



Leclanché Group

2016 Annual Report

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## CORPORATE GOVERNANCE

The following section has been prepared in accordance with the Swiss Code of Obligations and the Directive on Information Relating to Corporate Governance issued by the SIX Swiss Exchange. Additional disclosures required by the Directive on Information Relating to Corporate Governance for issuers subject to the Ordinance against Excessive Compensation at Listed Companies (OaEC) can be found in the separate section Compensation Report or in Leclanché SA's Articles of Association (available upon request).

Except when otherwise provided by law, the Articles of Association or Leclanché's Organisational Regulations, all areas of management are fully delegated by the Board of Directors to the Executive Committee.

### 1. Group Structure and Shareholders

#### Group structure

Leclanché SA (the "**Company**") was incorporated in Yverdon-les-Bains (Switzerland) as a Swiss limited company on 3 August 1909 with the Register of Commerce of the Canton of Vaud. The Company has its corporate legal headquarter at Avenue des Sports 42, 1400 Yverdon-les-Bains. The Company is listed under the Main Standard on the SIX Swiss Exchange under Swiss security number 11030311 (ISIN: CH0110303119). The Company is listed under the symbol "LECN". As at 31 December 2016, the market capitalisation of the Company was CHF 130,089,306 (31 December 2015: CHF 87,934,900).

Leclanché S.A.'s subsidiaries are:

	Registered offices	Country	Currency	Share capital	Ownership interest
Leclanché GmbH	Willstätt	Germany	EUR	270,600	100%
Leclanché UK Ltd	London	England	GBP	100	100%
Leclanché BVBA	Turnhout	Belgium	EUR	1,659,854	100%
Leclanché North America Inc.	Wilmington, Delaware	USA	USD	0.01	100%

Leclanché S.A. and its subsidiaries (the "**Group**") are dedicated to the design, development and manufacturing of customised and turnkey energy storage solutions for electricity generation and transmission, mass transportation, heavy industrial machines and specialty battery systems.

There are no other companies belonging to the Group.

The operational structure of the Group corresponds to the segment reporting presented on Note 3 of the consolidated financial statements.

#### Significant shareholders

Pursuant to the information provided to the Company by its shareholders in accordance with Article 20 of the Swiss Stock Exchange Act (SESTA), the following shareholders held more than 3% of the voting rights of Leclanché S.A. as of 31 December 2016.

Shareholder	Number of Existing Shares held	Voting rights (%) <sup>(1)</sup>	Total purchase positions (Rights)	Total purchase positions (Rights,%) <sup>(1)</sup>
Golden Partner International SA SPF <sup>(2)</sup>	13,614,493	28.4	-	-
Logistable Limited Group <sup>(7)</sup>	6,823,466	14.2	2,040,168 <sup>(4)</sup>	4.2
Bruellan Corporate Governance Action Fund <sup>(5)</sup>	6,563,803	13.7	-	-
ACE Energy Efficiency SPC <sup>(3)</sup>	2,511,572	5.2	5,917,829 <sup>(4)</sup>	12.3
Recharge ApS <sup>(6)</sup>	2,327,614	4.8	-	-

<sup>(1)</sup> The percentages reflected are based on the outstanding share capital of the Company as included in the Commercial Register of the Canton of Vaud (i.e., CHF 72,005,151, divided into 48,003,434 fully paid-in registered shares each with a nominal value of CHF 1.50).

<sup>(2)</sup> Golden Partner International SA SPF, 16 Boulevard Emmanuel Servais, 2535 Luxemburg. Date of publication of most recent notification: 5 January 2016.

<sup>(3)</sup> ACE Energy Efficiency SPC, Codan Trust Company (Cayman) Ltd, Cricket Square, PO Box 2681, KY1-1111 Grand Cayman, Cayman Islands. Date of publication of most recent notification: 8 December 2016.

<sup>(4)</sup> The total purchase positions relate to conversion rights under the LECN Co Invest/ACE/Jade Convertible Loan. For additional information, please refer to the below section 2. Capital Structure/Convertible loans” and to Note 16A of the consolidated financial statements.

<sup>(5)</sup> Bruellan Corporate Governance Action Fund. Grand Cayman, KYI 9005, Cayman Islands. Date of publication of most recent notification: 30 August 2016.

<sup>(6)</sup> Recharge ApS, Vedbaek Strandvej 328, 2950 Vedbaek, Denmark. Date of publication of most recent notification: 22 December 2016.

<sup>(7)</sup> Logistable Limited Group, Suite 3a Tisa House, 143 Main Street, Gibraltar, UK. Date of publication of most recent notification: 28 June 2016.

33 disclosure notifications according to Article 20 SESTA were published by the Company in 2016. These notifications (including further details on the above-mentioned notifications) can be accessed at: <http://www.six-exchange-regulation.com>

### Cross-shareholdings

The Company has no cross-shareholdings in excess of 5% of the capital or the voting rights with any other company.

## 2. Capital Structure

### Share capital

At 31 December 2016, the issued share capital of the Company amounts to CHF 72,005,151, divided into 48,003,434 fully paid-in registered shares with a nominal value of CHF 1.50 each.

### Conditional share capital

The conditional share capital of the Company represents an aggregate amount of CHF 19,664,173.50 and is divided into the following components:

#### Conditional capital reserved for stock option plans

Pursuant to Article 3<sup>ter</sup> of the Articles of Association, the Company's share capital can be increased by a maximum aggregate amount of CHF 4,500,000 through the issuance of a maximum of 3,000,000 fully paid-in registered shares with a nominal value of CHF 1.50 each, by the issuance of new shares to employees of the Company and group companies. The pre-emptive rights of the shareholders are excluded. The shares or rights to subscribe for shares shall be issued to employees pursuant to one or more regulations to be issued by the Board of Directors or, to the extent delegated to it, the Appointments and Remuneration Committee, taking into account performance, functions, levels of responsibility and profitability criteria. The Board of Directors determines the issue price. Shares or subscription rights may be issued to employees at a price lower than that quoted on the stock exchange. The new registered shares are subject to the restrictions set forth in Article 4 (*Transferability of shares*) of the Articles of Association. As at 31 December 2016, no shares were issued on the basis of Article 3<sup>ter</sup> of the Articles of Association.

#### Conditional capital reserved for convertible loans

Pursuant to Article 3<sup>quinquies</sup> of the Articles of Association, the Company's share capital can be increased by a maximum aggregate amount of CHF 15,164,173.50, by issuing a maximum of 10,109,449 fully paid-in registered shares with a nominal value of CHF 1.50 each, by the exercise of conversion rights and/or warrants granted in connection with the (i) issuance on national or international capital markets of newly or already issued bonds or other financial market instruments or (ii) loans entered into by the Company or one of its group companies. The pre-emptive rights of the shareholders shall be excluded in connection with the issuance of convertible or warrant-bearing bonds or convertible loans or other financial market instruments or the grant of warrant rights. The then current owners of conversion rights and/or warrants shall be entitled to subscribe for the new shares. The conditions of the conversion rights and/or warrants shall be determined by the Board of Directors. The Board of Directors shall be authorised to exclude or restrict the advance subscription rights of shareholders (i) in connection with the convertible loan agreement with Recharge ApS ("**Recharge**") and ACE Energy Efficiency SPC ("**ACE**") of December 7, 2014, as amended from time to time (the "**Recharge Convertible Loan/ACE Convertible Loan**") or (ii) in connection with the financing or refinancing of investments and the Company's expansion plan. The conversion shall be made in accordance with the terms of the Recharge Convertible Loan/ACE Convertible Loan. The conversion rights granted to Recharge/ACE under the Recharge Convertible Loan/ACE Convertible Loan pursuant to (i) above are needed for the restructuring and further expansion of the Company. The conversion shall be made in accordance with the terms of the Recharge Convertible Loan/ACE Convertible Loan. The conversion rights are exercisable until 30 June 2016, subject to extensions (all in accordance with the terms of the respective agreements). If advance subscription rights are excluded based on (ii) above, the following shall apply: the convertible or warrant-bearing debt or loan instruments shall be issued at the relevant market conditions and the new shares shall be issued pursuant to the relevant market conditions taking into account the funding and operational position of the Company, the share price and/or other comparable instruments having a market price. Issue prices below the market price of the shares are possible. Conversion rights may be exercised during a maximum 10-year period, and warrants may be exercised during a maximum 7-year period, in each case

from the date of the respective issuance. The new registered shares are subject to the restrictions set forth in Article 4 (*Transferability of shares*) of the Articles of Association.

#### **Authorised share capital**

Pursuant to Article 3<sup>quater</sup> of the Articles of Association, the Board of Directors is authorised until 3 May 2018 to increase the share capital up to a maximum amount of CHF 22,039,597.50 through the issue of a maximum of 14,693,065 fully paid-in registered shares with a nominal value of CHF 1.50 each. Partial capital increases are possible. An increase of the share capital (i) by means of an offering underwritten by a financial institution, a syndicate of financial institutions or another third-party or third-parties, followed by an offer to the then-existing shareholders of the Company, and (ii) in partial amounts shall be permissible. The Board of Directors shall determine the date of the issuance, the issue price, the type of contributions, the date from which the shares carry the right to dividends, the conditions for the exercise of the pre-emptive rights and the allotment of pre-emptive rights that have not been exercised. The Board of Directors may allow the pre-emptive rights that have not been exercised to expire, or it may place such rights or shares, the pre-emptive rights of which have not been exercised, at market conditions or use them otherwise in the interest of the Company. Contributions from freely disposable equity capital of the Company (including the Company's capital contribution reserves) pursuant to Article 652d of the Swiss Code of Obligations up to the entire issue price per registered share are possible.

The Board of Directors is authorised to withdraw or limit the pre-emptive rights of the shareholders and allot them to individual shareholders or third-parties (i) in connection with the convertible loan agreement with Recharge ApS ("**Recharge**") and ACE Energy Efficiency SPC ("**ACE**") of December 7, 2014 (the "**Recharge Convertible Loan/ACE Convertible Loan**"), as amended from time to time, with the lenders being entitled to pay the issue price in whole or in part by offsetting against claims under the Recharge Convertible Loan/ACE Convertible Loan agreement, (ii) in connection with the Recharge Convertible Loan/ACE Convertible Loan in the event Recharge/ACE request the Company to conduct a capital increase, (iii) in connection with the financing or refinancing of the investments of the Company or the acquisitions or financing of acquisitions of the Company (be it by way of equity or convertible debt issues), (iv) in connection with warrants granted to Talisman Infrastructure International Ltd., a company associated with Talisman Infrastructure Ventures LLP, (v) for purposes of granting an over-allotment option (Greenshoe) of up to 20% of the total number of shares in a placement or sale of shares to the respective initial purchaser(s) or underwriter(s) or (vi) use of shares as consideration in mergers, acquisitions or investments of the Company. The new registered shares are subject to the restrictions set forth in Article 4 (*Transferability of shares*) of the Articles of Association.

#### **Changes in share capital**

During the last three financial years, the following changes in the share capital of the Company have occurred:

- At the ordinary general meeting of shareholders of 3 April 2014, the shareholders approved a reduction of the nominal share capital of the Company by CHF 8,158,607.87 through the reduction of the nominal value of all outstanding 13,374,767 registered shares of the Company from CHF 2.11 to CHF 1.50 per share. At the same meeting, the shareholders approved the increase of share capital by CHF 10,703,782.50 through the issuance of 7,135,855 fully paid-in registered shares with a nominal value of CHF 1.50 each. The capital increase was registered in the Commercial Register of the Canton of Vaud on 10 April 2014.
- On 30 June 2014, Precept converted the last tranche of the Precept Loan into 1,470,581 registered shares issued under Article 3<sup>quinquies</sup> of the Articles of Association. The increased share capital of 32,971,804.50 divided into 21,981,203 registered shares was updated in the Articles of Association effective 8 October 2014.

- On 21 January 2015, Recharge converted into equity the equivalent amount of CHF 3,659,463 due under the Oakridge Convertible Loan on the basis of a resolution passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 from the Company's conditional capital. Pursuant to this conversion into equity, the Company issued 2,439,642 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 9 April 2015.
- On 11 June 2015, Talisman converted into equity the equivalent amount of CHF 150,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 6 May 2015. On 19 May 2015, Recharge converted into equity the equivalent amount of CHF 1,598,505 due under the Oakridge Convertible Loan on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 from the Company's conditional capital. Pursuant to this conversion into equity, the Company issued 1,165,670 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 15 June 2015.
- On 15 July 2015, Recharge converted into equity the equivalent amount of CHF 12,750,000 due under the Recharge Convertible Loan on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and of the Board of Directors on 6 July 2015 from both the Company's authorised and conditional capital. Pursuant to this conversion into equity, the Company issued 8,500,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 17 July 2015.
- On 22 July 2015, Talisman converted into equity the equivalent amount of CHF 225,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 16 July 2015 from the Company's authorised capital. Pursuant to this conversion into equity, the Company issued 150,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 23 July 2015.
- On 17 September 2015, the Company issued 1,000,000 new registered shares on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 10 September 2015 from the Company's authorised capital in connection with the Company's acquisition of certain design and intellectual property rights from ads-tec GmbH. The capital increase was registered in the Commercial Register of the Canton of Vaud on 18 September 2015.
- On 8 October 2015, Talisman converted into equity the equivalent amount of CHF 150,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 6 October 2015 from the Company's authorised capital. Pursuant to this conversion into equity, the Company issued 100,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 12 October 2015.
- On 17 November 2015, Talisman converted into equity the equivalent amount of CHF 240,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 10 November 2015. Pursuant to this conversion into equity, the Company issued 160,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 18 November 2015.
- On 17 November 2015, the Company issued 512,014 new registered shares on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 10 November 2015. The contribution for each new registered share is effected by way of contribution in kind of all of the EUR 1,659,854 shares of Leclanché BVBA, Turnhout, Belgium by

Emrol BVBA to the Company. The capital increase was registered in the Commercial Register of the Canton of Vaud on 18 November 2015.

- On 21 December 2015, the Company issued 1,894,445 new registered shares on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 15 December 2015. The contribution for each new registered share is effected by way of cash contribution. The capital increase was registered in the Commercial Register of the Canton of Vaud on 22 December 2015.
- On 29 April 2016, Recharge converted into equity the equivalent amount of CHF 5,250,000 (kCHF 4,581.9 principal and kCHF 668.1 interest/conversion fees) due under the Recharge Convertible Loan on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 5 January 2015 (last modified on 4 May 2016) from the Company's conditional capital. Pursuant to this conversion into equity, the Company issued 2,134,493 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 13 June 2016.
- On 9 June 2016, Talisman converted into equity the equivalent amount of CHF 150,000 Series A Warrants on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016. Pursuant to this conversion into equity, the Company issued 100,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 13 June 2016.
- On 15 June 2016, holders of the Company's outstanding MCNs converted into equity the equivalent amount of CHF 2,400,000 MCNs on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 from the Company's conditional capital. In addition, on 15 June 2016, Recharge converted into equity the equivalent amount of CHF 2,926,302 (principal and interest) due under the Recharge Convertible Loan on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 from the Company's conditional capital. Pursuant to these combined conversions into equity, the Company issued 2,170,521 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 19 August 2016.
- On 17 August 2016, the Company issued 1,546,481 new registered shares on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 and the Board of Directors on 8 August 2016. The contribution for each new registered share is effected by way of cash contribution. The capital increase was registered in the Commercial Register of the Canton of Vaud on 19 August 2016.
- On 23 August 2016, the Company issued 2,611,941 new registered shares on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 and the Board of Directors on 8 August 2016. The contribution for each new registered share is effected by way of loans conversion. In addition, on 16 August 2016, ACE converted into 1,537,024 shares the equivalent amount of kCHF 4,144 due under the ACE Convertible Loan on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 from the Company's conditional capital. The capital increase, corresponding to a total of 4,148,965 new registered shares, was registered in the Commercial Register of the Canton of Vaud on 25 August 2016.

## Shares

All shares of the Company are registered shares with a nominal value of CHF 1.50 each. The Company has one share class only. Each registered share carries one vote at the shareholders' general meeting. The shares rank



*pari passu* in all respects with each other, including voting rights, entitlement to dividends, liquidation proceeds in case of liquidation of the Company and preferential subscription rights.

#### **Participation and profit sharing certificates**

The Company has not issued any non-voting equity securities such as participation certificates (*bons de participations, Partizipationssscheine*) or profit sharing certificates (*bons de jouissance, Genusssscheine*) nor has it issued preference shares (*actions privilégiées, Vorzugsaktien*).

#### **Limitations on transferability and nominee registrations**

Pursuant to Article 4 (*Transferability of shares*) of the Articles of Association, acquirers of registered shares (with ownership or usufruct rights) are recorded upon demand in the share register as shareholders with voting rights if they expressly declare to have acquired their shares in their own name and for their own account or if they indicate the name, surname, domicile, address and citizenship (registered office for legal entities) of the person in which name or for which account they hold the shares. The Board of Directors may, after hearing the person concerned, cancel the entry in the share register with retroactive effect, if such entry was based on untrue or misleading information given by the acquirer.

The Articles of Association do not provide for nominee registrations.

#### **Options Rights**

##### Stock Option Plan

The Company issued stock options allocated under the employee stock option plan for the employees and the members of the Board of Directors adopted by the Board of Directors on 26 February 2010. Each option granted under the employee stock option plan is granted, as a rule, free of charge and entitles the holder to acquire from the Company one share against payment in cash of the exercise price. For each grant of options, the Company and the plan participant enter into an option contract. The exercise price and the exercise period are set by the Board of Directors in the option contract. The exercise price is the average of the closing prices of the shares during the five trading days preceding the date of grant of the options plus a premium to be determined by the Board of Directors at its absolute discretion. The Board of Directors may determine a restriction period during which the options cannot be exercised. The options vest on the day after the date when the restriction period lapses. The granted options forfeit if, prior to the end of the restriction period, (i) the option holder terminates the employment contract other than for valid reasons, retirement at normal retirement age as may be agreed between the option holder and the Group, death or disability, or (ii) the Group terminates the employment contract for valid reason. Except under certain circumstances (e.g. tender offer or death), the options are not transferable. The shares will be made available through the conditional capital of the Company or open market buybacks of existing shares.

As at 31 December 2015, 158,780 options were granted under the employee stock option plan, corresponding to 0.42% of the Company's issued share capital as of 31 December 2015:

<b>Date of grant</b>	<b>No. of options</b>	<b>Exercise price</b>	<b>Ratio</b>	<b>Restriction period</b>	<b>Exercise period</b>
19.02.2010	8,780	CHF 38.40	1:1	4 years	19.02.2014 - 18.02.2016
01.07.2012	150,000	CHF 16.00	1:1	2 years	01.07.2014 – 30.06.2016

The 158,780 options, outstanding as at 31 December 2015, have expired during the 1<sup>st</sup> semester 2016 (8,780 expired on 18 February 2016 and 150,000 on 30 June 2016).

##### Capped Stock Option Plan

Effective from 1 January 2014, the Company introduced a performance related Capped Stock Option Plan ("CSO Plan") for senior executives that is linked to both Company and individual performances. The CSO Plan is

designed to direct the focus of the executives concerned on long-term share price appreciation, to promote the long-term financial success of the Group and generally to align the interests of executives with those of shareholders. The plan will be administered by an administrative committee appointed by the Board. Under the CSO Plan an award for a certain number of options is made at the start of the financial year at an exercise price equal to 110% of the average Share Price for the sixty (60) business days preceding the award date, subject to it being (a) not less than the share price at the award date, and (b) not more than 115% of the Share Price at the award date. The actual number of options that are granted to the executives will be determined at or shortly after the end of the year depending on the corporate and individual performance, according to a pre-defined matrix and can range from 0% to 150% of the original award. Options granted are exercisable within 7 years from the date of award and vest evenly over a 3-year period. 50% of each tranche that is vested is blocked for a further 12 months. The option holder may exercise unblocked options within the exercise period by either paying the exercise price to the Company to acquire the shares, or authorising the Company to sell sufficient shares to pay the exercise price of the CSOs. In event of termination of employment for any reason other than death or disability, (a) any unvested CSOs shall lapse, (b) any blocked CSOs shall become unblocked CSOs and can be exercised during a period of 30 business days after the termination date, after which they lapse, and (c) any unblocked CSOs can be exercised prior to the termination date, after which they lapse. The Appointments and Remuneration Committee has discretion to vary conditions as it deems appropriate. In 2015 and 2016, respectively, 500,000 and 990,000 options were granted under the CSO Plan. As of 31 December 2016, 1,529,000 options were outstanding, corresponding to 3.19% of the issued share capital.

Outstanding options granted under the CSO Plan as of 31 December 2016:

	2014 attribution	2014 attribution	2015 attribution
Number of options granted	50'000	69'000	500'000
Grant date	04.04.14	19.03.15	19.03.15
Vesting period	04.04.14	31/12/14 : 33%	19/03/15 : 33%
		31/12/15 : 33%	31/12/15 : 33%
		31/12/16 : 33%	31/12/16 : 33%
Expiration date	31.12.20	31.12.20	31.12.20
Share price at grant date	3.81	4.19	4.19
Exercise price	4.38	3.00	1.50
Cap	17.52	12.00	6.00
Volatility (annualized)	80.66%	81.92%	81.92%
Risk free interest rate (annualized)	0.81%	0.07%	0.07%
Fair Value of the option at the grant date	0.86	0.47	1.46

	2016 attribution	2016 attribution
Number of options granted	250'000	740'000
Grant date	01.01.16	01.01.16
Vesting period	01/01/16 : 33%	01/01/16 : 33%
		01/01/17 : 33%
		01/01/18 : 33%
Expiration date	31.12.22	31.12.22
Share price at grant date	2.58	2.58
Exercise price	2.50	2.95
Cap	11.79	11.79
Volatility (annualized)	52.80%	52.80%
Risk free interest rate (annualized)	-0.08%	-0.08%
Fair Value of the option at the grant date	0.87	0.75

## Warrants

On 31 October 2013, the Company issued to Talisman Infrastructure International Ltd ("**Talisman**") 832,827 Series A Warrants and 594,876 Series B Warrants as compensation for non-regulated services rendered to the Company in connection with capital raise from Precept.

- The Series A Warrants are exercisable into fully paid up registered shares of the Company at an exercise price of CHF 1.50 per share. The Series A Warrants may be exercised at any time until 15 October 2023. The number of shares to be issued upon exercise of the Series A Warrants is dependent on the development of the share price. The formula for the number of shares (N) to be issued upon exercise of Series A Warrants (W) is:  $N = W \times ((\text{Average Closing Price} - \text{Exercise Price}) / \text{Average Closing Price})$  provided that the maximum number of shares to be issued as a result of the exercise of Series A Warrants shall not exceed 3.5% of the fully diluted share capital after taking into account the number of shares that would be issued if the Precept Loan were fully converted into shares of the Company. The Average Closing Price is the closing price averaged over the preceding 10 business days.
- The Series B Warrants are exercisable into fully paid up registered shares of the Company at an exercise price of CHF 4.50 per share. The Series B Warrants may be exercised at any time until 15 October 2023. The number of shares to be issued upon exercise of the Series B Warrants is dependent on the development of the share price. The formula for the number of shares (N) to be issued upon exercise of Series B Warrants (W) is:  $N = W \times ((\text{Average Closing Price} - \text{Exercise Price}) / \text{Average Closing Price})$  provided that the maximum number of shares to be issued as a result of the exercise of Series A Warrants shall not exceed 2.5% of the fully diluted share capital after taking into account the number of shares that would be issued if the Precept Loan were fully converted into shares of the Company. The Average Closing Price is the closing price averaged over the preceding 10 business days.

In 2015 and 2016, respectively, 510,000 and 100,000 Series A Warrants were exercised. As at 31 December 2016, there were 222,827 outstanding and unexercised Series A Warrants and 594,876 outstanding and unexercised Series B Warrants. The outstanding 222,827 Series A Warrants are expected to be exercised in March 2017.

## Convertible loans

On 3 June 2014, Precept, through its majority owned subsidiary Oakridge Global Energy Solutions, Inc. (formerly Oak Ridge Energy Technologies, Inc.; "**Oakridge**"), had granted a credit facility of CHF 3,000,000 (the "**Oakridge Convertible Loan**"). The Oakridge Convertible Loan was increased to CHF 5,000,000 on 2 August 2014 and was convertible into registered shares of the Company at a conversion price of CHF 1.50. The Oakridge Convertible Loan carried an interest rate of 2% per annum which shall be capitalised and added to the total loan amount due at maturity together with a fee of CHF 0.5 million. The maturity date was 30 June 2016.

On 8 December 2014, the Company entered into a CHF 21 million credit facility convertible into registered shares with Recharge ApS (Denmark) ("**Recharge**") originally due to mature on 30 June 2016 (the "**Recharge Convertible Loan**"). The Recharge loan was subject to shareholders' approval, which was received at the Extraordinary Shareholder Meeting of the 5 January 2015.

The Recharge Convertible Loan consists of two tranches, Recharge Facility A and Recharge Facility B. Subject to certain conditions and applicable fees, Recharge Facility A had a loan amount of CHF 13,000,000 at 12% interest per annum designated to fund the Company's Operating Plan and cash flow forecast. Subject to certain conditions and applicable fees, Recharge Facility B has a loan amount of CHF 8,000,000 (subsequently increased to CHF 13,000,000) at 10% interest per annum designated to fund the first phase of our Growth Plan, in particular to finance acquisition and development of technologies and battery management systems that would enable a differentiated market offer and significantly enhanced margins. In addition, in connection with this refinancing, Recharge agreed to purchase the Oakridge Convertible Loan of which outstanding amounts due thereunder were subsequently converted into shares on 21 January 2015 and 19 May 2015.

