need careful management.

Values and sustainability can minimise these risks and master these challenges to optimally leverage emerging opportunities for our stakeholders.

We attach a great importance to good relationships with the group's customers, employees, suppliers, investors, other business partners and the communities in which we are active.

Corporate Social Responsibility and sustainability are therefore intrinsic, integral elements in our local operations. For RoodMicrotec, Corporate Social Responsibility means conducting business with due consideration for climate effects and energy sources, for people and the environment, taking responsibility for the chain in which the company operates. That is why our strategy already includes 'people, planet and profit'. Long-term economic, environmental and social aspects are integrated into our business strategies, while maintaining global competitiveness and brand reputation.

We manage our human resources so as to maintain workforce capabilities and employee satisfaction. We strive to provide continuing further education for all of our employees as appropriate to their tasks. We want to create an environment in which all employees can develop and excel. High priority is given to focused further development of our managerial staff and to attracting new talents for RoodMicrotec. In order to create a performance-oriented

environment for our employees we offer remuneration and benefit schemes depending on company's objectives and individual objectives.

The aim of our environmental policy is to safeguard the environment and human health. The practical aims are to monitor and prevent environmental risks so as to avoid compromising environmental conditions for future generations. As a company we bear a social responsibility that necessitates consideration of environmental issues when assessing processes.

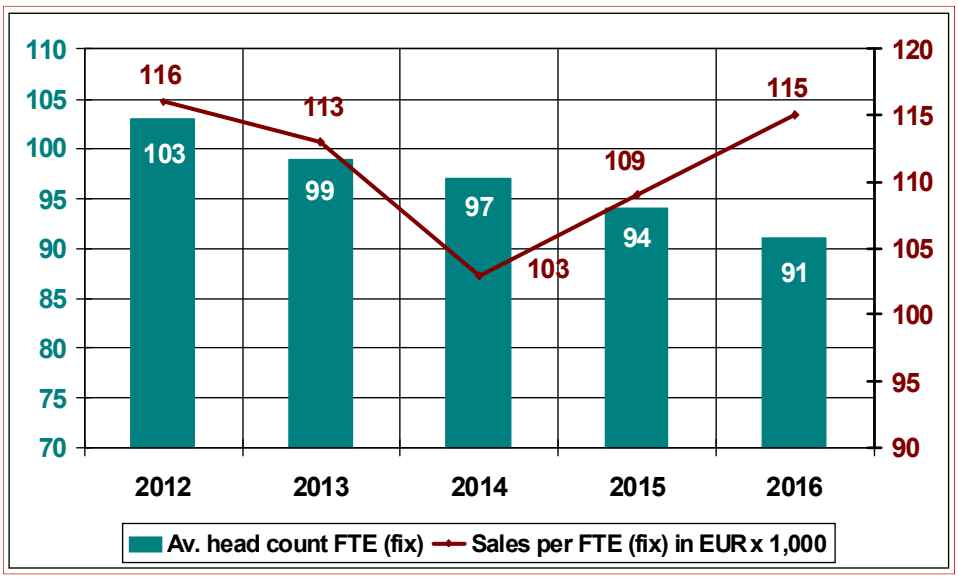
Employees, sales by employee and head count

During 2016 RoodMicrotec continued the consolidation process in personnel and organisation.

In key positions RoodMicrotec hired experienced people to strengthen the position of RoodMicrotec in the market, such as CFO Arvid Ladega, Engin Eser and Alexander Jung in Sales & Marketing, Florian Seibold, Dr. Tobias Zweifel and Björn Hoffmann in Failure & Technology Analysis.

The average number of full-time employees (FTE) decreased by approx. 3% from 94 FTEs in 2015 to 91 FTEs in 2016.

The sales per full-time employee increased by approx. 6% from EUR 109,000 in 2015 to EUR 115,000 in 2016. Our policy is to continue to strive for growth of sales per FTE.



After performing an evaluation in 2015 we discussed the results with our employees so we could take up all inputs and initiated some necessary changes. The next evaluation is planned for the first half of 2017.

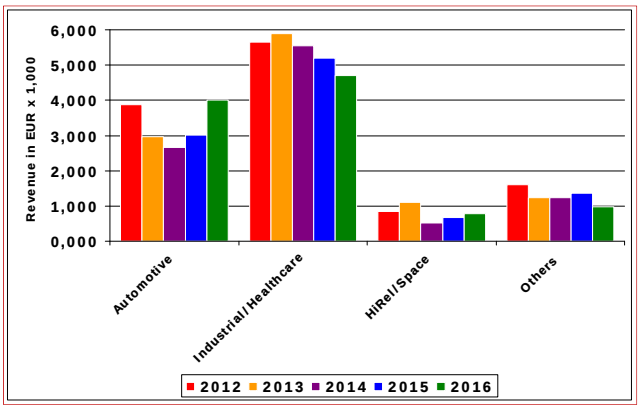
Financial development

Sales and result

Sales saw a limited increase to EUR 10.5 million. The cost of sales was in line with last year, i.e. EUR 1.9 million. This is equal to a gross margin of EUR 8.6 million, or approx. EUR 0.2 more than last year. Total operating expenses were EUR 8.9 million, against EUR 8.8 million in 2015. Personnel expenses increased by EUR 0.2 million mainly explained by a lower capitalisation of internal hours compared to 2015.

Net sales are presented below, broken down by end-user application.

(x EUR 1,000)	2016	2015	approx. change
Automotive	4,013	3,021	+33%
Industrial/Healthcare	4,700	5,201	-10%
HiRel/Space	779	668	+17%
Others	973	1360	-28%
Total	**10,465**	**10,250**	**+2%**



The increase in the automotive market is a result of efforts to consolidate our Automotive Competence Centre and attract large new orders in automotive. Our growth in this sector is very much in line with our strategic goals to expand our activities in this industry, which is being revolutionised by the disruptive technologies of artificial intelligence, automation and the internet of things, driving up demand for bespoke semiconductor products and services.
The industrial/healthcare segment saw a 10% decrease compared to 2015 due to delays of a large order by a Brazilian client in the sector, tied to the economic difficulties in the market. We expect the regained momentum of this project to contribute to a pick-up in sales into 2017.
A solid increase in sales over the HiRel/Space field underlines RoodMicrotec's market expansion into this high-tech field with exceptionally stringent quality standards.
Other sectors have seen a net sales decline which resulted from difficulties in the broader European semiconductor market, and a strategic shift towards the automotive and industrial sectors.

The sales results of the business units were as follows:

(x EUR 1,000)	2016	2015	approx. change
Test Operations	3,727	3,676	+1%
Supply Chain Management	2,077	2,348	-12%
Failure & Technology Analysis	1,494	1,655	-10%
Test Engineering	471	437	+8%
Qualification & Reliability Investigation	2,696	2,134	+26%
Total	**10,465**	**10,250**	**+2%**

Net result showed a loss of EUR 1.6 million (2015: EUR 1.5 million loss).

Financial position

The balance sheet total increased to EUR 14.7 million in 2016 (2015: EUR 13.5 million).

Equity decreased by EUR 0.2 million, from EUR 4.3 million to EUR 4.1 million, which was due to the receipts from the equity line and warrant plans and reduced due to the net loss in 2016. Solvency reduced, from 32% to 28%. The net debt position increased to a level of EUR 2.4 million. Working capital is positive by EUR 0.5 million and showed a slight decrease compared to 2015.

Property, plant and equipment increased by EUR 600,000, as the level of investments was higher than the depreciation. The intangible assets increased by EUR 300,000 as a result of capitalisation of development expenditure for the Automotive Competence Centre.

Cash and cash equivalents stayed at a stable level of EUR 0.7 million.

Research and development

In order to be competitive in our business, RoodMicrotec invests relatively large amounts in (technical) innovations. In 2015 and 2016, RoodMicrotec invested in high technological test systems, internally generated assets in the Automotive Competence Centre (ACC). The ACC has been set up by the company in 2014 in order to be able to offer new services that are required and expected for automotive projects. In of 2016, total investments in capitalised development expenditure amounts to EUR 0.3 million.

Besides the company invested in innovations by means of partnerships in publicly funded projects. In 2016 two projects in the field of Industry 4.0/IoT were running, the next project - EuroPAT-MASIP – starting in 2017 has been secured.

Focus and actions 2017

Whereas last year our main focus was on the automotive sector, which resulted in some major contracts, this year we will still focus on the automotive sector, but will also emphasis on the industrial sector, the second growth segment for the semiconductor industry. Growing demand of industrial applications following the high quality according automotive and/or HiRel/Space requirements will open new opportunities.

Focus

Industrial

In the industrial sector all attention is on the ‘fourth revolution’: Industry 4.0. Based on our knowledge and experience we are well positioned to play a role in these developments. As a partner in two publicly funded Industry 4.0 projects we have good access to all parties involved. This is good for our reputation and brand awareness and gives us a starting point to spread our services to an enlarged customer clientele.
Not to neglect the Internet of Things (IoT) for which double digit growth rates are published by the research institutes in the next years (source: it-markt.ch & IDC; McKinsey)

Automotive

We are a recognised player in the automotive sector, which is a fast growing market that offers us a lot of opportunities. The growth of this market will lead to additional demands on electronic equipment and create a positive impact on the semiconductor industry. For example, semiconductor content per vehicle is 1.5 to 3 times higher in electric cars and hybrids compared to conventional cars.

Actions

- Investment in an Integra Flex test system for complex high performance devices. This will enable us to win new business from existing and new customers.
- New handling system MT9928 for octal testing - with this investment we will establish a unique position in our segment as a service provider to Fabless Companies (design houses) and OEMs.
- Investment in a digital microscope for the business unit Failure & Technology Analysis.
- To strengthen our customer base by focusing on existing customers with high potential and by approaching new strategic customers with high potential.
- Continue to extend our capabilities for products and yield analysis by adding new advanced tools such as Yield-Man.
- To improve brand awareness of RoodMicrotec through:
  - Professional and accessible website
  - Professional valuable articles for customers and other stakeholders
  - Presentations on seminars and a few trade fairs
  - Presence on well selected and dedicated fairs.
- To (continuously) make the difference by:
  - Showing high technical and personal competence
  - Showing innovative and proactive thinking and working
  - Showing responsibility and entrepreneurship
  - Providing solutions and thus having added value.

Outlook 2017

As a result of new announced arrangements and the contracts reported in 2016, RoodMicrotec expects that turnover will increase substantially in the coming years. We expect that in 2020 our turnover will approximately be 75% higher compared to the total turnover of over EUR 10 million in 2015.

With a number of new projects ramping to production during the second half of 2017 we expect to see an increase in revenue and improved results compared to 2016. During 2017 we expect to come to the inflection point where we reach a positive quarterly net profit.

Beyond 2016, the semiconductor market is expected to grow across all regions. WSTS forecasts 6.5% growth globally for 2017 ($360.9 billion in total sales) and 2.3% for 2018 ($369.0 billion) (source: WSTS forecast published February 23, 2017).

Events after balance date

In the beginning of 2017, the following events after balance sheet date occurred:

- Exercise of warrants Series III that resulted in an increase of 31,063 shares (exercise price: EUR 0.21) on 12 January 2017
- Exercise of warrants Series III that resulted in an increase of 8,972 shares (exercise price: EUR 0.21) on 13 April 2017
- On 31 January 2017, 528,392 shares were issued at EUR 0.18, on 28 February 2017, 442,834 shares were issued at EUR 0.21, and on 31 March 2017, 569,872 shares were issued at EUR 0.17.
- On 26 January 2017 Mr. H.J. Bartelink and Mr. J.B. Tuik are elected as members of the supervisory board in an extraordinary shareholders meeting.

Report per Business Unit

Supply Chain Management (SCM)

Profile

In this business unit RoodMicrotec supports customers who wish to launch high-quality semiconductors, in particular ASICs and ASSPs, on the worldwide market. RoodMicrotec provides comprehensive services, from the beginning of the development process (together with design partners) all the way up to delivery to its customers, including engineering support, test engineering, wafer test, assembly (through partners), final test, qualification and reliability, field failure return management and logistics.

RoodMicrotec achieves this by qualifying and testing suppliers as well as products and, on request, executing the entire project management for such processes for the automotive and industrial markets. Our customers are Fabless Design houses and OEM companies.

RoodMicrotec handles the complete (turnkey) industrialisation of ASICs from GDSII data up to the final product including all automotive-specific Quality Assurance activities. RoodMicrotec is capable of managing the process 'end-to-end', but can also provide each individual step separately. On request, RoodMicrotec can supply the complete packaged ASIC with peripheral devices on a board (through a partner).

Key developments in 2016

In 2016 two major automotive projects were run through the development phase and reached successful the industrialisation phase to be ready for production by mid of 2017. Two industrial projects and a BioChip also reached industrialisation phase short before production.

Sönke Hundertmark joined RoodMicrotec on the 1st of January as a very experienced logistics manager. He will further develop our logistical strength and improve the overall automatisation via our ERP system.

New supplier and partner relations have been established for the automotive and industrial market:

- Four partners for BGAs (Ball grid arrays) and two for CSPs (Chip scale packages).
- Close cooperation with two additional major European design partners was fixed.
- Significant increase in our position as leading partner for assembly houses.
- Partnership with two institutes, IMS Stuttgart and IMS Duisburg, were started to serve small and midsized companies.
- With Altec Electronic AG we started a new sales channel agreement for the Swiss market.

Actions 2017

In 2017 RoodMicrotec will continue to focus on Tier 1 and Tier 2 customers in the automotive and industrial markets. We will offer ASIC turnkey services in conjunction with several Fabless Design houses to win new projects for industrialisation and recurring business.

We will continue to strengthen the SCM team to cover new and increasing demand from the market.

Project management will be adapted to the new requirements of the ISO 9001 version of 2015, including risk management.

Test Engineering

Profile

RoodMicrotec's Test Engineering business unit provides complete test solutions for a wide range of devices like mixed-signal, digital, analogue or RF ICs. Customers include OEMs, IDMs and Fabless Companies working worldwide in automotive and industrial, healthcare, HiRel and aerospace, and consumer sectors.

Our team of highly skilled engineers develops test programs, probe cards and load boards for characterisation, production and qualification to the highest standards as required by the automotive and high-reliability sectors (AEC-Q, ESCC, MIL-STD, JEDEC, TELCORDIA, IEC, and DIN). Services include design for test, test time reduction, yield improvement and data analysis. Our experts have experience of migrating complete test cells, production ramp-up and product validation. Test times in high test coverage are reduced by massive parallel testing. All these services are also available as on-site engineering support for customers.

Our test cells utilise state-of-the-art Automated Test Equipment (ATE) as well as specialised PC-based solutions. Test system limitations are compensated by integrating high performance external equipment such as network analysers or RF signal sources into the test cell. This approach increases flexibility while limiting test costs.

Extensive know-how is available on several test platforms, e.g. Teradyne Flex, Xcerra (formerly LTXCredence) D10/DUO, Advantest/SZ, Advantest/Verigy 93000 as well as LabView and TestStand based solutions. The company has extensive expertise of mixed-signal, digital, analogue, memory, RF, image sensors, MEMS and PC applications developed over decades.

Key developments in 2016

Revenue in the test engineering business unit increased on a year-to-year basis as well as from the first half to the second half of 2016 due to more customer projects generating recurring business in our SCM area and Test Operations.

We have also continued the implementation of the new working strategy with a lead engineer and an engineer on all our projects to increase efficiency as well as having a redundant solution in case unexpected events happen.

We have also developed new test programs and hardware for the new V93k test system as well as for the 12” wafer prober. These projects have already started pre-production and will move into full production during 2017.

Actions for 2017

The key goals for 2017 are to continue to acquire more recurring business in the area of SCM and ASICs. Test engineering plays a major role in this by enabling these other business units to generate long term revenues in these areas.

We will also continue to invest in new tester systems to stay competitive in the new Industry 4.0 era as well as increased support for our SCM customers in the area of production and yield analysis.

We are also participating in a publicly funded project, ScaleIT@Shopfloor, to optimize and improve test floor operation by adding more intelligence to the systems.

Test Operations

Profile

This business unit covers the segments of testing, programming, scanning, straightening and tape & reel of semiconductor devices. The main focus lies on the wafer test and final test of semiconductor components.

The main goal is to provide service and support for our customer through the whole project by continuous improvement of the processes and systems related to it. To ensure this, also a tight communication structure between the parties involved is essential, so that everything fits the customers' needs. Close relationships are the key for achieving the desired quality standard claimed by the industry and the customer itself. The investments done in the last few years show, that RoodMicrotec is still highly competitive in this area of the growing semiconductor market.

The customers include OEMs, Fabless Companies, distributors, IDMs and others out of the automotive, industrial, healthcare, telecommunications and HiRel market.

Key developments in 2016

Test

The requirements from the market and our customers reaffirmed our decision to invest in a new Verigy 93k test system, which was successfully installed in early 2016. The manipulator developed for this purpose offers a pivot radius of more than 190° and thus has a very great flexibility to place prober and handler optimally around the test system.

A further investment in an Accretech UF3000, 12" wafer prober with the possibility to test wafers at a temperature range from -55°C to 200°C was made. This prober can also be used for testing 8" wafers to relieve the existing systems. In addition we invested in different docking systems so that we can connect all our automatic test equipment to the prober.

The capacity expansion by installing another pick & place system has resulted in an additional relaxation of the utilization of the handling systems.

With these new installed systems RoodMicrotec will be in an even better position to support different customer needs for flexibility and efficiency.

Programming

Old and no longer needed equipment has been disposed. The free space supports the disposition of our systems in use in order to further process optimization.

EOL

In order to further increase the high quality an in-pocket inspection was retrofitted within special systems. This inspection is carried out when the components have been placed in the belt pocket after the measurement in order to detect leads having been bent during this process step.

Actions for 2017

At the beginning of the year, a new Integra-Flex test equipment with a new MT9928 handling system will be installed. This handler enables us to test the devices 8-times in parallel (octal testing).

Our plan is also to upgrade our Electroglass probers with new camera systems for OCR (Optical Character Recognition) and new software.

