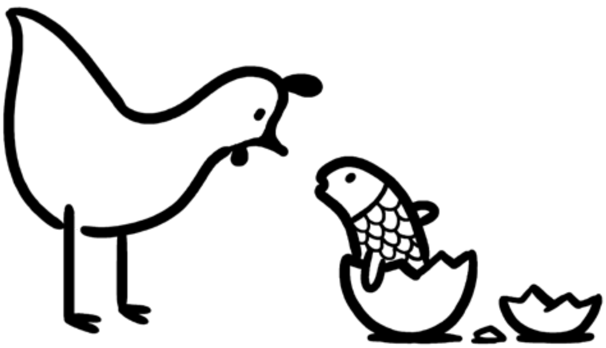
SYZYGY

2018 Annual Report

"We don't create experiences to make money, we make money by creating better experiences."



ir.syzygy.net

Key financial figures

Sales
(in kEUR)

2014	47,075
2015	57,311
2016	64,273
2017	60.669
2018	65,816

2018 **65,816**

Operating income
(in kEUR)

2014	3,843
2015	5,268
2016	5,596
2017	4,096
2018	6,067

2018 **6,067**

Financial income
(in kEUR)

2014	2,157
2015	1,975
2016	1,336
2017	1,440
2018	470

2018 **470**

Income before taxes
(in kEUR)

2014	6,000
2015	7,243
2016	6,932
2017	5,536
2018	6,537

2018 **6,537**

Net income
(in kEUR)

2014	4,739
2015	4,864
2016	5,097
2017	4,235
2018	4,890

2018 **4,890**

Earnings per share
undiluted (in EUR)

2014	0.35
2015	0.37
2016	0.39
2017	0.39
2018	0.35

2018 **0.35**

Operating cash flow
(in kEUR)

2014	14,410
2015	-2,421
2016	5,930
2017	4,778
2018	16,357

2018 **16,357**

Sales by employee
(in kEUR)

2014	103
2015	108
2016	108
2017	95
2018	105

2018 **105**

Balance sheet structure

Current assets	40%
Non current assets	60%
Equity	49%
Liabilities	51%

Equity **49%**

Sales by segments

Germany	68%
United Kingdom	21%
Others	11%

Germany **68%**

Sales by clients' volume

Top 5	24%
Top 6-10	15%
Others	61%

Top 5 **24%**

Sales allocation by vertical markets

Automotive	30%
Services	24%
Finance/Insurance	17%
Consumer goods	17%
Telecommunication/IT	8%
Others	4%

Automotive **30%**

Portfolio structure of cash and marketable securities

Bank deposit	52%
Corporate and government bonds	48%

Bank deposit **52%**

Employees by function

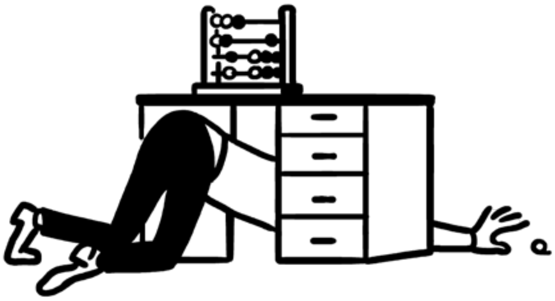
Media	22%
Strategy/consulting	21%
Technology	18%
Administration	14%
Design	13%
Project management	12%

Media **22%**

Shareholder structure

WPP plc.	50.33%
Hauck & Aufhäuser	3.09%
HANSAINVEST	3.03%
Treasury stocks	0.54%
Free float	43.01%

WPP plc. **50.33%**

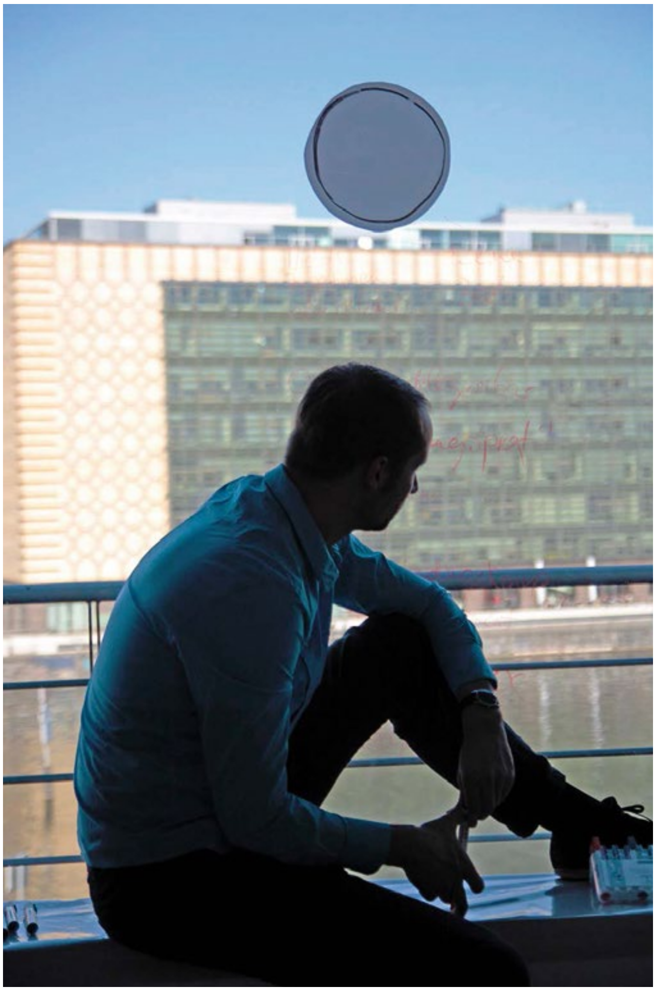


Letter to the shareholders

Ladies and Gentlemen,
dear Shareholders,

Do you recall the closing paragraph of my letter to shareholders last year?

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



Now, looking back, we have every reason to be proud of our results. Although we narrowly missed our target for sales growth due to lower exchange rates for the British pound, we achieved a disproportionate increase in operating income in 2018, posting the highest operating income in the SYZYGY Group's 24-year history.

At EUR 65.8 million, sales were 8 per cent above the previous year's figure, while operating income of EUR 6.1 million exceeded the previous year by more than 40 per cent. Our optimism was thus clearly justified and has paid off. Major progress was made in integrating the new companies and we are seeing increasingly effective cooperation between the individual companies within the SYZYGY Group.

In the core German market, sales were up 16 per cent, accompanied by an EBIT margin of 14 per cent. This is powerful proof that our strategy of focusing on our core market is correct.

Based on the SYZYGY Group's continuing very strong capital base, the Management Board and Supervisory Board have decided to propose a dividend of EUR 0.40 per share at the Annual General Meeting. We believe this sends the right signal, despite earnings per share being EUR 0.36. It also reflects the Management Board's confidence that it will be able to continue improving the results in the years ahead. This makes the SYZYGY share a reliable dividend stock that has delivered constant or rising dividends for more than ten years.

We would like to take this opportunity to thank you, our shareholders, for your perseverance and patience – you have stood by us throughout the restructuring and realignment process. Very special thanks naturally go to our 600+ employees and their families, who actively supported us on this new path and are highly motivated in their commitment to the future of the SYZYGY Group. Our thanks are also due to the Supervisory Board for its calm and constructive work. And of course, this strong result for the year would not have been possible without our many long-standing and new clients, for whom we give our best every day. Thank you for the trust you have placed in us and for our excellent working relationships.

Core German market

We now have eight companies across five locations. Three of those companies only joined the SYZYGY family in the past three years. We have been highly successful in integrating almost 150 new employees as well as their cultures, business models and processes, while building trust and promoting collaboration. The results in the core German market demonstrate this emphatically: the new units are successful, profitable, have stable management teams and are now very well integrated. Joint development of client relationships across several units has become much more common and has generated additional new business. In Germany, sales increased by 16 per cent to EUR 46.6 million. All the German companies achieved good operating results, with the EBIT margin of 14 per cent being significantly above the 8 per cent seen in the previous year.

The German management team remains the driving force behind major strategic issues such as positioning, public image, product portfolio and marketing, making the team stronger and more compelling from an external perspective. Innovation projects and thought leadership as a differentiating feature of SYZYGY are also being promoted from within Germany, in close conjunction with our UK colleagues. Elsewhere in this annual report, we provide a detailed insight into one of the most successful projects in this area, the ”Hans & Marie” Business Festival. Hosted by our consultancy diffferent, we invited guests to Berlin last summer for the event.

> ”We have achieved in 2018 the **highest operating income** in our 24-year history.”

Business Festival ”Hans & Marie”

Erwin Greiner
Chief Financial Officer
(CFO)

Lars Lehne
Chief Executive Officer
(CEO)

Frank Ladner
Chief Technology Officer
(CTO)

International business

Our Polish colleagues also had an excellent year in 2018 after a difficult 2017, achieving sales growth of 34 per cent. SYZYGY Warsaw has significantly expanded its technological skills and capacities and is now the second central technology location in the SYZYGY Group alongside Bad Homburg. Local SYZYGY agency business is also growing substantially, with the Polish Football Association being the biggest account ever won in the company's history. Ars Thanea, which is positioned as a production company for computer-generated images and films, is also experiencing steady growth. In this field, Ars Thanea's partnership with Ogilvy & Mather, the largest and most successful advertising agency in the WPP network, has led to additional production projects. Furthermore, we invested heavily in expertise and capacity for Virtual Reality (VR) and Augmented Reality (AR) in 2018, gaining Danwood in the fourth quarter as our first major reference client in this sector.

The performance of our US and UK companies is less encouraging. Although New York won some new accounts, these gains were not enough to compensate for the shrinking volume of work from its main client, AVIS. Sales declined accordingly, as did margins. As a consequence, we reconfigured the team and reduced it in size. Greater operational control will be exercised by headquarters in 2019. London likewise underperformed with regard to winning new business in 2018, while also posting a decline in sales with existing clients. In addition, a weaker exchange rate dragged down sales by around EUR 1.0 million.

> ”Our service areas: Strategy, Product and Activation **remain our unique selling proposition.”**

Despite these challenges, we remain convinced that the American and British companies can make an important contribution. We therefore remain willing to invest in these markets, especially as the new financial year has seen our London location gaining some major global accounts. These wins will also have a positive impact on the US market. In addition, the appointment of Ita Murphy as the new CEO means that we have gained a strong, highly experienced and well-connected leader for the UK companies. We currently expect both markets to contribute positive results again in the second half of 2019 after a period of restructuring.

Despite these international investments, our focus remains on the core German market. The integration of the new units is well advanced. We will continue to drive forward collaboration and the integration of services. This will be supported by consolidating premises at specific locations to further improve our ability to provide clients with end-to-end solutions. In this context, our first SYZYGY Campus will open in Munich in March. For the first time, employees from all service areas of the SYZYGY Group will be brought together at the same location to collaborate across company boundaries.

The Group’s service portfolio comprises strategy, product and activation services. Elsewhere in this annual report, we asked leading SYZYGY protagonists in each of the individual sections to describe their services in more detail and to give some examples of their work. As you will have noticed, last year we talked about marketing, not about activation. Given how our positioning and the way we present ourselves have evolved, we have now unanimously agreed to use activation because it is a more comprehensive and thus better description of the services we provide.

Outlook

Our market environment remains very dynamic and agencies are continuing to consolidate. The acquisition of Sinnerschrader by Accenture and the planned merger of PIA and UDG will create two very large agency groups in the German market with significantly more than 1,000 employees. These agencies will compete directly with the SYZYGY Group with regard to many services.

Our strong unique selling proposition nevertheless remains in place: we are able to cover the three service areas of strategy, product and activation in Germany with end-to-end solutions from a single source. In addition, we have a very well integrated technology, creative and production location offering outstanding quality in Warsaw, which broadens our range of services.

Next year, we will continue to expand our consulting expertise organically and strengthen our partnerships with management consultants and technology service providers. Acquisitions will remain part of SYZYGY's strategy where they extend our range of services or enable us to significantly strengthen our business. Our integration into the WPP network means we can scale globally at any time. As a result, we are able to serve our clients reliably and seamlessly even across the national borders of our locations.

As shareholders, you can rest assured that we will not rest on our laurels for the good results of 2018. The market is in a state of flux and requires that we constantly challenge ourselves and make quick decisions.

Backed by the confidence and experience we have gained as a management team over the past few years, as well as the flexibility we have shown in integrating our new companies, we are well equipped for next year. The successes of recent months give us confidence for 2019.

We have won major new accounts such as Lufthansa and PayPal against big-name competition. With our strong positioning, we will continue to work according to the motto of this annual report: "We don't create expieriences to make money, we make money by creating better experiences."

On that note, let us look forward to a successful 2019!

On behalf of the entire SYZYGY Group management team,

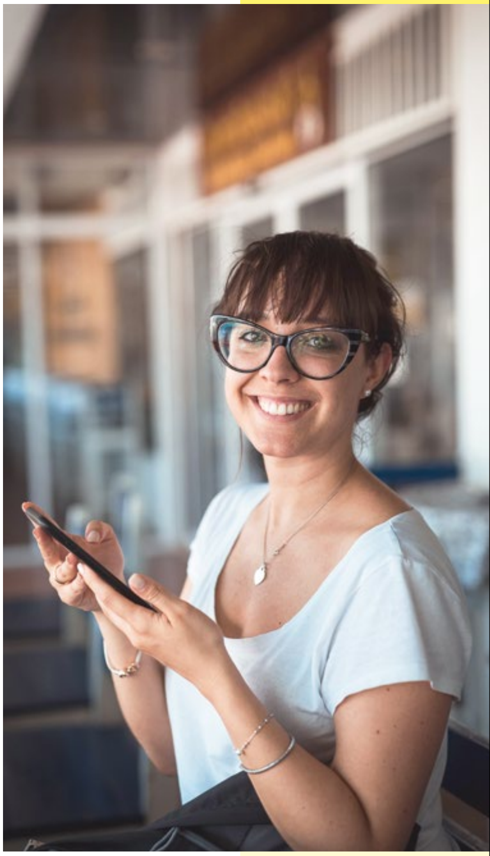
yours sincerely,

Lars Lehne

Welcome to **SYZYGY**

We are a collective of over 600 strategists, designers, technologists, data and media experts, marketing specialists, and communication experts. We work across eight global offices with ambitious partners on highly diverse projects and a shared common goal: to create positive impact that serves humanity and can be scaled by technology.

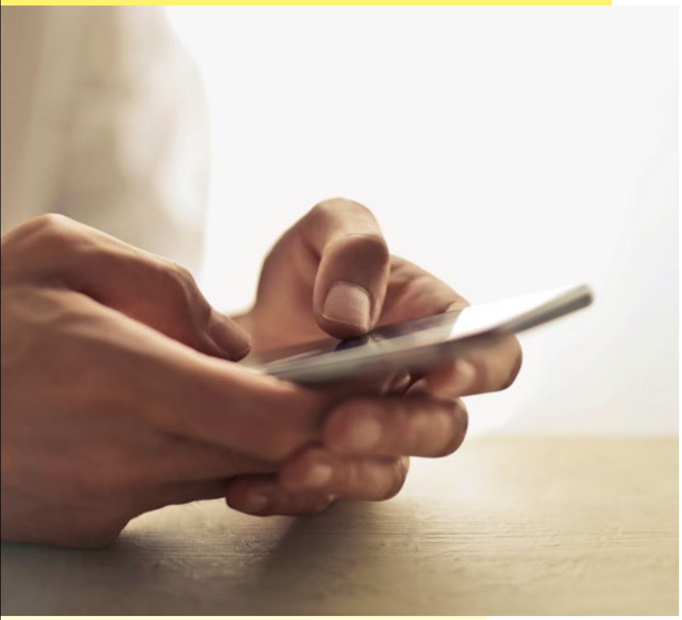
We help our partners to grow their business by creating extraordinary experiences that matter to people. From strategy to product and activation, we work towards unified brand experiences, and we use all our capabilities to continuously evolve and improve them until they're best-in-class.



600+	200+	1995
Talents	Awards	Founded in

We have many strengths and a soft spot for human beings. We strive to truly understand people's needs and desires, and it means the world to us when we can help our partners respond to those needs and desires in a meaningful way.

Our work is based on four principles:



1 The best brands and products are an experience.

And not just once, but at each interaction.

2 Experiences need to create value for people.

Otherwise, no one needs them.

3 Great experiences are built on data and technology.

But they should be an invisible power, never front and center.

4 We don't create experiences to make money.

We make money by creating better experiences.

Welcome to the **Human Experience Company**

Strategy

In our strategy work, we lay the foundations for products, services and marketing campaigns that engage end users and help the business to succeed. To do that, we bring together diverse perspectives – from user to technology, from brand to business – and break down the silo mentality.

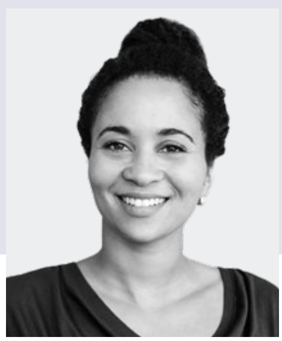
Voices of our employees Kristina Häusler and Brenya Adjei across SYZYGY's business area "Strategy":

Strategy projects always set new milestones. Whether they relate to new areas of business, brand positioning, technology issues or digital innovations – we are here to help our clients make important and far-reaching decisions. This rarely means having to pull a completely new idea out of a hat or reinvent the wheel, although that does sometimes happen.

Generally, we see our role primarily as enabling our clients to undergo a process of acquisition. We create space for them to try out bold new concepts, gain insights and apply them, as well as fine-tuning their ideas or rejecting them. And rather than just understanding the implications of decisions in a rational way, they should experience them with all their senses. Our strategy projects therefore never just deal with objective issues, but essentially always involve an element of human transformation and experience. This creates a basis for truly sustainable solutions and results.

- Business Innovation
- Brand & Communication
- Content & Media
- Technology & Data
- Team Enablement

Kristina Häusler
Strategy Director
SYZYGY Munich



Brenya Adjei
Director Strategy & Innovation
diffferent, Berlin

MEDIEN GRUPPE RTL DEUTSCHLAND

Brand management & transformation strategy

RTL Germany media group: digitisation changes everything

We are helping the RTL Germany media group to define and apply a new understanding of the importance and role of a large media group in the digital age. Digitisation is not just changing the way people consume media and entertainment in the on-demand era – it's also changing the way a media group like RTL ensures that its services and content remain relevant to consumers. In conjunction with RTL, we have redefined the

rules and guidelines around brand management and architecture. A key question here is whether brands in general and the existing broadcaster and broadcasting brands matter at all in a non-linear TV landscape? How can brand strategy effectively support the company's well-advanced transformation strategy and evolving business model? In accordance with the new paradigm of modern media brand management and with a shared understanding of the role and function of the brands, we worked co-creatively with the client to develop a progressive brand purpose & positioning strategy for all relevant brands. This strategy is underpinned by a strict customer focus which is aligned with the company's target audience personas and acts as a touchstone and guide for ongoing charismatic positioning activities. It likewise applies to the innovative development of content and formats. Since every strategy is only ever as good as its execution, the jointly defined action areas in relation to brand innovation and transformation will be defined in more detail in a pilot project around a selected brand.

Strategic advice

MTU Maintenance: innovative corporate culture out of the box

Using the InnoBox as the core of a multilayer strategy, we are working with MTU Maintenance Hannover GmbH to develop specific ideas for innovation and a robust innovation culture.

Innovative ideas are not just generated by R&D departments – they also arise in the normal course of work, but the necessary resources are not always available to implement them. What's more, the mindset of employees and managers is crucial in determining whether ideas are ultimately turned into innovative products and services.

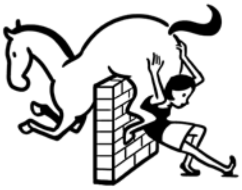
In the first phase of our work with MTU, we are providing 20 interested staff members with a customised toolbox of techniques – the InnoBox. The box contains a complete toolkit for independent self-learning: from a design thinking workbook to prototyping material. A two-day innovation training course and regular coaching sessions help to prepare the employees for putting their own ideas into practice.

Alongside instruction in methodology, there is also a focus on individual reflection. The participants learn that setbacks and frustration are all part of the process.

However, many ideas fail due to a lack of support rather than of feasibility. As part of a nudging approach, we developed action cards that "allowed" a particular action to be taken – such as a flexible time credit system or a meeting with a senior manager at short notice outside the formal reporting channels.

Eighteen concrete ideas are already being taken forward and the InnoBox is going into production. Highly motivated participants are crucial in creating an innovative corporate culture: start small, but start; have the courage to fail; put collaboration into practice; maintain a strict user focus.

The InnoBox: a toolbox of techniques for generating innovative ideas.



Product >

We create customer experiences and bring digital businesses to life. Whether as a platform, service or custom software solution, our digital products meet the highest standards in terms of quality, security and scalability.

Voices of our employees Benjamin Ringwald and Dominik Waghorn across SYZYGY's business area "Product":

Developing digital products, services and platforms and taking them to the next level is always a huge team effort. The key to success here is well-organised diversity – in no other area of SYZYGY do people with such different skills work together on the same project: from service and experience designers to developers, from creatives to data specialists, from programme managers to quality assurance experts and many more.

Our day-to-day activities are characterised by multidisciplinarity, which is both inspiring and always a major challenge. How can we bring all these perspectives together in an agile way so that everyone is on the same page and working towards the same goal to ensure the best possible project outcome within the allotted time frame? In the end, the effort is worth it every time we create a product that not only works at the click of a button, but also makes life a little bit easier, better or more pleasant.

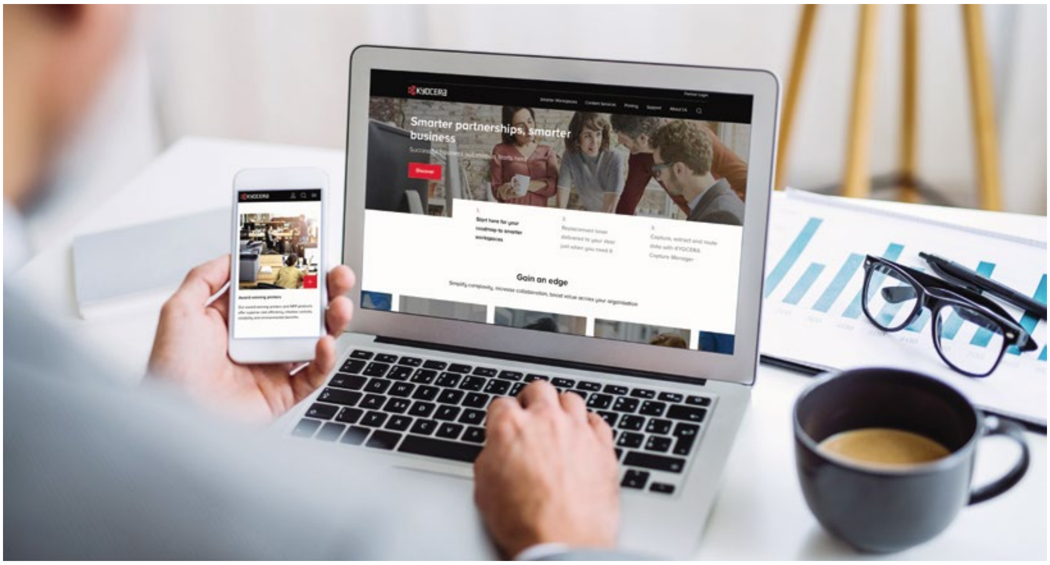
- Product & Service Design
- Experience Design & Creative Technology
- Software Engineering & Technical Implementation
- Maintenance & Operations

Benjamin Ringwald
Executive Creative Director
SYZYGY Frankfurt

Dominik Waghorn
Head of Product Strategy
SYZYGY London

Development of a modern, customer-focused experience platform

Kyocera Document Solutions: a new level of customer experience



How we helped Kyocera Document Solutions to maximise its technology investment and deepen customer relationships.

Technological innovation and changing customer requirements are the key drivers of a transformation that is taking place across many industries, and the document management sector is no exception. Here, artificial intelligence (AI), strict security requirements and the paperless office are all having an impact on companies' use of document solutions.

Multinational group Kyocera Document Solutions is responding to changing needs by shifting its focus away from hardware to software as a service (SaaS). This means a rethink is also required when it comes to the customer experience. We are supporting the Netherlands-based headquarters of Kyocera Document Solutions Europe, which covers more than 16 subsidiaries and three partners, in this transformation. Our task is to take the digital experience to a new level – one that reflects customer requirements and makes use of the company's existing investment in Adobe Experience Manager, Target and Analytics.

Our experts in London and Warsaw developed a platform that enables Kyocera to bring its products to market faster. The content can be adapted to the company's 20 markets, including personalisation to actively acquire new customers. The website offers a range of options to help customers search, compare products and make a purchase. The platform can be integrated into many different systems via LDAP (authentication) and into Salesforce and Pardot (sales and marketing automation).

Thanks to this 360-degree view, Kyocera is able to offer its customers a perfect cross-channel experience.

How technology is transforming business models

Danwood S.A.: virtual reality for selling houses

We leveraged virtual reality (VR) to open up new sales opportunities for Danwood S.A.

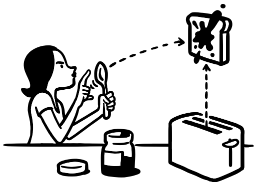
Danwood S.A. is one of the leading suppliers of prefabricated houses in Europe. The manufacturer recently called on our expertise when it wanted to let potential buyers experience the new premium “Vision” range first hand.

The challenge in this case was to convince prospective buyers to purchase houses that had not yet been built and therefore could not be viewed in real life. Danwood liked our innovative approach and together we stepped into the world of virtual reality.

We developed special software, and in doing so changed the entire sales process of a whole industry. Sales staff in Germany and other countries can now present Danwood’s premium properties in a completely new way. Wearing VR glasses, buyers enter a virtual house and can move around it as if they were really there. To make this possible, we created the 3D simulations of the houses in painstaking detail, including realistic lighting conditions.

The new sales tool also enables a multi-user experience – taking a virtual tour of the property together with the vendor is just like a real viewing. At the same time, the house can be immediately adapted to the particular requirements of buyers.

This agile approach is unique in the real estate industry to date. It offers homebuyers a truly immersive experience, facilitates the marketing process and boosts the sale of properties in the Vision range, which were designed in conjunction with Danish architects.



Activation >

Using creative content and optimised results across the entire marketing ecosystem, we help companies achieve their business goals and leverage the full potential of their brands. We maximise relevance and minimise inefficiency by reaching target audiences more effectively, by increasing brand awareness and by inspiring users to act.