Both Recharge Facility A and Recharge Facility B are convertible into shares at Recharge's option (as provided for in the terms of the Recharge Convertible Loan). In June 2015, Recharge agreed to further increase the amounts available under Recharge Facility B by an additional CHF 5,000,000 (extension, Recharge Facility B2) and to extend the exercise period until 30 June 2017. As noted above, both Recharge Facility A and Recharge Facility B (and B2) are subject to fees. In connection with the increase and extension of the Recharge Facility B, the Company agreed to a fee of 5% of the amount drawn under Recharge Facility B (and B2) which shall be paid on the maturity date of the Recharge Convertible Loan or at the date of every earlier conversion, calculated on the amount to be converted.

Recharge Facility A and Recharge Facility B (and B2) have been fully drawn. The amounts outstanding under Recharge Facility A (CHF 13,000,000) and part of the amounts outstanding under Recharge Facility B (CHF 3,314,875) were converted into equity on 17 July 2015. The conversion price was CHF 1.98 (being the lower of (i) CHF 3.00 (if conversion occurs before 1 April 2016: CHF 2.50), (ii) 85% of the 15-day volume-weighted average price of the shares or (iii) the subscription price at which existing shareholders may subscribe for new shares in any future rights offering). In 2016, on 29 April 2016, part of the amounts outstanding under Recharge Facility B (CHF 4,581,500) were converted into equity at a conversion price of CHF 2.4596 and then, on 15 June 2016, the remaining amounts outstanding under Recharge Facility B (CHF 548,500) as well as part of the amounts outstanding under Recharge Facility B2 (CHF 2,000,000) were converted into equity at a conversion price of CHF 2.50, those conversion prices being the lower of (i) CHF 3.00 (if conversion occurs before 1 April 2016: CHF 2.50), (ii) 85% of the 15-day volume-weighted average price of the shares or (iii) the subscription price at which existing shareholders may subscribe for new shares in any future rights offering).

On 7 March 2016, ACE Energy Efficiency SPC ("**ACE**") agreed, among other things, (i) to acquire the remaining CHF 3,000,000 outstanding under Recharge Facility B2 and (ii) to extend an additional CHF 10,000,000 facility thereunder ("**ACE Facility C**" and together with the acquired remaining outstanding amounts under Recharge Facility B2, the "**ACE Convertible Loan**"). On 31 March 2016 and 17 May 2016, ACE Facility C was subsequently increased to CHF 20,000,000. CHF 20,000,000 of Facility C has been drawn before 30 June 2016. On 4 August 2016, 30% of the ACE Facility C has been transferred to JADE Crest Ltd ("**JADE**"). On 16 August 2016, the Company announced the conversion of CHF 4,100,000 (of which CHF 300,000 interest) outstanding under ACE/JADE Facility C into equity resulting in the issuance of 1,537,024 Shares. On 30 September 2016, 56.58% of the ACE Facility B2 and of the ACE Facility C (excluding JADE's part) has been transferred to LECN Co Invest Ltd ("**LECN Co**"). The lenders (ACE, JADE and LECN Co) have the right to provide additional funding to the Company at terms not less favourable than the ones of Facility C. LECN Co and JADE have committed to provide additional CHF 1,500,000 (Facility C extension), fully withdrawn on 1 December 2016. As of 31 December 2016, CHF 17,700,000 remains outstanding under ACE/JADE/LECN Co Facility C and Facility C extension and, thus, CHF 20,700,000 remain outstanding under the ACE Convertible Loan (ACE/JADE/LECN co Facility C and Facility C extension "**Facility C**" and together with the remaining outstanding amounts of ACE/LECN Co Facility B2, the "**Convertible Loan**"). Facility C matures on 30 June 2017, carries an annual nominal interest rate of eight per cent and is convertible into new shares of the Company. Facility C further provides that upon completion of a qualified financing round, mandatory conversion occurs. The conversion price under the Facility C is the lower of (i) CHF 2.86, (ii) 85% of the 15-days volume-weighted average price of the shares, or (iii) the subscription price in any future rights offering.

The Convertible Loan is secured by: (i) the same security package that secured the Oakridge Convertible Loan and the Recharge Convertible Loan (albeit on amended terms), namely an assignment of rights for security purposes of all our present and future receivables, claims from intra-group loans and bank accounts claims and a first ranking pledge over our registered patents and patent applications filed and trademarks, (ii) securities granted by Leclanché GmbH (i.e., a global assignment agreement, a security transfer agreement and an account pledge agreement), (iii) a first ranking share pledge agreement over the shares of Leclanché GmbH, (iv) a first

ranking pledge over all Account Balances, all Intercompany Receivables and all Trade Receivables and (v) new assets to be acquired by the Company with the funds made available under Convertible Loan. The Convertible Loan provides for the following obligations, among others, which in case of breach would trigger an event of default: (i) a negative pledge pursuant to which neither the Company nor any of the group companies shall be permitted to grant, create or permit to subsist any security, including personal security such as surety and guarantees and any security over any of the present or future assets except for certain permitted security as specified in the ACE Convertible Loan; (ii) neither the Company nor any of the group companies shall be permitted to incur any financial indebtedness other than CHF 500,000 in the aggregate; (iii) neither the Company nor any of the group companies shall be permitted to make loans or permit to subsist any credit to any third party, including shareholders, board members and employees of the Group, except for loans to third parties of up to CHF 100,000 in the aggregate; (iv) neither the Company nor any of the group companies shall be permitted to, directly or indirectly, enter into any transaction, inter alia, to purchase or acquire any properties, assets, shares, securities, to enter into a merger, de-merger or a transfer of assets and liabilities or similar transactions with third parties or to enter into, invest in or acquire any shares, securities or other interests in any joint venture entity, except for capital expenditures in the ordinary course of business; (v) neither the Company nor any of the group companies shall, directly or indirectly, sell, transfer, lease or otherwise dispose of any of its properties or assets that is not provided for in the 2015 Operating Plan unless the aggregate fair market value of all properties and assets subject to disposal does not exceed CHF 500,000; (vi) neither the Company nor any of the group companies make material changes to the accounting principles except if required by law, by IFRS or by the guidelines and regulations of the SIX Stock Exchange; and (vii) neither the Company nor any of the group companies make changes to its legal structure of the legal structure of the Group if such change could result in a material adverse change.

On 16 December 2015, in order to finance and refinance investments of the Company and the Company's expansion plan, the Company made a private share placement by issuing CHF 2,400,000, 1 per cent mandatory convertible notes ("MCN") due 15 December 2016 mandatorily convertible into new shares of the Company at a conversion price of CHF 2.40 pursuant to two purchase and subscription agreements entered into with, respectively, Recharge and Bruellan. Recharge and Bruellan respectively invested the amount of CHF 1,200,000 corresponding to 0 purchased shares in the Company in the framework of the capital increase and 500,000 MCN each. On 15 June 2016, those two MCNs of CHF 1,200,000 each have been converted into 500,000 shares each, at a conversion price of CHF 2.40.

### 3. Board of Directors

#### **Election to the Board of Directors and duration of mandate**

The Board of Directors is ultimately responsible for the supervision and control of the management of the Company, including the establishment of the general strategies, as well as other matters which, by law, are under its responsibility. All other areas of management are delegated to the Executive Committee.

The Board of Directors consists of a minimum of three and a maximum of seven members. In accordance with the Ordinance against Excessive Compensation which entered into force on 1 January 2014 ("OaEC"), the general meeting of shareholders elects the members of the Board of Directors and the Appointments and Remuneration Committee as well as the Chairman for a term of office ending after completion of the next annual general meeting of shareholders. The term is subject to prior resignation or removal. The general meeting of shareholders elects the members of the Board of Directors individually and elects the Chairman from amongst the members of the Board. Members of the Board of Directors and the Chairman can be re-elected without restrictions. The Board of Directors sets the compensation of its members, subject to approval by the general shareholders' meeting.

## Members of the Board of Directors

Name	Nationality	Position	Initially appointed	Term expires
Jim Attack	British	Chairman, non-executive member	2013	2017
David Ishag	British	Non-executive member	2016	2017
Stefan A. Müller	Swiss	Non-executive member <sup>(1)</sup>	1998	2017
Adam Said	Swiss	Non-executive member	2016	2017
Peter Wodtke	American	Non-Executive member	2016	2017

<sup>(1)</sup> Mr. Müller was *ad interim* Chief Financial Officer from 1 November 2010 to 28 February 2011. Mr. Müller also performed certain other operational tasks from September 2009 to October 2010. Mr. Müller served as Interim Chairman from 1 August 2013 until 26 August 2013.

**Jim Attack**, British, born 1950. Mr. Attack was first appointed to the Company's Board of Directors in 2013. Mr. Attack was the managing director of Petrofac Facilities Management between 2001 and 2006, after serving as Operations and Change Manager where he oversaw several substantial oilfield transitions. Mr. Attack served as a non-executive director of Altor Risk Group in the UK between 2011 and 2014 and was appointed to the board of Positive Homes, Ltd. in 2014. Mr. Attack's experience spans over thirty years of oil and gas field production and development projects, some seventeen with BP in the North Sea, Onshore UK and Alaska. He holds degrees in Civil Engineering from Loughborough University of Technology (B.Sc Hons.) and a degree in Offshore Structures from Massachusetts Institute of Technology (M.Sc). Mr. Attack was first appointed to the Leclanché board as a representative of Precept in 2013.

**David Ishag**, British, born 1967. Mr. Ishag is a representative of Golden Partner International who is a 28.4 % shareholder in the Company in December 2016. With more than 25 years spent in the Finance, Mobile and Online Marketing industries David's previous experience includes: Employment, Partnership or Directorship with Financial Institutions such as Barclays de Zoete Wedd London, Republic National Bank of New York, Union Bancaire Privée Geneva, Wharton Asset Management Bermuda (Investment Manager) as Chairman and Chief Investment Officer. David's Mobile and Online Marketing achievements include: Founder CEO & Chairman of award winning Pogo Technology: Europe's first cloud based mobile platform. Founder and Executive Chairman of Espotting Media, Europe's largest performance based advertising network pioneering pay per click.

**Stefan A. Müller**, Swiss, born 1954. Since 1987, Mr. Müller has held several management roles as chief executive officer and as board member in industrial and financial corporations. He was CEO of Reuge SA, of Dreieck Industrie Leasing Ltd / Fortis Lease Switzerland Ltd, Lausanne from September 2003 until July 2010, and Vice Chairman of the Board of Directors of Fortis Lease Switzerland Ltd and Fortis Lease Real Estate Switzerland Ltd, Lausanne. From 2011 to 2014, he was a Board Member of Unigamma AG, Zurich, Asset Management and Chairman of Unigamma Immobilien AG, Zurich. Since 2009, he has been a member of the Board of Les Blanchisseries Générales SA in Chailly/Yverdon-les-Bains. Since 2011, he has served as Board Member and CEO of g2e glass2energy sa, Villaz-St-Pierre, and since 2012 has served Chairman of Clean Cooling Systems SA, Yverdon-les-Bains. Since 1989, he has served on the Company's Board of Directors and was its chairman between 2005 to March 2010. He graduated with a Master of Arts/lic.oec. HSG from the University of St. Gallen (HSG).

**Adam Said**, Swiss citizen, born 1984. Mr. Said was co-founder of ACE & Company SA in 2005 and was assigned Executive Director in 2012. He held several directorship positions in ACE's operating companies since the Group's inception. During his tenure, he oversaw the execution of over a hundred private investment transactions across diverse stages of company's development. Mr. Said is a member of the firm's Investment Committee, chairs the firm's Executive Committee, and is a member of the Board of Directors. Prior to ACE, Mr. Said held a financial analyst position at Unifund, a private family office, where he participated in the development of the firm's expansion in Saudi Arabia. There he shared responsibilities for multi-billion portfolios in public equities and

actively participated in opening of the market to foreign investors. He also completed an analyst program at China International Capital Corporation (CICC) in Beijing during the Bank's establishment of its private equity division. Mr. Said continues to hold director and advisory positions on several boards outside of ACE. He received Bachelor degree from Babson College, with a concentration in Entrepreneurship and Economics, and completed his MBA at Harvard Business School.

**Peter G. Wodtke**, US citizen, born 1934. Mr. Wodtke started in banking with Citibank where he was appointed Manager of the main branch in Hong Kong in 1965, moving with Citibank to be Senior Officer in the field covering the Arab world and Iran. After brief service with J Henry Schroder Bank, in 1971 Mr. Wodtke was appointed CEO of Private Investment Company for Asia, Tokyo and Singapore, following which he joined Swiss Bank Corporation and was assigned to the United States as Executive Vice President, and later as the bank's Senior Officer for the United States and Canada. In 1982 Mr. Wodtke started a corporate finance boutique in London which he ran until 2000. Mr. Wodtke is an adviser to wealthy families and individuals. Experienced in finance, industry and management, Mr. Wodtke has served on the boards of forty-five companies in Asia, Europe, the Middle East and the United States in fields including banking, commerce, power generation, heavy industry and life sciences. He is a graduate of Princeton University.

#### **Former members of the Board of Directors**

The Board of Directors announced on 21 January 2016 that Antoine Spillmann, representing Bruellan, stepped down from the Board of Directors. Mr. Spillmann acted as Company's Board member from 2011 to 2016.

At the shareholder's meeting of 4 May 2016, Bryan Urban has stepped down from the Board to take an Executive Vice President position managing Leclanché's North American subsidiary. Mr. Urban acted as Company's Board member from 2013 to 2016.

The Board of Directors announced on 25 November 2016 that Scott Macaw, Recharge's representative, resigned from the Board of Directors. Mr. Macaw acted as Company's Board member from 2015 to 2016.

The Board of Directors announced on 25 November 2016 that Robert Robertsson, Recharge's representative, resigned from the Board of Directors. Mr. Robertsson acted as Company's Board member from 2015 to 2016.

#### **Organisation**

##### *Meetings*

The Chairman chairs the meetings of the Board of Directors and the general meeting of shareholders and supervises the execution of measures, which the Board of Directors has enacted.

The Board of Directors meets whenever required by business, at least however four times a year. The Board of Directors meets at the invitation of its Chairman. Each member of the Board of Directors may request the Chairman to convene a Board meeting by stating the reasons for such a request. A meeting of the Board of Directors requires the presence or participation of at least half of the members of the Board of Directors, or, if the Board of Directors consists of an uneven number, a majority of the members of the Board of Directors.

##### *Resolutions*

The Board of Directors passes its resolutions with a majority of the votes cast, with the Chairman holding a casting vote in case of a tie. Resolutions may be passed in writing by circular resolution, unless a member of the Board of Directors requests oral deliberation. Board resolutions by means of written resolutions require the affirmative vote of a majority of all of the members of the Board of Directors. No quorum is required to record the implementation of a capital increase, to pass resolutions regarding the amendments of the Articles of Association entailed thereby and to adopt the report on the capital increase.

Regular meetings of the Board of Directors usually last between half a day to an entire day. In 2016, the Board of Directors held seven physical meetings and twenty telephone conferences.

### *Committees*

At its meeting of 18 August 2011, the Board of Directors established a Chairman's Committee and an Audit Committee to strengthen the corporate governance structure of the Company and the Group. At its meeting on 26 August 2013, the Board of Directors decided to rename these committees to better reflect their responsibilities to the Appointments and Remuneration Committee and the Audit and Risk Management Committee respectively.

The **Appointments and Remuneration Committee** currently consists of MM. Jim Attack (chairman), Adam Said and Stefan A. Müller. The members of the Appointments and Remuneration Committee are elected by the general meeting of shareholders for a term of office until the end of the next annual general meeting of shareholders. The task of the Appointments and Remuneration Committee is to assist the Board of Directors in (i) identifying individuals qualified to become members of the Board of Directors, (ii) proposing to the Board of Directors the appointment and removal of members of the Executive Committee, (iii) proposing to the Board of Directors compensation principles for the Group, the compensation for the Board of Directors and the Executive Committee and amendments to or introduction of new incentive plans, including share based plans, and (iv) addressing governance issues. In 2016, the Appointments and Remuneration Committee held one meeting.

The **Audit and Risk Management Committee** currently consists, since 1 October 2016, of MM. Peter Wodtke (chairman) and Stefan A. Müller. The task of the Audit and Risk Management Committee is to assist the Board of Directors in its oversight of the integrity of the Company's financial statements and financial reporting process, the Company's compliance with legal and regulatory requirements, the system of internal controls, the audit process and the performance, qualification and independence of the Company's independent auditors. The Audit and Risk Management Committee serves as an independent and objective monitor of the Group's financial reporting process and system of internal control, and facilitates ongoing communication between the external auditor, management and the Board of Directors with regard to the Group's financial situation. The Audit and Risk Management Committee shall propose to the full Board of Directors proposals for the general meeting of shareholders regarding the appointment and removal of the Company's auditors. In 2016, the Audit Committee held two meetings.

### *Super Majority Rights*

In addition, pursuant to the terms of the Recharge Loan, the Company agreed to provide Recharge with certain super majority rights, including board representation that consists of two representatives or constitutes at least one third of the board at all times, higher thresholds for board approval of certain corporate actions and right of first refusal to underwrite any equity issue (subject to statutory pre-emptive rights of the shareholders). These super majority rights have extinguished with the resignation of the two Recharge Board Directors, namely Scott Macaw and Robert Robertsson, announced by the Board on 25 November 2016.

### **Definition of areas of responsibility**

The Board of Directors has delegated the operational management of the business of the Company and of the Group to the Executive Committee, unless the law, the Articles of Associations or the Organisational Regulations provide otherwise. The scope of tasks for which the Board of Directors has retained responsibility includes in particular the following duties and competencies:

- Ultimate management and direction of the Company and issuance of the necessary directives;
- Determination of the organisation of the Company including resolutions relating to the opening of new branch offices, incorporation and sale of subsidiaries and the sale and acquisition of participations in other companies and decision on and approval of the basic financial, legal and organisational structure of the Group;



- Organisation of the accounting, the internal control system (ICS), the financial control, the financial planning and assessment and supervision of risk assessment and risk management;
- Determination of the strategy and business policy of the Group;
- Approval of the business plan of the Group, prepared by the Executive Committee based on the strategic goals;
- Approval of the budget and financial planning documentation prepared by the Executive Committee prior to the year-end; in particular cost budgets which include all material costs and forecasted revenues (e.g. salaries, investments, sales, etc.);
- Monitor financial stability of the Group (liquidity, safety and appropriate return);
- Approval of budget increases during the financial year;
- Decision on and approval of all corporate transactions (corporate actions), in particular material acquisitions, dispositions, investments and strategic and financing transactions;
- Appointment and removal the members of the Executive Committee and of other important managers, and grant of signatory powers;
- Ultimate supervision of the persons entrusted with the management, in particular with respect to compliance with the law, the Articles of Association, the Organisational Regulations and other regulations and directives;
- Preparation of the business report (including the financial statements) as well as of the shareholders meeting, and implementation of its resolutions;
- Determination of the compensation principles and the compensation framework of the Group; and
- Proposal of reorganisation measures to the general meeting of shareholders if half the share capital is no longer covered by the Company's net assets; notification of the judge (filing for bankruptcy) in the case of over indebtedness.

Further, the approval of the Board of Directors is required for specific transactions that do not fall under the ordinary business activities and/or which financially exceed defined thresholds.

The Executive Committee is responsible for all areas of management of the Company that are not specifically reserved to the Board of Directors. The Executive Committee has in particular the following duties and competencies:

- Management of the operations of the Company and the Group and implementation of the strategy and business policy of the Group decided by the Board of Directors;
- Execution of decisions and instructions of the Board of Directors;
- Management and supervision of all on-going business and transactions of the Company and the Group save for decisions which require prior approval by the Board of Directors;
- Preparation and supervision of compliance with the basic business policy, the operational goals, and the budget and the general compensation principles;
- Performance of risk supervision over the Group;
- Preparation and submission of the annual and semi-annual financial statements and of the annual report for approval by the Board of Directors of as well as the periodical reporting to the Board of Directors on the ongoing state of business of the Group;
- Preparation of the yearly budget for approval by the Board of Directors and proposals to the Board of

Directors regarding budget increases during the financial year;

- Preparation and implementation of the general human resources policy, employee matters of general concern and the hiring and head count planning; and
- Immediate information to the Board of Directors with respect to increased risks in the ongoing business and extraordinary events.

### **Information and control instruments vis-à-vis the Executive Committee**

The Board of Directors supervises the Executive Committee and monitors its performance through appropriate reporting and control systems.

At each meeting of the Board of Directors, the Chief Executive Officer reports on the course of business and important business events. Other instruments that enable the Board of Directors to monitor and control the Executive Committee are:

- monthly written reports from the Executive Committee featuring key figures with comparison against the previous year and the budget, and information on order intake, order backlog and inventory and liquidity of the Group together with a brief report by the Chief Executive Officer and the Chief Financial Officer;
- annual strategic analysis of the operating segments together with a plan, amended each year by the Executive Committee, for the next few years;
- annual revision of the business risk matrix for the Group by the Executive Committee;
- special reports by the Executive Committee on important investments, acquisitions and cooperative agreements.

The Chairman is regularly (in between meetings of the Board of Directors) briefed by the Chief Executive Officer on the current course of business and is promptly informed about any extraordinary events. The Company's internal control system (ICS) consists of seven groups of analysis which are checked and reviewed on a regular basis. The statutory auditor assesses and reports on the effectiveness of the internal control system (ICS) to the Board of Directors once a year.

These groups of analysis are:

- Finance with a focus on cash and cash equivalents, payment rights, equity and value added tax (VAT)
- Fixed assets with a focus on the registrations of the fixed assets, their correct depreciation and impairments if necessary
- Inventory with a control of the goods entries and deliveries as well as the correctness of the inventory
- IT and its recovery plan
- Payroll and related payment or accounting issues
- Purchases with a focus on the material resources planning (MRP) and on the adequacy of merchandising entries and accuracy of invoices received
- Sales with a focus on billing system and account receivables survey

The Company defines and evaluates the most important risks based on a risk map comprising the following categories:

- Strategy with a focus on the market, the competitors and the technology
- Assets with a focus on industrial accidents and environmental liabilities

- Supply Chain
- Products and Services and the setup of the new production line, including suppliers, approvals, deliveries, ramp-up and product quality
- Projects and Processes
- Finance and cash control
- Legal
- Human Resources
- Information and Know How with a focus on Information Technology

Under the oversight of the Quality & Risk Manager, a risk analysis is processed regularly: each risk belongs to one person responsible for its mitigation and a detailed catalogue of mitigating measures is prepared. The most important risks, along with possible measures to prevent and mitigate potential damage are presented to the Audit and Risk Management Committee once a year. An audit of the risks has been performed in May 2016. In addition, the Board of Directors addresses most of the above mentioned risk categories at each meeting. On this basis, the Board of Directors is monitoring the risks of the Group. The Company has no internal audit.

#### External Mandates

According to Article 23<sup>decies</sup> of the Articles of association, members of the Board of Directors may not hold more than four additional mandates in companies that are quoted on an official stock exchange and seven additional mandates in non-quoted companies. The following mandates are not subject to these limitations: a) mandates in companies which are controlled by the Company; b) mandates held by order and on behalf of the Company or any controlled company, it being understood that such mandates shall not be more than five for each member of the Board of Directors or of the Executive Committee; and c) mandates in associations, foundations, charitable organisations, trusts, employee welfare foundations and other comparable structures, it being understood that such mandates shall not be more than ten for each member of the Board of Directors or of the Executive Committee. The term "mandates" shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the Swiss commercial register or a corresponding foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.

#### 4. Executive Committee

The Executive Committee is responsible for all areas of management of the Company and the Group that are not specifically reserved to the Board of Directors. Members of the Executive Committee are appointed by the Board of the Directors. The Executive Committee is chaired by the Chief Executive Officer.

#### Members of the Executive Committee

Name	Nationality	Position	Initially appointed
Anil Srivastava	French	Chief Executive Officer and Executive Vice President EMEA	2014
Hubert Angleys	French	Chief Financial Officer	2016
Pierre Blanc	Swiss	Chief Technology and Industrial Officer	2006
Fabrizio Marzolini	Swiss and Italian	Executive Vice President Customer Projects Delivery	2013
Bryan Urban	American	Executive Vice President North America	2016

**Anil Srivastava**, French, born 1960, joined the Company in June 2014. Prior to joining the Company, Mr. Srivastava was the Chief Executive of Areva Renewables and a member of the Areva Group's executive committee from January 2009 to December 2011. Prior to his positions at Areva, he held senior executive positions in companies such as TomTom Group and Alcatel-Lucent. Most recently, Mr. Srivastava was a member of the Executive Board of Windreich AG in Germany between June 2012 and December 2012, Chief Executive of Windkraft Union GmbH in Germany from January 2013 to September 2013, Managing Director of Climate Holdings BV, in the Netherlands, from September 2013 to May 2014 and Director of Oakridge Inc. from February 2014 to July 2014. Mr. Srivastava serves as an Advisor (with no remuneration) to the Board of Agua Via Ltd in the UK. He obtained a master's degree from the National Institute of Technology in India and graduated with an Executive MBA from the Wharton School of Business at the University of Pennsylvania in the USA.

