

CATALIS SE

ANNUAL REPORT 2016

**CATALIS SE
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Delivering quality to the global entertainment and media marketplace.

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CATALIS SE BOARD REPORT

The Catalis Group is comprised of Catalis SE (the 'Company') as the ultimate parent company of two divisions: Testronic Laboratories (Testing Division) and Curve Digital Entertainment (Publishing Division). The Testing Division provides quality assurance services to the computer games and entertainment markets and operates from offices in the US, UK, and Poland. The Publishing Division is based in the UK and comprises a publisher of independent console and PC games (Curve Digital), a development studio for third party games (Kuju Limited), and a mobile game (Crack Attack).

Overview

2016 has been a year of transition for the Group. Each Division has laid down strong foundations to identify, develop and enhance new business lines, refocusing the Group to capitalise on new opportunities and hiring expert, experienced employees in both the executive management and operations teams. The Group has continued to reduce external debt levels and whilst this restricted our growth rates in the current year it provides us with a strong platform for growth in 2017 and beyond.

The strategic acquisition of Curve Digital Entertainment and the formation of the Publishing Division in 2016 provides the cornerstone for our objective of creating major a UK video games publisher and the Board expects significant growth in revenues during 2017 and beyond as this new Division becomes well established in the marketplace. Within the Testing Division, growth in the Games testing segment was offset by shrinkage in the Film and TV sector in 2016 due to lower DVD sales in the global market. In 2017 the Group expects to see further growth in the Games segment and the increase in demand for file based and streaming content will positively impact the Film and TV sector, which is now gaining momentum as a result of strategic investment in new equipment and the hiring of specialised staff in 2016.

Strategy

The Group is dedicated to deliver quality services to the global entertainment and media marketplace. In addition, the Publishing Division is committed to investing in and delivering exciting, innovative and interactive entertainment for the global market. We strive to build a balanced portfolio of businesses that are world-leading in their respective sectors.

An important element to this strategy is to remain at the leading edge of technological innovation. The Catalis Group places great focus on building strong relationships with manufacturers and platform holders, and is an active member in key industry trade bodies. Keeping pace with the latest innovations has helped to build the Group into a deft and nimble operation. The Group is continuously evolving the scope of its services, expand relationships with existing clients, and establishing relationships with new clients.

As a result of this, the Group is well positioned to benefit from the future growth potential of the digital media and entertainment industries. The Group intends to continue adapting to the ongoing transitions in the industry, to help maintain, and grow, the demand for its services. Continued investment in games in the Publishing Division will drive revenue growth and deliver value to our shareholders. In addition to growth opportunities, management has permanent focus on cost control to maximise the margin generated from the business.

Catalis SE

In January 2016 the Board of Directors announced the acquisition of Curve Digital Publishing Limited, a UK based publisher and developer. This is a strategic acquisition and enables the Group to not only offset the decline in work for hire opportunities seen in 2016 but gives the Group the platform for significant growth

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as a UK publisher. The Publishing Division was formed to combine the activities of Curve Digital Publishing Limited and the existing work for hire Kuju development studios. The new division covers the complete value chain from creating new ideas for games, developing games, and publishing games.

During 2016, management completed a project to rationalise the legal entity structure of the Group. This project is now complete and was necessary to reduce administration and associated costs and allows the Group to identify and maximise value creating opportunities in each Division. In December 2016, an EGM was announced with a view to converting bearer shares to a registered form. The EGM resolutions were approved and the registration process will be completed during the first half of 2017. Registered shares facilitate direct communication between the Company and its shareholders. In particular, the ability to communicate via electronic media should improve and simplify communication. Catalis SE shares are traded on the Entry Standard Market which is an Unregulated Market in Frankfurt with a par value of € 1.00 per share . The shares are traded under the ticker XAE2.F.

Operational Highlights

The Publishing Division

The Publishing Division combines Curve Digital, the Kuju development studios, and a mobile game, Crack Attack. In 2016, the Publishing Division generated revenues of €4.1m (2015: €4.1m) and an operating profit of €0.5m (2015: loss €0.026m).

During 2016 Curve Digital experienced positive growth across all aspects of the business. Stand out new releases include Human: Fall Flat which launched on the Steam platform in July and Manual Samuel which arrived on both PC and console in October. Through successful partnership with The Chinese Room, Curve released their million unit selling game Dear Esther on console to great critical and commercial success. The US has always been a key territory for Curve's business both in terms of volume of sales and strategic, partner relationships. In October, Curve opened a San Francisco office and are already seeing the benefit of this with increased store presence and stronger relationships with Microsoft, Sony, Valve & Nintendo. In London, the team was further bolstered with senior hires in marketing, finance and the appointment of a Development Director to manage the production of funded original releases for 2017 and beyond.

Kuju development studios had a disappointing 2016 as certain long-running franchises were not extended. Crack Attack continues to trade satisfactorily and currently has 3m users and in 2016 the game was sponsored by Cadbury's to promote its merchandise.

The Testronic Division

The Testronic Division generated revenues of €15.3m in 2016, representing a year-on-year increase of 2.7% (2015: €14.9m), and an operating profit €2.5m (2015: €1.9m). The Polish operation performed strongly during the year and operated at peak capacity for the majority of the year after the move to larger premises in late 2014. The Division expects to be able to generate further growth from new and existing clients in the games and Film & TV sectors. During 2016 the Division has won several significant new clients that they will continue to serve during 2017.

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Development of Earnings, Assets and Financial Situation

Sales Development and operating expenses

In 2016, the Group generated revenue of €19.4m (2015*: €19.7m). Of this, €15.3m (2015*: €14.9m) was attributable to the Testronic Division (quality assurance) and €4.1m (2015*: €4.8m) to the Publishing Division (video games development and publishing)

* 2015 restated for the disposal of Testronic Belgium NV (revenue of €7.9m, operating income €0.6m)

Earnings Development

During the year the Group's Adjusted EBIT** amounted to €0.014m (2015: €1.1m). After adjusting for non-recurring charges ** of €0.4m and the receipt of Video Games Tax Credits of €1.6m (2015: total expense €6.2m) the Group's Operating Profit was €1.2m (2015: loss €5.1m*). Non-recurring costs are unusual charges or credits, expenses, or a loss that is unlikely to occur again in the normal course of a business and are described in detail in note 6 to the Financial Statements.

The Testronic Division's operating profit was €2.5m (2015*: €1.9m) and the Publishing Division generated an operating profit of €0.5m (2015: loss of €0.03m).

Reconciliation from adjusted EBIT to operating profit/(loss):

	2016	2015
	€000's	€000's
Adjusted EBIT**	14	1,080
Exceptional & non-recurring costs - Corporate	(350)	(124)
Exceptional & non-recurring costs - Publishing	(4)	(183)
Exceptional & non-recurring costs - Testronic	(79)	(205)
Impairment of goodwill - Publishing	-	(8,162)
Receipt of Video Games Tax Relief - Publishing	1,613	-
Provision for restructuring - Publishing	-	(444)
Profit on sale of subsidiary - Corporate	-	2,935
Operating profit/(loss)	1,195	(5,103)

* 2015 restated for the disposal of Testronic Belgium NV (revenue of €7.9m, operating income €0.6m)

** Adjusted EBIT is a non-GAAP measure. Adjusted EBIT profit is a company specific measure which excludes impairment of intangible fixed assets and expenses or credits which are considered to be one off and or non-recurring in nature.

The Group's financial expense for the year (excluding translation differences) was €0.55m (2015*: €0.62m). After deducting financial expenses and translation differences, the pre-tax profit was €0.5m (2015: loss €5.0m). The tax charge was €0.1m (2015: €0.013m) generating a profit for the period for continuing operations of €0.4m (2015*: loss of €5.056m). The results of the discontinued operations after tax was €nil (2015: profit of €0.200m).

Asset Situation

Statement of Financial Position

At 31 December 2016, the Group's statement of financial position total amounted to €14.0m (2015: €12.6m), an increase of €1.4m. During the year the Group acquired Curve Digital Publishing Limited, a UK video game publisher and developer. Goodwill generated as a result of the acquisition amounted to €0.4m and capitalised development costs increased by €0.9m over the year, mainly as a result of the acquisition.

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BOARD REPORT

Development of Earnings, Assets and Financial Situation (continued)

Statement of Financial Position (continued)

Current assets amounted to €6.5m (2015:€6.6m) a decrease of €0.1m. A decrease in cash and cash equivalents of €0.3m was offset by increase in other current assets of €0.2m. In terms of equity, the Group's total shareholder equity increased to €4.3m (2015: €4.0m).

Non-current liabilities were €2.3m compared to €3.0m in the prior year mainly as a result of the reduction in the long loan term balance as the main loan from KBC is due for repayment in October 2017. Current loans increased by €0.6m during the year, comprising loans from the former shareholders of Curve which are due for repayment in October 2017. Trade and other payable increased during the year mainly due to the acquisition of Curve whereby royalty payments to licensors are accrued for and paid on a quarterly basis.

Cash Flow

During the year ended 31 December 2016, the Group generated cash from operating activities of €2.6m (2015: €0.006m). Compared to the previous year the result was mainly influenced by the non-cash increase in amortisation of capitalised development costs due to the acquisition of Curve and the decrease in working capital movements. Working capital flows were a positive €0.147m resulting from the active management of trade debtors and creditors and the Group benefitted from a cash inflow amounting to €1.6m from the successful claim of Video Games Tax Credits in the UK. Cash outflow from investing activities amounted to €1.8m (2015: inflow of €6.0m) and is attributable to the purchase of property, plant and equipment offset, the investment in games titles during the year as intangible fixed assets offset by the final receipt of the deferred consideration of the disposal of the Belgian business. The cash outflow relating to the acquisition of Curve amounted to €0.47m. Cash outflows from financing activities amounted to €0.6m (2015: €4.0m) as a result of the serving of the bank loans in place. Changes in the rate of currency on cash balances amounted to an outflow of €0.1m (2015: €0.4m). Consequently the Group's total net decrease in cash and cash equivalents in the fiscal year 2016 was €0.3m (2015: increase €1.1m). Net cash position at the end of the reporting period was €2.2m (2015: €2.4m).

The Board

The Board of Catalis SE is a one-tier board, comprising Executive Directors and Non-Executive Directors. Directors are appointed as Executive or Non-Executive Directors by general meeting. Natural persons as well as legal persons may be Executive Directors. Only natural persons may be Non-Executive Directors.

The Board has ultimate responsibility for the management, general affairs, direction and performance of our business as a whole. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-Executive Directors. The Executive Directors have additional responsibility for the operation of the business as determined by the Board. In all cases of conflicts of interest between the company and a Director, the company shall be represented by one of the other Directors.

CATALIS SE BOARD REPORT

The Board of Directors

Catalis SE has a one-tier Board, consisting of two Executive and four Non-Executive Directors. The Executive Directors are charged with the day-to-day management of the company and the business connected with it, while the Non-Executive Directors supervise the management of the company.

The Directors who served during the year and subsequently are as follows:

			Audit Committee	Remuneration Committee
Dominic Wheatley	CEO	Executive Director	✘	✓
Robert Haxton	CFO	Executive Director (appointed 2 February 2016)	✘	✘
Brett Morris	CFO	Executive Director (resigned 28 January 2016)	✘	✘
Peter Biewald	Chairman	Non-Executive Director	✘	✓
Nick Winks		Non- Executive Director	✓	✘
Tom Chaloner		Non- Executive Director	✓	✘
Nigel Hammond		Non- Executive Director	✘	✓

Committees

The Board of Catalis SE comprises six members with an audit committee comprising of two board members and a remuneration committee that comprises three board members. The members of the committees are noted in the above table

Audit Committee tasks

The tasks of the Audit Committee were performed during the regular Board meetings and separate meetings for the purpose of the approval of the quarterly and full year results. The Audit Committee and the Board had a thorough discussion about the development of the financial results and the reasons thereto. The Board also discussed the risks for the future development of the company's financial situation and the measures required to handle these risks. Following these discussions, the Audit Committee and the Board believe that risks are adequately prioritised by the Executive Directors and that the Executive Directors follow a reasonable approach in controlling and handling such risks.

Other matters discussed were the financial statements, main audit and accounting issues, internal risk management and controls, developments in law and regulations as well as a statement to the audit and auditor's independence. Based on the Board's discussions and the opinion of the independent auditors of Grant Thornton Accountants en Adviseurs B.V., the Board are confident that all relevant issues regarding the company's financial statements for the fiscal year 2016 have been taken care of properly.

Diversity

The Management Board and Supervisory Board of Catalis currently consist of men. In the appointment of directors and managers, job profiles are used in which there is no gender distinction. In any future replacement of Directors or Board members both men and women are invited to apply. In the final stage of the future selection of candidates, the quality of any candidate will prevail.

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Remuneration Committee tasks

According to the company's remuneration policy, the Remuneration Committee implemented in 2015 will regularly review the remuneration package for certain executives to ensure that it meets the remuneration principles in both composition and amount.

