



ALEVO[®]
ANNUAL REPORT 2016



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Corporate Information

DIRECTORS

Jostein Eikeland - Executive Chairman
Per Dybwad - Director and Chief Executive Officer
Harrison Wellford - Director
Eric Cameron - Director
Kuzma Marchuk - Director
Mikhail Sazonov - Director

COMPANY SECRETARY

Markus Alder

BUSINESS ADDRESS

ALEVO GROUP SA
Rue des Finettes 110
CH - 1920 Martigny
Switzerland

AUDITORS

BDO SA
Place du Midi 36
1950 Sion
Switzerland

BANKERS

Credit Suisse SA
Rue Pichard 22
P.O. Box 5722
CH - 1002 Lausanne
Switzerland

Dear Shareholders,

2016 was a challenging year for ALEVO® GROUP SA ("Company" and together with its subsidiaries "Alevo" or "Group") as we commissioned our first production line, identified necessary engineering changes and improvements, enhanced vendor relationships and secured the additional funding required to achieve the next stages in our business plan. Taking a new technology into high volume production is an enormous engineering challenge which requires resilience and innovation. Alevo was also faced with the task of conducting independent user acceptance testing of the first GridBank® unit prior to our first delivery.



Throughout the year, the Group strived to provide the right engineering solutions to meet our target production rate and material scrappage targets. The challenges involved resulted in delays to our planned production ramp up and required additional investment to meet our objectives. However, we are confident that with the help of our vendor and consulting partners we now have in place the manufacturing expertise to bring our promising new technology to the world.

While it was disappointing that the commencement of substantial and consistent production is taking longer than expected, I am proud of our team's achievement in creating the first GridBank in late 2016. It was deployed in January 2017, completed PJM testing in late April 2017 and will begin generating revenue imminently in Hagerstown, Maryland.

The grid-scale battery industry is experiencing its most exciting period to-date, with exponentially growing market demand, technological innovation, and maturing regulatory support. As a nascent industry, we expect it to continue to expand. During 2016, we observed global customer interest evolve into education, project development and strong battery purchase appetite.

It is with your continued funding support throughout the year that we were able to tackle the challenges of 2016. Alevo is grateful for your faith in our success, as evidenced in the most recent January 2017 fundraising. The Board and management are both conscious that the Alevo team must deliver on its business plan in the coming year to demonstrate value to shareholders.

STRATEGY

As in any nascent market, industry manufacturers, government regulators, project developers, and global utilities are still working to understand the effects of the wave of change that battery storage is bringing to the planet.

Alevo's strategy has always been clear: to produce the most technologically advanced li-ion grid-scale battery while leveraging our inorganic, non-flammable electrolyte, our industry-changing cycle count, and our unique power application complimented by advanced analytics services and GridMaestro™ software. I believe we are entering

the most critical stage of strategy execution, the year of production ramp-up and sales.

SALES

Sales revenues in 2016 were limited to certain Analytics studies prior to GridBank shipments (and consequent revenue recognition) expected in 2017. Now that we are deploying products as of the first quarter of 2017, we are focused on maximising the reach of our unique product globally.

The Group has historically had overwhelming interest in our product, awaiting production commencement. As we ramp up production through the second half of 2017 we will begin allocating firm orders to customers and projects in North America, UK, Africa, and the Middle East. We look forward to announcing third party sales and additional projects in these key markets in due course.

PRODUCTION

While the Group produced a material amount of battery cells in 2016, we experienced some disappointing setbacks in our mission to ramp up production to expected levels. This was due primarily to first-time engineering a high-scale production line of a new, highly technical product. However, the Group dedicated substantial engineering, management and financial resources to identifying process, machine, and human improvements to our production line. These solutions began to be implemented in late 2016 and will continue through the second quarter of 2017 as we receive long lead time equipment ordered in 2016.

LEADERSHIP

As we reach the production and sales stage of the Group's evolution, your Board saw the need to invest in a strengthened leadership team of global talent in several areas. Our new leadership includes both a CEO and CFO with successful operating track records, as well as other production-focused roles critical to our objectives and stage in the Group life-cycle.

OUTLOOK

The growth of Alevo has taken longer than any of us expected. Nonetheless, I believe more than ever that our unique technology, continuous production improvements and production plan, strong sales pipeline, analytics portfolio, and substantially new leadership team have us well positioned for 2017 - The Year of the GridBank.

We look forward to demonstrating our production, sales and financial progress as well as our target to be the industry technology leader. Once again, on behalf of the entire Alevo team, I thank you for your steadfast support.

A handwritten signature in black ink, appearing to read 'J. Eikeland'. The signature is stylized with a large, sweeping 'J' and a cursive 'Eikeland'.

Jostein Eikeland
Executive Chairman

INTRODUCTION

The overriding objective of the Board is to provide a management framework in which ALEVO GROUP SA operates to the highest ethical and health, safety and environmental standards, and its investments are preserved and enhanced for the benefit of all stakeholders.

BUSINESS ETHICS

ALEVO GROUP SA operates with zero tolerance to bribery and corruption across all areas and conducts business according to relevant international business ethics standards.

COMPLIANCE

The Group seeks to comply with the Swiss Code of Best Practice for Corporate Governance ("the Code") insofar as individual elements are appropriate given the Group's size, stage of development and unlisted status. The Board of Directors is committed to developing and applying high standards of corporate governance appropriate to the Group's size and its future prospects.

This statement sets out measures taken by the Board to apply the principles of the Code to the year ended 31 December 2016 and to the date of the Directors' Report.

BOARD OF DIRECTORS

Role of the Board

The Board's role is to provide entrepreneurial leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims and ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management's performance in meeting these objectives. The Board sets and monitors the Group's values and standards and ensures that the Group's obligations to shareholders and other stakeholders are understood and met.

The Board has a schedule of matters reserved for its approval, including:

- Governance and Organisation
- Internal Control
- Strategy and Management
- Financial Reporting and Communication
- Capital Structure and Borrowings

The Board places a particularly strong focus on good corporate citizenship and meeting the highest industry standards regarding health, safety and the environment. Business matters which are considered to be of a routine operational nature and which are below a certain size threshold are delegated to executive management and governed by a Board-approved Delegation of Authority policy.

BOARD COMPOSITION

The Board at the end of 2016 was comprised of two Executive Directors and four Non-Executive Directors, of which two are deemed to be independent. Although these Directors own shares in the Company, the Board considers them to be independent in character and judgement. The Directors are listed in the Directors' Report on page 7. There is a clear division of responsibilities between the Executive and Non-Executive Directors.

Board Balance and Independence

The Board meets as often as necessary to discuss strategic opportunities available to the Group, corporate governance matters and ongoing operations. The Directors make every effort to attend all board meetings. The Group maintains insurance for Directors and Officers of the Group.

The Chairman of the Board is an Executive and is responsible for the leadership and effective running of the Board, including the interaction between Executive and Non-Executive members, and for ensuring that the Board is kept appropriately informed about the business activities of the Group. The Chairman also seeks to ensure effective communication with shareholders and other stakeholders.

The Board has access to the Group's advisers to notify them on financial, governance and regulatory matters. This also applies to any Director in his capacity as a committee member.

The Company Secretary's services are available to all members of the Board.

The Board is provided with detailed Board papers in advance of each Board meeting and, in addition, receives regular management financial reports to enable it to discharge its duties.

The Group has an Audit Committee with formally delegated duties and responsibilities. The composition of these committees may change over time as the composition of the Board changes. The Group also has a Compensation Committee, a Governance and Compliance Committee and a Strategy, Investments and Financing Committee. The Board takes decisions regarding the nomination of new C-level managers as a whole and this is only done following a thorough assessment of a potential candidate's skills and suitability for the role.

AUDIT COMMITTEE

The Audit Committee comprises Kuzma Marchuk (Chairman), Eric Cameron and Harrison Wellford.

The Audit Committee is in particular responsible for:

- the terms of engagement of the Group's auditors and, in consultation with the auditors, the scope of the audit;
- the review of reports from management and the Group's auditors relating to the annual financial statements and the accounting and internal control systems in use throughout the Group; and
- compliance with legal and regulatory requirements

COMPENSATION COMMITTEE

The Compensation Committee comprises Eric Cameron (Chairman), Kuzma Marchuk and Harrison Wellford.