**Hubert Angleys**, French, born 1958, has been appointed Chief Financial Officer and member of the Executive Committee at Leclanché SA starting February 2016. Prior to his new role, he served as CEO of the Swiss leading precious metal refining group Metalor until July 2014, after holding the Chief Financial Officer position for twelve months.

Prior to joining Metalor, he held various Financial Director positions for Europe and for upstream and downstream businesses at Alcoa, the American giant aluminium group. He has also deep experience leading finance functions of international groups that operate in different sectors of activity, like Digital Equipment, Tomy Toys, RJ Reynolds Tobacco, or even Sicpa with executive oversight for treasury, tax, controllership, financial planning and analysis, audit, mergers and acquisitions and cash management. He holds a degree in accounting, business administration and law.

**Pierre Blanc**, Swiss, born 1970, joined the Company in 2000. He is Chief Technology and Industrial Officer of Leclanché. His previous positions include Development Manager of primary cells and Head of the R&D department at Leclanché between 2004 and 2006. Prior to that, from 2000 to 2004, Mr. Blanc was Chemical Engineer at Leclanché where he was responsible for the development and manufacturing of battery cells of major brands such as Varta, Energizer, Panasonic and Enersys. Since 2014, Mr. Blanc has been a board member (without remuneration) of the German non-profit Kompetenznetzwerk Lithium Ionen Batterien (KLiB). He holds a B.A. Moderatorship Chemistry from Trinity College Dublin.

**Fabrizio Marzolini**, Swiss/Italian, born 1969, joined Leclanché in 1994. He is Executive Vice President System Engineering and Integration and is responsible for the development of battery solutions comprising battery management software and electronics. Fabrizio Marzolini holds a degree in electricity engineering from the "Ecole d'ingénieur d'Yverdon" and an executive Master of Business Administration (MBA) from Haute Ecole d'Ingénierie et de Gestion du Canton de Vaud (HEIG-VD).

**Bryan Urban**, American, born 1964. Mr. Urban has 25 years of energy development, finance and operational experience, covering a broad array of power generation and energy infrastructure assets in the Americas and Asia/Pacific. Mr. Urban is the Managing Partner at Silveron Capital Partners where he heads a boutique investment banking and advisory team specialising in financing and M&A transactions for power and alternative energy companies. He founded Silveron in 2006 and is responsible for the firm's strategic initiatives, client development and deal execution. Mr. Urban has been engaged in the alternative energy sector for over 10 years, and has previously served as member of the board of directors of Blue Pillar, Inc. and Oakridge Energy Technologies, both based in the US. He actively serves on the Advisory Board for Taylor Biomass Energy in the US. Between 1992 and 2006, Mr. Urban worked for Panda Energy International and between 1999 and 2006 he was the Senior Vice President-Finance and CFO. Early in his career he spent five years with Arthur Andersen where he was involved with both audit engagements and M&A transactions. Mr. Urban is a CPA and earned a Bachelor of Science from Indiana University. Mr. Urban acted as Company's Board member from 2013 to 2016: at the shareholder's meeting of 4 May 2016, Bryan Urban has stepped down from the Board to assume the top-role in managing the North American subsidiary.

#### **Former members of the Executive Committee**

**Andrew Firmston-Williams** acted as CFO of the Company from 2013 to January 2016.

**Martti Ukkonen** joined the Company in July 2014 as a consultant and as Executive Vice President from October 2014 to July 2016.

**Thierry Perronnet** joined the Company in 2013. He stepped down from the Executive Committee further to the July 2016 reorganisation.

**Stefan Louis** joined the Company in 2015. He stepped down from the Executive Committee further to the July 2016 reorganisation and is now the head of the Innovation Board.

#### **Events after the balance sheet date**

**Thierry Perronnet** left the Company in January 2017

#### **Management contracts**

As of 31 December 2016, there are no management contracts between the Company and third parties.

#### **External Mandates**

According to Article 23<sup>decies</sup> of the Articles of Association, members of the Executive Committee may hold up to two mandates in quoted or non-quoted companies, subject to approval by the Board of Directors. For a description of the scope of the term "mandate", please refer to section "3. Board of Directors/External Mandates".

### **5. Compensation, Shareholdings and Loans**

For the relevant information please refer to the Compensation Report on page 23.

### **6. Voting rights and participation at shareholders' meetings**

The Articles of Association contain rules in relation to the independent voting rights representative and on the electronic participation in the general meeting of shareholders. The general shareholders' meeting shall elect the independent voting rights representative for a term of office ending after completion of the following ordinary shareholders' meeting. The independent voting rights representative may be re-elected.

#### **Right to vote ("one share, one vote")**

Any shareholder who is registered as a shareholder with voting rights has the right to attend and to vote at the general meeting of shareholders. Each share of the Company entitles its holder to one vote.

#### **Shareholder registration**

Voting rights may only be exercised by a shareholder who is recorded in the share register. Shareholders are recorded upon demand in the share register as shareholders with voting rights if they expressly declare to have acquired their shares in their own name and for their own account or if they indicate the name, surname, domicile, address and citizenship (registered office for legal entities) of the person in which name or for which account they hold the shares.

#### **No restrictions on voting rights**

Subject to the registration of the shares in the share register, the Articles of Associations do not impose any restrictions on the voting rights of shareholders. Specifically, there is no limitation on the number of voting rights per shareholder.

### **Representation**

Shareholders having the right to vote may be represented at the general meeting of shareholders by another person authorised by a written proxy, or by a legal representative or by the independent voting rights representative. Such representative need not be shareholders of the Company.

### **Quorum**

The general meeting of shareholders constitutes a quorum regardless of the number of shares represented and the number shareholders present to the extent that the law does not provide otherwise.

### **Resolutions and elections**

The general meeting of shareholders passes resolutions and carries out elections by relative majority of votes, to the extent that the law or the Articles of Association do not provide otherwise. The Articles of Association state that a qualified majority of two-thirds of the share votes represented is required to pass a resolution to modify or abrogate Article 4 (*Transferability of shares*), Article 14 (*Votes and elections*) and to revoke more than one third of the members of the Board of Directors.

### **Convening**

The general meeting of shareholders is convened by the Board of Directors or, if necessary, upon request by the auditors. The Board of Directors is further required to convene an extraordinary general meeting of shareholders if so requested in writing, indicating the items and the motions, by one or more shareholders holding in aggregate at least 10% of the Company's nominal share capital.

The general meeting of shareholders is called at least 20 days prior to the day of the general meeting by only one publication in the Swiss Official Gazette of Commerce and, although not required by the Articles of Association, by ordinary mail to the address of registered shareholders recorded in the share register.

### **Agenda**

The general shareholders' meeting can only deliberate on items which are on the agenda, except for the propositions to call an extraordinary general shareholders' meeting or to carry out a special audit. One or more shareholders holding shares with a nominal value of at least CHF 1 million in the aggregate have the right to request in writing that a specific proposal be put on the agenda and voted upon at the next general meeting of shareholders.

### **Closing date for registration in the share register**

Only those shareholders with voting rights whose names were recorded in the Company's share register on the respective closing date may attend the general meeting and exercise voting rights. For organisational reasons, the Board of Directors has determined that no new registration will be made in the share register during a period of up to two weeks before a general meeting. There are no exceptions to this rule regarding the closing date.

## **7. Change of Control and Defence Measures**

### **Duty to submit an offer**

The Swiss Stock Exchange Act provides that anyone who, directly, indirectly or acting in concert with third parties, acquires equity securities exceeding 33⅓% of the voting rights of a company - whether or not such rights are exercisable - is required to make an offer to acquire all listed equity securities of that company. A company may raise this threshold to 49% of the voting rights ("opting up") or may, under certain circumstances, waive the threshold ("opting out").

On 10 April 2013, the annual general meeting of shareholders of the Company resolved to include an "opting up" article in the Articles of Association of the Company that increases the threshold for a mandatory takeover offer under the Swiss Stock Exchange Act (SESTA) from the statutory threshold of 33⅓% to 49%. As a result,

under this "opting up" article, an acquirer of the shares is obliged to make a public tender offer pursuant to Article 32 SESTA only if, as a result of the acquisition of shares, the threshold of 49% of the Company's voting rights (whether exercisable or not) is exceeded.

At the shareholders' general meeting held on 4 May 2016, the shareholders approved the Board of Directors' proposal to remove the Article 5 of the Company's Articles of Association and suppress the "opting up" clause. Consequently, the applicable threshold for a mandatory takeover offer is back to 33⅓%.

### **Change of control clauses**

There are no change of control clauses (e.g. golden parachutes) included in agreements or schemes benefitting members of the Board of Directors and/or of the Executive Committee except for in the employee stock option plan approved by the Board of Directors on 26 February 2010 which provided that in the event of a successful tender offer where the offeror acquired more than 50% of the shares, the option holders had the right to exercise their options during the additional tender offer period, irrespective of whether a possible restriction period (during which the options cannot be exercised) had lapsed or not. All outstanding options granted under this plan have expired during the 1<sup>st</sup> semester 2016.

### **8. Auditors**

The Company's statutory auditor has been PricewaterhouseCoopers SA, Avenue Charles-Ferdinand-Ramuz 45, in Lausanne, since 2008. At the Annual General Meeting of 4 May 2016, the shareholders appointed PricewaterhouseCoopers SA, in Lausanne, as the statutory auditor for the financial year 2016. Mrs. Corinne Pointet-Chambettaz holds the position of auditor in charge since 2015. Before this, Mr. Felix Roth held the position of auditor in charge for the financial years 2008 to 2014. As required by law, the lead auditor has to be changed every seven years.

In 2016, the fees of the PricewaterhouseCoopers Group for the audit of the consolidated and statutory financial statements of the Leclanché Group amounted to kCHF 214.5 and for other services (including tax services) amounted to kCHF 92.2.

The Board of Directors each year evaluates the performance of the auditor and decides whether the auditor should be proposed to the annual general meeting of shareholders for re-election. Criteria applied for the performance assessment of the auditor are the quality of the management letter, technical and operational competence, independent and objective view, sufficient resources employed, focus on areas of significant risk to the Company, willingness to probe and challenge, ability to provide effective, practical recommendations and open and effective communication and coordination with management.

### **9. Information Policy**

The Company is committed to a policy of open, transparent and continuous information. The Company publishes annual and semi-annual reports. Detailed information is provided at the annual general meeting of shareholders. Matters affecting the share price are published immediately in accordance with the ad hoc publicity rules of the SIX Swiss Exchange.

Annual and semi-annual reports, ad hoc announcements and other press releases, current share price, as well as general information about the Company can be found at the Company's website «[www.leclanche.com](http://www.leclanche.com)».

Interested persons can subscribe to the free e-mail service to receive all ad hoc announcements and other press releases as well as financial reports via e-mail at <http://www.leclanche.com/investor-relations/investor-communication/register-for-updates/>.

Interested persons may also communicate with the Company directly through the following contact:

Anil Srivastava  
Chief Executive Officer

E-mail: [anil.srivastava@leclanche.com](mailto:anil.srivastava@leclanche.com) / Tel: +41 24 424 65 56

## Leclanché Group

### Compensation Report 2016



## **1. Compensation report**

This compensation report provides information on the remuneration of the members of the Board of Directors and Executive Committee which in the past was presented in the corporate governance report and consolidated financial statements of the Company.

### **1.1. Legislation**

The legislation and regulations governing the compensation practices of the Group are set out in the following documents:

- Swiss Code of Obligations
- Ordinance Against Excessive Compensation at Listed Companies (VegüV), and section 95 para. 3 of the Swiss constitution
- Listing Rules of the SIX Swiss Exchange
- Directive on Information Relating to Corporate Governance
- Swiss Code of Best Practice for Corporate Governance
- Articles of Association of the Company

### **1.2. Guiding principles**

The Company operates a remuneration system designed to align the interests of the members of the Board of Directors and Executive Committee with those of the Group, shareholders and other stakeholders. The individual remuneration components take account of the Group's sustainable short- and long-term business development. As the objective is also to attract and retain highly qualified executives and professionals, the remuneration system is focused on providing competitive remuneration with a fixed and a variable component. The remuneration system is periodically reviewed by the Board of Directors.

### **1.3. Compensation system**

#### **1.3.1. Members of the Board of Directors**

The members of the Board of Directors receive a non-performance related compensation in the form of a Board of Directors fee, which is proposed on an annual basis by the Appointments and Remuneration Committee and decided upon by the entire Board of Directors. The fee amount depends on the exposures and responsibilities and the specific tasks performed by each individual member during the financial year and is paid in cash. The Chairman and the member of the Audit & Risk Committee are entitled to additional annual fee.

#### **1.3.2. Members of the Executive Committee**

The compensation for the members of the Executive Committee is verified and proposed on an annual basis by the Appointments and Remuneration Committee. The total compensation, which comprises fixed and variable components, is decided upon by the entire Board of Directors. The members of the Executive Committee receive a base salary commensurate with the job profile and the employee's experience and skills and a performance related cash bonus. The base salary is assessed annually against responsibility and experience and is adjusted when needed. A target cash bonus is defined for each member of the Executive Committee at the beginning of the financial year and this forms the basis for the calculation of the cash bonus actually paid shortly after the end of the financial year. The amount of bonus actually paid is determined taking into account corporate and individual targets and may vary according to a matrix from 0% to 150% of the target amount.

### 1.3.3. Equity incentive plans

Two plans exist at Leclanché: the Stock option plan (expired in 2016) and the Capped Stock Option Plan (attributions in 2014, 2015 and 2016).

#### *Capped Stock Option Plan*

Members of the Executive Committee are eligible to participate in the Capped Stock Option Plan which came into effect in 2014. The Board of Directors can issue options to its members, members of the Executive Committee as well as to other key employees.

Effective from 1 January 2014, the Company introduced a performance related Capped Stock Option Plan ("CSO Plan") for senior executives that is linked to both Company's and individual's performances. The CSO Plan is designed to direct the focus of the executives concerned on long-term share price appreciation, to promote the long-term financial success of the Group and generally to align the interests of executives with those of shareholders. The plan will be administered by an administrative committee appointed by the Board. Under the CSO Plan, an award for a certain number of options is made at the start of the financial year at an exercise price equal to 110% of the volume weighted average Share Price for the sixty (60) business days preceding the award date, subject to it being (a) not less than the share price at the award date, and (b) not more than 115% of the Share Price at the award date. The actual number of options that are granted to the executives will be determined at or shortly after the end of the year depending on the corporate and individual performance, according to a pre-defined matrix and can range from 0% to 150% of the original award. Options granted are exercisable within 7 years from the date of award and vest evenly over a 3-year period. 50% of each tranche that is vested is blocked for a further 12 months. The option holder may exercise unblocked options within the exercise period by either paying the exercise price to the Company to acquire the shares, or authorising the Company to sell sufficient shares to pay the exercise price of the CSOs. In event of termination of employment for any reason other than death or disability, (a) any unvested CSOs shall lapse, (b) any blocked CSOs shall become unblocked CSOs and can be exercised during a period of 30 business days after the termination date, after which they lapse, and (c) any unblocked CSOs can be exercised prior to the termination date, after which they lapse. The Appointments and Remuneration Committee has discretion to vary conditions as it deems appropriate *Stock option plan*

The employee stock option plan has been adopted by the Board of Directors on 26 February 2010. Each option granted under the employee stock option plan is granted, as a rule, free of charge and entitles the holder to acquire from the Company one share against payments in cash of the exercise price. For each grant of options, the Company and the plan participant enter into an option contract. The exercise price and the exercise period are set by the Board of Directors in the option contract. The exercise price is the average of the closing prices of the shares during the five trading days preceding the date of grant of the options plus a premium to be determined by the Board of Directors at its absolute discretion. The Board of Directors may determine a restriction period during which the options cannot be exercised. The options vest on the day after the date when the restriction period lapses. The granted options forfeit if, prior to the end of the restriction period, (i) the option holder terminates the employment contract other than for valid reasons, retirement at normal retirement age as may be agreed between the option holder and the Group, death or disability, or (ii) the Group terminates the employment contract for valid reasons. Except under certain circumstances (e.g. tender offer or death), the options are not transferable. No further options were granted under this plan during the financial year 2014, 2015 and 2016 and it is not intended to issue new options under this plan in future. All the options, outstanding as at 31 December 2015, have expired during the 1<sup>st</sup> semester 2016.

#### 1.4. Ordinance Against Excessive Compensation at Listed Companies (Vegüv), and section 95 para. 3 of the Swiss constitution

A revised version of the Articles of Association with regard to the Board of Directors and Executive Committee compensation, taking into account the Ordinance Against Excessive Compensation at Listed Companies (OAE, VegüV) had been submitted to the 2015 Shareholders' General Meeting and has been approved.

#### 1.5. Compensation in fiscal year 2016

This section of the compensation report provides information on the compensation paid by the Company in the fiscal year 2016 to the Board of Directors, Chief Executive Officer and Executive Committee as required by the OAE.

##### 1.5.1. Board of Directors

In the fiscal year 2016 the members of the Board of Directors received an aggregate total compensation of CHF 400,600 (prior year: CHF 359,500).

Detailed information on the compensation of the members of the Board of Directors:

##### Total compensation 2016

Name	Position	Base cash compensation (CHF)	Consulting fees (CHF)	Options (CHF)	Social charges (CHF)	Total (CHF)
Jim Atack	Chairman	100.0	-	-	-	100.0
Peter Wodke (1)	Member (chairman of Audit & Risk Committee)	53.8				53.8
Adam Said (2)	Member	50.0				50.0
David Ishag (3)	Member	33.3				33.3
Bryan Urban (4)	Member	20.8	-	-	-	20.8
Stefan Müller	Member	51.9	-	-	3.2	55.1
Robert Robertsson (5)	Member	43.8	-	-		43.8
Scott Macaw (6)	Member	43.9	-	-	-	43.9
<b>TOTAL</b>		<b>397.4</b>	<b>-</b>	<b>-</b>	<b>3.2</b>	<b>400.6</b>
<b>Of which amount due at year-end</b>						<b>77.1</b>

<sup>(1)</sup> New Board member since 21 January 2016

<sup>(2)</sup> New Board member since 21 January 2016

<sup>(3)</sup> New Board member since 4 May 2016

<sup>(4)</sup> Stepped down from the Board of Directors on 4 May 2016

<sup>(5)</sup> Resigned from the Board of Directors on 16 November 2016

<sup>(6)</sup> Resigned from the Board of Directors on 16 November 2016

### Total compensation 2015

Name	Position	Base cash compensation (kCHF)	Consulting fees (kCHF)	Options (kCHF)	Social charges (kCHF)	Total
Jim Atack	Chairman	100.0	-	-	-	<b>100.0</b>
Bryan Urban	Member	50.0	-	-	-	<b>50.0</b>
Stefan Müller	Member	50.0	-	-	4.1	<b>54.1</b>
Antoine Spillmann	Member	50.0	-	-	4.1	<b>54.1</b>
Scott Macaw	Member	50.0	-	-	-	<b>50.0</b>
Robert Robertsson	Member	50.0	-	-	1.3	<b>51.3</b>
<b>Amount due at year-end</b>						<b>84.4</b>

#### 1.5.2. Executive Committee

In the fiscal year 2016 the aggregate overall compensation of the Executive Committee amounted to CHF 3,259,609 (prior year CHF 2,159,927). This amount includes the compensation paid to the Executive Committee members during their respective executive functions.

The highest total compensation in the Group in fiscal year 2016 was earned by Mr. Anil Srivastava, CEO of the Company. His total compensation in fiscal year 2016, consisting of the fixed annual base salary, the variable performance-related compensation, the capped stock option grant and pension, insurance and perquisites, amounted to CHF 1,648,500 (2015: CHF 713,697).

The employment contracts with members of the Executive Committee do not contain any severance payments. There are no employment contracts with members of the Executive Committee with notice periods of more than six months.

### Total compensation 2016

<i>All amounts in kCHF</i>	Base cash compensation	Cash bonus	Options	Social charges	Total
Global payment	1,663.5	414.5	910.2	271.5	<b>3,259.6</b>
of which highest payment to Anil Srivastava (CEO)	528.4	250.0	772.8	97.3	<b>1,648.5</b>

### Total compensation 2015

<i>All amounts in kCHF</i>	Base cash compensation	Cash bonus	Options	Social charges	Total
Global payment	1,586.6	241.8	51.2	280.3	<b>2,159.9</b>
of which highest payment to Anil Srivastava (CEO)	500.0	100.0	29.7	84.0	<b>713.7</b>

#### 1.5.3. Service benefits and benefits in kind

The rent of a flat of one member of the executive committee has been paid in 2016 by Leclanché. The yearly rent amounts to CHF 54,000. This agreement is until 31 May 2018.

No other service benefits and benefits in kind have been granted to members of the Board of Directors or to members of the Executive Committee in the year under review.

#### 1.5.4. Sign-on bonuses

No sign-on payments have been granted to members of the Board of Directors or to members of the Executive Committee in the year under review.

#### 1.5.5. Loans, guarantees, guarantee obligations, pledges in favour of third parties and other securities

No loans, guarantees, guarantee obligations, pledges in favour of third parties and other securities have been granted to present or past members of the Board of Directors or to present or past members of the Executive Committee (including persons related to them) in the year under review, and no such loans, guarantees, guarantee obligations, pledges in favour of third parties and other securities are outstanding.

#### 1.5.6. Loan Waivers

No group companies waived repayment of any loan obligations due a member of the Board of Directors or Executive Committee in the year under review.

#### 1.5.7. No fees or compensation for any additional services

In the year under review the members of the Board of Directors and Executive Committee did not receive any fees or compensation for any additional services rendered to any group companies.

#### 1.5.8. Former members of management

No compensation was paid to persons who ceased to be a member of the Board of Directors or Executive Committee in the year under review or in prior years, nor to parties related to them beyond that due to them during their tenure.

#### 1.5.9. Related parties

In the year under review, no compensation was paid to related parties of the Board of Directors or Executive Committee.

#### 1.5.10. Shareholdings in the Company

Detailed information about the participations of the members of the Board of Directors and the Executive Committee (including related parties) through shares and option rights in the Company can be found in Note 2.8 of the 2016 statutory financial statement.



## ***Report of the statutory auditor to the General Meeting of LECLANCHE SA Yverdon-les-Bains***

We have audited the compensation report (pages 23-28) of LECLANCHE SA for the year ended 31 December 2016.