The tasks of the Remuneration Committee were performed in the course of the regular Board meetings and separate meetings of the Remuneration Committee. As a part of these discussions, the Committee has also decided on the bonus payments for the fiscal year 2015 and 2016. An overview of the Board's remuneration can be found in note 28 to the Consolidated Financial Statements. The remuneration package of the Board of Catalis SE is divided in the remuneration package for the Executive Directors and the remuneration package for Non-Executive Directors.

Research and Development

Catalis' policy is to expense all research and development costs as they occur unless the required criteria are met in which case they are included within intangible fixed assets as capitalised development. Global research and development activities support Catalis' existing products and development of new services that align with our technical and commercial capabilities.

Investments

We have invested further to improve the efficiency, and increase the capacity, of our businesses. Our investment plan is fully in line with our strategy of cementing our existing market positions and enlarging our business through organic and selective external growth. Total investments in fixed assets (tangible and intangible) in the year ended 31 December 2016 amounted to €1.8m and were mainly attributable to the purchase of property, plant and equipment (€0.7m) and the investment in games development for future releases in Curve. Future investment in video games is subject to scrutiny and approval by the Publishing Committee that comprises members of the main board and Curve senior management.

Employees

Our workforce is our greatest asset – our aim is to be an employer of choice. Our values of respect, honesty and courage, customer focus, results and execution underpin the way in which we do business. We recruit, develop, reward and promote our staff on the basis of their skills and suitability for the role. Our goal is to maximize individual potential, increase commercial effectiveness, reinforce the firm's culture, expand our people's professional opportunities, and help them contribute positively to their greater communities. The average number of employees during the year is disclosed in note 3 to the Financial Statements.

CATALIS SE BOARD REPORT

Risk Report

Catalis Group is a worldwide outsourcing service provider for the digital media and entertainment industry and a creator of interactive, exciting and innovative entertainment for the global market. The Group's focus is on quality assurance and video games development services for its customers in the home entertainment and consumer electronics space.

As a service provider, Catalis is always dependent on the demand for services from its customers which in turn is subject to the general economic environment and consumer demand for their respective products. Apart from these general risks that exist in the company's business environment, Catalis is also subjected to other risks which have been summarised below. These risks have the potential to impact our business, revenues, profits, assets, liquidity and capital resources adversely. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant.

Risk of substantial changes in trends and technologies

A major risk for all of Catalis' business activities lies predominately with consumer interest and demand. Building on the development in the media and entertainment industry, we depend on the advancement of these industries' driving forces. Technological changes and variations in end user behavioural patterns represent a risk as well as an opportunity for our business. Therefore, a material change or downturn in the pattern of the whole media and entertainment industry is a substantial risk for our business. Changes in trends and consumer behaviour might lead to a significant weakening in demand for some of our clients' products and in turn reduce their demand for our services. Technological changes may affect both the production and distribution processes in the industry and result in a material change of demand for our services, some services might even become obsolete, demand for new services not yet developed, changes in the competitive environment or changes in the attainable margins. Such changes can have significant effects on the asset, financial position and earnings situation of Catalis.

Our continued investment in delivering new and innovative products and solutions to our customers will continue to place increasing demands on our existing supply chain and systems infrastructure. There is a risk that our infrastructure will lack the necessary scalability, flexibility and resilience to support its successful execution. The Group depends on the availability of its facilities (both in-house and outsourced) and the performance, reliability and availability of its information technology and communications systems. Any damage or denial of access to these systems could disrupt operations.

The Group addresses this risk by continued investments in our employees, via training and recruitment of specialist staff with the appropriate skills. The management team maintains a constant dialogue with our customers to react quickly to changes in technology and the Group conducts regular market research to identify new trends and technologies pertinent to the Group operating activities.

CATALIS SE BOARD REPORT

Risk Report (continued)

Quality and reputation risks

For Catalis as a service provider it is crucial to deliver high quality services just to stay in business. It has a number of highly qualified competitors in its markets and therefore a substantial reduction or lack of quality in its services may cause significant cancellations and losses of orders. Moreover, Catalis might lose its strong reputation in the market and be eliminated from future pitches for new projects. This may have adverse effects on the asset, financial and earnings situation of Catalis.

Clients rely on the Group's integrity and probity. The Group has policies and procedures in place to manage this risk to the extent possible, which include conduct of business rules and procedures for employee hiring and the winning new business. Maintaining a positive reputation for the Group is of vital importance to ensure the smooth operation of the existing business and to protect profitability.

Competition and pricing risks

The Group is facing a number of different competitors in its respective markets. These markets are driven by quality, reputation, skills, capacity and barriers to market entry are therefore relatively high. Intensified competition for available orders might result in more aggressive pricing behaviour in the markets and impact the Group's margins. Competition during the RFP process might also provide opportunities for customers to put pressure on margins. The Group addresses this risk by careful monitoring of our pricing and margins specific to each client.

Competition and intellectual property risks

In the development and distribution of video games, the Group competes with a large number of other publishers. The Group's success in this segment depends on the Group's ability to exploit and protect its intellectual property throughout the world. Domestic and foreign laws promoting or limiting intellectual property rights may have significant impacts on the Group's operations in this field. In some foreign countries preventing unauthorized use of the Group's intellectual properties can be difficult even in countries with substantial legal protections. In addition, the Group's activities that rely on the exploitation of intellectual property are subject to the risk of challenges by third parties claiming infringement of their proprietary rights. The Group monitors its intellectual property carefully and takes specialist legal advice where necessary to mitigate this risk.

Personnel risks

The performance of the Group's services depends to a great extent on the specialist knowledge and qualifications of its management and employees. If the Group is not able to attract the necessary highly qualified staff or to maintain the quality of its existing staff through continuous training and skill enhancements, the Group might lose its ability to deliver on its service obligations. Personnel risks are addressed by maintaining good working relationships with employees, providing training and identifying initiatives to promote staff retention.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people activities, systems or external events. Operational risks are managed through a combination of effective, relevant and proportional control processes and experienced managers who are alert to the risks involved in the business they process.

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BOARD REPORT

Risk Report (continued)

Capacity risks

The performance of the Group's services is limited by its technological and personnel capacity. It is common in the company's markets that customers are specifying minimum requirements that service providers have to meet in order to be able to compete for a new project. Such minimum requirements sometimes result in substantial investments without a guarantee of winning the order. Also, if there should be a significant rise in customers' minimum requirements this will either cause the company to make some substantial investments to stay in the business or to be excluded from competition for certain projects. This may have adverse effects on the asset, financial position and earnings situation of Catalis. The Group utilises a flexible contractor model to address increase in activity levels together with shift planning in Poland to address issues of workload during the year.

Judgement and assumptions

The Group prepares its consolidated financial statements in accordance with IFRS as issued by the IASB and adopted by the European Union, the application of which often requires judgements to be made by management when formulating the Group's financial position and results. In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the reported results or net asset position of the Group should it later be determined that a different choice would be more appropriate

Security risks

The Group has observed a global increase in IT security threats and higher levels of sophistication in computer crime, posing a risk to the confidentiality, availability and integrity of data and information. This increase in IT security risk have increased the importance of effective It security measures, including proper identity management processes to protect against unauthorised systems access. Nevertheless, the Group's systems, networks and services to clients remain vulnerable to attacks which could lead to the leakage of confidential information which could have a detrimental impact on the Group's financial position and operating results. Successful cyber- attacks may result in substantial costs and other negative consequences which may include, but are not limited to, lost revenues, reputational damage and remediation costs. Furthermore enhanced protection measures can involve significant costs. During the year we experienced a cyber-attack that breached our security protocols and the Board immediately reacted by contacting any of our business partners who were impacted to reassure and affirm our commitment to data security. Subsequent to this breach the Group has taken extensive measures to remediate our IT systems during 2016 to reduce the risks of further cyber-attacks occurring. Although this risk has been mitigated by enhancements to our systems there can be no guarantee that the Group will be successful in avoiding damages from cyber-attacks which could lead to financial losses. Additionally, the integration of new companies are highly dependent on secure and well controlled IT systems.

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BOARD REPORT

Risk Report (continued)

Credit risk and default risk

The credit risk faced by the Group consists of counterparty credit risk. The company could lose money if the counterparty to a contract, does not make timely payments or honour its obligation. The Group is exposed to counterparty risk in respect of cash deposits held with financial institutions. The Group's cash deposits are held with highly rated clearing banks and settlement organisations. We may be subject to reduced availability of financing because our bank counterparties are unable to honour their commitments when required to deliver funds that they have committed to lend when requested. Limited ability to borrow additional funds may also reduce the Groups ability to respond to competitive and industry pressures, or opportunities. The Group mitigates this risk by producing detailed weekly cash flow forecasts to identify any potential cash shortfall so that it can be addresses in a timely manner.

Exchange rate fluctuations

The Group's accounts are denominated in Euro (€). Certain investments of the Group may be in currencies other than the Euro, such as sterling. Similarly, certain expenses of the Group, including organizational and operating expenses and the fees of directors and service providers, have been and will continue to be incurred in currencies other than the Euro. Accordingly, the Group is at risk and potentially liable for any gain or loss incurred as a result of exchange rate fluctuation, when such investments are realised or when such expenses are paid. Thus, shareholders – indirectly – bear the risk of exchange rate fluctuations. Following the referendum result in the UK to leave the European Union, the Board continues to monitor the situation carefully and will undertake appropriate action to mitigate risk as the need arises. Where appropriate the Group enters into forward contracts to secure its foreign currency cash requirements to mitigate this risk.

Economic conditions

The Group's business operations are sensitive to economic conditions and in particular to levels of consumer spending. Any delay in economic recovery could affect consumer expenditure and therefore our revenue. The Group mitigates this risk by investing in new lines of business where appropriate, keeping up to date with global market trends and maintaining a strategic 5 year forecast model which can be flexed to model different scenarios and outcomes.

Regulatory Compliance

The Group must comply with regulatory requirements in relation to employment, competition and environmental issues, pensions and taxation legislation. The Group is subject to Dutch corporate governance regulations as well as those regulations applicable to listed companies. Non compliance could lead to financial penalties or reputational damage. The geographic, political and cultural diversity of the markets in which we operate exposes us to wide ranging and complex legal and regulatory frameworks. The risk is that the Group does comply with existing or proposed changes to legislative requirements across the jurisdictions in which we operate. Changes in applicable laws and regulations could have a serious impact on the business. This risk is mitigated by our investment in specialist staff internally and selecting external business partners to provide us with expert advice when appropriate.

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Internal Control

Catalis' Internal Risk Management and Control System is designed to avoid or mitigate rather than to eliminate the risks associated with the realization of Catalis' strategic, operational, financial, compliance, regulatory and financial reporting objectives. The Board of Directors is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group including those risks relating to social, ethical and environmental matters. Catalis has implemented appropriate strategies to deal with each significant risk that has been identified. These strategies include internal controls, insurance and specialised treasury instruments.

Going concern

The Group produces detailed cashflow forecasts on a rolling 13 week basis and this is updated and reviewed by the Board regularly. Detailed trading forecasts for the Group are prepared and updated at least quarterly to a detailed client level and approved by the Board. Should the cash flows fall below those forecast, the management boards are aware that the parent, Catalis SE, can, if required, seek to raise further funds by public share issues within 6 – 12 weeks. Over the years Catalis has established a stable shareholder base underpinned by a major shareholder who initially invested in 2014. The major shareholder considers their investment a strategic investment and as such the management is confident of their continuing support. The issuance of shares to increase the company's liquidity remains an option if deemed appropriate and necessary. However, there is no guarantee that the major shareholder will provide support to any future rights issue or share placing. The Board considers that the increase in activity seen in Poland in 2016, together with the acquisition of Curve Digital Entertainment means that the business is well placed going forward.

The covenants include two financial covenants which must be met on an annual basis based on the audited consolidated financial report for the Group. The financial covenants are a solvency ratio and a leverage ratio. The Board of Catalis SE continue to actively monitor the Group's compliance with its bank covenants. For the year ended 31 December 2016, Catalis SE has satisfied the solvency ratio and leverage ratio.

The management board of the Company and all other subsidiaries of Catalis SE have produced budgets and cash flow forecasts which have been used by Catalis SE to forecast cash flows for the Group for the period ending 30 June 2018. The Group's main banking facilities are provided by KBC Bank NV, which are due to an end in November 2017. The cash flow forecasts demonstrate that the continued availability of the KBC Bank NV banking facilities is required until their expiry in November 2017. Thereafter, the forecasts conclude that cash flows will provide sufficient resources for the Group to pay its liabilities as and when they become due.

The Group is forecast to generate operating profits and positive cash flows from operating activities and remain in compliance with its bank covenants in the year ending 31 December 2017 and the first half of 2018. On this basis, the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future.

Based on the aforementioned, management and the directors are of the opinion that it is appropriate to adopt the going concern assumption in the preparation of the financial statements.

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CATALIS SE BOARD REPORT

Forecast Report

Our corporate earnings are expected to further develop in the current environment to build upon the solid foundation established during the current year.