The Compensation Committee is in particular responsible for:

- Oversight of the overall organisation and staffing
- Proposals on the compensation packages for C-level management and bonus and stock participation schemes

GOVERNANCE AND COMPLIANCE COMMITTEE

The Governance and Compliance Committee comprises Harrison Wellford (Chairman), Mikhail Sazonov and Per Dybwad.

The Governance and Compliance Committee is in particular responsible for:

- Ensuring that adequate and sufficient controls and mechanisms are in place concerning good governance, legal and regulatory compliance.
- Overseeing the proper functioning of the Board

INTERNAL CONTROL

The Board is responsible for maintaining a strong system of internal control and risk management to safeguard shareholders' investments and the Group's assets. The system of internal control is under rapid development under our new CFO, taking into account the Group's business objectives and strategy, to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board meets regularly to identify and assess risks to the Group including those risks concerning:

- Market and Sales
- Production and Supply;
- Funding;
- Compliance and Ethics; and
- Reputation

STRATEGY, INVESTMENTS AND FINANCING COMMITTEE

The Strategy, Investments and Financing Committee comprises Jostein Eikeland (Chairman), Mikhail Sazonov, Eric Cameron and Per Dybwad.

The Strategy, Investments and Financing Committee is in particular responsible for:

- Formulating the overall strategy, goals and objectives of ALEVO GROUP SA.
- Reviewing major strategic issues

RELATIONS WITH SHAREHOLDERS

The Company believes that effective communication with shareholders is of utmost importance. Shareholder update meetings are held during the period where the Board considers it appropriate and business updates are also provided via written communications to shareholders and press releases. The Company has an Investor Relations function to ensure regular communication with Shareholders.



JUSTEIN EIKELAND
Executive Chairman

A renowned global visionary in manufacturing and information technologies, Jostein Eikeland is the founder and leader of the Alevo team. Widely credited with developing the first “cloud” concepts and implementation, Eikeland co-founded Telecomputing AS in 1997, which led to a public offering on the Oslo Exchange in 2000. In 2006, he orchestrated a leveraged buyout of Meridian Technologies, a supplier of automotive magnesium die-casting components and assemblies. Under his leadership, Meridian became the largest manufacturer of its kind. Eikeland is a Belfer Center Council Member at Harvard’s Kennedy School of Government.



PER H. DYBWAD
Director, Served as Interim CEO May 2016 - March 2017

An international business executive and start-up specialist with nearly 30 years in leadership roles, Dybwad brings vast experience in energy distribution and storage, environmental technology, materials science, financial services and consumer goods. As senior Director of business development at Maxwell Tech. SA, Dybwad led the Swiss company’s high voltage operations, including expansion to China. As CEO and Director of Dentware Scandinavia, Dybwad continued his long association with specialty metals. A former Lieutenant in the Royal Norwegian Navy, he holds an MBA with Honors, from the International Institute for Management Development.



HARRISON WELLFORD
Director

Among the world’s most respected advisors in the sectors of both energy and presidential transitions, Harrison Wellford plays a hands-on role at Alevo in governance and finance. The Chairman of the Wellford Energy Group has spent more than 25 years advancing alternative energy deployment, including board and investor positions with numerous organisations including the Intercontinental Energy Corporation, General Nutrition, Summit Power Group, and Sithe Energies Inc. Additionally, he served as Chairman of the Latham & Watkins energy and international practice groups and guided the firm’s expansion abroad.



ERIC CAMERON
Director

A career journalist who rose to hold myriad board positions with companies across the globe, Eric Cameron brings vast media and business savvy to the Alevo board. His posts have included executive editorship of Dagens Næringsliv, Norway’s leading business publication, executive Director Hafslund Nycomed, a research-driven pharmaceutical company, as well as founder of Gambit Hill & Knowlton, which remains Norway’s largest media consulting firm. His numerous major transactions include leadership in the purchase of Nordea Bank and Danske Bank’s purchase of Fokus Bank.



KUZMA MARCHUK

Director

With more than 18 years of expertise as CFO and Board member in large industrial companies, Kuzma Marchuk brings Alevo an in-depth vision of international debt capital and equity markets, advanced controlling, information and ERP systems. In 1998 Mr. Marchuk joined Protek Group, a large Russian pharmaceutical company. He then moved to Uralkali where he brought a successful IPO on the London Stock Exchange and led the sale of the company's strategic stake to a group of investors. As CFO of SUEK, he played a key role in restructuring the company's budgeting, accounting and controls systems, as well as investments and HR management.



MIKHAIL SAZONOV

Director

A senior financial executive in significant pharmaceutical and biotech projects, Mikhail Sazonov brings a breadth of financial experience to the Alevo Board. As a CIO of a family office in Switzerland for the past 20 years, he has been managing a major portfolio of investments in both the public and private sectors that include private equity, hedge funds and real estate holdings. A much sought-after advisor, Mr. Sazonov holds an MBA with honors from INSEAD.

The Directors of ALEVO GROUP SA present the annual report together with the audited consolidated financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activities of the Group are the production, sale and operation of unique lithium-ion grid-scale batteries utilising inorganic, non-flammable electrolyte, as well as the provision of advanced analytics services and battery control software.

BUSINESS REVIEW

A review of the business for the period and of future developments is given in the Chairman's Report and the Management Report.

RESULTS AND DIVIDENDS

The results for the Group for the period are set out on pages 13 to 31 and the results for the Company for the period are set out on pages 33 to 44.

The Directors do not recommend the payment of a dividend and no interim dividend was paid during the period.

SHARE CAPITAL

Details of movements in the share capital of the Company during the period are set out in note 15 to the consolidated financial statements and in note 14 to the Company financial statements.

DIRECTORS

The following Directors served on the Board of the Company during the period:

- Jostein Eikeland - Executive Chairman
- Per Dybwad - CEO (2016) and Director
- Harrison Wellford - Director
- Eric Cameron - Director
- Kuzma Marchuk - Director
- Mikhail Sazonov - Director



GOING CONCERN

ALEVO GROUP SA will continue to have large capital requirements in order to fund the continued development of the Group's operations. It will be necessary to obtain these funds from outside resources and existing shareholders. In this respect, the Group is dependent on raising additional financing to continue as a going concern. The Group has a successful track record of raising capital, including that demonstrated by the January 2017 new funding round, and expects it will be able to continue to raise equity and debt capital as required in the future.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Swiss law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with Swiss accounting statutory framework. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with Swiss law. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' report is approved, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in Switzerland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS

BDO SA were appointed as the Company's independent auditor on 29 June 2016 and have expressed their willingness to continue in office.

For and on behalf of the Board



Jostein Eikeland
Executive Chairman

1 May 2017



VLADISLAV BAUMGERTNER
CEO (March 2017)

A seasoned executive credited with transforming a key global marketplace, Vladislav Baumgartner serves as CEO for Alevo. With more than 20 years of experience leading the positioning and capitalisation of large-scale operations in multiple industries, Baumgartner most recently served as CEO of Global Ports, a joint venture between AP Moeller Maersk and NTrans. Previously, his leadership as CEO led Uralkali to become the world's largest producer of potash fertiliser and an IPO on the London Stock Exchange. Baumgartner holds multiple advanced degrees in engineering and finance in addition to an MBA from Kingston Business School.



PETER HEINTZELMAN
Chief Financial Officer

With a quarter century of international experience in the oil & gas and power industries, including banking, investing and IPO processes, Peter Heintzelman directs financial operations worldwide for ALEVO GROUP SA. Most recently serving as CFO and Group board member at T5 Oil & Gas in London, CFO at Atlantic Energy and head of Oil & Gas for Standard Bank, which brought him to London, Africa and the Middle East. He has also held finance and management roles at Halliburton, Enron and Constellation, a Goldman Sachs JV. Heintzelman holds an MBA with honors from Thunderbird, the American Graduate School of International Management.



ALAN GREENSHIELDS
Chief Operating Officer / Chief Technical Officer

As co-founder of the Swiss/German company that developed many of the core scientific and technological breakthroughs that give the inorganic Alevo batteries their unprecedented life, durability and safety features, Alan Greenshields is responsible for Alevo's strategy for technology development. A long-time passionate advocate for greening industry, he brings nearly 30 years of experience in technology and general management, both in corporate and entrepreneurial environments - from electronics through automotive components to batteries. He holds an MBA with high distinction from the Harvard Business School. (BSC, BENG, CENG, MIET, MIMECHE)



CHRISTOPHER CHRISTIANSEN
President - Alevo USA, Inc.