### ***Board of Directors' responsibility***

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

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

**REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT**

(Page 2)



***Opinion***

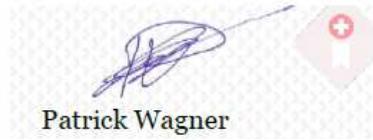
In our opinion, the compensation report of LECLANCHE SA for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA



Corinne Pointet Chambettaz

Audit expert  
Auditor in charge



Patrick Wagner

Audit expert

Lausanne, 29 March 2017

## Leclanché Group

### Consolidated financial statements 2016



## Consolidated income statement for the year ended December 31, 2016

	Notes	<u>2016</u>	<u>2015</u>
		kCHF	kCHF
Sales of goods and services	3	28'067.1	17'882.5
Other income	4.2	<u>454.1</u>	<u>325.5</u>
<b>Total income</b>		<u>28'521.2</u>	<u>18'208.0</u>
Raw materials and consumables used		-26'162.6	-16'554.1
Personnel costs	4.4	-19'381.2	-14'297.2
Other operating expenses	4.3	<u>-10'501.3</u>	<u>-13'384.3</u>
<b>Earnings Before Interest, Tax, Depreciation and Amortisation</b>		<u>-27'523.9</u>	<u>-26'027.6</u>
Depreciation, amortisation and impairment expenses	7, 8	<u>-6'155.5</u>	<u>-5'795.5</u>
<b>Operating Loss</b>		<u>-33'679.4</u>	<u>-31'823.1</u>
Finance costs		-4'091.1	-2'670.2
Finance income		<u>-</u>	<u>0.5</u>
<b>Loss before tax for the year</b>		<u>-37'770.5</u>	<u>-34'492.8</u>
Income tax	5	<u>553.4</u>	<u>-1'084.6</u>
<b>Loss for the year</b>		<u><u>-37'217.1</u></u>	<u><u>-35'577.4</u></u>
Earnings per share (CHF)			
- basic	6	-0.87	-1.21
- diluted	6	-0.87	-1.21

## Consolidated statement of comprehensive loss for the year ended December 31, 2016

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
<b>Loss for the year</b>	-37'217.1	-35'577.4
<b>Other comprehensive income/(loss)</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurements of post-employment benefit obligations	-626.6	-2'823.8
<b>Items that may be subsequently reclassified to profit or loss</b>		
Currency translation differences	<u>10.3</u>	<u>-2'642.3</u>
<b>Other comprehensive income/(loss) for the year</b>	<u>-616.3</u>	<u>-5'466.1</u>
<b>Total comprehensive loss for the year</b>	<u><u>-37'833.4</u></u>	<u><u>-41'043.5</u></u>

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

## Consolidated balance sheet at December 31, 2016

	Notes	<u>31.12.2016</u>	<u>31.12.2015</u>
		kCHF	kCHF
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	9'195.8	17'813.5
Intangible assets	8	6'904.6	9'627.3
Other financial assets	9	755.6	259.4
		<u>16'856.0</u>	<u>27'700.2</u>
<b>Current assets</b>			
Inventories	10	9'607.1	4'351.4
Trade and other receivables	11	21'462.1	4'669.0
Cash and cash equivalents	19	4'544.6	3'541.8
		<u>35'613.8</u>	<u>12'562.2</u>
<b>TOTAL ASSETS</b>		<u><u>52'469.8</u></u>	<u><u>40'262.4</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	12	72'005.2	56'854.5
Share premium		11'293.9	72'874.5
Reserve for share-based payment	13	1'005.8	1'936.5
Other reserves		4'974.9	8'632.2
Translation reserve		-4'599.2	-4'609.5
Equity component of warrants (and convertible notes)		943.6	3'479.6
Remeasurements of post-employment benefit obligations	14	-17'060.7	-16'434.2
Accumulated losses		-73'899.0	-114'121.8
<b>Total Equity</b>		<u>-5'335.5</u>	<u>8'611.8</u>
<b>Non-current liabilities</b>			
Defined benefit pension liability	14	9'480.3	8'221.2
Convertible loans	16A	-	7'563.5
Borrowings	17	-	500.0
Embedded derivatives	16A	1'616.5	625.0
Deferred tax liability	5	505.8	1'084.6
		<u>11'602.6</u>	<u>17'994.3</u>
<b>Current liabilities</b>			
Provisions	15	64.3	275.0
Convertible loans	16A	21'814.6	-
Borrowings	17	500.0	750.0
Trade and other payables	18	23'823.8	12'631.3
		<u>46'202.7</u>	<u>13'656.3</u>
<b>TOTAL LIABILITIES</b>		<u><u>57'805.3</u></u>	<u><u>31'650.6</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>52'469.8</u></u>	<u><u>40'262.4</u></u>

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

## Consolidated statement of changes in equity for the year ended December 31, 2016

		Attributable to equity holders of the parent							
Notes	Issued share capital	Share premium (1)	Reserve for share-based payment	Other reserves	Equity component of convertible loan and warrants	Translation reserve	Remeasurements of post-employment benefit obligations	Accumulated losses	Total
	kCHF	kCHF	kCHF	kCHF	kCHF	kCHF	kCHF	kCHF	kCHF
<b>Balance at 1 January 2015</b>	32'971.8	63'497.8	1'885.3	8'632.2	4'161.9	-1'967.2	-13'610.4	-79'420.3	16'151.1
Loss for the year	-	-	-	-	-	-	-	-35'577.4	-35'577.4
<b>Other comprehensive income:</b>									
Remeasurements of post employment benefit obligations	14	-	-	-	-	-	-2'823.8	-	-2'823.8
Currency translation differences		-	-	-	-	-2'642.3	-	-	-2'642.3
<b>Total comprehensive loss for the year</b>		-	-	-	-	-2'642.3	-2'823.8	-35'577.4	-41'043.5
Equity component of convertible loan and warrants	16B	-	-	-	2'400.0	-	-	-	2'400.0
Reserve for share-based payment	13	-	-	51.2	-	-	-	-	51.2
Warrants Exercise	12/16C	765.0	693.8	-	-693.8	-	-	-	765.0
Capital increase ex-OKME as per 21.01.2015 and 19.05.2015	12	5'258.0	-	-	-2'388.5	-	-	875.9	3'745.4
Capital increase Recharge as per 17.07.2015	12	12'750.0	3'921.3	-	-	-	-	-	16'671.3
Capital increase ADS TEC and Trineuron Deal	12	2'268.0	3'056.6	-	-	-	-	-	5'324.6
Capital increase as of 21.12.2015	12	2'841.7	1'705.0	-	-	-	-	-	4'546.7
<b>Balance at 31 December 2015</b>	<b>56'854.5</b>	<b>72'874.5</b>	<b>1'936.5</b>	<b>8'632.2</b>	<b>3'479.6</b>	<b>-4'609.5</b>	<b>-16'434.2</b>	<b>-114'121.8</b>	<b>8'611.8</b>
<b>Balance at 1 January 2016</b>	56'854.5	72'874.5	1'936.5	8'632.2	3'479.6	-4'609.5	-16'434.2	-114'121.8	8'611.8
Loss for the year	-	-	-	-	-	-	-	-37'217.1	-37'217.1
<b>Other comprehensive income:</b>									
Remeasurements of post employment benefit obligations	14	-	-	-	-	-	-626.6	-	-626.6
Currency translation differences		-	-	-	-	10.3	-	-	10.3
<b>Total comprehensive loss for the year</b>		-	-	-	-	10.3	-626.6	-37'217.1	-37'833.4
Cancellation of share premium and other reserves against accumulated losses		-	-71'888.2	-	-3'657.3	-	-	75'545.5	-
Reserve for share-based payment	13	-	-	-930.7	-	-	-	1'894.7	964.0
Warrants exercise	12/16C	150.0	74.7	-	-136.0	-	-	-	88.7
Capital increase by loan conversion (Facility B) - 29.04.2016	12/16A	3'201.7	2'020.2	-	-	-	-	-	5'221.9
Capital increase by loan conversion (Facility B) - 15.06.2016	12/16A	1'755.8	1'142.4	-	-	-	-	-	2'898.2
Capital increase by loan conversion (MCN) - 15.06.2016	12/16B	1'500.0	897.6	-	-2'400.0	-	-	-	-2.4
Capital increase as of 17.08.2016	12	2'319.7	1'459.7	-	-	-	-	-	3'779.4
Capital increase by loan conversion as of 23.08.2016	12	3'917.9	2'984.4	-	-	-	-	-	6'902.3
Capital increase by loan conversion (Facility C) - 23.08.2016	12/16A	2'305.5	1'728.4	-	-	-	-	-	4'033.9
<b>Balance at 31 December 2016</b>	<b>72'005.2</b>	<b>11'293.7</b>	<b>1'005.8</b>	<b>4'974.9</b>	<b>943.6</b>	<b>-4'599.2</b>	<b>-17'060.8</b>	<b>-73'898.7</b>	<b>-5'335.5</b>

(1) 639 kCHF of transaction costs are accounted for as deduction of Share Premium in 2016

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

## Consolidated statement of cash flows for the year ended December 31, 2016

	Notes	<u>2016</u> kCHF	<u>2015</u> kCHF
<b>Operating activities</b>			
Loss for the year		-37'217.1	-35'577.4
Non cash adjustments:			
Depreciation of property, plant and equipment	7	3'832.9	2'961.4
Amortisation of intangible assets	8	2'322.2	1'195.5
Impairment of intangibles assets	8	-	1'574.0
Result on destruction by fire of fixed assets and inventories	4.2	6'277.4	-
Reclass of insurance indemnities	4.2	-5'576.0	-
Result on scrapping of fixed assets		246.6	-
Allocation to provision for impairment of receivables		346.0	51.9
Allocation to provision on inventories		940.4	817.5
Non-realised foreign exchange differences		-75.0	-254.8
Recognised expense for stock option plan	13	964.0	51.2
Movement in provisions	15	-210.7	125.0
Pension cost	14	632.5	402.7
Interest expense		4'091.1	2'670.2
Interest income		-	-0.5
Income tax	5	-553.4	1'084.6
Working capital adjustments:			
(In)/Decrease in trade and other receivables		-14'249.9	-2'258.1
(In)/Decrease in inventories		-6'897.5	44.1
In/(Decrease) in trade and other payables		10'917.2	5'688.5
Interest paid		-88.0	-102.9
<b>Net cash used in operating activities</b>		<b>-34'297.3</b>	<b>-21'527.1</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	7	-505.5	-473.6
Insurance indemnities (fire)	4.2	5'576.0	-
Investment in other financial assets	9 / 11	-3'384.8	-
Capitalised development expenses		-	-3'154.9
Grant on capitalised development expenses		-	1'067.5
Acquisition of intangible assets	8	-45.3	-1'964.0
Interest received		-	0.5
<b>Net cash used in investing activities</b>		<b>1'640.4</b>	<b>-4'524.5</b>
<b>Financing activities</b>			
Proceeds from share capital increase	12	3'779.4	4'546.7
Proceeds from warrants exercised	16C	150.0	765.0
Proceeds from loans	16A	30'785.1	23'263.9
Proceeds from Mandatory Convertible Note		-	2'400.0
Transactions costs on conversion of loan into capital		-302.9	-
Proceeds from bridge loan		-	500.0
Repayment of bridge loan	17	-750.0	-2'395.0
<b>Net cash from financing activities</b>		<b>33'661.6</b>	<b>29'080.6</b>
<b>Increase / (Decrease) in cash and cash equivalent</b>		<b>1'004.7</b>	<b>3'029.0</b>
Cash and cash equivalent at 1 January		3'541.8	537.1
Cash and cash equivalent at 31 December		4'544.6	3'541.8
Effect of exchange rate changes		1.9	24.3
<b>Variation</b>		<b>1'004.7</b>	<b>3'029.0</b>

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

## Notes to the consolidated financial statements 2016

### CORPORATE INFORMATION

Leclanché SA (the "**Company**") was incorporated in Yverdon-les-Bains (Switzerland) as a Swiss limited company (*société anonyme, Aktiengesellschaft*) on 3 August 1909 with the Register of Commerce of the Canton of Vaud. The Company has its corporate legal headquarters at Avenue des Sports 42, 1400 Yverdon-les-Bains. The Company is listed under the Main Standard on the SIX Swiss Exchange under Swiss security number 11030311 (ISIN: CH0110303119). The Company is listed under the symbol "LECN".

Leclanché SA's subsidiaries are:

	Registered offices	Country	Currency	Share capital	Ownership interest
Leclanché GmbH	Willstätt	Germany	EUR	270,600	100%
Leclanché UK Ltd	London	England	GBP	100	100%
Leclanché BVBA	Turnhout	Belgium	EUR	1,659,854	100%
Leclanché North America Inc.	Wilmington, Delaware	USA	USD	0.01	100%

All subsidiaries undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

Leclanché SA and its subsidiaries (the "**Group**") are dedicated to the design, development and manufacturing of customised turnkey energy storage solutions for electricity generation and transmission, mass transportation, heavy industrial machines and specialty battery systems.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 29 March, 2017, but they are subject to approval of the shareholders' general meeting.

The principal activities of the Group are described in Note 3.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (A) Basis of preparation

The consolidated financial statements of Leclanché SA have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations.

The policies set out below have been consistently applied to all the years presented. These consolidated financial statements have been prepared under the historical cost convention, except for items to be recorded at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

### (B) New and amended accounting standards and IFRIC interpretations

*The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning on 1 January 2016:*

Amendments to IAS 1 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2016, prospective application, earlier application permitted) - The amendments clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users. The Group has applied this amendment from 1 January 2016, but it had no impact on the Group's financial statements.

*The following relatively minor changes have been applied by the Group from their effective date, but they had no significant impact on the Group's financial statements:*

- Annual Improvements to IFRSs 2012-2014 Cycle - IAS 19 'Employee benefits' (effective date 1 January 2016)

*The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning on 1 January 2016, but are currently not relevant for the Group:*

- Amendment to IAS 27 'Separate financial statements' (effective date 1 January 2016)
- Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' (effective date 1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidated Exception' (effective date 1 January 2016)
- Amendment to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' (effective date 1 January 2016)
- Amendments to IAS 16 and IAS 41 'Agriculture: Bearer plants' (effective date 1 January 2016)
- IFRS 14 'Regulatory Deferral Accounts' (effective date 1 January 2016)
- Annual Improvements to IFRSs 2012-2014 Cycle - IFRS 5 'Non-current assets held for sale and discontinued operations' (effective date 1 January 2016)
- Annual Improvements to IFRSs 2012-2014 Cycle - IFRS 7 'Financial instruments: Disclosures' (effective date 1 January 2016)

*New standards, interpretations to existing standards and standards amendments that are not yet effective:*

The Group has not early adopted any other new standards, interpretations to existing standards and standards amendments which need adoption by 1 January 2017 or later. The Group has commenced, but not yet completed, an assessment of the impact of the adoption of these new or amended standards on its consolidated financial statements. The relevant standards and amendments identified by the Group to date relate to:

- Amendment to IAS 7 'Statement of cash flows' (effective for annual periods beginning on or after 1 January 2017, prospective application, earlier application permitted) - The amendment is introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The Group will apply this amendment from 1 January 2017 but it does not expect any significant impact on the consolidated financial statements.
- Amendments to IAS 12 'Income taxes' (effective for annual periods beginning on or after 1 January 2017, retrospective application, earlier application permitted) - These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 1 January 2018, retrospective application, earlier application permitted) - The new standard on the recognition of revenue from contracts with customers applies to all contracts with customers except those that are financial instruments, leases or insurance contracts.

IFRS 15 is based on a five-step approach:

- 1) Identify the contract with the customer
- 2) Identify the separate performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to separate performance obligations
- 5) Recognise revenue when a performance obligation is satisfied

The new standard will require entities to redefine their revenue recognition, and consider adjustments to the invoicing and accounting systems and consider renegotiating contracts with their clients. Entities currently using industry-specific guidance may be more significantly affected. In addition, the amount of revenue-related disclosures will increase.

- Clarification to IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 1 January 2018) - The amendments clarify certain areas of IFRS 15, in particular: (i) identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; (ii) how to determine whether a party involved in a transaction is the principal (responsible for providing the goods or services) or the agent (responsible for arranging for the goods or services to be provided to the customer); and (iii) how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group will apply this amendment together with the related standard, i.e. from 1 January 2018, and it is yet to assess IFRS 15's full impact.
- Amendments to IFRS 2 'Share-based payment' (effective for annual periods beginning on or after 1 January 2018, retrospective application, earlier application permitted) - The amendment clarifies the accounting treatment of (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments (clarification that the valuation is not in the scope of IFRS 13 'Fair value Measurement'); (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) modifications to the terms and conditions of a share-based payment that changes the classification of the

transaction from cash-settled to equity-settled. The Group will apply this amendment from 1 January 2018 but it does not expect any significant impact on the consolidated financial statements.

- IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2018, retrospective application, earlier application permitted) - The complete version of IFRS 9 'Financial Instruments' includes requirements on the classification and measurement of financial assets and liabilities; it defines three classification categories for debt instruments: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). Classification for investments in debt instruments is driven by the entity's business model for managing financial assets and their contractual cash flows. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading.

No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

IFRS 9 also contains a new impairment model which will result in earlier recognition of losses. The expected credit losses (ECL) model is a 'three-stage' model for impairment based on changes in credit quality since initial recognition.

In addition, the new standard contains amendments to general hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

The Group will apply IFRS 9 from 1 January 2018, and it is in the process of assessing IFRS 9's full impact.

- IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019) - Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. IFRS 16 is likely to have a significant impact on the financial statements of a number of lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group will apply IFRS 16 from 1 January 2019, and it is in the process of assessing IFRS 16's full impact.

- IFRIC Interpretation 22 'Foreign Currency Transaction and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) - IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The Group will apply this amendment from 1 January 2018 but it does not expect any significant impact on the consolidated financial statements.
- Annual improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017) – IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of the Standards; IFRS 1 First-time Adoption of International Financial Reporting Standards: deletion of short-term exemptions for first-time adopters; IAS 28 Investments in Associates and Joint Ventures: measuring an associate or joint venture at fair value.



### (C) Consolidation

The annual closing date of the individual financial statements of all Group companies is 31 December.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired and liabilities assumed, is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (D) 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 Swiss Franc "CHF", which is the Group's presentation currency.

#### *Transactions and balances*

The local currency is generally used as the reporting currency throughout the world. In the respective entity financial statements, monetary assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Transactions are recorded using the prevailing exchange rate at the time of the transaction. All resulting foreign exchange transaction gains and losses are recognised in each subsidiary's income statement.

### *Group companies*

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rates at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income, under "Cumulative translation adjustment".

On consolidation, exchange difference arising from the translation of the net investment in foreign operations, as well as from long-term internal financing, are taken to "Cumulative translation adjustment" in other comprehensive income. On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity (in other comprehensive income) in respect of that operation attributable to the equity holders of the Company are reclassified to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

### *(E) Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee and Board of Directors.

### *(F) Revenue recognition*

Revenue includes the fair value from the sale of goods and services, net of value-added tax, rebates, discounts and sales commissions and after eliminating sales within the Group.

#### *(a) Sale of goods*

Sale of goods is recognised when delivery to the customer has occurred, the significant risks and rewards have been transferred to the buyer and collection of the related receivables is reasonably assured. Sale of goods may include delivery of batteries, rechargeable batteries, systems for electrical storage device and some accessories.

#### *(b) Services rendered*

Revenue for services rendered includes various types of services such as system integration, specific developments and customisation or maintenance. For larger projects, revenue is recognised according to the stage of completion (contract milestone agreed in the quotation); for smaller project, once the project is completed.

#### *(c) Projects*

Large projects including Engineering, Procurement & Construction (EPC) services provided by Leclanché, are considered and treated as construction contracts. A construction contract is defined as a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Leclanché applies the percentage of completion method for projects.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the

transaction at the end of the reporting period. The recognition of revenue by reference to the stage of completion is often referred to as the percentage of completion method. Under this method, revenue is recognised in the accounting periods in which the services are rendered. The recognition of revenue on this basis provides full information on the extent of service activity and performance during a period.

To be able to estimate the outcome of a transaction reliably, the entity must be able to make a reliable estimate of total transaction revenue, the stage of completion and the costs to complete the transaction. The stage of completion is determined as the proportion of the transaction costs incurred for services rendered to date compared to the estimated total transaction costs.

Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

#### *(d) Interest income*

Interest income is recognised using the effective interest method.

#### *(G) Government grants*

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government grants related to intangible asset shall be presented in the statement on financial position by deducting the grant in arriving at the carrying amount. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

#### *(H) Taxes*

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; 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 neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (I) Property, plant and equipment

All property, plant and equipment are shown at cost, less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management and is calculated on a straight-line basis over the useful life, according to the following schedule:

	Useful life in years
Production machinery	8 - 10
Machinery, equipment	5 - 8
Tools	3 - 5
Computers and information networks	3 - 5
Office furniture and equipment	5 - 8
Vehicles	5

Assets are depreciated on a straight-line method.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal or retirement of tangible fixed assets are determined by comparing the proceeds received with the carrying amounts and are included in the consolidated income statements.

#### (J) Intangible assets

##### (a) Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. They have a finite useful life (5 to 6 years) and are subsequently carried at cost less accumulated amortisation (amortisation on a straight-line method) and impairment losses.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment

losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

*(b) Patents, licences and rights of use*

The patents have been acquired as part of a business combination. The useful life (7 to 12 years) assigned to the patents is based on the maturity of the patents and the value was assessed based on estimated economic benefit that such patents rights can provide.

Separately acquired rights of use are shown at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation (amortisation on a straight-line method) and impairment losses.

*(c) Know-how and software*

Separately acquired know-how and software are shown at historical cost. Know-how and software acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life (3 to 5 years) and are subsequently carried at cost less accumulated amortisation (amortisation on a straight-line method) and impairment losses.

**(K) Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date. Financial assets are recognised initially at fair value plus transaction costs for trade and receivables. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method, when maturity is over one year. Carrying amount is after consideration of an allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

**(L) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of work in progress and manufactured finished goods comprises direct production costs and an appropriate proportion of production overheads and factory depreciation. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Furthermore, inventories which are no longer part of production and sales plans are directly written off from the gross value of inventories. A valuation adjustment is booked for slow-moving and obsolete inventory.

**(M) Trade and other receivables**

Trade receivables are amounts due from customers for services performed or goods delivered in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables

are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

#### (N) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at nominal value. Cash and cash equivalents include cash in hand and highly liquid investments with original maturities of three months or less. This position is readily convertible to known amounts of cash. Bank overdrafts are shown within short-term financial debt in current liabilities on the balance sheet.

#### (O) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, reduce the proceeds from the equity issue and are recognised directly in equity.

#### (P) Loans and borrowings

Interest bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, if maturity exceeds 12 months. A financial liability is recognised when the obligation is discharged or cancelled or expires.

Compound financial instruments issued by the Group comprise convertible loans that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method whereas the equity component is not re-measured.

#### (Q) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are non-interest bearing and are normally settled on 60-day terms. Other payables are non-interest bearing and have an average term of six months. Trade accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## (R) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

## (S) Employee benefits

### *(a) Pension obligations*

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### *(b) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### *(c) Share-based payments*

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

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

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

When the options are exercised, the Company issues new shares. 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.

### *(T) Comparatives*

Where necessary, comparatives figures have been adjusted to conform with changes in presentation in the current year.

## **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

### *(A) Critical accounting estimates and assumptions*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. Management also needs to exercise judgement in applying the new Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### *Uncertainties and ability to continue as a going concern*

Pursuant to the funding update provided on 26 October 2016, Leclanché has been working with its financial advisers to complete a second round of private placement after that completed in August 2016 and to solidify a partnership agreement with a Chinese industrial group for that important strategic market. The total targeted equity raise through private placement shall be shared from current shareholders and new institutional and strategic investors.

In parallel, the Company is confident to secure heads of terms for a debt facility of a significant amount for corporate working capital needs and for a deployment of its projects in Canada, Germany and the US. Leclanché remains confident to successfully fund its business plan by Q2 2017.



Subject to the availability of sufficient equity and debt funding, the Board of Directors believes that the Company will be able to meet all of its obligations for at least the next twelve months as they fall due and hence, the consolidated financial statements have been prepared on a going concern basis.

Notwithstanding this, as operations are scaled, particularly in Sales and Delivery, the Company is aware of the significant execution risk this carries, and continues to explore options to raise further growth capital as mentioned above.

#### *Development costs and patents*

Development costs and patents are capitalised in accordance with the accounting policy of Note 1(J). Initial capitalisation is based on management's judgment that the technological and economic feasibility is confirmed, usually when a product development project is conducted based on concrete specification of a third party. In determining the amount to be capitalised, management makes assumptions regarding the expected future cash flows, discount rate to be applied and expected period of benefits. In 2016, development costs have been capitalised for total kCHF 27.5 (2015: kCHF 1,409).

#### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected cash flows from the asset and choose a suitable discount rate. The realisation of the projects is a key assumption of the impairment testing performed.

Based on management assessment, projects that cannot meet the revenue expectations have been impaired for the total amount kCHF 0 as of 31 December 2016 (2015: kCHF 1,574).

Following the fire incident that occurred in Leclanché GmbH in Willstätt in April 2016, the management has decided to impair destroyed assets for a total of kCHF 6,277.4.

#### *Pension benefits*

The present value of the pension obligations (see Note 14) depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The independent actuary of the Group uses statistical based assumptions covering future withdrawals of participants from the plan and estimates on life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences could impact significantly the amount of pension income or expenses recognised in future periods.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

#### *Revenue recognition for projects*

In accordance with the accounting policy of Note 1(F)b "Revenue recognition", revenue arising from the provision of services in large projects is recognised by reference to the stage of completion of the transaction at the end of the reporting period (the "percentage of completion" method). This method requires that the entity be able to make a reliable estimate of total transaction revenue, the stage of completion and the costs to complete the transaction. Under the percentage of completion method, contract revenue is recognised as revenue in the

income statement in the accounting periods in which the work is performed. In 2016, the amount of revenue subject to the percentage of completion method is of CHF 13.3 million (note 4.1).

The “percentage of completion” method involves:

- Estimating the outcome of the contract reliably;
- Determining the revenue and costs attributable to the stage of completion of the contract; and
- Determining the profit attributable to the stage of completion.

Leclanché measures the state of completion through measuring the costs incurred for work performed to date compared to the total estimated costs.

#### **(B) Critical judgements in applying the entity's accounting policies**

##### *Valuation of Convertible Loans*

Based on the conversion mechanism, which leads to a variable number of shares, the LECN Co Invest/ACE/Jade convertible loan (see Note 16A) has been accounted for as a debt instrument with an embedded derivative for the conversion elements. The host has been subsequently accounted for at amortised cost, whereas the embedded derivative has been fair valued with changes recorded to profit and loss. The determination of the embedded derivative’s fair value is based on the following significant unobservable inputs: estimated conversion date, market rate (20%). Those inputs have been estimated based on management’s judgements.

##### *Deferred income tax asset*

Deferred income tax assets are recognised for all unused tax losses only to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Judgement is required from management to determine the amount of tax asset that can be recognised, based on forecasts and tax planning strategies. Given the uncertainty in the realisation of future taxable profits, no tax asset has been recognised as of 31 December 2016. Had the Group estimated that all available tax losses could be used, the effect would have been an additional income of kCHF 36,981 as of 31 December 2016 (2015: kCHF 20,709).

### 3. SEGMENT INFORMATION

From a product perspective, management assesses the performance of the operating segments based on a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). This measure excludes the effects of depreciation, amortisation, taxes, financial income and financial costs, as well as the effects of non-recurring expenditures. The impact on personnel costs related to IAS 19 / IFRIC 14 and finance income and charges are not included in the result of each operating segment.

Since 1 January 2016, the operating business is organised in 4 segments:

- **Utility Scale Generation & Microgrids (USGM-Stationary)** sells customised systems to support customers in both electricity generation markets (such as renewable energy integration, micro-grid or distributed power) and in transmission & distribution markets (so-called grid ancillary services).
- **Commercial & Industrial Battery Systems (CIBS)** develops and delivers both turn-key customised solutions and off-the-shelf solutions incorporating battery storage and/or charging solutions utilising both in-house and third-party technologies for civil, military, medical and industrial machineries markets.
- **E-Transport (Mobility)** sells customised systems to support customers in the mass marine and road transportation.
- **Energy Efficiency Solutions (EESO)** sells branded consumer products on selected markets (Distribution).

Compared to prior year, the operating segment "Specialty Battery Systems" (Portable and Distribution) has been split to form the new "Commercial & Industrial Battery Systems" (Portable, Home Storage, Material Handling Equipment (AGV)) and "Energy Efficiency Solutions" (Distribution) segments. As a consequence, prior year figures for the SBS system have been restated.