The Publishing Division invested in 2016 to provide a pipeline of new high quality titles for release in 2017 and there are plans to continue to invest during 2017 to provide content for future periods, together with continuing to benefit from its growing back catalogue of titles to increase revenues from ancillary revenue streams. The Publishing Division's flexible contractor based model makes it ideally placed to take advantage of opportunities in the Division's developing fields of Augmented and Virtual Reality.

The Group is confident for 2017 and expects to achieve revenue growth in line with expectations and to achieve an improved operating profit margin by continued focus on cost efficiencies and taking advantage of the expected growth in the games market worldwide that the Group is well placed to take advantage of.

For the Board:



Dominic Wheatley, Robert Haxton,
Peter Biewald, Tom Chaloner,
Nick Winks, Nigel Hammond

Waalre, The Netherlands, 9 June 2017

CATALIS SE

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 €000's	2015 €000's
TOTAL REVENUES	2	19,369	19,719
Subcontracting and cost of materials	2	(1,955)	(1,246)
Personnel costs	3	(10,951)	(12,627)
Depreciation of fixed assets	13	(556)	(440)
Amortisation of intangible fixed assets	11	(715)	(172)
General and administration	4	(3,997)	(5,110)
Impairment of goodwill	12	-	(8,162)
Total expenses		(18,174)	(27,757)
Operating profit/(loss) before other income		1,195	(8,038)
Other income – profit on disposal of subsidiaries	7	-	2,935
Operating profit/(loss)		1,195	(5,103)
Interest expense		(411)	(410)
Other financial expense		(140)	(214)
Currency differences		(178)	684
Total financial result		(729)	60
Profit/(loss) before tax		466	(5,043)
Income tax	5	(137)	(13)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		329	(5,056)
Profit on discontinued items, net of tax	8	-	200
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		329	(4,856)
Earnings per share (€) attributable to shareholders			
Basic	9	0.47	(7.23)
Diluted	9	0.46	(7.23)

Adjusted EBIT*		14	1,080
Receipt of Video Games Tax Relief	6	1,613	-
Impairment of goodwill	6	-	(8,162)
Other non-recurring items	6	(432)	(512)
Restructuring provision	6	-	(444)
Profit on disposal of subsidiaries	7	-	2,935
		1,181	(6,183)
Operating profit/(loss)		1,195	(5,103)

* Adjusted EBIT is a non-GAAP measure. Adjusted EBIT profit is a company specific measure which excludes impairment of intangible fixed assets and goodwill, Video Games Tax Relief and expenses which are considered to be one off and non-recurring in nature.

CATALIS SE**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016	2015
	€000's	€000's
NET PROFIT/(LOSS) FOR THE YEAR ATTRIBUTBLE TO SHAREHOLDERS	329	(4,856)
Items that are or may be reclassified through the profit or loss in the future:		
Exchange differences on translating foreign operations	38	11
Other comprehensive income for the year, net of tax	<u>38</u>	<u>11</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u><u>367</u></u>	<u><u>(4,845)</u></u>

The accompanying notes on pages 19 to 58 form an integral part of the financial statements.

CATALIS SE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016
AFTER APPROPRIATION OF NET PROFIT

	Note	2016 €000's	2015 €000's
ASSETS			
Non-current assets			
Intangible assets	11	1,173	327
Goodwill	12	4,547	4,023
Property, plant and equipment	13	1,253	1,189
Other financial assets	14	468	455
		<u>7,441</u>	<u>5,994</u>
Current assets			
Trade receivables	15	2,192	2,036
Tax and social security		291	104
Income tax		82	79
Other receivables	16	1,789	1,908
Cash and cash equivalents	17	2,174	2,447
		<u>6,528</u>	<u>6,574</u>
Total assets		<u><u>13,969</u></u>	<u><u>12,568</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	700	700
Share premium		20,028	20,028
Share based payments		757	746
Cumulative translation differences		(3,630)	(3,668)
Other reserve		145	145
Legal reserve		898	-
Accumulated deficit		(14,542)	(13,973)
Total equity		<u>4,356</u>	<u>3,978</u>
LIABILITIES			
Non-current liabilities			
Non-current loans	20	2,266	2,975
		<u>2,266</u>	<u>2,975</u>
Current liabilities			
Current loans	19	1,493	900
Trade and other payables	21	4,410	3,338
Deferred consideration	21	60	-
Taxes and social security		874	888
Income tax		66	45
Provisions	23	444	444
		<u>7,347</u>	<u>5,615</u>
Total equity and liabilities		<u><u>13,969</u></u>	<u><u>12,568</u></u>

The accompanying notes on pages 19 to 58 form an integral part of the financial statements.

CATALIS SE

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CATALIS SE FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital €000's	Share premium €000's	Share based payments €000's	Currency differences €000's	Accumulated deficit €000's	Other reserve €000's	Legal reserve €000's	Total equity €000's
At 1 January 2015	655	19,623	737	(3,678)	(9,117)	145	-	8,365
Issue of share capital (note 18)	45	405	-	-	-	-	-	450
Share based transactions	-	-	9	-	-	-	-	9
Total comprehensive loss for the year	-	-	-	10	(4,856)	-	-	(4,856)
At 31 December 2015	700	20,028	746	(3,668)	(13,973)	145	-	3,978
Share based transactions	-	-	11	-	-	-	-	11
Other reserve movements	-	-	-	-	(898)	-	898	-
Total comprehensive profit for the year	-	-	-	38	329	-	-	367
At 31 December 2016	700	20,028	757	(3,630)	(14,542)	145	898	4,356

The accompanying notes on pages 19 to 58 form an integral part of the financial statements.

CATALIS SE

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 €000's	2015 €000's
Cash flow from operating activities			
Profit/(loss) after tax from continuing operations	9	329	(5,056)
Profit after tax from discontinued operations	8	-	200
		<u>329</u>	<u>(4,856)</u>
<i>Adjustments to reconcile profit after tax to net cash provided by operating activities</i>			
Depreciation and amortisation		1,271	612
Impairment of goodwill	12	-	8,162
Share based payment	28	11	9
Interest expense		551	624
Income taxes	5	137	13
Gain on disposal of subsidiary undertakings		-	(2,935)
Translation differences		178	(684)
Loss on sale of fixed assets		-	-
Decrease in other current assets		501	906
(Decrease)/increase in current liabilities		(354)	(2,248)
Change in provisions	23	-	403
<i>Cash generated from operations</i>		<u>2,624</u>	<u>6</u>
Interest paid		(315)	(537)
Income tax paid		(45)	(13)
<i>Net cash generated from operating activities</i>		<u>2,264</u>	<u>(544)</u>
Cash flow from investing activities			
Additions of intangible assets	11	(1,104)	(107)
Purchase of property, plant and equipment, net	13	(659)	(532)
Receipt of deferred consideration		500	-
Acquisition of subsidiary, net of cash		(534)	-
Disposal of subsidiary undertaking, net of cash	7	-	6,674
<i>Net cash used in investing activities</i>		<u>(1,797)</u>	<u>6,035</u>
Cash flow from financing activities			
Repayment of bank loans and overdrafts		(566)	(4,079)
Increase/(decrease) in finance leases		31	241
(Increase)/decrease in other loans		(100)	(602)
Proceeds from issue of share capital		-	450
<i>Net cash funded / used in financing activities</i>		<u>(635)</u>	<u>(3,990)</u>
Net effect of currency translation		(105)	(390)
Net increase / (decrease) in cash and cash equivalents		(273)	1,111
Cash and cash equivalents at beginning of year		2,447	1,336
<i>Cash and cash equivalents at end of year</i>		<u>2,174</u>	<u>2,447</u>

1. GENERAL

Catalis SE, registered with the Dutch Chamber of Commerce (company number 17123178), (“the Company”) and its wholly owned subsidiaries (together “Catalis” or “the Group”) provide testing services for the media industry and the design and development of interactive computer games for personal computers and video games consoles. Catalis SE was incorporated on 24 March 2000. With respect to the Company statement of comprehensive income of Catalis SE use has been made of the exemption under Article 2:402 of Book 2 of the Netherlands Civil Code. The consolidated financial statements of Catalis SE for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the (Non-) Executive Board on 9 June 2017. The shares are traded on the Entry Standard Market, which is an Unregulated Market in Frankfurt, under the ticker XAE2.F.

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements are prepared in Euros (€), rounded to the nearest thousand. The financial statements have been drawn up on the basis of historical cost, with the exception of certain financial assets, which are measured at fair value.

BASIS OF CONSOLIDATION

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

On acquisition, the assets and liabilities of the subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate. Entities which are acquired and are controlled, but where the intention is that they will be held for a period less than twelve months and are actively managed as such, are recorded as assets held for sale. All companies in the group have the same reporting date of 31 December.

DISTINCTION BETWEEN CURRENT AND NON-CURRENT

An asset or liability is classified as non-current when there is an unconditional right to defer the liability to more than 12 months after the statement of financial position date.

GOING CONCERN

The Group produces detailed cashflow forecasts on a rolling 13 week basis and this is updated and reviewed by the Board regularly. Detailed trading forecasts for the Group are prepared and updated at least quarterly to a detailed client level and approved by the Board. Should the cash flows fall below those forecast, the management boards are aware that the parent, Catalis SE, can, if required, seek to raise further funds by public share issues within 6 – 12 weeks. Over the years Catalis has established a stable shareholder base underpinned by a major shareholder who initially invested in 2014. The major shareholder considers their investment a strategic investment and as such the management is confident of their continuing support. The issuance of shares to increase the company's liquidity remains an option if deemed appropriate and necessary. However, there is no guarantee that the major shareholder will provide support to any future rights issue or share placing. The Board considers that the increase in activity seen in Poland in 2016, together with the acquisition of Curve Digital Entertainment means that the business is well placed going forward.

The covenants include two financial covenants which must be met on an annual basis based on the audited consolidated financial report for the Group. The financial covenants are a solvency ratio and a leverage ratio. The Board of Catalis SE continue to actively monitor the Group's compliance with its bank covenants. For the year ended 31 December 2016, Catalis SE has satisfied the solvency ratio and leverage ratio.

The management board of the Company and all other subsidiaries of Catalis SE have produced budgets and cash flow forecasts which have been used by Catalis SE to forecast cash flows for the Group for the period ending 30 June 2018. The Group's main banking facilities are provided by KBC Bank NV, which are due to an end in November 2017. The cash flow forecasts demonstrate that the continued availability of the KBC Bank NV banking facilities is required until their expiry in November 2017. Thereafter, the forecasts conclude that cash flows will provide sufficient resources for the Group to pay its liabilities as and when they become due.

The Group is forecast to generate operating profits and positive cash flows from operating activities and remain in compliance with its bank covenants in the year ending 31 December 2017 and the first half of 2018. On this basis, the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Based on the aforementioned, management and the directors are of the opinion that it is appropriate to adopt the going concern assumption in the preparation of the financial statements.

BUSINESS COMBINATIONS

Business combinations are accounted for under the acquisition method as at the acquisition date, which is the date upon which control is transferred to the Group. The company controls an investee when it is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group measures goodwill at the acquisition date as:

- The fair value of the consideration of the consideration transferred; plus
- The recognised amount of any non-controlling interest in the transfer; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the transfer; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

BUSINESS COMBINATIONS (continued)

When the excess is negative, a bargain purchase gain is recognised immediately in the statement of comprehensive income.

FOREIGN CURRENCIES

Catalis SE has designated the Euro (€) as its reporting currency, due to the fact that the company is listed on the Entry Standard Market in Germany and the majority of its shareholders are located within the Euro zone. Each entity of the group records transactions and statement of financial position items in its functional currency. Transactions denominated in currency other than the functional currency are recorded at the spot exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in a currency other than the functional currency of the entity are translated at the closing rates. Exchange rates resulting from the settlement of these transactions and from the translation of monetary items are recognized through profit or loss. Non-monetary assets denominated in a currency other than the functional currency continue to be translated against the rate of initial recognition and do not result in exchange difference.

On consolidation the statement of financial position of subsidiaries whose functional currency is not the Euro (€) are translated into Euro at the closing rate. The income statements of these entities are translated into Euro at the average rates for the relevant period. Goodwill paid on acquisition is recorded in the functional currency of the acquired entity. Exchange differences from the translation of the net investment in entities with a functional currency other than the Euro are recorded in equity (translation reserve).

The same applies to exchange differences arising from borrowings and other financial instruments in so far as they hedge the currency risk related to the net investment. On disposal of an entity with a functional currency other than the Euro the cumulative exchange differences relating to the translation of the net investment is recognized through profit or loss. The currency exchange rates that were used in drawing up the consolidated statements are listed below for the most important currencies:

For the year ending 31 December	Statement of financial position date		Average exchange rate	
	2016	2015	2016	2015
1 Pound Sterling =	€1.168	€1.362	€1.225	€1.377
1 US Dollar =	€0.95	€0.92	€0.90	€0.90

USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in the income statement in the period in which they become known.

VIDEO GAMES TAX RELIEF

In April 2014 the UK government established a scheme whereby companies that create British video games can recover a proportion of their direct costs incurred in the UK as an incentive to further invest in the sector. The company has reinvested the proceeds in the future development of the Publishing Group and expects to further benefit from this relief in 2017 and has consequently elected to treat this relief as a credit to wages and salaries in the statement of comprehensive income in the year..