Uniquely adept at understanding the science of cutting-edge battery technology — as well as evaluating future revenue models and designing sales strategies — Christopher Christiansen is responsible for co-authoring the master plan for the Group's entry into the global marketplace. Personally overseeing the deployment of more than 200 megawatts of Alevo storage projects planned for the next year, he is also a frequent Group spokesperson, including testimony to the U.S. House of Representatives Committee on Energy and Commerce in Washington, DC. He holds a BA in Business Administration, Cum Laude, from Northwood University in Florida.



DR. RANDELL JOHNSON
Chief Analyst, Alevo Analytics

Dr. Randell Johnson, P.E. holds degrees in engineering, quantitative finance and corporate finance. He has built an unprecedented resume in his 20-year career — with more than \$35 billion of energy infrastructure projects across 70 countries in his engagement portfolio. Utilising Alevo Analytics' exclusive, best-in-class computing technologies, Dr. Johnson advises regulators, utilities, generators, equipment manufacturers, as well as governments, investment banks and industrial developers to help them comprehend the full value proposition made possible by energy storage. Degrees: PhD, MEng, MSMTF, UCF, BS, PE



SCOTT SCHOTTER
Chief Marketing & Sustainability Officer

An international expert in branding and sales strategies with an abiding passion for human health and the environment, Scott Schotter leads the overall marketing and public relations efforts for the entire Alevo team. With additional responsibilities for the organisation's sustainability initiatives, he carefully crafts and promotes the Group's triple bottom-line mission of serving people, honoring the planet and creating profit for re-investment. Schotter has served previously as CMO at Virtual Works and President of GP Networks, as well as the boards of numerous organisations including the WorldWatch Institute and the SafeLawns Foundation.



MARKUS ALDER
Chief General Counsel

An internationally respected corporate attorney and published legal scholar with more than two decades of experience, Markus Alder oversees all legal affairs worldwide for ALEVO GROUP SA. A long-time partner at the Swiss firm Thouvenin Rechtsanwälte, Alder has specialised in mergers and acquisitions in addition to venture capital and corporate restructuring. A keen purchase and sale negotiator, he is also considered a leading expert in matters of employment law and human resources. Alder holds Masters law degrees in both banking and finance from Boston University in addition to a Masters in law from the University of Bern in Switzerland.

A CHALLENGING AND TRANSFORMATIONAL YEAR

Operating in a highly technical environment and during a critical life-cycle stage, Alevo faced many challenges throughout 2016. Although the production line was completed, it required further ancillary equipment and evaluation in order to identify engineering solutions that would bring the line to capacity and solve commissioning issues. Finalising a technical product for the first time naturally also involves troubleshooting prior to user acceptance testing, a task we faced during the fourth quarter. Lastly, we were also challenged with the task of building a rapidly growing organisation which is fit-for-purpose. The success of the Group depends on its leadership and staff, and we made substantial changes during the latter part of the year to ensure the ideal composition of leadership for the changing requirements and crossover into production for the Group. While working through these challenges was not simple, the Group was able to achieve an encouraging fourth quarter production run of battery modules constituting the first GridBank, which was delivered in January 2017.

Through positive structural changes, we could better address the engineering optimisation challenges of the manufacturing line, improve production and create a project management office (PMO) to ensure optimal coordination and execution of design, manufacturing, maintenance and technology projects. This involved new equipment and process engineering vendor agreements, procurement of long-lead items and necessary upgrades to reach full production. The fruits of these projects will be borne through the first half of 2017 throughout the manufacturing organisation as solutions and equipment are implemented and, in the latter half of 2017, during scheduled production ramp-up. Areas of improvement included quality, project engineering, process optimisation in plant manufacturing, vendor relations and more, and continued with substantial changes in early 2017.

During the final quarter of 2016, intense focus was placed on capital expenditure discipline, with high prioritisation of production-related expenditure. Preparation for the 2017 budget also included a full analysis of operating expenditures to ensure maximum savings and optimal productivity from employees. Decisions were made to close the Norway and Florida offices and to consolidate the two R&D centers in Germany into one. The Dormagen facility was closed with machinery and key employees transferred to Bruchsal. The transfer was completed on schedule before the end of 2016. Having all R&D functions at a single location has eliminated redundant costs and has improved

efficiency in those locations.

During the year, the Group completed the phase 1 installation of its enterprise resource management system, Microsoft Dynamics AX, in order to improve procurement processes, financial accounting and reporting, and implement controls around commitments and spending. We also implemented a Manufacturing Execution System (MES) to track and trace raw material and production inventory. We will continue to improve these systems to provide additional planning and control capability from sales through product delivery and improve our ability to forecast and measure against Key Performance Indicators as the Group enters mainstream production.

Finally, funding is the most critical fundamental element in our ability to succeed. We achieved additional funding from supportive shareholders, and, we were able to obtain the means to further the completion of the production line and move towards our first GridBank delivery.

EMPLOYEES

During 2016, the Group averaged 270 full-time positions. The majority of these positions are located in the Concord, NC manufacturing plant, with 84 on average in Switzerland, Germany and Norway.

RISK ASSESMENT

The Management regularly assesses the risk elements of the Group and discusses these items at least monthly to address best methods of risk mitigation or minimisation. The management addresses material supply, production, human resources, environmental, safety, financial, market and other risks weekly and the mitigations are reflected in the established project plans of each division and department. While the Group did not have a fully documented formal risk assessment process during 2016, this has been addressed in early 2017 by new management.

ORDERS AND ASSIGNMENTS

The Group continues to have a substantial order interest with volumes exceeding the nameplate production capacity of the production line and enjoyed a strong marketing and sales program during 2016. Orders are grouped into firm projects being developed by the Group and third party sales. Development projects underway include 29 GridBank deployments, in addition to an unannounced (and substantially higher) level of third party sales internationally, including North America.

RESEARCH & DEVELOPMENT ACTIVITIES

Alevo Battery Technology GmbH (ABT), our research and development company in Germany, had a productive year. Patents were granted on our cell design in the US, Europe, China, Russia, Hong Kong, South Africa and Australia. Patent protection already granted in the US to our core electrolyte technology was also granted in Europe. The combined protection of granted patents in the US and Europe on both the electrolyte and cell design is a strong position. ABT's focus on understanding capacity fade has produced results, with several measures for reducing capacity fade successfully demonstrated. The first prototypes of cells with higher energy density were also successfully produced. Other efforts were focused on supporting production ramp-up in Concord, in particular in qualifying additional material suppliers to mitigate sole-supplier situations and/or identify alternative materials which provide superior cell performance. Our small R&D team in Concord proved indispensable in optimising performance of the battery management and other control systems and we anticipate filing patents on such related systems in the coming year.

ALEVO ANALYTICS

In 2016, the Alevo Analytics team performed billable studies for government agencies, power companies, OEM manufacturers, solar developers, consultants, energy companies and utilities. In addition to generating revenues every quarter, many of these studies identified potential GridBank sales opportunities.

Alevo Analytics also developed GridMaestro™ to provide solutions that assist in harmonising the grid. The GridMaestro suite of products is a collection of both hardware/software and software-only products that support the provisioning of energy storage systems to deliver stacked services which ultimately will improve the economic viability of deploying energy storage systems. When installed, GridMaestro allows Alevo and its customers to remotely monitor, optimise and control GridBanks in real time on the grid.

GRIDBANK

During the year, our first GridBank unit was released from manufacturing for factory acceptance testing at Parker Hannifin's facility in Charlotte, NC.

Testing included live simulations across a variety of applications including peak shifting, frequency regulation and spinning reserve. Alevo Analytics performed several

tests as well, preparing for local monitoring and control of the battery system once it has been commissioned.

In October 2016, Alevo introduced the GB™50, a standalone 50 kWh/100kW enclosed rack energy storage system (ESS). Essentially providing the equivalent energy and power of a single rack in Alevo's flagship 2MW/1MWh GridBank, the GB50 can be deployed as a standalone ESS or strung together in any increments up to a full-sized GridBank. The GB35 (35 kWh/70kW) was later added to the lineup. GB35/GB50 systems are ideally suited for DC fast-charging stations for electric vehicles, in addition to must-run critical workloads such as hospitals, data centers, mines, sensitive machinery and microgrids.

In January 2017, Alevo's initial GridBank was shipped - the first of a 12 MW installation spanning 3 sites in Hagerstown, MD. The unit will be utilised primarily for frequency regulation and charging/discharging cycles in durations of less than an hour.