All costs that cannot be allocated directly to the four business units (USGM-Stationary, CIBS, E-Transport and EESO) are grouped under Corporate, and are kept under regular review by the Executive Committee.

The segment information for the reportable segment is as follows:

	E-Transport		Utility Scale Generation & Microgrids		Commercial & Industrial Battery Systems		Energy Efficiency Solutions		Corporate Costs		Total	
	31.12.2016	31.12.2015 (restated)	31.12.2016	31.12.2015 (restated)	31.12.2016	31.12.2015 (restated)	31.12.2016	31.12.2015 (restated)	31.12.2016	31.12.2015 (restated)	31.12.2016	31.12.2015 (restated)
<b>Revenue</b>												
Sales of goods and services	293.2	900.0	20'415.4	10'696.1	4'524.3	3'376.1	2'816.2	2'910.4	18.0	-	28'067.1	17'882.5
EBITDA	-2'197.2	-2'004.4	-8'044.4	-8'994.3	-2'748.7	-1'834.1	355.4	-281.5	-14'889.0	-12'913.3	-27'523.9	-26'027.6
EBIT	-2'309.6	-2'171.7	-13'469.0	-14'470.6	-2'795.2	-1'954.9	345.6	-293.9	-15'451.3	-12'932.0	-33'679.4	-31'823.1
<b>Assets</b>												
Segment assets	2'677.5	2'953.5	39'575.7	27'796.7	2'250.7	4'644.1	1'265.3	1'066.9	6'700.6	3'801.2	52'469.8	40'262.4
<b>Other segment information</b>												
Depreciation, amortisation and Impairment	-112.4	-167.3	-5'424.5	-5'476.3	-46.5	-132.1	-9.8	-1.1	-562.3	-18.7	-6'155.5	-5'795.5
Acquisitions of tangible and intangible assets	191.2	1'704.8	116.1	6'210.1	1.4	-	-	-	242.1	-	550.8	7'914.9

A reconciliation of total EBITDA to net loss for the year is provided as follows:

Reconciling items	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
<b>EBITDA</b>	<b>-12'634.9</b>	<b>-13'114.3</b>
Corporate costs	-14'889.0	-12'913.3
Depreciation and amortization	-6'155.5	-5'795.5
<b>EBIT</b>	<b>-33'679.4</b>	<b>-31'823.1</b>
Finance revenue	-	0.5
Finance costs	-4'091.1	-2'670.2
Income tax	553.4	-1'084.6
<b>Loss for the year</b>	<b>-37'217.1</b>	<b>-35'577.4</b>

In 2016, the Group realised 72.3% of its revenue with three customers belonging to the USGM-Stationary segment. Individually, each customer represents more than 10% of 2016 revenue. In 2015, the Group realised 54.8% of its revenue with one customer belonging to USGM-Stationary segment.

For geographical information, sales are allocated based on where the customer is located.

Revenue	<u>2016</u>	<u>2015</u>	Non-current assets	<u>2016</u>	<u>2015</u>
	kCHF	(restated) kCHF		kCHF	kCHF
Switzerland	2'738.0	5'185.5	Switzerland	7'717.4	9'430.3
Portugal	551.0	10'084.2	Germany	8'305.5	17'115.1
United States	9'042.6	-	Belgium	818.1	1'154.8
Canada	11'249.2	-	United States	15.1	-
Other	4'486.3	2'612.8		<u>16'856.0</u>	<u>27'700.2</u>
	<b>28'067.1</b>	<b>17'882.5</b>			

## 4. REVENUES AND EXPENSES

### 4.1 CONSTRUCTION CONTRACTS

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Contract Revenue	13'292.7	-

The net balance sheet position for ongoing contracts is as follows:

Amounts due to customers for contract work	-6'633.0	-
Amounts due from customers for contract work	3'491.5	-
	<u><b>-3'141.5</b></u>	<u>-</u>

the net position relates to:

Aggregate costs incurred and recognised profits (less recognised losses to date)	13'292.7	-
Less : progress billings	-16'434.2	-
	<u><b>-3'141.5</b></u>	<u>-</u>

In 2016, the Company entered into two construction contracts. One of the revenue contracts is with an entity controlled by individuals who, in addition, hold an equity interest in the Group. The entity is considered a third party as the Group has no control over its relevant activities or exposure to the variable returns of the entity. In addition, the Group has no continued involvement in the large project after it has been transferred to the third-party entity. The second revenue contract is with an entity in which the Group holds 19.87% equity interest. It has been assessed that despite the interest held in the counterparty, the Group neither controls nor has significant influence in this entity and consequently the revenue results from a third party.

#### 4.2 OTHER INCOME

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Government grants	50.8	35.0
Other income	<u>403.3</u>	<u>290.5</u>
	<u><b>454.1</b></u>	<u><b>325.5</b></u>

In April 2016, Leclanché GmbH in Willstätt suffered an accidental fire in a section of the factory, which destroyed two machines, as well as some inventories, and damaged some infrastructure. The accounting impact of the fire is a loss of kCHF 6,277.4 (kCHF 5,576.0 related to PP&E and kCHF 701.4 related to inventories), compensated by an insurance indemnity income of kCHF 6,612.0 (a partial repayment has been received from the insurance company in 2016, in order to finance the replacement of the damaged equipment). Consequently, a net income of kCHF 334.6 is included in the above position "Other income".

#### 4.3 OTHER OPERATING EXPENSES

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Consulting costs	2'234.7	4'171.0
Rental costs	1'767.0	1'672.4
Loss on doubtful debtors	421.7	31.5
Travel costs	1'839.5	1'191.5
Manufacturing costs	306.9	428.9
Sales & marketing costs	973.3	295.1
Transport and packaging	1'649.2	827.3
Exchange losses / (gains)	-864.8	-434.3
Building facilities	984.7	941.1
Administration costs	1'337.1	788.0
Sundry duties and capital taxes	71.6	707.4
Insurances	197.0	124.0
Royalties	-	547.3
Miscellaneous	-416.6	2'093.1
	<u><b>10'501.3</b></u>	<u><b>13'384.3</b></u>

#### 4.4 PERSONNEL COSTS

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Salaries	16'102.6	12'475.3
Social charges	1'682.2	1'368.0
Recognised expense for stock option plans	963.9	51.2
Pension cost (defined benefit plan)	632.5	402.7
	<u><b>19'381.2</b></u>	<u><b>14'297.2</b></u>

#### 4.5 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenditures recognised as an expense during 2016 amount to kCHF 1,238 (2015: kCHF 1,961).

### 5. INCOME TAX EXPENSE

This note provides an analysis of the Group's income tax expenses, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
<b><u>Income Tax expense</u></b>		
Current income tax	25.4	-
(Decrease)/Increase on deferred income tax	-578.8	1'084.6
<b>Income tax expenses/(income)</b>	<u><b>-553.4</b></u>	<u><b>1'084.6</b></u>

The Group's expected tax expenses for each year is based on the applicable tax rate in each individual jurisdiction where the Group operates, which in 2016 ranged between 20% and 40% (2015: between 23% and 30%). The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Profit / (loss) before income tax	-37'770.5	-34'492.8
Tax calculated at tax domestic rates applicable to profits in the respective countries	-9'046.4	-14'857.2
Tax effects of:		
- tax losses for which no deferred income tax asset was recognised	17'445.0	14'857.2
- change in deferred tax liabilities / assets	-578.8	1'084.6
- income not subject to tax / (expenses not deductible for tax purposes)	-8'317.4	-
- other	-55.8	-
<b>Total</b>	<u><b>-553.4</b></u>	<u><b>1'084.6</b></u>

The weighted average applicable tax rate of the tax rates prevailing in Switzerland, Belgium, Germany, UK and USA respectively, was 24.03% (2015: 25.29%). This decrease is due to changes in the mix of the taxable results of the individual Group companies.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	<u>31/12/2016</u>	<u>31/12/2015</u>
	kCHF	kCHF
<i>Deferred tax liability</i>		
Intangible assets	157.4	292.8
Property, plant and equipment	<u>348.4</u>	<u>843.9</u>
	<b><u>505.8</u></b>	<b><u>1'136.7</u></b>
<i>Deferred tax assets</i>		
Unused tax losses carried forward	<u>-</u>	<u>52.1</u>
	<b><u>-</u></b>	<b><u>52.1</u></b>
<b>Net deferred tax liability</b>	<b><u>505.8</u></b>	<b><u>1'084.6</u></b>

Deferred income tax assets were recognised as tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits was probable. Due to the volatility of the results of the Group companies benefiting from tax losses, the management has decided not to recognise any deferred income tax assets as at December 31, 2016. The Group has tax losses available in Switzerland, Germany and Belgium until 2023 for offset against future taxable profits of the Company (as at December 31, 2015, tax losses were available for Switzerland only).

The maturity table here after shows the tax losses for which no deferred tax assets are recognised:

	<u>31.12.2016</u>	<u>31.12.2015</u>
<b>Maturity Date</b>	kCHF	kCHF
2016	-	330.9
2017	8'195.0	8'195.0
2018	7'450.7	7'450.7
2019	6'024.7	6'024.7
2020	23'445.2	23'445.2
2021	12'118.5	12'118.5
2022	41'284.7	41'284.7
2023 <sup>(1)</sup>	<u>74'214.5</u>	<u>-</u>
<b>Total</b>	<b><u>172'733.3</u></b>	<b><u>98'849.7</u></b>

<sup>(1)</sup> : includes kCHF 9,048 of non perishable tax losses for Germany

In 2016, unused tax losses of kCHF 330 have expired (2015: kCHF 0).

## 6. EARNINGS PER SHARE

### (A) Basic

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

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Net loss attributable to ordinary equity holders of the parent	-37'217.1	-35'577.4
	<u>2016</u>	<u>2015</u>
Weighted average number of ordinary shares in issue	42'658'882	29'473'461
	<u>2016</u>	<u>2015</u>
Earnings per share	CHF	CHF
- basic	-0.87	-1.21
- diluted	-0.87	-1.21

### (B) Diluted

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The existing potential ordinary shares relating to the stock option plan (Note 13), to the warrants (Note 16C) and to the convertible loan (Note 16A), do not affect the diluted loss per share since they would be anti-dilutive (same as 2015).



## 7. PROPERTY, PLANT AND EQUIPMENT

	Machinery, installations and tools	Furniture and computers	Vehicles	Construction in progress	Total
	kCHF	kCHF	kCHF	kCHF	kCHF
Gross values :					
As at 01.01.2015	46'753.1	1'503.9	355.0	23.1	48'635.1
Additions	414.9	58.7	-	-	473.6
Business Combination	197.5	10.3	92.3	-	300.1
Exchange differences	-3'616.8	-26.2	4.0	-	-3'639.0
As at 31.12.2015	43'748.7	1'546.7	451.3	23.1	45'769.8
Accumulated depreciation and impairment:					
As at 01.01.2015	24'755.8	1'445.8	355.0	-	26'556.6
Depreciation	2'896.1	42.4	22.9	-	2'961.4
Exchange differences	-1'532.6	-26.8	-2.3	-	-1'561.7
As at 31.12.2015	26'119.3	1'461.4	375.6	-	27'956.3
<b>Net value as at 31.12.2015</b>	<b>17'629.4</b>	<b>85.3</b>	<b>75.7</b>	<b>23.1</b>	<b>17'813.5</b>
Gross values :					
As at 01.01.2016	43'748.7	1'546.7	451.3	23.1	45'769.8
Additions	321.9	183.6	-	-	505.5
Scrapping	-8'755.3	63.7	-314.3	-23.1	-9'029.0
Destruction by fire	-8'644.3	-	-	-	-8'644.3
Transfer from Intangible	239.9	-	-	-	239.9
Exchange differences	-96.8	-4.6	-1.4	-	-102.8
As at 31.12.2016	26'814.1	1'789.4	135.6	-	28'739.1
Accumulated depreciation and impairment:					
As at 01.01.2016	26'119.3	1'461.4	375.6	-	27'956.3
Depreciation	3'651.8	138.3	42.8	-	3'832.9
Scrapping	-8'509.3	-168.4	-314.0	-	-8'991.7
Destruction by fire	-3'068.3	-	-	-	-3'068.3
Exchange differences	-178.9	-5.6	-1.4	-	-185.9
As at 31.12.2016	18'014.6	1'425.7	103.0	-	19'543.3
<b>Net value as at 31.12.2016</b>	<b>8'799.5</b>	<b>363.7</b>	<b>32.6</b>	<b>-</b>	<b>9'195.8</b>

### Destruction by fire

In April 2016, Leclanché GmbH in Willstätt suffered an accidental fire in a section of the factory, which destroyed two machines, as well as some inventories, and damaged some infrastructure. Please refer to Note 4.2 for additional information about the impact on the income statement.

### Scrapping

In 2016, a complete physical inventory of fixed assets has been performed at Group level. The fixed asset ledger has been updated accordingly with a net impact of kCHF 37.

## 8. INTANGIBLE ASSETS

	Development costs	Patents and licences	Know-how and Software	Total
	kCHF	kCHF	kCHF	kCHF
Gross value :				
As at 01.01.2015	4'768.8	4'850.3	-	9'619.1
Additions	1'408.9	6'108.7	7.5	7'525.1
Business combination	743.3	-	213.0	956.3
Disposal	-2'557.4	-	-	-2'557.4
Exchange differences	-188.9	-547.3	8.2	-728.0
As at 31.12.2015	<b>4'174.7</b>	<b>10'411.7</b>	<b>228.7</b>	<b>14'815.1</b>
Accumulated depreciation and impairment:				
As at 01.01.2015	1'889.7	3'555.4	-	5'445.1
Amortisation	792.4	361.8	41.3	1'195.5
Impairment	1'574.0	-	-	1'574.0
Disposal	-2'557.4	-	-	-2'557.4
Exchange differences	-43.4	-425.6	-0.4	-469.4
As at 31.12.2015	<b>1'655.3</b>	<b>3'491.6</b>	<b>40.9</b>	<b>5'187.8</b>
<b>Net value as at 31.12.2015</b>	<b>2'519.4</b>	<b>6'920.1</b>	<b>187.8</b>	<b>9'627.3</b>
Gross value :				
As at 01.01.2016	4'174.7	10'411.7	228.7	14'815.1
Additions	27.5	-	17.8	45.3
Scrapping	-1'066.9	-	-	-1'066.9
Transfer to PP&E	-239.9	-	-	-239.9
Exchange differences	-12.5	-	-3.3	-15.7
As at 31.12.2016	<b>2'882.9</b>	<b>10'411.7</b>	<b>243.3</b>	<b>13'537.9</b>
Accumulated depreciation and impairment:				
As at 01.01.2016	1'655.3	3'491.6	40.9	5'187.8
Amortisation	655.6	1'581.7	84.9	2'322.2
Scrapping	-857.6	-	-	-857.6
Exchange differences	-15.5	-	-3.6	-19.1
As at 31.12.2016	<b>1'437.8</b>	<b>5'073.3</b>	<b>122.2</b>	<b>6'633.3</b>
<b>Net value as at 31.12.2016</b>	<b>1'445.1</b>	<b>5'338.4</b>	<b>121.0</b>	<b>6'904.5</b>

### Development costs

The Group has recognised and capitalised four major development projects, as follows:

- Project C (A4 cells), recognised at December 31, 2007 for kCHF 1,928. Availability for use started in 2011 with a useful life of 6 years.
- Project H (E-Transport), recognised at December 31, 2015 for kCHF 637. Availability for use started in 2016 with a useful life of 5 years.
- Project K (Material Handling Equipment), recognised at December 31, 2015 for kCHF 772. Availability for use started in 2015 with a useful life of 5 years.
- Project I (Development of next generation of G/NMC cells), recognised at December 31, 2015 for kCHF 381. Availability for use started in 2015 with a useful life of 5 years.

Within line “scrapping”, project G (EPFL) has been fully amortised during 2016 and the subledger has been updated accordingly. Projects D (Ti Box), E (ads-tec tool) and F (high voltage) were fully written-off in 2015.

Project J (Yellow Submarine) has been transferred to Property, Plant & Equipment during the period.

## 9. OTHER FINANCIAL ASSETS

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
Investments	503.6	-
Deposits	252.1	259.4
<b>Total</b>	<b><u>755.6</u></b>	<b><u>259.4</u></b>

The investment consists in the participation of 19.87% of Leclanché SA – for an amount of kCHF 503.6 - in the equity of a Special Purpose Vehicle (SPV) “Maple Leaf”. This structured entity is dedicated to the IESO Ontario Stationary Storage project in Canada. As of 31.12.2016, Leclanché SA provided a short-term loan to the SPV of kCHF 2,881.3, the risk associated with the loan is discussed in note 20: Revenues generated with this SPV amounted to kCHF 4;250 in 2016 (note 4.1).

## 10. INVENTORIES

	<u>31/12/2016</u>	<u>31/12/2015</u>
	kCHF	kCHF
Raw material	5'226.9	3'270.2
Work in progress	396.9	314.5
Finished goods	4'919.1	1'584.2
Stock in transit	648.5	-
Provision for inventories	-1'584.3	-817.5
<b>Total</b>	<b><u>9'607.1</u></b>	<b><u>4'351.4</u></b>

The amount of write-down and valuation adjustments of inventories recognised as an expense is kCHF 940.4 (2015: kCHF 817.5) which is recognised in raw materials and consumables used.

## 11. TRADE AND OTHER RECEIVABLES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
Trade receivables, net of provision for impairment of receivables	12'345.9	2'290.5
Advances to suppliers	2'521.7	1'180.5
Short-term loan	2'881.3	-
Other receivables	3'713.2	1'198.0
<b>Total</b>	<b><u>21'462.1</u></b>	<b><u>4'669.0</u></b>

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

Advances, shown here above as short term loan, have been injected by Leclanché SA in the SPV “Maple Leaf” in order to finance the project itself as well as the rent guarantee for the project’s land.

As at 31 December 2016, trade receivables of kCHF 401.8 (2015: kCHF 104.2) were impaired and fully provided for, as past due since more than 12 months. Movements in the provision for impairment of receivables were as follows:

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
As at 1 January	104.2	52.3
Increase of provision	346.0	51.9
Use of provision	-48.4	-
<b>As at 31 December</b>	<b><u>401.8</u></b>	<b><u>104.2</u></b>

As at 31 December, the analysis of trade and other receivables (excluding advances to suppliers) that were past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90 days	> 90 days
			kCHF	kCHF	kCHF	kCHF
<b>2016</b>	16'059.1	15'046.0	176.4	170.2	3.3	261.4
<b>2015</b>	3'488.5	2'383.0	410.3	369.0	4.5	217.5

There is no significant default in the trade and other receivables past due but not impaired.

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

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
CHF Swiss francs	548.6	1'571.1
EUR Euros	902.3	710.6
USD US dollars	10'895.1	8.8
	<b><u>12'345.9</u></b>	<b><u>2'290.5</u></b>

## 12. SHARE CAPITAL

### Ordinary Share capital

As at 31 December 2016, the issued share capital of the Company amounts to CHF 72,005,151, divided into 48,003,434 fully paid-in registered shares with a nominal value of CHF 1.50 each.

Number of Shares	<u>31.12.2016</u>	<u>31.12.2015</u>
	Unit	Unit
Ordinary shares, nominal value CHF 1.50	<u>48'003'434</u>	<u>37'902'974</u>

Number of Shares	<u>31.12.2016</u>	<u>31.12.2015</u>
	Unit	Unit
As at 1 January	37'902'974	21'981'203
Shares issued	<u>10'100'460</u>	<u>15'921'771</u>
As at 31 December	<u><b>48'003'434</b></u>	<u><b>37'902'974</b></u>

### Significant shareholders

(As per share register and SIX Disclosure of Shareholdings)

	<u>% 31.12.2016</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
		Unit	Unit
Golden Partner Group	28.4%	13'614'493	11'248'821
Logistable Group	14.2%	6'823'466	4'000'000
Bruellan Corporate Governance Action Fund	13.7%	6'563'803	4'517'716
ACE & Company	5.2%	2'511'572	1'460'053
Recharge A/S	4.8%	2'327'614	4'305'312
Sum of all other shareholders below 3 %	<u>33.7%</u>	<u>16'162'486</u>	<u>12'371'072</u>
<b>Total shares issued</b>	<u>100.00%</u>	<u><b>48'003'434</b></u>	<u><b>37'902'974</b></u>

### Changes in share capital

During the last two financial years, the following changes in the share capital of the Company have occurred:

- On 21 January 2015, Recharge converted into equity the equivalent amount of CHF 3,659,463 due under the Oakridge Convertible Loan on the basis of a resolution passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 from the Company's conditional capital. Pursuant to this conversion into equity, the Company issued 2,439,642 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 9 April 2015.
- On 11 June 2015, Talisman converted into equity the equivalent amount of CHF 150,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 6 May 2015. On 19 May 2015, Recharge converted into equity the equivalent amount of CHF 1,598,505 due under the Oakridge Convertible Loan on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 from the Company's conditional capital. Pursuant to this conversion into equity, the Company issued 1,165,670 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 15 June 2015.
- On 15 July 2015, Recharge converted into equity the equivalent amount of CHF 12,750,000 due under the Recharge Convertible Loan on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and of the Board of Directors on 6 July 2015 from both the Company's authorised and conditional capital. Pursuant to this conversion into equity, the Company issued 8,500,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 17 July 2015.

- On 22 July 2015, Talisman converted into equity the equivalent amount of CHF 225,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 16 July 2015 from the Company's authorised capital. Pursuant to this conversion into equity, the Company issued 150,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 23 July 2015.
- On 17 September 2015, the Company issued 1,000,000 new registered shares on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 10 September 2015 from the Company's authorised capital in connection with the Company's acquisition of certain design and intellectual property rights from ads-tec GmbH. The capital increase was registered in the Commercial Register of the Canton of Vaud on 18 September 2015.
- On 8 October 2015, Talisman converted into equity the equivalent amount of CHF 150,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 6 October 2015 from the Company's authorised capital. Pursuant to this conversion into equity, the Company issued 100,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 12 October 2015.
- On 17 November 2015, Talisman converted into equity the equivalent amount of CHF 240,000 Series A Warrants on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 10 November 2015. Pursuant to this conversion into equity, the Company issued 160,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 18 November 2015.
- On 17 November 2015, the Company issued 512,014 new registered shares on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 10 November 2015. The contribution for each new registered share is effected by way of contribution in kind of all of the EUR 1,659,854 shares of Leclanché BVBA, Turnhout, Belgium by Emrol BVBA to the Company. The capital increase was registered in the Commercial Register of the Canton of Vaud on 18 November 2015.
- On 21 December 2015, the Company issued 1,894,445 new registered shares on the basis of resolutions passed at the extraordinary general meeting of shareholders of the Company on 5 January 2015 and the Board of Directors on 15 December 2015. The contribution for each new registered share is effected by way of cash contribution. The capital increase was registered in the Commercial Register of the Canton of Vaud on 22 December 2015.
- On 29 April 2016, Recharge converted into equity the equivalent amount of CHF 5,250,000 (kCHF 4,581.9 principal and kCHF 668.1 interest/conversion fees) due under the Recharge Convertible Loan on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 5 January 2015 (last modified on 4 May 2016) from the Company's conditional capital. Pursuant to this conversion into equity, the Company issued 2,134,493 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 13 June 2016.
- On 9 June 2016, Talisman converted into equity the equivalent amount of CHF 150,000 Series A Warrants on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016. Pursuant to this conversion into equity, the Company issued 100,000 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 13 June 2016.

- On 15 June 2016, holders of the Company's outstanding MCNs converted into equity the equivalent amount of CHF 2,400,000 MCNs on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 from the Company's conditional capital. In addition, on 15 June 2016, Recharge converted into equity the equivalent amount of CHF 2,926,302 (kCHF 2,548.5 principal and kCHF 377.8 interest/conversion fees) due under the Recharge Convertible Loan on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 from the Company's conditional capital. Pursuant to these combined conversions into equity, the Company issued 2,170,521 new registered shares. The capital increase was registered in the Commercial Register of the Canton of Vaud on 19 August 2016.
- On 17 August 2016, the Company issued 1,546,481 new registered shares on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 and the Board of Directors on 8 August 2016. The contribution for each new registered share is effected by way of cash contribution. The capital increase was registered in the Commercial Register of the Canton of Vaud on 19 August 2016.
- On 23 August 2016, the Company issued 2,611,941 new registered shares on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 and the Board of Directors on 8 August 2016. The contribution for each new registered share is effected by way of loans conversion. In addition, on 16 August 2016, ACE converted into 1,537,024 shares the equivalent amount of kCHF 4,144 (kCHF 3,785.3 principal and kCHF 333.9 interest/conversion fees) due under the ACE Convertible Loan on the basis of resolutions passed at the annual general meeting of shareholders of the Company on 4 May 2016 from the Company's conditional capital. The capital increase, corresponding to a total of 4,148,965 new registered shares, was registered in the Commercial Register of the Canton of Vaud on 25 August 2016.