IMPAIRMENT

At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

GOODWILL

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill is tested for impairment on an annual basis in respect of the cash generating unit to which the goodwill attaches. If the recoverable amount of the cash generating unit is less than the carrying amount of the investment, the impairment to the related goodwill is recognised through profit or loss.

Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the statement of financial position. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. The economic life of goodwill has been determined as indefinite. Any impairment loss on goodwill is not subsequently reversed.

INTANGIBLE ASSETS

Intangible assets are initially measured at cost. After initial recognition the benchmark treatment is that intangible assets should be carried at cost less any amortisation and impairment losses. The amortisation method reflects the systematic allocation of the depreciable amount of intangible assets over their useful lives. If that pattern cannot be determined reliably, the straight-line method is used. Subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense when incurred, unless, in accordance with IAS 38, it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.

Internally generated intangible assets are amortised on a straight line basis. The expected useful lives vary from 2 to 3 years. Currently, the useful lives of all intangible assets are (except for goodwill) estimated to be finite.

INTANGIBLE ASSETS (continued)

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred. Where the recognition criteria are met, development expenditure (for downloadable self-published games, this is mainly hourly rates) is capitalised and amortised over its useful life from the point the product is launched commercially. The recognition criteria are:

- The feasibility to complete the asset to enable the sale of the asset which is the task of the teams working on such games; as well as
- Completing the games in a defined period of time to bring it to the market at a predefined point in time.
- The ability to sell the asset as the assets are intended to be sold and not for internal use;
- Capability to generate future economic benefits.

Catalis SE creates downloadable self-published games based on user and markets requirements to ensure that a market is available for these games. The cost for the development of games is comprised of software and hardware to enable the creation of new games and the manpower to work on such developments. All recognised costs can be measured reliably. The carrying amount of assets arising from development expenditures is reviewed for impairment at each statement of financial position date or earlier upon indication of impairment. Any impairment losses are recorded in the Statement of Comprehensive Income.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is computed on a straight-line basis over the estimated useful lives. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the Statement of Comprehensive Income. The rates used to write off the cost, less the residual value over useful economic lives of the various categories of tangible fixed assets are:

- | | |
|---------------------------|-----------|
| • Buildings & Machinery: | 15% - 33% |
| • Fixtures & Fittings: | 14% - 25% |
| • Other fixed assets: | 20% - 50% |
| • Leasehold improvements: | 10% |

OTHER FINANCIAL ASSETS

Loans and long-term receivables are measured at fair value upon initial recognition and subsequently at amortized cost, if necessary after deduction of a value adjustment for doubtful debts. The proceeds from these assets and the gain or loss upon their disposal are recognized in the income statement.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Leases, where the group has substantially all the risks and rewards of ownership, are classified as finance leases.

Assets held under finance lease are recognised as assets of the Group at their fair value or, if lower the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability of the lessor is included in the statement of financial position as finance lease obligations. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating lease are not recognised on the Group's Statement of Financial Position, but are charged to income on a straight-line basis over the term of relevant lease.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at their amortised cost less any provisions for doubtful debts. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

As soon as individual trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of receivership of the debtors. The allowance for the risk of non-collection of trade accounts receivable takes into account average historical losses.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recorded at fair value (plus any directly attributable transactions costs where applicable). For those financial instruments that are not subsequently held at fair value, the group assesses whether there is any objective evidence of impairment at each reporting date. If a market for a financial asset or liability is not active or if equity instruments are not listed, the Group establishes fair value by using valuation techniques.

Financial assets are recognised when the Group has the rights to future economic benefits. Financial assets are derecognised when the right to receive cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is a present obligation to deliver cash or other financial assets. Financial liabilities are derecognised when they are extinguished (discharged, cancelled or expired). All purchases and sales of financial assets are recognised on the trade date, this is the date that the Group has a commitment to purchase the asset.

FINANCIAL INSTRUMENTS (continued)

Interest income and expenses are recorded on the effective interest basis. Dividends received for these investments are allocated to the income statement when the Group has the right to receive them. The Group did not receive any dividends during 2016 (2015 - €nil)

The classification depends on the purpose of the financial instrument. Management decides on the classification on initial recognition and evaluates this classification at each reporting date. In these financial statements all financial assets are classified as "loans and receivables". The Company's only financial assets are loans and receivables which are measured at their nominal value respectively based on their expected repayment amounts.

Loans and receivables are non-listed financial assets (other than derivatives), with fixed or determinable repayment dates. They are presented as current assets, unless they have a maturity date more than 12 months after the statement of financial position date, in which case they are classified as non-current assets.

After initial measurement loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The fair value of trade receivables, trade payables, financial assets, bank loans and overdraft is not materially different to their book value.

Further information concerning the risks faced by the Group can be found in the Risk Report.

FINANCIAL LIABILITIES

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal repayments and amortisations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, balances with banks, and investments in money market instruments which are readily available. Cash and cash equivalents are measured at fair value based on the relevant exchange rates as at the reporting date.

The cash flow statement provides an explanation of the changes in cash and cash equivalents. It is prepared on the basis of a comparison of the statement of financial position as at January 1 and December 31. Changes that do not involve cash flows, such as changes in exchange rates, amortisation, depreciation, impairment losses and transfers to other statement of financial position date items, are eliminated. Changes in working capital due to acquisition or disposal of subsidiaries are included under investing activities. All changes in the cash flow statement can be reconciled to the detailed Statement of Financial Position for the items concerned.

LOANS

Loans are recognised initially at fair value, net of transaction costs incurred. Loans are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

TRADE PAYABLES

Trade payables are initially stated at fair value and subsequently stated at their amortised cost.

OPERATING SEGMENTS

The Company's operating segment information is based on existing management information which can be identified in the Company's internal reporting and internal controls. Segments can be identified as Testronic Group (quality assurance) and Publishing Group (games development under assignment of third parties and downloadable published games). Geographical information is reported based on the revenue for the country where the customer is located.

Non-allocated revenues and costs are shown as a separate non-operating segment and contain corporate overheads, corporate project costs and all other items that cannot be allocated. Segment reporting reflects the Company's management and internal reporting structure and the same accounting policies that are applied for these consolidated financial statements are also applied by the operating segments.

PROVISIONS

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

EQUITY

Currency differences - The currency reserve is intended to reflect the differences arising from the translation of net investments in foreign subsidiaries (including long term monetary items in foreign entities).

Dividend - Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Share based payments - The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

DEFINED CONTRIBUTION PLANS

The Group sponsors defined contribution plans based on local practices and regulations. The plans cover full-time employees and provide for contributions for up to 7% of salary. The Group's contributions relating to defined contribution plans are charged through profit or loss in the year to which they relate.

INCOME TAXES

Current income tax - Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred income tax - Deferred income tax is provided using the statement of financial position method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognized for deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax authority.

REVENUE RECOGNITION

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer. As the Group generates revenues from different areas and deal structures, the recognition of such revenues slightly differs. In Kuju, the game development area, the recognition of revenue is based on the percentage of completion method. Revenue is recognized in the accounting periods in which the services are rendered. Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. Revenues from project related business are usually dependent on the accomplishment of milestones and the acceptance and approval by the client. Revenues are recognised in stages while remaining future revenue is accrued.

Revenue from the provision of hardware and software testing services is recognised when the outcome of the transaction can be estimated reliably and is based on the percentage of completion method. The revenue is often based on the volume of produced hours. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the group.

Royalty income is recognised in revenue on an accruals basis in accordance with the substance of the relevant agreements. Depending on the individual contract royalty income is generated either on a fixed amount per unit sold or as a percentage per unit sold. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

SHARE-BASED PAYMENTS

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 24.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. The same treatment is applied to any third party share-based payments.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

CONTINGENCIES

Contingent liabilities are not recognised in the financial statements. If there is a high probability that the contingencies will result in an outflow of resources then they are recognised as liabilities. All contingencies are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

JUDGEMENTS AND ASSUMPTIONS

The areas of the Financial Statements that are subject to significant estimates and assumptions by management are the impairment of goodwill (key judgement and assumptions surrounding future revenue and profitability are described in note 12) and the market discount rate applied to the debt portion of the convertible loan note. The market discount rate applied to the debt portion of the convertible loan note is described in note 19 to the financial statements.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash-generating units to which the goodwill is allocated. Estimating a "value in use" amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. Further details are contained in note 12.

Development costs

Development costs relating to computer game development include staff time and direct materials. Costs are carried forward and amortised over the life of the game, typically 2 years, commencing in the month of the games release, when the Group starts to benefit from the expenditure and in line with the inflows of future revenues. Development costs are reviewed by the directors at least on an annual basis to identify any projects that do not meet the criteria for continued capitalisation and additional amortisation is recognised in the income statement. The key judgement in relation to development costs is the amortisation policy and subsequent carrying value.

Deferred tax assets

Deferred tax assets are recognized as described above. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 5.

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide liability for income tax and the valuation of deferred income tax assets. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recognised, this impacts the income tax position and deferred income tax assets and liabilities in the applicable period.

Acquisition accounting

The Group recognises the assets and liabilities of acquired businesses at fair value and applies judgements to identify these fair values and also any intangible fixed assets based on an assessment of future cash flows.

JUDGEMENTS AND ASSUMPTIONS (CONTINUED)

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). The value of such options is calculated using a binomial mathematical model which is considered appropriate for these purposes. The major parameters which determine the value of an option are the exercise price of the individual option, term of the option, market interest rate and vesting period.

Accrued and deferred income/ revenue recognition

Revenues related to different types of transactions are recognised according to relevant revenue recognition policies described above. Some of these transactions require the Company's management's judgement and assumptions as to when projects milestones will be achieved and accepted and how many units of games will be sold in a defined period of time to make a decision if and how much revenue might be recognised or if income has to be accrued/ deferred.

CONVERTIBLE LOAN NOTES

Convertible loan notes are recognised at inception date in accordance with the terms of the underlying instrument with the note-holder. At inception date, non-derivative convertible loan notes are evaluated to determine if they contain both a liability and equity component. The liability component of the instrument is recognised in liabilities and the equity component is recognised in equity. The equity component of the convertible loan note is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount determined to be the fair value of the liability component. The liability is subsequently recorded at amortised cost using the effective interest rate method, and the equity component is not revalued.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New standards and amendments to existing standards that have been published and are mandatory for the first time for the financial year 1 January 2016 have been adopted but had no significant impact on the Group. New standards, amendments to standards and interpretations have been issued but are not effective (and in some cases had not been adopted by the EU) for the financial year beginning 1 January 2016 have not been early adopted in preparing these financial statements. The main accounting standard which may be relevant to the Group is set out below and will be effective the Group's 2016 financial report. The Group does not plan to adopt this standard early.

IFRS 9 “Financial Instruments”

This standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and de-recognition requirements for financial instruments.

The key changes made to accounting requirements which may be relevant to Catalis SE, include -

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- requiring financial assets to be reclassified where there is a change in an entity’s business model as they are initially classified based on: (a) the objective of the entity’s business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The objective of the Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. Catalis SE is already been presenting information about financial instruments in the Financial Instruments sections of the accounting policies and further details are included within the Risk Report.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 is endorsed by the EU. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 – “Leases”

IFRS 16 replaces IAS17 and specifies leases are recognised, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is not yet endorsed by the EU. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

FINANCIAL RISK MANAGEMENT

The Group is exposed to interest rate risk, credit risk, liquidity risk and capital risk management arising from the financial instruments it holds (see also note 22). The risk management policies employed by the Group to manage these risks are discussed below:

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The interest rate on the fixed term loan is set on the basis of the interest rate prevailing on the interbank market at the end of each month plus a fixed margin of 2.5% per annum. The interest rate on the Genussrechte facility is set on the basis of the interest rate prevailing on the interbank market at the end of each month plus a fixed margin of 1.55 % per annum. The Group mitigates interest rate risk by reviewing its borrowings regularly to achieve the most appropriate balance between fixed and variable rate loan arrangements.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. Significant credit is only extended to customers who are deemed credit worthy and credit checks are performed on all customers. Trade receivables consist of a large number of customers. Concentration of credit risk did exceed 10% of gross monetary assets at the statement of financial position date. Following the referendum result in the UK to leave the European Union, the Board will review and make appropriate decisions to mitigate credit risk.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The management boards of the subsidiaries have produced budgets and cash flow forecasts which have been used by Catalis SE to forecast cash flows for the Group for the next twelve months. Should the cash flows fall below those forecast, the management boards are aware that the parent, Catalis SE, can, if required, seek to raise further funds by public share issues within 6 – 12 weeks. Over the years Catalis has established a stable shareholder base underpinned by a major shareholder who initially invested in 2014. The major shareholder considers their investment a strategic investment and as such the management is confident of their continuing support. The issuance of shares to increase the company's liquidity remains an option if deemed appropriate and necessary. However, there is no guarantee that the major shareholder will provide support to any future rights issue or share placing.