Voices of our employees Jörn Sorge and Elfriede Schmidt across SYZYGY's business area "Activation":

For us, activation always has a clear objective: to trigger desired actions and scale them successfully. However, achieving this in the current digital marketing world is a formidably complex task. Proficiency and experience are required, of course, as well as a comprehensive understanding of data and excellent analytical ability. But what really makes the difference for us is a combination of human intuition and intelligent automation.

This is the only effective way to generate successful and dynamic creativity across all channels and guarantee a truly engaging approach that activates and converts customers. What is fascinating and unique here is the direct feedback and immediate opportunity for optimisation. Be it in a search or on social media, in a call to action in an email or a simple advert on a website: we always see straight away how well our latest activation has worked, which means it's always possible to work with our customers to make things even better next time.

- Campaigns & Storytelling
- Creative Production & Editorial Planning
- Performance Marketing & Media

Jörn Sorge
Prokurist
SYZYGY Media,
Hamburg

Elfriede Schmidt
Client Director
SYZYGY Performance,
Munich

Digital out-of-home and mobile hyperlocal targeting

comdirect: a local campaign for efficient activation

By the turn of the year, we delivered an integrated campaign on Hamburg's Reeperbahn for comdirect bank AG. The campaign was targeted at customers who were potentially willing to change banks.

The number of people switching bank accounts is typically at its highest at the start of the year – especially if a bank increases the cost of its current account, as a rival bank in Hamburg did. comdirect wanted to take advantage of this situation and commissioned us to create a local campaign drawing attention to their free current account on New Year's Eve.

Our concept took the form of a digital out-of-home campaign (DOOH) on busy Spielbudenplatz square. We projected large-scale images of comdirect's advertising messages and a branded New Year's Eve countdown onto the media façade of the Klubhaus St Pauli entertainment and office complex. The choice of location was deliberate: directly opposite the complex is Germany's busiest ATM, which belongs to a rival bank that raised its charges at the start of the year. At the same time as the DOOH, a hyperlocal marketing initiative was launched targeting the mobile devices of users located in the Klubhaus area on the Reeperbahn. This display performance campaign allowed us to connect with the Internet-savvy New Year's Eve crowd. Customers who wanted to switch banks clicked on a mobile banner ad and were taken to the comdirect website, where they were able to open an account. The mobile hyperlocal targeting initiative also continued for several days afterwards around the rival bank's ATMs and branches. Traditional display adverts on regional websites hamburg.de, abendblatt.de and mopo.de rounded off the campaign.

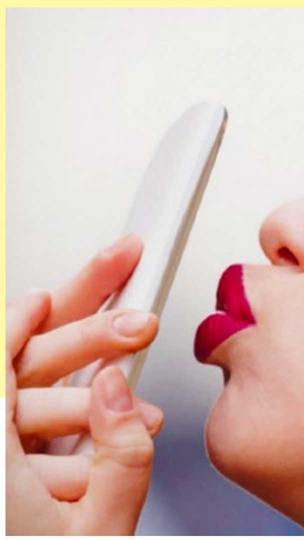
With this campaign, we once again demonstrated how effective a strategic mix of different advertising activities can be at local level. comdirect bank was delighted with the above-average level of interest it received, and very impressed with the campaign's reach.

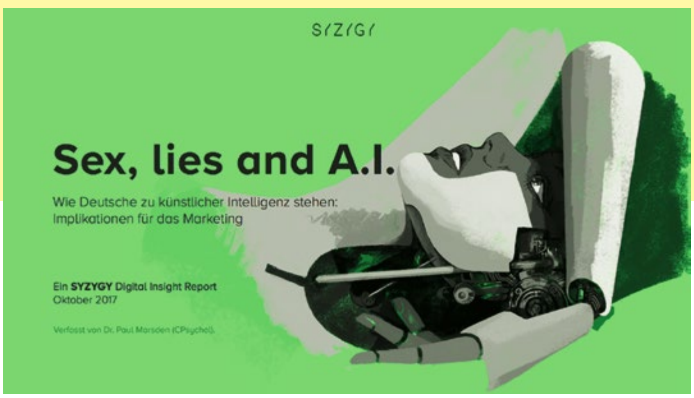
Thought **Leadership**

Taking forward bold ideas, bringing together the right people and topics, acting as a role model both within the company and externally – there are many good reasons why SYZYGY invests in thought leadership.

In addition, as a core component of our own marketing activities, thought leadership helps us boost the awareness and reach of our brand. It also enables us to demonstrate our expertise publicly, beyond the often confidential work we do for clients.

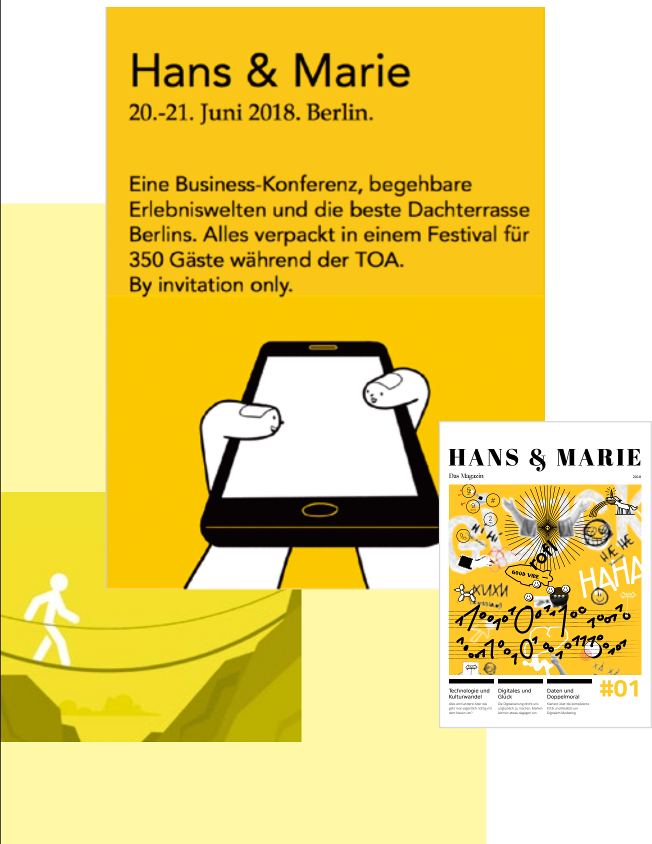
The key elements of this content-oriented marketing programme are PR, the annual Hans & Marie business festival we launched in 2018, our own publications and internal programmes.





1 PR activities

We write a regular column for business magazine Bilanz and daily newspaper Welt, as well as commenting on and assessing the latest developments and trends in the digital world via our extensive links with journalists.

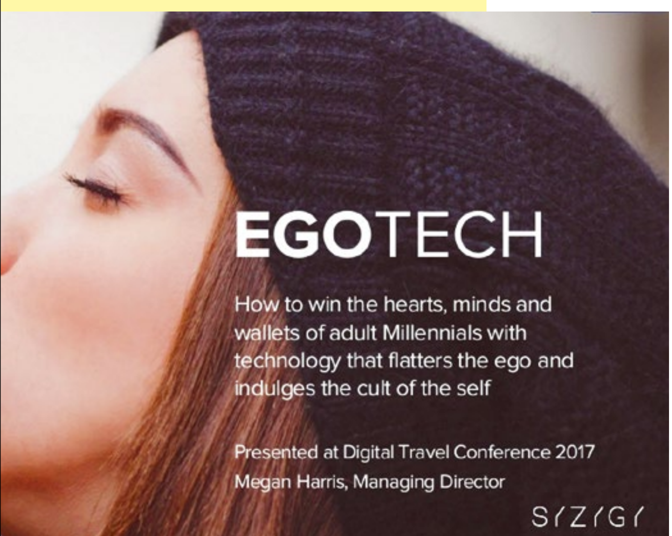


2 Hans & Marie

This exciting event platform for all the companies in the SYZYGY Group was launched in 2018 in Berlin with more than 400 invited guests and will be held again in 2019. Featuring inspirational speakers and quirky formats, the event focuses on topics and issues at the intersection of business and the zeitgeist.

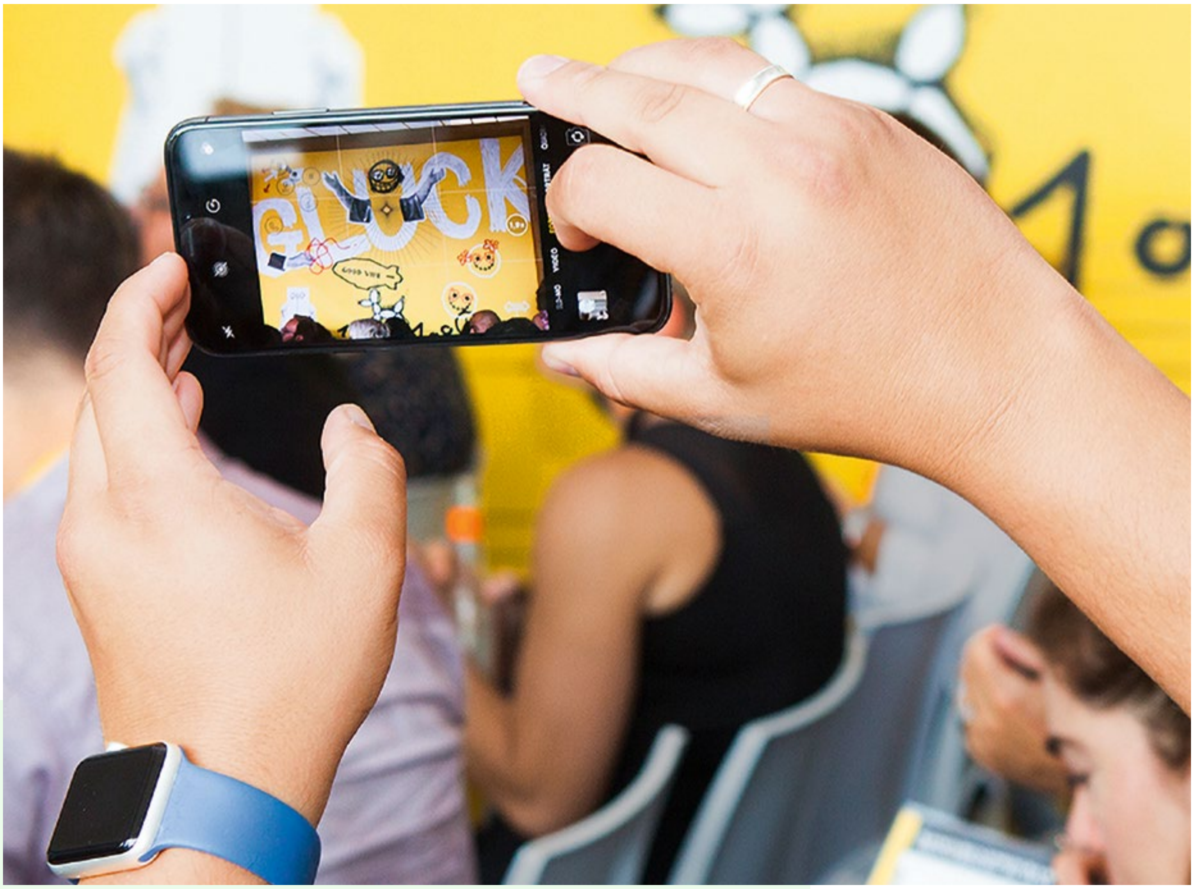
3 Our own publications

Each year, SYZYGY publishes two or three studies on issues that are of high strategic relevance for our clients. To date, we have produced publications on subjects such as artificial intelligence and digital wellbeing which have been cited frequently in the media. In 2018, SYZYGY also began publishing its own magazine as a follow-up to the Hans & Marie festival. The magazine further explores topics highlighted at the event.



4 Internal programmes

The companies that make up the SYZYGY Group invest in the potential of their employees in various ways. One such initiative is the Work & Travel programme, which gives employees the opportunity to work on topics they are passionate about and which demonstrate innovation potential. From 2019 onwards, specialists from all the companies will also be able to take part in a Group-wide innovation challenge. They will work together to develop responses to issues that will be crucially important for our clients in the future.



Hans & Marie

Is there actually still such a thing as mainstream these days? If everything is automated and seamless, how do you stand out? As a society, why are we continuing to lose trust in established institutions and systems? Do brands need to take a stance and be political nowadays? Do we really need more truth in the world, or just better stories? And what actually makes us human in an increasingly digital age?

The Hans & Marie business festival launched by the SYZYGY Group in 2018 isn't afraid to ask big questions. The event aims to explore the zeitgeist through inspirational presentations, unique experiences and quirky formats. Every year, more than 400 invited guests will gather at the event in Berlin. These include a wide range of marketing, strategy and innovation decision-makers from major German companies, as well as numerous

creative professionals, designers and international guests. In addition to providing the opportunity to meet many new contacts and enjoy a festival experience that is unique in Germany, Hans & Marie also encourages new ways of thinking and gives participants the chance to reflect on their own work. Most importantly of all, with its explicitly humanist perspective Hans & Marie asks participants a challenging question: What can you all do to make people happier in the future?

The print magazine Hans & Marie was published after the inaugural festival in June 2018. The following article from the magazine provides an insight into the topics discussed at the event.

Beautiful **Business**

An example of our thought leadership topics: at Hans & Marie, author Tim Leberecht set out the target vision of a profoundly human-centred economy in the digital age.

Tim Leberecht is talking about digitisation, but it sounds very different from what is usually heard at large tech conferences. Instead of user-friendliness and personalisation, he's talking about passion and intimacy. ”We are currently experiencing a crisis of loneliness, of social isolation,” says the visionary German-American thinker and advocate of a new humanism in business. This is partly down to social media. A recent survey showed that, on average, Americans have just one friend, even though they spend most of their day connected to social networking sites. ”The opposite of loneliness is not connectivity, but intimacy.” In our increasingly digitised environments in particular, we long to be treated as unique individuals.

Tim Leberecht spent many years as a marketing executive in the US before moving to Berlin. In 2015 he published his bestselling book ”The Business Romantic”, in which he foresaw a fundamental shift in value in the economy. He is co-initiator of the House of Beautiful Business and co-founder of The Business Romantic Society.

”The opposite of loneliness is not connectivity, but intimacy.”

The longer Tim Leberecht speaks, the deeper his audience becomes immersed in a world of ideas and initiatives that are focused on humanising business. ”Beautiful business” is what Tim Leberecht calls it. ”When everything that can be done efficiently will be done more efficiently by machines, the most important work for us humans will be the kind that needs to be done beautifully – with empathy, imagination and devotion. When technology explains everything and demystifies everything, companies need to create new ambiguities, new secrets. When everything is hyper-efficient, employers must find a new sensitivity to counter the serious cuts in our human autonomy.”

The Stock

Development of SYZYGY's share price and relevant indices	2018	2017	Change
XETRA closing price (in EUR)	8.04	11.27	-29%
Overall performance including dividends	-24%	0.3%	n.a.
Highest XETRA closing price (in EUR)	11.40	12.13	-6%
Lowest XETRA closing price (in EUR)	8.02	10.12	-21%
DAX	10,559	12,918	-18%
TecDAX	2,450	2,529	-3%
DAXSubsector IT	4,914	4,574	7%
SDAX	9,509	11,887	-20%

Key figures per share	2018	2017	Change
	EUR	EUR	
Ordinary Dividend	0.39	0.38	3%
Earnings per share	0.35	0.39	-10%
Value per share	3.98	4,14	-4%
Price-earnings ratio (P/E)	23.8	28.9	-18%
Dividend yield	4.8%	3.3%	1.5 pp.
Return on Equity	9.0%	7.6%	1.4 pp.

Total number of shares (non-par value bearer shares)	13,500	13,500	0%
thereof own shares	74	74	0%
Market capitalisation; basis XETRA closing price (in Mio. EUR)	108.54	152.15	-29%
Freefloat in % (according to Deutsche Börse)	49.38	49.38	n.a.
Average daily turnover:			
in shares (thereof XETRA 4,069)	4,574	7,040	-35%
in EUR (thereof XETRA 40,041)	44,732	78,722	-43%

Share data

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

Stock exchanges	XETRA, Berlin, Dusseldorf, Frankfurt, Hamburg, Hannover, Munich, Stuttgart
Sector	IT-Services
Designated Sponsor	Pareto Securities AS
Analysts	GBC AG (Cosmin Filker), Pareto Securities AS (Christian Bruns), WARBURG RESEARCH (Felix Ellmann), GSC (Thorsten Renner)

The stock market

2018 was a very turbulent year on the stock market due to the political backdrop, resulting in nervousness among investors that led to volatile price movements in the equity markets. Conflicts such as the trade dispute with China triggered by the US government, the Brexit negotiations, the debt debate in Italy and elections in Brazil, Turkey and Italy were key events affecting the performance of the stock market. Rising interest rates in the US, the strong US dollar and growing scepticism about the economy had a noticeable dampening effect on capital markets. In addition, central banks mostly signalled a return to normality, resulting in lower bond purchases and the withdrawal of liquidity.

Signs of easing in the trade war between the US and China brought a temporary recovery in spring, before the downward trend reasserted itself from mid-June onwards. The US-Chinese trade war escalated again and the economy showed signs of fatigue, notably in China. In the second half of the year, the risks surrounding the protracted Brexit negotiations became increasingly apparent, with the Italian debt crisis also causing periods of turbulence in the stock markets. The downward trend intensified again towards the end of the year as investors became increasingly aware of the reasons and risks over the course of the year and priced them in accordingly. The main drivers were the ongoing tightening of monetary policy by the major central banks, the gloomier economic data, the tough Brexit negotiations and the surprisingly cautious outlook of companies.

The final figures for the major indices were very disappointing in 2018. The SDAX performed worst, losing 20 per cent over the year, followed by the DAX, which was down 18 per cent. Even technology stocks were not immune to the weak sentiment in the stock markets, with the TecDAX down 3 per cent despite the index having seen a double-digit gain mid-year. The Wall Street stock markets held up better than their European counterparts during the year, but the downward trend accelerated towards the end of the year. The Nasdaq Composite ended the year down 4 per cent, while the Dow Jones lost almost 6 per cent.

Performance of SYZYGY shares

The SYZYGY share price moved sideways in the year up to mid-September 2018 before drifting downwards in the fourth quarter. In the course of the 2018 financial year, SYZYGY shares lost 28 per cent of their value, based on the XETRA closing price of EUR 11.15 at the beginning of the new stock market year on January 2, 2018 and a closing price of EUR 8.04 on December 28, 2018.

SYZYGY shares traded sideways at around EUR 11.00 in the first half of the year, supported by publication of the provisional business figures and the announcement that the dividend would be raised from EUR 0.38 to EUR 0.39. After payment of the dividend of EUR 0.39 on June 20, 2018, the share price fell and moved in a range between EUR 10.10 and EUR 9.50 until mid-September. Up to the end of the year, the share price then drifted downwards, falling below EUR 9.00. The shares ended the 2018 stock exchange year with a closing price of EUR 8.04, equivalent to a decline of around 29 per cent compared to the 2017 closing price. The highest closing price was achieved on January 5, 2018, at EUR 11.40. SYZYGY shares underperformed the DAX, TecDAX and DAX IT subsector in 2018.

SYZYGY shares remain an attractive dividend stock. Relative to the share price, they deliver a dividend yield of around 5 per cent. In comparison, the German benchmark DAX offers a dividend yield of 3.3 per cent, the SDAX comes in at just 2.0 per cent, while the TecDAX returns 1.7 per cent.

Taking into account the dividend payment of EUR 0.39, SYZYGY shares returned minus 24 per cent overall. The liquidity of SYZYGY shares fell year-on-year, with an average of 4,600 shares being traded across all German stock exchanges each day (prior year: 7,000 shares/day).

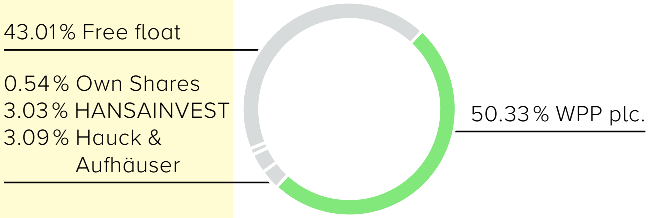
Due to the strong cash position, the Management Board and Supervisory Board have decided to propose a dividend of EUR 0.40 per share for the 2018 financial year at the Annual General Meeting scheduled for June 7, 2019. This means that SYZYGY has maintained or increased its distribution for the 12th year in succession.

Annual General Meeting

The ordinary Annual General Meeting of SYZYGY AG was held on June 15, 2018 in Frankfurt. Around 60 per cent of the voting capital attended the meeting. All the resolutions proposed by management, including the proposal to distribute a dividend of EUR 0.39 per eligible share, were approved almost unanimously. Based on the XETRA closing price on the date of the General Meeting, the dividend yield was 3.6 per cent (previous year: 3.4 per cent) and thus remained at roughly the same high level as in the previous year. In total, around EUR 5.2 million was distributed to our shareholders.

Shareholder structure

As at the reporting date, the total number of shares is 13,500,026. The shareholder structure changed as follows during the reporting period: WPP remains the biggest shareholder, holding a total of 50.33 per cent of SYZYGY shares. The proportion of investors who have lodged notifications of voting rights in accordance with Section 40(1) of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) has increased. In the period covered by the report, the shares held by Hauck & Aufhäuser Fund Service S.A., Luxembourg, increased to 3.09 per cent and the shares held by HANSAINVEST Hanseatische Investment GmbH, Hamburg, increased to 3.03 per cent.



4.8 %

Dividend Yield

0.39

EUR Dividend

108.5

Mio. EUR Market Capitalisation

The freefloat as defined by Deutsche Börse was 49.39 per cent as at December 31, 2018.

Investor relations

SYZYGY AG pursues a transparent, prompt information policy and attaches great importance to an ongoing, comprehensive dialogue with interested parties such as shareholders, investors, analysts, financial journalists and members of the public. The concise presentations on business performance and forecasts in the annual report, quarterly reports, company news and the publication of a sustainability report were again particularly important in the 2018 financial year.

A wide range of information on capital market-related topics can be obtained around the clock on our investor relations website www.syzygy.net. The information on the website is available at all times, in German and English.

SYZYGY AG again prepared a non-financial declaration for the 2017 reporting year in the form of the German Sustainability Code (DNK) issued by the German Council for Sustainable Development (RNE). This was formally reviewed and given the DNK user signet by the DNK. SYZYGY is also one of the top 20 companies that provide the greatest ecological, social and economic added value to our society, according to a study by dpa subsidiary News Aktuell and Faktenkontor.

In addition to the provision of written information, representatives of the Management Board gave presentations to investors at capital market conferences and roadshows in order to showcase the business model and report regularly on the strategy and development of the Group. During the period under review, the Management Board attended the German Equity Forum and the Solventis Roadshow in Frankfurt, as well as the Munich Capital Market Conference (MKK). Visits were also made to a number of institutional investors in the course of one-on-one talks or round-table events. The management team was additionally available to analysts, investors and representatives of the business and financial press for individual discussions.

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

Report of the **Supervisory Board**

Dear Shareholders,

The Supervisory Board continuously monitored the work of the Management Board and provided support and advice throughout the past financial year. This included monitoring actions taken by the Management Board in terms of their legality, regularity, appropriateness and commercial viability. The Management Board reported to the Supervisory Board regularly in writing or verbally, providing up-to-date, comprehensive information about recent developments as well as the economic and financial situation of the Group and its subsidiaries. The Supervisory Board was involved in all important decisions affecting the SYZYGY Group.

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

Meetings and attendance of the Supervisory Board

A total of seven ordinary meetings of the Supervisory Board were held together with the Management Board in the 2018 financial year, on February 1, March 27, April 19, June 14, July 20, October 29 and December 14, 2018. The Supervisory Board and Management Board also held an extraordinary meeting on September 27, 2018.

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

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

The meeting held on February 1, 2018 focused on discussing the provisional figures for 2018. The company's financial position was also discussed. In conclusion, the Management Board and Supervisory Board decided to propose a dividend of EUR 0.39 at the Annual General Meeting.

At the meeting held on March 27, 2018, Mr Wilfried Beeck was elected as Chairman of the Supervisory Board and Mr Rupert Day as his deputy. The accounts review meeting was also held, in the presence of the auditors. After carefully reviewing all the documents, the Supervisory Board received detailed information on the financial statements for the 2017 financial year from the members of the Management Board. The auditors presented the key aspects and results of their checks. All questions were answered by the Management Board and auditors to the Supervisory Board's full satisfaction. The Supervisory Board was thus able to verify that the audit had been conducted correctly and the audit reports properly prepared. Following the presentations, the annual financial statements and the consolidated financial statements were approved and adopted.

At the Supervisory Board meeting of April 19, 2018, the Management Board informed the Supervisory Board in detail about current business developments. In the course of this meeting, the figures for the first quarter of 2018 were discussed and subsequently approved. During the meeting, the agenda for the Annual General Meeting scheduled for June 15, 2018 was also agreed. It was likewise agreed that the possibility of strategic partnerships within the WPP network should be examined at both national and international level.

At the meeting held on June 14, 2018, the Management Board informed the Supervisory Board about current trading and provided an outlook for the rest of the financial year. It also reported on the current status with regard to M&A. Another focus was the talent fostering programme ”SYZYGY Bootcamp”, as well as the ”Hans & Marie” client event scheduled for the end of June 2018.

The purpose of the ordinary meeting held on July 20, 2018 was to discuss and approve the business figures for the first half of 2018. The Management Board presented a detailed outlook for the rest of the financial year. It also reported on the status of the discussions on strategic partnerships within the WPP network.

At an extraordinary Supervisory Board meeting held on September 27, 2018, the Supervisory Board decided to extend Lars Lehne’s contract as Chairman of the Management Board by one year until March 31, 2020.

The ordinary Supervisory Board meeting of October 29, 2018 started off with a discussion of the nine-month figures, which were duly approved. The Management Board again presented an updated outlook for the rest of the year. It also reported on the status of M&A activities.

The members of the Supervisory Board also dealt with implementation of the German Corporate Governance Code. The Management Board and Supervisory Board issued an updated declaration of conformity in accordance with Article 161 of the German Stock Corporation Act (AktG). This declaration is available on the company’s website.

The last meeting of the year was held on December 14, 2018. It dealt with the current state of business and the outlook for 2019. The Management Board presented the budget for the SYZYGY companies and discussed it with the Supervisory Board. Approval of the 2019 budget was postponed to the next meeting in 2019. It also reported on the current status of M&A activities.

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

The first Supervisory Board meeting of the current financial year, 2019, was held on January 14, 2019. The provisional figures for 2018 were presented and the company's financial position was discussed. Following in-depth discussion and subsequent approval of the provisional figures, it was decided to propose a dividend of EUR 0.40 at the Annual General Meeting. In addition, the 2019 budget was discussed and approved by the Supervisory Board.