EXTRAORDINARY EVENTS

No extraordinary events occurred which are not already mentioned in the financial statements.

FUTURE PROSPECTS

With a rapidly evolving market, improving regulatory environment and demonstrated customer demand, future prospects for the Group are certainly very positive. Having demonstrated our ability to produce a state-of-the-art battery, we are now focused on optimising the speed of production, value engineering, and product development to provide attractive configurations to our customer base, while ensuring discipline around capital and operating expenditure. Naturally, this requires execution of the business and production plans on which the management and board are 100% focused, with a commitment to maximise the outcome and value for our shareholders.

REPORT OF THE STATUTORY AUDITOR

To the General Meeting of ALEVO GROUP SA, Martigny

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements of ALEVO GROUP SA on pages 15 to 31, which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of income, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with the requirements of Swiss law and the consolidation and valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2016 comply with Swiss law and the consolidation and valuation principles as set out in the notes.

Emphasis of Matter

We also draw attention to Note 28 to the financial statements describing the fact that the going concern assumption used in the financial statements was based on the assumption that the shareholders continue to support the company, in particular by making available, when needed, the necessary cash in order to allow the company to assure its current commitments. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO)) and that there are no circumstances incompatible with our independence.

In the course of our audit performed in accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we noted that an internal control system for the preparation of the financial statements designed according to the instructions of the Board of Directors exists, with the following qualification: there are some processes that are not fully documented.

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

Sion, 1st May 2017

BDO Ltd



Nigel Le Masurier

Licensed Audit Expert



Bastien Forré

Auditor in Charge

Licensed Audit Expert

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

For the year ended 31 December 2016

In CHF'000s	Notes	31.12.2016	31.12.2015
ASSETS			
Cash & cash equivalents		5,554	807
Trade and other receivables		20	119
Inventories	3	19,250	10,824
Prepayments	4	4,693	406
Current tax assets		22	0
Other current assets	5	1,174	1,065
Total current assets		30,713	13,221
Property, plant and equipment	6	164,357	145,992
Intangible assets	7	34,231	43,218
Financial assets	8	13,301	12,292
Deferred tax assets	9	2,852	374
Total non-current assets		214,741	201,876
TOTAL ASSETS		245,454	215,097
LIABILITIES			
Trade and other payables		10,660	35,110
Accrued expenses	10	11,956	5,540
Employee-related payables	11	206	807
Current tax liabilities & other taxes payable		1,724	2,214
Short-term debts	12	1,088	42,656
Short-term financial leases	13	654	628
Other current liabilities	14	2,217	829
Total current liabilities		28,505	87,784
Long-term debts	12	0	2,461
Long-term financial leases	13	75,376	72,987
Deferred tax liabilities	9	638	0
Total non-current liabilities		76,014	75,448
TOTAL LIABILITIES		104,519	163,232
EQUITY			
Share capital		164	120
Share premium		296,036	122,964
Reserves		29,996	29,996
Translation reserve		(2,513)	(970)
Retained earnings		(100,245)	(43,929)
Net result for the period		(82,503)	(56,316)
TOTAL EQUITY	15	140,935	51,865
TOTAL LIABILITIES & EQUITY		245,454	215,097

Consolidated Income Statement

For the year ended 31 December 2016

In CHF'000s	Notes	FY 2016	FY 2015
Revenue		371	133
Sales rebates & discounts		(27)	(7)
Net revenue	17	344	126
Raw materials	18	6,289	0
Direct manufacturing labour	19	5,172	528
Heat, power & water		1,911	1,472
Direct manufacturing costs		13,372	2,000
Gross loss		(13,028)	(1,874)
Indirect manufacturing labour	19	7,142	3,251
Repairs & maintenance		992	1,558
Freight out		386	418
Travel expenses		36	40
Other indirect manufacturing expenses	20	4,334	1,259
Indirect manufacturing costs		12,890	6,526
Sales & marketing personnel	19	3,478	2,876
Marketing		512	134
Travel expenses		208	170
Other sales & marketing expenses		524	1,194
Sales & marketing expenses		4,722	4,374
General & administrative personnel	19	11,024	9,988
Rent and office expenses		1,972	1,874
Information & communication technology		776	798
Insurance		798	1,654
Professional fees	21	7,941	6,291
Travel expenses		1,661	999
Other general & administrative expenses	22	3,166	2,109
General & administrative expenses		27,338	23,713
R&D personnel	19	4,716	4,458
R&D subcontracting		370	659
Travel expenses		282	276
Other R&D expenses		917	1,243
R&D expenses		6,285	6,636
EBITDA		(64,263)	(43,123)
Depreciation & amortisation expense	23	17,085	3,577
EBIT		(81,348)	(46,700)
Net financial (income) & expense	24	3,796	8,317
Other non-operating (income) & expense		60	(26)
Income tax expense	25	(2,701)	1,325
Net result for the period		(82,503)	(56,316)

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Cash Flow Statement

For the year ended 31 December 2016

In CHF'000s	FY 2016	FY 2015
Operating activities		
Net result for the period	(82,503)	(56,316)
Depreciation & amortisation expense	17,085	3,577
Unrealised forex	(5,323)	(1,999)
Income taxes	(2,701)	(360)
Capitalised interest	1,607	2,090
Cash flow before changes in working capital	(71,835)	(53,008)
Current assets	(11,772)	(10,611)
Prepayments	(4,061)	(380)
Trade and other receivables	(6)	(118)
Inventories	(7,598)	(10,087)
Current tax assets	(22)	688
Other current assets	(85)	(714)
Current liabilities	(19,116)	34,883
Accounts payable & accrued expenses	(18,104)	31,566
Employee-related payables	(1,127)	1,039
Current tax liabilities	(1,274)	1,449
Other current liabilities	1,389	829
Operating cash flow	(102,723)	(28,735)
Investing activities		
Acquisition of PP&E	(23,654)	(49,949)
Acquisition of intangible assets	(375)	0
Deposits	(571)	(7,067)
Investing cash flow	(24,600)	(57,016)
Financing activities		
Issue of share capital	0	33,517
Issue of convertible notes	154,666	37,572
Issue of loans	355	2,131
Repayment of loans	(22,269)	0
Repayment of financial leases	(682)	(537)
Financing cash flow	132,070	72,683
Increase / (decrease) in cash and cash equivalents	4,747	(13,068)
Cash and cash equivalents at beginning of period	807	13,875
Cash and cash equivalents at end of period	5,554	807

1. BACKGROUND AND OPERATIONS

ALEVO GROUP SA is registered in Martigny, Valais, Switzerland.

The Group is engaged in developing energy storage solutions for industrial applications through the Alevo battery-powered systems.

2. ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with the provisions of the Swiss Code of Obligations accounting convention and accounting policies. The significant accounting policies adopted by the Group are described below.

2.1 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared using the full consolidation method. According to this method, assets, liabilities, income and expenses of all companies included in the scope of consolidation are entirely included in the Group's consolidated financial statements.

All intercompany balances, transactions and margins between companies included in the consolidation are eliminated.

2.2 SCOPE OF CONSOLIDATION

The consolidation includes all companies where ALEVO GROUP SA has an interest of 50% or more of the voting rights controlled directly or indirectly.

The scope of consolidation includes the following entities:

COMPANY	REGISTERED OFFICE	SHARE CAPITAL		SHARE IN CAPITAL AND VOTING RIGHTS	
				31.12.2016	31.12.2015
ALEVO GROUP SA	Martigny, Switzerland	CHF	163,596	Parent Company	Parent Company
ALEVO INTERNATIONAL SA	Martigny, Switzerland	CHF	100,000	100%	100%
ALEVO USA Inc.	Concord, NC, USA	USD	100	100%	100%
ALEVO Manufacturing Inc.	Concord, NC, USA	USD	100	100%	100%
Victory Truck & Bus Company, Co.	Concord, NC, USA	USD	1,000	100%	100%
ALEVO Battery Technology GmbH	Bruchsal, Germany	EUR	25,000	100%	100%
ALEVO Norway AS	Oslo, Norway	NOK	100,000	100%	100%
ALEVO Research AG	Zug, Switzerland	CHF	50,000	100%	100%
ALEVO Analytics Inc	Boca Raton, FL, USA	USD	0	0%	100%
Victory Industrial Park, Inc.	Boca Raton, FL, USA	USD	1,000	0%	100%

On 1 January 2016, ALEVO Analytics, Inc. merged with ALEVO USA, Inc. and cancelled all outstanding common stock.