To increase our capacity for tape & reel and for inspection we need to invest in a new End of Line Equipment

Failure & Technology Analysis

Profile

RoodMicrotec's extensively equipped failure & technology analysis laboratory is capable of providing failure, construction and qualification-related analysis of all kinds of electronic parts like wafers, integrated circuits, discrete components, electromechanical components, printed circuit boards and complete printed board assemblies. These various types of analytical investigations can be performed as part of a reliability assessment, including focused ion beam (FIB) services and consulting/line surveys concerning electrostatic discharge (ESD) and certification of ESD materials.

Failure & Technology Analysis

Analysis of defective devices (failure & technology analysis) is carried out using physical, chemical and metallurgical analytical methods. These methods are applied to confirm customer-complained failures, to identify the area of the defect and the failure mechanisms, and to initiate corrective actions for quality improvement. In the area of integrated circuits, new technologies with reduced feature size require expensive expanded capabilities. Therefore strategic partnerships have been agreed to share equipment and reduce investment.

Construction Analysis and DPA

Construction Analysis and Destructive Physical Analysis (DPA) can be performed as part of a reliability assessment. The objective of construction analysis is early identification of potential deficiencies that can cause zero-hour failures or reliability problems. These tests are required for all components used in aerospace applications. Request numbers for DPAs are very stable as the aerospace market is less sensitive to economic cycles. The lab has gained a certificate to perform DPAs for space applications according to the RA.0010.900.10 standard.

Qualification-related analysis

Qualification-related analyses are carried out before and after various qualification tests performed by our own Qualification & Reliability Investigation laboratory. The purpose of these investigations is to determine the influence of these environmental tests on package and chip-related problems.

FIB service

With our focused ion beam (FIB) system, we offer our customers chip modifications, circuit editing, micro cross-sectioning, TEM lamella preparation, micro-machining and material science applications.

The business unit has a broad European customer base, primarily in the automotive, aeronautical and aerospace industries. Good service is time-driven, so 1.5 shift operation is offered where necessary.

Key developments in 2016

In view of the high demand for X-ray tomography, we invested in an upgrade of our existing X-ray system. Beside the possibility of 3D X-ray investigation the upgrade also offers higher resolution for 2D applications. The new offer is well accepted by our customers.

To fulfil the increasing market demand the following new service packages, which include the complete process from the beginning to the end, have been developed on the basis of our deep experience for more than 30 years in this field:

- Yield improvement process on chip, package and board level.
- Obsolescence management including relevant inspection/test during long-term storage
- Customer Complaint Return Management

In the context of our annual seminars, in April 2016 we organised a successful seminar on 'Legal issues and liability risks in the supply chain of electronic components and modules'. In addition we organized in cooperation with IG Exact a seminar in Switzerland on 'Reliability of electronic components, robustness validation, qualification, failure analysis, statistical methods'. More than 80 participants from the industry and research institutes joined this year's in-depth trainings.

Actions for 2017

The focus that RoodMicrotec now has on supply chain management requires a significant amount of Failure & Technology Analysis activities and to be able to support this. We hired young engineers and will continue in education to increase our capabilities as well as increase cooperation with other laboratories and institutes.

Demand for failure analysis of LEDs and capacitors is still increasing. We will respond to this higher market demand.

We were asked to continue with our organisation of seminars, so we aim to have three of them in 2017. This is a good opportunity to increase our level of knowledge.

'Failure Analysis Inside' will be introduced as a special newsletter on failure analysis topics. The aim is to make our technical possibilities more popular.

Qualification & Reliability Investigation

Profile

In our business unit Qualification & Reliability Investigation we distinguish between electrical/electronic qualification and optical and mechanical qualification.

Electrical / electronic qualification

Here we focus on investigating electrical components like semiconductors (die level and package level), passives and PCBs.

Electrical/electronic qualification and robustness validation of customer components under extreme conditions such as climatic and temperature changes as well as vibration and mechanical shock for automotive, space, telecommunication etc. are performed to various international specifications (AEC-Q, MIL, JEDEC, ESCC, IEC). Furthermore, up-screening of components (specific qualification and test flow for higher quality grade of units for military and space applications) is another main task of the business unit. Products can be tested under extreme conditions such as climatic and temperature changes as well as under vibration and mechanical shock. The investigations determine whether the components meet the required qualification standards.

Using burn-in (monitored or standard), components are stressed in order to identify parts prone to premature failure. This process forces defective semiconductor devices to fail before they are incorporated into assemblies where they can cause reliability problems in the end product. The business unit is one of the leading independent certified test houses in Europe. Most products are tested for the aerospace, automotive and medical sectors. Our main customers are in these sectors and are Fabless Companies and OEMs. Burn-in board loading for the monitoring system can be done manually or on request by means of an automated board loader/unloader.

Based on the 'mission profile' (subsequent operating conditions/requirements) of our customers' products, we develop customised qualification/reliability concepts that incorporate the necessary stress tests – and ensure the successful market launch of products.

Standardised stress environments performed within RoodMicrotec:

- High/Low Temperature Operating Life Test (HTOL/LTOL)
- Low/High Temperature Storage Life Test (LTSL/HTSL)
- High Accelerated Stress Test (HAST/UHAST, Unbiased)
- Autoclave (AC)
- Temperature Cycling (TC)
- Liquid-to-Liquid Thermal Shock Test (TS)
- Mechanical tests such as shock, vibration, solderability

Product-specific hardware (boards, fixtures) for mounting the tested devices together with specific software for stimulating them during the stress treatments are also being developed by RoodMicrotec.

The electrical verification of the tested devices before, after and during (pre-test, interim test, post-test) the stress treatment takes place using our in-house test systems in the certified testing area at RoodMicrotec. Test and product engineers perform test data analysis, failure analysis and data preparation.

We offer our customers services ranging from root-cause analysis right through to physical product analysis performed by our in-house ISO 17025 accredited failure analysis laboratory.

RoodMicrotec is one of the leading one-stop-shop solution providers for qualification and reliability aspects in semiconductor industries.

Optical / mechanical qualification

This unit focuses on image sensors and on mechanical investigations of semiconductors and boards.

These qualifications are for automotive, space, telecommunication, etc. The mechanical qualifications include shock, vibration and bump. The focus for optoelectronics is mainly LED.

RoodMicrotec will bring in the experience and its knowledge of LEDs and LED lamps in a new research and development project. In former projects our practical experience in failure & technology analysis combined with the capabilities in measurements and reliability tests on LED was highly appreciated.

We are known as a professional partner providing services to the industry.

Key developments in 2016

Revenue in the Business Unit Qualification & Reliability Investigation increased during 2016 thanks to new orders for the turn-key business, individual AEC-Q100 qualification as well as a steady demand for single stress tests. We have also had an increasing demand in the burn-in area from some of our long-term customers. We have continued to improve the project management of our qualification tasks by introducing a more stringent use of a standard project control tool and regular internal as well as customer reviews.

A major focus of the activities in optical/mechanical qualification was the winning of new customers in the aerospace field. Together with a key customer, a qualification program was started and the implementation is running; main activities will continue through 2017.

Due to the increasing number of application areas of image sensors, RoodMicrotec will strengthen and increase its activities accordingly to comply with the test requirements.

Actions for 2017

- Technical – Extend the monitoring capabilities in our chambers.
- Robustness validation – continue to develop increased stress coverage for our customers using mission profiles and other application specific conditions.
- Continuous improvement in project management to be more efficient in performing the large qualification projects.
- Qualify and characterise LEDs and VCSELs at wafer level on our IC test systems.

RoodMicrotec is participating in a publicly funded project (ParsiFAL 4.0) to adapt the qualification procedures for hybrid microelectronic sensor systems. The company also intends to build up knowledge in the field of qualification and tests assembled on thinned chips mounted on flexible PCBs and to adapt failure analysis methods.

Risk and risk management

General

Our policy is aimed at growth in conjunction with a relative reduction of market risks. Operational, market-related and financial aspects play an ever-increasing role in achieving this.

Operational

Sales

Sales in Test Operations make up approx. 36% of total sales. In this sector we have a strong reputation and we have built up a relationship of trust with our major customers. Sales in this sector as part of the total sales have diminished over the years. This reduction was expected due to semiconductor manufacturing moving to Asia. In response to this trend, we have strongly increased the spread within our total customer base over the past few years, which has reduced risk. While we have long-term contracts with many of our major customers, these contracts do not include purchase guarantees. Risks are mitigated by intensive communication with customers on anticipated volumes. Other sales are made in the sectors Supply Chain Management, Test Engineering, Qualification & Reliability Investigation and Failure & Technology Analysis. We focus on high-end work and long-term projects specifically in Supply Chain Management, which further reduces operating risks.

Costs

Globalisation is putting increasing pressure on prices in all areas, but in particular in our Test Operations. This requires constant focus on improving cost management, reducing costs, optimising the test equipment load and intelligent solutions. Salaries and associated pension commitments are also monitored closely, as they make up more than half of our total costs. Using temporary staff is vital for RoodMicrotec's operations in Germany in order to reduce risks. Currently, there are many employees on permanent staff in our Test Operations. In other market sectors in which high-quality staff is being used, there is a limited staff surplus cost risk. There is a shortage of highly trained technical staff in Europe.

Qualified staff

In view of the advanced technological level of our operations, the company is highly dependent on qualified staff. As it is not always easy to find such staff in the employment market, we have opted to set up our own training programme in order to reduce the risk of not being able to attract qualified staff. We also collaborate with engineering firms and are in close contact with universities in order to attract bachelor and master students.
The fact that RoodMicrotec has branches in the university cities Stuttgart and Dresden, puts it in a better position to recruit high-quality staff.

Market risks

We operate in a highly cyclical market, which has contracted in Europe but continues to grow in Asia. The use of semiconductors, however, continues to rise, also in Europe. They are increasingly being imported from Asia. We have opted for this growth segment – the supply chain from Europe to Asia and back to Europe and the rest of the world – from the point of view of risk management as it better safeguards continuity.

In the past, various customers (IDMs) used RoodMicrotec as a way to generate additional sales in a short time span, which increased the company's exposure to market fluctuations. In view of this, we reduced our risk and are increasingly focusing on customers who wish to outsource their test activities on a long-term basis, such as Fabless Companies and OEMs. This exposes the company to the upswings and downturns of the market, but also allows it to generate sales during downturns to customers who opt for outsourcing.

RoodMicrotec's ideal and preferred form of outsourcing is for customers to contract out the entire supply chain to RoodMicrotec, including all their engineering, qualification & reliability investigation, failure & technology analysis and test activities. The company offers a turnkey solution to the automotive, industrial, healthcare and HiRel/Aerospace markets. Not being able to hire good engineers presents a significant risk. RoodMicrotec mitigates its risks through an active personnel policy seeking a balance between permanent and temporary staff on the one hand and young and experienced staff on the other.

Competition

In Europe we face competition from a number of countries. We aim to minimise our risk as an independent European semiconductor company by basing our sales and operations in the Netherlands, Germany and Britain and having agents in France, Italy, Switzerland and Israel as our main partners.

Finance

The companies' activities are exposed to a variety of financial risks: market risks (including currency risks), credit risks and liquidity risks. The companies' overall risk management program - with respect to the use of the main financial instruments - are described below.

Financial markets and liquidity risks
We operate in a capital-intensive market, where significant fluctuations are a normal phenomenon. Dealing with such fluctuations requires having enough available cash. The financial market circumstances may influence and/or damage the financing of our activities. Taking into account fluctuations in the financial markets, we prepare sensitivity analysis in our 5-years-rolling forecasts, cash flow prognosis, and investment budgets. Based on these analyses, we conclude in early stage equity line arrangements with our large investors and / or loan contracts.

Currency risks
So far, we have made most of our sales in Europe. Since most of our work is invoiced in euros we have only limited exposure to currency fluctuations. We try to limit our currency risks as much as possible, and when transactions in other currencies increase will hedge our currency risks. We will continue to actively monitor this aspect, certainly in view of the international operations that are under development.

Insurance
We have taken out adequate liability insurance for production faults, which is particularly important for the automotive industry.

Internal risk management and control system

General

For our IT systems we have opted for an integral tandem solution in one location. To control risks, the mainframes that are part of the tandem are physically separated and situated in special fireproof environments. All sites are connected to the integral tandem system, so as to reduce risks. The implementation of the system has been completed.
The various companies, including the holding company in the Netherlands, the branch offices and the business units, work with the same system, which allows for better monitoring of financial results.

Based on what is summarised above, RoodMicrotec feels that its internal risk management and control systems provide a reasonable degree of assurance that the financial reporting does not contain any material inaccuracies and that this system has worked adequately in the year under review. There are no reasons to believe that the system should not work adequately in the current financial year.

Strategic plans

Strategic plans are discussed annually and adjusted where necessary and then translated into budgets that are regularly compared to the actual state of affairs. Monthly reports are prepared that may give rise to corrective actions. The internal quoting process is subjected to a monthly (quality) audit, which investigates whether internal guidelines have been adhered to.

Internal evaluations and external audits

A schedule is drawn up every year for internal evaluations and external audits. This schedule is then acted upon by our employees and external auditors. Both the internal evaluations and the external audits may result in corrective measures; the management letters arising from the external audits are discussed by the Supervisory Board (audit committee).

Audit committee

The audit committee comprises all members of the Supervisory Board. The Supervisory Board meets at least four times per year.

Letter of representation

Every year, the RoodMicrotec Board of Management signs a detailed statement concerning financial reports and external audits.

Corporate Social Responsibility

General commitment

RoodMicrotec's mission is to be a knowledge and technology driven service provider in the field of modern devices that is able to handle the whole chain for complex requirements as well as individual services. In a world where technology increasingly touches every aspect of our daily lives, RoodMicrotec aspires to be a leading solutions provider in the semiconductor industry in the areas of Automotive, Industrial, Healthcare and HiRel/ Aerospace. .

RoodMicrotec wishes to be a responsible partner in society, acting with integrity towards its shareholders, customers, employees, suppliers and business partners, competitors, governments and their agencies and others who may be affected by its activities. RoodMicrotec duly observes applicable laws and regulations in the countries in which it operates and regularly reviews its interests and those of affected persons or entities in order to ensure a healthy, long-term relationship with them. RoodMicrotec endeavours to adapt to local situations in order to take the most appropriate approach to possible problems within the bounds of applicable laws and responsible conduct. In this respect RoodMicrotec supports the principle of dialogue and cooperation with all parties involved.

Human rights

With due regard to the Universal Declaration of Human Rights, which states that all parties in society, including corporate entities, have a duty to respect and safeguard human rights, and within the framework of the legitimate role of businesses, RoodMicrotec supports and respects human rights and strives to ensure that its activities do not make it an accessory to infringements of human rights.

Free market competition

RoodMicrotec supports the principle of free market competition as a basis for conducting its business and complies with applicable competition laws and regulations.

Product safety

RoodMicrotec aims at all times to supply safe products and services.

Privacy

The privacy of personally identifiable information about customers, employees, business partners and other individuals will be protected.

Environmental protection

Consistent with RoodMicrotec's commitment to sustainable development, it will do all that is reasonable and practicable to minimise any adverse effects of its activities on the environment.

Commitment towards customers

RoodMicrotec is dedicated to improving people's lives. Its goal is to constantly delight each customer with breakthroughs both large and small. To this end, the company seeks to maintain an ongoing dialogue with its customers. RoodMicrotec is committed to listening to and learning from them, so that it can design and deliver the solutions they really want and need. RoodMicrotec will always deal with its customers in a fair and forthright manner, maintaining the highest levels of integrity.

Commitment towards investors

It is of central importance to RoodMicrotec to conduct its operations in accordance with the highest standards of internationally accepted principles of good corporate governance. RoodMicrotec aims to achieve a satisfactory return on equity, with the intention if possible to distribute a sustainable dividend payment to shareholders, while at the same time retaining sufficient funds in the company to generate profitable growth. RoodMicrotec attaches great value to its relations with its shareholders and the financial markets and provides timely, regular and reliable information on its activities, structure, financial position and performance.

Commitment towards employees

RoodMicrotec values its employees as a key resource. An atmosphere of good employee communication, involvement and responsibility is of vital importance, and employees' personal development and optimum use of talents is encouraged.

Right to organise

RoodMicrotec recognises and respects the freedom of employees to choose whether or not to establish, or to associate with, any organisation. RoodMicrotec respects

- within the framework of (local) laws, regulations and prevailing labour relations and employment practices;
- the right of its employees to be represented by labour unions and other employee organisations, and RoodMicrotec will engage in negotiations, either on its own behalf or through employers' associations, with a view to reaching agreement on employment conditions.

Health and safety

RoodMicrotec will do all that is reasonable and practicable to protect the health and safety of its employees.

Equal and fair treatment

Every employee has equal opportunities and will be treated equally in employment and occupation regardless of personal background, race, gender, nationality, age, sexual preference or religious belief. The same applies to the recruitment of employees. RoodMicrotec strives to offer equal pay for equal work performed at equal levels at similar locations. No form of harassment or discrimination will be tolerated.

Wages and payment

Remuneration and working hours shall comply with local labour laws and shall be in line with prevailing industry norms.

Commitment towards suppliers and business partners

RoodMicrotec pursues mutually beneficial relationships with its suppliers and business partners. It seeks to award business to suppliers and business partners who are committed to acting fairly and with integrity towards their stakeholders and who observe the applicable laws of the countries in which they operate.

Use and protection of assets

Each employee is responsible for the proper use, protection and conservation of RoodMicrotec's assets and resources as well as confidential information disclosed to RoodMicrotec by its business partners. RoodMicrotec's assets and resources as well as any opportunities arising by virtue of one's position are to be used solely to pursue and achieve RoodMicrotec's goals and not for personal benefit.

Improper disclosure

RoodMicrotec regards information for the purpose of its business as a corporate asset that must be protected against loss, infringement and improper use and disclosure.

RoodMicrotec is committed to refraining from making use of information disclosed to it by third parties if it suspects that the discloser thereby violates an obligation of confidentiality, unless the information:

- is generally available to the public other than as a result of disclosure by RoodMicrotec;
- has been independently developed by RoodMicrotec; or
- becomes available to RoodMicrotec either on a non-confidential basis from a third party who is not bound by any confidentiality obligations or by operation of law.