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

Composition of the Supervisory Board and committees

Since March 22, 2018, the Supervisory Board of SYZYGY AG has consisted of Mr Wilfried Beeck, Mr Rupert Day and Mr Andrew Payne, and consists of an appropriate number of independent members.

Due to the unexpected death of Ralf Hering in February 2018, the Management Board and Supervisory Board submitted an application to the District Court of Bad Homburg for Mr Andrew Payne to serve until the Annual General Meeting on June 15, 2018. The District Court of Bad Homburg approved the proposal on March 22, 2018. Mr Andrew Payne was elected to the company's Supervisory Board at the Annual General Meeting on June 15, 2018.

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

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

The Annual General Meeting held on June 15, 2018 discharged the members of the Supervisory Board and Management Board in relation to the 2017 financial year.

Composition of the Management Board

Until December 31, 2018, the Management Board of SYZYGY AG consisted of Mr Lars Lehne as Chief Executive Officer, Mr Erwin Greiner as Chief Financial Officer and Mr Frank Ladner as Chief Technology Officer.

Corporate governance

On October 29, 2018, the Supervisory Board and Management Board jointly published the declaration of conformity with the German Corporate Governance Code (DCGK) in accordance with Article 161 of the German Stock Corporation Act (AktG), as part of the more extensive Declaration on Corporate Governance. The Corporate Governance Declaration is based on the current version of the Code, dated February 7, 2017.

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

The remuneration report, which discloses the level of remuneration for the Management Board and Supervisory Board and how the remuneration is structured, must be published in the Management Report or Notes to the consolidated financial statements as specified in the Code, in accordance with the specimen tables attached to the Code. The remuneration for the Management Board and Supervisory Board is detailed in the Group Management Report, which is included in the 2018 Annual Report.

Annual and consolidated financial statem-ents, appropriation of net profit

Following a proposal by the Supervisory Board, the Annual General Meeting appointed Frankfurt-based BDO AG Wirtschaftsprüfungsgesellschaft as auditor for the 2018 financial year on June 15, 2018. The Supervisory Board has not identified any circumstances that could give rise to a lack of impartiality on the part of the auditor. The auditor himself has issued a statement of independence.

Andrew Payne
Member of the Supervisory Board

Rupert Day
Member of the Supervisory Board

Apart from auditing the financial statements, no audit-related services have been provided by BDO AG.

BDO AG audited the annual financial statements and Management Report, the consolidated financial statements and the Group Management Report for the 2018 financial year on behalf of the Supervisory Board and granted an unrestricted auditor's certificate in each case.

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

After carefully reviewing all documents, the Supervisory Board received detailed information on the financial statements for the 2018 financial year from the members of the Management Board at its meeting of March 29, 2019. The auditors also attended, presenting the key aspects and results of their checks. All questions were answered by the Management Board and auditors to the Supervisory Board's full satisfaction.
The Supervisory Board was thus able to verify that the audit had been conducted correctly and the audit reports properly prepared.

On the basis of its own checks and taking the audit reports into consideration, the Supervisory Board raised no objections. Consequently the

Supervisory Board approved and adopted the annual financial statements and Management Report of SYZYGY AG and the consolidated financial statements and the Group Management Report. The Supervisory Board also approved the Management Board's proposal regarding the appropriation of net profit.

Sustainability reporting

To document the SYZYGY Group's focus on sustainability, SYZYGY has made a commitment to the German Sustainability Code (DNK). A non-financial declaration was issued for the 2016 and 2017 reporting years, in the form of the DNK declaration of conformity. This was formally reviewed and given the DNK user signet by the DNK. The declarations of conformity can be downloaded from the Investor Relations website at ir.syzygy.de.

SYZYGY will again issue a declaration of conformity for the 2018 reporting year in order to render the SYZYGY Group's commitment to sustainability transparent and comparable for clients, employees and other interested parties.

Thanks

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

Bad Homburg, March 29, 2019
The Supervisory Board

Wilfried Beeck

Wilfried Beeck
Chairman of the Supervisory Board

Corporate Governance

In this declaration, the Management Board and Supervisory Board report on corporate governance as required under section 289a of the German Commercial Code (HGB) and on the corporate governance of SYZYGY AG in accordance with No. 3.10 of the German Corporate Governance Code (”DCGC” below). The DCGC describes internationally recognised principles of responsible and transparent company management and supervision. Since it was first adopted in 2002 it has been updated and extended on several occasions, most recently on February 7, 2017.

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

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

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

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

1. Declaration by the Management Board and Supervisory Board of SYZYGY AG in relation to the German Corporate Governance Code as updated on February 7, 2017, pursuant to section 161 of the AktG

The Management Board and Supervisory Board of SYZYGY AG declare pursuant to section 161 of the AktG that the company has complied with the recommendations of the Government Commission’s German Corporate Governance Code as updated on February 7, 2017 since making the last Declaration of Conformity on December 18, 2017. SYZYGY AG intends to continue **complying with these recommendations**, with the following exceptions:

(1) Diversity when filling managerial positions, in particular aiming for an appropriate consideration of women (No. 4.1.5):

The Management Board has already engaged with the DCGC’s requirements for greater diversity, in particular for an appropriate consideration of women in managerial positions. In the interests of the company, when filling managerial positions the management of SYZYGY AG selects the individual who matches the requirements profile most closely on the basis of his or her professional qualifications and personal aptitude. Gender is not a primary factor when making a decision. If several candidates, both male and female, all with equal qualifications, apply for the same vacant position, the Management Board will choose the person who adds to the diversity of the management team.

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

(3) Formation of committees with sufficient expertise by the Supervisory Board as stipulated in No. 5.3.1, an Audit Committee as required in No. 5.3.2 and a nomination committee in accordance with No. 5.3.3:
The Supervisory Board of SYZYGY AG has not formed any committees due to its current size of three members. This size has proved to be very effective, since both general strategic topics and detailed issues can be discussed intensively in the plenary Supervisory Board sessions and decisions taken.

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

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

2. Corporate governance practices

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

3. Working methods of the Management Board and Supervisory Board

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

Composition and working methods of the Management Board
The Management Board of SYZYGY AG comprises three persons: Chief Executive Officer, Chief Technology Officer and a Chief Financial Officer.

The Management Board conducts the business of the company in accordance with the law and the Articles of Association. It defines long-term objectives for the good of the company and its sustained growth, both for the Group and its subsidiaries, and develops strategies on that basis. In doing so, it works closely with the company's Supervisory Board in the context of a trusting relationship.

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

Management Board meetings may be convened by any member of the Management Board. They are held at regular intervals and additionally as required. The Management Board adopts resolutions by simple majority, unless unanimity is required by law. Management Board resolutions are documented and archived.
The Chairman of the Management Board acts as spokesperson. He coordinates the individual business areas and represents the company externally.

SYZYGY AG has taken out D&O insurance for all members of the Management Board and Supervisory Board. In accordance with the current Corporate Governance Code, this provides for an excess in the amount prescribed by law.

Composition and working methods of the Supervisory Board

The Supervisory Board of SYZYGY AG has three members. In line with statutory requirements, one of these members is a financial expert with extensive knowledge of accounting and internal control procedures. Since the Supervisory Board has only three members, no committees have been or will be formed.

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

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

Supervisory Board meetings are held regularly once a quarter and additionally as required. Meetings are convened in writing by the Chairman with fourteen days' notice. A written agenda and a presentation are distributed to the members of the Supervisory Board before each meeting. Resolutions require a majority of the votes cast or are adopted unanimously, as the case may be.

The company's performance is discussed at every meeting of the Supervisory Board. The Supervisory Board also requests additional information from the Management Board. In particular, the Supervisory Board studies the quarterly reports on a regular basis and approves them following discussion with the Management Board.
The Supervisory Board Chairman coordinates the work of the Board and chairs the meetings. Each year he outlines the work of the Supervisory Board in his report to the shareholders and Annual General Meeting. More detailed information on the work of the Supervisory Board throughout 2018 can be found in the Report of the Supervisory Board in SYZYGY AG's 2018 Annual Report, which will be available from March 29, 2019 on the Group's website at www.syzygy.net.

4. Total shareholdings of Management Board and Supervisory Board

Shareholdings are disclosed in the quarterly and annual reports. The long-term incentive schemes are based on the price performance of SYZYGY shares. When options are exercised or stock-based remuneration programmes (phantom stocks) are implemented, new shares are not issued; rather, the difference between the option price and the exercise price is paid in cash.

Since the remuneration for the Management Board is included in the Management Report, the relevant information for the financial year is contained in the 2017 Annual Report. The corresponding information for the 2018 financial year will be published on March 29, 2019 in the 2018 Annual Report.

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

The Management Board and Supervisory Board have already engaged with the DCGC's requirements for greater diversity, in particular for an appropriate consideration of women in managerial positions, on the Management Board and on the Supervisory Board.

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

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

At present, the Supervisory Board consists of three members, each with extensive experience in the communications and software sector, as well as international relationships with clients and agencies. The Supervisory Board is elected to serve until the General Meeting that discharges the members in relation to the 2018 financial year. Consequently, the next Supervisory Board elections are expected to be held in 2019. If all the Supervisory Board members remain in office for the full term, the Supervisory Board will consist solely of male members.

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

The Management Board of SYZYGY AG comprises three male members, each with extensive experience in the communications and software sector or many years of financial expertise. The existing Management Board contracts have each been concluded for a period of three years and end in the case of the Chief Financial Officer on December 31, 2020. The Chief Technology Officer´s contract runs until December 31, 2020 and that of the Chief Executive Officer until March 31, 2020. If all the Management Board members remain in office for the full term and no further Management Board members are appointed, the Management Board consists solely of male members.

SYZYGY AG does seek to promote women. In future appointments to the Management Board or if the Management Board is expanded, the company will consider the person who adds greater diversity to the Management Board, in addition to professional qualifications and personal aptitude. The female quota was unchanged during the past year. Going forward, the company will seek a target quota of at least 30 per cent female Management Board members.

The current make-up of the first and second management level of SYZYGY AG below the Management Board exceeds a defined female quota of 30 per cent. SYZYGY AG does seek to promote women. With regard to future staff development and the nomination of senior managers, it will take gender diversity into consideration as one of the criteria.

6. Diversity statement

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

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

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

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

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

Diversity-related recruitment objectives for the Management Board
The Supervisory Board works with the Management Board on succession planning for the Management Board.

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

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

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

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

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

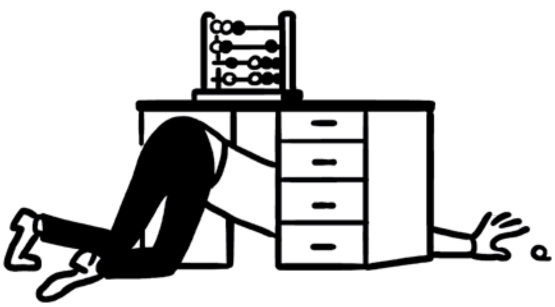
Position at the end of the financial year
Representation of women on the Management Board and Supervisory Board was the only area where the objectives of the diversity statement for the Management Board and Supervisory Board were not met in the 2018 financial year.

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

Bad Homburg v. d. H., October 29, 2018
The Management Board and Supervisory Board

SYZYGY AG

Financial statements



Group Management Report for the 2018 financial year

1. General

The following Group Management Report provides information on the performance of the SYZYGY Group (hereinafter referred to as ”SYZYGY”, the ”Group” or the ”Company”). It shows the Group’s results of operations, financial position and net assets in the 2018 financial year, as well as examining the expected future performance of the business and the principal risks and opportunities.

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

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

2. Group profile

2.1 Business activities and structure

The SYZYGY Group is an international provider of creative, technological and media services for digital marketing. Overall, the Group had around 560 employees (previous year: 620 employees) at locations in Germany, the UK, Poland and the US as at the balance sheet date.

The Group consists of SYZYGY AG as the holding company and 11 subsidiaries: Ars Thanea S.A., diffferent GmbH, Hi-ReS! London Ltd., SYZYGY Berlin GmbH, SYZYGY Deutschland GmbH, SYZYGY Digital Marketing Inc., SYZYGY Media GmbH, SYZYGY Performance GmbH (formerly Catbird Seat GmbH), SYZYGY UK Ltd., Unique Digital Marketing Ltd. and USEEDS° GmbH. In the course of unifying and merging the various brands, Catbird Seat GmbH was renamed last year and now trades under the name SYZYGY Performance GmbH.

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

The business focus is on the automotive, telecommunications/IT, services, consumer goods and financial/insurance sectors.

2.2 Group management

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

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

Financial performance indicators

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

Non-financial performance indicators

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

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

Employees

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

Capacity for innovation

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

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

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

3. Economic report

3.1 General economic development

Although the global economy continued to be characterised by expansion and growth in 2018, it lost momentum in the course of the year and business sentiment became significantly gloomier almost everywhere. At the beginning of 2018, most leading indicators were at a very high level and experts expected the economy to remain strong. It subsequently became apparent that both manufacturing industry and the service sector had peaked and growth was flatlining, with the outlook deteriorating markedly in recent months. The reasons for this development include the uncertainty caused by increasing trade conflicts and also the tightening of monetary policy in the US. The latter triggered a change in direction of international capital flows, derailing economic growth in emerging markets. Experts at the Institute for the World Economy (Ifw Kiel) expect global production to have grown by 3.7 per cent last year, as in the previous year. That equates to growth being 0.2 per cent below the forecast made at the start of 2018. Economists at the Organisation for Economic Cooperation and Development (OECD) share this assessment. In their analysis as of November 2018, they see global economic output growing by 3.7 per cent. After a weak start to the year, global production expanded in the second quarter, but growth then faltered in the third quarter. This weakness is likely to have persisted in the last quarter.

While 2017 was marked by a high degree of economic synchronicity, with momentum growing in almost all major regions, the picture changed noticeably in the course of the past year. Due to the strong fiscal boost, the pace of expansion increased significantly in the United States, while the economies of the Eurozone and Japan slowed markedly. The picture was similar with regard to global trade. In the course of the past year, trade growth was weak – in September, global trade was just 2.3 per cent ahead of the prior year's level, although it is likely to have increased again by the end of the year. However, this is only due to recovery effects and business between the US and China being brought forward in an attempt to avoid the increase in additional tariffs announced for 2019.

The political developments of the last 12 months have left their mark and led to a change of economic course. The US announcement of tariffs on steel and aluminium imports and on imports from China, uncertainty and discussions about the route by which the UK will leave the EU, and ongoing problems in emerging markets are all having an impact on the economy.

The experts at the ifo Institute reported that the ifo climate rating for the world economy fell to -2.2 points in the fourth quarter of 2018, declining for the third time in succession. In the first quarter of 2018, the indicator hit 26.0 points, its highest level since 2011. The ifo Institute points in particular to a deterioration in the business climate in the advanced economies. The climate rating remains largely unchanged in the emerging markets and developing countries, after having fallen in previous quarters. Global gross domestic product (GDP) set a new record in 2018 of approximately USD 87.5 trillion.

Although the Eurozone economy was still in growth mode in 2018, it weakened in the second half of the year as world trade declined and confidence faded due to economic and political uncertainty and declines in production. Gross domestic product rose by 1.9 per cent in both the Eurozone and the wider EU. The Eurozone posted growth of 0.4 per cent in each of the first two quarters, but that fell to just 0.2 per cent in the last two quarters.

The annual inflation rate in the Eurozone was 1.6 per cent in December 2018, well below the target of just under 2 per cent set by the European Central Bank (ECB). The seasonally adjusted unemployment rate in the Eurozone was 7.9 per cent in December 2018, 0.7 per cent below the prior-year period. This marks the lowest level since October 2008. In the EU, the unemployment rate was 6.6 per cent in December 2018 (December 2017: 7.2 per cent), representing once again the lowest figure since the start of the EU's monthly unemployment series in January 2000. The improvement in the labour market remained the basis for growth and underpinned consumer spending.

The ifo economic climate indicators also confirm that both sentiment and expectations are becoming gloomier in the Eurozone. The economic climate rating was 6.6 in the fourth quarter of 2018, compared with 43.2 at the beginning of the year. The current economic situation likewise declined from 51.3 points in the first quarter of 2018 to 29.9 points at year-end.

The German economy experienced a solid upswing in 2018. Although it posted lower growth than originally expected, at 1.5 per cent, this demonstrates it is still growing despite a turbulent foreign trade environment – for the ninth year in a row. In the first and second quarter, the economy grew by 0.4 and 0.5 per cent, respectively, while in Q3 it fell by 0.2 per cent for the first time in 3 years and stagnated in the second half of the year. Reasons for lower growth include a weakened global economy, low water levels in main rivers due to the extremely dry weather, sales problems in the automotive industry and special factors, such as strikes. The figures suggest that growth was driven solely by the domestic economy. Although new orders edged down, they remain at a high level and the construction industry is booming. Incomes are rising, employment is still going up and unemployment is falling. This boosted private household demand by 1.0 per cent, although real disposable incomes increased more strongly, gaining 1.8 per cent. The savings ratio of private households rose by 0.4 percentage points last year, thereby curbing consumer spending somewhat. Government spending rose by 1.1 per cent last year. Exports grew more slowly than in the previous year due to the weaker global economy. They were also exceeded by imports, which were fuelled by strong domestic demand.

The economic barometer of the German Institute for Economic Research (DIW Berlin) fell in all four quarters of last year, declining from 104.0 points in Q1 to 98.6 points at year-end. Industrial indicators, especially a significant decline in sales and the production indices, negatively impacted the economic barometer. Services, on the other hand, made a stable contribution to the barometer reading and reflect solid underlying momentum. In particular, the indicators for wholesale sales, employment and sales expectations in the service industry are positive.

The ifo Business Climate Index tracks economic performance and, with a few exceptions, showed a clear downward trend. In January 2018, it stood at 117.6, but fell to 102.1 points by July. After edging up in August to 104.0 points and in September to 103.9 points, it continued its slide until December, ending the year at 101.1 points.

The labour market proved robust and performed well in 2018. Employment in Germany rose by 1.3 per cent to an annual average of 44.8 million people in gainful employment, marking a record high. The unemployment rate was 3.3 per cent in December 2018, with an average for the year of 5.3 per cent.

Consumer prices increased by 1.9 per cent last year, representing the highest growth since 2012. Inflation slowed in December, however, in response to falling oil prices. The inflation rate of 1.7 per cent was well below the November figure of 2.3 per cent.

Economic performance in the US, the world's largest economy, increased significantly in 2018. Last year, real GDP growth in the US was estimated at around 2.9 per cent year-on-year, amounting to USD 20.4 trillion. An increase in corporate earnings meant that considerably more money flowed into the economy in the first half of the year than in the previous year. Due to low unemployment and rising average incomes, consumer spending boomed and rose by 2.8 per cent. A high price is being paid for this growth: due to tax cuts and spending increases, government debt rose to USD 21.8 trillion. The estimated unemployment rate was 3.9 per cent in 2018, below the 2017 level (4.4 per cent). Average inflation in the US went up from 2.1 per cent in 2017 to 2.5 per cent in 2018.

The British economy recorded estimated growth of 1.6 per cent in the second year after the referendum on withdrawal from the European Union, slightly below the 2017 figure (1.8 per cent). Figures compiled by the Office for National Statistics indicate that economic output grew by 0.4 per cent in the second quarter of 2018 and by a healthy 0.6 per cent in Q3, the strongest quarterly growth in almost two years. Consumer spending, boosted by the sunny weather and the World Cup, and foreign trade supported the UK economy. The decline in the value of the pound is leading to rising prices and more expensive imports, with inflation increasing to 2.7 per cent and eroding consumer purchasing power. Unemployment was historically low at 4 per cent, but experts fear this may not remain the case with weaker growth.

In Poland, GDP growth in real terms was 4.4 per cent, consumer price inflation was 2 per cent and unemployment stood at 4.9 per cent. Economists expect that economic growth will become more entrenched, but at a slower pace.

3.2 Advertising market performance

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

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

As in previous years, advertisers substantially increased their budgets for advertising generally and for digital advertising in particular in 2018. Accordingly, the past year was the best for the global advertising market in 8 years. WARC media researchers estimate that global advertising spending grew by 5.4 per cent last year. In its market analysis, IPG Mediabrands subsidiary Magna calculated a budget increase of 7.2 per cent worldwide, to a total of USD 552 billion. Growth in Asian markets and the steadily increasing digital advertising market contributed significantly to this trend. In its report, Magna revised its half-year forecast from June 2018 upwards by 0.8 per cent. The market experts at agency network Dentsu Aegis Network likewise adjusted their forecast slightly upward in their semi-annual Ad Spend Forecast Report. According to the report, the global advertising market grew by 4.1 per cent last year, putting it slightly above the estimate of 3.9 per cent published in summer 2018. Here again, the digital segment is a key driver at 37.1 per cent.

Total advertising budgets in Germany saw a moderate rise in the low single-digit range, slightly down on the previous year. A recent survey of net advertising spending conducted by Dentsu Aegis Network indicates an increase of 1.0 per cent in 2018. As recently as summer 2018, the industry experts were still expecting growth of 2.6 per cent. Despite the stable economy, low unemployment figures and free-spending consumers, companies are cautious in their advertising investments. The strained political climate, trade disputes and anti-EU sentiment on the international stage, unclear data protection regulations and budget shifts in the media industry are all hampering investment by German companies. The top advertising channel is and remains digital media, which account for almost 40 per cent of total investment, having grown by 9 per cent in 2018. The pivotal drivers of growth are mobile at 41 per cent, programmatic at 21 per cent and social media at 9 per cent.

Nielsen's analysis, meanwhile, paints a more muted picture of developments in the German advertising market. With advertising investment amounting to EUR 31.66 billion, they see virtually zero growth of 0.3 per cent. At the half-year mark, growth was only 0.6 per cent. Having said that, digital advertising (online and mobile) continued to perform well, with net growth of 7 per cent to EUR 2.065 billion in Germany in 2018, based on the advertising statistics of the German Online Marketing Group (OVK). Investment in digital advertising was particularly strong in the last quarter. The service sector was the biggest spender on advertising at EUR 622 million over the year as a whole, followed by the automotive industry at EUR 392 million. The German Association for the Digital Economy (BVDW) said in its annual evaluation that digital service provider business again grew at a double-digit rate last year. Total sales of the agencies included in the survey amount to around EUR 1.6 billion, corresponding to total growth of 12 per cent.

According to the Ad Spend Report published by Dentsu Aegis Network, advertising activity in the US and UK was robust. The report shows that advertising spend in the US rose by 3.4 per cent in 2018 and by 6.5 per cent in the UK. The growth seen in the US confirmed the forecast of summer 2018 (3.4 per cent), but in the UK the forecast was exceeded by 2.3 per cent compared with the 4.2 per cent expected in June 2018.

All in all, the SYZYGY Group was operating in a fundamentally positive market environment, despite changes or uncertainty around some factors. The European economy continues to expand, albeit modestly, as indicated by growth and widespread positive sentiment. Performance in the Group's core market, Germany, was robust. The trend towards increasing budgets for digital advertising continued, with mobile formats in particular achieving above-average growth rates.

3.3 Employees

The headcount at the SYZYGY Group declined in the period covered by the report. As at December 31, 2018, the Group had a total of 562 permanent employees, 59 or 10 per cent fewer than as at the reporting date in the previous year. At SYZYGY Berlin, the workforce had to be cut by a further 26 employees due to the loss of the BMW account. The number of employees at SYZYGY UK and SYZYGY Germany also fell by 14 and 12, respectively. The number of freelancers was largely unchanged at 51 persons (previous year: 54 persons).

384 persons or 68 per cent (previous year: 422 persons) of the entire staff worked in the seven German companies as at the reporting date. 94 persons or 17 per cent (previous year: 117 persons) were employed in the British agencies. As at year-end, 73 persons or 13 per cent (previous year: 67 persons) worked for Ars Thanea, while the number of employees at SYZYGY Digital Marketing in New York fell to 11 (previous year: 15 persons).

In terms of employees by function, there were only minor changes during the period under review. Creative services and project management each recorded a slight decline compared to the previous year: creative services decreased by 19 employees to 13 per cent, while the share attributable to project management was around 3 per cent lower than in the 2017 financial year, at 12 per cent. Strategy consulting expanded slightly by 4 percentage points to 21 per cent. In the technology section, the number of employees also increased marginally within the context of overall developments. In percentage terms, the share accounted for by technology rose from 17 to 18 per cent compared to the previous year. The proportion of persons in online marketing and administration remained unchanged year-on-year at 22 and 14 per cent, respectively. The SYZYGY Group employed 574 persons on average during the year (previous year: 591 persons). Including an average of 50 freelance employees, annualised sales per head were around kEUR 105 (previous year: kEUR 95).

3.4 Investments, research and development

Other intangible assets and fixed assets declined by 12 per cent to EUR 6.9 million (previous year: EUR 7.8 million). In 2018, depreciation and amortisation amounted to EUR 2.1 million, while EUR 1.2 million (previous year: EUR 5.2 million) was invested in the locations and employee equipment during the financial year, i.e. considerably less. No investment in research and development was made in the period covered by this report.

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

3.5.1 Results of operations

In the 2017 Group Management Report, the SYZYGY Group forecast that it would be able to increase sales again in the double-digit percentage range in the 2018 financial year, with a rise in the EBIT margin in the upper single-digit percentage range.

SYZYGY narrowly failed to meet its forecasts, achieving sales of EUR 65.8 million (up 8 per cent over the previous year). At EUR 6.1 million, EBIT was 48 per cent higher, significantly exceeding expectations. Earnings per share of EUR 0.35 were below the previous year (EUR 0.39).

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

kEUR	2014	2015	2016	2017	2018
Sales in kEUR	47,075	57,311	64,273	60,669	65,816
EBIT in kEUR	3,843	5,268	5,596	4,096	6,067
EBIT margin	8.2%	9.2%	8.7%	6.8%	9.2%
Financial income (kEUR)	2,157	1,975	1,336	1,440	470
Earnings before tax (kEUR)	6,000	7,243	6,932	5,536	6,537
Earnings per share in EUR	0.35	0.37	0.39	0.39	0.35

The Germany segment is the strongest in the Group, increasing from 65 to 68 per cent of total sales. At 21 per cent (previous year: 22 per cent), the UK segment recorded a slight decline in sales in the year under review. The United States and Poland are reported together under the ”Other” segment in the period covered by the report. The agencies in Poland and the US account for 11 per cent (previous year: 13 per cent) of sales. These figures reflect results before consolidation.