#### Conditional share capital

The conditional share capital of the Company represents an aggregate amount of CHF 19,664,173.50 as of 31.12.2016 and is divided into the following components:

#### *Conditional capital reserved for stock option plans*

Pursuant to Article 3<sup>ter</sup> of the Articles of Association, the Company's share capital can be increased by a maximum aggregate amount of CHF 4,500,000 through the issuance of a maximum of 3,000,000 fully paid-in registered shares with a nominal value of CHF 1.50 each, by the issuance of new shares to employees of the Company and Group companies. The pre-emptive rights of the shareholders are excluded. The shares or rights to subscribe for shares shall be issued to employees pursuant to one or more regulations to be issued by the Board of Directors or, to the extent delegated to it, the Appointments and Remuneration Committee, taking into account performance, functions, levels of responsibility and profitability criteria. The Board of Directors determines the issue price. Shares or subscription rights may be issued to employees at a price lower than that quoted on the stock exchange. The new registered shares are subject to the restrictions set forth in Article 4 (*Transferability of shares*) of the Articles of Association. As at 31 December 2016, no shares were issued on the basis of Article 3<sup>ter</sup> of the Articles of Association.

#### *Conditional capital reserved for convertible loans*

Pursuant to Article 3<sup>quinquies</sup> of the Articles of Association, the Company's share capital can be increased by a maximum aggregate amount of CHF 15,164,173.50, by issuing a maximum of 10,109,449 fully paid-in registered shares with a nominal value of CHF 1.50 each, by the exercise of conversion rights and/or warrants granted in connection with the (i) issuance on national or international capital markets of newly or already issued bonds or other financial market instruments or (ii) loans entered into by the Company or one of its Group companies. The

pre-emptive rights of the shareholders shall be excluded in connection with the issuance of convertible or warrant-bearing bonds or convertible loans or other financial market instruments or the grant of warrant rights. The then current owners of conversion rights and/or warrants shall be entitled to subscribe for the new shares. The conditions of the conversion rights and/or warrants shall be determined by the Board of Directors. The Board of Directors shall be authorised to exclude or restrict the advance subscription rights of shareholders (i) in connection with the convertible loan agreement with Recharge ApS ("**Recharge**") and ACE Energy Efficiency SPC ("**ACE**") of December 7, 2014, as amended from time to time (the "**Recharge Convertible Loan/ACE Convertible Loan**") or (ii) in connection with the financing or refinancing of investments and the Company's expansion plan. The conversion shall be made in accordance with the terms of the Recharge Convertible Loan/ACE Convertible Loan. The conversion rights granted to Recharge/ACE under the Recharge Convertible Loan/ACE Convertible Loan pursuant to (i) above are needed for the restructuring and further expansion of the Company. The conversion shall be made in accordance with the terms of the Recharge Convertible Loan/ACE Convertible Loan. The conversion rights are exercisable until 30 June 2017. If advance subscription rights are excluded based on (ii) above, the following shall apply: the convertible or warrant-bearing debt or loan instruments shall be issued at the relevant market conditions and the new shares shall be issued pursuant to the relevant market conditions taking into account the funding and operational position of the Company, the share price and/or other comparable instruments having a market price. Issue prices below the market price of the shares are possible. Conversion rights may be exercised during a maximum 10-year period, and warrants may be exercised during a maximum 7-year period, in each case from the date of the respective issuance. The new registered shares are subject to the restrictions set forth in Article 4 (*Transferability of shares*) of the Articles of Association.

#### Authorised share capital

Pursuant to Article 3<sup>quater</sup> of the Articles of Association, the Board of Directors is authorised until 3 May 2018 to increase the share capital up to a maximum amount of CHF 22,039,597.50 through the issue of a maximum of 14,693,065 fully paid-in registered shares with a nominal value of CHF 1.50 each. Partial capital increases are possible. An increase of the share capital (i) by means of an offering underwritten by a financial institution, a syndicate of financial institutions or another third-party or third-parties, followed by an offer to the then-existing shareholders of the Company, and (ii) in partial amounts shall be permissible. The Board of Directors shall determine the date of the issuance, the issue price, the type of contributions, the date from which the shares carry the right to dividends, the conditions for the exercise of the pre-emptive rights and the allotment of pre-emptive rights that have not been exercised. The Board of Directors may allow the pre-emptive rights that have not been exercised to expire, or it may place such rights or shares, the pre-emptive rights of which have not been exercised, at market conditions or use them otherwise in the interest of the Company. Contributions from freely disposable equity capital of the Company (including the Company's capital contribution reserves) pursuant to Article 652d of the Swiss Code of Obligations up to the entire issue price per registered share are possible.

The Board of Directors is authorised to withdraw or limit the pre-emptive rights of the shareholders and allot them to individual shareholders or third-parties (i) in connection with the convertible loan agreement with Recharge ApS ("**Recharge**") and ACE Energy Efficiency SPC ("**ACE**") of December 7, 2014 (the "**Recharge Convertible Loan/ACE Convertible Loan**"), as amended from time to time, with the lenders being entitled to pay the issue price in whole or in part by offsetting against claims under the Recharge Convertible Loan/ACE Convertible Loan agreement, (ii) in connection with the Recharge Convertible Loan/ACE Convertible Loan in the event Recharge/ACE request the Company to conduct a capital increase, (iii) in connection with the financing or refinancing of the investments of the Company or the acquisitions or financing of acquisitions of the Company (be it by way of equity or convertible debt issues), (iv) in connection with warrants granted to Talisman Infrastructure International Ltd., a Company associated with Talisman Infrastructure Ventures LLP, (v) for purposes of granting an over-allotment option (Greenshoe) of up to 20% of the total number of shares in a placement or sale of shares to the respective initial purchaser(s) or underwriter(s) or (vi) use of shares as



consideration in mergers, acquisitions or investments of the Company. The new registered shares are subject to the restrictions set forth in Article 4 (*Transferability of shares*) of the Articles of Association.

### **13. SHARE BASED PAYMENTS**

#### **(A) Stock Option plan**

On 26 February 2010, the Board of Directors approved a stock option plan for the members of the Board of Directors and selected employees of Leclanché. Each option granted under the employee stock option plan is granted, as a rule, free of charge and entitles the holder to acquire from the Company one share against payment in cash of the exercise price. For each grant of options, the Company and the plan participant enter into an option contract. The exercise price and the exercise period are set by the Board of Directors in the option contract. The exercise price is the average of the closing prices of the shares during the five trading days preceding the date of grant of the options plus a premium to be determined by the Board of Directors at its absolute discretion. The Board of Directors may determine a restriction period during which the options cannot be exercised. The options vest on the day after the date when the restriction period lapses. The granted options forfeit if, prior to the end of the restriction period, (i) the option holder terminates the employment contract other than for valid reasons, retirement at normal retirement age as may be agreed between the option holder and the Group, death or disability, or (ii) the Group terminates the employment contract for valid reason. Except under certain circumstances (e.g. tender offer or death), the options are not transferable. The shares will be made available through the conditional capital of the Company or open market buybacks of existing shares.

As at 31 December 2015, 158,780 options were granted under the employee stock option plan, corresponding to 0.42% of the Company's issued share capital as of 31 December 2015. The 158,780 options, outstanding as at 31 December 2015, have expired during the 1<sup>st</sup> semester 2016 (8,780 expired on 18 February 2016 and 150,000 on 30 June 2016).

For the Stock Option plan, the expense recognised in the income statement for share options granted to directors and employees amounts to kCHF 0 on 31 December 2016 (kCHF 0 in 2015). There have not been any grants under the Stock Option plan after 2012. Grants since 2014 are awarded under the Capped Stock Option plan as per below.

#### **(B) Capped Stock Option plan**

Effective from 1 January 2014, the Company introduced a performance related Capped Stock Option Plan ("CSO Plan") for senior executives that is linked to both Company and individual performance. The CSO Plan is designed to direct the focus of the executives concerned on long-term share price appreciation, to promote the long-term financial success of the Group and generally to align the interests of executives with those of shareholders. The plan will be administered by an administrative committee appointed by the Board. Under the CSO Plan 2016 an award for a certain number of options is made at the start of the financial year at an exercise price equal to 110% of the average Share Price for the sixty (60) business days preceding the award date, subject to it being (a) in general, not less than the share price at the award date, and (b) not more than 115% of the Share Price at the award date. The actual number of options that are granted to the executive will be determined at or shortly after the end of the year depending on the corporate and individual performance, according to a pre-defined matrix and can range from 0% to 150% of the original award. Options granted are exercisable within 7 years from the date of award and vest evenly over a 3-year period. 50% of each tranche that is vested is blocked for a further 12 months. The option holder may exercise unblocked options within the exercise period by either paying the exercise price to the Company to acquire the shares, or authorising the Company to sell sufficient shares to pay the exercise price of the CSOs. In event of termination of employment for any reason other than death or disability, (a) any unvested CSOs shall lapse, (b) any blocked CSOs shall become unblocked CSOs and can be exercised during a period of 30 business days after the termination date, after which they lapse, and (c) any

unblocked CSOs can be exercised prior to the termination date, after which they lapse. The Appointments and Remuneration Committee has discretion to vary conditions as it deems appropriate.

Movements in the number of awards outstanding and their related weighted average strike prices are as follows:

	2016		2015	
	Average strike price per share	Number of awards	Average strike price per share	Number of awards
At the beginning of the year	1.90	619'000	3.58	119'000
Granted	2.83	990'000	1.50	500'000
Forfeited	3.86	-80'000	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
<b>At the end of the year</b>	<b>2.40</b>	<b>1'529'000</b>	<b>1.90</b>	<b>619'000</b>

The historical annualised volatility used for the valuation of the Capped Stock Options has been calculated based on the standard deviation of the monthly returns of the underlying share (LECN) over a 10-year period preceding the grant

The fair value of the grants under the CSO plan was estimated using the Monte Carlo valuation model with the following assumptions and issues:

	2014 attribution	2014 attribution	2015 attribution	2016 attribution	2016 attribution
Number of options granted	50'000	69'000	500'000	250'000	740'000
Grant date	04.04.14	19.03.15	19.03.15	01.01.16	01.01.16
Vesting period	04.04.14	31/12/14 : 33%	19/03/15 : 33%	01/01/16 : 33%	01/01/16 : 33%
		31/12/15 : 33%	31/12/15 : 33%	01/01/17 : 33%	01/01/17 : 33%
		31/12/16 : 33%	31/12/16 : 33%	01/01/18 : 33%	01/01/18 : 33%
Expiration date	31.12.20	31.12.20	31.12.20	31.12.22	31.12.22
Share price at grant date	3.81	4.19	4.19	2.58	2.58
Exercise price	4.38	3.00	1.50	2.50	2.95
Cap	17.52	12.00	6.00	11.79	11.79
Volatility (annualized)	80.66%	81.92%	81.92%	52.80%	52.80%
Risk free interest rate (annualized)	0.81%	0.07%	0.07%	-0.08%	-0.08%
Fair Value of the option at the grant date	0.86	0.47	1.46	0.87	0.75

For the Capped Stock Option plan, the expense recognised in the income statement for share options granted to directors and employees amounts to kCHF 964.0 on 31 December 2016 (2015: kCHF 51.2).

#### (C) Reserve for share-based payment (for both SOP and CSOP)

The movement of the Reserve for share-based payment is as follows:

	2016	2015
	kCHF	kCHF
<b>As at 1 January</b>	<b>1'936.5</b>	<b>1'885.3</b>
Stock option plan (expired in 2016)	-1'842.3	-
Capped stock option plan - options granted	964.0	51.2
Capped stock option plan - options forfeited	-52.4	-
<b>As at 31 December</b>	<b>1'005.8</b>	<b>1'936.5</b>

#### 14. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Group has one defined benefit pension plan, covering all of its Swiss employees, which requires contributions to be made to separately administrated funds. Both the employer and the employees contribute to the plan, the employer paying half of the total contributions. The pension plan provides lifetime pensions determined based on cumulative savings of the individual plan member and converted into an annual pension at fixed conversion rate. Lump sum payments are possible if conditions are respected.

The Swiss defined benefit plan scheme is valued by independent actuaries every year using the projected unit credit method. The latest actuarial valuation was carried out as at December 31, 2016.

The associated risks exposure of the plan are:

- Mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plan's liabilities. In order to minimize the risk, mortality assumptions are reviewed on a regular basis.
- Market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed on a regular basis.

The movement in the net defined benefit liability over the year is as follows:

	Present value of obligation	Fair value of plan assets	Total
	kCHF	kCHF	kCHF
<b>At 1 January 2015</b>	42'303.9	-37'305.5	4'998.4
<b>Pension costs</b>			
Current service cost	1'182.9	-	1'182.9
Interest expense/(income)	423.0	-373.1	49.9
Employee contributions	-	-416.9	-416.9
	<b>43'909.8</b>	<b>-38'095.5</b>	<b>5'814.3</b>
<b>Remeasurements</b>			
Change in financial assumptions	1'438.5	-	1'438.5
Other actuarial (gain) / losses	670.8	-	670.8
(Gain) / losses on plan assets	-	714.5	714.5
	<b>2'109.3</b>	<b>714.5</b>	<b>2'823.8</b>
<b>Contribution</b>			
Company contributions	-	-416.9	-416.9
Benefits payments	-2'329.4	2'329.4	-
<b>At 31 December 2015</b>	<b>43'689.7</b>	<b>-35'468.5</b>	<b>8'221.2</b>

	Present value of obligation	Fair value of plan assets	Total
	kCHF	kCHF	kCHF
<b>At 1 January 2016</b>	43'689.7	-35'468.5	8'221.2
<b>Pension costs</b>			
Current service cost	1'267.4	-	1'267.4
Interest expense/(income)	295.3	-241.1	54.2
Employee contributions	-	-464.4	-464.4
Plan amendment	239.7	-	239.7
	<b>45'492.1</b>	<b>-36'174.0</b>	<b>9'318.1</b>
<b>Remeasurements</b>			
Change in demographic assumptions	1'151.3	-	1'151.3
Change in financial assumptions	521.3	-	521.3
Other actuarial (gain) / losses	-419.2	-	-419.2
(Gain) / losses on plan assets	-	-626.8	-626.8
	<b>1'253.4</b>	<b>-626.8</b>	<b>626.6</b>
<b>Contribution</b>			
Company ontributions	-	-464.4	-464.4
Benefits payments	-3'000.7	3'000.7	-
<b>At 31 December 2016</b>	<b>43'744.8</b>	<b>-34'264.6</b>	<b>9'480.3</b>

The amounts recognised in the balance sheet are as follows:

	2016	2015
	kCHF	kCHF
Present value of funded obligations	43'744.8	43'689.7
Fair value of plan assets	-34'264.5	-35'468.5
<b>Deficit of funded plans</b>	<b>9'480.3</b>	<b>8'221.2</b>

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining pension benefit obligations for the Group's plan are shown below:

	2016	2015
	%	%
Discount rate	0.6%	0.7%
Salary growth rate	1.5%	1.5%
Pension growth rate	0.5%	0.5%

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

Mortality assumptions for Switzerland are based on the following mortality generational table: the average expectancy of life after retirement (LPP 2015) in years of a pensioner retiring at age 65 (male) and 64 (female) on the balance sheet date is as follows:

	<u>2016</u>	<u>2015</u>
Male	19.77	18.93
Female	22.81	22.29

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is as follows:

Impact of defined benefit obligation	Change in assumption	2016		2015	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	-6.4%	7.3%	-6.1%	6.8%
Salary growth rate	0.5%	0.2%	-0.2%	0.2%	-0.2%
Pension growth rate	0.5%	5.7%	-5.2%	5.4%	-5.0%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Expected employer contributions to defined benefit plan for the year ending 31 December 2017 amount to kCHF 595.9.

The weighted average duration of the defined benefit obligation is 13.7 years (2015: 13 years).

#### Funding levels

The Legal coverage (art. 44 OPP2) of the pension fund is 102.51% as of 31 December 2016 (2015: 104.4%)

#### Investments by asset class

The major categories of plan assets are as follows:

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Cash	503.9	1'153.1
Swiss Bonds	10'700.1	12'312.8
Foreign Bonds	1'271.3	644.0
Swiss Shares	9'671.6	7'848.0
Foreign Shares	5'343.5	7'396.9
Real estates	5'822.9	5'152.2
Alternative investments	951.2	961.5
<b>Fair value of plan assets</b>	<b><u>34'264.5</u></b>	<b><u>35'468.5</u></b>

All assets except Cash and Buildings (kCHF 3,035, similar value in 2015) within the category Real estates are quoted.

#### Defined Contribution Plan

No material costs for contribution plan recognised in the income statement.

## 15. PROVISIONS

	Litigation kCHF	Tax Litigation kCHF	Total kCHF
As at 1 January 2015	150.0	-	150.0
Allocation to provision	-	275.0	275.0
Use of provision	-150.0	-	-150.0
As at 31 December 2015	-	275.0	275.0
As at 1 January 2016	-	275.0	275.0
Allocation to provision	64.3	-	64.3
Release of provision	-	-244.4	-244.4
Use of provision	-	-30.6	-30.6
As at 31 December 2016	64.3	-	64.3

The 2015 provision covered a litigation regarding withholding taxes and social charges. This case has been settled in 2016 resulting in a use of provision for kCHF 30.6 and a release of the remaining kCHF 244.4.

The 2016 provision covers a litigation with a former employee for kCHF 30 and a litigation with a client in Belgium for kCHF 34.3.

## 16. CONVERTIBLE LOANS AND WARRANTS

### A) Convertible loans

On 3 June 2014, Precept, through its majority owned subsidiary Oakridge Global Energy Solutions, Inc. (formerly Oak Ridge Energy Technologies, Inc.; "**Oakridge**"), had granted a credit facility of CHF 3,000,000 (the "**Oakridge Convertible Loan**"). The Oakridge Convertible Loan was increased to CHF 5,000,000 on 2 August 2014 and was converted into registered shares of the Company at a conversion price of CHF 1.50. The Oakridge Convertible Loan carried an interest rate of 2% per annum which shall be capitalised and added to the total loan amount due at maturity together with a fee of CHF 0.5 million. The maturity date was 30 June 2016.

On 8 December 2014, the Company entered into a CHF 21 million credit facility convertible into registered shares with Recharge ApS (Denmark) ("**Recharge**") originally due to mature on 30 June 2016 (the "**Recharge Convertible Loan**"). The Recharge loan was subject to shareholders' approval, which was received at the Extraordinary Shareholder Meeting of the 5 January 2015.

The Recharge Convertible Loan consists of two tranches, Recharge Facility A and Recharge Facility B. Subject to certain conditions and applicable fees, Recharge Facility A had a loan amount of CHF 13,000,000 at 12% interest per annum designated to fund the Company's Operating Plan and cash flow forecast. Subject to certain conditions and applicable fees, Recharge Facility B has a loan amount of CHF 8,000,000 (subsequently increased to CHF 13,000,000) at 10% interest per annum designated to fund the first phase of our Growth Plan, in particular to finance acquisition and development of technologies and battery management systems that would enable a differentiated market offer and significantly enhanced margins. In addition, in connection with this refinancing,

Recharge agreed to purchase the Oakridge Convertible Loan of which outstanding amounts due thereunder were subsequently converted into shares on 21 January 2015 and 19 May 2015 (effective conversion price of CHF 1.50 per share).

Both Recharge Facility A and Recharge Facility B are convertible into shares at Recharge's option (as provided for in the terms of the Recharge Convertible Loan). In June 2015, Recharge agreed to further increase the amounts available under Recharge Facility B by an additional CHF 5,000,000 (extension, Recharge Facility B2) and to extend the exercise period until 30 June 2017. As noted above, both Recharge Facility A and Recharge Facility B (and B2) are subject to fees. In connection with the increase and extension of the Recharge Facility B, the Company agreed to a fee of 5% of the amount drawn under Recharge Facility B (and B2) which shall be paid on the maturity date of the Recharge Convertible Loan or at the date of every earlier conversion, calculated on the amount to be converted.

Recharge Facility A and Recharge Facility B (and B2) have been fully drawn. The amounts outstanding under Recharge Facility A (CHF 13,000,000) and part of the amounts outstanding under Recharge Facility B (CHF 3,314,875) were converted into equity on 17 July 2015. The conversion price was CHF 1.98 (being the lower of (i) CHF 3.00 (if conversion occurs before 1 April 2016: CHF 2.50), (ii) 85% of the 15-day volume-weighted average price of the shares or (iii) the subscription price at which existing shareholders may subscribe for new shares in any future rights offering). In 2016, on 29 April 2016, part of the amounts outstanding under Recharge Facility B (CHF 4,581,500) were converted into equity at a conversion price of CHF 2.4596 and then, on 15 June 2016, the remaining amounts outstanding under Recharge Facility B (CHF 548,500) as well as part of the amounts outstanding under Recharge Facility B2 (CHF 2,000,000) were converted into equity at a conversion price of CHF 2.50, those conversion prices being the lower of (i) CHF 3.00 (if conversion occurs before 1 April 2016: CHF 2.50), (ii) 85% of the 15-day volume-weighted average price of the shares or (iii) the subscription price at which existing shareholders may subscribe for new shares in any future rights offering).

On 7 March 2016, ACE Energy Efficiency SPC ("**ACE**") agreed, among other things, (i) to acquire the remaining CHF 3,000,000 outstanding under Recharge Facility B2 and (ii) to extend an additional CHF 10,000,000 facility thereunder ("**ACE Facility C**" and together with the acquired remaining outstanding amounts under Recharge Facility B2, the "**ACE Convertible Loan**"). On 31 March 2016 and 17 May 2016, ACE Facility C was subsequently increased to CHF 20,000,000. CHF 20,000,000 of Facility C has been drawn before 30 June 2016. On 4 August 2016, 30% of the ACE Facility C has been transferred to JADE Crest Ltd ("**JADE**"). On 16 August 2016, the Company announced the conversion of CHF 4,100,000 (of which CHF 300,000 interest) outstanding under ACE/JADE Facility C into equity resulting in the issuance of 1,537,024 Shares. On 30 September 2016, 56.58% of the ACE Facility B2 and of the ACE Facility C (excluding JADE's part) has been transferred to LECN Co Invest Ltd ("**LECN Co**"). The lenders (ACE, JADE and LECN Co) have the right to provide additional funding to the Company at terms not less favourable than the ones of Facility C. LECN Co and JADE have committed to provide additional CHF 1,500,000 (Facility C extension), fully withdrawn on 1 December 2016. As of 31 December 2016, CHF 17,700,000 remains outstanding under ACE/JADE/LECN Co Facility C and Facility C extension and, thus, CHF 20,700,000 remain outstanding under the ACE Convertible Loan (ACE/JADE/LECN co Facility C and Facility C extension "**Facility C**" and together with the remaining outstanding amounts of ACE/LECN Co Facility B2, the "**Convertible Loan**"). Facility C matures on 30 June 2017, carries an annual nominal interest rate of eight per cent and is convertible into new shares of the Company. Facility C further provides that upon completion of a qualified financing round, mandatory conversion occurs. The conversion price under the Facility C is the lower of (i) CHF 2.86, (ii) 85% of the 15-day volume-weighted average price of the shares, or (iii) the subscription price in any future rights offering.

The Convertible Loan is secured by: (i) the same security package that secured the Oakridge Convertible Loan and the Recharge Convertible Loan (albeit on amended terms), namely an assignment of rights for security purposes of all our present and future receivables, claims from intra-group loans and bank accounts claims and a first ranking pledge over our registered patents and patent applications filed and trademarks, (ii) securities

granted by Leclanché GmbH (i.e., a global assignment agreement, a security transfer agreement and an account pledge agreement), (iii) a first ranking share pledge agreement over the shares of Leclanché GmbH, (iv) a first ranking pledge over all Account Balances, all Intercompany Receivables and all Trade Receivables and (v) new assets to be acquired by the Company with the funds made available under Convertible Loan. The Convertible Loan provides for the following obligations, among others, which in case of breach would trigger an event of default: (i) a negative pledge pursuant to which neither the Company nor any of the Group companies shall be permitted to grant, create or permit to subsist any security, including personal security such as surety and guarantees and any security over any of the present or future assets except for certain permitted security as specified in the ACE Convertible Loan; (ii) neither the Company nor any of the Group companies shall be permitted to incur any financial indebtedness other than CHF 500,000 in the aggregate; (iii) neither the Company nor any of the Group companies shall be permitted to make loans or permit to subsist any credit to any third party, including shareholders, board members and employees of the Group, except for loans to third parties of up to CHF 100,000 in the aggregate; (iv) neither the Company nor any of the Group companies shall be permitted to, directly or indirectly, enter into any transaction, inter alia, to purchase or acquire any properties, assets, shares, securities, to enter into a merger, de-merger or a transfer of assets and liabilities or similar transactions with third parties or to enter into, invest in or acquire any shares, securities or other interests in any joint venture entity, except for capital expenditures in the ordinary course of business; (v) neither the Company nor any of the Group companies shall, directly or indirectly, sell, transfer, lease or otherwise dispose of any of its properties or assets that is not provided for in the 2015 Operating Plan unless the aggregate fair market value of all properties and assets subject to disposal does not exceed CHF 500,000; (vi) neither the Company nor any of the Group companies make material changes to the accounting principles except if required by law, by IFRS or by the guidelines and regulations of the SIX Stock Exchange; and (vii) neither the Company nor any of the Group companies make changes to its legal structure of the legal structure of the Group if such change could result in a material adverse change.

As of 31 December, the composition of the convertible loans is as follows:

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
LECN Co Invest / ACE / JADE convertible loan	20'714.7	7'845.3
Interest, finance charges and conversion fees	2'716.5	343.2
Fair value embedded derivative	<u>-1'616.5</u>	<u>-625.0</u>
<b>Value of LECN Co Invest/ACE/JADE Convertible loan at the end of the period</b>	<b><u>21'814.7</u></b>	<b><u>7'563.5</u></b>

As of 31 December 2016, the convertible loans have been presented in the current liabilities as they have a 30 June 2017 maturity date.