Insider trading

All employees shall comply with RoodMicrotec's insider trading rules. This means that non-public information which might influence the market price of RoodMicrotec shares shall be kept in strict confidence until publicly released by authorised management. Furthermore, employees who have sensitive information which could influence the price of RoodMicrotec shares and related rights must refrain from directly or indirectly entering into transactions in RoodMicrotec shares and related rights. Additionally, employees must comply with statutory rules and regulations concerning insider trading with respect to securities of other listed companies.

Bribery; records of transactions

RoodMicrotec insists on honesty, integrity and fairness in all aspects of its business. Bribes in any form are unacceptable; commission payments and personal gifts or favours may only be made or accepted in strict accordance with the General Business Principles (GBP) Directives. RoodMicrotec strives to comply with the highest levels of transparency and accountability throughout the company. Records of transactions should be maintained in an accurate, complete and timely manner in accordance with RoodMicrotec's accounting principles. No unrecorded funds or assets may be established or maintained.

Third-party interests

Employees are not allowed to have any direct or indirect financial interest in a supplier or competing company with the exception of a financial interest in a publicly traded company.

Political payments

RoodMicrotec companies shall not make payments or donations, in money or in kind, to political parties, political organisations or individual politicians, unless such payments are made in strict accordance with the GBP Directives.

Sanctions

All RoodMicrotec employees must comply with the General Business Principles. Violation may lead to disciplinary action, including dismissal, notwithstanding any further civil or criminal action that may be instigated.

Whistleblower policy

In order to promote the reporting of violations of the General Business Principles, a whistleblower policy is in place, enabling employees to submit complaints anonymously without fear of the complaints leading to disciplinary action.

Compliance

Compliance with the General Business Principles is monitored by a compliance officer, who regularly reports to the Board of Management and Supervisory Board on the deployment of the General Business Principles and on ethical issues in general. Reporting on compliance with the General Business Principles is also an integral part of the Statement on Business Controls issued annually by the Board of Management and Supervisory Board as part of a cascade process leading to certification of the company's annual accounts. Compliance processes and procedures are reviewed by RoodMicrotec's Supervisory Board.

Further information: www.roodmicrotec.com

Corporate Governance

RoodMicrotec N.V. respects the Dutch corporate governance code (hereinafter referred to as the Code) and considers its application in the light of the company's scale. In this context, RoodMicrotec has decided on a trend-follower position. The system of the Code will be leading in this chapter. The chapter numbers correspond to the chapters of the Code.

RoodMicrotec is very aware of the role it plays in society. Consequently, we judge ourselves by society's standards, thereby indirectly rendering account for our activities to all our stakeholders:

- customers
- investors
- employees
- our immediate social environment.

We also engage with these groups, for example through seminars with customers, investors and the press, regional business relations, and through open and transparent discussions with our employees. RoodMicrotec's General Business Principles and whistleblower policy may be inspected on our website.

Shareholders are free to pursue their own interests within the boundaries of reasonableness and fairness, yet mindful of corporate social responsibility. They are in principle not bound by the interests of the company and the business it runs. We are happy to enter into discussions with shareholders if they do not accept the company's explanation of why it has resolved to deviate from any best-practice provision.

I. Enforcement and application of the Code

RoodMicrotec follows all the Code's principles and has implemented almost all its best practices. Deviations from the Code will be explained in the remainder of the chapter.

II. The Board of Management

II. 1.1– 1.11 Tasks and working methods

Our Board of Management is appointed by the Annual General Meeting of shareholders on 7 June 2016 on a four-year employment contract governed by Dutch law. A member may be reappointed for a term of not more than four years at a time. These terms shall also apply to new board members to be appointed.

The Supervisory Board supervises the policy of the Board of Management, as well as the general course of the corporate affairs and business, and provides advice to the Board of Management. The Board of Management must keep the Supervisory Board informed, consult with the Supervisory Board on important matters and submit certain important decisions to the Supervisory Board for its prior approval. Over the years it has become a tradition that the Supervisory Board and the Board of Management determine RoodMicrotec's operational and financial objectives and the company's targets in consultation. The same applies to the strategy and the framework conditions to be implemented. The custom of including the highlights in the annual report will be continued.

The company has an internal risk management and control system, which includes (a) a risk analysis of the operational and financial objectives of the company, (b) a whistleblower policy, (c) a code of ethics for principal executive and financial officers and a code of conduct which the Board of Management and employees must adhere to, which is published on the company's website www.roodmicrotec.com, (d) guidelines for the layout of financial reports and the procedures to be followed in the preparation of the reports, (e) a system of disclosure controls.

The risk management and control system has proved to function adequately and effectively. This was achieved by special focus on the operating and control system. Over the past years, further organisational adjustments had been implemented, including the selection of 'empowered' management. Based on this decision, each business unit manager is now accountable. We measure the performance of the management of his/her business unit by using key indicators. The need to optimise the organisation was discussed with the Supervisory Board on several occasions.

With reference to the section on Risk Management, the sales levels and results are highly sensitive to upswings and downturns of the market. However, customer structure also plays an important role.

The Board of Management is responsible for the strategy and the associated risk profile and reports to the Supervisory Board and the general meeting of shareholders in this context. The Board of Management is responsible for compliance with all applicable laws and regulations, the control of risks associated with the company's business operations and the financing of the company. The Board of Management reports on this topic and discusses the internal risk management and control systems with the Supervisory Board and its audit committee.

At least once every year, the Supervisory Board discusses the strategy and the main risks for the company, the results of the Board of Management's evaluation of the structure and functioning of the internal risk management and control systems, as well as any significant adjustments to them. These discussions are referred to in the report of the Supervisory Board. In the annual report the Board of Management describes the main risks related to the company's strategy.

The Board of Management is responsible for the relevant social aspects of the company's business operations.

RoodMicrotec employees can report suspected irregularities within the company without jeopardising their legal position. RoodMicrotec's whistle-blower policy enables employees to report any suspected irregularities of a general, operational or financial nature within the company and its subsidiaries without having to fear for their legal position. Insofar as the suspected irregularities do not involve RoodMicrotec's managing director(s), such reports should be addressed to the chairman of RoodMicrotec's Board of Management. However, if the report concerns actions or omissions by RoodMicrotec's managing director(s), the whistleblower should communicate it to the chairman of RoodMicrotec's Supervisory Board.

Before an employee may invoke that his/her legal position was jeopardised as a consequence of a report as described above, the chairman of the Board of Management (when the report does not involve suspicions against RoodMicrotec's managing director(s)) or the chairman of the Supervisory Board (if the report involves suspicions against RoodMicrotec's managing director(s)) must issue an assessment in writing. This assessment document must be issued within 14 days after the relevant request.

No member of RoodMicrotec's Board of Management holds the post of managing director in another listed company. The employment contract with managing directors stipulates that accepting other posts in a business environment is subject to approval from RoodMicrotec's Supervisory Board. Insofar as this has been applicable, the company has complied with this provision.

In the event of a takeover, the Board of Management and the Supervisory Board are jointly responsible for evaluating the offer made and for making recommendations to the shareholders. If a takeover offer is under preparation, it is the responsibility of the Board of Management to involve the Supervisory Board in the takeover process closely and in a timely manner. It is appropriate to discuss in advance the role of the Supervisory Board in any takeover process. The Board of Management will discuss requests from any competing bidders with the Supervisory Board without delay.

Shareholders may make use of their right to place issues on the agenda of the general meeting of shareholders. If it concerns a matter that may result in a change of strategy, for example the dismissal of managing directors or supervisory directors, the Supervisory Board will set a reasonable term to respond to the issue brought up (the 'response time'). The response time may not exceed 180 days, calculated from the time when the Supervisory Board was informed of the intention to place an item on the agenda up to the day on which the shareholders' meeting is held. Shareholders must respect this response time. The Supervisory Board will use this time for further consultation and constructive discussions, in any case with the relevant shareholder(s). It is the responsibility of the Supervisory Board to monitor the way in which the Board of Management uses the response time. The Supervisory Board may use the response time only once in relation to the same matter. Setting a response time is not possible in a situation in which a public takeover offer is successful and the acquiring party has 75% or more of the share capital.

II. 2.1 – 2.15 Remuneration

Options on shares are part of the company's remuneration components. Granting these options is subject to achieving targets based on the company's short-term and long-term strategic plans.

The remuneration structure, in particular its variable component, does not promote taking risks that conflict with the set strategy. The variable part is determined taking into account the risks that variable remuneration entails for the company.

Prior to setting the remuneration policy and the determining the remuneration of the individual directors, the Supervisory Board will analyse the possible outcomes of the variable remuneration components and the consequences thereof for the remuneration for the director.

The Supervisory Board determines the level and the structure of the directors' remuneration partially based on the scenarios analysed, taking into account the balance of remunerations within the company.

The options granted are stated in the company's annual accounts.

Regarding ownership and transactions of shares by board members, other than those issued by the company itself, the Supervisory Board has resolved to deviate from the Code. Board members are not permitted to hold direct or indirect interests amounting to more than 5% in other listed companies or companies in the semiconductor industry, unless the Supervisory Board has granted specific permission. Furthermore, board members must report changes in shareholdings in other listed or semiconductor companies to the chairman of the Supervisory Board.

The remuneration of the Board of Management consists of a fixed salary plus a variable part that will be partially paid out in options. There is a balance between a fixed and variable part of the compensation. The calculation is transparent. As stated above, the granting of options is subject to the achievement of targets set by the Supervisory Board in the context of the company's strategic plan. The achievement of the targets by the Board of Management will be evaluated every six months and new targets will be set. The targets for the Board of Management are not described in the annual accounts due to competitive reasons. Company objectives are described in this report.

The employment of the Board of Management may be terminated by giving six months' notice in writing before the end of each calendar month. In case of termination from RoodMicrotec the Board of Management is entitled to a severance pay equal to 30% of total annual gross salary. No personal loans or guarantees have been provided to the Board of Management. RoodMicrotec complies with provision II.2.7 of the Code, which determines inter alia that the exercise price of the share options and other conditions may be adjusted during the term of the contract.

The remuneration of the managing directors of the company comprises a fixed salary and a variable salary. The variable part depends predominantly on the financial result and sales targets of the entire company. If the financial and sales targets of the entire company have been achieved, the variable part will depend on personal objectives.

II. 3.1 – 3.4 Conflicting interests

According to Article 22 of RoodMicrotec's articles of association, the company shall be represented by the chairman of the Supervisory Board in the event of a conflict of interest involving a managing director. The company complies with all provisions of the Code regarding refraining from competing with the company, accepting or requesting gifts for the managing director and/or his/her immediate family, providing unjustifiable benefits charged to the company, the managing director and/or his/her immediate family using business opportunities that are intended for the company, and the obligation to report a potential conflict of interest to the chairman of the Supervisory Board. Furthermore, the managing director may not take part in the discussion of the issue in which he/she has a major conflict of interest. Moreover, all transactions concerning a conflict of interest must be approved by the Supervisory Board and will be reported in the annual report.

III. The Supervisory Board

III. 1.1 – 1.9 Task and working methods

Some years ago, the Supervisory Board prepared a set of rules for its own functioning, which are available for inspection by shareholders and stakeholders at the company's offices. These rules include regulations for the interaction with the Board of Management. The articles of association of the company contain regulations regarding the interaction with the shareholders. The report of the Supervisory Board, which is included in this annual report, provides specific details regarding the members of the Supervisory Board as required by the Code.

In the performance of its duties, the Supervisory Board focuses on the interest of the company and the business associated with it, and in that context weighs the relevant interests of the stakeholders of the company. The Supervisory Board also considers the relevant social aspects of the company's business.

The Supervisory Board's supervision of the Board of Management includes the relevant social aspects of the company's business. The Board of Management must inform the shareholders promptly of the policies it intends to pursue. The Supervisory Board's duty to supervise the Board of Management will be extended to supervision of the relationship with the shareholders.

III. 2.1 – 2.3 Independence

RoodMicrotec complies with the Code, which recommends that the Supervisory Board should not include more than one non-independent member.

III. 3.1 – 3.6 Expertise and composition

The regulations for the Supervisory Board including its profile are available on the company's website www.roodmicrotec.com.

All new members of the Supervisory Board are required to attend an induction program, which addresses general financial and legal issues, the financial reporting of the company, the specific aspects of the company's activities and the responsibilities of a supervisory director. Current supervisory directors will annually evaluate their need for training. The company will play a facilitating role in this.

RoodMicrotec's articles of association stipulate that a member of the Supervisory Board shall be appointed for a maximum term of four years, and be reappointed no more than three times. The resignation rota is stated in the annual accounts.

We strive for a mixed composition in terms of sex and age. However, our first selection criterion is suitable qualifications, before issues like sex and age are considered.

III. 4.1 – 4.3 Role of the chairman of the Supervisory Board and the company secretary

RoodMicrotec complies with these provisions of the Code. The company has appointed a company secretary, who ensures the usage of certain procedures and ensures that the company operates in accordance with legal obligations and the articles of association.

The vice-chairman of the Supervisory Board, or, if no such person has been designated, one of the other supervisory directors, will replace the chairman as required. The vice-chairman will also serve as contact for individual supervisory directors and managing directors in matters regarding the functioning of the chairman.

III. 5.1 – 5.13 Composition and the role of three core committees on the Supervisory Board

As per January 2017, the company has a Supervisory Board comprised of three members. RoodMicrotec is intending establishing a remuneration and audit committee. The company will then apply the relevant provisions of the Code. Presently, the responsibilities of the core committees are carried out by the full Supervisory Board.

III. 6.1 – 6.7 Conflict of interest

A supervisory director who has a conflict of interest as described in provision III.6.1 of the Code shall report it to the chairman of the Supervisory Board and the supervisory director will not take part in any discussions of the matter in which he or she has a conflict of interest. Moreover, all transactions involving a conflict of interest must be approved by the Supervisory Board and will be reported in the annual report.

If relevant, the company shall comply with the provision III.6.4 concerning transactions between the company and natural persons or legal entities holding 10% or more of the company's share capital.

Regulations on dealing with (potentially) conflicting interests involving the managing directors, board members, including Supervisory Board members, and the external auditor, will be extended with the rules of the Supervisory Board.

The company shares the Tabaksblat Committee's views on the tasks and authority of a delegated member of the Supervisory Board.

III. 7.1 – 7.4 Remuneration

The remuneration of the Supervisory Board is subject to approval from the general meeting of shareholders (see also Article 24, paragraph 4 of the articles of association). The Supervisory Board will not be granted shares and/or options on shares as part of its remuneration. The profile of the Supervisory Board, published on the company website, will be extended with the relevant articles of the Code.

In deviation from the Code, it has been determined that no member of the Supervisory Board will be permitted to hold direct or indirect interests of more than 5% in the share capital of other listed companies or companies in the semiconductor industry. Furthermore, supervisory directors must report changes in shareholdings in other listed or semiconductor companies to the chairman of the Supervisory Board.

RoodMicrotec has not provided any personal loans or guarantees to members of the Supervisory Board.

IV. The (general meeting of) shareholders

IV. 1.1 – 1.8 Scope of authority

The company complies with the Code regarding the decision-making of the general meeting of shareholders on the following items:

- Compliance with the Code is accounted for in the annual report in the context of the disregarding, the dismissal of the Board of Management and the Supervisory Board.
- The chairman of the general meeting of shareholders is responsible for an orderly meeting, so as to facilitate meaningful discussions.
- The voting rights on preference shares.
- The public statement of and motivation for the board's point of view regarding a published, serious private offer on a company division or participation in the company with a value exceeding the limit stipulated in Book 2, Section 107(a) of the Dutch Civil Code, first paragraph, sub c.
- The allocation and dividend policy, the dividend distribution proposal, and dismissal of the managing directors and supervisory directors being separate items on the agenda of the general meeting of shareholders.
- The setting of a registration date for exercising voting and attendance rights.

IV. 2.1 – 2.8 Depositary receipts for shares

Since no depositary receipts for shares have been issued, this part of the Code is not applicable to RoodMicrotec.

IV. 3.1 – 3.13 Information provision / logistics of the general meeting of shareholders

RoodMicrotec complies with the best-practice provisions concerning informing shareholders and other parties in the financial market simultaneously and equally on issues that may affect the share price. However, based on a cost/benefit analysis, the company has decided against spending money on technology for attending meetings remotely.

The agenda of the general meeting shall list the items for discussion and the voting items.

The company will continue to provide the general meeting of shareholders with all relevant information required to properly exercise its rights and authorities, unless a material interest prevents it from disclosing certain information. In compliance with the Code, RoodMicrotec publishes presentations to analysts on its website after the event. If necessary, the company will ask for trade in RoodMicrotec shares to be suspended during such presentations.

RoodMicrotec will publish or make available all information required by corporate law and securities legislation.

Proposals to be approved or authorised by the general meeting will be explained in writing. In its explanation, the Board of Management will address all facts and circumstances relevant for the requested approval or authorisation. Proposals to be approved or authorised by the general meeting will be explained in writing.

Material changes to the articles of association of the company and nominations for managing directors and supervisory directors will be put to the general meeting separately.

The company offers shareholders and other parties with voting rights the option of giving a voting proxy or voting instructions to an independent third party prior to the general meeting.

The company has not formulated policies concerning bilateral contacts with shareholders and therefore does not publish any such policy on its website.

Furthermore, the company shall at first request make the minutes of any general meeting of shareholders available to all shareholders no later than three months after the date of the relevant meeting. Shareholders then have three months to submit their reactions to the minutes. Subsequently, the minutes will be signed by the chairman of the meeting and the person who prepared the minutes, in accordance with Article 31, paragraph 1 of RoodMicrotec's articles of association.

The company has not put in place any protective construction against takeovers. The reason for this is that for a relatively small company like RoodMicrotec, it would not be unfavourable either for the shareholders or the operational entity to be part of a larger organisation in the semiconductor industry.