SYZYGY generated 30 per cent of its sales from clients in the automotive industry, 1 percentage point more than in the prior year. Consumer goods accounted for around 17 per cent of sales, 10 per cent less than in the previous year. 17 per cent of sales related to companies in the finance sector (previous year: 12 per cent). The proportion of sales attributable to clients from the IT and telecommunications industry fell slightly from 11 per cent to 8 per cent. Around 4 per cent of sales (previous year: 21 per cent) came from companies that cannot be assigned to any of these four key areas. While the automotive and financial segments reported growth not only pro rata but also in absolute terms (automotive: EUR +2.4 million and financials: EUR +3.9 million), business in the consumer goods segment declined significantly by EUR -5.5 million.

39 per cent of SYZYGY’s sales were generated from its 10 largest clients, a figure that is 10 percentage points below the previous year’s level.

3.5.2 Sales

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

Sales increased by 8 per cent to EUR 65.8 million, this being primarily attributable to expansion of our business with existing clients.

3.5.3 Operating expenses and depreciation

The cost of sales totalled EUR 47.9 million. This represents an increase of 4 per cent and thus a slower rate than in the previous year. The gross margin increased by 3 percentage points to 27 per cent as a result.

Sales and marketing costs declined by 14 per cent to EUR 5.4 million (previous year: EUR 6.3 million). The decline is due in particular to SYZYGY Berlin and SYZYGY Digital Marketing, both of which had substantially higher marketing and sales expenses in the previous year. In addition to personnel expenses, this item also includes costs relating to merging the brands within the SYZYGY Group. The performance business of Catbird Seat in Munich was transferred to the SYZYGY brand in the reporting period.

General administrative expenses increased by 17 per cent to EUR 8.6 million. This was mainly due to first-time consolidation of diffferent, thereby incurring higher administrative expenses.

At EUR 2.1 million, depreciation of fixed assets and amortisation of other intangible assets remained largely unchanged. Unscheduled write-downs of brand equity in the amount of EUR 0.3 million were also realised in the 2018 financial year.

3.5.4 Operating income (EBIT) and EBIT margin

Operating income (EBIT) increased disproportionately relative to sales by 48 per cent, climbing from EUR 4.1 million in the prior year to EUR 6.1 million in the reporting year. As a consequence, the Group's profitability also improved, with the EBIT margin increasing from 6.8 per cent in the previous year to 9.2 per cent in the 2018 financial year. The increase in profitability was largely due to the cessation of business operations at SYZYGY Berlin, which reported substantial losses in the previous year, combined with cost savings at SYZYGY AG.

3.5.5 Financial income

SYZYGY generated financial income of EUR 0.5 million in the reporting period, 67 per cent below the previous year's level (2017: EUR 1.4 million), through active management of cash and cash equivalents. The main cause of this decline was the fall in gains realised on securities (EUR 0.1 million; previous year: EUR 1.4 million). The result corresponds to a return of 2.5 per cent (previous year: 8.8 per cent) on average available liquidity reserves, and of 4.8 per cent (previous year: 12.8 per cent) on the average market value of the securities portfolio. This result was primarily due to interest income from corporate bonds.

3.5.6 Income taxes, net income, earnings per share

While pre-tax income increased by 18 per cent to EUR 6.5 million (previous year: EUR 5.5 million) in the reporting period, net income after taxes also rose by 15 per cent to EUR 4.9 million (previous year: EUR 4.2 million). The tax rate increased slightly to 25 per cent (previous year: 24 per cent) in the financial year. The slight rise is largely attributable to the fact that a higher share of profits was generated in Germany, which has higher tax rates.

Undiluted earnings per share were EUR 0.35, based on the average available 14,421 thousand shares qualifying for participation in the profits and after deducting non-controlling shares of EUR 0.2 million, and thus EUR 0.04 below the previous year's level.

Since the Company adopted a resolution to pay the difference between exercise price and share price in cash if outstanding phantom shares are exercised, diluted earnings per share were EUR 0.35 (previous year: EUR 0.39).

3.5.7 Segment reporting

In accordance with IFRS 8, which is based on the management approach, SYZYGY uses geographical criteria to report segments and thus distinguishes between Germany, the UK and the Other segment. The latter category includes Ars Thanea and SYZYGY Digital Marketing Inc. Under IFRS 8.13, these companies are not big enough to be reported as geographically independent segments.

The core market, Germany, posted significant sales growth in the reporting period. The other segments, i.e. the companies in the UK and the agencies included in the Other segment, each reported a drop of 3 to 4 per cent. The German companies grew strongly, gaining 16 per cent and generating sales of EUR 46.6 million (previous year: EUR 40.3 million). EBIT growth was even more impressive, rising 99 per cent to EUR 6.6 million (previous year: EUR 3.3 million), with the EBIT margin also rising to 14 per cent (previous year: 8 per cent). The UK companies generated sales revenues of EUR 14.1 million, thus falling 3 per cent short of the previous year's figure of EUR 14.6 million. The operating income of the British companies amounted to EUR 0.0 million in 2018 (previous year: EUR 0.9 million). Accordingly, the EBIT margin was 0 per cent (previous year: 6 per cent).

The Other segment also reported a decline in sales in the reporting period. Sales of EUR 7.5 million were generated by the two companies in 2018 (previous year: EUR 8.7 million). The performance of EBIT, meanwhile, was positive, at EUR 0.9 million (previous year: EUR 0.7 million), corresponding to an EBIT margin of 12 per cent (previous year: 10 per cent).

Overall, around 68 per cent of sales (based on the share of the Group's sales before consolidation) came from the Germany segment (previous year: 65 per cent), around 21 per cent from the UK (previous year: 22 per cent) and 11 per cent from the Other segment (previous year: 13 per cent).

3.5.8 Financial position

The SYZYGY Group had overall liquidity (total cash, cash equivalents and securities) amounting to EUR 22.1 million as at December 31, 2018. This represents an increase of 38 per cent on the previous year's figure of EUR 16.0 million. The improvement is largely attributable to the unexpectedly high positive operating cash flow of EUR 16.4 million. This more than offset outflows of funds of EUR 2.5 million net for the acquisition of securities, the dividend distribution of EUR 5.2 million and payments resulting from acquisitions totalling EUR 1.2 million. The latter related to the increase in the stake in USEEDS° GmbH and a final purchase price payment for Ars Thanea (earn-out). In addition, bank loans were reduced by EUR 1.1 million as scheduled.

At EUR 11.5 million, cash and cash equivalents represented around 52 per cent of cash reserves (previous year: EUR 7.0 million). These funds were earmarked for liabilities becoming due in the short term. The proportion of securities decreased to 48 per cent, with the portfolio increasing in value by 18 per cent to EUR 10.6 million in the reporting period. The average weighted residual maturity of the bonds was 6.7 years (previous year: 6.9 years). Please refer to the notes to the financial statements, section 6, for further details of the investment strategy.

Total cash flow of the SYZYGY Group amounted to EUR 4.4 million as at year-end (previous year: EUR 0.6 million), after taking exchange rate changes into account. This amount comprises positive operating cash flow of EUR 16.4 million, cash flow from investment operations of EUR -5.0 million and cash flow from financing activities of EUR -7.0 million. Net income of EUR 4.9 million, higher accounts payable of EUR 7.6 million (previous year: EUR -1.5 million) and a EUR 2.5 million increase in advance payments received from clients are the main factors behind this positive operating cash flow.

Cash flow from investment operations was negative at EUR -5.0 million (previous year: EUR -3.9 million), resulting chiefly from active management of liquidity reserves. The sale of securities worth EUR 4.8 million was offset by purchases totalling EUR 7.2 million. In addition, investments in intangible assets and fixed assets as well as the acquisition of consolidated companies each contributed EUR -1.2 million to this result.

Both the payment of the ordinary dividend of EUR 5.2 million (previous year: EUR 4.8 million) and the repayment of loans from banks of EUR 1.1 million (previous year: EUR 4.8 million) plus the dividend paid to minority shareholders of EUR 0.7 million (previous year: EUR 0.2 million) impacted cash flow from financing activities.

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

3.5.9 Asset situation

Total assets increased by 5 per cent in the period covered by the report to reach EUR 109.6 million.

Non-current assets declined slightly by 1 per cent in the reporting period to EUR 65.9 million. The cash and cash equivalents item went up in 2018, increasing from EUR 7.0 million to EUR 11.5 million, as did securities holdings, which rose 18 per cent to reach EUR 10.6 million. Accounts receivable remained virtually unchanged at EUR 19.9 million (previous year: EUR 20.3 million). Other assets fell slightly by EUR 0.1 million to EUR 1.7 million during the financial year. As a result, current assets increased by a total of EUR 5.6 million (15 per cent) to EUR 43.8 million.

On the liabilities side of the balance sheet, equity decreased slightly by 3 per cent compared to the previous year to stand at EUR 54.0 million, representing 49 per cent of the balance sheet total. The decline is attributable to negative other net income of EUR -2.7 million (previous year: EUR -1.8 million) and a 7 per cent decrease in profit reserves to EUR 16.8 million. Neither the value of treasury shares nor subscribed capital or additional paid-in capital changed year-on-year.

Other non-current liabilities posted a fall of EUR 5.2 million to EUR 16.7 million due to the repayment of bank loans, a reclassification from non-current to current liabilities arising from purchases and from payments of contingent purchase price obligations.

Current liabilities and provisions increased significantly by EUR 12.3 million to reach EUR 38.7 million. This was mainly due to the increase in accounts payable from EUR 7.8 million in the previous year to EUR 15.5 million, and a 48 per cent increase in contractual liabilities to EUR 9.4 million as at the reporting date. In addition, other current liabilities increased from EUR 2.8 million in the previous year to EUR 4.9 million in the reporting period, mainly due to reclassifications from non-current liabilities.

There were only small changes in the other items in absolute terms. Tax liabilities were up from EUR 0.3 million in the previous year to EUR 0.5 million in the reporting year, while other provisions rose by 10 per cent to EUR 8.3 million.

4. Outlook

4.1 Forecasts

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

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

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

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

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

Expert assessments of the economic climate are still positive, but more cautious with regard to the coming year. In its economic outlook, the OECD expects growth in the global economy to slow and be just 3.5 per cent in each of the two years 2019 and 2020. The OECD's chief economist believes that growth has peaked for the time being. In the Kiel Economic Report on the Global Economy, published in December 2018, the authors predict global GDP growth of 3.4 per cent for both 2019 and 2020. This forecast is based on the assumption that trade disputes will gradually be resolved and the inhibitory impact reduced, with the result that the pace of global trade expansion will increase again in 2020, despite a parallel increase in worldwide production. According to this estimate, consumer prices will rise by 3.7 per cent in 2019 and 3.5 per cent in 2020. The underlying economic momentum of the global economy is currently only rated as moderate. Disruptive factors such as an escalation of trade disputes, or political risks in Europe and uncertainty about the form Brexit will take, could create additional pressures and increasingly unsettle consumers and investors, causing them to be less willing to spend and invest. According to the ifo Institute, the global economic climate is experiencing another setback and has fallen for the fourth time in a row. In the first quarter of 2019, the Institute's indicator slumped from -2.2 to -13.1 points, its lowest level since 2011. The assessment of the situation and expectations deteriorated significantly. Nevertheless, the economists still rate the current economic situation as slightly positive. The outlook is clouding over, however, especially in the advanced economies. This was particularly evident with regard to the US, but the experts also revised their estimates for the EU downward. Weaker growth is expected with regard to consumer spending, investment and world trade.

The forecast for global economic growth by the International Monetary Fund (IMF) is in line with this assessment, with a downgrade by 0.2 percentage points for this year to 3.7 per cent. The reasons cited included trade disputes, uncertainties such as Brexit and a possible end to low interest rate policies.

The sentiment picture is similar in Europe. In the Eurozone, the pace of expansion is gradually slowing down. According to the experts, there are indications that the economy will remain on an upward trend for some time to come. Access to finance remains good due to expansionary monetary policy, and foreign trade should also continue to provide stimulus. The authors of the Kiel Economic Report expect economic output in the Eurozone to grow somewhat more slowly in the next two years, at 1.7 and 1.5 per cent respectively. The unemployment rate will fall to 7.4 per cent in 2020. At 1.5 per cent this year and next, the rise in consumer prices will be slightly below the ECB's target. The EU Commission expects much weaker economic growth this year, with GDP in the 19 Eurozone countries set to grow by only 1.3 per cent instead of the 1.9 per cent forecast last autumn. The main reason cited is the gloomy outlook in the largest European economies – Germany, Italy and France. In addition, international tensions and the threat of a disorderly (no-deal) Brexit are causing considerable uncertainty. The sentiment of economic experts in the Eurozone is also turning. The ifo economic climate barometer has fallen below zero for the first time since 2014. The indicator declined from 6.6 to -11.1 points in the first quarter, indicating an appreciable slowdown in economic growth in the Eurozone, with the experts assessing the situation in France and Italy as weak.

Economic data for the German economy has also stayed negative. Industry in particular is on the verge of recession. Although the German economy did not contract again in the fourth quarter, thus technically avoiding a recession, new orders and industrial production remained very weak. In contrast, the outlook for government and consumer spending along with foreign trade is somewhat more optimistic. Experts anticipate a slowdown in exports to China, which have been on the rise up to now. This means that GDP growth is now forecast to be lower in the current year, at 0.7 per cent. In autumn 2018, the IMF forecast economic growth of 1.6 per cent for 2019, while the leading German economic researchers predicted 1.9 per cent in their autumn forecast. The German government slashed its growth forecast from 1.8 to 1.0 per cent, meaning that it is expecting the smallest increase since 2013. It intends to counteract the significant economic downturn by supporting research, reducing bureaucracy and cutting taxes in order to bolster the economy and boost competitiveness. The ifo Business Climate Index fell from 99.3 to 98.5 points in February, its lowest level since December 2014. This reflects growing pessimism in German boardrooms with regard to prospects over the next six months. These results and other indicators point to economic growth of just 0.2 per cent in the first quarter, so the German economy remains weak. The index has deteriorated in the manufacturing, services and construction sectors; only retail is less pessimistic about business expectations. Despite the economic downturn, the labour market in Germany is very robust. The disposable incomes of private households will increase by 3.8 per cent this year and by 3.5 per cent in 2020, leading to an increase in consumer spending. Consumer prices will rise by 2.1 per cent in 2019 and by 2.0 per cent in 2020, according to an estimate by the Kiel Institute for the World Economy.

The US economy also made a strong start to the new year. The key indicators all signal economic growth. US GDP growth is expected to reach 2.5 per cent in 2019. The OECD expects an increase of 2.7 per cent in 2019 and 2.1 per cent in 2020. According to experts at the Kiel Institute for the World Economy, economic momentum in the US peaked in 2018. Rising incomes and employment growth are supporting consumer spending and firms are likely to continue investing heavily, given tax incentives and high capacity utilisation. However, less expansive monetary policy will gradually reduce the momentum that is driving growth. The experts expect GDP growth of 2.5 per cent for 2019 and 1.9 per cent for 2020. Inflation rates will be 2.3 per cent in 2019 and 2.2 per cent in 2020.

Uncertainty about the form Brexit will take remains in place for the time being and is restricting production growth in the United Kingdom. The expected negative impact of the decision to leave the EU is now being felt. Considerable uncertainty will remain, even if it proves possible to reach an amicable withdrawal agreement. This is hitting investment and putting pressure on the sterling exchange rate, with the result that inflation this year and next will be above the government's target. This in turn will curb growth of real incomes and consumer spending. Against this backdrop, moderate growth of 1.0 and 1.1 per cent is expected for 2019 and 2020, respectively.

4.3 Advertising market

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

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

In its outlook for the development of the global advertising industry, the WARC research institute forecasts that the advertising market will grow by 4.3 per cent to USD 616 billion this year. The forecasts from Magna, predicting a rise of 4.7 per cent, closely mirror this assessment. Analysts expect a normalised growth rate in 2019, as there will be no major cyclical sporting or political events this year. In 2018, the Winter Olympics, the World Cup and the mid-term elections in the US contributed around 1.2 percentage points to global advertising growth. The ratio of digital to offline channels will continue to converge. Expenditure on digital advertising will increase significantly by 12.1 per cent to USD 287.4 billion. At 21.9 per cent, the mobile segment remains the driver of this trend. In this context, however, it should be noted that technology giants Google and Facebook are benefiting from this to an above-average extent. Excluding the proportion accounted for by the two GAFA companies, global digital spend in the 96 countries surveyed will decline significantly by 7.2 per cent. If this forecast is correct, these two corporations will account for more than 60 per cent of worldwide online spend.

The advertising industry in the US is likewise positive about the future. Dentsu Aegis considers growth of 3.0 per cent for the current year 2019 and 3.6 per cent in 2020 to be likely.

The forecasts for Germany are cautious and lower. According to the Global Ad Spend Forecast by Dentsu Aegis, the German advertising market will only grow by 0.5 per cent this year and next (2020). Only a very few types of media will benefit from this. Digital is expected to increase by 6.5 per cent and account for almost 40 per cent of investment. The Schickler Media Index expects total net sales to grow by 2.2 per cent to around EUR 48.3 billion in 2019. Advertising via online channels should be 6.7 per cent higher. Mobile advertising also stands out as a growth driver in Germany and is forecast to increase by around 20 per cent.

In the UK, the overall market will grow by 6.1 per cent in 2019, according to the Dentsu Aegis Global Ad Spend Forecast, replacing a forecast of 4.7 per cent made by the network in summer 2018. The IPA Bellwether Report takes a much more pessimistic view of the UK's advertising future. The Institute of Practitioners in Advertising (IPA) in the UK conducts quarterly surveys of sentiment in the advertising industry. It concludes that industry experts' fears are being confirmed, i.e. that marketing is one of the first areas where companies are making savings in preparation for the negative consequences of a hard Brexit. If the UK leaves the EU without a formal agreement, stagnation is likely to become a recession and advertising investment could shrink by 3 per cent.

Agency Zenithmedia forecasts growth of 4.2 per cent for the Polish advertising market in 2019.

4.4 Expected performance of the SYZYGY Group

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

Conventional advertising and marketing tools such as linear television, radio advertising, mail shots and outdoor advertising have lost importance and reach in a world increasingly dominated by the Internet and social media. Consumers expect information and entertainment to be omnipresent. High-speed data and always-on availability have made users impatient and demanding. If the user doesn't get what they expect or are looking for, they instantly look around for an alternative. Loyalty and attention span have hit rock bottom. As a result, the communicative and technical challenges facing consumer goods manufacturers and brands are constantly increasing. In addition to creating added value, confirmation and confidence-building play an increasingly important role.

Technology and the mastery of digital mechanisms have become the key to success for businesses. Technology is never an end in itself, though, but an enabler and a scaler for an overriding goal: to reach the customer, create desire and trust, and develop long-term loyalty. "One solution for everyone" is becoming less and less common; instead, we are seeing increasing individualisation and, above all, a decreasing half-life of content. For marketing managers, this also means greater complexity, speed and agility. They need strong, experienced and flexible partners to help them navigate the market, be proactive and make the right decisions. A key element here is a reduction in complexity for marketing decision-makers through dealing with a small number of trusted partners and benefiting from more comprehensive service portfolios.

Only a few service providers are in a position to meet these demands and to advise clients seamlessly, from strategy and problem definition through the technical product to activation of products. Over the past few years, SYZYGY has carefully positioned itself to help clients fully exploit the potential of digital and technical solutions.

The Management Board of SYZYGY AG expects sales growth in the upper single-digit percentage range in the current financial year, with a rise in EBIT of around 10 per cent. Growth is mainly expected in Germany, while the performance of all other segments will be broadly unchanged.

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

5. Risks and opportunities of future business development

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

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

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

Based on the information currently available, there are no probable risks that would jeopardise the continued existence of SYZYGY AG and its subsidiaries as a going concern.

5.1 Material risks

Operating risk

Approximately 39 per cent of the SYZYGY Group's sales are generated from its ten largest clients. The concentration on the ten largest clients has declined from 49 per cent in the previous year to 39 per cent. The largest single client accounted for 6 per cent of sales. While the top 3 clients generated 24 per cent of the Group's sales in the previous year, this figure saw a further decline to 22 per cent in 2018.

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

Sales are predominantly based on fixed price agreements, meaning that unforeseeable losses may be incurred if the calculated project budget is unexpectedly exceeded. SYZYGY also assumes the usual guarantee and liability commitments associated with the project, which can lead to projects being hit by follow-on costs. The services SYZYGY performs have public impact, so any defects in quality in the execution of one of its projects may cause widespread damage to SYZYGY's image. This kind of damage has the potential to have a significantly negative impact on future business development.

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

Investment risk

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

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

Economic risk

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

Currency risk

SYZYGY generates around one third of its sales in other currencies, so fluctuations in the exchange rate between sterling, the US dollar and the Polish zloty and the euro can affect sales and annual net income positively or negatively in the event of deviation from the rate used for planning purposes. There is an increased risk of further depreciation of the British pound due in particular to Brexit. Nevertheless, SYZYGY does not enter into any hedging transactions because sales in the individual markets are countered by expenses in the corresponding currency. SYZYGY is thus only exposed to foreign exchange risk in terms of the amount of the annual net income of the company in the respective country (translation risk).

SYZYGY AG holds a portion of its assets in foreign currencies, in particular assets held by foreign subsidiaries and securities denominated in foreign currency. Here again, SYZYGY does not enter into any direct hedging transactions because the risks for SYZYGY AG's results of operations arising from these foreign currency positions are rated as low due to their size. The impact of the UK's upcoming departure from the European Union is likely to be already priced in.

Risk arising from currency fluctuations is assessed as low overall.

Tax risk

SYZYGY operates as a service provider in online marketing and, in this regard, places advertising on websites of foreign portal operators. Some tax authorities have recently taken the view that service providers such as SYZYGY are obliged to retain and pay withholding taxes at the expense of the non-resident taxpayer (limited tax liability). According to informed opinion in the literature and other sections of the tax authorities, however, this should not usually be the case.

As a result, withholding tax has not been withheld as part of business practice to date (either by SYZYGY or by competitors known to us). No objections have been raised in this respect during past tax audits at SYZYGY. There is as yet no coordinated statement by the tax authorities at national level, however. In this respect, there is a risk that SYZYGY could be required to retain withholding taxes and could be held liable to a material extent for non-payment of withholding taxes.

The risk is assessed as low.

Brexit risk

The UK's withdrawal from the European Union is giving rise not only to uncertainty regarding the future performance of the British economy, but also regarding the wider European economy. Since the negotiations on the country's exit have not yet been completed, the actual impact is not foreseeable at present. For this reason, accurate forecasts are still not possible, apart from identifying the existing uncertainty. Although possible currency risks, risks due to postings to or from the UK and customs risks are generally conceivable, they are unlikely to have any major impact on the SYZYGY Group's business. The UK market is an important market for the SYZYGY Group.

The risk is assessed as low.

Personnel risk

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

The risk is assessed as low.

Risks from acquisitions

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

The risk is assessed as low.

5.2 Opportunities

The boundaries between digital and conventional marketing are now fluid. We are living in an age when there is less and less talk of traditional media or conventional communication. There are hardly any services, communication channels or products that are not digitally controlled, supported or managed. Aggregated use of digital media has long since overtaken conventional media. Everyday life without smartphones, computers, online shops or the Internet in general is hard to imagine. Cars talk, navigation is intuitive and the Internet has been brought to millions of kitchen tables thanks to Amazon Alexa, controlling entire households, shopping and music. Influencers reach more people on social media than TV stations do with live broadcasts, while online retail in Germany is now worth more than EUR 70 billion a year. We no longer go online, we are online!

For customers and brands, the main consequence is a complex and often bewildering range of options. People increasingly face digital information overload. Attention spans are steadily decreasing, while loyalty to companies and brands is fading. As a marketer, it is becoming increasingly important to do the right thing, find the right tone, deliver the right information, create added value. And all this precisely when it is needed or requested, in a form that suits the individual and exceeds user expectations.

SYZYGY has been addressing these issues for almost 25 years. SYZYGY has grown with the market and understands its needs and requirements. The Group is one of the leading digital service providers in Germany and the UK, with a decades-long track record of working successfully for major international brands. Building on the excellent strategy work which is essential for successful projects, we help marketing decision-makers to ask the right questions, define tasks and develop solutions. Thanks to its strong technological expertise and top-class creative talent, SYZYGY is thus able to develop digital products that allow companies to achieve success and inspire consumers. SYZYGY is a leader in activating campaigns and digital products. As a result, SYZYGY can provide its clients with extensive and comprehensive support, as well as assisting marketing decision-makers as an experienced partner, working with them from strategy through product to activation.

6. Internal control system

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

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

Accounting-related internal control system

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

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

In keeping with Article 315 [4] of the German Commercial Code, one of the ways the accounting requirements of SYZYGY AG are implemented in the subsidiaries is that a largely standard bookkeeping system with a standard chart of accounts is used across the SYZYGY Group. All subsidiaries are subject to a review once a quarter by the Central Finance Department of SYZYGY AG. This involves analysing, checking and ensuring compliance with accounting requirements and scrutinising the procedures for processing data.

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

7. Remuneration report

7.1 Remuneration system for the Management Board

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

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

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

Performancerelated remuneration includes 2 components:

a) Short-term profit participation based on the targets (both financial and qualitative) for the business year, payable after the annual and consolidated financial statements are audited.

b) In addition, the Management Board has been granted long-term variable components of remuneration based on the performance of the share price. These share price-based bonus agreements provide that up to 40 per cent of allocated phantom stocks shall be exercisable after 2 years, and a further 60 per cent after 3 years. Both long-term schemes stipulate that the difference between a base price on issue of the phantom stocks and the share price on exercise of the phantom stocks shall be paid out.

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

The remuneration for the Management Board is presented in table format in accordance with section 4.2.5 of the German Corporate Governance Code as updated on February 7, 2017, in the form of the remuneration granted, as follows:

	Lars Lehne, CEO			
Benefits granted	2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	300	300	300	300
Fringe benefits	14	14	14	14
Total	**314**	**314**	**314**	**314**
One-year variable remuneration	99	99	0	99
Multi-year variable remuneration				
Phantom stock programme	0	0	0	0
Total	**99**	**99**	**0**	**99**
Pension benefits	21	21	21	21
Total remuneration	**434**	**434**	**335**	**434**

Benefits granted	Andrew P. Stevens, COO (Management Board member until 12/31/2017) 2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	0	251	0	0
Fringe benefits	0	15	0	0
Total	**0**	**266**	**0**	**0**
One-year variable remuneration	0	38	0	0
Multi-year variable remuneration				
Phantom stock programme	0	0	0	0
Total	**0**	**13**	**0**	**0**
Pension benefits	0	13	0	0
Total remuneration	**0**	**317**	**0**	**0**

A termination agreement was signed with Andrew P. Stevens on December 4, 2017 and he was released from his duties at SYZYGY AG with effect from December 1, 2017 until he left the company on June 30, 2018. His salary entitlement during this phase was accrued in full (kEUR 144) to December 31, 2017 and recognised as an expense. He stepped down from the Management Board as of December 31, 2017.