In January 2016, the Group sold 100% of its investment in Victory Industrial Park, Inc. to Clydemont Finance Ltd.

2.3 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated to the respective functional currencies of the Group companies at the exchange rate prevailing on the transaction date. At each closing date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rates prevailing at the balance sheet date. Translation differences arising on retranslation are recognised in the income statement.

These consolidated financial statements are presented in Swiss Francs, which is the functional currency of the Group. To prepare the consolidated financial statements, assets and liabilities of Group companies denominated in foreign currencies are converted into Swiss Francs at the closing rate of each balance sheet date. Income and expenses are translated at the average currency exchange rate of the financial year. Translation differences are recognised under the currency translation reserve in equity, without any impact to the income statement.

The exchange rates used for these consolidated financial statements are as follows:

	31.12.2016		31.12.2015	
	CLOSING RATE	AVERAGE RATE	CLOSING RATE	AVERAGE RATE
1 EUR	1.0866	1.1020	1.0874	1.0681
1 USD	1.0309	0.9931	1.0010	0.9626
1 NOK	0.1196	0.1181	0.1131	0.1195

2.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments, which are convertible to a known amount of cash and bear an insignificant risk of change in value.

2.5 INVENTORIES

Inventories are valued at the lower of cost (acquisition or manufacturing cost) and net realisable value. Cost comprises all directly attributable costs of materials and production, and overheads necessary to bring the inventories to their present location and condition. Cost is determined using the weighted average method. Net realisable value is the estimated selling price less the estimated cost to completion and the estimated selling cost. Impairment charges are made for unsellable inventory or inventory with a low turnover.

2.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at acquisition or manufacturing costs less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following estimated useful lives. As soon as there are indicators that book values may be overstated, these are reviewed and adjusted if necessary.

Buildings under finance lease	20 - 30 years
Leasehold improvements	5 - 10 years
Machinery & equipment	5 - 10 years
Furniture & fixtures, office equipment	3 - 5 years

Assets under construction are not depreciated until construction is completed and the assets are ready for their intended use.

2.7 INTANGIBLE ASSETS

Intangible assets acquired separately are measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following estimated useful lives. As soon as there are indicators that book values may be overstated, these are reviewed and adjusted if necessary.

Research and development costs are recorded separately. Research costs are expensed as incurred. Development costs are monitored where possible on a product/project basis. The relevant costs for developers' time & materials are capitalised for the most part on a project by project basis. Some development work can benefit several projects/products. All development costs are depreciated on a straight-line basis.

Patents and trademarks	12 - 18 years
Developed technology and know-how	5 years
Software licenses	5 years
Goodwill	not amortised
Non-compete agreement	5 years

2.8 LEASES

Leasing transactions are recognised in the balance sheet according to a substance over form basis. For this, leasing agreements and rental leases are classified as finance leases if essentially all of the risks and benefits related to the ownership of the leased object have been transferred to the Group. All other leasing transactions are considered as operating leases.

Assets held under finance leases are initially capitalised at the lower of the present value of the lease payments and fair value. The related outstanding finance lease obligations are presented under liabilities. Lease instalments are broken down into interest and repayment amounts. The leased asset is depreciated over the shorter of the lease term and the estimated life of the asset.

Payments made under operating leases are recognised directly in the income statement.

2.9 FINANCIAL ASSETS

Financial assets include long-term deposits on capital leases as well as other deposits. They are valued at their acquisition cost adjusted for impairment losses.

2.10 IMPAIRMENT OF LONG-LIVED ASSETS

Impairment of financial assets, property, plant and equipment and intangible assets is recognised when events or changes in circumstances indicate that the carrying amount of the asset, or related groups of assets, may not be recoverable and the Group's estimate of discounted cash flows over the assets' remaining estimated useful life are less than the carrying value of the assets. Measurement of the amount of impairment may be based on appraisal, market values of similar assets or estimated discounted future cash flows resulting from the use and ultimate disposal of the asset.

2.11 REVENUE FROM SALE OF GOODS AND SERVICES

Sales are recognised when risks and rewards are transferred to the client or a service has been provided. Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

2.12 INCOME TAXES

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates at the reporting date in each country of operations.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

3. INVENTORIES

IN CHF'000s	31.12.2016	31.12.2015
Raw materials inventory	12,509	7,427
Supplies inventory	876	410
Work in progress inventory	5,865	2,987
Total inventories	19,250	10,824

Work in progress inventory at 31 December 2016 includes primarily the inventory of Alevolyte™ Inorganic Electrolyte for CHF 4.5 million and CHF 0.7 million of assembled and filed modules.

4. PREPAYMENTS

Prepayments at 31 December 2016 consist of CHF 3.2 million of advances to vendors of maintenance, repairs and operating supplies, CHF 1.1 million of prepaid raw material and CHF 0.4 million of other prepaid expenses.

5. OTHER CURRENT ASSETS

IN CHF'000s	31.12.2016	31.12.2015
Receivable from Victory Industrial Park, Inc.	101	0
Employee advance	72	70
Receivable from social insurance companies	52	0
Receivable from VAT	743	995
Earnest money deposit	206	0
Total other current assets	1,174	1,065

6. PROPERTY, PLANT AND EQUIPMENT

Movements in the net book value of property, plant and equipment during the year are explained below:

2016 IN CHF'000s	Land and Buildings	Buildings Under Finance Lease	Leasehold Improvements	Machinery and Equipment	Furniture & Fixtures, Office Equipment & Vehicles	Assets Under Construction	Total
Gross value							
At 1 January 2016	2,401	73,938	1,452	13,317	905	58,351	150,364
Capital expenditure	0	0	4,778	17,551	557	662	23,548
Transfer	0	0	0	21,676	0	(21,676)	0
Modification of the scope of consolidation	(2,401)	0	0	0	(54)	0	(2,455)
Currency translation differences	0	2,016	181	1,543	14	788	4,542
At 31 December 2016	0	75,954	6,411	54,087	1,422	38,125	175,999
Accumulated depreciation and impairments							
At 1 January 2016	0	(3,134)	(160)	(895)	(182)	0	(4,371)
Depreciation	0	(2,504)	(208)	(4,090)	(190)	0	(6,992)
Impairments	0	0	0	0	0	0	0
Modification of the scope of consolidation	0	0	0	0	0	0	0
Currency translation differences	0	(163)	(3)	(110)	(3)	0	(279)
At 31 December 2016	0	(5,801)	(371)	(5,095)	(375)	0	(11,642)
Net at 31 December 2016	0	70,153	6,040	48,992	1,047	38,125	164,357

2015 IN CHF'000s	Land and Buildings	Buildings Under Finance Lease	Leasehold Improvements	Machinery and Equipment	Furniture & Fixtures, Office Equipment & Vehicles	Assets Under Construction	Total
Gross value							
At 1 January 2015	1,501	73,438	1,151	5,578	76	16,421	98,165
Capital expenditure	855	0	313	1,787	809	46,185	49,949
Transfer	0	0	0	5,985	0	(5,985)	0
Currency translation differences	45	500	(12)	(33)	20	1,730	2,250
At 31 December 2015	2,401	73,938	1,452	13,317	905	58,351	150,364
Accumulated depreciation and impairments							
At 1 January 2015	0	(507)	(47)	(165)	(58)	0	(777)
Depreciation	0	(2,536)	(113)	(743)	(123)	0	(3,515)
Impairments	0	0	0	0	0	0	0
Currency translation differences	0	(91)	0	13	(1)	0	(80)
At 31 December 2015	0	(3,134)	(160)	(895)	(182)	0	(4,372)
Net at 31 December 2015	2,401	70,804	1,292	12,422	723	58,351	145,992

During the year 2016, CHF 21.7 million of assets under construction were placed into service and thus transitioned to Machinery & equipment. Additional capital expenditure in production line equipment installation of CHF 17.6 million further increased Machinery & equipment amounts.