IV. 4.1 – 4.6 Responsibility of institutional investors

RoodMicrotec currently does not have any institutional investors. If this should change in the future, RoodMicrotec will ask the institutional investors to apply these best-practice provisions of the Code. However, RoodMicrotec will not insist on compliance, since it does not wish to restrict potential institutional investors.

Shareholders must behave in accordance with standards of reasonableness and fairness. The following guidelines apply to all shareholders including institutional investors:

- a willingness to engage in discussion;

- the right to set agenda items should be exercised in consultation with the Board of Management; voting at one's discretion, taking an independent view of any voting recommendations;

- agenda items must be explained in the meeting.

V. The audit of financial reports and the position of the internal audit function and the external auditor

V. 1.1 – 1.3 Financial reporting

RoodMicrotec's Supervisory Board monitors the reporting and publication of the annual report, the annual accounts and other financial statements required by internal procedures. The Board of Management bears responsibility for the internal procedures that ensure the adequacy, accuracy and reliability of the external financial reporting.

V. 2.1 – 2.3 Role, appointment, remuneration and assessment of the external auditor

The external auditor will attend the general meeting of shareholders to answer questions regarding the accuracy of the annual accounts. The company's Board of Management reports annually to the Supervisory Board on developments in the relationship with the external auditor. According to the company's articles of association (Article 25, paragraph 2), the authority to appoint the external auditor lies with the general meeting of shareholders.

V. 3.1 – 3.3 Internal audit function

RoodMicrotec does not have an internal auditor. Every listed company should in principle have an internal auditor in accordance with best practice provision V.3.1.

The audit committee/the Supervisory Board will annually assess the need for an internal auditor. The audit committee/the Supervisory Board will make recommendations to the management board, which will be recorded in the report of the Supervisory Board.

If an internal auditor is appointed, this officer will be accountable to the Board of Management.

V. 4.1 – 4.3 Relation and communication with the external auditor and the company's departments

The external auditor will at least once a year meet with the Supervisory Board to discuss the external auditor's report and the annual accounts. Furthermore, the external auditor will receive all financial information he/she requires to perform his/her tasks. The external auditor annually submits a management letter to the Board of Management and the Supervisory Board, which is discussed in a joint meeting of the Board of Management and the Supervisory Board.

Board of Management

O.M. Sallenhag, CEO

R. Pusch, COO

Zwolle, 26 April 2017

Management Statement

Corporate Governance statement

This is a statement concerning corporate governance as referred to in Article 2a of the Decree on additional requirements for annual reports (Vaststellingsbesluit nadere voorschriften inhoud jaarverslag) effective as of 1 January 2010 (the 'Decree'). This statement forms part of RoodMicrotec's annual report 2016 (included in the chapter on corporate governance), which is available on RoodMicrotec's website: www.roodmicrotec.com. The information required to be included in this corporate governance statement as described in Articles 3, 3a and 3b of the Decree can be found in the following chapters, sections and pages of RoodMicrotec's annual report 2016 and are deemed to be included and repeated in this statement:

- the information concerning compliance with the Dutch Corporate Governance Code, as required by article 3 of the Decree, can be found in the chapter on 'Corporate Governance';
- the information concerning RoodMicrotec's main features of the internal risk management and control systems relating to the financial reporting process, as required by article 3a sub a of the Decree, can be found in the chapter on 'Risk management';
- the information regarding the functioning of RoodMicrotec's general meeting, and the authority and rights of RoodMicrotec's shareholders and holders of certificates of shares, as required by article 3a sub b of the Decree, can be found in the chapter on 'Corporate Governance';
- the information regarding the composition and functioning of RoodMicrotec's Board of Management, the supervisory board and its committees, as required by article 3a sub c of the Decree, can be found in the relevant sections of the chapter on 'Corporate Governance' and the 'Report of the Supervisory Board';
- the information concerning the inclusion of the information required by the decree Article 10 EU Takeover Directive, as required by article 3b of the Decree, can be found in the chapter on 'Corporate Governance'.

True and fair view statement

This statement is an integral part of the annual report dated on 26 April 2017. This statement is based on Article 5:25(c), paragraph 2 sub c of the Financial Supervision Act. Our opinion of the annual accounts is that it gives a true and fair view of the assets, liabilities, financial position and the result of RoodMicrotec N.V. and the companies included in the consolidation. The annual report gives a true and fair view of the situation on balance sheet date and the developments during the financial year of RoodMicrotec N.V. and the group companies for which the financial information is recognised in its financial statements. The most important risks confronting RoodMicrotec N.V. are described in the annual report. The members of the Board of Management have signed the annual report and financial statements in fulfilment of their legal obligations arising from Article 5:25(c), paragraph 2 sub c of the Financial Supervision Act.

Zwolle, 26 April 2017

Board of Management

O.M. Sallenhag, CEO

R. Pusch, COO

Supervisory Board

V.G. Tee, Chairman

H.J. Bartelink

J.B. Tuik

REPORT OF THE SUPERVISORY BOARD

Financial statements, dividend and discharge

We hereby present the 2016 annual report as prepared by the Board of Management in accordance with Article 26 of the articles of association of the company.

The annual report, prepared by the Board of Management and including the 2016 financial statements, has been audited by Baker Tilly Berk N.V. The auditor's disclaimer of opinion relating to the financial statements is included on page 105 of this report. We discussed the annual report with the Board of Management in the auditor's presence. Based on this meeting, we are convinced that the annual report forms a solid basis for the Supervisory Board's accountability for its supervisory duties. We propose to the general meeting of shareholders on 8 June 2017 to:

- adopt the financial statements;
- discharge the sole member of the Board of Management from liability for his conduct of business in 2016;
- discharge the Supervisory Board from liability for its supervision of the management;
- approve that no dividend will be distributed.

RoodMicrotec in 2016

The strategy change to focusing on long-term and bigger projects is beginning to bear fruit. Although sales growth again lagged behind expectations, the financial results did improve in a number of ways. For example, EBITDA improved compared to 2015. But more importantly, long-term contracts were signed which will provide more stable predictable and recurring sales over the next few years. The growth prospects for the coming years are also looking favourable, as the arrangements of early 2016 will enter the production phase during 2017.

The organisation itself is now better positioned for project management and for offering more integrated services. While RoodMicrotec has said goodbye to a number of employees, the organisation, and with it its market position, has also been strengthened with a number of highly experienced people joining the company in key strategic positions. In addition, the company has further improved its relations with large players such as wafer foundries, assembly houses and design houses.

In the various and regular meetings with the Board of Management we discussed the strategy and also how it fits in with the trends outlined in the report of the Board of Management. Responding to these or anticipating them as effectively as possible offers opportunities and is also an interesting challenge. Overall, it was concluded that RoodMicrotec is now on the right track. In 2017, the further rollout of these strategy is high on the agenda of the Board of Management and therefore also the Supervisory Board.

During the annual general meeting on 7 June 2016 Martin Sallenhag has been appointed as CEO, Reinhard Pusch as COO. Philip Nijenhuis stepped back as CEO and will support the company as advisor and member of the Supervisory Board.

The discussions concerning the expansion of the Supervisory Board with two members were ongoing, especially after Philip decided to step back from the Supervisory Board in late 2016. During an investor meeting in November 2016 we nominated and presented Jeroen Tuik and Herman Bartelink as members for the Supervisory Board. During an extraordinary shareholders meeting in January 2017 both have been elected.

Supervisory Board meeting schedule

The Supervisory Board gives the highest priority to good governance practice. The supervisory board met with the Board of Management ten times during 2016. Additional two meetings were held between individual members of the management and the Supervisory Board.

These meetings were held in various locations of mutual convenience including corporate head office, at the production sites in Stuttgart and Nördlingen and at convenient locations close to other coinciding meetings such as visits to customers. They were held either face to face or by using teleconferencing.

In the Supervisory Board meetings, the following topics were reviewed and discussed extensively:

- the business update, operational and financial targets;
- development and changes in the management team and appointments;
- the financial position, liquidity & banking relations;
- relevant capital expenditures;
- strategic M&A options;
- the scope and strategy of the company and the related risk profile;
- corporate governance issues;
- succession planning and recruitment;
- risk management;
- remuneration;
- financial audit;
- publishing of press releases.

The Supervisory Board met with representatives of the Works Councils both in Stuttgart and Nördlingen in the absence of the Board of Management to discuss the position of the company. The meetings were very constructive, with the teams on both sites expressing their thoughts on areas of improvement.

The Supervisory Board was able to provide personal support on several occasions throughout the year for strategic business discussions both internally and externally with potential alliance partners.

Supervisory Board composition and evaluation

There were no separate remuneration or audit committees in 2016. All topics were discussed in the joint meetings with the Board of Management following an independent review by the Supervisory Board.

The regular monthly meetings of the combined boards that operated through 2016 provided a continuous evaluative process and provided an open dialog platform for sound governance of the company.

The appointments of the two new Supervisory Board members will enable a more robust level of governance through 2017 and brings additional experience and knowledge to support sustainable development of the company. All procedures of the Board are considered adequate for a company of this size.

Zwolle, 26 April 2017

The Supervisory Board

V.G. Tee, chairman

Supervisory Board Members

Victor George Tee, Chairman

Victor joined the Supervisory Board in 2009 and became Chairman in 2013. With more than 40 years of experience in the Electronics and Semiconductor industries, he started his career as an electronic systems design engineer and has held senior management positions at Philips, Siliconix and most recently as CEO at Millennium Microtech. Having lived and worked in Asia for 20 years and operated internationally he has a wide network at both operational and board levels globally.

Herman Johan Bartelink

Herman joined RoodMicrotec in January 2017 as a member of the supervisory board. The first 7 years of his career, he worked for an accounting firm. The following three years he worked as a consultant in various management positions. He entered the Electronic Industry (EMS) and joined Benchmark Electronics in 2003. In 2012 he moved from the Financial Director position into the role of General Manager of the Dutch division of this US based company (NYSE:BHE). Herman has a bachelor degree in economics.

Jeroen Bertil Tuik

Jeroen joined RoodMicrotec in January 2017. He is holding a Master of Science in Mechanical Engineering. Started working in the IT for 3 years at Stork TPS (Account Management, Consultant), afterwards 7 years: Pemstar Inc. (Program Director), subsequently 4 years at Benchmark Electronics Inc. (Managing Director). Made the move for 3 years to Schuitemaker Machines & Industrial (Managing Director), 2 years at Stork IMM (Operations Director) and finally to the Connect Group (CEO).

ANNUAL ACCOUNTS

A. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

(x EUR 1,000)	Notes	2016	2015
Net sales	1	10,465	10,250
Cost of sales	2	-1,850	-1,866
Gross profit		**8,615**	**8,384**
Personnel expenses	3	-6,016	-5,860
Other operating expenses	4	-2,909	-2,902
Total operating expenses		**-8,925**	**-8,762**
EBITDA		**-310**	**-378**
Depreciation and amortisation	5	- 1,029	- 930
EBIT		**-1,339**	**-1,308**
Financial expenses	6	-248	-187
Profit (loss) before taxes		**-1,587**	**-1,495**
Taxes	7	9	-10
Net profit (loss)		**-1,578**	**-1,505**

Net profit attributable to:

Equity holders of the company		-1,578	-1,505
Non-controlling interests		-	-
Net profit (loss)		**-1,578**	**-1,505**

Earnings per share

Basic	16	-0.02	-0.03
Diluted	16	-0.02	-0.03

The figures following the various items refer to the notes on pages 63 to 96.

Consolidated Statement of Comprehensive Income

(x EUR 1,000)	Notes	2016	2015
Net profit (loss)		-1,578	-1,505
Items that will not be reclassified to profit and loss:			
Remeasurement of defined benefit obligations	19	-459	246
Remeasurement of defined benefit obligations – DTL	10	126	-107
Revaluation of building	8	-	-
Revaluation of building – DTL		-	-
Total comprehensive income		**-1,911**	**-1,366**

Total comprehensive income attributable to:

Equity holders of the company	-1,911	-1,366
Non-controlling interests	-	-
Total comprehensive income	**-1,911**	**-1,366**

The figures following the various items refer to the notes on pages 63 to 96.

Consolidated Statement of Financial Position

(x EUR 1,000)	Notes	31-12-2016	31-12-2015
Assets			
Property, plant and equipment	8	5,283	4,732
Intangible assets	9	2,401	2,176
Deferred income taxes	10	1,151	1,016
Financial assets	11	3,001	3,002
Non-current assets		**11,836**	**10,926**
Inventories	12	474	279
Trade and other receivables	13	1,712	1,659
Cash and cash equivalents	14	689	667
Current assets		**2,875**	**2,605**
Total assets		**14,711**	**13,531**
Equity and liabilities			
Issued share capital		6,979	5,986
Share premium		19,659	19,009
Revaluation reserve		1,763	1,822
Retained earnings		-26,842	-24,990
Equity, attributable to equity holders of the parent	15	1,559	1,827
Non-controlling interests		2,494	2,494
Total equity	**15**	**4,053**	**4,321**
Loans and borrowings	18	3,004	2,301
Retirement benefit obligation	19	5,247	4,864
Provisions	20	72	72
Non-current liabilities		**8,323**	**7,237**
Loans and borrowings	18	113	41
Trade and other payables	21	2,159	1,873
Current tax liabilities	18	63	59
Current liabilities		**2,335**	**1,973**
Total equity and liabilities		**14,711**	**13,531**

The figures following the various items refer to the notes on pages 63 to 96.

Consolidated Statement of Changes in Equity

(x EUR 1,000)	*Number of shares x1,000*	Issued share capital	Share premium	Revaluation reserve	Retained earnings	Equity attribut. to parent	Non-controlling interests	**Total Equity**
Balance at 1 January 2015	***43,519***	**4,788**	**18,084**	**1,859**	**-23,661**	**1,070**	**2,494**	**3,564**
Issuance of ordinary shares	*10,892*	1,198	895	-	-	2,093	-	**2,093**
Value of employee options granted	-	-	30	-	-	30	-	**30**
Transactions with equity holders of the company	***54,411***	**5,986**	**19,009**	**1,859**	**-23,661**	**3,193**	**2,494**	**5,687**
Net profit (loss)	-	-	-	-	-1,505	-1,505	-	**-1,505**
Other comprehensive income:								
Remeasurement of defined benefit obligation	-	-	-	-	139	139	-	**139**
Revaluation of building	-	-	-	-37	37	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-37**	**-1,329**	**-1,366**	**-**	**-1,366**
Balance at 31 December 2015	***54,411***	**5,986**	**19,009**	**1,822**	**-24,990**	**1,827**	**2,494**	**4,321**
Balance at 1 January 2016	***54,411***	**5,986**	**19,009**	**1,822**	**-24,990**	**1,827**	**2,494**	**4,321**
Issuance of ordinary shares	*9,030*	993	637	-	-	1,630	-	**1,630**
Value of employee options granted	-	-	13	-	-	13	-	**13**
Transactions with equity holders of the company	***63,441***	**6,979**	**19,659**	**1,822**	**-24,990**	**3,470**	**2,494**	**5,964**
Net profit (loss)	-	-	-	-	-1,578	-1,578	-	**-1,578**
Other comprehensive income:								
Remeasurement of defined benefit obligation	-	-	-	-	-333	-333	-	**-333**
Revaluation of building	-	-	-	-59	59	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-59**	**-1,852**	**-1,911**	**-**	**-1,911**
Balance at 31 December 2016	***63,441***	**6,979**	**19,659**	**1,763**	**-26,842**	**1,559**	**2,494**	**4,053**

Consolidated Cash Flow Statement

(X EUR 1,000)	Notes	2016	2015
EBITDA		-310	-378
Adjustments for:			
- Movements in net defined benefit obligations	19	-76	-122
- Share based payments	17	13	30
- Accrued interest	6	-28	-
Changes in working capital			
- Inventories	12	-194	65
- Trade and other receivables	13	-53	53
- Trade and other current liabilities	18 21	361	-328
Cash generated from operating activities		**-287**	**-680**
Interest paid	6	-165	-152
Net cash from operating activities		**-452**	**-832**
Cash flows from investing activities			
Investments in property, plant and equipment	8	-1,590	-291
Disposal of property, plant and equipment	8	-	-
Investments in intangible assets	9	-289	-435
Net investments in financial assets	11	1-	-20
Net cash from investing activities		**-1,878**	**-746**
Cash flows from financing activities			
Proceeds from issuance of share capital	15	1,629	2,093
Proceeds from borrowings	18	723	-
Repayment of borrowings	18	-	-40
Net cash flow from financing activities		**2,352**	**2,053**
Net cash flow		**22**	**475**
Cash -/- bank overdrafts at 1 January	14	667	192
Cash -/- bank overdrafts at 31 December	14	689	667
Net cash flow		**22**	**475**

The figures following the various items refer to the notes on pages 63 to 96.

B. Notes to the consolidated financial statements

General information

RoodMicrotec N.V. is a public limited liability company with its registered office in Zwolle, the Netherlands and publicly listed on the Euronext Amsterdam Stock Exchange since 1986. The consolidated financial statements of the company for the year ended 31 December 2016 comprises the company and its subsidiaries (jointly referred to as the 'Group').

Since 6 September 2012 the Group includes the following wholly-owned subsidiaries:

RoodMicrotec GmbH (Nördlingen, Germany)

RoodMicrotec Dresden GmbH (Dresden, Germany)

RoodMicrotec International B.V. (Zwolle, the Netherlands)

The German subsidiaries included in the consolidated financial statements of RoodMicrotec N.V. made use of the exemption provisions of section 264 (3) HGB in the 2016 financial year: RoodMicrotec GmbH, Nördlingen and RoodMicrotec Dresden GmbH, Dresden.

Summary of significant accounting policies

The principal accounting policies used in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and with Section 2:362(9) of the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the board of management on 26 April 2017.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings classified as property, plant and equipment. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (EUR000), except when otherwise indicated.

Use of judgements and estimates

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed in an on-going basis. Most significant estimates are made with regard to reviews for impairment, deferred taxes, pension plans and share-based compensation. For each of these items the assumptions used are disclosed in the respective notes. Revisions of accounting estimates are recognised prospectively.