Currency risk

The Group is exposed to currency risks due to exchange rate fluctuations in connection with the activities denominated in foreign currencies and other foreign currency transactions. The currency risks mentioned exist in particular with respect to the exchange rate between the US Dollar, British Pound Sterling and the Euro. Risks in connection with other foreign currencies are only of minor significance. Currency risks are mitigated by entering into currency forward contracts. At 31 December 2016 and 2015 there were no outstanding hedging contract obligations.

FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity ratio. The Company aims to achieve an equity ratio (Equity/Total assets) of 25% or less, which fulfils the equity covenant defined in the credit agreement with KBC bank. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

2. Operating segments

The Group is divided into three operating segments. The Testronic Group undertakes quality testing operations, the Publishing Group produces video games as a “work for hire” studio via the Kuju Studio and Curve Digital Publishing publishes downloadable video games for pc and console. The following table illustrates information about the reportable segments:

2016	Testronic Division €000's	Publishing Division €000's	Corporate (non-operating) €000's	Total €000's
Revenue from external customers	15,270	4,099	-	19,369
Subcontracting and cost of materials	100	1,855	-	1,955
Personnel costs	9,720	5	1,236	10,951
Depreciation and amortisation	449	793	29	1,226
General & Administration	2,493	945	559	3,997
Operating profit/(loss)	2,508	511	(1,824)	1,195
Reportable segment assets	5,281	3,346	5,342	13,969
Reportable segment liabilities	3,118	2,715	3,779	9,612

The geographical split of revenues and non-current assets is as follows:

	Revenues 2016 €000's	Non-current assets 2016 €000's	Revenues 2015 €000's	Non-current assets 2015 €000's
UK	12,376	1,713	13,890	557
Europe - other	-	5,293	-	5,086
United States	6,993	435	5,829	351
Total	19,369	7,441	19,719	5,994

Revenues and non-current assets are attributed to countries on the basis of the Group's location. At 31 December 2016, revenues from five major customers accounted for 34% of total revenues (2015: 34%). Five of these customers (2015: five) relate to the Testronic Division. During the year the group combined its operations of the Kuju group with Curve Digital Publishing to form the Publishing Division.

2. Operating segments (continued)

2015 - The following table illustrates information about the reportable segments, from continuing operations:

	Testronic Division	Games	Downloadable self-published games	Corporate	Total
	€000's	€000's	€000's	€000's	€000's
Revenue from external customers	14,905	4,747	67	-	19,719
Subcontracting and cost of material	155	1,109	(18)	-	1,246
Personnel cost	9,137	2,209	39	1,242	12,627
Impairment of goodwill	-	-	-	8,162	8,162
Depreciation and amortisation	336	158	106	12	612
General & Administration	3,417	1,297	19	377	5,110
Disposal of subsidiary	-	-	-	(2,935)	(2,935)
Operating profit/(loss)	1,860	(26)	(79)	(6,858)	(5,103)
Reportable segment assets					
Reportable segment liabilities	5,864	1,260	52	5,392	12,568
	2,374	1,951	173	4,304	8,802

3. Personnel expenses

Personnel expenses from continuing operations:

	2016	2015
	€000's	€000's
Wages and salaries	10,026	11,660
Share based payments	11	9
Pension costs	68	145
Social security costs	748	678
Other expenses	98	135
Total personnel expenses	10,951	12,627

Staff costs includes €219k (2015 - €214k) relating to redundancy costs and one-off costs incurred during the year. During the year the company successfully applied for, and received €1,613k of Video Games Tax Relief in the UK. The average number of employees from continuing operations by territory is:

	2016	2015
	No.	No.
The Netherlands	1	1
Poland	143	105
United Kingdom	142	179
United States	34	48
Total average number of employees	320	333

4. General and administration from continuing activities

	2016	2015
	€000's	€000's
Housing and communication	1,268	1,202
Advisory and legal costs	714	459
Sales and marketing	419	430
Operating lease payments	428	392
Other	931	1,905
Restructuring costs	237	722
General and Administration costs	3,997	5,110

5. Income Taxes

Major components of income tax expense for the years ended December 31, 2016 and 2015 are:

	2016	2015
	€000's	€000's
Current tax	(137)	(13)
Derecognition of deferred tax asset	-	
Total tax expense	(137)	(13)

The reconciliation between tax expense and the accounting result multiplied by the statutory tax rate (25%) of The Netherlands for the years ended 31 December 2016 and 2015 is:

	2016	2015
	€000's	€000's
Accounting result before tax – continuing operations	466	(5,043)
Accounting results before tax –discontinued operations	-	200
Non-taxable result	-	5,569
Total accounting result	466	726
Tax at statutory rate (nominal)	(117)	(182)
Expenses not deductible for tax	(20)	-
Foreign tax credits	(6)	
Non-taxable income	319	
Recognition of previous year unrecognized losses	-	367
Unrecognized current year losses	(289)	(198)
Difference in overseas tax rates	(24)	-
Total tax expense	(137)	(13)

5. Income Taxes (continued)

Movements in deferred tax assets are as follows:

	2016	2015
	€000's	€000's
Balance as of 1 January	-	212
<i>Movements through comprehensive income</i>		
Derecognition deferred tax	-	(212)
Balance as of 31 December	-	-

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Due to history of taxable losses and uncertainty regarding of timing of utilisation management estimates that no taxable profits will be available in the foreseeable future.

After the processing of the 2016 tax result, the tax losses currently amount to approximately €26.8m (2015: €22.9 million), of which €1.2m (2015: €2.2m) can be allocated to Catalis SE (expires in 2020). €24.3m (2015: €15.7million) can be allocated to several UK based companies and €1.3m (2015: €5.0m) to US based companies. The UK losses can be carried forward indefinitely and in The Netherlands the time frame for compensation is nine years. In the US losses can be carried forward for more than 10 years.

Movements in deferred tax liabilities are as follows:

	2016	2015
	€000's	€000's
Balance as of January 1,	-	212
<i>Movements through comprehensive income</i>		
Derecognition deferred tax	-	(212)
Balance as of December 31,	-	-

6. Adjusted EBIT

Adjusted EBIT profit is a company specific measure which excludes impairment of intangible fixed assets and goodwill, Video Games Tax Relief and other expenses or credits which are considered to be one off and/or non-recurring in nature. This comprises:

	2016	2015
	€000's	€000's
Restructuring and redundancy costs	432	957
Video Games Tax Relief	(1,613)	-
Impairment of goodwill (see note 12)	-	8,162
	(1,181)	9,119

6. Adjusted EBIT**Restructuring and Redundancy**

During the year the company completed a restructure of the legal entities that form the Group to simplify the legal structure and incurred costs of €0.143m, taken together with the costs incurred as a result of the acquisition of Curve Digital Entertainment Limited (€0.094m), this resulted in nonrecurring advisory costs of €0.237m. A further €0.352m (2015: €0.513m) of costs were incurred related to redundancy and relocation costs as the company continued the process that started in 2014 to review the efficiency of the business. This was partially offset by the receipt of insurance proceeds relating to a claim during 2016 of €0.157m. In addition, in 2015, the Directors established a provision of €0.444m for the closure of Vatra Games SRO.

Video Games Tax Relief

In April 2014 the UK government established a scheme whereby companies that create British video games can recover a proportion of their direct costs incurred in the UK as an incentive to further invest in the sector. During the year the company successfully applied for, and received cash receipts totalling €1.613m in relation to costs incurred during 2014 and 2015. It has been identified separately due to the size of the receipt combined with the period to which it relates. The company has reinvested the proceeds in the future development of the Publishing Group and expects to further benefit from this relief in 2017.

Impairment of goodwill

At 31 December 2015 the Directors performed an impairment test in accordance with IAS 36 and IFRS 13, as described in note 12 to the accounts. As a result of this testing the Directors determined that the goodwill attributable to the Kuju group of companies should be impaired, resulting in a charge to the income statement of €8.162m. Testing for 2016 did not identify any impairment charge and the results are discussed in note 12.

7. Acquisitions and Disposals of subsidiaries

In January 2016 the group announced the acquisition of Curve Digital Publishing Limited, UK based publisher of Video Games. The acquisition resulted in a net cash outflow of €478k, together with legal and professional fees amounting to €94k. The condensed statement of financial position of Curve Digital Publishing Limited at the date of acquisition and subsequently at fair value was as follows:

	2016
	€000's
Intangible fixed assets	482
Tangible fixed assets	52
Accounts receivables	506
Other current assets	678
Trade creditors	(485)
Other current liabilities	(444)
Loans	(670)
Net assets acquired	<u>119</u>
Satisfied by:	
Cash	478
Deferred consideration	<u>126</u>
	<u>604</u>
Goodwill	<u>485</u>

7. Acquisitions and Disposals of subsidiaries (continued)

Curve Digital Publishing was acquired on a cash free basis and the loans from former directors that were acquired were renegotiated and renewed until November 2017. These loans bear interest at the market rate and are disclosed in note 19 of these accounts. Loans from other Group companies are now eliminated upon consolidation. Acquisition costs of €94k were incurred during the year and are included with Advisory costs in the income statement. Deferred cash consideration of €124k was recognised at the point of acquisition, payable to a former directors and shareholder. Of this, €60k was cash settled during 2016 and the remaining balance was settled during the first half of 2017. In accordance with IFRS 3 – Accounting for Business Combinations, deferred consideration payable to current employees of the company where their continued employment is a condition of payment has been accrued in the statement of financial position as appropriate. The Directors reviewed the assets of the business at acquisition and do not feel that it is appropriate to recognise any additional intangible assets on the basis that these assets could not be measured with any certainty or would not be material.

During the prior year the Group disposed of its subsidiary undertaking, Testronic Laboratories Belgium NV:

	2015
	€000's
Proceeds	8,174
Costs attributable to the disposal	(391)
Net assets disposed	(1,060)
Goodwill attributable	(3,788)
Profit on disposal of subsidiary	<u>2,935</u>

On 30th April 2015 the group announced the disposal of its non-core Belgian based subsidiary that resulted from a strategic review of the business conducted during 2015. Consideration of €7.174k was received at the date of disposal with a further €1.0m placed into escrow. During 2015, €0.5m of the escrow value was received and a further €0.5m was received during the first half of 2016 upon the completion of the audit of disposed business. Net assets of €1.060m were disposed of, and comprised the following asset categories:

	2015
	€000's
Tangible fixed assets	409
Other current assets	1,883
Cash	392
Current liabilities	(1,624)
Net assets disposed	<u>1,060</u>

8. Discontinued operations

The profit attributable to Testronic Belgium NV, a discontinued operation, in 2015 was €200k, this was attributable to a management fee for the period 1 January 2015 to the disposal date of 30th April 2015.

9. Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net result attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive common shares from supposed exercise of all "in the money" share options. The number of common shares is the weighted average number of common shares plus the weighted average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares. Share options are deemed to have been converted into common shares on the date when the options were granted.

	For the year ended 2016		
	Profit after tax (€000's)	Weighted Average Number of Shares	Earnings Per Share Amount (€)
Profit attributable to continuing operations	329	700,233	0.47
Basic Earnings per Share	329	700,233	0.47
Add: Options outstanding	-	20,247	(0.01)
Diluted Earnings per Share	329	720,480	0.46
	For the year ended 2015		
	Loss after tax (€000's)	Weighted Average Number of Shares	Earnings Per Share Amount (€)
Loss attributable to continuing operations	(5,056)	671,288	(7.53)
Profit attributable to discontinued operations	200	671,288	0.30
Basic Earnings per Share	(4,856)	671,288	(7.23)
Add: Options outstanding	-	25,332	-
Diluted Earnings per Share	(4,856)	696,620	(7.23)

During 2015, a reverse stock split in a ratio of 10:1 took place which was accompanied by an ordinary capital reduction. The number of issued shares after the consolidation was 655,233 (par value of € 1.00). The number of outstanding shares before the adjustment was 6,552,332 (par value of € 0.10). The diluted earnings per share include the stock options for management calculated from the date of grant.

In accordance with IAS 33 – Earnings per share, due to the loss for the year the effect of outstanding options cannot be dilutive.