7. INTANGIBLE ASSETS

Movements in the net book value of intangible assets during the year are explained below:

2016 IN CHF'000s	Patents & Trademarks	Developed Technology & Know-how	Software Licenses	Goodwill	Other Intangible Assets	Total
Gross value						
At 1 January 2016	1,313	22,550	302	18,140	979	43,284
Capital expenditure	60	0	315	0	0	375
Transfer	0	0	0	0	0	0
Currency translation differences	28	697	11	248	30	1,014
At 31 December 2016	1,401	23,247	628	18,388	1,009	44,673
Accumulated depreciation and impairments						
At 1 January 2016	0	0	(66)	0	0	(66)
Depreciation	(277)	(8,957)	(100)	0	(680)	(10,014)
Impairments	0	0	0	0	0	0
Currency translation differences	0	(342)	(5)	0	(15)	(362)
At 31 December 2016	(277)	(9,299)	(171)	0	(695)	(10,442)
Net at 31 December 2016	1,124	13,948	457	18,388	314	34,231

2015 IN CHF'000s	Patents & Trademarks	Developed Technology & Know-how	Software Licenses	Goodwill	Other Intangible Assets	Total
Gross value						
At 1 January 2015	1,428	22,550	302	18,140	979	43,399
Capital expenditure	0	0	1	0	0	1
Transfer	0	0	0	0	0	0
Currency translation differences	(115)	0	(1)	0	0	(116)
At 31 December 2015	1,313	22,550	302	18,140	979	43,284
Accumulated depreciation and impairments						
At 1 January 2015	0	0	(4)	0	0	(4)
Depreciation	0	0	(62)	0	0	(62)
Impairments	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0
At 31 December 2015	0	0	(66)	0	0	(66)
Net at 31 December 2015	1,313	22,550	236	18,140	979	43,218

Goodwill is the result of the purchase of ALEVO USA, Inc., ALEVO Manufacturing, Inc. and Victory Truck & Bus Company, Co. by ALEVO GROUP SA on 12 September 2012 as well as the merger of ALEVO Analytics, Inc. with Data Scientia, Inc. on 28 October 2014.

Developed technology and know-how were acquired as part of the merger of ALEVO Analytics, Inc. with Data Scientia, Inc. together with other intangible assets (non-compete agreement). No depreciation was recognised on these assets in prior years. In 2016, the Management performed a review of the useful life of the assets at acquisition and came to the conclusion that the appropriate depreciation period is five years in total. As a result, a depreciation of CHF 9.6 million was recognised in 2016 to reflect the change of useful life.

8. FINANCIAL ASSETS

IN CHF'000s	31.12.2016	31.12.2015
Long term security rental deposits	11,133	10,674
Long term deposits to vendors of raw materials	2,069	1,618
Advance payments on non-current assets	99	0
Total financial assets	13,301	12,292

Long term security rental deposits include CHF 10.3 million related to the Concord property lease.

9. DEFERRED TAX

Deferred tax assets of CHF 2.9 million recognised at 31 December 2016 relates to temporary deductible differences in the subsidiaries ALEVO USA, Inc. and Victory Truck & Bus Company, Co. Deferred tax liabilities of CHF 0.6 million recognised at 31 December 2016 relates to temporary taxable differences in the subsidiary ALEVO Manufacturing, Inc.

As of 31 December 2016, deferred tax assets have not been recognised in respect of tax losses of CHF 148.3 million (2015: CHF 62.7 million) of the subsidiary ALEVO INTERNATIONAL SA as the recoverability of these tax losses (Expiry in 2022 and 2023) is still in doubt until a trend of profitability in the subsidiary has been fully established.

10. ACCRUED EXPENSES

IN CHF'000s	31.12.2016	31.12.2015
Accruals for goods received not invoiced	5,234	0
Accrued termination and severance costs	2,956	0
Accrued bonuses	496	3,665
Accrued holidays and overtime	857	546
Accrued board member fees	268	0
Accrued interests on promissory note	89	0
Other accruals	2,056	1,329
Total accrued expenses	11,956	5,540

Accrued termination and severance costs reflect the balance of one-time costs of several terminations occurring during the fourth quarter of 2016.

11. EMPLOYEE-RELATED PAYABLES

IN CHF'000s	31.12.2016	31.12.2015
Wages & salaries payable	5	351
Social insurance and payroll taxes payable	201	456
Total employee-related payables	206	807

12. FINANCIAL DEBTS

At 31 December 2016, total financial debts of the Group were CHF 1.1 million. Movements of financial debts during the year was as follows:

IN CHF'000s	31.12.2016	31.12.2015
Convertible notes		
At 1 January	41,229	9,925
New issues	154,666	37,214
Capitalised interests	382	1,063
Repayments	(20,347)	0
Conversion in share capital	(174,846)	(6,973)
Currency translation differences	(1)	0
At 31 December	1,083	41,229
Loans		
At 1 January	3,888	1,144
New issues	355	2,732
Capitalised interests	164	0
Repayments	(1,922)	0
Modification of the scope of consolidation	(2,467)	0
Currency translation differences	(13)	12
At 31 December	5	3,888
Total debts	1,088	45,117
Reflected in the balance sheet as follows:		
Short-term debts	1,088	42,656
Long-term debts	0	2,461
Total debts	1,088	45,117

During 2016, the Group issued a total CHF 154.7 million of convertible notes and a total of CHF 174.8 million were converted into shares of ALEVO GROUP SA (see note 15).

13. FINANCIAL LEASES

At 31 December 2016, total financial leases of the Group were CHF 76 million as follows:

IN CHF'000s	31.12.2016	31.12.2015
Concord property lease	71,007	67,910
Martigny property lease	5,023	5,705
Total property leases	76,030	73,615

Movements of the finance leases during the year were as follows:

IN CHF'000s	31.12.2016	31.12.2015
Concord property financial lease		
At 1 January	67,910	66,359
Repayments	0	0
Capitalised interests	1,028	1,015
Currency translation differences	2,069	536
At 31 December	71,007	67,910
Martigny property financial lease		
At 1 January	5,705	6,242
Repayments	(682)	(537)
Capitalised interests	0	0
At 31 December	5,023	5,705
Total financial leases	76,030	73,615
Reflected in the balance sheet as follows:		
Short-term financial leases	654	628
Long-term financial leases	75,376	72,987
Total financial leases	76,030	73,615

The Concord property financial lease has a contract period of 30 years from 2014 and has an effective interest rate of 13.5%. The Martigny property financial lease has a contract period of 4 years from 2014 and has an effective interest rate of 3.59%.

14. OTHER CURRENT LIABILITIES

IN CHF'000s	31.12.2016	31.12.2015
Provision for litigations with former employees	2,085	0
Other payables	132	829
Total other current liabilities	2,217	829

Provision for litigations relates to four claims filed by former employees against the Group. An agreement has been reached in March 2017 for one of the claims. The three other claims are still pending and the Group expect to settle these claims in 2017.

15. EQUITY

The movements of the changes in equity during the year is explained below:

IN CHF'000s	Share Capital	Share Premium	Reserves	Currency Translation Reserve	Retained Earnings	Total Equity
Equity as at 31 December 2014	116	82,477	29,996	(1,029)	(43,929)	67,631
Authorised capital increases	4	40,487				40,491
Net result for the period					(56,316)	(56,316)
Translation differences				59		59
Equity as at 31 December 2015	120	122,964	29,996	(970)	(100,245)	51,865
Authorised capital increases	44	173,072				173,116
Net result for the period					(82,503)	(82,503)
Translation differences				(1,543)		(1,543)
Equity as at 31 December 2016	164	296,036	29,996	(2,513)	(182,748)	140,935

At 31 December 2016, share capital of ALEVO GROUP SA in the amount of KCHF 164 consists of 16,359,640 registered shares at a par value of CHF 0.01 each.

During 2016, the Company made three authorised share capital increases in total from KCHF 120 to KCHF 164 by issuing 4,326,963 ordinary shares at a nominal value of CHF 0.01 each with a share premium of KCHF 173,072 net of KCHF 1,753 of stamp tax. The three authorised capital increases were paid-up by the conversion of KCHF 174,847 of convertible notes.

Date	Total Issued ALEVO GROUP SA Shares	Share Capital Issued at Nominal Value in CHF'000s	# Shares in Units	Price per Share in CHF	Total in CHF'000s
31-Dec-15	Total share capital issued	120	12,032,777		124,312
7-Apr-16	Authorised capital increase - Convert of Sep. 2013 Convertibles	2	162,956	33.00	5,378
7-Apr-16	Authorised capital increase - Convert of Feb. 2015 Convertibles	0	28,000	80.00	2,240
7-Apr-16	Authorised capital increase - Convert of Mar. 2015 Convertibles	1	50,854	110.00	5,594
7-Apr-16	Authorised capital increase - Convert of 2015/16 Convertibles	5	484,779	120.00	58,173
31-May-16	Authorised capital increase - Convert of 2015/16 Convertibles	0	28,846	120.00	3,462
10-Nov-16	Authorised capital increase - Convert of 100M July 2016 Convertibles	36	3,571,428	28.00	100,000
31-Dec-16	Total Share Capital Issued	164	16,359,640		299,159

Share premium include premiums on capital increases made since 2012. From a fiscal point of view, share premium from capital contributions may be distributed without being subject to Swiss withholding tax, if certain conditions are met.