Going Concern Basis of Accounting

The consolidated financial statements have been prepared on 'a going concern' basis. Management based its opinion for 'going concern' on the following elements:

- The Group's strategic move to larger and long-term projects leads to more predictable and recurring sales;
- In 2015 and 2016 the Group successfully concluded a number of long-term contracts in the automotive and industrial sector, which are expected to result in a substantial increase in sales in the coming years. A number of these projects will be ramping to production during the second half of 2017;
- In the first quarter of 2017, sales increased by 15% compared to the first quarter of 2016. Sales were also higher than budgeted in the first quarter of 2017;
- The sales orders saw a year-on-year increase in 2016 of 20%. The Group has a strong forward order book;
- The cash position remains at a relatively high level and the Group has an unused equity line of EUR 0.4 million as per year-ending 2016.

In particular, the sensitivity of goodwill for impairment as well as the deferred tax assets recognized at balance sheet date are heavily dependent on the aforementioned factors.

Obviously, there are some uncertainties, which by nature are embedded in forecasts and business plans. The forecasted future sales may differ from the actual sales and client orders may be postponed. This can have significant negative effects on the results and cash-flow. However, this is inherent to the business the company is acting in.

Management is of the opinion that the good start in the first quarter 2017, the current budget level of sales in 2017 and the large new long-term projects that will be ramping to production as from the second half of 2017 are sufficient for our going concern assumption. Despite the large net losses from 2014 till 2016, management is confident about the companies' ability to continue its operations as a going concern and the validity of the valuation of goodwill and the deferred tax assets.

Changes in presentation

In the consolidated financial statements 2016 provisions are classified as non-current liabilities. Before this provisions were classifies as trade and other payables. This change of presentation does not have any impact on equity and/or income statement. Comparative 2015 figures are adjusted as follows:

Consolidated balance sheet (x EUR 1,000)	31-12-2015 revised	31-12-2015
Provisions	72	-
Trade and other payables	1,873	1,945

Application of new and revised International Financial Reporting Standards

New accounting policies effective for 2016

The IASB issued several standards or revisions to standards that have become effective for 2016.

Amendments to IAS 1 Disclosure Initiative

Amendments to IAS 1, "Disclosure Initiative," clarify existing disclosure requirements. Most of the amendments were made to address interpretations of the original wording in IAS 1. Specifically, the amendments allow preparers more freedom in applying materiality when deciding what must be disclosed, even if a standard requires specific disclosures. Other disclosure clarifications relate to the presentation order of notes and the use of subtotals to further disaggregate required disclosures. The amendments to IAS 1 apply prospectively for annual periods beginning on or after 1 January 2016. This amendment did not have a significant impact.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

Amendments to IFRS 11, "Accounting for Acquisitions of Interests in Joint Operations," provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 "Business

Combinations." Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.–The amendments did not have any ~~have no~~ impact on the Group.

Annual improvements to IFRSs 2010-2012
Annual improvements to IFRSs 2010-2012 Cycle made a number of amendments to various IFRSs, which did not have a significant effect on the consolidated financial statements.

Amendments to IAS 19 Contributions from employees to defined benefit plans
The objective of the amendments was to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The simplification was to allow entities the option to recognize employee contributions as a reduction of service costs in the period in which the related service is rendered, instead of attributing the employee contributions to periods of service. The amendments have no impact on the Group.

New accounting policies not yet effective for 2016
The IASB issued several standards or revisions to standards that are not yet effective for 2016, but will become effective in coming years.

Amendments to IAS 7 Statement of Cash Flows
The amendments require a reconciliation of the amounts in the opening and closing statements of financial position for each item classified as financing in the statement of cash flows.

Amendments to IAS 12 Income Taxes
Amendments to IAS 12, "Income Taxes," were made to address diversity in practice surrounding the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value, as well as provide additional guidance on how deductible temporary differences should be measured in situations when tax law limits the offsetting of certain types of losses against specific sources of taxable profits. The amendments to IAS 12 apply prospectively for annual periods beginning on or after 1 January 2017. The Group is in the process of evaluating the full impact of the amendments.

Amendments to IAS 16 Plant and Equipment and IAS 38 Intangible Assets
The amendments are applied prospectively and clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The Group does not expect a significant financial effect on the consolidated financial statements.

IFRS 9 Financial Instruments
IFRS 9, "Financial Instruments," addresses the classification, measurement and recognition of financial assets and financial liabilities. The Group does not anticipate that the application of this standard will have a significant effect on the results of future consolidated financial statements financial assets and financial liabilities. IFRS 9, as amended in July 2014, is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15, "Revenue from Contracts with Customers," establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue," IAS 11 "Construction Contracts," and the related Interpretations when it becomes effective for annual periods beginning on or after 1 January 2018. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e., when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. More prescriptive guidance has been added in IFRS to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group is in the process of evaluating the full impact of IFRS 15.

IFRS 16 Leases
IFRS 16, "Leases," eliminates the current dual accounting model for lessees, which distinguish between on balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The Group anticipates that the application of IFRS 16 will have an effect on its reported assets and liabilities, and operating and financing expenses. However, it is not

practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Annual improvements to IFRSs 2011-2013
Annual improvements to IFRSs 2011-2013 Cycle made a number of amendments to various IFRSs, which did not have a significant effect on the consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and all subsidiaries that RoodMicrotec N.V. controls, i.e. when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights are considered when assessing whether RoodMicrotec N.V. controls another entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated in the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the company's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Property, plant and equipment

Assets in ownership

Property, plant and equipment are stated at cost, except for land and buildings, which are carried at fair value, based on periodic valuations by an external independent valuator, less subsequent depreciation. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of directly allocated overheads. Property that is under construction or being developed for future use is classified as property, plant and equipment and stated at cost until construction or development are complete, at which time it is classified as property, plant or equipment. Where an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for as separate items of property, plant and equipment.

Increases in the carrying amount arising from revaluation of land and buildings are credited to other reserves in equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revaluated carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings. When revalued assets are sold, the amounts included in revaluation reserves are transferred to retained earnings.

Lease assets

Leases in which the Group substantially assumes all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by means of a finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

Subsequent cost

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life. Land is not depreciated. The useful economical life of the different categories is set out below:

Category	**Years**
Buildings	20
Machinery and equipment	2-10
Other fixed assets	4-10

The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

Goodwill

Acquisition of businesses is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. Goodwill is carried at cost less accumulated impairment losses.

Goodwill on acquisitions is tested annually for impairment. Impairment losses on goodwill are not reversed. Goodwill is allocated to the cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Customer relations

Intangible assets include customer relations, acquired in a business combination by the Group, and recognised separately from goodwill.

Development expenditure

Expenditure on activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding (research activities) is recognised as an expense in the period in which it is incurred. An intangible asset arising from the Group's development is recognised if, and only if, all of the following conditions are met:

- the asset is uniquely identified and the costs can be determined separately; and
- the technical feasibility of the asset has been sufficiently demonstrated; and
- it is probable that the asset will generate future economic benefits; and
- the development cost can be measured reliably.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Customer relations and development expenditure is amortised from the date when used over the estimated economic useful life, which is expected to be three to five years.

Goodwill is not amortised, and instead tested annually for impairment.

Financial assets

Financial assets are stated at fair value and are not held for trading. At year-end the value is calculated with the net present value method.

Inventories

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs for in marketing, sale and distribution.

Work in progress

Work in progress concerning services rendered on work not yet completed is stated at cost plus a mark-up for directly attributable overheads. Costs include all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Trade and other receivables

Trade and other receivables are stated at fair value and subsequently measured at amortised cost less impairment losses. Due to short-term nature the fair value and amortised cost equal the face value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown separately on the balance sheet.

Impairment

The carrying amounts of assets, of non-financial assets and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is calculated. Intangible assets that are not available for use or assets that have an indefinite useful life are tested annually for impairment.

The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Share capital

Ordinary shares

Ordinary shares are classified as equity. The Group has not issued preference shares.

Share premium

The share premium is the consideration paid for shares in excess of the nominal value.

Dividends

Dividends are recognised as a liability in the period in which they are declared by the shareholders.

Non-controlling interests

Non-controlling interests consist of perpetual bonds and is classified as equity against its nominal value.

Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Deferred income taxes

Deferred income taxes are stated in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is calculated on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of temporary differences is controlled by the Group and it is probable that temporary differences will not be reversed in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

Employee benefits

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans and related plans is calculated separately for each plan by calculating the present value of future benefits that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets. The discount rate is the yield at balance sheet date on high-quality corporate or government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by qualified actuaries using the projected unit credit method.

Only a small part of the employees (approximately 15 FTEs) have a defined pension plan. The pension of these people is limited to a relative small fixed annual amount per year.

Actuarial gains and losses are recognised in other comprehensive income.

Share-based payment transactions

The share option program allows employees of the Group to acquire shares in the company. The fair value of options is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with corresponding adjustments to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The share options are valued using the Black & Scholes Model.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's equity holders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation arising from a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Net sales

Net sales

Revenues from products sold are recognised in accordance with IAS 18, 'Revenue' when the conditions for revenue recognition are met. Revenues from services which relate to projects (Test Engineering, Qualification & Reliability Investigation and Failure & Technology Analysis) are allocated to the net sales on a pro rata basis in proportion to the completion of the project. Revenues from services which relate to production (Test Operations & End-of-line Services and Supply Chain Management) are allocated to net sales on a pro rata basis. Revenue is recognised when delivery has occurred or services have been rendered, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable can be reasonably assured.

Government grants

An unconditional government grant is recognised in the balance sheet when the grant becomes receivable. Any other government grant is initially recognised in the balance sheet as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as revenue over the useful life of the asset.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expenses.

Finance lease payments

Minimum lease payments are proportionally divided between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period in such way that this results in a constant periodical interest rate on the remaining balance of the liability during the lease term.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method. The interest expenses component of finance lease payments is recognised in the income statement using the effective interest rate method.

Income taxes

Income taxes on the profit or loss for the year comprises current and deferred taxes. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax in respect of previous years.

Cash flow statement

The cash flow statement is prepared using the indirect method. It distinguishes between operating, investing and financing activities. Payments and receipts of corporate taxes and interest are included as cash flow from operating activities. Cash flow arising from divestment of financial interests in Group companies and subsidiaries is included as cash flow from investing activities, taking into account the available cash in these interests. If applicable dividends paid are part of the cash flow from financing activities.

Financial risk management and sensitivity analysis

The Group's activities are exposed to a variety of financial risks: market risks (including currency risk and interest rate risk), credit risks and liquidity risks. The Group's overall risk management program focuses on the unpredictability of markets (debtor management) and tries to minimise potential adverse effects on the Group's financial performance. The Group makes limited use of derivative financial instruments to hedge certain risk exposures.

Credit risk

The activities of Group entail various credit risks. The maximum credit risk is equal to the carrying amount of the trade receivables and other receivables. The management has set up credit control policies to reduce the credit risk. The average credit rating of the Group's customers is comparable to the industry. There is no significant concentration of credit risks within the Group, as the Group has a large number of customers. No customers comprise 10% or more of sales.

Foreign currency risks and sensitivity analysis

Within the Group's customer portfolio, the Group is exposed to currency risk. The foreign exchange risk is mitigated by exchange rate clauses in most of the Group's contracts and sales. The Group has sales in US dollar currency however this has minimal effect. The table below summarises the sales in different currencies:

(x EUR 1,000)	2016	2015
Euro denominated net sales	9,901	9,862
US dollar denominated net sales	563	388
Balance at 31 December	**10,465**	**10,250**

Borrowing risks and sensitivity analysis

Generally, the Group raises long-term borrowings at fixed rates. In 2014, the Group issued a bond loan of EUR 2.5 million with mortgage cover and maturity date June 2020. The annual fixed coupon rate is 6% and the effective return rate is 7.44%. The interest (coupon rate) is fixed until June 2020.

In March 2016, investors provided a loan of EUR 750,000 with mortgage cover of EUR 500,000 and EUR 250,000 right of pledge on equipment. The total duration of the loan is 48 months with yearly repayments in March (2017: 10%, 2018: 20%, 2019: 30%, 2020: 40%) The annual payable interest is 5% on the outstanding gross amount and the effective return rate is 8.33%. The interest is fixed until March 2020.

Therefore borrowing risks for this instrument are low.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate credit facility. Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents. Furthermore, liquidity planning is one of the major elements in the Group's budget cycle. Due to company's working capital ratio and market conditions, management has tight monitoring procedures in place regarding direct cash flows. Both the cash position and sales forecasts are frequently reviewed. Managing the working capital position is important in managing our liquidity risk.

As per 31 December 2016 the working capital position is as follows:

(x EUR 1,000)	Current	Non-current	1 to 2 Years	2 to 5 Years	More than 5 years
Inventories	474				
Trade receivables	1,442				
Other receivables	270				
Total interest-bearing loans and borrowings	-113	-3,004	-343	-2,661	
Trade payables	-1,168				
Other payables	-991				
Current tax liabilities	-63				
Cash at bank	689				
Liquidity position (working-capital)	**540**	**-3,004**	**-343**	**-2,661**	**-**

Current liabilities with regard to payments of financing and interest costs are relatively small. The risk of strong fluctuating interest rates is limited and the company has no interest swaps outstanding. The main part of the interest is related to the outstanding bond loan and the 2016 loan. This interest rate is fixed until 30 June 2020 respectively 31 March 2020.

For purposes of financing its working capital position, the company has per 31 December 2016 the following additional finance available:

(x EUR 1,000)	Equity line	Credit line	Total
Balance at 1 January	800	75	875
Reduction credit line	-	-75	-75
Draw down remaining equity line 2015	-800		-800
Equity line concluded in 2016	750		750
Draw down equity line 2016	-281	-	-281
Balance at 31 December	**469**	**-**	**469**

For 2017, it is important to realise the expected further growth in business. Not reaching the plans for 2017 could harm the working capital position and/ or investment plans and additional measurements could be necessary.

Market interest rates and pensions

Changes in discount rates used in pension calculations are related to the changes in capital market interests. Changes in discount rates will result in actuarial gains or losses. According to IAS 19R, these actuarial gains and losses are immediately recognised in other comprehensive income. Disregarding this mitigation a 1% decrease in the market interest rate at year-end would increase the pension obligation by approximately EUR 803,000. A 1% increase of the market interest rate at year-end would lead to a decrease of the pension obligation by approximately EUR 659,000.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may, if and when applicable, adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with other parties in the industry, the Group monitors capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. Below the gearing ratio of 2016 is stated compared to 2015.

(x EUR 1,000)	2016	2015
Total interest-bearing borrowings	3,117	2,342
Less cash and cash equivalents	-689	-667
Net debt	**2,428**	**1,675**
Total equity	4,053	4,321
Total capital	**6,481**	**5,996**
Gearing ratio (net debt/capital x 100%)	**37%**	**28%**

Fair value measurement

The Group measures its non-financial assets at fair value.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset takes place either:

- In the principal market for the asset, or
- In the absence of a principal market, in the most advantageous market for the asset

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1. Net sales

The Group is active in one operating segment, due to the limited size of the company and the internal reporting structure. Sales are reported internally as well as externally in different product/services groups. Every month a consolidated profit & loss statement is prepared, based on which an analysis and management report is communicated. Monthly profit & loss statements per product/service group are not available. As there is identified one operating segment, the IFRS 8 segment reporting disclosures are limited to non-current assets per country and net sales by business unit and net sales by country.

Non-current assets amounting to EUR 125,000 (2015: EUR 145,000) is located in the Netherlands and the bulk of the non-current assets are located in Germany.

Net sales by business unit

(x EUR 1,000)	2016	2015
Test Operations	3,727	3,676
Supply Chain Management (SCM)	2,077	2,348
Failure & Technological Analysis	1,494	1,655
Test Engineering	471	437
Qualification & Reliability Investigation	2,696	2,134
Total	**10,465**	**10,250**

Net sales by country

(x EUR 1,000)	2016	2015
Germany	4,614	4,349
Rest of Europe	5,026	5,453
Asia	503	429
Rest of the world	322	19
Total	**10,465**	**10,250**

The basis for attributing net sales from external customers to individual countries, is the country where the customer is based. No individual customer meets the 10% criteria.

The company makes limited use of government grants. In 2016 approximately EUR 145,000 (2015: EUR 3,000) have been recognised in the sales which concerns two German government grants. These grants are related to the development of a smart probe cart and the development of a test strategy of flexible integrated circuit boards.

2. Cost of sales

(x EUR 1,000)	2016	2015
Change in work in process capitalised	162	-80
Cost of raw materials and consumables	-2,012	-1,786
Total	**-1,850**	**-1,866**

3. Personnel expenses

(x EUR 1,000)	2016	2015
Salaries	4,945	4,789
Social securities	943	960
Share options	13	30
Pension charges	115	81
Total	**6,016**	**5,860**

In 2016, capitalized internal hours are deducted from salaries amounting to EUR 265,000 (2015: EUR 399,000).

The professional categories of the employees are as follows:

Category	2016	2015
Business units	62	66
Management and administrative	15	15
Sales and support	14	13
Total average number of employees	91	94

The average number of persons employed by the Group in 2016 on a full-time basis was 91 (2015: 94). In 2016 an average of 3 persons are employed in the Netherlands on a full-time basis (2015:2).

At year-end 2016, the Group employed 94 persons (2015: 92).

4. Other operating expenses

(x EUR 1,000)	2016	2015
Housing and equipment costs	1,213	1,482
Selling and administrative expenses	1,696	1,420
Total	**2,909**	**2,902**

Lease expenses included in other operating expenses amounts in 2016 consist of lease expenses for equipment and vehicles amounting to EUR 521,000 and rental costs of buildings amounting to EUR 229,000.