CATALIS SE

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. Investments in subsidiaries

At the end of 2016 Catalis SE held the following direct and indirect subsidiaries. Details of the subsidiaries which have been consolidated in the group financial statements at 31 December 2016 (and the comparative period) are:

<u>Name of subsidiary</u>	<u>Country of incorporation (registration)</u>	<u>Ownership %</u>	<u>Voting rights %</u>	<u>Principal activity</u>
Testronic Laboratories SE	The Netherlands	100	100	Intermediate Holding
Testronic Laboratories Inc	USA	100	100	Testing
Testronic Laboratories Ltd	UK	100	100	Testing
Testronic Sp z.o.o	Poland	100	100	Testing
Curve Digital Entertainment Ltd	UK	95	95	Intermediate Holding
Curve Digital Publishing Ltd	UK	95	95	Games publishing
Kuju Group SE	The Netherlands	100	100	Intermediate Holding
Catalis Development Services Ltd	UK	100	100	Intermediate Holding
Kuju Limited	UK	95	95	Intermediate Holding
Zoe Mode Entertainment Ltd	UK	95	95	Games development
Kuju Entertainment Ltd	UK	95	95	In administration
Vatra Games s.r.o.	Czech Republic	100	100	Games development
Attack Games Ltd	UK	95	95	Games development
Headstrong Games Ltd	UK	95	95	Dormant
Kuju Sheffield Ltd	UK	100	100	Dormant
Kuju Manila Inc	Philippines	100	100	Dormant
Kuju America Inc	USA	100	100	Dormant
Doublesix Digital Publishing B.V.	The Netherlands	100	100	Intermediate Holding
Doublesix Digital Publishing Ltd	UK	100	100	Self-published games

11. Intangible assets

2016 - €000's	Client lists	Downloadable self-published games	Research & Development	Software	Total
Cost					
Cost at 1 January	438	3,517	168	-	4,123
Acquisition of subsidiary	-	2,242	-	-	2,242
Reclassifications				394	394
Additions	-	1,104	-	-	1,104
Disposals	(438)	-	-	-	(438)
Currency differences	-	(743)	(23)	-	(766)
Cost at 31 December	-	6,120	145	394	6,659
Accumulated amortisation					
Accumulated amortisation and impairment at 1 January	(438)	(3,309)	(49)	-	(3,796)
Acquisition of subsidiary	-	(1,760)	-	-	(1,760)
Reclassifications		-	-	(352)	(352)
Disposals	438	-	-	-	438
Amortisation during the year	-	(685)	(31)	-	(716)
Currency differences	-	692	8	-	700
Accumulated amortisation 31 December	-	(5,062)	(72)	(352)	(5,486)
Net book value	-	1,058	73	42	1,173

11. Intangible assets (continued)

2015 - €000's	Client lists	Downloadable self-published games	Research & Development	Total
Cost				
Cost at 1 January	438	3,198	158	3,794
Additions	-	106	1	107
Currency differences	-	213	9	222
Cost at 31 December	438	3,517	168	4,123
Accumulated amortisation				
Accumulated amortisation and impairment at 1 January	(438)	(2,975)	(15)	(3,428)
Amortisation during the year	-	(138)	(34)	(172)
Currency differences	-	(196)	-	(196)
Accumulated amortisation 31 December	(438)	(3,309)	(49)	(3,796)
Net book value	-	208	119	327

Downloadable self-published games

During 2010 Catalis SE started the development of downloadable self-published games and recognised the costs as internally generated intangible assets that are expected to generate net cash inflows for Catalis SE. Amortisation commences upon completion of the development. In 2016, the group acquired Curve Digital Limited, a British video games publisher (note 7). Curve capitalises development costs incurred in bringing games to market and releases the costs over the lifetime of the game, normally 3 years, to mirror the expected lifecycle of the cash inflows.

Software

At 31 December 2016, in accordance with IAS38 – Intangible Assets, the Group reclassified Software costs with a net book value of €42k from tangible fixed assets to intangible fixed assets.

Research and Development

Included within intangible fixed assets are costs totalling €145k in relation to the enhancement of the existing game engine that is used in the production of video games for external customers in its subsidiary company, Zoe Mode Entertainment Limited. The Directors determined that the useful life of the asset is 5 years and that the asset will be amortized on a straight line basis as the phasing of revenue cannot be determined with sufficient certainty to match the amortisation of the asset against future revenues.

12. Goodwill

	2016	2015
Cost	€000's	€000's
Cost at January 1	13,620	16,493
Acquisitions	485	
Disposals	-	(3,788)
Currency differences	(1,126)	915
Cost at 31 December	12,979	13,620
Accumulated impairment		
Impairment at 1 January	9,597	1,435
Impairment charge	-	8,162
Currency differences	(1,165)	-
Accumulated impairment at 31 December	8,432	9,597
Net book value	4,547	4,023

On 8 January 2016 Catalis SE acquired 100% of the share capital of Curve Digital Publishing Limited resulting in goodwill upon consolidation of €0.485m. Details of the acquisition can be found in note 7 to the accounts. At 31 December 2016 this goodwill was revalued to the year-end exchange rate to be €0.430m. During the prior year Catalis SE disposed of its investment in Testronic Belgium NV as described in note 7. This resulted in the reduction of the carrying value of goodwill by €3.788k. In addition to this the results of the impairment testing described below resulted in an impairment charge in 2015 of €8.162m relating to Kuju.

The recoverable values of the goodwill allocated to cash generating units have been determined based on past experience and on a value in use calculation. The key assumptions on which management made the predictions are expected margins, costs and revenue projections. This approach is valid for all cash generating units. Referring to the goodwill allocated to the individual cash generating units an impairment test has been performed based on the discounted cash flow method using budgets for a five year period prepared by management, including a terminal value. The weighted average cost of capital is between 10.69% for Europe and 10.38% for the US for 5 years. A growth rate of 2% has been assumed for the cash flows of all cash generating units after the five year period. An inflation rate of 0% has been applied. These assumptions are identical for all cash generating units and in line with the assumptions applied for the comparative period. As a result no impairment was necessary on the goodwill attributable to either the Testronic Group or Publishing Group.

The key assumptions in the cash flow projections relate to the expected margins, costs and the related revenue projections for the cash generating units. A sensitivity analysis was performed for both cash generating units. For Testronic a decrease of the underlying free cash flows used for calculations of 10% and 0% terminal growth rate doesn't result in any impairment. This is the same for an increase of the WACC percentage of one percentage point.

12. Goodwill (continued)

From the results of the 2016 impairment test the Directors determined that no impairment was necessary in 2016. Income from operations in all units is expected to increase over the projection period as a result of volume growth and cost efficiencies. Cash flow projections of the Testronic Division and Publishing Division were based on the following assumptions, based on the annual impairment test:

	Compound annual sales growth rate (CAGR%)		
	Forecast Period	Used to Calculate Terminal value	Pre-tax Discount rates
Publishing Division	0%	2%	10.65%
Testronic Division	5.4%	2%	10.2%

The aggregate carrying amounts of goodwill allocated to each cash-generating unit are as follows:

	2016	2015
	€000's	€000's
Publishing Division	430	-
Testronic Division	4,117	4,023
Total	4,547	4,023

13. Property, Plant and Equipment

2016 - €000's	Buildings and Machinery	Furniture and fittings	Other fixed assets	Total
Cost				
Cost at 1 January	4,714	171	582	5,467
Additions	633	4	12	649
Acquisitions of subsidiary undertakings	60	-	-	60
Reclassifications	(394)	-	-	(394)
Currency differences	(266)	(14)	19	(261)
Cost at 31 December	4,747	161	613	5,521
Accumulated Depreciation				
Accumulated depreciation at 1 January	(3,573)	(154)	(551)	(4,278)
Depreciation for the year	(531)	(6)	(19)	(556)
Acquisition of subsidiary undertakings	(9)	-	-	(9)
Reclassifications	352	-	-	352
Currency differences	230	11	(18)	223
Accumulated depreciation at 31 December	(3,531)	(149)	(588)	(4,268)
Net book value	1,216	12	25	1,253

Included with Buildings and Machinery are assets with the net book value of €0.368m (2015:€0.309m) held under Finance Lease agreements.

13. Property, Plant and Equipment (continued)

2015 - €000's	Buildings & Machinery	Furniture and fittings	Other fixed assets	Total
Cost				
Cost at 1 January	5,301	528	851	6,680
Additions	525	-	7	532
Disposals of subsidiary undertakings	(1,406)	(368)	(336)	(2,110)
Currency differences	294	11	60	365
Cost at 31 December	4,714	171	582	5,467
Accumulated Depreciation				
Accumulated depreciation at 1 January	(4,170)	(465)	(605)	(5,240)
Depreciation for the year	(399)	(7)	(34)	(440)
Disposals of subsidiary undertakings	1,238	321	142	1,701
Currency differences	(242)	(3)	(54)	(299)
Accumulated depreciation at 31 December	(3,573)	(154)	(551)	(4,278)
Net book value	1,141	17	31	1,189

14. Other non-current assets

Other non-current assets consist of the following:

	2016	2015
	€000's	€000's
Loan to Directors	468	455

During the year the company entered into a loan agreement with Dominic Wheatley, a member of the Board of Directors of Catalis SE and the holder of 45,000 exercisable options for shares in the capital of the Company which have an exercise price of €450,000. The Company agreed to provide a loan of €450,000 for the purpose of financing the exercise price upon exercise of the Options. The loan is due for repayment in full on 31 August 2019. The loan attracts interest at a fixed rate of 3% per annum, receivable annually which is considered to be a fair market interest rate. At 31 December 2016 the interest accrued to the Company amounted to €18k of which €14k was settled in January 2017.

15. Trade Receivables

Trade receivables include the following:

	2016	2015
	€000's	€000's
Accounts receivable	2,192	2,036

Debtors are dominated in 2016 by currency as 22% in EUR, 50% in USD and 28% in GBP (2015: 60% EUR, 31% USD and 9% GBP). The movement in the provision for doubtful accounts is as follows:

	2016	2015
	€000's	€000's
At 1 January	-	-
Provided during the year	74	-
At 31 December	74	-

15. Trade Receivables (continued)

With respect to trade accounts receivable that are neither impaired nor past due, there are no indications that the debtors will not meet their payment obligations.

	<u>2016</u>	<u>2015</u>
Neither past due nor impaired	76%	60%
1 – 29 days overdue	11%	28%
30 or more days overdue	13%	12%
	<u>100%</u>	<u>100%</u>

16. Other Receivables

Other current assets include the following:

	<u>2016</u>	<u>2015</u>
	€000's	€000's
Deferred consideration	-	500
Other receivables	344	765
Prepaid expenses and accrued income	1,445	643
Total other current assets	<u>1,789</u>	<u>1,908</u>

In the prior year deferred consideration represented the remaining €0.5m of the total €1.0m consideration placed into escrow relating to the disposal of Testronic Belgium NV in April 2015. The directors expect this amount to be recovered in full during the current financial year. The first tranche of €0.5m was received in November 2015 and the final payment was received in June 2016. Included within other receivables at 31 December 2016 is a short term loan to London Digital Games Limited of €100k. The loan represents payments to third parties made by the group on behalf of London Digital Games Limited during its fund raising period. The loan will be repaid in full upon the successful completion of the fund raise in December 2017. The Loan bears interest at the prevailing market rate.

17. Cash and Cash Equivalents

Cash and cash equivalents comprise bank balances and cash and are immediately available. The carrying amount of these assets approximates their fair value.

	<u>2016</u>	<u>2015</u>
	€000's	€000's
Cash at bank and in hand	<u>2,174</u>	<u>2,447</u>

18. Share Capital

The authorised share capital of the Company amounts to € 17.5 million divided into 175 million common shares each having a nominal value of €1.0 per share. There were no issues of shares in the current year.

Movements in share capital:

	Number of Shares – 000's		Amount - €000's	
	2016	2015	2016	2015
Common Shares – issued and paid in				
1 January	700	6,552	700	655
Issue of shares	-	45	-	45
Reverse share split	-	(5,897)	-	-
31 December	<u>700</u>	<u>700</u>	<u>700</u>	<u>700</u>

During 2015 Catalis SE issued 45,000 shares to settle obligation in respect of share options for total consideration of €450,000, resulting in an increase to share premium of €405,000.

19. Loans and Bank overdrafts

In 2016 Catalis SE negotiated a term loan of €600k to fund the working capital requirements of the business which is repayable in instalments ending May 2017. At the year end €334k of this loan remained outstanding. As part of the acquisition of Curve Digital Publishing the group acquired loans of €409k payable to the former owners of the business. These loans attract interest at a market rate and are repayable in November 2017.

During 2014 the Catalis SE Board announced re-negotiation of its bank facility agreement with KBC Bank NV to convert the loan of €5.7m (that was due to expire 31 December 2016) into a €3.0m working capital facility and a fixed term loan of €2.7m repayable in instalments over 36 months ending 31 October 2017. In December 2014 the Group secured a term loan of €400,000 to fund certain loan related expenses. Both the term loan and the working capital facility were repaid in full during 2015.

The interest rate on the fixed term loan is set on the basis of the interest rate prevailing on the interbank market at the end of each month plus a fixed margin of 2.5% per annum. In 2014 Catalis completed a private placement with several individual investors under a Genussrechte arrangement. This loan is an unsecured Euro denominated subordinated loan bearing basic interest of 6% plus a profitability linked interest margin of up to 3% dependent on earnings. 50% of the principal and interest is repayable by instalment over a maximum term of 4 years with the remaining 50% repayable over 7 years.

19 Loans and overdraft (continued)

To secure the commitments to the bank Catalis has established an equitable mortgage granted by Curve Digital Entertainment Ltd. over 80% of the registered shares of Kuju Limited. Furthermore, Catalis SE pledged the shares of Kuju SE, Testronic SE and DDP BV and their subsidiaries. Catalis also has pledged the major assets of the Group.