Reserves include the revaluation at fair value of the shares issued as consideration transferred for the merger of ALEVO Analytics, Inc. with Data Scientia, Inc. on 28 October 2014.

Currency translation reserve comprises the cumulative gains and losses arising from translating the financial statements of foreign Group companies that use functional currencies other than Swiss Francs.

16. AUTHORISED SHARE CAPITAL, NOT ISSUED

The Board of Directors may increase the Company's share capital by an amount of CHF 81,790 by issuing a maximum of 8,179,000 registered shares of CHF 0.01 each. The Board may use this authorisation on one or several occasions within the limits of the maximum amount authorised. This authorisation is valid until 7 December 2018.

17. NET REVENUE

Net revenue is exclusively composed of services revenues from Alevo Analytics.

18. RAW MATERIAL

During the year 2016, CHF 6.3 million of raw materials were scrapped as a result of the ramping up and testing programs of production in USA.

19. PERSONNEL COSTS

IN CHF'000s	FY 2016	FY 2015
Direct manufacturing labour	5,172	528
Indirect manufacturing labour	7,142	3,251
Sales & marketing personnel	3,478	2,876
General & administrative personnel	11,024	9,988
R&D personnel	4,716	4,458
Personnel costs	31,532	21,101

Increase in personnel costs in 2016 compared to 2015 is primarily due to the recruitment of new employees in the manufacturing site in Concord, NC, USA.

Non-recurring costs included in 2016 personnel costs amounted to CHF 0.7 million as follows:

- CHF 1.6 million of litigations costs with former employees of the Group
- CHF 2.3 million of termination costs
- CHF -3.2 million of bonus 2014 - 2015 reversal

The annual average number of full-time equivalents was 270 in the year 2016. In 2015 the annual average number of full time equivalents did not exceed 250.

20. OTHER INDIRECT MANUFACTURING EXPENSES

IN CHF'000s	FY 2016	FY 2015
Materials, supplies, consumables	1,234	646
Equipment & machinery leases	400	257
Technical professional fees	2,506	176
Others	194	180
Other indirect manufacturing expenses	4,334	1,259

Technical professional fees in 2016 include CHF 1.4 million of consulting services to support management's efforts to both develop and facilitate a Project Management Office and an integrated plan designed to help achieve scale production rates and CHF 0.8 million of specialists consultants to enhance production capability.

21. PROFESSIONAL FEES

IN CHF'000s	FY 2016	FY 2015
Business development	1,480	1,589
Legal advisors & IP protection	2,182	1,866
Board member fees	1,106	0
Outsourced management	622	0
Tax, accounting, audit & HR services	992	601
Technical consultants	1,216	1,031
Others	343	1,204
Professional fees	7,941	6,291

Business development fees in 2016 include CHF 1 million with Clydemont Finance Ltd for identifying, structuring and negotiating business relations and technology transactions.

Board member fees in 2016 include CHF 0.5 million related to a claim filed by a former employee and Board member of the Group. Technical consultants fees in 2016 include CHF 0.5 million for cyber security project consulting fees.

22. OTHER GENERAL & ADMINISTRATIVE EXPENSES

IN CHF'000s	FY 2016	FY 2015
Various taxes	1,716	1,023
Employees related costs	791	589
Others	659	497
Other general & administrative expenses	3,166	2,109

Various taxes in 2016 include CHF 0.8 million of fixed assets and property taxes and CHF 0.8 million of sales taxes imposed on USA entities.

23. DEPRECIATION & AMORTISATION EXPENSE

IN CHF'000s	FY 2016	FY 2015
Depreciation & amortisation of fixed assets	7,071	3,515
Depreciation & amortisation of intangible assets	10,014	62
Depreciation & amortisation expense	17,085	3,577

Increase in depreciation of fixed assets in 2016 is a result of the substantial amount of machinery & equipment under construction placed into service during the year (see note 6).

Depreciation of intangible assets in 2016 includes a total of CHF 9.6 million related to the change of useful life of developed technology, know-how and non-compete agreement to five years in total (see note 7).

24. NET FINANCIAL (INCOME) & EXPENSES

IN CHF'000s	FY 2016	FY 2015
Interest (income)	(44)	(8)
Interest expense	10,465	9,950
Foreign exchange (gains)/losses	(1,168)	374
Unrealised foreign exchange (gains)/losses	(5,457)	(1,999)
Net financial (income) & expense	3,796	8,317

In 2016, interest expense include CHF 9.4 million of interest on financial leases, of which CHF 9.2 million relate to the Concord facility financial lease.

Unrealised foreign exchange gains of CHF 6.4 million were recognised in 2016 on USD and EUR intercompany loans granted by ALEVO GROUP SA to its subsidiaries.

25. INCOME TAX EXPENSE

IN CHF'000s	FY 2016	FY 2015
Current tax (income)/expense	(951)	1,685
Deferred tax (income)/expense	(1,750)	(360)
Income tax expense	(2,701)	1,325

Current tax income in 2016 includes income of CHF 1.2 million of previous year adjustment recognised as a result of final true-up and income tax calculations for the years 2014 and 2015 of USA entities.

Deferred income tax recognised in 2016 relates exclusively to USA entities (see note 9).

26. OPTIONS ON SHARES FOR MEMBERS OF THE BOARD AND EMPLOYEES

In 2016, no options on shares were allocated to members of the board or to employees. The following information relates to the allocation in 2014:

CHF	Maturity Date	Stock Options	
		Quantity	Strike Price
Total allocated to employees in 2014	1 July 2020	292,000	71
Options cancelled in 2015	1 July 2020	(20,000)	71
Options cancelled in 2016	1 July 2020	(5,000)	71
Total outstanding end 2016		267,000	

27. COLLATERAL PROVIDED FOR LIABILITIES OF THIRD PARTIES

None.

28. GOING CONCERN

ALEVO GROUP SA will continue to have large capital requirements in the future in order to fund the continued development of the Group's operations. It will be necessary to obtain these funds from outside resources and existing shareholders. In this respect, the Group is dependent on raising additional financing to continue as a going concern. The Group has a successful track record of raising capital, including that demonstrated by the January 2017 new funding round, and expects it will be able to continue to raise equity and debt capital as required in the future.

29. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 19 January 2017, the Group reached a significant milestone when it delivered its first GridBank. This GridBank is the first of 12 MWs that ALEVO will be installing in Hagerstown, Maryland, USA and will be utilised primarily for frequency regulation and charging/discharging cycles in durations of less than an hour.

In January 2017, ALEVO GROUP SA conducted a new funding round of CHF 75 million to its existing shareholders. The funding is to be utilised in particular for the working capital, purchase of raw material, inventory and further improvements to the production line by way of issuance of a maximum of 2,678,571 new registered ordinary shares in the Company with a nominal value of CHF 0.01 per share, each fully paid in cash at an issue price of CHF 28.00 per share, thereby increasing the issued share capital of the Company by a maximal nominal amount of CHF 26,785.71. In connection with the subscription of shares, shareholders undertake to make three convertible loan remittances as follow:

- 33.33% of the total subscription amount with a value date at the latest on 6 February 2017
- 33.33% of the total subscription amount with a value date at the latest on 15 March 2017
- 33.33% of the total subscription amount with a value date at the latest on 5 May 2017

The convertible loans may be converted to shares at the issue price at any time by the Company prior to 1 August 2017. The offering included an equal amount of share options at the CHF 28.00 per share strike price, most of which are expected to be exercised during 2017, bringing additional working capital into the Company.

As of 20 March 2017, per the terms of the subscription agreements, a total amount of CHF 50.5 million has been remitted to the Company already.



REPORT OF THE STATUTORY AUDITOR
To the General Meeting of ALEVO GROUP SA, Martigny

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of ALEVO GROUP SA on pages 35 to 44, which comprise the balance sheet as at 31 December 2016 and the income statement and notes for the year then ended.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Emphasis of Matter

We also draw attention to Note 26 to the financial statements describing the fact that the going concern assumption used in the financial statements was based on the assumption that the shareholders continue to support the company, in particular by making available, when needed, the necessary cash in order to allow the company to assure its current commitments. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO)) and that there are no circumstances incompatible with our independence.