In the 2018 financial year, Andrew P. Stevens received total remuneration of kEUR 213, comprising a basic salary of kEUR 124, fringe benefits of kEUR 7, pension benefits of kEUR 6 and a variable salary of kEUR 76.

Benefits granted	Erwin Greiner, CFO 2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	180	180	180	180
Fringe benefits	12	12	12	12
Total	**192**	**192**	**192**	**192**
One-year variable remuneration	54	54	0	54
Multi-year variable remuneration				
Phantom stock programme	124	0	0	702
Total	**178**	**54**	**0**	**756**
Pension benefits	16	16	16	16
Total remuneration	**386**	**262**	**208**	**964**

Benefits granted	Frank Ladner, CTO 2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	200	0	200	200
Fringe benefits	12	0	12	12
Total	**212**	**0**	**212**	**212**
One-year variable remuneration	60	0	0	60
Multi-year variable remuneration				
Phantom stock programme	85	0	0	483
Total	**145**	**0**	**0**	**543**
Pension benefits	16	0	16	16
Total remuneration	**373**	**0**	**228**	**771**

In addition, the remuneration for the Management Board is presented in table format in accordance with section 4.2.5 of the German Corporate Governance Code as updated on February 7, 2017, in the form of the remuneration paid. In the case of the multi-year variable components of remuneration, this remuneration paid includes payments accumulated over several years.

	Lars Lehne, CEO		Andrew P. Stevens, COO		Erwin Greiner, CFO		Frank Ladner, CTO	
Payment	2018	2017	2018	2017	2018	2017	2018	2017
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	300	300	0	251	180	180	200	0
Fringe benefits	14	14	0	15	12	12	12	0
Total	**314**	**314**	**0**	**266**	**192**	**192**	**212**	**0**
One-year variable remuneration	39	74	0	19	36	34	27	0
Multi-year variable remuneration								
Phantom stock programme	0	0	0	112	0	76	0	0
2012 option scheme	0	0	0	0	0	79	0	0
Total	**39**	**74**	**0**	**131**	**36**	**189**	**27**	**0**
Pension benefits	21	21	0	13	16	16	16	0
Total remuneration	**374**	**409**	**0**	**410**	**244**	**397**	**255**	**0**

Commitments in the event of termination

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

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

7.2 Remuneration system for the Supervisory Board

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

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

The capitalisation figures used for this purpose are based on the mean closing price of the stock in the XETRA trading system on the Frankfurt Stock Exchange during the first 5 trading days of a financial year and during the first 5 trading days of the subsequent financial year. Supervisory Board members who have not been in office for the whole of the financial year are remunerated on a pro rata basis.

A detailed presentation of the remuneration of the Supervisory Board for the 2018 financial year can be found in the notes to the SYZYGY AG financial statements according to HGB (German Commercial Code).

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

The common stock of SYZYGY AG amounts to EUR 13,500,026 and is divided into 13,500,026 ordinary nopar value bearer shares. Different classes of shares were not formed.

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

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

The WPP Group continues to hold the majority of shares. As at the reporting date, it held a 50.33 per cent stake in SYZYGY AG.

None of the SYZYGY AG shares issued carry special rights.

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

The requirements for appointment and dismissal of members of the Management Board are in accordance with Article 84 of the Aktiengesetz (AktG – German Stock Corporation Act). SYZYGY AG's Articles of Association also stipulate that the Management Board must be composed of at least 2 people. Changes to the Articles of Association can only be made by the Annual General Meeting, in line with Article 119 of the AktG. The Articles of Association, together with Article 179 of the AktG, permit the Supervisory Board to agree changes to the Articles of Association which only concern the wording.

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

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

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

The Annual General Meeting's resolution of July 8, 2016 authorises the Management Board to increase the common stock of the company, with the agreement of the Supervisory Board, on one occasion or on several occasions by up to an overall maximum of EUR 6,000,000 in the period to July 8, 2021 by issuing new bearer shares against cash contributions and/or contributions in kind (authorised capital 2016). In the 2017 financial year, 2 capital increases totalling EUR 671,576 were carried out. As a result, the outstanding authorised capital as at December 31, 2017 was EUR 5,328,424.

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

No compensation agreements have been entered into with members of the Management Board or employees for the event of a takeover bid. Holders of phantom stocks can, however, exercise their options or phantom stocks within a period of 6 weeks after completion of the takeover offer at the intrinsic value then prevailing or a minimum price of EUR 1.00 per phantom stock.

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

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

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

On October 29, 2018 the Management Board and Supervisory Board issued and published an updated declaration relating to the Corporate Governance Code. Operation of the Management Board and Supervisory Board is also described in the declaration on corporate governance.

Both declarations can be viewed on our company website under Corporate Governance at www.syzygy.net/germany/en/investor-relations/corporate-governance/2018.

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

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

Bad Homburg v.d.H., March 29, 2019
SYZYGY AG

Management Board

Lars Lehne

Frank Ladner
Erwin Greiner

SYZYGY AG, Bad Homburg v.d.H.

Consolidated balance sheet as at December 31, 2018

Assets		12/31/2018	12/31/2017
	Note	kEUR	kEUR
Non-current assets			
Goodwill	(3.1)	58,116	58,165
Other Fixed assets, net	(3.2)	6,925	7,834
Non-current financial assets	(3.3)	200	200
Other non-current assets	(3.4)	294	219
Deferred tax assets	(3.5)	347	35
Total non-current assets		**65,882**	**66,453**
Current assets			
Cash and cash equivalents	(3.6)	11,519	7,017
Marketable securities	(3.6)	10,602	8,964
Accounts receivable, net and contract assets	(3.7)	19,904	20,279
Prepaid expenses and other current assets	(3.8)	1,739	1,865
Total current assets		**43,764**	**38,125**
Total assets		**109,646**	**104,578**

Equity and Liabilities		12/31/2018	12/31/2017
	Note	kEUR	kEUR
Equity			
Common stock*	(3.9.1)	13,500	13,500
Additional paid-in capital	(3.9.3)	27,069	27,069
Own shares	(3.9.4)	-407	-407
Accumulated other comprehensive income	(3.9.5)	-2,651	-1,815
Retained earnings	(3.9.6)	16,774	18,033
Equity attributable to shareholders of SYZYGY AG		**54,285**	**56,380**
Minorities		-284	-447
Total Equity		**54,001**	**55,933**
Non-current liabilities			
Long term liability	(3.13)	16,698	21,871
Deferred tax liabilities	(5.7)	270	411
Total non-current liabilities		**16,968**	**22,282**
Current liabilities			
Income tax accruals	(3.12)	541	255
Accrued expenses	(3.11)	8,283	9,216
Contract liabilities	(3.7)	9,431	6,376
Accounts payable	(3.11)	15,528	7,754
Other current liabilities	(3.13)	4,894	2,762
Total current liabilities		**38,677**	**26,363**
Total liabilities and equity		**109,646**	**104,578**

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

SYZYGY AG, Bad Homburg v.d.H.

Consolidated statement of comprehensive income as at December 31, 2018

		January – December		
		2018	2017	Change
	Notes	kEUR	kEUR	
Sales	(5.1)	**65,816**	**60,669**	**8%**
Cost of revenues		-47,929	-46,150	4%
Sales and marketing expenses		-5,396	-6,271	-14%
General and administrative expenses		-8,637	-7,389	17%
Impairment losses, net of trade receivables and contract assets		7	0	n.a.
Other operating income/expense, net	(5.2)	2,206	3,237	-32%
Operating profit (EBIT)		**6,067**	**4,096**	**48%**
Financial income	(5.6)	630	2,047	-69%
Financial expenses	(5.6)	-160	-607	-74%
Income before income taxes (EBT)		**6,537**	**5,536**	**18%**
Income taxes	(5.7)	-1,647	-1,301	27%
Total net income of the period		**4,890**	**4,235**	**15%**
thereof net income share to other shareholders		171	-754	n.a.
thereof net income share to shareholders of SYZYGY AG		4,719	4,989	-5%
Items that will not be reclassified to profit and loss:		**0**	**0**	**n.a.**
Items that will or may be reclassified to profit and loss:				
Currency translation adjustment from foreign business operations	(5.8)	-315	-149	n.a.
Net unrealized gains/ losses on mark. sec., net of tax	(3.6)	-579	-115	n.a.
Other comprehensive income		**-894**	**-264**	**n.a.**
Comprehensive income		**3,996**	**3,971**	**1%**
thereof income share to other shareholders		163	-740	n.a.
thereof income share to shareholders of SYZYGY AG		3,833	4,711	-19%
Earnings per share from total operations (basic in EUR)	(6.1)	0.35	0.39	-15%

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

SYZYGY AG, Bad Homburg v.d.H.

Statement of changes in equity as at December 31, 2018

						Accum. other comprehensive income				
	Number of shares	Common stock	Additional paid-in capital	Own shares	Retained earnings	Foreign exchange currency	Unrealised gains and losses	Equity attributable to shareholders of SYZYGY AG	Minority interest	Total equity
	in 1,000	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
January 1, 2017	**12,828**	**12,828**	**20,537**	**-407**	**18,071**	**-1,827**	**290**	**49,492**	**293**	**49,785**
Net income of the period					4,989			4,989	-754	4,890
Other comprehensive income						-163	-115	-278	14	-264
Comprehensive income					**4,989**	**-163**	**-115**	**4,711**	**-740**	**3,971**
Dividend	672	672	6,532					7,204	0	7,204
Sale of own shares					-4,847			-4,847	0	-4,847
Payment to minorities					-180			-180	0	-180
December 31, 2017	**13,500**	**13,500**	**27,069**	**-407**	**18,033**	**-1,990**	**175**	**56,380**	**-447**	**55,933**
January 1, 2018	**13,500**	**13,500**	**27,069**	**-407**	**18,033**	**-1,990**	**175**	**56,380**	**-447**	**55,933**
Adjustments from first-time adoption IFRS 9					-70		50	-20	0	-20
January 1, 2018, adjusted	**13,500**	**13,500**	**27,069**	**-407**	**17,963**	**-1,990**	**225**	**56,360**	**-447**	**55,913**
Net income of the period					**4,719**			**4,719**	**171**	**4,890**
Other comprehensive income						-307	-579	-886	-8	-894
Comprehensive income					4,719	-307	-579	3,833	163	3,996
Dividend					-5,236			-5,236	0	-5,236
Payment to minorities					-672			-672	0	-672
December 31, 2018	**13,500**	**13,500**	**27,069**	**-407**	**16,774**	**-2,297**	**-354**	**54,285**	**-284**	**54,001**

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

SYZYGY AG, Bad Homburg v.d.H.

Consolidated statement of Cash Flows as at December 31, 2018

	January – December	
	2018	2017
	kEUR	kEUR
Period net income	4,890	4,235
Adjustments to reconcile income from operations to net cash provided by operating activities		
– Depreciation on fixed assets	2,109	2,083
– Profit (-) and loss (+) on sale of securities	-14	-1,254
– Profit (-) and loss (+) on sale of fixed assets	3	87
– changes in Earn-Out liablities	-964	-3,175
– Profit (-) and loss (+) on sale of fixed asset investments	-27	-106
– Other non-cash income and expenses	-497	349
Changes in operating assets and liabilities:		
– Accounts receivable and other assets	507	2,623
– Customer advances	3,051	1,547
– Accounts payable and other liabilities	7,117	-1,512
– Tax accruals and payables, deferred taxes	182	-99
Cash flows provided by operating activities	**16,357**	**4,778**
Changes in other non-current assets	-72	468
Investments in fixed assets	-1,214	-5,263
Purchases of marketable securities	-7,235	-11,809
Proceeds from sale of marketable securities	4,770	19,256
Changes from fixed asset investments	-13	80
Acquisition of consolidated entities less liquid funds	-1,186	-6,598
Cash flows used in investing activities	**-4,950**	**-3,866**
Change in bank loans	-1,052	4,762
dividend paid to minority shareholders	-672	-180
dividend paid to shareholders of SYZYGY AG	-5,236	-4,847
Cash flows from financing activities	**-6,960**	**-265**
Total	**4,447**	**647**
Cash and cash equivalents at the beginning of the period	**7,017**	**6,571**
Exchange rate differences	55	-201
Cash and cash equivalents at the end of the period	**11,519**	**7,017**

The accompanying notes are an integral part of the financial statements.
Operating cashflow includes paid interest in the amount of kEUR 312 (prior year: kEUR 50), received interest in the amount of kEUR 93 (prior year: kEUR 822) as well as received taxes in the amount of kEUR 270 (prior year: kEUR 0) and paid taxes in the amount of kEUR 1.374 (prior year: kEUR 1.201).

Notes to the consolidated Financial Statements for the 2018 financial year

1. Accounting principles and methods

1.1 General

The consolidated financial statements of SYZYGY AG ("SYZYGY", "SYZYGY Group", "Group" or "Company" in the following) for the 2018 financial year were prepared in accordance with the principles of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in the applicable version as at December 31, 2018, as they are to be applied in the European Union and in line with the supplementary provisions of Article 315e [1] of the Handelsgesetzbuch (HGB – German Commercial Code). The consolidated financial statements were prepared on the basis of historical cost of acquisition or production. This excludes certain financial instruments that are carried at fair value as at the reporting date. An explanation is provided in relation to the relevant accounting and valuation methods. The financial year corresponds to the calendar year.

The Company was entered in the Commercial Register at the District Court of Bad Homburg (HRB 6877) on May 1, 2000 under the company name SYZYGY AG. The Company's registered office is located in Bad Homburg v. d. H., Germany. Its address is: SYZYGY AG, Horexstr. 28, 61352 Bad Homburg v. d. H.

1.2 Business activity of the Group

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

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

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

The business focus is on the automotive, telecommunications/IT, services, consumer goods and financial/insurance sectors.

1.3 Scope of consolidation

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

As at December 31, 2018, the following subsidiaries were included in the consolidated financial statements of SYZYGY AG as the top-level parent company and fully consolidated. In the case of these companies, SYZYGY AG can exercise the power of disposal, is exposed to fluctuating returns from the subsidiaries and can influence the level of returns due to its power of disposal:

- Ars Thanea S.A., Warsaw, Poland (Ars Thanea for short)
- diffferent GmbH, Berlin, Germany (diffferent for short)
- Hi-ReS! London Ltd., London, United Kingdom (Hi-ReS! LON for short)
- SYZYGY Berlin GmbH, Berlin, Germany (SYZYGY Berlin for short)
- SYZYGY Deutschland GmbH, Bad Homburg v.d.H., Germany (SYZYGY Deutschland for short)
- SYZYGY Digital Marketing Inc., New York City, United States (SYZYGY NY for short)
- SYZYGY Media GmbH, Hamburg, Germany (SYZYGY Media for short)
- SYZYGY Performance GmbH, Munich, Germany (SYZYGY Performance for short, formerly Catbird Seat GmbH)
- SYZYGY UK Ltd., London, United Kingdom (SYZYGY UK for short)
- Unique Digital Marketing Ltd., London, United Kingdom (Unique Digital UK for short)
- USEEDS° GmbH, Berlin, Germany (USEEDS for short)

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

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

On March 6, 2018, SYZYGY AG acquired a further 10 per cent of USEEDS° GmbH with retroactive effect to January 1, 2018, bringing its stake up to 80 per cent. The purchase price of kEUR 415 was paid in cash. USEEDS has already been fully included in SYZYGY's consolidated financial statements, as forward contracts for the acquisition of further shares were concluded for the years 2019 and 2020, providing SYZYGY with present ownership as had previously been the case.

New information on the actual performance of USEEDS, SYZYGY Performance and diffferent led to adjustments in the forecast earnings both last year and in the current financial year. These form the basis for the price of the put/call options for the further acquisition of shares in the three companies. As a result, the expected payment obligations for USEEDS decreased by kEUR 1,664 and for SYZYGY Performance by kEUR 70. In contrast, the expected payment obligations for diffferent increased by kEUR 486. The change in the fair value of the financial liability was recognised in the year under review in the statement of comprehensive income under "Other operating income/expenses, net".

The earn-out payment for the acquisition of 44 per cent of the shares in Ars Thanea, which was completed in 2014, was paid in cash in the amount of kEUR 771 on December 18, 2018. The difference compared with the payment obligation of kEUR 499 expected at the end of the previous year was recognised in the amount of kEUR 272 in the year under review in the statement of comprehensive income under "Other operating income/expenses, net".

1.4 Principles of consolidation

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

Capital consolidation is performed in accordance with IFRS 3 using the purchase method. The carrying values of the subsidiaries are offset against the subsidiary's re-measured equity at the time of acquisition. For this purpose, assets, liabilities and contingent liabilities are recognised at their current fair value. The residual difference on the assets side is reported as goodwill. Any negative difference is recognised in the income statement, following remeasurement. Transaction costs are recorded directly in the income statement. In line with IFRS 3, existing and purchased goodwill is not amortised, but rather tested for impairment at least once a year or if there are indications of impairment losses, in accordance with the provisions of IAS 36, using a single-stage test procedure.

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

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

Factors that would lead to the elimination of inter-company profits in the consolidated financial statements have been eliminated.

Non-controlling shares are measured at the time of acquisition on the basis of their proportion of the identifiable net assets of the acquired company. Changes in the Group's shareholding in a subsidiary that do not lead to a loss of control are recognised as equity capital transactions.

Each contingent obligation for counterperformance is measured at fair value at the time of acquisition. If the contingent counterperformance is classified as equity, it is not re-measured and any settlement is recognised in equity capital. In all other cases, any subsequent changes to the fair value of the contingent counterperformance is recognised in profit or loss.

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

1.5 Estimates and assumptions

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

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

In order to determine whether there is any impairment of the acquired goodwill, it is necessary to establish the value in use of the cash generating unit to which the goodwill was allocated. Calculation of the value in use requires an estimate of future cash flows from the cash generating unit and an appropriate discount rate for calculating the cash value. If the actual expected future cash flows turn out to be lower than estimated, a material impairment may result. Section 3.1, Goodwill, contains further details.

Management establishes provisions for doubtful receivables to take account of expected losses resulting from the insolvency of customers. The criteria that management uses to assess provisions for doubtful receivables are customers' credit ratings and changes in payment behaviour. If the financial position of customers deteriorates, the actual derecognition may exceed the scope of the expected derecognition. Since 2018, SYZYGY has been applying a general impairment of accounts receivable in accordance with IFRS 9 in addition to individual value adjustment. This general impairment corresponds to the present value of the expected credit losses that result from default events that are possible within 12 months after the reporting date.

In accordance with IFRS 15, the SYZYGY Group always recognises revenue from long-term contracts for services on a period-related basis. The cost-to-cost method applied by SYZYGY relies primarily on a careful estimate of the degree of completion. The key parameters in this respect are the calculated total contract costs, the costs still to be incurred until completion, the total contract proceeds and the risks associated with the contract.

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

The recognition and measurement of provisions depend to a large extent on estimates made by management. The judgement that a financial liability has arisen or quantification of the possible amount of the payment obligation is based on an assessment of the particular situation by management. Provisions for expected losses are established if it is highly likely that performance and consideration relating to the transaction will not balance each other out and this loss can be reliably estimated.

Some of the Group's assets and liabilities are recognised at fair value for the purposes of these consolidated financial statements (particularly securities and contingent purchase price commitments). For this purpose, the Management Board establishes appropriate procedures and input parameters for measurement at fair value. The Group uses observable market data as far as possible to determine the fair value of assets and liabilities. If Level 1 input parameters of this type are not available, other appropriate measurement techniques are used and estimates are applied. Details of the measurement techniques and input parameters used in determining the fair value are provided in section 6.6.

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

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

1.6 Foreign currency translation

The notion of a functional currency is applied to translation of financial statements of consolidated companies prepared in foreign currencies. Since the foreign subsidiaries are economically independent, the local currency is the functional currency of these companies. For this reason, in accordance with the modified reporting date method for establishing exchange rates as defined in IAS 21.38 ff, assets and liabilities are translated using the exchange rate at the balance sheet date, whereas income and expenses are translated at the average annual exchange rate and equity at historical rates. Differences resulting from the translation of foreign business operations into the Group currency are recognised in the statement of comprehensive income under other net income and carried in equity under other net income. When a foreign business operation is sold, all accumulated translation differences resulting from this business operation that are attributable to the Group are reclassified into the statement of comprehensive income. In accounting for fixed assets, the position is converted at the start and at the end of the financial year using the exchange rate at the respective date and the remaining items are converted at average rates of exchange. Any difference is shown as an exchange rate difference in a separate line, both for acquisition or production costs and for accumulated depreciation and amortisation.

When preparing the financial statements of each individual Group company, business transactions that are denominated in a currency other than the functional currency of the Group company are translated at the exchange rate applicable on the date of the transaction. On each reporting date, monetary items in foreign currency are valued at the end of the year in accordance with IAS 21 using the exchange rate at the closing date. Non-monetary items in foreign currency which are valued at fair value are translated at the exchange rates that were applicable at the time of determining the fair value. Non-monetary items valued at acquisition or production costs are translated using the exchange rate prevailing at the first time they are recognised in the accounts. Any resulting foreign currency gains or losses are directly recognised in the income statement.

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

2018	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
GBP/EUR	1.13	1.12

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

2018	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR/USD	1.18	1.15

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

2018	Average rate of exchange	Exchange rate as at reporting date, Dec. 31
EUR/PLN	4.26	4.30

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

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

IFRS and amendments to IFRS that are mandatory for the first time as at December 31, 2018

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

The following disclosures are required in this respect:

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

The following new or amended standards (and interpretations) are mandatory for the first time in relation to financial years ending on December 31, 2018:

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

- **IFRS 9: Financial Instruments**

The final version of IFRS 9 Financial Instruments replaces IAS 39. IFRS 9 contains amended requirements for the classification and measurement of financial assets and a new risk provisioning model that now takes expected losses into account when calculating risk provisions. In addition, the new rules on hedge accounting published in November 2013 were incorporated into the final IFRS 9 standard.

First-time adoption of IFRS 9 has a minor impact on the Group's net assets, financial position or results of operations. SYZYGY now applies a general impairment of accounts receivable in addition to individual value adjustment. This general impairment corresponds to the present value of the expected credit losses that result from default events that are possible within 12 months after the reporting date.

The Group believes that these securities are held within the framework of a business model whose objective is achieved both through the receipt of contractual cash flows and through the sale of securities. The contractual terms of these financial assets result in cash flows that solely represent capital repayments and interest payments on the outstanding capital amount. These assets were therefore classified as FVTOCI in accordance with IFRS 9. As part of the transition to IFRS 9, a value adjustment of kEUR 50 was recognised as a reduction in the opening balance of profit reserves and an increase in other net income as at January 1, 2018. Deferred taxes were also taken into account.

At the beginning of the financial year, SYZYGY also recorded an allowance of kEUR 45 on accounts receivable. This was booked against profit reserves, taking deferred taxes into account. For 2018, this resulted in reduced expenses of kEUR 7 recognised in net income. Since the 2018 financial year, SYZYGY has reported impairment losses, net of accounts receivable and contract assets, in a separate item on the statement of comprehensive income (in general administrative expenses until 2017), whereas impairment losses on other financial assets are recorded in financial income as before.

Accounts in kEUR	
Value adjustments as at January 1, 2017 in accordance with IAS 39	55
Additional impairment loss as at January 1, 2018	
FVTOCI securities	50
Accounts receivable	45
Value adjustments at January 1, 2018 in accordance with IFRS 9	**150**

The impact of first-time application of IFRS 9 on the carrying amounts of financial assets as at January 1, 2018 results solely from the new rules on recognition of impairment losses.

The following tables and accompanying disclosures explain the original IAS 39 measurement category and the new IFRS 9 measurement category as at January 1, 2018 for each class of financial assets and financial liabilities that the Group recognises.

Financial assets kEUR	Original IAS 39 measurement category	New IFRS 9 measurement category	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Securities	Available-for-sale	FVTOCI	8,964	8,914
Other non-current assets	Loans and receivables	Amortised costs	219	219
Cash and cash equivalents	Loans and receivables	Amortised costs	7,017	7,017
Accounts receivable and contract assets	Loans and receivables	Amortised costs	20,279	20,234
Interest receivables in other current assets	Loans and receivables	Amortised costs	47	47

Financial liabilities kEUR	Original IAS 39 measurement category	New IFRS 9 measurement category	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Conditional purchase price commitment	At fair value through profit and loss	FVTPL	17,109	17,109
Accounts payable	Financial liabilities at amortised costs	Amortised costs	7,754	7,754
Loans to banks	Financial liabilities at amortised costs	Amortised costs	5,164	5,164

The impact of first-time application of IFRS 9 on the carrying amounts of financial assets as at January 1, 2018 results solely from the new rules on recognition of impairment losses.

The value adjustments on securities and on accounts receivable were calculated for the balance sheet as at the end of the 2017 financial year and booked against profit reserves as at January 1, 2018, taking into account deferred taxes (for Germany and the United Kingdom):

Securities:

kEUR	Debit	Credit
Other net income		50
Retained earnings	34	
Deferred taxes (assets)	16	

Accounts receivable and contract assets:

kEUR	Debit	Credit
Accounts receivable and contract assets		45
Retained earnings	36	
Deferred taxes (assets)	9	

This results in a new carrying amount for accounts receivable and contract assets of kEUR 20,234 (previously: kEUR 20,279).

Starting from 2018, impairment losses on receivables are reported in a separate item on the statement of comprehensive income, while impairment losses on securities are included in financial income.

- **IFRS 15: Revenue from Contracts with Customers**

The provisions of IFRS 15 generally cover all contracts concluded with clients for the delivery of goods or the provision of services in the normal course of business. The scope of application excludes leases under IAS 17 or IFRS 16, insurance contracts under IFRS 4, financial instruments, contractual rights or obligations under IAS 39/IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28. In addition, non-monetary barter transactions between companies in the same sector with the aim of facilitating sales to customers are excluded. The new standard provides for a five-step revenue recognition model to be applied uniformly to all contracts with customers. IFRS 15 replaces IAS 18 and IAS 11 as well as the SIC-31, IFRIC 13, IFRIC 15, IFRIC 18 interpretations.

First-time adoption of IFRS 15 has only a minor impact on the Group's net assets, financial position or results of operations. Starting in 2018, SYZYGY no longer reports contractual obligations, e.g. bonus payments to clients, under provisions, including them instead with advance payments received under contractual liabilities.

- **Amendments to IAS 40: Transfers of Investment Property**

The amendment to IAS 40 relates to a clarification on transfers between the inventory and investment property categories, as adopted into EU law. The amendments revise IAS 40.57 and require evidence of the change in use for the transfer. A change in management's intentions with regard to use of the property does not constitute evidence of a change in use.