Auditor fees

The total costs for the services rendered by Baker Tilly Berk N.V. consist of:

	2016			2015		
(x EUR 1,000)	Baker Tilly Berk NV	Other Bker Tilly network	Total	Baker Tilly Berk NV	Other Bker Tilly network	Total
Audit of annual accounts	52	43	95	48	51	99
Other assurance services	-	-	-	5	-	5
Non audit	-	-	-	-	-	-
Total	**52**	**43**	**95**	**53**	**51**	**104**

5. Depreciation and amortisation

(x EUR 1,000)	2016	2015
Intangible assets	18	-
Land and buildings	116	116
Machinery and equipment	536	470
Other property, plant and equipment	359	344
Total	**1,029**	**930**

6. Financial expenses

(x EUR 1,000)	2016	2015
Interest	220	187
Interest accrued	28	-
Total	**248**	**187**

(x EUR 1,000)	2016	2015
Interest expenses:		
- bond loan	188	182
- other loans	45	-
- other financial expenses /income (-)	15	5
Total	**248**	**187**

(x EUR 1,000)	2016	2015
Interest paid:		
- bond loan	150	147
- other loans	-	-
- other financial expenses /income (-)	15	5
Total	**165**	**152**

The interest expenses 2016 include amortisation costs amounting to EUR 55,000 (2015: EUR 35,000), which relate to discount and bond issuance cost of the bond loan and 2016 loan.

7. Taxes

(x EUR 1,000)	2016	2015
Recognition of deferred tax assets carried forward	-24	7
Changes in deferred tax liabilities	33	-17
Taxes in Consolidated Statement of Profit and Loss	**9**	**-10**

Income taxes paid in 2016 is EUR 0 (2015: EUR 0).

As the major part of the activities is in Germany, the Group uses the German domestic tax rates of 27.5% (2015: 27.5%) in the reconciliation of the effective tax rate below:

(x EUR 1,000)	2016	2015
Profit (loss) before taxes	-1,587	-1,495
Taxes based on the weighted average applicable rate	436	411
Unrecognised deferred tax assets carried forward	-460	-404
Changes in deferred tax liabilities	95	103
Capitalisation of deferred tax liabilities	-62	-120
Taxes in Consolidated Statement of Profit and Loss	**9**	**-10**

8. Property, plant and equipment

(x EUR 1,000)	Land and buildings at fair value	Machinery and equipment	Others	Total
1 January 2015				
Cost or valuation	4,625	24,005	3,808	32,438
Accumulated depreciation	-1,515	-22,879	-2,673	-27,067
Carrying amount				
1 January 2015	**3,110**	**1,126**	**1,135**	**5,371**
Additions	6	215	70	291
Depreciation charge	-116	-470	-344	-930
Carrying amount				
31 December 2015	**3,000**	**871**	**861**	**4,732**
31 December 2015				
Cost or valuation	4,631	24,220	3,878	32,729
Accumulated depreciation	-1,631	-23,349	-3,017	-27,997
Carrying amount				
31 December 2015	**3,000**	**871**	**861**	**4,732**
1 January 2016				
Cost or valuation	4,631	24,220	3,878	32,729
Accumulated depreciation	-1,631	-23,349	-3,017	-27,997
Carrying amount				
1 January 2016	**3,000**	**871**	**861**	**4,732**
Additions	8	1,501	81	1,590
Disposals	-19	-	-9	-28
Depreciation charge	-116	-536	-359	-1,011
Carrying amount				
31 December 2016	**2,873**	**1,836**	**574**	**5,283**
31 December 2016				
Cost or valuation	4,620	25,721	3,939	34,280
Accumulated depreciation	-1,747	-23,885	-3,365	-28,997
Carrying amount				
31 December 2016	**2,873**	**1,836**	**574**	**5,283**
Useful economic life in years	20	2-10	4-10	

Land and buildings at historical cost

(x EUR 1,000)	2016	2015
Initial costs land and buildings	4,594	4,594
Accumulated depreciation	-4,289	-4,244
Net book amount	**305**	**350**

The valuation report dated 15 April 2014 prepared by Diplom-Betriebswirt (FH) Friedrich Kiefer state that the fair value of the land and building is EUR 3,110,000 (valuation in 2011: EUR 3,430,000). In 2017 the land and building will be revaluated.

The valuation of land and building is based on a market valuation of land and rental value in combination with the technical life of the building. The land has been valued against EUR 46 per square meter.

According to IFRS 13 fair value measurement hierarchy, the revalued land and building belongs to Level 3 – Significant Unobservable Inputs. The most significant input, all of which are unobservable is the estimated rental value and the land has been valued against EUR 46 per square meter.

Valuation of land

	Total square meters	EUR/square meter	Total value in EUR
Built land	15,037	46	691,702
Unbuilt land	6,267	46	288,282
Total land	21,304		979,984

Valuation of building

Valuation of the building is based on rental-market prices for office and production space per square meter. The range of market prices per square meter is between 2.25 and 6.5 EUR /square meter.

The total square meters of the building, which has been used to determine the rental value is 5,114 square meters. The total annual rental value amounts EUR 279,420 (this includes the value of the build land).

A multiplier is used (according to valuation techniques in the real estate market) to calculate the value which amounts 10.2. The multiplier 10.20 x annual rental value EUR 279,420 = value of buildings including built land= EUR 2,849,074.

The value of the built land including the unbuilt lands is EUR 2,849,074 plus EUR 288,282 = EUR 3,137,356.

The valuator has rounded the taxation value to EUR 3,110,000.

Impairment loss and subsequent reversal

The company neither incurred nor reversed any impairment losses in 2016 (2015: zero).

Assets under construction

Assets under construction are included in the category ‘others’. As at December 31, 2016, no assets are under construction (2015: EUR 7,600).

Security

Land and buildings amounting to EUR 2.5 million is provided as a mortgage right for the holders of the bond loan issued in June 2014. For the lenders of the 2016 loan a mortgage cover on land and buildings amounting to EUR 500,000 and a right of pledge on machinery and equipment amounting to EUR 250,000 is provided. The right of pledge on machinery and equipment expires as per 31 December 2018 at the latest.

Lease assets

The company leases production equipment and other assets under a number of finance lease agreements. Some leases provide the company with the option to purchase the assets at a beneficial price. The lease assets secures lease obligations.

9. Intangible assets

(x EUR 1,000)	Goodwill	Customer relations	Development expenditure	Total
Cost				
Balance at 1 January 2016	**1,741**	**140**	**435**	**2,316**
Investments	-	-	289	289
Disinvestments	-	-	-46	-46
Balance at 31 December 2016	**1,741**	**140**	**678**	**2,559**
Accumulated amortisation				
Balance at 1 January 2016	**-**	**140**	**-**	**140**
Amortisation	-	-	18	18
Balance at 31 December 2016	**-**	**140**	**18**	**158**
Carrying amount				
Balance at 1 January 2016	**1,741**	**-**	**435**	**2,176**
Balance at 31 December 2016	**1,741**	**-**	**660**	**2,401**

Goodwill

Goodwill is tested annually for impairment. The goodwill is allocated to RoodMicrotec GmbH as the cash-generating unit. The recoverable amount of this cash-generating unit is determined using value in use calculations.

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Expected sales resulting from the large contracts concluded in 2015 and 2016 were the basis for this five-year period. Cash flows beyond the five-year period are extrapolated at a flat sales growth. In net present value it is common use to use a perpetual value in the closing value.

The discount rate used is post-tax and reflects specific (market) risks and represents the current WACC. The proportion of the equity and debt used in the WACC calculation is based on the optimum capital structure. The WACC post tax used is 12.86% (2015: 12.95%).

The discounting rate applied in accordance with IAS 36.55 corresponds to a WACC pre-tax of 17.73% (2015: 17.86%).

The following data have been used for the WACC calculation:

WACC post tax	12.86%
Risk free rate	0.90%
Beta unlevered	1.23
Beta levered	1.23
Market risk premium	6.5%
Company specific size premium	6.0%
Spread	0.9%
Tax rate	27.5%
Cost of debt (post tax)	5.80%
Equity to Enterprise Value	92.85%
Debt to Enterprise Value	7.15%

The recoverable amount for 2016 amounts to EUR 13.9 million. The headroom in the impairment test scenario amounts to EUR 5.7 million. There are no indications for a reasonably possible change in the key assumptions mentioned above.
Sensitivity analysis were prepared to determine the point where an impairment loss would be necessary. The headroom would be zero in case a WACC post tax is used of 20.75%.

Development expenditure

In 2016, the Group invested in internally generated intangible assets amounting to EUR 290,000 (2015 EUR 435,000). These investments mainly relate to the Group's Automotive Competence Centre (ACC) to add automotive competencies to the Group's existing portfolio in order to be able to offer new services that are required for automotive projects. Development expenditure will be amortised during the expected economic lifetime of 4 years starting when the project is finished. In 2016 the amortisation of development expenditure amounts to EUR 18,000. In 2016 EUR 46,000 is disinvested as the future economic benefits were no longer visible.

Amortisation is accounted for in statement of profit or loss within depreciation. Loss on disinvestments is accounted for in the statement of profit or loss within other operating expenses.

10. Deferred taxes

Deferred income tax assets and liabilities are offset, because there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same tax authority. Deferred taxes comprise the following:

(x EUR 1,000)	2016	2015
Deferred income tax assets to be recovered > 12 months	1,565	1,589
Deferred income tax assets to be recovered < 12 months	-	-
Deferred income tax assets (unnetted)	**1,565**	**1,589**
Deferred tax liabilities to be recovered > 12 months	-414	-573
Deferred tax liabilities to be recovered < 12 months	-	-
Deferred income tax liabilities (unnetted)	**-414**	**-573**
Deferred tax assets (netted)	**1,151**	**1,016**

The movement in deferred tax assets is as follows:

Deferred tax assets

(x EUR 1,000)	Total capitalised carry forward losses
Balance at 1 January 2015	**1,582**
Charges for the book year	7
Balance at 31 December 2015	**1,589**
Balance at 1 January 2016	**1,589**
Charges for the book year	-24
Balance at 31 December 2016	**1,565**

The deferred tax asset recognised on the balance sheet is calculated as follows:

Tax losses	EUR 19.3 million
Potential deferred taxes assets regarding carry forward	EUR 5.2 million
Deferred tax assets carry forward recognised	EUR 1.6 million
Recognised tax assets of potential total deferred tax assets	30%

As per year-end 2016, RoodMicrotec GmbH had approx. EUR 19.3 million tax losses which are indefinite in time. Consequently, these tax losses can be carried forward and be compensated with future payable taxes without any time limitation. The corresponding amount of possible tax savings depends on the applicable tax rate, which for RoodMicrotec is 27.5%, being 20.5% on EUR 19.3 million concerning corporate tax losses and 7% on EUR 17.0 million concerning trade tax losses. This results in a potential deferred tax asset in the amount of EUR 5.2 million.

Consistent with past practice, recognition of deferred tax assets is based on the company's (taxable) profits shown in its internal business plan, made on a five-year rolling forecast. The company's business planning for the financial years 2017-2021, results in a EUR 1.6 million deferred tax asset to be recognised in the company's balance sheet.

IAS 12 prescribes that deferred taxes arising from available tax losses are recognised, if the entity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available (IAS 12.35). Entities may look forward for a number of future accounting periods to determine whether they will have sufficient taxable profit to justify recognising a deferred tax asset. In these circumstances, there is no specific restriction on how many years the entity may look forward, unless there is a date which the availability of the tax losses expires. Generally, evidence supporting or indicating future profits in later financial years will generally not be as convincing as that for earlier periods, but there is no rule as to the duration of the lookout period.

No deferred tax assets have been recognised for tax losses in the Netherlands which are definite in time. These unrecognised tax losses in total approximately EUR 0.8 million as per 31 December 2016 (2015: EUR 1.1 million).

Deferred tax liabilities

(x EUR 1,000) revised	1 January 2015	Recognised in profit and loss	Recognised in other comprehensive income	31 December 2015
Revalued land and building	743	-14	-	729
Pension obligations	-608	-	107	-501
Lease assets & other	314	-89	-	225
Development expenditure	-	120	-	120
Total	449	17	107	573

	1 January 2016	Recognised in profit and loss	Recognised in other comprehensive income	31 December 2016
Revalued land and building	729	-22	-	707
Pension obligations	-501	16	-126	-611
Lease assets & other	225	-89	-	136
Development expenditure	120	62	-	182
Total	573	-33	-126	414

As a result of the revaluation of land and buildings, the capitalisation of development expenditure, different valuation pension obligation and others a provision for deferred tax liabilities has been recognised amounting to 27.5% of the difference between the HGB and IFRS valuation. All deferred tax liabilities are within the same jurisdiction.

11. Financial assets

(x EUR 1,000)	2016	2015
Balance at 1 January	3,002	2,982
Net investments	-1	20
Balance at 31 December	**3,001**	**3,002**

The financial assets comprise life insurance policies in total EUR 488,000 (2015: EUR 488,000), which are based on the level input 2, where the insurance company has calculated the value of the assets based on the common used insurance calculation techniques. The financial assets for which fair value (through the profit and loss statement) is measured or disclosed in the financial statements are categorised within the fair value hierarchy.

In addition, the financial assets comprise a UBS deposit for bonds in the Plentum Luxembourg fund in total EUR 2,513,000 (2015: EUR 2,514,000), which is being kept under a Contractual Trust Agreement. UBS Bank and the Plentum Luxembourg fund confirmed the value of the bonds as per 31 December 2016.

As in prior year, these bonds are not netted with the pension liabilities. The reason for this is the fair value of these bonds cannot be reliably substantiated, making these bond assets not qualified as fair value plan assets under IAS 19. The fair value information is lacking due to technical circumstances of the underlying assets. End of 2016, the Group started discussions with Plentum Luxembourg. In 2017, the Group will investigate this in more detail and will compose a plan for a structural solution to solve this.

12. Inventories

(x EUR 1,000)	2016	2015
Raw materials and consumables	133	97
Work in progress	341	139
Finished services	-	43
Total	**474**	**279**

No expenses are included in the consolidated statement of profit or loss in 2016 (2015: zero) with respect to write-downs of inventory to lower net realisable value.

13. Trade and other receivables

The Group's trade & other receivables are specified as follows:

(x EUR 1,000)	2016	2015
Not overdue	1,140	956
< 30 days overdue	291	393
> 30 days and < 60 days overdue	22	40
> 60 days overdue	106	104
Provisions for bad debt	-117	-99
Trade receivables	1,442	1,394
Other receivables	270	265
Total	**1,712**	**1,659**

Provisions for bad debts

(x EUR 1,000)	2016	2015
Balance at 1 January	-99	-142
Addition to the provisions for bad debt	-20	-14
Write-off bad debts	2	57
Balance at 31 December	**-117**	**-99**

14. Cash and cash equivalents

(x EUR 1,000)	2016	2015
Cash at bank and on hand	689	667
Total	**689**	**667**

15. Share capital

Authorised share capital

At 31 December 2016 the authorised share capital comprised 80,000,000 ordinary shares (2015: 80,000,000). The shares have a nominal value of EUR 0.11 each.

In 2016, the movement of the ordinary shares issuances are as follows:

Date of Issuance	Originating from	Nominal Value	Number of Shares	Share Capital	Share Premium
08/01/2016	Warrants II	0.11	239,900	26,389	4,798
11/01/2016	Warrants I	0.11	47,084	5,179	1,883
11/01/2016	Warrants III	0.11	266,622	29,328	26,662
01/02/2016	Equity Line	0.11	925,768	101,834	98,166
29/02/2016	Equity Line	0.11	1,092,969	120,227	79,773
31/03/2016	Equity Line	0.11	967,963	106,476	93,524
08/04/2016	Warrants I	0.11	37,465	4,121	1,499
08/04/2016	Warrants III	0.11	44,506	4,896	4,451
29/04/2016	Equity Line	0.11	1,076,032	118,364	81,637
08/07/2016	Warrants I	0.11	286,996	31,569	11,480
08/07/2016	Warrants III	0.11	134,116	14,753	13,412
13/10/2016	Warrants I	0.11	2,075,892	228,348	83,036
13/10/2016	Warrants III	0.11	267,274	29,400	26,727
31/10/2016	Equity Line	0.11	228,323	25,116	21,759
31/10/2016	Equity Line	0.11	228,323	25,116	21,759
30/11/2016	Equity Line	0.11	248,444	27,329	19,546
30/11/2016	Equity Line	0.11	248,444	27,329	19,546
29/12/2016	Equity Line	0.11	306,792	33,747	13,128
29/12/2016	Equity line	0.11	306,792	33,747	13,128
Total			**9,029,705**	**993,268**	**635,914**

As at 31 December 2016, 63,441,184 ordinary shares are issued (2015: 54,411,479). The company holds 4,100 ordinary shares (2015: 4,100) as treasury shares. The number of shares held by the company at the end of the year under review was less than 0.01% of the issued and paid-up capital (2015: < 0.01%).

As at 31 December 2016, RoodMicrotec N.V. warrants Series I is zero (2015: 2,824,038). The ISIN code is NL0010611406 and the exercise price of each warrant is EUR 0.15. The final exercise date of these warrants was 13 October 2016.

As at 31 December 2016, RoodMicrotec N.V. warrants Series II is zero as well (2015: 259,000). The ISIN code is NL0010938130 and the exercise price of each warrant is EUR 0.13. The final exercise day of these warrants was 08 January 2016.

As at 31 December 2016, RoodMicrotec N.V. has 7,060,633 warrants Series III (2015: 2,206,281). During 2016, additional warrants of 5,566,870 were issued. The ISIN code is NL0011556972 and the exercise price of each warrant is EUR 0.21. These warrants are exercisable each first week of each new quarter in a year. The final exercise day of these warrants is 31 December 2018.

In the past the company has issued warrants to shareholders and investors as an incentive to attract new investors or to reward long-term shareholders. In the future, the company may consider issuing warrants again, but will decide on this on a case by case basis.

Share premium

The share premium reserve relates to the issuance of shares above par and granting of options to employees and management.

Revaluation reserves

As a result of the revaluation of land and buildings a revaluation reserve has been recognised. The revaluation reserve cannot be used for dividend payments.

Non-controlling interests

In November 2010 the Group issued a perpetual bond of EUR 1,994,000. On 27 December 2012 the Group issued additionally a perpetual bond of EUR 500,000 to Plentum Luxembourg S.à.r.L (owner) for the financing of the pension liabilities of RoodMicrotec GmbH. This capital was received and placed on deposit with the UBS Bank.