Maturity amounts are according to the particular loan contracts due within the following periods:

	2016	2015
	€000's	€000's
Within one year (current)	1,493	900
In the second and third years	2,321	3,065
	<u>3,814</u>	<u>3,965</u>

Amounts due within one year include €750k (2015: €900k) relating to a term loan facility with KBC Bank NV.

20. Non-Current Loans

	2016	2015
	€000's	€000's
Bank Loan	-	750
Convertible Loan	2,057	2,051
Other	264	264
Sub-total	<u>2,321</u>	<u>3,065</u>
Unamortised interest	(55)	(90)
Total	<u>2,266</u>	<u>2,975</u>

Convertible Loan

In May 2014, the Board of Directors agreed to a private placement of unsecured convertible loan notes with a principal nominal value of € 2.0m and a final maturity on March 31st, 2019 to Leo Capital 1 LLP, a limited liability partnership wholly owned by funds managed by Vespa Capital (UK). The proceeds from the convertible loan notes were intended to finance further organic growth of the Group. The terms of the loan are described in note 6. In accordance with the accounting policy described in note 1 an amount of €145,000 was deemed to be the equity component and has been transferred to equity and an amount of €145,000 was recognised as unamortised interest in relation to the convertible loan. During the year €35,000 (2015: €35,000) was charged to the income statement as a financial expense. The market discount rate applied to the debt portion of the convertible loan note is 16.5%.

Other

During 2014 Catalis completed a private placement with several individual investors under a Genussrechte arrangement as described in note 19.

21. Trade and Other Payables

Trade and other payables include the following:

	2016	2015
	€000's	€000's
Accounts payable	1,034	948
Accrued expenses	2,314	1,675
Deferred consideration	60	-
Finance lease payables	289	258
Factoring payables	773	457
Total trade and other payables	4,470	3,338

The group has entered into factoring agreements in the UK and US with two financial institutions. The company receives up to 90% of the factored amount upfront, the terms and conditions of the agreements are market standard. Included within trade and other payables is an amount of €773k (2015:€457k) owed to these financial institutions with respect to factored debts. The factoring terms are such that the Group retains bad debt risk until such time as the customer settles the underlying debt. Accordingly the factoring advances are treated as payables in the Group's statement of financial position. The deferred consideration related to the acquisition of Curve Digital Publishing during 2016 and was settled in full during the first half of 2017.

22. Financial Instruments

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout this financial information.

Financial risk management objectives

The management of the Company monitors and manages the financial risks relating to the operations of the Group by management reports. These risks mainly include credit risk, price risk, interest risk and currency risk.

The Group uses derivative financial instruments to hedge these risk exposures if appropriate. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. There were no such arrangements outstanding at the reporting date. There has been no change to the Group's exposure to credit risk and interest risks.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Trade and other payables
- Cash and cash equivalents
- Borrowings

22. Financial Instruments (continued)**Financial assets**

The Group held the following financial assets:

	2016	2015
Trade receivables	2,192	2,036
Other receivables	2,162	1,939
Cash and cash equivalents	2,174	2,447
Current assets and receivables	<u>6,528</u>	<u>6,422</u>

Financial liabilities

The Group held the following financial liabilities:

	2016	2015
Trade payables	1,034	948
Other payables*	1,647	1,345
Bank loans, overdrafts and other loans	3,812	3,965
	<u>6,493</u>	<u>6,258</u>

*other payables comprises taxes and social securities plus factoring payables.

The Group's directors monitor and manage the financial risks relating to the operation of the Group. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Market risk*Foreign currency risk management*

At the reporting date, the effect of a change in the exchange rate of the US dollar and the British Pound Sterling by 7% would not have a material impact on profit or equity.

Interest rate risk management

At the reporting date the financial assets and liabilities are subject to the interest rates described in note 19 above.

Catalis Group's interest rate risk policy is aimed at minimizing the interest rate risks associated with the financing of the Company and thus at the same time optimizing the net interest costs.

The Group is exposed to interest rate risk on its financial liabilities. The average interest of all loans (where the interest element is variable) is 3.0%. An increase of the interest rate by 1% would mean a decline in the reported result before tax of €3k (2015: €13k).

22. Financial Instruments (continued)**Credit risk**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counter parties. Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed.

As at 31 December 2016, the Group had accounts receivable from its top five trade debtors which accounted for 34% of total accounts receivable (2015: 39%). During the current year revenues from these five major customers accounted for 31% of total revenues (2015: 22%). The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as detailed in the Financial assets above.

Liquidity Risk

Floating-rate and short-term monetary liabilities analysed by maturity are summarized in the following table. The maturities presented in the following table provide an appropriate understanding of the timing of the related cash flows and amounts are not expected to differ from those reported. Financial assets are not linked to financial liabilities in order to meet cash outflows on these liabilities. The fair value of all financial assets and liabilities approximate their carrying value.

2016	Carrying value	Contractual Cash flow	3 months Or less	Between 3 -12 months	Between 1-3 years	More than 3 years
Trade payables	1,034	1,034	1,034	-	-	-
Other payables	1,647	1,647	1,647	-	-	-
Bank loans & other loans	3,812	5,154	442	1,149	171	3,413
	<u>6,493</u>	<u>7,835</u>	<u>3,123</u>	<u>1,149</u>	<u>171</u>	<u>3,413</u>
2015	Carrying value	Contractual Cash flow	3 months Or less	Between 3 -12 months	Between 1-3 years	More than 3 years
Trade payables	948	948	948	-	-	-
Other payables	1,345	1,345	1,345	-	-	-
Bank loans & overdrafts	3,965	5,308	241	713	939	3,415
	<u>6,258</u>	<u>7,601</u>	<u>2,534</u>	<u>713</u>	<u>939</u>	<u>3,415</u>

22. Financial Instruments (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2016	Carrying value	Fair values	Level 1	Level 2	Level 3
Financial liabilities					
Trade payables	1,034	1,034	-	-	1,034
Factoring payable	773	773	-	-	773
Bank & other loans	3,812	3,812	-	-	3,812
	<u>5,619</u>	<u>5,619</u>	<u>-</u>	<u>-</u>	<u>5,619</u>
2016	Carrying value	Fair values	Level 1	Level 2	Level 3
Financial assets					
Trade receivables	2,192	2,192	-	-	2,192
Other receivables	2,162	2,162	-	-	2,162
Cash and cash equivalents	2,174	2,174	-	-	2,174
	<u>6,528</u>	<u>6,528</u>	<u>-</u>	<u>-</u>	<u>6,528</u>
2015	Carrying value	Fair values	Level 1	Level 2	Level 3
Financial liabilities					
Trade payables	948	948	-	-	948
Factoring payable	457	457	-	-	457
Bank loans & overdrafts	3,965	3,965	-	-	3,965
	<u>5,370</u>	<u>5,370</u>	<u>-</u>	<u>-</u>	<u>5,370</u>
2015	Carrying value	Fair values	Level 1	Level 2	Level 3
Financial assets					
Trade receivables	2,036	2,036	-	-	2,036
Other receivables	1,939	1,939	-	-	1,939
Cash and cash equivalents	2,447	2,447	-	-	2,447
	<u>6,422</u>	<u>6,422</u>	<u>-</u>	<u>-</u>	<u>6,422</u>

23. Provisions

	2016	2015
	€000's	€000's
Balance at 31 December	444	41
Charged to the income statement	-	444
Credited through income statement	-	(41)
Balance at 31 December	<u>444</u>	<u>444</u>
Current	<u>444</u>	<u>444</u>

During 2012 management conducted a strategic review of the games development business and concluded that the studio located in the Czech Republic was no longer viable and a decision was made to close the business. During the year the Directors determined that the provision that was substantially released in 2014 should be reinstated in 2015 to provide for certain employee related claims arising subsequent to the closure of the business. The Directors expect that the provision will be fully utilised during 2017.

24. Employee Benefits Obligations*Defined Contribution Plan*

The group sponsored defined contribution plans for its employees based on the local practices and regulations in the United States of America, the United Kingdom and Poland. These plans require employer contributions up to 5% of annual salary.

Defined contribution obligations were not significant as of December 2016 and 2015, respectively. These obligations are presented under other payables.

Share Option Plan for key employees and third parties

Catalis' policy for the remuneration of the key employees has as an objective to attract and retain high quality people and motivate them towards excellent performance, in accordance with Catalis' strategic and financial goals. The remuneration package consists of a base salary and a long-term incentive, currently in the form of stock options. Long-term incentives are linked to long-term drivers and sustained shareholder value creation. The following stock options are equity-settled share-based payment transactions in accordance with IFRS 2.

Options are, on occasion, granted to third parties. The goal in issuing these options to third parties can differ from the goal of issuing options to employees and as such there are differing terms and conditions. The terms and conditions under which such options were granted in 2016 are disclosed in the tables below (tranche 15).

24. Employee Benefits Obligations (continued)

In 2006, 2007, 2009, 2010, 2011, 2012, 2013 and 2014 the group has issued stock options to selected key employees and management personnel as well as to contractors that provide the same services as employees. The stock options are equity-settled share-based payment transactions in accordance with IFRS 2 and comprise eleven tranches. In 2012, 50,000 options were granted to Mr. Wheatley. Furthermore in 2012, 100,000 options were granted to Navigator Equity Solutions SE as consideration for received consulting services. In 2013 options granted to Navigator, Mr. Wheatley and Mr. Biewald were cancelled and replaced by new stock options. In 2014 options were granted to Mr. Wheatley and Mr. Morris. In 2016 no further options were granted. The in the following chapters displayed numbers of options represent the number of options after the reverse stock split in 2015.

Movements during the year

The following table illustrates the number and exercise prices of and movements in share options during the year, as well as the grant date and the remaining term of the option:

	Tranche 5	Tranche 14	Tranche 15
Grant date	May 31, 2010	April 25, 2013	December 02, 2014
Granted stock options	47,450	100,000	30,000
Remaining term of the option	4.4 years	2.0 years	7.9 years
Exercise price	2.70	10.00	20.00
Outstanding at 1 January 2016	3,200	80,000	10,000
Granted during the year	-	-	-
Forfeited during the year	1,550	-	-
Exercised during the year	-	-	-
Expired during the year	-	-	-
Cancelled during the year	-	-	-
Outstanding at 31 December 2016	1,650	80,000	10,000
Exercisable at 31 December 2016	1,650	80,000	3,333

24. Employee Benefits Obligations (continued)

Any option granted under the stock option plan 2010, 2013 and 2014 shall be exercisable and the rights thereunder shall vest at such times and under such conditions as determined by the board at the time of grant and shall be permissible under the terms of the plan. For the options granted in 2010, 2013 and 2014 different vesting schedules apply:

- Tranche 5 (May 31, 2010), options can be exercised at any time after the options become exercisable.
 - 15,817 options (1/3) vested on 1 June 2013,
 - 15,817 options (1/3) vested on 1 June 2014,
 - 15,817 options (1/3) vested on 1 June 2015.
- Tranche 14 (April 25, 2013)
 - 100,000 options (100%) vested immediately on 25 April 2013.
- Tranche 15 (December 02, 2014)
 - 10,000 options (33%) vested on 01 December 2015,
 - 10,000 options (33%) vested on 01 December 2016,
 - 10,000 options (33%) will vest on 01 December 2017.

In the event of termination of an optionee's continuous status as an employee during the first three years of the term of the option agreement running from the date of the grant of the option, any options issued in 2006 and 2007 which have not been exercised at that moment shall terminate. In the event of termination of the continuous status as an employee at a point in time after the first three years, the optionee may exercise the options to the extent exercisable on the date of termination, provided that such exercise must occur within six months after the date of such termination, but no event later than the date of expiration of the terms of this option. To the extent that the optionee was not entitled to exercise the option at the date of such termination or does not exercise such option, the option shall terminate.

In the event of termination of an option holder's continuous status as an employee, the option holder shall be entitled to exercise unexercised options to the extent such options are exercisable at the date of termination of the option holder's continuous status as an employee, provided that such exercise must occur within six months from the date of termination but in no event later than the date of expiration of the terms of this option as set forth in the option agreement. To the extent that the option holder was not entitled to exercise the option at the date of termination of continuous status as an employee or does not exercise such options within the time specified herein, the options shall lapse.

24. Employee Benefits Obligations (continued)**Valuation model and input parameters**

The fair value of the stock options is measured using a binomial option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the plans granted in 2014, 2013 and 2010 at the measurement date:

	Tranche 5	Tranche 14	Tranche 15
Share price on the measurement date (€)	1.90	11.80	11.40
Life of the option on the grant date (years)	10.00	4.69	10.00
Exercise price (€)	2.70	10.00	20.00
Expected dividend yield (%)	-	-	-
Risk-free interest rate (%)	2.93	0.58	0.92
Expected volatility of the share price (%)	75.52	71.59	56.45
Option value (€)	0.90 – 1.10	2.00	3.40

For the stock option valuation the contractual life of the options and the possibility of early exercise were considered in the binomial model. The risk-free interest rate is the implied yield currently available on German government issues with a remaining term equal to the term of the options. The future volatility for the lives of the options was estimated based on historical volatilities also considering the management's expectation of future market trends.