These changes to IAS 40 do not have any impact on the Group's net assets, financial position or results of operations.

- **Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions**

The amendments to IFRS 2 include clarifications to the Illustrative Examples:

– According to the new rules, market conditions and non-vesting conditions must be taken into account at fair value. Service conditions and other performance conditions must be taken into account in the quantity structure (consideration of vesting conditions).

– Classification of share-based payments that provide for net settlement of withheld taxes: If an entity reduces the number of equity instruments that are otherwise deliverable because it is required to withhold and pay taxes for the employee and the contract provides for this net settlement, the entire payment must be accounted for as equity-settled share-based payments.

– Equity-settled payment must be recognised at its pro rata fair value at the date of the change as an increase in equity. Differences to the derecognition of the liability are recognised in income.

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

- **Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments are intended to synchronise the different effective dates of IFRS 9 and the new standard on accounting for insurance contracts (IFRS 17). Entities that issue insurance contracts within the scope of IFRS 4 are granted two options for transition to the successor standard, IFRS 17 (deferral or overlay approach).

These changes to IFRS 4 do not have any impact on the Group's net assets, financial position or results of operations.

- **Clarification to IFRS 15 Revenue from Contracts with Customers**

The clarifications to IFRS 15 Revenue from Contracts with Customers comprise 3 of the 5 topics identified by the Transition Resource Group for Revenue Recognition (TRG) (identification of performance obligations, principal/agent considerations and licensing). The IASB does not believe that the issues of collectibility and the measurement of non-cash consideration should be clarified.

This clarification to IFRS 15 does not have any impact on the Group's net assets, financial position or results of operations.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

IFRIC 22 addresses a question regarding application of IAS 21 The Effects of Changes in Foreign Exchange Rates.

It clarifies the date on which the exchange rate is determined for translation of transactions that include the receipt or payment of advance consideration in a foreign currency. The exchange rate for the asset, income or expense resulting from a transaction is then determined by reference to the date on which a non-monetary asset or non-monetary liability is recognised for the first time in relation to consideration paid or received in advance.

This clarification to IFRIC 22 does not have any impact on the Group's net assets, financial position or results of operations.

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

As part of this AIP, changes are made to a total of 3 standards:

- **IAS 28: Amendment relating to the fair value measurement of associates or joint ventures (IAS 28.18, .36A, .45E); IAS 28.18 adds exceptions to the application of the equity method.**

If an investment in an associate or joint venture as defined by IFRS 11 is held directly or indirectly by a venture capital organisation or a comparable entity, there is an option to measure the investments at fair value through profit or loss (IFRS 9/IAS 39) as an exception to the equity method. These changes to IAS 28 do not have any impact on the Group's net assets, financial position or results of operations.

- **IFRS 1: Deletion of various short-term exemptions for first-time IFRS adopters**

The amendments to IFRS 1 only delete short-term exemptions in IFRS 1.E3 to E7 (including disclosures on the transfer of financial instruments), as the relevant reporting years have expired.

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

- **IFRS 12: Clarification of the scope of the Standard**

Under the amendments to IFRS 12, the reporting requirements of IFRS 12 also apply to all subsidiaries, joint ventures and associates (as well as non-consolidated structured entities) held for sale or distribution, or classified as discontinued operations within the meaning of IFRS 5 (exception: disclosures under IFRS 12.B17).

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

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

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

Amendment/Standard	Publication date	Date of transposition into EU law	Adoption date (EU)
IFRIC 23 Uncertainty over Income Tax Treatments	June 7, 2017	October 23, 2018	January 1, 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	October 12, 2017	March 22, 2018	January 1, 2019
IFRS 16 Leases	January 13, 2016	October 31, 2017	January 1, 2019

Under IFRS 16, the right-of-use asset (cash value plus initial direct costs less lease incentive) of the leasing or rental payments is recognised as an asset and amortised over the life of the agreements. A rental or leasing liability is recognised in the same amount as the asset. The difference between payment flow and amortisation is recognised as an expense in financial income and is dependent on the underlying interest rate.

SYZYGY is applying IFRS 16 from January 1, 2019 onwards with modified retrospective first-time application. The impact of first-time application of IFRS 16 on the SYZYGY Group's consolidated net assets, financial position and results of operations has been examined and SYZYGY expects that total assets will increase by around EUR 22 million. As this increase is reflected both in assets and in liabilities, but not in equity, the equity ratio will fall. SYZYGY currently estimates that operating income (EBIT) will increase by approximately kEUR 300, while depreciation and amortisation will increase by around kEUR 2,900. Based on the latest budgeting, financial income will be reduced by additional interest expense of around kEUR 550. Repayment of the leasing liability is expected to amount to around kEUR 2,600 in the 2019 financial year.

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

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

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

Amendment/Standard	Publication date	Expected transposition into EU law	Adoption date (EU)
IFRS 17 Insurance Contracts	May 18, 2017	n.a.	January 1, 2021
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	October 12, 2017	2019	January 1, 2019
Annual Improvements to IFRS (AIP) – 2015-2017 Cycle	December 12, 2017	2019	January 1, 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	February 7, 2018	2019	January 1, 2019
Amendment to References to the Conceptual Framework in IFRS Standards	March 29, 2018	2019	January 1, 2020
Amendments to IFRS 3 Business Combinations: Definition of a Business	October 22, 2018	2019	January 1, 2020
Amendments to IAS 1 and IAS 8: Definition of Material	October 31, 2018	2019	January 1, 2020

1.8 Other information

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

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

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

2. Significant accounting policies

2.1 Goodwill, other intangible assets and fixed assets

Intangible assets comprise goodwill, orders, brand equity and software.

Intangible assets not arising from acquisition of a company are accounted for in the balance sheet and initially measured in accordance with IAS 38. Consequently, individually purchased intangible assets are recognised at cost and amortised using the straight-line method over their expected useful life if they have a determinable useful life. Brand names are generally amortised on a straight-line basis over 5 years, provided their useful life can be determined. Orders on hand are amortised within one year. The expense resulting from amortisation and, if applicable, from impairments is reported under function costs in the statement of comprehensive income, according to allocation of assets to the functional areas of the company.

Intangible assets that are not goodwill-related and which arose from acquisition of a company are measured at their fair value at the time of the acquisition in accordance with IFRS 3. In subsequent periods, these intangible assets are measured in the same way as individually acquired intangible assets, i.e. at their acquisition cost less accumulated amortisation and any unscheduled accumulated write-downs (impairments). If the fair value of assets which have been the subject of an unscheduled write-down increases, the increase is recorded as a reversal up to the amount of the original acquisition cost. The goodwill resulting from a company acquisition is carried at acquisition cost less any impairments that are required, and reported separately in the consolidated balance sheet.

For the purposes of the impairment test, a breakdown is applied to the goodwill of those cash generating units that are expected to benefit from the synergies of the merger.

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

Fixed assets include leasehold improvements and other equipment and are carried at cost less accumulated depreciation and impairment losses. Leasehold improvements are depreciated on a straight-line basis over their estimated useful life or the term of the lease, whichever is shorter. Leasehold improvements and operating and office equipment are depreciated on a straight-line basis, normally over a period of between 3 and fourteen years.

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

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

2.2 Financial instruments

A financial instrument within the meaning of IFRS 9 is a contract that gives rise to both an asset for one entity and a financial liability or instrument for another entity. Financial instruments include cash; equity instruments of another entity held as assets; a contractual right to receive cash or other financial assets from another entity; or to swap financial assets or financial liabilities with another entity on potentially advantageous terms; or a contract that will or can be settled in the entity's own equity instruments, and which involves the following:

- a non-derivative financial instrument that contains or may contain a contractual obligation on the part of the entity to receive a variable number of the entity's own equity instruments; a derivative financial instrument that is not or cannot be settled by swapping a fixed amount of cash or other financial assets for a fixed number of the entity's own equity instruments (restrictions apply as to which instruments are classified as own equity instruments under IFRS 9 in this context), all financial assets divided into 2 classification categories – those measured at amortised acquisition cost and those measured at fair value. If financial assets are measured at fair value, expenses and income may be recognised either in full in net income (at fair value through profit or loss, FVTPL) or in other income (at fair value through other comprehensive income, FVTOCI).
- Financial assets are classified in IFRS 9 on the basis of the entity's business model for managing financial assets and the characteristics of the contractual cash flows. IFRS 9 eliminates the IAS 39 categories that applied previously: held to maturity, loans and receivables, and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the underlying is a financial asset within the scope of the standard are never accounted for separately. Instead, the hybrid financial instrument as a whole is assessed for classification purposes.

For some debt instruments, classification as FVTOCI may be mandatory, unless the fair value option is exercised. However, the allocation of equity instruments to FVTOCI is voluntary. In addition, the rules for reclassification of amounts recognised in other income for debt instruments and equity instruments also differ. SYZYGY does not make use of the fair value option.

The classification is established when the financial asset is recognised for the first time, i.e. when the entity becomes a counterparty to the contractual arrangements of the instrument. In certain cases, however, subsequent reclassification of financial assets may be necessary.

SYZYGY has transferred the government bonds and corporate bonds in its securities portfolio from the measurement category "available-for-sale" under IAS 39 to "financial assets measured at fair value through other comprehensive income (FVTOCI)" in accordance with IFRS 9. The securities portfolio is held by SYZYGY for short-term liquidity management. The contractually agreed cash flows are based solely on repayment of the nominal amount and interest on the outstanding nominal amount on specified dates.

As a result, securities that are allocated to the "held for trading" business model (FVTOCI) in accordance with IAS 9 are carried at cost when first reported, generally corresponding to fair value, and subsequently at the adjusted fair value on the valuation date. These values usually correspond to market values in the financial markets. Unrealised gains and losses are reported in the "Other net income" item in equity capital and in the statement of comprehensive income in "Change in unrealised gains and losses which does not affect income". Exceptions include non-temporary impairment losses, and gains and losses from foreign currency translation of monetary items, which are recognised in the statement of comprehensive income. If a security classified as FVTOCI is sold, the gains and losses previously accumulated in other net income are recognised in net income. Impairment of equity instruments recognised in income in the past is not reversed in net income. In contrast, reversals of impairment losses on debt capital instruments are recognised in net income.

SYZYGY has transferred cash and cash equivalents, accounts receivable, contract assets and other receivables from the "Loans and receivables" measurement category under IAS 39 to the "Amortised costs" category in accordance with IFRS 9. These financial instruments have fixed or determinable payments and are not quoted on an active market. They are measured at amortised acquisition cost using the effective interest method less impairment. Depending on their maturities, they are reported on the balance sheet as current or non-current financial assets.

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

In relation to the disclosures required under IFRS 7, classes are formed in line with the items reported on the balance sheet or the measurement category used in accordance with IFRS 9.

As in the previous year, SYZYGY did not hold any hybrid or derivative financial instruments in the reporting year.

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

The impairment model under IFRS 9 must also be applied to debt instruments whose changes in fair value are recognised in other comprehensive income (FVTOCI).

With the exception of financial assets that are already impaired on initial recognition, expected losses must be recognised in the following amounts:

- the ”expected 12-month loss” (present value of the expected credit losses that result from default events that are possible within 12 months after the reporting date); or
- the total loss expected over the remaining term of the instrument (present value of the expected credit losses that result from all default events that are possible over the remaining term of the financial instrument)

If an instrument has a ”low” default risk on the reporting date, SYZYGY assumes in line with IFRS 9 that default risk has not increased significantly. This applies to instruments whose rating is at least BBB- (investment grade). SYZYGY calculates the ”expected 12-month loss” for these securities and books the change in the impairment against other net income.

If a financial instrument is regarded as credit impaired at the time of acquisition or if there is a significant increase in default risk since the time of acquisition, SYZYGY reduces the value of the financial instrument by the ”lifetime expected loss”.

2.3 Accounts receivable and contract assets

Accounts receivable and contract assets are recorded at the time of revenue recognition, i.e. on delivery to the client. Recognisable risks are taken into account by making value adjustments through separate value adjustment accounts. Accounts receivable are stated at their nominal value if no allowances are necessary due to default risk. Receivables due after more than one year are discounted in line with market rates. Services performed are realised on a period-related basis using an input-oriented method (cost-to-cost method) depending on their stage of completion as defined in IFRS 15, and are also reported under accounts receivable and contract assets (see also section 2.9 Revenue recognition).

Contract liabilities mainly comprise advance payments received and are reported under ”Contract liabilities” on the liabilities side.

The impairment model under IFRS 9 also applies to accounts receivable and contract assets measured at amortised acquisition cost. Impairment losses under IFRS 9 are reported in a separate item on the statement of comprehensive income.

2.4 Treasury stock

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

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

2.5 Deferred taxes

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

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

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

2.6 Accounts payable and other provisions

In accordance with IFRS 9, current liabilities are shown at the time of acquisition at the settlement amount, which approximates to their market value. Non-current liabilities are determined according to the effective interest method by discounting the settlement amount, a process which is continued until maturity.

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

2.7 Contingent liabilities

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

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

2.8 Other assets and liabilities

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

2.9 Revenue recognition

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

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

Consulting services provided on a fixed-price basis are realised using an input-oriented method (cost-to-cost method) on a period-related basis. The percentage of completion of a project is calculated by the ratio of realised time units and other direct costs to all the time units and other direct costs planned for completion of the project.

Regular adjustments are made, based on updated planning. Provisions for expected losses on contracts are established in full in the period in which such losses become apparent. SYZYGY grants its customers payment terms of between 0 and 90 days.

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

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

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

2.10 Expenses for operating leases

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

In an operating lease, the lessor bears the major opportunities and risks, with the result that the leased asset is recognised on the lessor's balance sheet. The leasing instalments paid by the lessee during the period of the leasing arrangement are recognised in the income statement. SYZYGY did not have any leases classified as finance leases. SYZYGY did not apply IFRS 16 early.

2.11 Advertising expenses

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

2.12 Income taxes

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

2.13 Earnings per share

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

In addition to the outstanding shares, all outstanding options which have not been exercised and whose intrinsic value is positive would be taken into consideration when calculating diluted earnings.

2.14 Stock-based remuneration programmes

2013 stock option programme

In the 2013 financial year, the Group set up a stock option programme whereby the Group undertook to transfer a certain number of shares to employees after 3 years. If the employee leaves the SYZYGY Group prior to the end of the period, all claims arising from the stock option programme will lapse without compensation. Alternatively, the employee is entitled to receive the market value as at the date of transfer in cash, instead of the shares. This share-based remuneration programme with the counterparty's freedom to choose the method of payment is structured such that both settlement alternatives have the same fair value. As a result, according to IFRS 2.37 the fair value of the equity component is zero and thus corresponds to the fair value of the compound financial instrument of the debt component. Consequently, SYZYGY recognises the expenses pro rata temporis as a provision at fair value from the date of commitment to the stock programme.

Phantom stock programme

A phantom stock programme was also launched in 2015 and modified in the 2016 financial year. Under this arrangement the eligible employee receives the difference between the share price on the date of granting and the share price on exercise of the phantom stocks as a special payment. 40 per cent of the phantom stocks granted (Tranche 1) are not exercisable until at least 2 years have elapsed and will lapse after 3 years at the latest, while 60 per cent of the phantom stocks granted (Tranche 2) are not exercisable until at least 3 years have elapsed and will lapse after 4 years at the latest.

The maximum price increase (cap) is limited to 60 per cent for Tranche 1 and to 90 per cent in the case of Tranche 2. There is also a change of control clause in this programme. It stipulates that the options may be exercised extraordinarily within a period of 6 weeks after a takeover offer is completed. This involves share-based remuneration with cash settlement as defined in IFRS 2. As a consequence, the accounting principles described above are applied.

2.15 Government benefits

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

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

3. Notes to the consolidated balance sheet

3.1 Goodwill

Reported goodwill of kEUR 58,116 (previous year: kEUR 58,165) arose from the acquisitions of SYZYGY Media, Unique Digital UK, Hi-ReS! LON, Ars Thanea, USEEDS, SYZYGY Performance and diffferent.

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

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

- SYZYGY Media
- Unique Digital UK
- Hi-ReS! LON (fully written down)
- Ars Thanea
- USEEDS
- SYZYGY Performance
- diffferent

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

2018 in kEUR	Goodwill	Recoverable amount
diffferent	15,913	32,450
USEEDS	10,137	16,505
SYZYGY Media	8,841	26,240
SYZYGY Performance	8,747	18,999
Unique Digital UK	7,953	17,159
Ars Thanea	6,525	13,994
Total	**58,116**	**125,347**

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

An impairment test of goodwill was carried out as at December 31, 2018. The recoverable amount for the cash generating units was calculated on the basis of the value in use using cash flow forecasts as at December 31, 2018. The forecasts are based on financial planning approved by the Supervisory Board and updated each year. Business planning continues to be updated on a rolling basis over 5 years. It is developed by the management team together with the Management Board.

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

In the case of the Unique Digital UK and Hi-ReS! LON cash generating units in the UK, a risk-free interest rate of 1.80 per cent (previous year: 1.82 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent) and a sector beta of 0.73 (previous year: 0.33) were used as a basis, producing a WACC (Weighted Average Cost of Capital) of 6.4 per cent after tax (previous year: 3.9 per cent), or 7.9 per cent before tax (previous year: 4.8 per cent). An average tax rate of 19 per cent was applied (previous year: 19 per cent). In the case of Unique Digital UK, the business plans for 2019 are based on expected sales growth of 13 per cent (previous year: 2 per cent) and sales growth of 10 per cent p.a. (previous year: 9 to 10 per cent) from 2020 to 2023, and a terminal value of 1 per cent (previous year: 1 per cent). For 2019, the growth rate corresponds exactly to the budget plans of the cash generating unit, while subsequent developments are in line with the general market performance of the respective country.

Market research institutes expect the online advertising market in the United Kingdom to grow by around 6 per cent in 2019 (previous year: 7 per cent). Based on the underlying information, management did not identify any need in the updated analysis for impairment at Unique Digital UK, to which goodwill of kEUR 7,953 is allocated.

In the case of SYZYGY Media, USEEDS, SYZYGY Performance and diffferent in Germany, a risk-free interest rate of 0.86 per cent (previous year: 1.25 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent) and a sector beta of 0.73 (previous year: 0.33) were used as a basis, producing a WACC (Weighted Average Cost of Capital) of 5.4 per cent after tax (previous year: 3.3 per cent), or 7.9 per cent before tax (previous year: 4.8 per cent). An average tax rate of 31 per cent was applied (previous year: 31 per cent).

The business plan for SYZYGY Media envisages sales growth of 10 per cent (previous year: 10 per cent) for 2019 and 10 per cent p.a. sales growth (previous year: 3 to 4 per cent) for the years 2020 to 2023. The terminal value is set at 1 per cent growth (previous year: 1 per cent).

The business plan for USEEDS envisages sales growth of 7 per cent for 2019 (previous year: 9 per cent) and 10 per cent p.a. sales growth (previous year: 15 per cent) for the years 2020 to 2023. The terminal value is set at 1 per cent growth (previous year: 1 per cent).

The business plan for SYZYGY Performance envisages sales growth of 6 per cent for 2019 (previous year: 8 per cent) and 10 per cent p.a. for the years 2020 to 2023 (previous year: 15 to 19 per cent). The terminal value is set at 1 per cent growth (previous year: 1 per cent).

The business plan for diffferent envisages sales growth of 17 per cent for 2019 (previous year: 32 per cent) and 10 per cent p.a. sales growth for the years 2020 to 2023 (previous year: 13 per cent). The terminal value is set at 1 per cent growth (previous year: 1 per cent).

Market research institutes expect the online advertising market in Germany to grow by around 7 per cent in 2019 (previous year: 9 per cent). Based on the underlying information, management did not identify any need for impairment in Germany in its updated analysis. SYZYGY Media is allocated unchanged goodwill of kEUR 8,841, USEEDS is allocated goodwill of kEUR 10,137, SYZYGY Performance is allocated goodwill of kEUR 8,747 and diffferent is allocated goodwill of kEUR 15,913.

In the case of Ars Thanea in Poland, a risk-free interest rate of 0.86 per cent (previous year: 1.25 per cent), a risk premium of 6.25 per cent (previous year: 6.25 per cent), a sector beta of 0.73 (previous year: 0.33), a country-specific risk premium of 1.18 per cent (previous year: 0.98 per cent) and an inflation differential of 100.42 per cent (previous year: 100.45 per cent) were assumed, producing a WACC (Weighted Average Cost of Capital) of 7.1 per cent after tax (previous year: 4.8 per cent), or 8.7 per cent before tax (previous year: 5.9 per cent). An unchanged average tax rate of 19 per cent was applied. The business plan envisages sales growth of 11 per cent for 2019 (previous year: 14 per cent) and 10 per cent p.a. for the years 2020 to 2023 (previous year: 10 per cent).

The terminal value is set at 1 per cent growth (previous year: 1 per cent).

Market research institutes expect the online advertising market in Poland to grow by 4 per cent in 2019 (previous year: 9 per cent). Based on the underlying information, management did not identify any need in the analysis for impairment at Ars Thanea, to which goodwill of kEUR 6,525 is allocated.

If the key assumptions regarding interest rates, growth rates and margin development change, different values in use for the cash generating units will result. A rise of 100 basis points in the interest rate for 30-year government bonds would result in a rise in WACC before tax of the same extent in Germany and consequently a drop of around 11 per cent in values in use (previous year: 30 per cent) due to the higher discount factor. The effect on values in use in the United Kingdom and Poland would be similar. This would not lead to impairment of any CGU. If the growth rates for the companies decline by 50 per cent from 2019 onwards, there would still be no need for a write-down.

In the previous year, a rise of 100 basis points in the interest rate on 30-year government bonds in Poland would have resulted in a need for impairment of kEUR 506.

3.2 Goodwill, other intangible assets and fixed assets

Changes are as follows in the financial year:

2018 kEUR	Goodwill	Other intangible assets	Leasehold improvements	Operating and office equipment	Total
Acquisition or production costs at January 1, 2018	**60,161**	**2,911**	**5,252**	**5,771**	**74,095**
Additions	625	313	189	714	1,841
Disposals	-415	0	0	-29	-444
Exchange rate changes	-277	-5	1	-8	-289
Acquisition or production costs at December 31, 2018	**60,094**	**3,219**	**5,442**	**6,448**	**75,203**
Accumulated amortisation, depreciation and write-downs January 1, 2018	**1,996**	**1,538**	**1,245**	**3,317**	**8,096**
Additions	0	610	537	962	2,109
Disposals	0	0	0	-26	-26
Exchange rate changes	-18	-3	7	-3	-17
Accumulated amortisation, depreciation and write-downs December 31, 2018	**1,978**	**2,145**	**1,789**	**4,250**	**10,162**
Carrying value at December 31, 2018	**58,116**	**1,074**	**3,653**	**2,198**	**65,041**

Changes were as follows in the previous year:

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

Other intangible assets were tested for impairment as at December 31, 2018 using the same principles as for goodwill (3.1).

They include brand names worth kEUR 691 (prior year: kEUR 1,181) after foreign currency effects. This brand equity is due to first-time consolidation of Hi-ReS! LON, Unique Digital UK, Ars Thanea, USEEDS, SYZYGY Performance and diffferent. It is allocable to the United Kingdom segment in the amount of kEUR 122 (previous year: kEUR 123) and has an indeterminable useful life, since there is no foreseeable end to the economic life of these brands. Brand names belonging to Ars Thanea are no longer included (previous year: kEUR 26) as they were depreciated on a straight-line basis over 5 years after the company was acquired. They were allocated to the ”Other segments” segment. Brand equity for USEEDS and diffferent amounting to kEUR 569 (previous year with Catbird Seat: kEUR 1,032) is also included. This was likewise added in the course of acquiring the companies and will be amortised on a straight-line basis over a period of 5 years. This brand equity is allocated to the Germany segment. In the reporting period, complete impairment was applied to the Catbird Seat brand in the amount of kEUR 285.

Operating and office equipment mainly refers to hardware and office fittings. There were no indications of other impairments in the financial year.

3.3 Non-current financial assets

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

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

3.4 Other non-current assets

Other non-current assets comprise financial assets in the "Amortised costs" measurement category and are recognised in the amount of kEUR 294 (previous year loans and receivables: kEUR 219). As in the previous year, they exclusively comprise rent deposits paid.

3.5 Deferred tax assets

Deferred tax assets of kEUR 347 (previous year: kEUR 35) were reported in the financial year, of which no amounts were attributable to loss carry-forwards at SYZYGY AG (previous year: kEUR 96). There are also deferred tax assets resulting from different valuations for the securities, amounting to kEUR 39 (previous year: offset against deferred tax liabilities in the amount of kEUR 108). Non-tax deductible provisions at SYZYGY AG resulted in deferred tax assets of kEUR 53 (previous year: kEUR 16).

At SYZYGY Deutschland, deferred tax assets amounting to kEUR 13 (previous year: kEUR 5) were recognised due to different valuations of fixed assets.

kEUR 8 (previous year: kEUR 16) is attributable to loss carry-forwards at Ars Thanea, with total deferred tax assets being kEUR 35 (previous year: kEUR 26).

In addition, deferred tax assets of kEUR 26 are attributable to the impairment needed in accordance with IFRS 9. The composition of deferred tax assets is disclosed in section 5.7, Income taxes.

3.6 Cash and cash equivalents and securities

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

kEUR	12/31/2018	12/31/2017
Cash and cash equivalents	11,519	7,017

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

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

In the previous year, all securities were classified as available-for-sale financial assets at the reporting date. SYZYGY has transferred the government bonds and corporate bonds in its securities portfolio from the measurement category "available-for-sale" under IAS 39 to "FVTOCI" in accordance with IFRS 9. The securities portfolio is held by SYZYGY for short-term liquidity management. The contractually agreed cash flows are based solely on repayment of the nominal amount and interest on the outstanding nominal amount on specified dates. Unrealised gains or losses are taken into account in other net income until derecognition of the financial asset, while allowing for tax effects.

As can be seen in the following table, the market value of all securities as at December 31, 2018 was kEUR 588 below the acquisition cost (prior year: kEUR 179 above the acquisition cost). kEUR 253 (previous year: kEUR: 299) was attributable to unrealised price gains and kEUR 841 (previous year: kEUR 120) to unrealised price losses. Security purchases and sales are recorded on the value date. Of the unrealised profits and losses as at December 31, 2017 that had previously been recorded in other comprehensive income, kEUR 0 of valuation gains (previous year: kEUR 612) and kEUR 11 of valuation losses (previous year: kEUR 28) were realised in 2018.

Market value is determined using quoted market prices. The unrealised price gains and losses are reported in ”Change in unrealised gains and losses on FVTOCI securities after tax which does not affect income” in the statement of comprehensive income.