The annual compensation does not have to be paid, in case RoodMicrotec GmbH makes losses. In case RoodMicrotec is profitable, an annual compensation of 11.70% may be paid, but this is at the discretion of the company. Compensations become due only if, and insofar as, RoodMicrotec GmbH decides on such a payment. If RoodMicrotec GmbH decides against a payment, it is not obliged to pay compensation. If RoodMicrotec GmbH decides on a payment and there are unpaid compensations ("compensation arrears"), then payment of these compensations must occur before any dividends or capital can be paid or distributed to the normal shareholders. As per 31 December 2016, the total unpaid compensation amounts to zero.

Only the company can unilaterally call in this bond. The bond does not entitle the owner to any RoodMicrotec N.V. shareholder rights. If an annual compensation payment leads to an annual net loss for the company in the business year to which the determining profit period refers, or increases a net loss, the claim to this compensation does not arise for the accounting period.

Proposal for result appropriation

In accordance with article 27 of the articles of association, the Group proposes to add the entire result (loss) amounting to EUR 1,578,000 to the reserves.

16. Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

(x EUR 1,000)	2016	2015
Net result attributable to equity holders of the company	-1,578	-1,505
Weighted average number of ordinary shares in issue (in thousands)	58,783	47,485
Basic earnings per share (x EUR 1)	**-0.02**	**-0.03**

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to take into account conversion of all potentially dilutive ordinary shares, consisting of warrants and share options which are in the money.

(x EUR 1,000)	2016	2015
Net result attributable to equity holders of the company (x EUR 1,000)	-1,578	-1,505
Weighted average number of ordinary shares in issue	58,783	47,485
Adjustments for:		
- Warrants (in the money)	7,061	5,289
- Share options (in the money)	1,828	1,588
Weighted average number of ordinary shares for diluted earnings per share	67,672	54,362
Diluted earnings per share (x EUR 1)	**-0.02**	**-0.03**

17. Options

Share options

Share options are granted to the members of the board of management and to selected employees. Mr. Ph.M.G. Nijenhuis in his function of CEO has been granted 100,000 options per half year plus a maximum of 100,000 options per half year depending on the achievement of certain targets related to the Group's performance. Mr. O.M. Sallenhag and Mr. R. Pusch will be granted a maximum of 100,000 options per half year per person depending on the achievement of certain targets related to individual goals and the Group's performance. In general the options will be granted in half-yearly portions. The targets are defined by the supervisory board.

The exercise price of the granted options to Mr. O.M. Sallenhag, Mr. R. Pusch and the employees is equal to the market price of the shares on granting date. The exercise price of the granted options for Mr. Ph.M.G. Nijenhuis is 11 cent. Options are conditional on the employee completing three years' service (vesting period). The share options granted to Mr. Ph.M.G. Nijenhuis, Mr. O.M. Sallenhag and Mr. R. Pusch have no vesting period. Option rights that will not have been exercised as of the day the employer agreement will have been terminated, will lapse three months after that day.

The Group has no legal or constructive obligation to repurchase or settle the options in cash. The share options are valued using the Black and Scholes valuation model.

The following data have been used for the calculation:

- 40.34% volatility, 60 days
- Fair value of share price at grant date: 0.227
- 1% dividend yield
- 4% annual risk-free interest rate
- Expected option life of 3 years

The value of the accrued options in 2016, 100,000 pieces against a weighted average fair value of 13 cents, was EUR 13,000 (2015: EUR 41,000).

The overview of the number of option rights outstanding as at 31 December 2016 is as follows:

Related to financial year	Options 31-12-15	Granted in 2016	Exercised in 2016	Options Cumulated	Exercise price in EUR (average)	First date of exercise
Mr. Ph.M.G. Nijenhuis						
2010	190,000	-	-	190,000	0.11	30 Dec 11
2011	370,000	-	-	560,000	0.11	26 Apr 12
2012	333,440	-	-	893,440	0.11	13 Jun 13
2013	375,000	-	-	1,268,440	0.11	13 Jun 14
2014	320,000	-	-	1,588,440	0.11	01 Oct 15
2015	-	240,000	-	1,828,440	0.11	25 Oct 16
Total	**1,588,440**	**240,000**	**-**	**1,828,440**	**0.11**	

18. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings.

(x EUR 1,000)	2016	2015
Secured bond loan	2,340	2,301
Finance lease liabilities	-	41
Secured loan	692	-
Loans from credit institutions	85	-
Total loans and borrowings	3,117	2,342
Less: current portion of long-term loans	-113	-41
Total non-current loans and borrowings	**3,004**	**2,301**

Terms and debt repayment schedule

(x EUR 1,000)	Total	Current liabilities	Non-current liabilities	1 to 2 Years	2 to 5 Years	More than 5 years
Secured bond loan	2,340	-	2,340	-	2,340	-
Finance lease liabilities	-	-	-	-	-	-
Secured loan	692	75	617	343	274	-
Loans from credit institutions	85	38	47	-	47	-
Total interest-bearing loans and borrowings	**3,117**	**113**	**3,004**	**343**	**2,661**	**-**
Trade and other payables	2,159	2,159	-	-	-	-
Current income tax liabilities	63	63	-	-	-	-
Total other current liabilities	**2,222**	**2,222**	**-**	**-**	**-**	**-**
Total	**5,339**	**2,335**	**3,004**	**343**	**2,661**	**-**

The fair values of the interest-bearing loans and borrowings approximates the nominal value (book value).

Interest expenses repayment schedule as per 31 December 2016

(x EUR 1,000)	Total	Current Liabilities	Non-current liabilities	1 to 2 Years	2 to 5 Years	More than 5 years
Lease	-	-	-	-	-	-
Secured bond loan	685	191	494	195	299	-
Secured loan	84	35	49	28	21	-
Total	**769**	**226**	**543**	**223**	**320**	**-**

Secured bond loan

On 30 June 2014, the Group issued EUR 2,500,000 bond loan with mortgage cover. The bond loan is composed of 2,500 bonds with EUR 1,000 nominal value at an issue price EUR 2,350,000. Maturity date is June 2020. Upon issuance, the bond was discounted at 94% (EUR 150,000). The annual coupon rate is 6% and the effective interest rate is 7.44%. Upon issuance, the Group capitalised bond issuance cost amounting to EUR 100,000 which will be amortised in six years. The amortisation in 2016 related to the discount and bond issuance cost amounted to EUR 38,000 (2015: EUR 35,000). As at 31 December 2016, the secured bond loan amounted to EUR 2,340,000 (2015: EUR 2,302,000).

Finance lease liabilities

The Group leases certain equipment; leases for which the Group bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised upon the commencement of the lease at the lower of the fair value of the leased equipment and the present value of the minimum lease payments.

In 2016 and 2015 no new financial leases were contracted.

Each lease payment is divided proportionally between the liability and finance charges so as to achieve a constant rate on the outstanding finance balance. The corresponding rental obligations, net of financial charges, are included in other short-term and other long-term payables. The interest component of the financial expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the useful life of the asset.

Machinery and equipment includes the following amounts where the Group is a lessee under a finance lease:

(x EUR 1,000)	2016	2015
Cost-capitalised finance leases	2,493	2,493
Accumulated depreciation	-2,493	-2,457
Net book amount	**-**	**36**

(x EUR 1,000)	2016	2015
Gross financial lease liabilities	2,835	2,835
Lease terms paid	-2,835	-2,796
Outstanding lease terms	**-**	**39**

Within 1 year	-	41
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
Outstanding lease terms	**-**	**41**
	-	-2
Less interest expenses		
Present value of financial lease liabilities	**-**	**39**

(x EUR 1,000)	2016	2015
Present value of financial lease liabilities		
Within 1 year	-	39
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
Present value of financial lease liabilities	**-**	**39**

Secured loan

In March 2016, a group of investors provided a loan of EUR 750,000 with mortgage cover of EUR 500,000 and right of pledge on machinery and equipment of EUR 250,000. Upon issuance, the loan was discounted at 90% (EUR 75,000). The total duration of the loan is 48 months with an annual payable interest of 5% on the outstanding gross amount. The effective interest rate is 8.33%. The loan will be repaid in 4 installments in March of each year (2017: 10%, 2018: 20%, 2019: 30%, 2020: 40%).

Loans from credit institutions

In 2016 the Group signed an agreement with a credit institution for a short-term loan of EUR 115,000 for the upgrade of a machine. The loan is repaid in 36 equal monthly installments with a monthly payable interest of 0.33% on the outstanding gross amount (annually effective interest rate of 4.04%).

Interest rates

The average interest rates were as follows:

	2016	2015
Bank overdrafts	8.50%	8.50%
Finance lease liabilities	4.41% - 6.49%	4.41% - 6.49%
Secured bond loan	6.00%	6.00%
Secured loan	5.00%	n/a
Loans from credit institutions	4.04%	n/a

19. Retirement benefit obligations

Defined benefit plans

The Group funds defined benefit plans for qualifying employees at RoodMicrotec GmbH. These plans are subject to German laws and are administered by a separate fund that is legally separated from the company. The trustee(s) of these funds are appointed by the company. The pension benefits are based on the pensionable salary (or in some cases on the ratio of salary and social security contribution ceiling) and the worked service years. Since the 1990's the pension schemes are closed for new members. At the moment the pension schemes have 56 participants of which 18 are active participants.

The plans expose the Group to actuarial risks such as interest rate risk. The schemes do not expose the Group to any unusual scheme-specific risk. The defined benefit pension plan comprising defined benefit arrangements and arrangements congruently matched by insurance policies are partly reinsured. The reserves required for these obligations are recognised, net of plan assets, in the balance sheet.

Not all insurance policies nor an UBS depot for bonds in the Plentum Luxembourg Fund qualify as plan assets defined in IAS 19 'employee benefits'. The fair value of these assets that do not qualify as plan assets have been presented as financial assets. As per 31 December 2016 in total EUR 3.0 million have been presented as financial assets (2015: EUR 3.0 million). These financial assets contain certain risks and uncertainties. We refer to note 11 financial assets.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on 31 December 2016 by Mercer Deutschland GmbH, Mülheim an der Ruhr. The present value of the defined benefit obligation and the related current service costs and past service costs have been measured using the projected unit credit method. The charge for the year is included in the employee benefits expense in the income statement.

The principal assumptions used for the purposes of the actuarial valuations at 31 December are as follows:

	2016	2015
Discount rate at 31 December	1.72%	2.42%
Expected duration in years, active employees	20 years	20 years
Expected duration in years, pensioners	10 years	10 years
Expected duration in years, mixed	15 years	15 years
Mortality	RT Heubeck 2005 G	RT Heubeck 2005 G
Disability	RT Heubeck 2005 G	RT Heubeck 2005 G
Marriage	RT Heubeck 2005 G	RT Heubeck 2005 G
Withdrawal	Mercer Inhouse-Tables	Mercer Inhouse-Tables

The movement in the present value of the defined benefit obligations and in the fair value of the plan assets is as follows:

(x EUR 1,000)	2016	2015
Retirement benefit obligations and plan assets		
Defined benefit obligations at 1 January	6,172	6,591
Current service costs	27	27
Interest costs	146	129
Actuarial gains (-) or losses	512	276
Pension payments	-294	-299
Defined benefit obligations at 31 December	**6,563**	**6,172**
Fair value of plan assets at 1 January	1,308	1,359
Interest costs	31	74
Actuarial gains or losses (-)	53	-29
Benefits paid	-76	-96
Fair value of plan assets at 31 December	**1,316**	**1,308**
Net defined benefit obligations at 31 December	**5,247**	**4,864**

In 2016, plan assets are composed of life insurance policies amounting to EUR 1.3 million (2015: EUR 1.3 million), which are held at insurance companies. The fair values of these life insurance policies are determined based on quoted market prices in active markets. The actual return on plan assets was EUR -27,000 (2015: EUR 29,000). The plan assets do not include any of the Group's own financial instruments, nor any property occupied by or other assets used by the Group.

Amounts recognised in profit or loss related to the Group's defined benefit plans are as follows:

(x EUR 1,000)

	2016	2015
Current service costs	27	27
Net interest expenses	115	54
Expenses (income)recognised in profit and loss	**142**	**81**

Amounts recognised in other comprehensive income (OCI) related to the Group's defined benefit plans are as follows:

(x EUR 1,000)

	2016	2015
Effect of changes in financial assumptions	478	-296
Effect of experience adjustments	34	21
Return on plan assets or reimbursement rights excl. interest income	-53	29
Expenses (income) recognised in OCI	**459**	**-246**

A quantitative sensitivity analysis for the discount rate as at 31 December 2016 is as shown below:

Assumption	**Discount rate**	
Sensitivity level	1% increase	1% decrease
Impact on defined benefit obligation in EUR	-665	803

The sensitivity analysis are prepared at the end of the reporting period using the same methods as applied in the defined benefit obligation in the balance sheet. The sensitivity analysis may not be representative of the actual change in the defined benefit obligation.

The Group's expected pension payments for 2017 are EUR 0.5 million (2016: EUR 0.3 million).

20. Provisions

(x EUR 1,000)	2016	2015*
Warranty provisions	52	51
Other provisions	20	21
Total	**72**	**72**

*The presentation of Provisions and Trade and other payables is adjusted in the comparative figures 2015. A reference is made to page 64.

Warranty provisions are related to warranties issued contractually on products supplied and services rendered as at balance sheet date. The purpose of the provision is to cover costs arising if products and services supplied do not meet the agreed specifications. The provision is based on estimates using the historic warranty data relating to comparable products and services. The provision for warrant obligations are expected to have a duration between one and five years.

The other provisions relate to employee liabilities such as defined jubilees and are in general long term. Remeasurements are recognised in the statement of profit or loss in the period in which they arose.

21. Trade and other payables

(x EUR 1,000)	2016	2015*
Suppliers and trade creditors	1,168	927
Other payables	991	946
Total	**2,159**	**1,873**

*The presentation of Provisions and Trade and other payables is adjusted in the comparative figures 2015. A reference is made to page 64.

Other payables consist of non-trade payables and accrued expenses.

22. Off-balance sheet commitments

Operating leases as lessee

(x EUR 1,000)	2016	2015
Less than one year	466	252
Between one and five years	500	396
More than five years	-	-
Total	**966**	**648**

The Group leases a number of vehicles and equipment under various operating lease agreements. The leases typically run for an initial period of between two and five years, with an option to renew the lease after that date. Lease payments are increased annually to reflect market rentals. None of the leases includes contingent rentals. The operating lease expenses in 2016 were EUR 521,000 (2015: EUR 246,000). There are no sublease contracts or conditional lease payments. The Group does not, in principle, act as a lessor.

Rental commitments

The Group rents its office in Zwolle (the Netherlands) and in Stuttgart (Germany) for a period of five years with renewal rights. The total rental commitment is EUR 377,000 (2015: EUR 557,000).

Capital commitments

As at 31 December 2016 the Group did not enter into a contract to purchase property, plant and equipment (2015: nil).

Security

The "Stichting Obligatiehoudersbelangen" in Amstelveen in the Netherlands representing the bondholders received a German mortgage right that is called “Buchgrundschuld” amounting to EUR 2,500,000. The “Buchgrundschuld” is registered in Augsburg with the land registry number 10988. In 2014, the registered property is valued at EUR 3,110,000 by an officially recognised valuer - Diplom-Betriebswirt (FH) Friedrich Kiefer and concerns the property in Nördlingen, Germany. In 2017, the mortgage right for the secured loan with mortgage cover of EUR 500,000 will be registered in Augsburg, in addition, the secured loan contains a right of pledge on machines and equipment of EUR 250,000. The “Stichting Obligatiehoudersbelangen” represents the lenders of the secured loan.

The holding company has issued a guarantee for EUR 7,500 to a third party concerning the rent of the office in Zwolle.

The holding company and the Dutch subsidiary company form a tax unity for corporate tax. Each of the operating companies is severally liable for tax to be paid by all companies that belong to the tax unity.

23. Related parties

Remuneration of the board of management

The remuneration of the board of management is determined by the supervisory board. In addition to the salary, the Group contributes to a post-employment defined benefit plan on behalf of the board of management.

Remuneration of board of management

	Total regular income		Bonus		Pension		Valuation options		Total	
(x EUR 1,000)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Mr. Ph.M.G. Nijenhuis	89	119	-	-	7	15	13	30	109	164
Mr. O.M. Sallenhag[1]	68	-	-	-	-	-	-	-	68	-
Mr. R. Pusch[1]	68	-	-	-	-	-	-	-	68	-
Total	**225**	**119**	**0**	**0**	**7**	**15**	**13**	**30**	**245**	**164**

[1]from 7 June 2016

Mr. Ph.M.G. Nijenhuis – CEO until 7 June 2016

In 2016, no options were exercised by Mr. Ph.M.G. Nijenhuis (2015: nil). Regarding the options for the Mr. Ph.M.G. Nijenhuis, no options had been granted and approved for the first half of 2016 by the supervisory board as of 31 December 2016. In this context, an accrual has been made for 100,000 potential options rights for Mr. Ph.M.G. Nijenhuis. A scheme has been put in place for exercising the share options, which stipulates that the exercise price of the share options must be paid at the time when they are cashed in.

Mr. Ph.M.G. Nijenhuis owns EUR 22.000 of bonds with in the listed bond of RoodMicrotec N.V. at the NPEX and he participates in the secured 2016 loan to RoodMicrotec N.V. for an amount of EUR 10,000

In June 2016 Mr. Ph.M.G. Nijenhuis stepped down as CEO and as agreed in 2015 started as an advisor to the company. The tasks and duties require approximately 2 working days per week and the monthly salary is decreased to EUR 5,000. The agreement is entered into a period of 10 years. The company is not allowed to give notice against an earlier date. Early termination shall only be by mutual consent or in the case that Mr. Ph.M.G. Nijenhuis is unable to perform the described duties. If the agreement is terminated by the company before the 10 years period is over, the quittance given in 2014 is voided and the company will have to pay the amount in question (EUR 622,000) to Mr. Ph.M.G. Nijenhuis.