The expense resulting from the share-based payment transactions is recognized during the vesting period on a pro-rata-basis with a corresponding increase in equity. Furthermore, the amount recognized is based on the best available estimate of the number of equity instruments expected to vest and is revised, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

The expense recognized during 2016 and 2015 is shown in the following table:

€	2016	2015
Expense arising from equity-settled share-based payment transactions	11,308	9,075
Expense arising from cash-settled share-based payment transactions	-	-
Total expense arising from share-based payment transactions	11,308	9,075

25. Leases

The Company and its subsidiaries have various operating lease agreements for machinery, offices and other facilities. Future minimum lease payments under non-cancellable operating lease are as follows:

	2016	2015
	€000's	€000's
Within 1 year	323	335
1 year through 5 years	1,039	1,340
After 5 years	280	411
Total future minimum lease payments	1,642	2,086

During the year ended 31 December 2016 €557k was recognized as an expense in the income statement in respect of operating leases (2015: €446k).

26. Contingent Liabilities

Various legal actions and claims may be asserted in the future against the Group companies from litigations and claims incidents to the ordinary course of business. These mainly include matters relating to warranties and infringement on intellectual property rights. Related risks have been analysed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

27. Related party transactions

The parties affiliated to the group, of which Catalis SE is the parent company, may be divided into: group companies, members of The Board (Executive and Non-Executive) and other related parties.

A list of the group companies may be found in note 10. Transactions between group companies are eliminated on consolidation and no further disclosures are necessary under IFRS. The remuneration of the members of The Board are disclosed in note 28.

The following related parties can be identified:

Ascendo Management GmbH	related to former Director, provision of financial services
Acon Aktienbank AG	related to former Director, provision of financial services
Advail Ltd	provision of Directors services
Waypoint Change LLP	provision of Directors services
Vespa Capital LLP	provision of Directors services
Hilary Cole	provision of financial services, former director *
Stuart Dinsey	provision of financial services, director *
Golden Green Consultancy Limited	provision of Directors services *
Warp Digital Entertainment Limited (formerly Carbon Games Ltd)	provision of games development services, related to former director*

* Current and/or former directors of Curve Digital Publishing Limited

27. Related party transactions (continued)

The Directors as disclosed in Board report

The following transactions (in €000's) were carried out with related parties during 2016 and 2015:

	2016	2015
<i>Purchase of services</i>		
Ascendo Management GmbH, consultancy fee	-	2
Acon Aktienbank AG, consultancy fee	-	3
Advail Ltd., consultancy fee	98	110
Waypoint Change LLP	39	50
Golden Green Consultancy Limited, consultancy fees	66	-
Hilary Cole, interest on loan	12	-
Stuart Dinsey, interest on loan	31	-
Warp Digital Entertainment Ltd (formerly Carbon Games Limited), provision of games development services	986	-
	2016	2015
<i>Sales of services</i>		
Warp Digital Entertainment Ltd (formerly Caron Games Limited), provision of games development services	178	-

The following amounts (€000's) were outstanding with related parties as at 31 December 2016 and 31 December 2015:

	2016	2015
Advail Ltd., consultancy fee	16	18
Waypoint Change LLP	6	7
Warp Digital Entertainment Limited (formerly Carbon Games Limited)	77	-

During the year Catalis SE paid Vespa Capital LLP €40k (2015 - €40k) for directors services provided by Tom Chaloner and €40k (2015 -€40k) for directors services provided by Nigel Hammond and €39k (2015 - €50k) to Waypoint Change LLP for directors services provided by Nick Winks. Of the fees owed to Vespa Capital LLP €20k was outstanding at 31 December 2016 (2015 - €21k). For interest payments on the convertible loans invoices totalling €209k were outstanding at the year end (2015 - €0). During the prior year the Company made a loan to Dominic Wheatley, a Director, details of which are disclosed in note 14 to the accounts. At 31 December 2016 loans of €117k and €292k were outstanding at the year end from Hilary Cole and Stuart Dinsey, as described in note 19 above. Directors of the Company control 10.01% of the voting shares of the Company (2015 – 10.07%)

28. Remuneration of managing and supervisory directors

The emoluments of managing and supervisory directors, including pension costs, as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial year to the company and group companies amounted to €796k (2015- €968k). This can be split between Executive Directors and Non-Executive Directors as follows:

	2016	2015
	€000's	€000's
Executive Directors	677	838
Non-Executive Directors	119	130
	<u>796</u>	<u>968</u>

The remuneration also includes employee options granted to current and former Directors amounting to €11k (2015- €9k).

The loans, advances and guarantees granted by the Company's to its managing and supervisory directors amounted to €468k (2015-€455k), including interest accrued of €18k (of which €14k was settled in January 2017), as disclosed in note 14 to the accounts. An option programme was set up for members of the Executive and Supervisory Boards, which is disclosed in shareholders' equity.

Remuneration of key management personnel

The remuneration of the key management personnel of the Group, is set out below in aggregate for the relevant categories specified in IAS 24 'Related Party Disclosures' and represents the total compensation costs incurred by the Group in respect of remuneration, not the benefit to individuals.

	2016	2015
	€000's	€000's
Short-term employee benefits	1,254	1,154
Share based payments	11	9
Total remuneration of key management	<u>1,265</u>	<u>1,163</u>

The short term employee benefits in 2016 of total €1,254k (2015: €1,154k) are comprised of fixed salaries of €1,254k (2015: €1,134k) and bonus payments of €nil (2015: €20k). The value of share based payments granted to key management during the year ended December 31 2016 amounted to €11k (2015: €9k).

**COMPANY-ONLY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016
AFTER APPROPRIATION OF NET PROFIT**

	Note	2016 €000'S	2015 €000'S
ASSETS			
Non-current assets			
Goodwill	29	4,117	4,023
Tangible fixed assets		252	281
Investment in subsidiaries	30	3,808	1,626
Loans – group	31	1,738	5,504
Loans - other	33	468	455
Total non-current assets		10,383	11,889
Current assets			
Receivables – group	32	10,466	8,325
Other current assets	34	150	190
Cash and cash equivalents	35	355	443
Total current assets		10,971	8,958
Total assets		21,354	20,847
LIABILITIES AND EQUITY			
Equity			
Share capital	36	700	700
Share premium		20,028	20,028
Share based payments		757	746
Currency differences		(3,630)	(3,668)
Other reserve		145	145
Legal reserve		898	-
Accumulated deficit		(14,542)	(13,973)
Total equity		4,356	3,978
Provision for subsidiaries	37	3,764	4,383
Non-current loans	37	2,266	2,975
Current liabilities			
Loans	38	1,084	900
Liabilities-group	39	9,450	8,393
Trade and other payables	40	434	218
Total current liabilities		10,968	9,511
Total equity and liabilities		21,354	20,847

The accompanying notes 29 to 45 form an integral part of the financial statements.

COMPANY-ONLY STATEMENT OF INCOME CATALIS SE FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		€000's	€000's
Result after taxes		1,583	(3,054)
Result subsidiaries after tax		(1,254)	(1,801)
Net profit/(loss)		329	(4,855)

The accompanying notes 29 to 45 form an integral part of the financial statements.

**NOTES TO THE COMPANY-ONLY FINANCIAL STATEMENTS CATALIS SE
FOR THE YEAR ENDED 31 DECEMBER 2016**

General

The description of the Company's activities and the Group structure, as included in the notes to the consolidated financial statements, also apply to the Company-only financial statements. The company only financial statements form part of the financial statements 2016 of Catalis SE. For events after statement of financial position date please refer to the 'other information' section in this annual report.

Summary of Significant Accounting Policies

The company financial statements have been prepared in accordance with accounting principles generally accepted in The Netherlands. Catalis SE makes use of the option offered in Article 2:362 (8) of the Netherlands Civil Code. This means that the principles for the valuation of assets and liabilities and the determination of the result of the company-only financial statements of Catalis SE are equal to those of the consolidated financial statements. Investments in subsidiaries are accounted for in accordance with the net asset value method.

Going concern

A detailed review of the Going Concern assumption has been performed by the Directors of the Catalis SE, the details of which can be found in note 1 of the Notes to the Consolidated Financial Statements above.

29. Goodwill

The movements in goodwill are as detailed in note 12. Goodwill recognised on the Catalis SE company statement of financial position is in relation to the Testronic Group.

30. Investment in Subsidiaries

The movement in the investment in subsidiaries is

	2016	2015
	€000's	€000's
Book value at 1 January	1,626	-
Income from subsidiaries	(1,254)	(1,801)
Currency differences	3,342	(1,046)
Movement in deduction of receivables of the subsidiary	713	4,164
Movement in provision for negative equity	(619)	309
Book value at 31 December	<u>3,808</u>	<u>1,626</u>

Negative equity values of group companies are balanced with receivables on those group companies, if additional provisions are required these are presented under provisions. This results in a provision for investments in group companies of € 3.764m as of 31 December 2016 and €4.383m as of 31 December 2015. The provision for investment relates to the Doublesix Digital Publishing Group.

**NOTES TO THE COMPANY-ONLY FINANCIAL STATEMENTS CATALIS SE
FOR THE YEAR ENDED 31 DECEMBER 2016**

31. Loans - group

In 2007 a loan of €7,000,000 was granted to Catalis Development Services Ltd (part of the Kuju Group). The interest rate amounts to 7.5% a year. Including the accrued interest the value of the loan is € 12.306m as of December 31, 2016 (2015: €11.775 m). After deducting the negative equity of the investment in the Kuju Group the loan has a carrying value of €4.825m (2015: €5.504m).

32. Receivables - group

Intercompany group receivables comprise of several current accounts.

33. Loans - Other

During the year the company entered into a loan agreement with Mr Dominic Wheatley, the terms of which are disclosed in note 14 to the Group financial statements. The balance at 31 December 2016 was €0.468m (including interest of €0.18m)

34. Other current assets

Other current assets mainly consist of prepaid costs and a loan to London Digital Games Limited of €0.1m repayable in 2017.

35. Cash and cash equivalents

Cash and cash equivalents comprise of several bank balances. The carrying amount of these assets approximates their fair value.

36. Equity

Details of the equity may be found in note 18 of the notes to the consolidated financial statements.

37. Provisions for subsidiaries

A provision for subsidiaries is made for the negative equity value of investments, after netting with receivables on the subsidiaries, as far as Catalis SE guarantees the subsidiaries' obligations.

Movement in the provision for subsidiaries is as follows:

	2016	2015
	€000's	€000's
Book value at January 1	4,383	4,074
Loss for the year	7	82
Currency differences	(626)	227
Book value at December 31	3,764	4,383

38. Bank Loans and Overdrafts

An analysis of the debt position of the company is provided in note 19 and note 20 of the consolidated financial statements.

39. Liabilities – group

Intercompany group liabilities comprise short term payables to subsidiary undertakings.

**NOTES TO THE COMPANY-ONLY FINANCIAL STATEMENTS CATALIS SE
FOR THE YEAR ENDED 31 DECEMBER 2016**

40. Trade and other payables

Trade and other payables relate to accrued costs, mainly advisory fees from professional service providers.

41. Personnel

During the reporting year, the Company employed 1 employee (2015: 1).

42. Audit fees

Profit after tax is stated after charging audit fees of €110,000 by Grant Thornton Accountants en Adviseurs B.V. In 2015: audit fees of €150,000 were charged by KPMG Accountants NV and KPMG LLP for the audit of the financial statements.

43. Related parties

Profit after tax is stated after crediting €nil (2015: €2.1m) of licence fees and management fees due from subsidiaries.

44. Emoluments of the directors

The emoluments of managing and supervisory directors, including pension costs, as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial year to the company and group companies amounted to €796k (2015- €968k). This can be split between Executive Directors and Non-Executive Directors as follows:

	2016	2015
	€000's	€000's
Executive Directors	677	838
Non-Executive Directors	119	130
	<u>796</u>	<u>968</u>

The remuneration also includes employee options granted to current and former Directors amounting to €11k (2015- €9k).

The loans, advances and guarantees granted by the Company's to its managing and supervisory directors amounted to €468k (2015-€455k), as disclosed in note 14 to the accounts. An option programme was set up for members of the Executive and Supervisory Boards, which is disclosed in shareholders' equity.

**NOTES TO THE COMPANY-ONLY FINANCIAL STATEMENTS CATALIS SE
FOR THE YEAR ENDED 31 DECEMBER 2016**

45. Appropriation of Net Profit after Taxes

The Articles of Association of the company provide that the appropriation of the profit after taxes for the year is decided upon at the Annual General Meeting of Shareholders. Awaiting the decision by the shareholders, the net profit or loss for the year is added to the accumulated profit. At the Annual Shareholders' Meeting, the management of Catalis SE will recommend the allocation of €0.3m of the after tax performance into the retained earnings of the company.

For the Board:

A handwritten signature in black ink, appearing to read 'Dominic Wheatley', written in a cursive style.

Dominic Wheatley,
Robert Haxton,
Peter Biewald
Tom Chaloner,
Nick Winks,
Nigel Hammond

Waalre, The Netherlands, 9 June 2017