The performance of the securities portfolio is dependent on changes in interest rates and credit spreads. On average, the portfolio has a duration of around 6.7 years (previous year: 6.9 years). This means that if credit spreads rise by 100 basis points and interest rates stay the same, the value of the securities portfolio will decline by around 6.7 per cent.

SYZYGY reduces default risk on securities by ensuring that a rating of at least BBB- (i.e. investment grade) is required in the case of new investments. All investments are continually monitored with regard to changes in rating and the investment decision is reviewed. As a matter of policy, maximum exposure to a single issuer is limited to EUR 2.0 million. In the case of new investments with a BBB- rating, exposure is limited to EUR 1.0 million.

12/31/2018 kEUR	Acquisition cost	Unrealised gains	Unrealised losses	Carrying value/ market value
Securities (FVTOCI)	11,190	253	-841	**10,602**

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

The following table shows the maturities of securities as per December 31, 2018:

kEUR	< 1 year	1-5 years	5-10 years	Indefinite	Total
Securities (FVTOCI)	420	2,437	7,745	0	**10,602**

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

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

All securities with a maturity date are also subject to price changes which depend on credit spread changes and the remaining term to maturity. Some of the securities are also subject to exchange rate fluctuations. Although SYZYGY invests chiefly in EUR, it also holds securities denominated in USD and PLN.

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

3.7 Trade receivables and contract assets and contract liabilities

This item comprises the following:

kEUR	12/31/2018	12/31/2017
Accounts receivable	17,082	18,058
Contract assets	2,822	2,221
Total assets	**19,904**	**20,279**
Contract liabilities	**9,431**	**6,376**

Contract assets and sales of kEUR 2,822 (previous year: kEUR 2,221) are disclosed using an input-oriented method (cost-to-cost method) on a period-related basis for services not yet billed. Costs of kEUR 2,562 (previous year: kEUR 2,071) were incurred for these services. This results in a margin of kEUR 260 (previous year: kEUR 150).

According to IFRS 9, accounts receivable are financial assets that fall into the "Amortised costs" measurement category (previous year: Loans and receivables as per IAS 39). The table below shows the term structure of receivables billed to customers.

Appropriate individual value adjustments are made for recognisable default risks, while uncollectable receivables are written off. There were individual value adjustments of kEUR 129 (previous year: kEUR 55) in the current financial year.

In accordance with IFRS 9.5.5.15f., SYZYGY applied a simplified version of the general impairment model for the first time in the 2018 financial year. This involves taking into account the cumulative probabilities of default over the remaining term. At the beginning of the financial year, impairments of kEUR 45 were booked against profit reserves. The past financial year saw a reversal of kEUR 7.

The contractual liabilities of kEUR 9,431 mainly relate to advance payments received of kEUR 9,342 (previous year: kEUR 6,376). The contractual liabilities reported in the previous year were mainly recognised as revenue in the 2018 financial year.

In the case of online marketing companies, the contractual liabilities reported in the 2017 financial year were recognised as sales in the reporting period, less transitory items and/or media costs.

3.8 Other current assets

Other current assets as of December 31, 2018 and 2017 consist of the following:

kEUR	12/31/2018	12/31/ 2017
Tax receivables	745	758
Prepaid expenses	637	685
Interest receivables	207	47
Other	149	375
Total	**1,739**	**1,865**

All other current assets are due within 12 months. As financial assets, interest receivables fall into the "Amortised costs" measurement category in accordance with IFRS 9 and represent realisable financial instruments. They are shown in the following breakdown by maturity:

Interest receivables kEUR	0-90 days	90–180 days	181-360 days	Total
As of Dec. 31, 2018	177	30	0	**207**
As of Dec. 31, 2017	10	36	1	**47**

3.9 Equity

3.9.1 Subscribed capital

As of December 31, 2018, the fully paid-up subscribed capital of SYZYGY AG amounted to EUR 13,500,026 (previous year: 13,500,026). It comprised 13,500,026 (previous year: 13,500,026) no-par value bearer shares. These shares have a stated value of EUR 1.00.

SYZYGY did not carry out any capital increase or reduction in the 2018 financial year. In the previous year, SYZYGY carried out two capital increases against contributions in kind from authorised capital.

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

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

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

As at December 31, 2018, 73,528 no-par value shares (previous year: 73,528) belonged to treasury stock.

At the reporting date, the shares in SYZYGY AG were held as follows:

In thousands	Shares	per cent
WPP plc., St. Helier	6,795	50.33
Hauck & Aufhäuser Fund Service S.A.	416	3.09
HANSAINVEST Hanseatische Investment GmbH	408	3.03
Free float	5,807	43.01
Treasury stock	74	0.54
Total	**13,500**	**100.00**

3.9.2 Authorised and contingent capital

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

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

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

Contingent capital 2014 has not been used so far.

3.9.3 Additional paid-in capital

Additional paid-in capital includes the premium on the nominal amount resulting from the issue of shares by SYZYGY AG and was unchanged at kEUR 6,532 as at December 31, 2018.

3.9.4 Treasury stock

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

On May 29, 2015, the Annual General Meeting authorised the Management Board to acquire a maximum of 10 per cent of SYZYGY's outstanding shares until May 28, 2020. SYZYGY is authorised to resell or call in treasury shares, to offer them to employees of the Company as compensation, or to offer treasury shares to third parties in the course of acquiring companies.

As at December 31, 2018, SYZYGY thus held 73,528 treasury shares at an average acquisition cost of EUR 5.54.

3.9.5 Other net income

Other comprehensive income after tax summarised under "Other net income" amounted to kEUR -886 (previous year: kEUR -278) in the 2018 financial year and can be attributed to unrealised losses and impairments from securities in the FVTOCI category after tax (kEUR 579; previous year: kEUR 115) and losses from currency translation in non-EUR business operations (kEUR 307; previous year: kEUR 163). In the opening balance sheet for the 2018 financial year, other net income was increased by kEUR 50 due to adjustments resulting from impairments to securities recognised in accordance with IFRS 9. All changes can be reclassified (recycling) and are consequently only recorded temporarily in other net income. They may be reclassified to the statement of comprehensive income at a later stage.

3.9.6 Profit reserves

The consolidated financial statements showed profit reserves of kEUR 16,774 (previous year: kEUR 18,033) as of December 31, 2018. The change in profit reserves during the financial year corresponds to net income attributable to the shareholders of SYZYGY AG in the amount of kEUR 4,719 (previous year: kEUR 4,989) less the distributed dividend of kEUR 5,236 (previous year: kEUR 4,847) and the adjustment of kEUR 70 resulting from first-time application of IFRS 9, as well as distributions to minority shareholders of subsidiaries which, due to present ownership of 100 per cent, i.e. without showing non-controlling shares, are consolidated, in the amount of kEUR 672 (previous year: kEUR 180).

Dividend distributions are based on the distributable part of retained earnings disclosed in the annual financial statements of SYZYGY AG according to HGB (German Commercial Code). On June 15, 2018, the Annual General Meeting of SYZYGY AG approved a dividend of EUR 0.39 per eligible share (previous year: EUR 0.38), which was distributed starting on June 18, 2018. The remaining retained earnings of kEUR 2,771 (previous year: kEUR 6,976) were carried forward to new account

As of December 31, 2018, the financial statements of SYZYGY AG showed retained earnings of kEUR 7,065 (previous year: kEUR 8,007).

3.10 Stock-based compensation

2013 stock option programme

In the 2013 financial year, the Group set up a stock option programme whereby the Group undertook to transfer a certain number of shares to employees after 3 years. If the employee leaves the SYZYGY Group prior to the end of the period, all claims arising from the stock option programme will lapse without compensation. Alternatively, the employee is entitled to receive the market value as at the date of transfer in cash, instead of the shares. As at the reporting date, commitments for a total of 75,000 shares are outstanding, of which 20,000 from 2016, a further 30,000 from 2017 and 25,000 from 2018. The expenses are recognised pro rata temporis from the date of commitment to the stock programme, with the result that a provision for claims arising from the stock option programme in the amount of kEUR 231 was recognised as at the key date (previous year: kEUR 560). The allocation recognised in profit or loss was kEUR 146 in the financial year (previous year: kEUR 338).

kEUR	Number of options	Fair value
As at: December 31, 2017	**100,000**	**1,127**
New allocation	25,000	201
Exercised	-42,500	-409
Expired	-7,500	-85
Change in value	0	-231
As at: December 31, 2018	**75,000**	**603**

Phantom stock programme 2015

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

Andrew P. Stevens held a total of 72,000 phantom stocks as at December 31, 2017, which were exercised in 2018. Erwin Greiner held 45,000 phantom stocks, which expired in full in the 2018 financial year. The exercise price was EUR 9.00 for the phantom stocks of both Andrew P. Stevens and Erwin Greiner. On April 1, 2016, Chairman of the Management Board Lars Lehne received a total of 240,000 phantom stocks with an exercise price of EUR 9.13, which are still fully outstanding. Furthermore, on January 16, 2018, Frank Ladner was allocated 55,000 phantom stocks with a term beginning on December 29, 2017 at an exercise price of EUR 11.27; on February 6, 2018, Erwin Greiner was allocated 80,000 phantom stocks with a term beginning on December 29, 2017 at an exercise price of EUR 11.25, which are also still fully outstanding.

EUR	Number of options	Exercise price	Fair value
As at: December 31, 2017	**357,000**	**–**	**2.44**
Exercised I	-72,000	9.00	1.06
Expired	-45,000	9.00	–
New allocation	135,000	11.25	0.01
As at: December 31, 2018	**375,000**	**–**	**0.11**

The fair value of the phantom stocks on December 31, 2018 is calculated as the volume-weighted average of the difference between the exercise prices and the stock price as at December 31, 2018, and a fair value calculated by reference to the remaining term and volatility of the underlying instrument.

3.11 Accounts payable and other provisions

As at December 31, 2018 and 2017, accounts payable and other provisions consisted of:

kEUR	12/31/2018	12/31/2017
Accounts payable	**15,528**	**7,754**
Other provisions:		
– Obligations towards other parties	5,008	6,131
– Personnel-related provisions	2,876	2,840
– Other	399	245
Total other provisions	**8,283**	**9,216**

All accounts payable are due within one year and must be allocated to the "Amortised costs" measurement category under IFRS 9 (previously, under IAS 39, Financial liabilities at amortised costs). Personnel-related provisions mainly comprise the employee stock-based compensation plans described in section 3.10, employee bonuses and holidays.

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

SYZYGY operates as a service provider in online marketing and, in this regard, places advertising on websites of foreign portal operators. Some tax authorities have recently taken the view that service providers such as SYZYGY are obliged to retain and pay withholding taxes at the expense of the non-resident taxpayer (limited tax liability). According to informed opinion in the literature and other sections of the tax authorities, however, this should not usually be the case. As a result, withholding tax has not been withheld as part of business practice to date (either by SYZYGY or by competitors known to us). No objections have been raised in this respect during past tax audits at SYZYGY. There is as yet no coordinated statement by the tax authorities at national level, however. In this respect, there is a risk that SYZYGY could be required to retain withholding taxes and could be held liable to a material extent for non-payment of withholding taxes. As the risk of a future outflow of resources is currently rated as unlikely, provisions have not been recognised for this matter. Due to the unclear legal situation at present, it is not feasible to estimate the financial impact.

Statement of changes in provisions as of December 31, 2018 kEUR	Carrying value 01/01/2018	Usage	Reversal	Addition	Carrying value 12/31/2018
Obligations towards other parties	6,131	-4,798	-72	3,747	5,008
Personnel-related provisions	2,840	-1,924	-549	2,509	2,876
Other	245	-239	-6	399	399
Total other provisions	**9,216**	**-6,961**	**-627**	**6,655**	**8,283**

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

3.12 Income tax liabilities

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

kEUR	12/31/2018	12/31/2017
German income taxes	541	246
Polish income taxes	0	12
British income taxes	0	-3
Total	**541**	**255**

3.13 Other debts

The following table lists the components of other liabilities that are shown on the balance sheet under the items Other non-current liabilities and Other current liabilities, depending on their maturity:

kEUR	12/31/2018	12/31/2017
Financial liabilities due to contingent purchase price payments	13,982	16,292
Non-current liabilities to banks	4,113	5,164
VAT liability	1,731	1,669
Liabilities arising from future profit distributions to minority shareholders	625	415
Social security, salary and church taxes	591	708
Other	550	385
Total	**21,592**	**24,633**

The following table shows the maturities of other liabilities as at December 31, 2018:

kEUR	< 1 year	1-5 years	5-10 years	Indefinite	Total
Other liabilities	4,894	13,571	3,127	0	**21,592**

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

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

Liabilities due to contingent purchase price payments constitute financial liabilities and are classified under IFRS 9 as belonging to the FVTPL measurement category (previously under IAS 39: Financial liabilities at fair value through profit or loss). The remaining other liabilities excluding tax liabilities are allocated to the "Amortised costs" measurement category in accordance with IFRS 9 (formerly in accordance with IAS 39: Financial liabilities at amortised costs).

4. Segment reporting

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

As the holding company, SYZYGY AG mainly delivers services to the operating units and therefore needs to be considered separately as a provider of central functions. The United Kingdom segment consists of SYZYGY UK, Unique Digital UK and Hi-ReS! LON. The Germany segment comprises diffferent, SYZYGY Berlin, SYZYGY Deutschland, SYZYGY Media, SYZYGY Performance and USEEDS. As of this financial year, Ars Thanea and SYZYGY NY do not fulfil the size criteria to qualify as independent geographical segments and are thus presented as of this financial year under "Other segments". The previous year's disclosures have been adjusted accordingly.

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

The individual segments apply the same accounting principles as the consolidated entity. The criteria primarily used by SYZYGY AG to assess the performance of the segments include sales and EBIT. Sales to third parties are allocated on the basis of the registered office of the company unit that makes the sale. Information on the geographical regions in relation to segment sales and non-current assets can be derived from the segment disclosures summarised below. Sales included in segment reporting consist of sales to external clients and intersegment sales. Transactions within segments, which are charged at market prices, were eliminated.

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

Segment investments comprise investments in intangible assets and fixed assets.

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

SYZYGY generated more than 10 per cent of consolidated sales with one client across all operating segments.

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

12/31/2018 in kEUR	Germany	United Kingdom	Other segments	Central functions	Consolidation	Total
Billings	107,788	33,951	32,754	276	-9,676	**165,093**
Media costs	-61,220	-19,808	-25,241	0	6,992	**-99,277**
Sales	46,568	14,143	7,513	276	-2,684	**65,816**
of which internal sales	993	213	1,478	0	-2,684	**0**
Operating income (EBIT)	6,572	-41	873	-1,292	-45	**6,067**
Financial income	266	17	-8	7,392	-7,197	**470**
Earnings before tax (EBT)	6,838	90	865	6,100	-7,356	**6,537**
Assets	78,484	17,526	11,713	93,876	-91,953	**109,646**
of which non-current assets	47,428	9,653	6,827	1,184	-51	**65,041**
of which goodwill	43,638	7,953	6,525	0	0	**58,116**
Investments	1,561	33	62	247	-62	**1,841**
Depreciation and amortisation	1,396	395	204	131	-17	**2,109**
Impairment on goodwill	0	0	0	0	0	**0**
Segment liabilities	31,878	5,685	3,660	35,111	-20,689	**55,645**
Employees as per balance sheet date	362	94	84	22	0	**562**

12/31/2017 in kEUR	Germany	United Kingdom	Other segments	Central functions	Consolidation	Total
Billings	75,110	45,364	34,662	2,450	-5,421	**152,165**
Media costs	-34,811	-30,720	-25,965	0	0	**-91,496**
Sales	40,299	14,644	7,784	2,450	-4,508	**60,669**
of which internal sales	3,344	140	1,024	0	-4,508	**0**
Operating income (EBIT)	3,309	898	762	-873	0	**4,096**
Financial income	135	-1	1	7,565	-6,260	**1,440**
Earnings before tax (EBT)	-1,688	897	763	6,692	-1,128	**5,536**
Assets	69,975	20,314	11,008	90,476	-87,195	**104,578**
of which non-current assets	47,675	10,103	7,154	1,067	0	**65,999**
of which goodwill	43,428	8,024	6,713	0	0	**58,165**
Investments	2,359	1,923	136	1,186	0	**5,604**
Depreciation and amortisation	1,514	216	195	158	0	**2,083**
Impairment on goodwill	0	0	0	0	0	**0**
Segment liabilities	22,402	7,332	2,738	31,497	-15,324	**48,645**
Employees as per balance sheet date	398	117	82	24	0	**621**

5. Notes on the statement of comprehensive income

5.1 Sales

The sales figures include sales revenue from the product areas online marketing and design & build. The sales figures are arrived at by deducting media costs from billings. Media costs are incurred in the online marketing companies as transitory items. Billings include all invoices to third parties, i.e. both our own (in the design & build product area) and those in our own name and for the account of a third party (online marketing). In 2018, the SYZYGY Group generated sales of kEUR 47,492 from design & build (previous year: kEUR 44,944) and billings of kEUR 118,807 (previous year: kEUR 110,573) from online marketing. Online marketing includes media costs of kEUR 99,517 (previous year: kEUR 91,497), resulting in sales of kEUR 19,290 (previous year: kEUR 19,076). Internal sales of kEUR 645 (previous year: kEUR 455) were conducted between the product areas as well as sales to or from the parent company amounting to kEUR 321 (previous year: kEUR 2,897), which were completely eliminated in the consolidated financial statements.

Breakdown of external sales by product area and geographical criterion, with SYZYGY AG presented as part of the design & build product area and the Germany segment:

In TEUR	Germany	United Kingdom	Other segments	Total
Design & Build	35,108	8,727	3,089	**46,924**
Online marketing	10,743	5,203	2,946	**18,892**
Total	**45,851**	**13,930**	**6,035**	**65,816**

5.2 Other operating income and expenses

Other operating income and expenses consist of the following:

kEUR	2018	2017
Time value measurement of earn-out and options liabilities	976	3,053
Subletting	655	139
Reversal of provisions	626	12
Employee usage of company cars	166	156
Refund from health insurance funds	139	23
Exchange rate effects	89	131
Refund of ancillary costs	0	31
Amortisation of corporate assets	-488	-554
Other	43	246
Total	**2,206**	**3,237**

5.3 Cost of purchased services

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

kEUR	2018	2017
Cost of purchased services	8,139	8,281

5.4 Personnel expenses

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

kEUR	2018	2017
Salaries and wages	31,698	31,935
Social security	4,981	4,752
Total	**36,680**	**36,687**

SYZYGY spent kEUR 241 on a defined contribution pension plan in the 2018 financial year.

In 2018, the average number of full-time employees in the SYZYGY Group was 574 (previous year: 591 employees).

By the end of the 2018 financial year, the total number of SYZYGY employees had decreased to 562 (previous year: 621 employees). The employees are distributed across the following functional areas within the Company:

Number of persons	12/31/2018	12/31/2017	Average in 2018	Average in 2017
Strategy/consulting	118	106	113	72
Project management	68	93	75	95
Online marketing/ online media	124	137	128	129
Technology	101	103	100	113
Design	75	94	81	108
Administration	76	88	77	74
Total	**562**	**621**	**574**	**591**

5.5 Depreciation and write-downs

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

kEUR	2018	2017
Amortisation of intangible assets	610	664
Depreciation of fixed assets	1,499	1,419
Total	**2,109**	**2,083**

In the 2018 financial year, complete impairment of the Catbird Seat brand in the amount of kEUR 285 is included in the amortisation of intangible assets. The previous year included a complete impairment of the Hi-ReS! Brand in the amount of kEUR 196.

5.6 Financial income

kEUR	2018	2017
Interest and similar income	498	666
Income from the sale of securities	132	1,381
Total financial income	**630**	**2,047**
Interest expense and similar expenses	-90	-46
Expenses from the sale of securities	-67	-561
Impairment losses under IFRS 9, net	-3	0
Total financial expenses	**-160**	**-607**
Total financial income	**470**	**1,440**

Interest and similar income, interest expense and similar expenses and income from the sale of securities are mainly derived under IFRS 9 from the FVTOCI measurement category (previous year: available-for-sale under IAS 39). Interest expense includes interest expense as defined in section 233a of the German Fiscal Code (Abgabenordnung, AO).

Financial income also includes impairment loss on securities in accordance with IFRS 9, amounting to kEUR 3. No securities were found to be impaired when added, or to have an increased default risk. As a result, impairment was calculated on the basis of the expected probabilities of default for the next 12 months.

5.7 Income taxes

kEUR	2018	2017
Current domestic income taxes	1,494	645
Current foreign income taxes	320	327
Subtotal of current income taxes	**1,814**	**972**
Deferred taxes	-167	329
Total	**1,647**	**1,301**

In Germany, a uniform corporation tax rate of 15 per cent applies. The tax rate amounts to 15.8 per cent when the solidarity surcharge of 5.5 per cent is taken into account. The tax rate for trade tax payable by the SYZYGY AG group changed marginally compared with the previous year. The allocation of trade tax between the Bad Homburg v.d.H., Frankfurt, Hamburg and Munich locations is weighted on the basis of the total salaries at the respective locations, with trade tax rates unchanged. The applicable tax rate for the group parent was 31 per cent, as in the previous year.

In the United Kingdom, a general tax rate of 19 per cent applies since April 1, 2017.

In the US, there is a federal tax of 34 per cent plus local taxes applicable to SYZYGY NY of around 2 per cent.

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

SYZYGY paid income tax of kEUR 10 net in arrears in the 2018 financial year (previous year: refunds of kEUR 121). Due to the use of loss carry-forwards, tax expense was reduced by kEUR 96 (previous year: kEUR 530). Deferred tax assets and liabilities can be summarised as follows:

kEUR	2018	2017
Deferred taxes (assets)		
Current assets (securities)	220	-108
Provisions	55	16
Fixed assets	21	5
Loss carry-forwards at Ars Thanea	8	16
Loss carry-forwards at SYZYGY AG	0	96
Impairments under IFRS 9	25	0
Other	18	10
Total	**347**	**35**

kEUR	2018	2017
Deferred taxes (liabilities)		
diffferent brand	130	164
Accounts receivable	49	14
USEEDS brand	46	67
Fixed assets	24	43
Unique Digital brand	21	30
SYZYGY Performance brand	0	88
Ars Thanea brand	0	5
Total	**270**	**411**

The deferred tax assets at SYZYGY AG as the parent company are recorded on the different valuations of provisions and on valuation differences for securities.

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

As in the previous year, SYZYGY AG no longer used any usable tax loss carry-forwards for corporation tax and fully used the loss carry-forwards for trade tax (previous year: kEUR 636).

Ars Thanea had usable tax loss carry-forwards of kEUR 42, for which deferred tax assets of kEUR 8 were recognised.

As at December 31, 2018, the Group has tax loss carry-forwards that have not yet been used and are usable without restriction at SYZYGY Berlin in the amount of kEUR 2,203 (previous year: kEUR 2,262) for corporation tax and kEUR 2,618 (previous year: kEUR 2,262) for trade tax. No deferred tax assets have been recognised in this respect.

First-time application of impairments in accordance with IFRS 9 resulted in deferred tax assets in the amount of kEUR 25, which were booked against profit reserves in the opening balance sheet. Changes in these impairments from the 2018 financial year onwards will be recognised either in net income or such that net income is not affected, depending on the basis.

The deferred tax liabilities result from first-time consolidation of subsidiaries in the amount of kEUR 197 (previous year: kEUR 355), and in the amount of kEUR 24 (previous year: kEUR 57) due to differences in the useful lives of the assets between valuations in accordance with IFRS and the tax accounts at SYZYGY UK and Unique Digital UK, as well as due to different valuations of accounts receivable at Ars Thanea of kEUR 49 (previous year: kEUR 14).

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

kEUR	2018	2017
Income before taxes	6,537	5,536
Income tax expense at a tax rate of 31 % (previous year: 31 %)	2,026	1,716
Expected taxable value of income not subject to tax/non-deductible expenditure	-201	-975
Differences in tax rates	-95	-97
Tax effect on loss carry-forwards for which no deferred tax assets were recognised	-20	701
Tax arrears from previous years	32	0
Tax refunds from previous years	-22	-121
Other	-73	77
Actual income tax	**1,647**	**1,301**

The tax rate differences result from an average tax rate of 31 per cent in Germany compared with around 36 per cent in the US, 19 per cent in the United Kingdom and 19 per cent in Poland. In the United Kingdom, a tax rate of 19 per cent applies since April 1, 2017. Deferred taxes were accounted for taking future tax rates into consideration. In the 2018 financial year, deferred tax liabilities of kEUR 188 (previous year: kEUR 86) were attributable to items that were offset directly against equity. The change in the valuation differences of kEUR 261 (previous year: kEUR 58) is recorded in other comprehensive income. These amounts resulted essentially from taking into account price gains and losses on securities held as current assets such that net income was not affected.

As at the balance sheet date, there were taxable temporary differences in connection with shares held in subsidiaries amounting to kEUR 93 (previous year: kEUR 125), for which no deferred tax liabilities have been recognised.

5.8 Notes on currency translation

In accordance with IAS 21.52, currency translation differences of kEUR 315 (previous year: kEUR -149) were recorded in other net income for the period such that net income is not affected and aggregated in other net income.

6. Other notes

6.1 Earnings per share

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

	2018	2017
Weighted average number of shares (in thsd.), diluted and basic	13,421	12,920
Net income of SYZYGY AG shareholders (kEUR)	4,719	4,989
Earnings per share, diluted and basic (EUR)	0.35	0.39

6.2 Consolidated statement of cash flows

When preparing the consolidated statement of cash flows in accordance with IAS 7, the indirect method is used to prepare the cash flow from operating activities and the direct method is used for cash flow from investment and financing activities. In 2018, operating cash flow amounted to kEUR 16,357 (previous year: kEUR 4,778).

The cash and cash equivalents comprise exclusively cash and cash equivalents with a contractual remaining term to maturity of less than three months.

In the course of the 2018 financial year, the Group conducted the following non-cash investment and financing transactions, which are reflected accordingly in a correction item in the consolidated statement of cash flows:

An increase in the earn-out liability associated with acquiring Ars Thanea resulted in expenses of kEUR 272 (previous year: income of kEUR 832). The Group obtained net income of kEUR 1,236 from changes in the option and forward contract liabilities for acquiring the outstanding shares in USEEDS, SYZYGY Performance and diffferent (previous year: kEUR 2,343).