Mr. O.M. Sallenhag – CEO as from 7 June 2016 and Mr. R. Pusch – COO as from 7 June 2016

Mr. O.M. Sallenhag and Mr. R. Pusch have waived their options for 2016 due to the financial situation of the company.

Mr. O.M. Sallenhag participates in the secured 2016 loan to RoodMicrotec NV for an amount of EUR 30,000. Mr. R. Pusch participates in the secured 2016 loan to RoodMicrotec N.V. for an amount of EUR 5,000.

Supervisory board

As at 31 December 2016, the members of the supervisory board did not hold any options on shares in the company.

Remuneration of the supervisory board

(x EUR 1,000)	2016	2015
Mr. V.G. Tee	13	13
Mr. Ph.M.G. Nijenhuis	-	-
Total	**13**	**13**

As at 31 December 2016, Mr. V.G. Tee is the only member of the supervisory board. His term runs from 2013 until 2017. No options have been granted and no assets are available to the members of the supervisory board. There are no loans outstanding to the members of the supervisory board, nor have any guarantees been given on behalf of members of the supervisory board. Mr. Ph.M.G. Nijenhuis is elected as member of the supervisory board in June 2016 and stepped down in November 2016. Remuneration is part of the agreement in his role as an advisor of the company.

Shares of members of the board of management and supervisory board

At the end of 2016, the members of the supervisory board did not hold any shares in the company. Among the members of the board of management, Mr. O.M. Sallenhag owned 250,000 shares and 22,916 warrants Series III.

Other related party transactions

In 2016, the Group has not entered into any other related party transactions except for intercompany charges between RoodMicrotec N.V. and RoodMicrotec GmbH.

24. Events after balance sheet date

In the beginning of 2017, the following events after balance sheet date occurred:

- Exercise of warrants Series III that resulted in an increase of 31,063 shares (exercise price: EUR 0.21) on 12 January 2017
- Exercise of warrants Series III that resulted in an increase of 8,972 shares (exercise price: EUR 0.21) on 13 April 2017
- On 31 January 2017, 528,392 shares were issued at EUR 0.18, on 28 February 2017, 442,834 shares were issued at EUR 0.21, and on 31 March 2017, 569,872 shares were issued at EUR 0.17.
- On 26 January 2017 Mr. H.J. Bartelink and Mr. J.B. Tuik are elected as members of the supervisory board in an extraordinary shareholders meeting.

C. COMPANY FINANCIAL STATEMENTS

Company Statement of Financial Position

(x EUR 1,000)	Notes	2016	2015
ASSETS			
Property, plant and equipment		125	145
Investments in subsidiaries	1	-	-
Loans to group companies	2	5,898	2,755
Non-current assets		**6,023**	**2,900**
Loan to group companies		686	3,437
Trade and other receivables		50	55
Cash and cash equivalents		504	422
Current assets		**1,240**	**3,914**
Total assets		**7,263**	**6,814**
EQUITY AND LIABILITIES			
Issued share capital		6,979	5,986
Share premium		19,659	19,009
Revaluation reserve		1,763	1,822
Retained earnings		-25,264	-23,485
Result for the year		-1,578	-1,505
Equity, attributable to equity holders	**3**	**1,559**	**1,827**
Perpetuals		2,494	2,494
Total risk-bearing capital	**3**	**4,053**	**4,321**
Loans and borrowings		2,966	2,314
Non-current liabilities		**2,966**	**2,314**
Loans and borrowings		75	-
Trade and other payables		169	179
Current income tax liabilities		-	-
Current liabilities		**244**	**179**
Total equity and liabilities		**7,263**	**6,814**

The figures following the various items refer to the notes on pages 99 to 103.

Company Statement of Profit or Loss

(x EUR 1,000)	Notes	2016	2015
Net sales	4	509	543
Cost of sales	5	-	-3
Gross profit		**509**	**540**
Personnel expenses	6	-244	-198
Other operating expenses	7	-554	-734
Total operating expenses		**-798**	**-932**
EBITDA		**-289**	**-392**
Depreciation and amortisation	8	-26	-21
EBIT		**-315**	**-413**
Financial income or expenses (-)	9	295	232
Profit (loss) before taxes		**-20**	**-181**
Taxes	10	-	-
Parent company income or loss (-)		**-20**	**-181**
Net profit or loss (-) from group companies	11	-1,558	-1,324
Net profit (loss)		**-1,578**	**-1,505**

The figures following the various items refer to the notes on pages 99 to 103.

D. Notes to the company financial statements

Accounting policies relating to valuation principles and determination of the result

The company financial statements have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code. In accordance with article 2:362 (8) of the Dutch Civil Code, the accounting policies for the parent company are identical to the policies that RoodMicrotec N.V. applies with regard to the consolidated financial statements. Information on the accounting policies is given in the notes to the consolidated financial statements.

Investments in Subsidiaries

In accordance with article 2:362 (8) of the Dutch Civil Code, subsidiaries that are included in the consolidation are stated at net asset value. The equity and results of the subsidiaries have been determined in accordance with the accounting policies of the Group.

Loans to group companies

Long-term receivables included here are stated at nominal value less any provisions considered necessary.

1. Investments in subsidiaries

This item relates to wholly owned subsidiaries. Movements in this item in the year under review were as follows:

(x EUR 1,000)	2016	2015
Balance at 1 January	-	44
Profit of group companies	-1,558	-1,324
Remeasurement of defined benefit obligations	-459	246
Remeasurement of defined benefit obligations – DTL	126	-107
Provision subsidiaries	1,891	1,141
Revaluation of building	-	-
Balance at 31 December	**-**	**-**

2. Loans to group companies

This item relates to subordinated loans issued to the subsidiaries. The subordinated loans amounted to EUR 1,580,000 with an interest rate of 8%, a EUR 2,700,000 loan with an interest rate of 7%, and a 5,250,000 loan with an interest rate of 5%.

Movements in this item were as follows:

(x EUR 1,000)	2016	2015
Balance at 1 January	2,755	4,751
Addition	5,250	500
Provision subsidiaries	-1,891	-1,141
Current portion	-216	-1,355
Loans at 31 December	**5,898**	**2,755**

For the negative equity of the German subsidiaries a provision on the non-current loans to group companies is recognised. This provision amounts EUR 1,891,000 as per 31 December 2016 (31 December 2015: EUR 1,141,000). RoodMicrotec N.V.is liable for these subsidiaries.

3. Equity attributable to equity holders

(x EUR 1,000)	Issued share capital	Share premium	Revaluation reserve	Retained earnings	Result for the year	Total equity, share holders	Perpetuals	Total risk-bearing capital
Balance at 1 January 2015	**4,788**	**18,084**	**1,859**	**-23,661**	**-**	**1,070**	**2,494**	**3,564**
Issue ordinary shares	1,198	895	-	-	-	2,093	-	2,093
Valuation options granted		30	-	-	-	30	-	30
Loss on participation			-	-	-	-	-	-
Transactions with equity holders	**5,986**	**19,009**	**1,859**	**-23,661**	**-**	**3,193**	**2,494**	**5,687**
Profit and Loss	-	-	-	-	-1,505	-1,505	-	-1,505
Other comprehensive income								
Remeasurement of defined benefit obligation	-	-	-	139	-	139	-	139
Revaluation of building	-	-	-37	37	-	-	-	-
Total OCI for the year	**-**	**-**	**-37**	**176**	**-1,505**	**-1,366**	**-**	**-1,366**
Balance at 31 December 2015	**5,986**	**19,009**	**1,822**	**-23,485**	**-1,505**	**1,827**	**2,494**	**4,321**

(x EUR 1,000)	Issued share capital	Share premium	Revaluation	Retained earnings	Result for the year	Total equity, share holders	Perpetuals	Total risk-bearing capital
Balance at 1 January 2016	**5,986**	**19,009**	**1,822**	**-24,990**	**-**	**1,827**	**2,494**	**4,321**
Issue ordinary shares	993	637	-	-	-	1,630	-	1,630
Valuation options granted		13	-	-	-	13	-	13
Loss on participation			-	-	-	-	-	-
Transactions with equity holders	**6,979**	**19,659**	**1,822**	**-24,990**	**-**	**3,470**	**2,494**	**5,964**
Profit and Loss	-	-	-	-	-1,578	-1,578	-	-1578
Other comprehensive income								
Remeasurement of defined benefit obligation	-	-	-	-333	-	-333	-	-333
Revaluation of building	-	-	-59	59	-	-	-	-
Total OCI for the year	**-**	**-**	**-59**	**-274**	**-1,578**	**-1,911**	**-**	**-1,911**
Balance at 31 December 2016	**6,979**	**19,659**	**1,763**	**-25,264**	**-1,578**	**1,559**	**2,494**	**4,053**

Legal reserves

The legal reserves within equity which is attributable to the equity holders of the company are specified as follows:

(x EUR 1,000)	2016	2015
Balance as at 1 January	**2,137**	**1,859**
Depreciation buildings	-81	-51
Depreciation buildings – DTL	22	14
Capitalised development expenditure	235	435
Capitalised development expenditure - DTL	-61	-120
Balance as at 31 December	**2,242**	**2,137**

A legal reserve has been formed for the revaluation reserve which is the result of the revaluation of land and buildings of RoodMicrotec GmbH. In 2015 a statutory reserve has been formed for capitalised development expenditure of RoodMicrotec GmbH, which is included within retained earnings in equity.

These reserves are regarded legal reserves pursuant to Article 2:373 of the Dutch Civil Code and, consequently, are not available for dividend payments to equity holders.

4. Net sales

Net turnover comprises charges to group companies with regard to management fees.

5. Cost of sales

(x EUR 1,000)	2016	2015
Change in work in process capitalised	-	-
Cost of raw materials and consumables	-	3
Total	**-**	**3**

6. Personnel expenses

(x EUR 1,000)	2016	2015
Salaries	213	152
Social securities	18	16
Share options	13	30
Pension charges	-	-
Total	**244**	**198**

7. Other operating expenses

(x EUR 1,000)	2016	2015
Housing and equipment costs	29	33
Selling and administrative expenses	525	701
Total	**554**	**734**

8. Depreciation and amortisation

(x EUR 1,000)	2016	2015
Machinery and equipment	23	18
Other fixed assets	3	3
Total	**26**	**21**

9. Financial income or expenses

(x EUR 1,000)	2016	2015
Interest income / expenses (-)	267	232
Interest accrued income / expenses (-)	28	-
Total	**295**	**232**

(x EUR 1,000)	2016	2015
Interest income:		
- intercompany loan	525	414
- other financial income	1	1
Interest expenses:		
- bond loan	-186	-183
- other loans	-45	-
Total	**295**	**232**

The interest expenses 2016 include amortisation costs amounting to EUR 55,000 (2015: EUR 35,000), which relate to discount and bond issuance cost of the bond loan and 2016 loan.

10. Taxes

(x EUR 1,000)	2016	2015
Profit (loss) before taxes	-20	-181
Taxes based on the weighted average applicable rate	-	-
Taxes in Company Statement of Profit and Loss	**-**	**-**

11. Net profit or loss (-) from group companies

(x EUR 1,000)	2016	2015
Net profit or loss (-) from affiliated companies:		
- RoodMicrotec Dresden	-43	-37
- RoodMicrotec GmbH	-1,515	-1,287
Total	**-1,558**	**-1,324**

Employees
RoodMicrotec N.V. has an average of 3 employees in 2016 (2015:2)

Commitments
RoodMicrotec N.V and the Dutch subsidiary company form a tax unity for corporate tax. Each of the operating companies is severally liable for tax to be paid by all companies that belong to the tax unity.

Events after balance sheet date
For information on the events after balance sheet date, reference is made to note 24 in the consolidated financial statements.

Zwolle, 26 April 2017

Board of management
O.M. Sallenhag, CEO
R. Pusch, COO

Supervisory board
V.G. Tee, Chairman
H.J. Bartelink
J.B. Tuik

OTHER INFORMATION

Profit appropriation

Article 27 of the articles of association includes the following provisions for profit appropriation:

1. the company may pay dividends and make other distributions only to the extent that its equity exceeds the amount of the paid-up and called-up portion of the share capital plus the reserves which must be maintained by law and under these articles;
2. subject to the prior approval of the supervisory board, the board of management is authorised to add any profit in whole or in part to the reserves;
3. any profit remaining after reservation referred to in the preceding paragraph will be at the disposal of the annual general meeting of shareholders;
4. to the extent that the general meeting of shareholders does not resolve to distribute the profit for any financial year, such profit will be added to the reserves.

INDEPENDENT AUDITOR'S REPORT

To: The shareholders and supervisory board of RoodMicrotec N.V.

A. Report on the audit of the financial statements 2016 included in the annual accounts

Our disclaimer of opinion

We were engaged to audit the accompanying financial statements 2016 of RoodMicrotec N.V., based in Zwolle. The financial statements include the consolidated financial statements and the company financial statements.

We do not express an opinion on the accompanying consolidated and company financial statements of the company. Due to the significance of the matter described in the 'Basis for our disclaimer of opinion' section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the accompanying consolidated and company financial statements.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2016;
2. the following statements for 2016:
3. the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows; and
4. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company statement of financial position as at 31 December 2016;
2. the company statements of profit or loss for 2016; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Material uncertainty related to going concern

We draw attention to the going concern paragraph in the "notes to the consolidated financial statements" on page 64 of the financial statements which indicates that the company depends on a future positive result development. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Basis for our disclaimer of opinion

As per 31 December 2016 the company owns pension plan assets for an amount of EUR 2.513.000 (2015: EUR 2.514.000), for this we refer to note 11 on page 84. These plan assets consist of a portfolio of high risk securities, issued by a number of companies in the period between 2010 and 2016. There seems to be no trading activity in these certificates, the basis for the current carrying value is equal to the face value at the moment of issuance of these securities. Due to the fact that the responsible asset management company does not have sufficient information available with regard to the fair value of the assets we have been unable to obtain appropriate audit evidence supporting the fair value of these assets as per 31 December 2016 and/or as per 1 January 2016.

As a result of this matter, we are unable to determine whether any adjustments were necessary in respect of the valuation of the pension plan assets and the elements making up the profit and loss account.

We are independent of RoodMicrotec N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 125.000. As the company is in a loss making situation the materiality is based on approximately 1.5% of net sales. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 6.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

RoodMicrotec N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of RoodMicrotec N.V.

We are responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our group audit mainly focused on RoodMicrotec GmbH (Germany) as this is the most significant component within the group. Substantially all of the company's business activities take place in Germany. Baker Tilly Roelfs AG, our member firm in Germany, was engaged to perform the audit for consolidation purposes, this in line with our audit instructions.

With regard to the audit work performed by the component auditors, we determined our level of involvement necessary to be able to draw a conclusion whether sufficient appropriate audit evidence regarding these components is obtained as a basis for our audit opinion on the consolidated financial statements as a whole. This year we visited the auditors of Baker Tilly Roelfs in Germany at year end. We also consulted with our colleagues throughout the audit at different times to match the audit strategy and audit findings. The consolidation of the group, the disclosures in the financial statements and a number of specific elements are audited by the group audit team. These elements include the valuation of the plan assets and the classification of the perpetual bonds.

Through the above work with (group) elements, combined with additional work at the group level, we have obtained sufficient appropriate audit evidence regarding the financial information of the group to report on the consolidated financial statements.

B. Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- General
- The report of the board of management;
- The report of the supervisory board;
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code;

Due to the significance of the matter described in the 'Basis for our disclaimer of opinion' section, we have not been able to consider in accordance with Part 9 of Book 2 of the Dutch Civil Code whether or not the other information does not contain material misstatements.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We were engaged to read the other information and, based on our knowledge and understanding to obtain through our audit of the financial statements or otherwise, to consider whether the other information contains material misstatements.

The board of management is responsible for the preparation of the other information, including the report of the board of management in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

We were engaged by the supervisory board as auditor of RoodMicrotec N.V. on 29 September 2015, as of the audit for the year 2015 and have operated as statutory auditor ever since that date.

D. Description of responsibilities regarding the financial statements

Responsibilities of board of management and the supervisory board for the financial statements

The board of management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the board of management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of management should prepare the financial statements using the going concern basis of accounting unless the board of management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The board of management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with Dutch law, including the Dutch Standards on Auditing. However, due to the matter described in the 'Basis for our disclaimer of opinion' paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Concluding on the appropriateness of management's 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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. 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 a company to cease to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

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

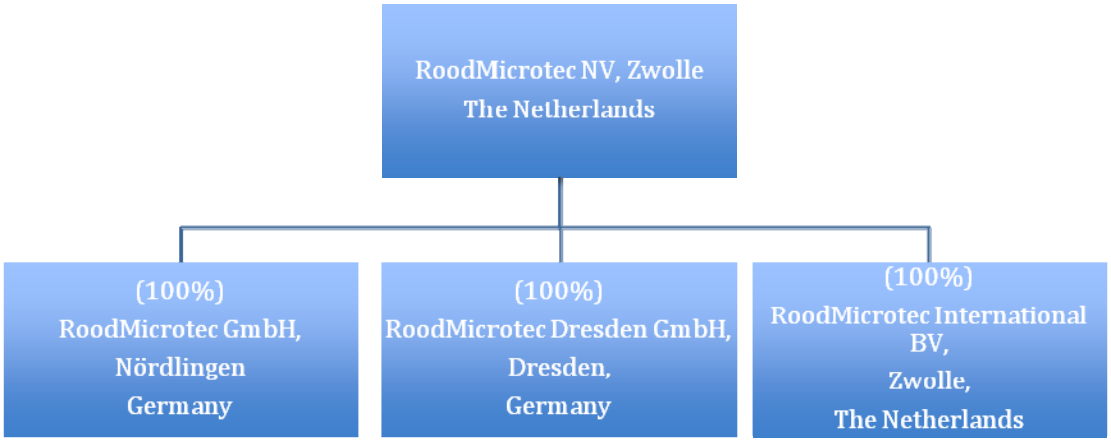
Zwolle, 26 April 2017

Baker Tilly Berk N.V.

Signed by:

G. Frühling

Group Structure



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