The movements are as follows:

	Date of Drawdown	31.12.2016	31.12.2015
		kCHF	kCHF
Recharge 1st Facility B Drawdown	25.03.2015	514.9	514.9
Recharge 2nd Facility B Drawdown	19.05.2015	300.0	300.0
Recharge 3rd Facility B Drawdown	15.06.2015	2'500.0	2'500.0
Recharge 4th Facility B Drawdown	04.08.2015	1'000.0	1'000.0
Recharge 5th Facility B Drawdown	01.09.2015	1'000.0	1'000.0
Recharge 6th Facility B Drawdown	24.09.2015	1'000.0	1'000.0
Recharge 7th Facility B Drawdown	20.10.2015	1'685.1	1'685.1
Facility B converted in 2015	17.07.2015	-2'869.6	-2'869.6
Facility B converted in 2016	29.04.2016	-4'581.9	-
Facility B converted in 2016	15.06.2016	-548.5	-
Subtotal Facility B		0.0	5'130.4
Recharge 1st Facility B extension Drawdown	20.10.2015	514.9	514.9
Recharge 2nd Facility B extension Drawdown	27.10.2015	1'100.0	1'100.0
Recharge 3rd Facility B extension Drawdown	29.10.2015	1'100.0	1'100.0
Recharge 4th Facility B extension Drawdown	28.01.2016	1'000.0	-
Recharge 5th Facility B extension Drawdown	18.02.2016	1'285.1	-
Facility B extension converted in 2016	15.06.2016	-2'000.0	-
Subtotal Facility B extension (assigned to LECN Co Invest/ACE)		3'000.0	2'714.9
LECN Co Invest/ACE 1st Facility C Drawdown	01.03.2016	3'000.0	-
LECN Co Invest/ACE 2nd Facility C Drawdown	18.02.2016	714.9	-
LECN Co Invest/ACE 3rd Facility C Drawdown	11.03.2016	3'000.0	-
LECN Co Invest/ACE 4th Facility C Drawdown	14.03.2016	285.1	-
LECN Co Invest/ACE 5th Facility C Drawdown	01.04.2016	5'000.0	-
LECN Co Invest/ACE 6th Facility C Drawdown	18.05.2016	2'000.0	-
JADE 1st Facility C Drawdown	11.03.2016	3'000.0	-
JADE 2nd Facility C Drawdown	17.06.2016	3'000.0	-
JADE 2nd Facility C Drawdown	01.12.2016	450.0	-
LECN Co Invest 7th Facility C Drawdown	01.12.2016	1'050.0	-
Facility C extension converted in 2016 (ACE)	23.08.2016	-2'648.1	-
Facility C extension converted in 2016 (LECN Co Invest)	23.08.2016	-1'137.2	-
Subtotal Facility C		17'714.7	-
<b>LECN Co Invest/ACE/Jade convertible loan</b>		<b>20'714.7</b>	<b>7'845.3</b>

#### (B) Mandatory Convertible Note (MCN)

On 16 December 2015, in order to finance and refinance investments of the Company and the Company's expansion plan, the Company made a private share placement by issuing CHF 2'400'000 1% Mandatory Convertible Notes ("MCN") due 15 December 2016 mandatorily convertible into new shares of the Company at a conversion price of CHF 2.40, pursuant to two purchase and subscription agreements entered into with Recharge and Bruellan respectively. They both invested the amount of CHF 1'200'000 corresponding to 0 purchased shares in the Company in the framework of the capital increase and 500'000 MCN each.

On 15 June 2016, those two MCN of CHF 1'200'000 each have been converted into 500'000 registered shares each, at a conversion price of CHF 2.40. The equity component of MCN of CHF 2'400'000 has therefore been reversed to the share capital (nominal value) for CHF 1'500'000 and to the share premium for CHF 900'000. Transaction costs of CHF 24'000 have been deducted from the share premium.

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
<b>Value of Mandatory Convertible Note at the beginning of the period</b>	-	-
Face value of Mandatory Convertible Loans	-	2'400.0
Equity component of Mandatory Convertible Note	2'400.0	-2'400.0
Conversion of MCN (15/06/2016)	<u>-2'400.0</u>	<u>-</u>
<b>Value of Mandatory Convertible Note at the end of the period</b>	<u>-</u>	<u>-</u>

### (C) Warrants

On 31 October 2013, the Company issued 832,827 Series A Warrants and 594,876 Series B Warrants to Talisman Infrastructure International Ltd as compensation for non-regulated services rendered to the Company in connection with capital raise from Precept.

- The Series A Warrants are exercisable into fully paid up registered shares of the Company at an exercise price of CHF 1.50 per share. The Series A Warrants may be exercised at any time until 15 October 2023. The number of shares to be issued upon exercise of the Series A Warrants is dependent upon the development of the share price. The formula for the number of shares (N) to be issued upon exercise of Series A Warrants (W) is:  $N = W \times ((\text{Average Closing Price} - \text{Exercise Price}) / \text{Average Closing Price})$  provided that the maximum number of shares to be issued as a result of the exercise of Series A Warrants shall not exceed 3.5% of the fully diluted share capital after taking into account the number of shares that would be issued if the Precept Loan were fully converted into shares of the Company. The Average Closing Price is the closing price averaged over the preceding 10 business days.
- The Series B Warrants are exercisable into fully paid up registered shares of the Company at an exercise price of CHF 4.50 per share. The Series B Warrants may be exercised at any time until 15 October 2023. The number of shares to be issued upon exercise of the Series B Warrants is dependent upon the development of the share price. The formula for the number of shares (N) to be issued upon exercise of Series B Warrants (W) is:  $N = W \times ((\text{Average Closing Price} - \text{Exercise Price}) / \text{Average Closing Price})$  provided that the maximum number of shares to be issued as a result of the exercise of Series A Warrants shall not exceed 2.5% of the fully diluted share capital after taking into account the number of shares that would be issued if the Precept Loan were fully converted into shares of the Company. The Average Closing Price is the closing price averaged over the preceding 10 business days.

These Warrants, issued in connection with capital raise from Precept, have been valued at fair value at grant date using the Black Scholes Model and incorporating the same underlying assumptions as for the valuation of the Precept convertible loan, as they are considered to be directly attributable transaction costs of the convertible loan provided by Precept (and of any shares issued resulting from conversion of the loan).

<b>Number of Warrants</b>	<b>Date</b>	<b>Series A</b>	<b>Series B</b>
At 1 January 2015		832'827	594'876
Exercice	15.06.2015	-100'000	-
Exercice	23.07.2015	-150'000	-
Exercice	08.10.2015	-100'000	-
Exercice	17.11.2015	<u>-160'000</u>	<u>-</u>
<b>At 31 December 2015</b>	<b>31.12.2015</b>	<b>322'827</b>	<b>594'876</b>
Exercice	15.06.2016	<u>-100'000</u>	<u>-</u>
<b>At 31 December 2016</b>	<b>31.12.2016</b>	<b>222'827</b>	<b>594'876</b>

In 2015 and 2016, 510,000 and 100,000 Series A Warrants were exercised respectively. As at 31 December 2016, there were 222,827 outstanding and unexercised Series A Warrants and 594,876 outstanding and unexercised Series B Warrants. The 222,827 outstanding Series A Warrants are expected to be exercised in March 2017.

These Warrants, considered to be directly attributable transaction costs for the capital raise, have been valued on the same basis as the related Precept convertible loan and following the full conversion of the Precept loan in 2014, the outstanding amount has been entirely reattributed to equity component, as follows:

**Equity component allocated to the Warrants**

	<u>31.12.2016</u>			<u>31.12.2015</u>		
	kCHF	kCHF	kCHF	kCHF	kCHF	kCHF
	<b>Series A</b>	<b>Series B</b>	<b>Total</b>	<b>Series A</b>	<b>Series B</b>	<b>Total</b>
At the beginning of the period	439'194	640'390	1'079'584	1'133'030	640'390	1'773'420
Exercice of Warrants	-136'046	-	-136'046	-693'836	-	-693'836
<b>At the end of the period</b>	<b>303'148</b>	<b>640'390</b>	<b>943'538</b>	<b>439'194</b>	<b>640'390</b>	<b>1'079'584</b>

## 17. BORROWINGS

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
Current borrowings	500.0	750.0
Non-current borrowings	-	500.0
	<u>500.0</u>	<u>1'250.0</u>

In 2014, Bruellan Corporate Governance Action Fund, a fund managed by Bruellan SA, granted the Company a bridge loan for an amount of CHF 1 million which carries an interest rate of 5% per annum. An effective repayment of kCHF 250 occurred during 2015. The original maturity date was 30 June 2015 and has been firstly extended until 30 June 2016 and subsequently extended to 30 September 2016. The remaining bridge loan has been split in two parts of kCHF 375. One of these parts, owned by Recharge A/S, has been repaid on 2 August 2016, and the other part, owned by Bruellan Corporate Governance Action Fund, has been repaid on 26 October 2016. Both parts carried an interest of 8% per annum paid quarterly.

Since December 2015, the bank UBS has granted Leclanché a long-term loan (ATF) of CHF 0.5 million which is guaranteed by the Office du Cautionnement Romand. This loan carries an interest of 2% per annum paid quarterly, and shall be repaid in kCHF 25 quarterly instalments from 30 June 2017.

## 18. TRADE AND OTHER PAYABLES

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
<b>Trade payables</b>	<b>10'410.1</b>	<b>6'002.4</b>
<b>Other payables:</b>	<b>13'413.7</b>	<b>6'628.9</b>
Accrued operating expenses	274.7	-
Advances from customers	6'633.0	282.3
Payroll and social charges	1'946.3	641.3
Various taxes	109.7	303.0
Other payables	4'450.0	5'402.4
	<u><b>23'823.8</b></u>	<u><b>12'631.3</b></u>

## 19. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	FVTPL	Loans and receivables	Amortised cost
Trade and other receivables		X	
Cash and cash equivalents		X	
Other financial assets	X	X	
Derivative financial instruments	X		
Borrowings / Convertible Loan			X
Trade and other payables			X

### Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments.

The different levels have been defined as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
  - (b) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
  - (c) Level 3: inputs for the asset or liability that are not based on observable market data.
- There were no transfers between the levels during the year.

Other financial assets at FVTPL (fair value through profit and loss) are measured at cost as the fair value cannot be determined reliably. It consists of an investment in a structured entity. For additional information, refer to note 9.

	<b>31.12.2016</b>	<b>31.12.2015</b>
	kCHF	kCHF
<i>Financial assets</i>		
Trade and other receivables	18'580.8	4'669.0
Cash and cash equivalents	4'544.6	3'541.8
Other financial assets	3'636.9	259.4
<b>Total financial assets</b>	<b>26'762.3</b>	<b>8'470.2</b>
<i>Financial liabilities</i>		
Borrowings	500.0	750.0
Convertible loans (Level 3)	21'814.6	7'563.5
Embedded derivatives (Level 3)	1'616.5	625.0
Trade and other payables	23'823.8	12'631.3
<b>Total financial liabilities</b>	<b>47'754.9</b>	<b>21'569.8</b>
<b>Net financial position</b>	<b>-20'992.6</b>	<b>-13'099.6</b>

### Embedded derivatives

Movements in embedded derivatives are as follows:

	<b>2016</b>	<b>2015</b>
	kCHF	kCHF
At 1 January	625.0	-
Convertible loan	991.5	625.0
At 31 December	<b>1'616.5</b>	<b>625.0</b>

### Recognised fair value measurement

The significant unobservable inputs used to fair value the Convertible loans (level 3) were estimated conversion date, market rate (20%). Relationship of unobservable inputs to fair value: if the market rate were 5% higher or lower, the fair value of the embedded derivative would increase/(decrease) by kCHF 925/(1016).

Due to their current nature, the carrying amount of the financial assets and financial liabilities is deemed to be representative of their fair value. In 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. In 2016, there were no reclassifications of financial assets.

## 20. FINANCIAL RISK MANAGEMENT

### Risk assessment

The implementation of the risk management has been delegated by the Board of Directors to the Executive Committee. The Executive Committee had the task to design and implement a proper risk management system within Leclanché Group companies. Under the oversight of the Quality & Risk Manager, a risk analysis is processed regularly: each risk belongs to one person responsible for its mitigation and a detailed catalogue of mitigating measures is prepared. The most important risks, along with possible measures to prevent and mitigate potential damage are presented to the Audit and Risk Management Committee once a year. An audit of the risks has been performed in May 2016. In addition, the Board of Directors addresses most of the above mentioned risk categories at each meeting. On this basis, the Board of Directors is monitoring the risks of the Group.

### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge these exposures.

### Foreign currency risks

Transaction exposure arises because the amount of local currency paid or received in transactions denominated in foreign currencies may vary due to exchange rates fluctuations. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Euros and US dollars and to a lesser extent to British pounds and Canadian dollars. Foreign exchange risk arises from:

- forecast revenue and costs denominated in a currency other than the entity's functional currency;
- recognised assets and liabilities: and
- net investments in foreign operations.

The foreign currency transaction exposure is limited by aligning as much as possible the revenue streams to currencies that match the cost base. The convertible loans and borrowings are denominated in CHF and consequently do not expose the Group to any exchange rate risk.

The following table demonstrates the sensitivity of reasonably possible changes in EUR and USD exchange rate on the Group net profit (operating activities) and equity.

	<u>Change in rate</u>	<u>Impact on loss</u>	<u>Impact on equity</u>
		kCHF	kCHF
<b>2016</b>	+/- 5%	+/- 474.5	+/- 2'764.5
<b>2015</b>	+/- 5%	+/- 772.8	+/- 2'324.0

### Hedging activities

No hedging activities during 2016 or 2015.

### Interest rate risk

Interest rate risk arises from movements in interest rates which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities.

The Group's net income and financial position are independent of changes in market interest rates as the Group has only interest-bearing assets and liabilities with fixed rates. Actually, the Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

### Credit risk

The Group performs credit verification procedures on customers which trade on credit. In addition, trade receivables are monitored on an ongoing basis with the result that the Groups' exposure to bad debt is regarded as being not significant. The maximum exposure is the carrying amount of trade receivables as per Note 11. There is a concentration of credit risk with two customers in the USGM-Stationary segment; nevertheless, no recoverability risk is identified.

With respect to credit risk arising from the other financial assets, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new customers before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

#### Liquidity risk

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

##### Year ended 31 December 2016

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Total
	kCHF	kCHF	kCHF	kCHF
Trade and other payables	14'448.2	9'375.6	-	23'823.8
Convertible loan	-	21'814.6	-	21'814.6
Borrowings	-	500.0	-	500.0

##### Year ended 31 December 2015

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Total
	kCHF	kCHF	kCHF	kCHF
Trade and other payables	6'002.4	6'628.9	-	12'631.3
Convertible loan	-	-	7'563.5	7'563.5
Borrowings	-	750.0	500.0	1'250.0

#### Capital management

The Group considers equity as equivalent to the IFRS equity on the balance sheet.

Please refer to Notes 12, 16A and 16C regarding fund raises executed during the year.

The Company implemented the following actions during the course of 2016:

- two conversions into equity of certain amounts outstanding under Recharge Facility B for a total amount (including interest and conversion fees) of CHF 8.2 million (comprising capital and share premium);
- a share capital increase subscribed by Talisman, for an amount of CHF 150,000;
- the conversion into equity of certain amounts outstanding under Recharge Facility C for a total amount (including interest and conversion fees) of CHF 4.1 million (comprising capital and share premium);
- the conversion of the outstanding CHF 2.4 million MCNs; and
- a private placement of shares resulting in proceeds of CHF 11.1 million.

The Company anticipates that, subject to the continued successful implementation of the Growth Plan and timely payments from two major customers in North America, current funding facilities in place will satisfy the Company's working capital requirements for the year 2017.

## 21. COMMITMENT AND CONTINGENCIES

### Operating lease commitments

The Group has entered into commercial leases for the rent of offices and manufacturing areas principally in Switzerland, USA and Germany. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

The future minimum lease payments under non-cancellable operating leases are as follows:

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
Within one year	2'079.0	2'071.6
After one year but not more than five years	4'766.2	5'801.7
More than five years	254.8	1'279.2
	<u><b>7'100.0</b></u>	<u><b>9'152.5</b></u>

Leclanché SA in Switzerland has a rent contract until 2018. Leclanché GmbH in Germany has a rent contract until 2022. Leclanché BVBA in Belgium has a rent contract until 2018 and car leases (until 2022 mainly). Leclanché North America in USA has a rent contract until 2019. Lease payments incurred during 2016 and recorded in the income statement amount to kCHF 1,767 (2015: kCHF 1,672).

### Purchase commitments

Leclanché has no purchase commitment as of 31 December 2016 (2015: kCHF 0).

## 22. CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. In management's opinion, it is not anticipated that any material liabilities will arise from the contingent liabilities (2015: same).

## 23. ASSETS PLEDGED

Please refer to Note 16A regarding the assets pledged in guarantee of the LECN Co Invest/ACE/Jade convertible loans.

## 24. RELATED PARTY DISCLOSURES

The following transactions were carried out with related parties.

### Key management compensation

The compensation paid to key management is shown below:



	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Salaries and other short-term employee benefits	2'349.4	2'108.7
Share-based payments	910.2	51.2
<b>Total</b>	<b><u>3'259.6</u></b>	<b><u>2'159.9</u></b>

Please refer to the sections Corporate Governance and Compensation Report for additional information.

#### [Related parties](#)

Related parties are defined as follows:

- **Emrol BVBA:** the company Emrol is an independent battery distributor owned by Mr. Stefan Louis. Mr. Stefan Louis is the sole owner of Emrol, he acts as Business Manager and as non-executive Director of this company. Mr. Stefan Louis is currently Senior Vice President Systems R&D and the head of the Innovation Board of Leclanché SA. Emrol is a supplier and a customer of Leclanché SA.
- **Silveron Capital Partners:** it is a Dallas-based boutique investment banking and advisory firm, owned by Mr. Bryan Urban. Mr. Bryan Urban, is the Executive Vice President of Leclanché North America, and is also the principal partner of Silveron.
- **Golden Partner International SA.** It is a global investment management group headquartered in Switzerland. Golden Partner is a shareholder of Leclanché SA.
- **Marengo.** It is the special purpose vehicle (SPV) created to manage the utility scale generation project in Illinois, USA. This SPV is operated by US-GEM, a company fully owned by Golden Partner.

## Transactions

	<u>2016</u>	<u>2015</u>
	kCHF	kCHF
Sales of goods and services:		
- to Marengo	9'518.5	-
- to Emrol	53.7	688.4
	<u>9'572.2</u>	<u>688.4</u>
Raw materials and consumables purchased:		
- from Emrol	3.4	203.7
	<u>3.4</u>	<u>203.7</u>
Personnel costs purchased:		
- from Silveron	111.9	68.4
- from Emrol	36.9	436.8
	<u>148.8</u>	<u>505.2</u>
Other operating expenses purchased:		
- from Golden Partner	700.0	-
- from Silveron	354.3	24.8
- from Emrol	4.7	103.5
	<u>1'059.0</u>	<u>128.3</u>

## Year-end balances

	<u>31.12.2016</u>	<u>31.12.2015</u>
	kCHF	kCHF
Included in trade and other receivables:		
- receivable from Marengo	4'058.0	-
- receivable from Emrol	15.0	50.2
<b>Total</b>	<u>4'073.0</u>	<u>50.2</u>
Included in trade and other payables:		
- due to Golden Partner	700.0	-
- due to Silveron	381.9	26.8
- due to Emrol	0.1	-
<b>Total</b>	<u>1'082.0</u>	<u>26.8</u>

The receivable from Marengo is to be paid according to a timeline determined in the contract and based on the achievement of specific milestones. The outstanding balance is not covered by any structured financial guarantee.

## 25. SUBSEQUENT EVENTS

No significant subsequent event.



***Report of the statutory auditor  
to the General Meeting of LECLANCHE SA  
Yverdon-les-Bains***

***Report on the audit of the consolidated financial statements***

***Opinion***

We have audited the consolidated financial statements of LECLANCHE SA and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 31 to 81) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

***Basis for opinion***

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Material uncertainty related to going concern***

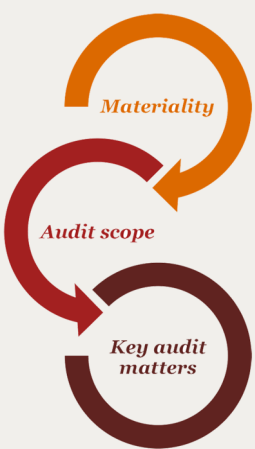
We draw your attention to note 2 to these financial statements, which states that the company is aware of the significant execution risk of its turnaround and growth plan. This, along with other matters as described in note 2, indicates the existence of a material uncertainty which may cast significant doubt about the ability of the company to continue as a going concern. Our opinion is not qualified in respect of this matter.

## REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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### Our audit approach

<p><b>Overview</b></p> 	<p>Overall Group materiality: CHF 1'500'000</p> <p>We concluded full scope audit work at 1 reporting unit and audit of specific accounts at 1 reporting unit. Our audit scope addressed over 96% of the Group's revenue and 96% of the group assets.</p> <p>As key audit matter the following area of focus has been identified: Revenue recognition for “projects”</p>
-----------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

### Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 5 reporting units in various territories, including corporate activities in Switzerland. Based on our assessment of the risk of material misstatements of the Group financial statements, we selected 2 components which represents the main business of the Group. One component was subject to full scope audit and one component was subject to audit of specific accounts. Based on the scoping performed we addressed over 96% of the Group's revenue and 96% of the group assets.

The group audit team, in addition to the audit of the consolidation process and of the consolidated financial statements' compliance with IFRS was directly responsible for auditing the most significant component based in Switzerland, which was subject to full scope audit. For the other component, the group audit team directed and supervised the audit work performed by the component team.

### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

## REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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<i>Overall Group materiality</i>	CHF 1'500'000
<i>How we determined it</i>	4% of loss before tax, rounded
<i>Rationale for the materiality benchmark applied</i>	We choose loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the “Material uncertainty related to going concern” section, we have determined the matter described below to be the key audit matter to be communicated in our report.

### **Revenue recognition for “projects”**

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Revenues resulting from “projects” (see note 4.1) amounted to kCHF 13,293 for the year, being 47% of total revenues for the period. There are two critical judgements relating to revenues from “projects”: 1) the revenues arise from independent 3rd parties and 2) the measurement of revenues resulting from the percentage of completion method is correctly determined.</p> <p>With reference to the first judgement (see note 4.1), it has been assessed that the entities under which the projects are run are independent and the Group has no significant influence.</p> <p>With reference to the second judgement, the percentage of completion method has been applied to calculate 47% of revenues in 2016. This process involves a certain degree of estimation and judgement as explained in note 2, “critical accounting estimates and judgements”. As this is the first year for the Group performing the services required to produce “projects”, the judgement involved in determining the stage of completion is considered to be significant.</p>	<p>We obtained an understanding of the nature of the two projects undertaken by the entity through enquiries with management.</p> <p>We obtained representations from management as to the nature of the relationships of the two customers whom the Group provided “project” services to during the year. We reviewed the shareholder agreements and contracts deemed necessary to verify the relevant interests held. We reviewed the revenue contracts to ensure no continued involvement required by the Group after transfer of the services relating to the “project” revenues.</p> <p>We reviewed the accounting policies for revenues from “projects” and evaluated whether they are compliant with IFRS and appropriate based on our understanding of the nature of the entity’s business.</p> <p>We obtained detailed analysis of both construction-type contracts and performed the following:</p>

## REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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- 
- We verified completeness of the detailed analysis based on our knowledge of the business, discussions with management and review of minutes of the Board of Directors.
  - We agreed contract details to signed contracts and obtained and agreed cost summaries to detailed analysis.
  - We verified the mathematical accuracy of the detailed analysis.
  - In relation to personnel costs we obtained the timesheet from management and verified based on sampling that the employees exist and that the rates used for the projects were in line with the payroll data.
  - In relation to the cost of materials we verified based on sampling the validity, the accuracy and the allocation of costs for each project. We also verified that the material was transferred to the client before year-end.
  - About the stage of completion we performed enquiries with management and the project manager and we verified the physical shipping of material in order to assess its reasonableness.
  - We agreed the amounts invoiced, assessed entity's costs to complete estimated and performed calculation of revenue recognised during the period.
  - We agreed revenue and expenses recognised for the period as well as amounts due to and from customers to the financial statements.

We inquired with management whether there is a risk of loss due to disputes, delays, overruns or other factors that may impact profitability.

We assessed the need to recognise provisions for expected losses based on enquiries from management, and our understanding of the contracts.

Based on our above procedures, we concurred with management on the revenue recognised for "projects".

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## REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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### ***Other information in the annual report***

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of LECLANCHE SA and our auditor's reports thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

### ***Responsibilities of the Board of Directors for the consolidated financial statements***

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal

control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtain 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 Group's internal control.

## REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee 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.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS**

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***Report on other legal and regulatory requirements***

During our audit, performed in accordance with article 728a paragraph 1 item 3 CO and Swiss auditing Standard 890, we noted that an internal control system which has been designed in accordance with the instructions of the Board of Directors for the preparation of the consolidated financial statements is adequately documented, but has not been fully implemented in all material respects for process revenue from projects that is material to the group.

In our opinion, except for the matter described in the preceding paragraph, an internal control system exists which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.