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

		Liabilities to banks	Financial liabilities	Total
		kEUR	kEUR	kEUR
12/31/2017		5,164	10,230	**15,394**
Change affecting payments	Cash inflow	0	0	**0**
	(Net) new addition of financial liabilities	0	0	**0**
	Cash outflow	-1,051	-1,898	**-2,949**
	(Net) repayment of financial liabilities	-1,051	-1,898	**-2,949**
Change not affecting payments	(Net) effects from first-time consolidation	0	0	**0**
	Remeasurement of earn-outs	0	272	**272**
	Remeasurement of call options	0	-1,236	**-1,236**
	Income to be transferred to fully consolidated companies		625	**625**
12/31/2018		4,113	7,993	**12,106**
Overall change		-1,051	-2,237	**-3,288**

		Liabilities to banks	Financial liabilities	Total
		kEUR	kEUR	kEUR
12/31/2016		0	6,879	**6,879**
Change affecting payments	Cash inflow	5,000	0	**5,000**
	(Net) new addition of financial liabilities	5,000	0	**5,000**
	Cash outflow	-263	-180	**-443**
	(Net) repayment of financial liabilities	-263	-180	**-443**
Change not affecting payments	(Net) effects from first-time consolidation	427	13,059	**13,486**
	Remeasurement of earn-outs	0	-832	**-832**
	Remeasurement of call options	0	-2,343	**-2,343**
	Income to be transferred to fully consolidated companies	0	366	**366**
	Outstanding contributions for equity interests	0	**160**	**160**
12/31/2017		5,164	17,109	**22,273**
Overall change		5,164	10,230	**15,394**

6.3 Risk and capital management

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

6.3.1 Currency risk

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

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

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

SYZYGY's portfolio also includes bonds issued in Polish zloty. If the zloty were to lose 10 per cent of its value against the euro, SYZYGY would have to bear currency losses of kEUR 42 (previous year: kEUR 119) when selling these bonds or re-assessing their market value.

SYZYGY's portfolio also includes bonds issued in US dollars. If the US dollar were to lose 10 per cent of its value against the euro, SYZYGY would have to bear currency losses of kEUR 200 (previous year: kEUR 217) when selling these bonds or re-assessing their market value.

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

6.3.2 Interest risk

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

Sensitivity analyses regarding interest rate changes must be presented in accordance with IFRS 7. Since SYZYGY classifies securities as FVTOCI under IFRS 9, interest rate changes have no immediate impact on the Group's earnings. Unrealised gains and losses are recognised in other comprehensive income and carried in equity under "Other net income".

As at the balance sheet date, EUR 10.6 million (previous year: EUR 9.0 million) was invested in a securities portfolio with a duration of around 6.7 (previous year: 6.9) years. An interest rate change of 100 basis points with regard to these investments would result in a change in the fair value of the portfolio of around 6.7 per cent (previous year: 6.9 per cent). This would lead to a change in the fair value of around kEUR 710 (previous year: kEUR 616). Increases in interest rates have a negative effect on performance of the portfolio, while decreases have a positive effect.

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

Securities

SYZYGY is exposed to credit and default risk from operations and also with regard to securities investments. SYZYGY reduces default risk on securities by ensuring that a rating of at least BBB– (i.e. investment grade) is required in the case of new investments. All investments are continually monitored with regard to changes in rating and the investment decision is reviewed. As of the reporting date, SYZYGY only held bonds with a minimum rating of B+. As a matter of policy, maximum exposure to a single issuer is limited to EUR 2.0 million. All securities are also subject to price changes which depend on credit spread changes and the remaining term to maturity. A widening of credit spreads in a risk class leads to a corresponding price decrease, depending on the duration of a security. If the duration of the securities portfolio is 6.7 years (previous year: 6.9 years) and average credit spreads widen by 100 basis points, the portfolio's value would fall by 6.7 per cent (previous year: 6.9 per cent). This would lead to a change in the fair value of around kEUR 710 (previous year: kEUR 616) for SYZYGY.

The probabilities of default for a 12-month period are based on historical information provided by rating agency Standard & Poor's for each credit rating.

In the case of securities, the maximum default risk is limited to their acquisition costs.

The default risk for FVTOCI bonds as at the reporting date, by currency, is as follows:

kEUR	2018	2017
EUR	8,177	5,601
USD	2,005	2,172
PLN	420	1,191
Total	**10,602**	**8,964**

Value adjustments for FVTOCI bonds changed during the year as follows:

kEUR	2018
As at: January 1 as per IAS 39	**0**
Adjustment resulting from first-time application of IFRS 9	50
As at: January 1 as per IFRS 9	50
Net remeasurement of value adjustments	3
As at: December 31	**53**

The investments held as at December 31, 2017 were previously classified as available-for-sale. No impairment losses were recognised at that time or during 2017.

Accounts receivable

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

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

The default risk of accounts receivable is shown in the following table:

kEUR	Germany	United Kingdom	Other segments	Central functions	Total
12/31/2018	11,147	4,909	1,016	10	**17,082**
12/31/2017	9,952	5,127	2,342	637	**18,058**

The Group uses a value adjustment matrix to measure expected credit losses on accounts receivable from its large number of clients because they comprise a very large number of small balances. The loss rates are calculated using the rolling rate method. This is based on the probability that a receivable will progress through successive stages as payment is delayed. Rolling rates are calculated separately for defaults in different segments, based on the following general credit attributes. The following table contains information on the estimated default risk for accounts receivable as at December 31, 2018.

Accounts receivable in kEUR	Loss rate	Gross carrying value	Value adjustment	Impaired creditworthiness
Not due	0%	7,586	0	No
0-30 days	0%	6,834	0	No
31-60 days	0%	1,258	0	No
61-90 days	0%	699	0	No
91-120 days	2%	354	7	No
121-180 days	5%	216	17	No
181 days – 1 year	10%	261	14	No
More than a year	50%	-88	0	No
Total		**17,120**	**38**	

Comparative information based on IAS 39

Analysis of the recoverability and age structure of accounts receivable that are neither overdue nor impaired was as follows as at December 31, 2017:

Accounts receivable in kEUR	Not due	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181 days – 1 year	More than 1 year	Total
As at: December 31, 2017	4,300	10,082	2,566	358	238	204	310	0	**18,058**

Value adjustments relating to accounts receivable and contract assets changed as follows. Comparative figures for 2017 show the value adjustment account based on IAS 39.

kEUR	2018	2017	
		Individual value adjustments	General value adjustment
As at: January 1 as per IAS 39	**0**	**55**	**0**
Adjustment resulting from first-time application of IFRS 9	45	0	0
As at: January 1 as per IFRS 9	**45**	**0**	**0**
Net remeasurement of value adjustments	-7	74	0
As at: December 31	**38**	**129**	**0**

6.3.4 Derivative financial instruments

As in the previous year, SYZYGY did not use derivative financial instruments for risk diversification and portfolio structuring in the 2018 financial year.

6.3.5 Capital management

SYZYGY's capital management policy is primarily aimed at financing both organic and inorganic growth and ensuring the ongoing course of business in the operating companies. SYZYGY aims to have a high equity ratio, since this strengthens the competitiveness of a service provider such as SYZYGY. Due to first-time adoption of IFRS 16 in 2019 and the resulting increase in total assets of some EUR 22 million, SYZYGY will no longer be able to meet the former target of 60-80 per cent.

A further capital management objective over the medium term is to raise the return on equity to over 10 per cent. In order to achieve these objectives, SYZYGY is seeking organic and inorganic growth together with an increase in profitability.

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

kEUR	2018	2017
Equity according to the balance sheet	54,001	55,933
Debt capital	55,645	48,645
Total capital	109,646	104,578
Equity ratio	49%	53%
Net income for the period	4,890	4,235
Return on equity	9%	8%

At the end of the 2018 financial year, SYZYGY only has liabilities to banks in the amount of kEUR 4,113 (previous year: kEUR 5,164); debt capital primarily comprises accounts payable, future obligations arising from the acquisition of companies and tax liabilities.

6.3.6 Liquidity risk

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

6.4 Contingent liabilities

As at the balance sheet date, the Group's contingent liabilities requiring disclosure amounted to kEUR 530 (previous year: kEUR 546) arising from the provision of rent guarantees for rental space in Bad Homburg v. d. H., Frankfurt, Hamburg and Munich. The risk of a claim being made in relation to the guarantees depends on the ability of the companies occupying the rental space to service the obligations resulting from the tenancy and their business operations. At present there are no indications that the subsidiaries will be unable to comply with their agreements. SYZYGY has agreed an indefinite guarantee loan of kEUR 530 (previous year: kEUR 546) with a financial institution, for which annual commission of 0.5 per cent is charged.

6.5 Other financial obligations

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

kEUR	12/31/2018	12/31/2017
Within 1 year	3,587	3,329
1–5 years	11,994	13,438
More than 5 years	10,836	14,444
Total	**26,417**	**31,211**

Total expenses for rent in 2018 amounted to kEUR 4,656 (prior year: kEUR 4,052). Income of kEUR 655 was obtained from subletting in 2018 (previous year: kEUR 139). In 2018, kEUR 249 (prior year: kEUR 157) was spent on leasing obligations.

6.6 Recognised financial assets and liabilities by measurement level

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

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

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

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

Securities are measured on the basis of observable quotation of the individual bonds. The valuation of contingent purchase price commitments is based on earnings forecasts for the subsidiaries diffferent and SYZYGY Performance as well as for USEEDS, in each case for the period under review. These are valued in accordance with the purchase agreements, using the respective EBIT multiples for the periods prior to exercise of the option or forward contract. If the future cash flows of the subsidiaries for which SYZYGY recognises a contingent purchase price obligation increase by 10 per cent, the liability resulting from the purchase price obligation will also increase by 10 per cent or kEUR 1,398.

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

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

12/31/2018 in kEUR	Level 1	Level 2	Level 3	Total
Securities	10,602	–	–	10,602
Total financial assets	**10,602**	**–**	**–**	**10,602**
Conditional purchase price commitment	–	–	13,982	13,982
Total financial liabilities	**–**	**–**	**13,982**	**13,982**

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

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

kEUR	2018	2018	2017	2017
Financial assets and liabilities that are not measured at fair value	Receivables "Amortised costs"	Liabilities "Amortised costs"	Receivables "Amortised costs"	Liabilities "Amortised costs"
Other non-current assets	294	0	219	0
Cash and cash equivalents	11,519	0	7,017	0
Accounts receivable and contract assets	19,904	0	20,279	0
Interest receivables in other current assets	207	0	47	0
Accounts payable	0	15,528	0	7,754
Loans to banks	0	4,113	0	5,164
Total	**31,924**	**19,641**	**27,562**	**12,918**

6.7 Statement of controlled investments of SYZYGY AG

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

	Share	Equity	Net income
	%	kEUR	kEUR
Ars Thanea S.A., Warsaw, Poland	70	1,329	565
diffferent GmbH, Berlin, Germany	70	2,425	800
Hi-ReS! London Ltd., London, UK	100	0	0
SYZYGY Berlin GmbH, Berlin, Germany	99	-1,136	67
SYZYGY Deutschland GmbH, Bad Homburg v. d. H., Germany[2]	100	166	36
SYZYGY Digital Marketing Inc., New York City, USA	100	199	192
SYZYGY Media GmbH, Hamburg, Germany[3]	100	40	0
SYZYGY Performance GmbH, Munich, Germany	51	844	608
SYZYGY UK Ltd., London, UK[1]	100	1,655	-130
Unique Digital Marketing Ltd., London, UK[1]	100	5,809	149
USEEDS° GmbH, Berlin, Germany	80	871	405

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

6.8 Auditor's fee

Theauditor,BDOAGWirtschaftsprüfungsgesellschaft, charged a total fee, including outlay, of kEUR 126 (previous year: kEUR 113) for auditing services relating to the consolidated financial statements and the financial statements of the parent company. As in the previous year, no other assurance services or non-audit services were provided by BDO AG Wirtschaftsprüfungsgesellschaft.

6.9 Information on associated companies and persons

The associated persons include the boards of SYZYGY AG and companies on which SYZYGY can exert a material influence. SYZYGY AG has been a controlled and fully consolidated company of WPP plc, St. Helier, Jersey, since November 2015, after the WPP Group increased its shareholding in SYZYGY AG from just under 30 per cent to over 50 per cent in the course of a voluntary takeover offer. As a result, all companies in the WPP Group are likewise qualified as associated persons and companies.

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

In 2018, SYZYGY generated sales of kEUR 601 (previous year: kEUR 617) with the WPP Group for client projects. Of this amount, receivables of kEUR 151 (previous year: kEUR 22) were still outstanding as at the reporting date. During the financial year, SYZYGY also made use of administrative and operational services provided by the WPP Group with a value of kEUR 60 (previous year: kEUR 123). Liabilities of kEUR 21 (previous year: kEUR 2) were still outstanding as at the reporting date.

With the exception of remuneration for members of the Management Board and their transactions with SYZYGY shares (see section 6.12.1 and 6.13) and compensation for the Supervisory Board and their transactions with SYZYGY shares (see section 6.12.2 and 6.13), no transactions that were not included in the consolidated financial statements were carried out with associated parties in 2018 and 2017. In the 2018 financial year, SYZYGY recorded rental expenses of kEUR 9 which were invoiced by the Chairman of the Supervisory Board and settled in full by SYZYGY.

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

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

6.11 Events after the balance sheet date

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

6.12 Parent company boards

6.12.1 Management Board

Lars Lehne, Hamburg

Chairman of the Management Board (CEO)
Managing Director, SYZYGY Deutschland GmbH, Bad Homburg v.d.H
Managing Director, SYZYGY Berlin GmbH, Berlin
Managing Director, SYZYGY Performance GmbH, Munich
Managing Director, diffferent GmbH, Berlin
Managing Director, USEEDS GmbH, Berlin
Director, SYZYGY Digital Marketing Inc., New York, USA

Frank Ladner, Heusenstamm

Member of the Management Board (CTO)
Member of the Supervisory Board, Ars Thanea S.A., Warsaw, Poland

Erwin Greiner, Bad Nauheim

Finance Director (CFO)
Director, SYZYGY UK Ltd., London, United Kingdom
Director, Unique Digital Marketing Ltd., London, United Kingdom
Director, Hi-ReS! London Ltd., London, United Kingdom
Director, SYZYGY Digital Marketing Inc., New York, USA
Member of the Supervisory Board, Ars Thanea S.A., Warsaw, Poland

The members of the Management Board did not hold supervisory board membership or any similar positions outside the SYZYGY Group in 2018.

In the 2018 financial year, total remuneration of the Management Board amounted to kEUR 873 (previous year: kEUR 1,216). Lars Lehne received a basic salary of kEUR 300, fringe benefits of kEUR 14, pension benefits of kEUR 21 and a variable salary of kEUR 39. Frank Ladner received a basic salary of kEUR 200, fringe benefits of kEUR 12, pension benefits of kEUR 16 and a variable salary of kEUR 27. Erwin Greiner received a basic salary of kEUR 180, fringe benefits of kEUR 12, pension benefits of kEUR 16 and a variable salary of kEUR 36. The pension benefits take the form of payments to benevolent funds.

A termination agreement was signed with Andrew P. Stevens on December 4, 2017 and he was released from his duties at SYZYGY AG with effect from December 1, 2017 until he left the company on June 30, 2018. His salary entitlement was accrued in full up to December 31, 2017. He stepped down from the Management Board as of December 31, 2017. In the 2018 financial year, Andrew P. Stevens received a basic salary of kEUR 124, fringe benefits of kEUR 7, pension benefits of kEUR 6 and a variable salary of kEUR 76.

In the 2017 financial year, total remuneration of the Management Board amounted to kEUR 1,216. Lars Lehne received a basic salary of kEUR 300, fringe benefits of kEUR 14, pension benefits of kEUR 21 and a variable salary of kEUR 74. Andrew P. Stevens received a basic salary of kEUR 251, fringe benefits of kEUR 15, pension benefits of kEUR 13 and a variable salary of kEUR 131. Erwin Greiner received a basic salary of kEUR 180, fringe benefits of kEUR 12, pension benefits of kEUR 16 and a variable salary of kEUR 189. Erwin Greiner exercised a total of 10,000 options in 2017.

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

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

Andrew P. Stevens held a total of 72,000 phantom stocks as at December 31, 2017, which were exercised in 2018. Erwin Greiner held 45,000 phantom stocks, which expired in full in the 2018 financial year. The exercise price was EUR 9.00 for the phantom stocks of both Andrew P. Stevens and Erwin Greiner. On April 1, 2016, Chairman of the Management Board Lars Lehne received a total of 240,000 phantom stocks with an exercise price of EUR 9.13, which are still fully outstanding. Furthermore, on January 16, 2018, Frank Ladner was allocated 55,000 phantom stocks with a term beginning on December 29, 2017 at an exercise price of EUR 11.27; on February 6, 2018, Erwin Greiner was allocated 80,000 phantom stocks with a term beginning on December 29, 2017 at an exercise price of EUR 11.25, which are also still fully outstanding.

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

Benefits granted	Lars Lehne, CEO 2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	300	300	300	300
Fringe benefits	14	14	14	14
Total	**314**	**314**	**314**	**314**
One-year variable remuneration	99	99	0	99
Multi-year variable remuneration				
Phantom stock programme	0	0	0	0
Total	**99**	**99**	**0**	**99**
Pension benefits	21	21	21	21
Total remuneration	**434**	**434**	**335**	**434**

Benefits granted	Andrew P. Stevens, COO (Management Board member until 12/31/2017) 2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	0	251	0	0
Fringe benefits	0	15	0	0
Total	**0**	**266**	**0**	**0**
One-year variable remuneration	0	38	0	0
Multi-year variable remuneration				
Phantom stock programme	0	0	0	0
Total	**0**	**38**	**0**	**0**
Pension benefits	0	13	0	0
Total remuneration	**0**	**317**	**0**	**0**

Benefits granted	Erwin Greiner, CFO 2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	180	180	180	180
Fringe benefits	12	12	12	12
Total	**192**	**192**	**192**	**192**
One-year variable remuneration	54	54	0	54
Multi-year variable remuneration				
Phantom stock programme	124	0	0	702
Total	**178**	**54**	**0**	**756**
Pension benefits	16	16	16	16
Total remuneration	**386**	**262**	**208**	**964**

Benefits granted	Frank Ladner, CTO 2018	2017	2018 Minimum	2018 Maximum
	kEUR	kEUR	kEUR	kEUR
Fixed remuneration	200	0	200	200
Fringe benefits	12	0	12	12
Total	**212**	**0**	**212**	**212**
One-year variable remuneration	60	0	0	60
Multi-year variable remuneration				
Phantom stock programme	85	0	0	483
Total	**145**	**0**	**0**	**543**
Pension benefits	16	0	16	16
Total remuneration	**373**	**0**	**228**	**771**

6.12.2 Supervisory Board

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

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

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

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

The Supervisory Board members received total remuneration of kEUR 60 for their work in the 2018 financial year. This includes fixed remuneration of kEUR 20 each (previous year: kEUR 20). As in the previous year, the Supervisory Board members did not receive any variable remuneration. The remuneration for Ralf Hering and Andrew Payne was split on a pro rata basis.

6.13 Directors' dealings

Management Board: Shares [Number of shares]	Lars Lehne	Frank Ladner	Erwin Greiner	Total
As at: December 31, 2017	**10,000**	**0**	**0**	**10,000**
Purchases	0	0	0	0
Sales	0	0	0	0
As at: December 31, 2018	**10,000**	**0**	**0**	**10,000**

Management Board: Phantom stocks [Number of shares]	Lars Lehne	Frank Ladner	Erwin Greiner	Total
As at: December 31, 2017	**240,000**	**0**	**45,000**	**285,000**
Additions	0	55,000	80,000	135,000
Disposals	0	0	-45,000	-45,000
As at: December 31, 2018	**240,000**	**55,000**	**80,000**	**375,000**

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

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

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

Supervisory Board: Shares [Number of shares]	Ralf Hering	Wilfried Beeck	Rupert Day	Andrew Payne	Total
As at: December 31, 2017	**0**	**10,000**	**0**	**0**	**10,000**
Purchases	0	0	0	0	0
Sales	0	0	0	0	0
As at: December 31, 2018	**0**	**10,000**	**0**	**0**	**10,000**

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

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

Andrew P. Stevens left the Management Board of SYZYGY AG with effect from December 31, 2017. Ralf Hering was Chairman of the Supervisory Board until his death on February 16, 2018. Andrew Payne has been a member of the Supervisory Board since March 22, 2018 and was elected to the Supervisory Board by the Annual General Meeting on June 15, 2018.

6.14 Disclosures in accordance with Article 160 Section 1 No. 8 of the Aktiengesetz (AktG – german public companies Act.). Release according to Article 40, Section 1 of the WpHG (the German Securities Trading act) with the objective of Europe-wide distribition

Publication of a voting rights announcement on March 16, 2018.

Disclosures of issuer

SYZYGY AG, Horexstraße 28, 61352 Bad Homburg v.d.H., Germany

Reason for notification

Acquisition/sale of shares with voting rights

Details of person subject to the notification obligation

HANSAINVEST Hanseatische Investment-GmbH, Hamburg, Germany

Date on which threshold was crossed or reached

March 15, 2018

Information in relation the person subject to the notification obligation

Person subject to the notification obligation is not controlled and does itself not control any other undertaking holding directly or indirectly an interest in the (underlying) issuer.

Total positions

ISIN	% of voting rights attached to share	Percentage of instruments (total of	Total of both in %	Total number of voting rights of issuer
Resulting situation	3.03%	0.00%	3.03%	13500026
Previous notification	n.a.%	n.a.%	n.a.%	–

Notified details of the resulting situation

Voting rights attached to shares (Sec.s 33, 34 WpHG)

	Absolute		in %	
ISIN	Direct (Sec. 33 WpHG)	Indirect (Sec. 34 WpHG)	Direct (Sec. 33 WpHG)	Indirect (Sec. 34 WpHG)
DE0005104806	0	408600	0%	3.03%
Total	**408,600**		**3.03%**	

Disclosures in accordance with Article 160 Section 1 No. 8 of the Aktiengesetz (AktG – german public companies Act.). Release according to Article 40, Section 1 of the WpHG (the German Securities Trading act) with the objective of Europe-wide distribition)

Publication of a voting rights announcement on June 26, 2018.

Disclosures of issuer

SYZYGY AG, Horexstraße 28, 61352 Bad Homburg v.d.H., Germany

Reason for notification

Acquisition/sale of shares with voting rights

Details of person subject to the notification obligation

Hauck & Aufhäuser Fund Services S.A., Munsbach, Luxembourg

Date on which threshold was crossed or reached

June 21, 2018

Information in relation the person subject to the notification obligation

Person subject to the notification obligation is not controlled and does itself not control any other undertaking holding directly or indirectly an interest in the (underlying) issuer.

Total positions

ISIN	% of voting rights attached to share	Percentage of instruments (total of	Total of both in %	Total number of voting rights of issuer
Resulting situation	3.09%	0.00%	3.09%	13500026
Previous notification	n.a.%	n.a.%	n.a.%	–

Notified details of the resulting situation

Voting rights attached to shares (Sec.s 33, 34 WpHG)

	Absolute		In %	
ISIN	Direct (Sec. 33 WpHG)	Indirect (Sec. 34 WpHG)	Direct (Sec. 33 WpHG)	Indirect (Sec. 34 WpHG)
DE0005104806	416476	0	3.09%	0.00%
Total	**416,476**		**3.09%**	

Other explanatory remarks

The shares are held trough following founds which are managed by Hauck & Aufhäuser Fund Services S.A.:

- Value Opportunity Fund
- Alpha Star Dividenden
- GREIFF ”special situations” Fund

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

The declaration of compliance with the German Corporate Governance Code in accordance with Article 161 of the AktG (German Public Companies Act) was issued on October 29, 2018 and is available to all shareholders on the Group’s website (www.syzygy.net/germany/de/investor-relations/corporate-governance/2018).

6.16 Date of authorisation for publication

The Management Board adopted and approved the consolidated financial statements for publication on March 29, 2019.

Responsibility statement by the legal representatives

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

Bad Homburg v. d. H., March 29, 2019
SYZYGY AG
Der Vorstand

Lars Lehne

Frank Ladner

Erwin Greiner

Independent auditors' report

This is a convenience translation of the German original. Solely the original text in German language is authoritative.

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

Report On The Audit Of The Consolidated Financial Statements And Of The Group Management Report

Opinions

We have audited the consolidated financial statements of SYZYGY AG, Bad Homburg v. d. Höhe and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2018 to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SYZYGY AG for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the chapter ”other information”.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those parts of the group management report listed in the chapter ”other information”.

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

Basis for the opinions

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

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

We identified the following matter as key audit matter:

Impairment of goodwill

Facts and circumstances

In the consolidated financial statement of SYZYGY AG, under the balance sheet item "Non-Current Assets", goodwill at an amount of EUR 58,1 million is reported, representing 53,0 per cent of consolidated total assets. The goodwill was assigned to cash-generating units.

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

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

The disclosures made by SYZYGY AG on goodwill are contained in sections 2.1 and 3.1, as well as in 3.2 on pages 84, 85 and 92 to 95 of the notes to the consolidated financial statements.

Audit response

In the context of our audit we evaluated the appropriateness of the material assumptions and judgement-related parameters, as well as the method of calculation of the impairment test, also involving our valuation specialists. We gained an understanding of the planning system and planning processes of the executive directors as well as of the significant assumptions used by them. We reconciled the prognosis on future cash flows in the detailed planning period with the business planning prepared by the executive directors and approved by the supervisory board and determined reasonableness of the company's historical forecasting accuracy by means of an analysis of budget-to-actual variances in the past and for the financial year 2018. We examined the underlying budget assumptions and growth rates assumed for the expected cash flows beyond the detailed budget period by comparing past developments considering industry-specific market expectations and the company specific situation. Furthermore, we critically analysed the discount rates used on the basis of the average costs of capital of a peer group. Our audit also encompassed sensitivity analyses made by SYZYGY AG.

Regarding the effects of possible changes in costs of capital and the growth rates assumed, we additionally performed our own sensitivity analyses.

Other Information

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

- the non-financial statement included in section 11. of the group management report,
- the statement on corporate governance included in section 10. of the group management report and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.
- Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.
- In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information
- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions.

- Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 15 June 2018. We were engaged by the supervisory board on 8 November 2018.

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

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

German public auditor responsible for the engagement

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

Frankfurt am Main, 29 March 2019

BDO AG
Wirtschaftsprüfungsgesellschaft

gez. Dr. Rosien	gez. Gebhardt
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial calendar 2019

3-Month-Report (English version: 05/10) **05/03**	**Annual General Meeting, Frankfurt** **06/07**	**Half-Year-Report** (English version: 08/09) **08/02**
9-Month-Report (English version: 11/08) **11/01**	**German Equity Forum, Frankfurt** **11/25-27**	**MKK – Munich Capital Market Conference** **12/10-11**

All dates are subjects to change.

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