We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Corinne Pointet Chambettaz

Audit expert  
Auditor in charge



Patrick Wagner

Audit expert

Lausanne, 29 March 2017

## Leclanché SA

### Statutory financial statements 2016

**Balance sheet at 31 December 2016**  
(in kCHF)

<b>Assets</b>	<b>Notes</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Current assets</b>			
Cash and cash equivalents		4'157.3	3'351.5
Trade receivables -		12'779.0	1'937.1
<i>due from third parties</i>		12'651.5	2'012.2
<i>due from group companies</i>		509.0	-
<i>Allowance on trade receivables (third parties)</i>		-381.5	-75.1
Other current receivables - due from third parties		5'883.9	918.1
Inventories	2.1	4'600.1	1'515.6
Accrued income and prepaid expenses		528.3	82.8
Advances to suppliers		2'461.5	1'076.6
<b>Total current assets</b>		<b>30'410.0</b>	<b>8'881.7</b>
<b>Non-current assets</b>			
Financial assets -		11'941.6	46'167.3
<i>Loans to group companies (of which subordinated kCHF 79'583.9)</i>		91'290.2	83'916.8
<i>Allowance on loan to group companies</i>		-79'600.7	-38'000.0
<i>Other financial assets</i>	2.5	252.1	250.5
Investments		503.6	833.5
<i>Investment in subsidiaries</i>	2.2	7'186.0	7'186.0
<i>Other investments</i>		503.6	-
<i>Allowance on investment in subsidiaries</i>		-7'186.0	-6'352.5
Property, plant and equipment		862.0	798.9
Intangible assets	2.3	5'664.4	8'025.4
<b>Total non-current assets</b>		<b>18'971.5</b>	<b>55'825.1</b>
<b>Total assets</b>		<b>49'381.5</b>	<b>64'706.8</b>

**Balance sheet at 31 December 2016**  
(in kCHF)

Liabilities	Notes	31.12.2016	31.12.2015
<b>Short-term liabilities</b>			
Trade payables -		10'368.7	6'829.7
<i>due to third parties</i>		10'116.8	5'417.5
<i>due to group companies</i>		251.9	1'412.2
Short-term interest-bearing liabilities -		23'416.6	3'150.0
<i>due to third parties</i>		500.0	-
<i>due to shareholders</i>		22'916.6	3'150.0
Other short-term liabilities -		452.6	556.6
<i>due to third parties</i>		452.6	556.6
Accrued expenses and deferred income		5'253.4	2'607.7
Advances from customers		6'633.0	282.3
Short-term provisions		30.0	275.0
<b>Total short-term liabilities</b>		<b>46'154.3</b>	<b>13'701.3</b>
<b>Long-term liabilities</b>			
Long-term interest-bearing liabilities -		-	9'091.0
<i>due to third parties</i>		-	500.0
<i>due to shareholders</i>		-	8'591.0
<b>Total long-term liabilities</b>		<b>-</b>	<b>9'091.0</b>
<b>Total liabilities</b>		<b>46'154.3</b>	<b>22'792.3</b>
<b>Shareholders' equity</b>			
Share capital	2.9	72'005.2	56'854.5
Reserves from capital contribution	2.9	10'171.5	71'888.2
Legal reserves from retained earnings	2.9	-	3'657.3
Accumulated losses	2.9	-14'940.2	-49'200.9
Net result for the year	2.9	-64'009.3	-41'284.6
<b>Total shareholders' equity</b>		<b>3'227.2</b>	<b>41'914.5</b>
<b>Total liabilities</b>		<b>49'381.5</b>	<b>64'706.8</b>

**Income statement for the year ended December 31, 2016**  
(in kCHF)

	Notes	2016	2015
Net proceeds from sales of goods and services		34'079.6	20'265.8
Cost of materials		-31'549.4	-18'550.2
Personnel costs		-10'925.8	-9'361.4
Other operating expenses	2.11	-11'534.1	-8'141.6
<b>Earnings before interest, taxes, depreciation and amortisation</b>		<b>-19'929.8</b>	<b>-15'787.4</b>
Depreciation, amortisation and impairment		-2'329.6	-1'015.4
Impairment on financial assets	2.12	-42'434.3	-18'000.0
<b>Earnings before interest and taxes</b>		<b>-64'693.6</b>	<b>-34'802.8</b>
Financial income	2.13	4'414.0	3'779.0
Financial expenses	2.14	-3'729.7	-10'260.8
<b>Net result for the year</b>		<b>-64'009.3</b>	<b>-41'284.6</b>

## Notes to the financial statements 2016

### 1. Accounting principles applied in the preparation of the financial statements

These financial statements have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b CO, effective since 1 January 2013). Leclanché SA renounced to prepare additional information in the notes to the financial statements and a cash flow statement as the entity prepares consolidated financial statements in accordance with a recognised financial reporting standard.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Carrying amount is after consideration of an allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of work in progress and manufactured finished goods comprises direct production costs and an appropriate proportion of production overheads and factory depreciation. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Furthermore, inventories which are no longer part of production and sales plans are directly written off from the gross value of inventories. A valuation adjustment is booked for slow-moving and obsolete inventory.

#### Recognition of revenue

Revenue includes the fair value from the sale of goods and services, net of value-added tax, rebates, discounts and sales commissions.

Sale of goods is recognised when delivery to the customer has occurred, the significant risks and rewards have been transferred to the buyer and collection of the related receivables is reasonably assured. Sale of goods may include delivery of batteries, rechargeable batteries, systems for electrical storage device and some accessories.

Revenue for services rendered includes various types of services such as system integration, specific developments and customisation or maintenance. For larger projects revenue is recognised according to the stage of completion (contract milestone agreed in the quotation), for smaller project once the project is completed.

Large projects including Engineering, Procurement & Construction (EPC) services provided by Leclanché, are considered and treated as construction contracts. A construction contract is defined as a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Leclanché applies the percentage of completion method for projects.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The recognition of revenue by reference to the stage of completion is often referred to as the percentage of completion method. Under this method, revenue is recognised in the accounting periods in which the services are rendered. The recognition of revenue on this basis provides full information on the extent of service activity and performance during a period.

To be able to estimate the outcome of a transaction reliably, the entity must be able to make a reliable estimate of total transaction revenue, the stage of completion and the costs to complete the transaction. The stage of

completion is determined as the proportion of the transaction costs incurred for services rendered to date compared to the estimated total transaction costs.

Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

### Property, plant and equipment

All property, plant and equipment are shown at cost, less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repair and maintenance expenditures are charged to the income statement during the financial period in which they are incurred.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management and is calculated on a straight-line basis over the useful life, according to the following schedule:

Property, plant and equipment	Useful life	Method
Production machinery	8 - 10 years	10 % straight-line
Machinery, equipment	5 – 8 years	20 % straight-line
Tools	3 – 5 years	20 % straight-line
Computers and information networks	3 – 5 years	20 % straight-line
Office furniture and equipment	5 – 8 years	20 % straight-line
Vehicles	5 years	20 % straight-line

### Intangible assets

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset. Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefits. During the period of development, the asset is tested for impairment annually.

### Leased assets

All leases are classified as operating leases and the rentals payable are expensed on a straight-line basis over the lease term.

### Reserves from capital contribution

The reserves from capital contribution consist in the difference between the net proceeds of the share capital increase and the nominal amount, i.e. share premium. The direct costs attributable to a capital increase with a share premium is deducted from the reserves from capital contribution.

## Investments in subsidiaries

Investments in subsidiaries are shown at cost, less subsequent impairment. Cost includes expenditure that is directly attributable to the acquisition of the subsidiary.

### Going concern

Pursuant to the funding update provided on 26 October 2016, Leclanché has been working with its financial advisers to complete a second round of private placement after that completed in August 2016 and to solidify a partnership agreement with a Chinese industrial group for that important strategic market. The total targeted equity raise through private placement shall be shared from current shareholders and new institutional and strategic investors.

In parallel, the Company is confident to secure heads of terms for a debt facility of a significant amount for corporate working capital needs and for a deployment of its projects in Canada, Germany and the US. Leclanché remains confident to successfully fund its business plan by Q2 2017.

Subject to the availability of sufficient equity and debt funding, the Board of Directors believes that the Company will be able to meet all of its obligations for at least the next twelve months as they fall due and hence, the consolidated financial statements have been prepared on a going concern basis.

Notwithstanding this, as operations are scaled, particularly in Sales and Delivery, the Company is aware of the significant execution risk this carries, and continues to explore options to raise further growth capital as mentioned above.

## 2. Details, analyses and explanations to the financial statement

### 2.1 Inventories

kCHF	31.12.2016	31.12.2015
Raw materials	2'526.6	1'671.2
Work in progress	213.8	6.4
Finished goods	1'973.8	482.0
Stock in transit	648.5	-
Obsolescence and slow moving provision	-762.6	-644.0
<b>Total</b>	<b>4'600.1</b>	<b>1'515.6</b>

### 2.2 Investments in subsidiaries

Name and legal form	Registered office	31.12.2016		31.12.2015	
		Capital	Vote	Capital	Vote
Leclanché GmbH (capital EUR 270'600)	Willstätt (Germany)	100%	100%	100%	100%
Leclanché BVBA (capital EUR 1'659'854)	Turnhout (Belgium)	100%	100%	100%	100%
Leclanché Uk Ltd (capital GBP 100)	London (England)	100%	100%	100%	100%
Leclanché North America Inc. (capital USD 0.01)	Turnhout (Belgium)	100%	100%	0%	0%



## 2.3 Intangible assets

kCHF	31.12.2016	31.12.2015
Gross value	8'769.9	10'049.2
Accumulated amortisation	-3'105.5	-2'023.8
<b>Net value</b>	<b>5'664.4</b>	<b>8'025.4</b>

Intangibles assets are mainly made up with the acquisition in 2015 of the perpetual right to use the stationary module of ads-tec GmbH (CHF 6.1 million) as well as the development costs for the E-Transport segment.

## 2.4 Pension liabilities

On 31 December 2016, the liability to the pension scheme amounted to kCHF 55.2 (2015: kCHF 72).

## 2.5 Guarantees in favour of third parties

The amount of guarantees in favour of third parties is kCHF 252.1 (2015: kCHF 251). They are bank guarantees for rents and are included in the balance sheet under "Other financial assets".

## 2.6 Assets used to secure own liabilities and assets under reservation of ownership

The convertible loans, reported under "Short-term interest-bearing liabilities due to shareholders", are secured by: (i) an assignment of rights for security purposes of all Leclanché's present and future receivables, claims from intra-group loans and bank accounts claims and a first ranking pledge over Leclanché's registered patents and patent applications filed and trademarks, (ii) securities granted by Leclanché GmbH (i.e., a global assignment agreement, a security transfer agreement and an account pledge agreement), (iii) a first ranking share pledge agreement over the shares of Leclanché GmbH (iv) a first ranking pledge over all Accounts Receivables, all Intercompany Receivables and all Trade Receivables and (v) new assets to be acquired by the Company with the funds made available under the convertible loans.

## 2.7 Commitments

The lease commitments for Leclanché SA are kCHF 1,237 (2015: kCHF 2,099). Commitments are based on rental contracts in Yverdon (ending 2018) and car leasing contracts.

## 2.8 Shares held by management, administrative bodies and employees

31 December 2016

Name	Position	Shares (number)	Options (number)
Stefan Müller	Member of the Board of Directors	8'090	-
Anil Srivastava	Chief Executive Officer	-	500'000
Pierre Blanc	Chief Technology and Industrial Officer	-	250'000
Fabrizio Marzolini	Executive VP Global Solution Engineering	40	15'000
Hubert Angleys	Chief Financial Officer	-	100'000
Bryan Urban	Executive VP North America	-	15'000
Employees		-	100'000
			249'000

<sup>1</sup> The options were granted free of charge. Each option entitles the holder to acquire from the Company one share against payment in cash of the exercise price. The granted options forfeit if, prior to the end of the restriction period, (i) the holder terminates the employment contract other than for valid reasons, retirement at normal retirement age as may be agreed between the option holder and the Group, death or disability, or (ii) the Group terminates the employment contract for valid reason. Except under certain circumstances (e.g. tender offer or death), the options are not transferable.

<sup>2</sup> Grant date: 19.03.2015; exercise price: 3.00; exercise period: 19.03.2015 - 31.12.2020

<sup>3</sup> Grant date: 19.03.2015; exercise price: 1.50; exercise period: 19.03.2015 - 31.12.2020

<sup>4</sup> Grant date: 31.12.2016; exercise price: 2.50; exercise period: 31.12.2016 - 31.12.2022

<sup>5</sup> Grant date: 31.12.2016; exercise price: 2.948; exercise period: 31.12.2016 - 31.12.2022

31 December 2015

Name	Position	Shares (number)	Options (number)
Stefan Müller	Member of the Board of Directors	8'090	3'250
Antoine Spillmann	Member of the Board of Directors	795	-
Anil Srivastava	Chief Executive Officer	-	500'000
Pierre Blanc	Chief Technical Officer	-	3'900
Fabrizio Marzolini	Head of Systems Development	40	100'000
Thierry Perronnet	General Manager Distribution	-	15'000
Andrew Firmston-Williams	Chief Financial Officer	-	650
			25'000
			15'000
			9'000
			50'000
			30'000

<sup>1</sup> The options were granted free of charge. Each option entitles the holder to acquire from the Company one share against payment in cash of the exercise price. The granted options forfeit if, prior to the end of the restriction period, (i) the holder terminates the employment contract other than for valid reasons, retirement at normal retirement age as may be agreed between the option holder and the Group, death or disability, or (ii) the Group terminates the employment contract for valid reason. Except under certain circumstances (e.g. tender offer or death), the options are not transferable.

<sup>2</sup> Grant date: 19.02.2010; exercise price: 38.40; restriction period: 4 years; exercise period: 19.02.2014 - 18.02.2016

<sup>3</sup> Grant date: 01.07.12; exercise price: 16.00; restriction period: 2 years; exercise period: 01.07.2014 - 30.06.2016

<sup>4</sup> Grant date: 04.04.2014; exercise price: 4.38; exercise period: 07.04.2014 - 31.12.2020

<sup>5</sup> Grant date: 19.03.2015; exercise price: 3.00; exercise period: 19.03.2015 - 31.12.2020

<sup>6</sup> Grant date: 19.03.2015; exercise price: 1.50; exercise period: 19.03.2015 - 31.12.2020

## 2.9 Share capital

	Share capital	Reserves from capital contribution	Legal reserves from retained earnings	Accumulated losses	Total
	kCHF	kCHF	kCHF	kCHF	kCHF
<b>Balance at 1 January 2015</b>	32'971.8	64'337.3	3'657.3	-49'200.9	51'765.5
Loss for the year	-	-	-	-41'284.6	-41'284.6
Warrants Exercise	765.0	-	-	-	765.0
Capital increases	23'117.7	7'550.9	-	-	30'668.6
<b>Balance at 31 December 2015</b>	<b>56'854.5</b>	<b>71'888.2</b>	<b>3'657.3</b>	<b>-90'485.5</b>	<b>41'914.5</b>
<b>Balance at 1 January 2016</b>	56'854.5	71'888.2	3'657.3	-90'485.5	41'914.5
Loss for the year	-	-	-	-64'009.3	-64'009.3
Cancellation of Reserves against Accumulated losses	-	-71'888.0	-3'657.3	75'545.3	-
Warrants Exercise	150.0	-	-	-	150.0
Capital increases	15'000.7	10'171.3	-	-	25'172.0
<b>Balance at 31 December 2016</b>	<b>72'005.2</b>	<b>10'171.5</b>	<b>-</b>	<b>-78'949.5</b>	<b>3'227.2</b>

## 2.10 Significant shareholders

(As per share register and SIX Disclosure of Shareholdings)

	<u>% 31.12.2016</u>	<u>31.12.2016</u> Unit	<u>31.12.2015</u> Unit
Golden Partner Group	28.4%	13'614'493	11'248'821
Logistable Group	14.9%	7'173'466	4'000'000
Bruellan Corporate Governance Action Fund	13.7%	6'563'803	4'517'716
ACE & Company	5.2%	2'511'572	1'460'053
Recharge A/S	4.8%	2'327'614	4'305'312
Sum of all other shareholders below 3 %	32.9%	15'812'486	12'371'072
<b>Total shares issued</b>	<b>100.00%</b>	<b>48'003'434</b>	<b>37'902'974</b>

## 2.11 Other operating expenses

kCHF	2016	2015
IP related costs	258.8	778.7
Freight costs	1'034.2	289.0
Rent	761.4	844.3
Legal & Audit costs	433.0	1'366.8
Consulting costs	759.5	1'802.4
Other costs	8'287.2	3'060.4
<b>Total</b>	<b>11'534.1</b>	<b>8'141.6</b>

## 2.12 Impairment on financial assets

kCHF	2016	2015
Impairment on loan to group companies:		
- Leclanché GmbH	41'065.0	18'000.0
- Leclanché BVBA	535.7	-
Impairment on investments in subsidiaries:		
- Leclanché BVBA	833.5	-
<b>Total</b>	<b>42'434.3</b>	<b>18'000.0</b>

The management has performed an impairment assessment on the recoverability of the intercompany loans with Leclanché GmbH and Leclanché BVBA. The allowance on the intercompany loan to Leclanché GmbH has been increased by CHF 38 million to CHF 79 million (2015: increase of allowance by CHF 18 million to CHF 38 million). The intercompany loan to Leclanché BVBA has been 100% impaired in 2016.

In 2016, the Company has decided to make a 100% impairment on its investment in its subsidiary Leclanché BVBA.

## 2.13 Financial income

kCHF	2016	2015
Interests	4'414.0	3'779.0

## 2.14 Financial expenses

kCHF	2016	2015
Bank charges	3.2	91.9
Interests	3'158.2	2'705.3
Exchange loss	568.3	7'463.6
<b>Total</b>	<b>3'729.7</b>	<b>10'260.8</b>

## 2.15 Full Time Equivalent

The number of full-time equivalents did not exceed 250 on an annual average basis.

## 2.16 Subsequent events occurring after the balance sheet date

No significant subsequent event.

## REPORT OF THE STATUTORY AUDITOR



# *Report of the statutory auditor to the General Meeting of LECLANCHE SA Yverdon-les-Bains*

## *Report on the audit of the financial statements*

### **Opinion**

We have audited the financial statements of LECLANCHE SA, which comprise the balance sheet as at 31 December 2016, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 89 to 99) as at 31 December 2016 comply with Swiss law and the company's articles of incorporation.

### **Basis for opinion**

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainty related to going concern**

We draw your attention to note 1 to these financial statements, which states that the company is aware of the significant execution risk of its turnaround and growth plan. This, along with other matters as described in note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of the company to continue as a going concern. If it is not possible for the company to continue as a going concern, the financial statements will need to be prepared on the basis of liquidation values. This would lead to a substantiated concern that the company's liabilities exceed its assets within the meaning of article 725 para. 2 CO, requiring compliance with the corresponding legal provisions. Our opinion is not qualified in respect of this matter.

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## REPORT OF THE STATUTORY AUDITOR

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### Our audit approach

#### Overview



Overall materiality: CHF 1'040'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matters the following areas of focus have been identified:

Revenue recognition for “projects”

Impairment on investments and loans to group companies

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	CHF 1'040'000
<i>How we determined it</i>	4% of loss before tax adjusted from non-recurrent expense items, rounded
<i>Rationale for the materiality benchmark applied</i>	We choose loss before tax, after adjustments for non-recurrent expense items, as the benchmark because, in our view, it is the benchmark against which the performance of the entity is most commonly measured, and is a generally accepted benchmark.

## REPORT OF THE STATUTORY AUDITOR

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### *Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the “Material uncertainty related to going concern” section, we have determined the matters described below to be the key audit matters to be communicated in our report.

#### **Revenue recognition for “projects”**

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Revenues resulting from “projects” amounted to kCHF 13,293 for the year, being 39% of total revenues for the period. There are two critical judgements relating to revenues from “projects”:</p> <p>1) the revenues arise from independent third parties and 2) the measurement of revenues resulting from the percentage of completion method is correctly determined.</p> <p>With reference to the first judgement, it has been assessed that the entities under which the projects are run are independent and the Group has no significant influence.</p> <p>With reference to the second judgement, the percentage of completion method has been applied to calculate 39% of revenues in 2016. This process involves a certain degree of estimation and judgement as explained in note 1, “Recognition of revenue”. As this is the first year for LECLANCHE SA performing the services required to produce “projects”, the judgement involved in determining the stage of completion is considered to be significant.</p>	<p>We obtained an understanding of the nature of the two projects undertaken by the entity through enquiries with management.</p> <p>We obtained representations from management as to the nature of the relationships of the two customers whom LECLANCHE SA provided “project” services to during the year. We reviewed various shareholder agreements and contracts to verify the relevant interests held. We reviewed the revenue contracts to ensure no continued involvement required by LECLANCHE SA after transfer of the services relating to the “project” revenues.</p> <p>We reviewed the accounting policies for revenues from “projects” and evaluated whether they are compliant with Swiss Code of Obligations and appropriate based on our understanding of the nature of the entity’s business.</p> <p>We obtained detailed analysis of both construction-type contracts and performed the following:</p>

## REPORT OF THE STATUTORY AUDITOR

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- 
- We verified completeness of the detailed analysis based on our knowledge of the business, discussions with management and review of minutes of the Board of Directors.
  - We agreed contract details to signed contracts and obtained and agreed cost summaries to detailed analysis.
  - We verified the mathematical accuracy of the detailed analysis.
  - In relation to personnel costs we obtained the timesheet from management and verified based on sampling that the employees exist and that the rates used for the projects were in line with the payroll data.
  - In relation to the cost of materials we verified based on sampling the validity, the accuracy and the allocation of costs for each project. We also verified that the material was transferred to the client before year-end.
  - About the stage of completion we performed enquiries with management and the project manager and we verified the physical shipping of material in order to assess its reasonableness.
  - We agreed the amounts invoiced, assessed entity's costs to complete estimated and performed calculation of revenue recognised during the period.
  - We agreed revenue and expenses recognised for the period as well as amounts due to and from customers to the financial statements.

We inquired with management whether there is a risk of loss due to disputes, delays, overruns or other factors that may impact profitability.

We assessed the need to recognise provisions for expected losses based on enquiries from management, and our understanding of the contracts.

Based on our above procedures, we concurred with management on the revenue recognised for "projects".

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**REPORT OF THE STATUTORY AUDITOR**

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**Impairment on investments and loans to group companies**

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>We focused on this area because of the existence of an indicator for impairment testing of the values of investments and related receivable loans, the level of judgement inherent in management’s assessment model used for impairment testing as well as the size of the loans to group companies.</p> <p>Management assessed the entity’s assets for an indication of impairment. As of 31 December 2016 internal reporting indicates the economic performance of two investments are worse than expected. This has been considered to be an indication that the book values of these investments as well as the loans granted to those entities may not be fully recoverable.</p> <p>Considering this fact, investments and loans in subsidiaries need to be assessed for impairment.</p> <p>Management has calculated the recoverable amount at the cash generating unit level. The recoverable amount is the higher of value in use and fair value less costs of disposal. The value in use is based on discounted cash flow model over which management makes judgements on certain key inputs. The most judgemental are the future results of the business and the discount rate applied to future cash flow forecasts.</p> <p>In the financial statements, an impairment on investments and loans to group companies of kCHF 42’434 has been recorded (see note 2.12).</p>	<p>We obtained the impairment assessment model from management and performed the following:</p> <ul style="list-style-type: none"> <li>• We made inquiries with management to understand the process by which the model was developed and evaluated the basis of preparation.</li> <li>• We tested how management made the estimate and the data on which it is based, including evaluating whether the method of measurement used is appropriate.</li> <li>• We verified the mathematical accuracy of impairment assessment model.</li> <li>• We compared management’s forecast for the year 2017 with the budget approved by the Board and found them to be consistent.</li> </ul> <p>We examined whether the key assumptions used are reasonable in light of the measurement objectives of the applicable framework by performing the following:</p> <ul style="list-style-type: none"> <li>• We challenged the discount rate used in the model by comparing the cost of capital used to market data and industry research.</li> <li>• We challenged management’s key assumptions for growth rates in the forecasts by comparing them to historical results, pipeline of projects and industry forecasts.</li> </ul> <p>We performed a sensitivity analysis by analysing the impact from using other growth rates and discount rates which were within a reasonably foreseeable range.</p> <p>We verified that the impairment has been correctly recorded in the accounts.</p> <p>Based on our audit work, the key assumptions used by management were supportable and appropriate in light of the current environment.</p>

## REPORT OF THE STATUTORY AUDITOR

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### ***Responsibilities of the Board of Directors for the financial statements***

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtain 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity'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 the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee 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.

## REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

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From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Report on other legal and regulatory requirements*

During our audit, performed in accordance with article 728a paragraph 1 item 3 CO and Swiss auditing Standard 890, we noted that an internal control system which has been designed in accordance with the instructions of the Board of Directors for the preparation of the financial statements is adequately documented, but has not been fully implemented in all material respects for process revenue from projects that is material to the entity.

In our opinion, except for the matter described in the preceding paragraph, an internal control system exists which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Further, we draw attention to the fact that half of the share capital and the legal reserves is no longer covered (article 725 para. 1 CO).

PricewaterhouseCoopers SA



Corinne Pointet Chambettaz

Audit expert  
Auditor in charge



Patrick Wagner

Audit expert

Lausanne, 29 March 2017

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Disclaimer

The Annual Report contains forward looking statements which reflect Management's current views and estimates. The forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures, and regulatory developments.