In the course of our audit performed in accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we noted that an internal control system for the preparation of the financial statements designed according to the instructions of the Board of Directors exists, with the following qualification: there are some processes that are not fully documented.

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

Sion, 1st May 2017

BDO Ltd



Nigel Le Masurier

Licensed Audit Expert



Bastien Forré

Auditor in Charge
Licensed Audit Expert

COMPANY FINANCIAL STATEMENTS

Balance Sheet
For the year ended 31 December 2016

IN CHF	Notes	31.12.2016	31.12.2015
ASSETS			
Cash and cash equivalents		1,903,501	69,480
Other current receivables	3	127,227	411
Total current assets		2,030,728	69,891
Financial assets	4	253,279,127	117,355,694
Investments	5	36,994,185	46,697,885
Property, plant and equipment	6	5,714,583	6,039,583
Intangible assets	7	200,000	433,128
Total non-current assets		296,187,895	170,526,290
TOTAL ASSETS		298,218,623	170,596,181
Liabilities and Shareholders' Equity			
Trade payables		163,808	674,723
Short-term interest-bearing liabilities	8	1,726,860	17,017,246
Other short-term liabilities	9	1,182,742	26,503,357
Short-term provisions	10	585,000	0
Accrued expenses and deferred income	11	323,645	34,452
Total short-term liabilities		3,982,055	44,229,778
Long-term interest-bearing liabilities	12	4,369,266	5,076,731
Long-term provision	13	11,077,214	4,620,559
Total long-term liabilities		15,446,481	9,697,291
TOTAL LIABILITIES		19,428,535	53,927,068
Share capital		163,596	120,328
Legal capital reserves			
Reserves from capital contribution		296,036,459	122,964,408
Legal retained earnings			
Reevaluation reserve		20,293,550	29,996,250
Voluntary retained earnings			
Profits / (losses) carried forward		(36,411,874)	(43,701,975)
Profit / (loss) for the year		(1,291,644)	7,290,102
TOTAL SHAREHOLDERS' EQUITY	14	278,790,088	116,669,113
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		298,218,623	170,596,181

Income Statement

For the year ended 31 December 2016

IN CHF	Notes	2016	2015
Revenue from sale of goods and services	16	847,593	1,121,614
Gross margin / (loss)		847,593	1,121,614
General & administrative expenses	17	(5,368,750)	(1,720,549)
EBIT		(4,521,157)	(598,935)
Financial income	20	4,175,678	9,529,637
Financial expenses	21	(923,212)	(1,664,482)
EBT		(1,268,690)	7,266,221
Non-operating income		49,436	40,000
Non-operating expenses		(9,572)	0
Profit / (loss) before tax		(1,228,827)	7,306,221
Direct tax expenses	22	(62,817)	(16,119)
Profit / (loss) for the year		(1,291,644)	7,290,102

1. BACKGROUND AND OPERATIONS

ALEVO GROUP SA is registered at Rue des Finettes 110 in Martigny, Valais, Switzerland. The Group is engaged in developing energy storage solutions for industrial applications through the Alevo battery-powered systems.

2. ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with the provisions of the Swiss Law on Accounting and Financial Reporting (Title Thirty-Two of the Swiss Code of Obligations), in particular Articles 957 to 962 on Commercial Accounting and Financial Reporting. When not prescribed by law, the significant accounting and valuation principles applied are described below.

2.1 FOREIGN CURRENCY TRANSLATION

These financial statements are prepared in Swiss Francs, which is the functional currency of the Company.

Foreign currency transactions are recorded in Swiss Francs at the exchange rate prevailing on the transaction date. At each closing date, monetary assets and liabilities denominated in foreign currencies are translated to Swiss Francs at the rates prevailing at the balance sheet date. Translation differences are recognised in the income statement in case of a loss, and deferred in liabilities as a provision for unrealised foreign exchange gains in the case of a gain.

The following exchange rates were used to translate monetary items in foreign currency into Swiss francs at the balance sheet date:

	31.12.2016	31.12.2015
1 EUR	1.0866	1.0874
1 USD	1.0309	1.0010
1 NOK	0.1196	0.1131

2.2 FINANCIAL ASSETS

Financial assets include long-term loans to subsidiaries as well as deposits. They are valued at their acquisition cost adjusted for impairment losses.

2.3 INVESTMENTS

Investments in subsidiaries are valued at their acquisition cost less any necessary adjustments for impairment losses.

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at acquisition or manufacturing costs less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following estimated useful lives. As soon as there are indicators that book values may be overstated, these are reviewed and adjusted if necessary.

Property & plant	20 - 30 years
Leasehold improvements	5 - 10 years
Machinery & equipment	5 - 10 years

2.5 LEASES

Leasing transactions are recognised in the balance sheet according on a substance over form basis. For this, leasing agreements and rental leases are classified as finance leases if essentially all of the risks and benefits related to the ownership of the leased object have been transferred to the Company. All other leasing transactions are considered as operating leases.

Assets held under finance leases are initially capitalised at the lower of the present value of the lease payments and fair value. The related outstanding finance lease obligations are presented under liabilities. Lease instalments are broken down into interest and repayment amounts. The leased asset is depreciated over the shorter of the lease term and the estimated life of the asset.

Payments made under operating leases are recognised directly in the income statement.

2.6 REVENUE FROM SALE OF GOODS AND SERVICES

Sales are recognised when risks and rewards are transferred to the client or a service has been provided.

3. OTHER CURRENT RECEIVABLES

IN CHF	31.12.2016	31.12.2015
Other receivables from shareholders	16,817	0
Other receivables from third parties	95,229	411
Prepayments	15,182	0
Total other current receivables	127,227	411

4. FINANCIAL ASSETS

IN CHF	31.12.2016	31.12.2015
Loans granted to subsidiaries		
ALEVO USA, Inc.	58,675,242	41,575,788
ALEVO Manufacturing Inc.	54,545,980	40,846,324
Victory Truck & Bus Company Co.	7,056,446	6,697,272
ALEVO Battery Technology GmbH	4,276,633	2,787,048
ALEVO Norway AS	1,827,014	1,468,297
ALEVO INTERNATIONAL SA	126,747,760	23,814,338
Victory Industrial Park, LLC	0	971
Victory Industrial Park, Inc.	0	8,863
Total loans granted to subsidiaries, net	253,129,076	117,198,901
Deposits	150,051	156,793
Total financial assets	253,279,127	117,355,694

The loan to ALEVO INTERNATIONAL SA has been partially subordinated for an amount of CHF 125,000,000.

5. INVESTMENTS

IN CHF		31.12.2016	31.12.2015	31.12.2016	31.12.2015
ALEVO USA, Inc.	Concord, NC, USA	100%	100%	28,097,300	7,800,000
ALEVO Manufacturing Inc.	Concord, NC, USA	100%	100%	100	100
Victory Truck & Bus Company Co.	Concord, NC, USA	100%	100%	2,000,000	2,000,000
ALEVO Battery Technology GmbH	Bruschal, Germany	100%	100%	799,154	799,154
ALEVO Norway AS	Oslo, Norway	100%	100%	14,918	14,918
Alevo Research AG	Zug, Switzerland	100%	100%	50,000	50,000
ALEVO Analytics Inc.	Boca Raton, FL, USA	0%	100%	0	30,000,000
Victory Industrial Park, Inc.	Boca Raton, FL, USA	0%	100%	0	1,000
ALEVO INTERNATIONAL SA	Martigny, Switzerland	100%	100%	6,032,713	6,032,713
Total investments				36,994,185	46,697,885

On 1 January 2016, ALEVO Analytics, Inc. merged with ALEVO USA, Inc. and cancelled all outstanding common stock.

In January 2016, the Company sold 100% of its investment in Victory Industrial Park, Inc. to Clydemont Finance Ltd.

Each year Management reviews the carrying value of the investments in the Company's subsidiaries and adjusts the value of the investments whenever needed. This year a depreciation of CHF 9.7 mio was recognised on the initial investment of ALEVO Analytics through the revaluation reserve.

6. PROPERTY, PLANT AND EQUIPMENT

Land and buildings includes the property in Martigny held under finance lease.

IN CHF	Land and Buildings	Leasehold Improvement	Machinery & Equipment	Asset Under Construction	Total
Balance at 1st January 2016	6,039,583	0	0	0	6,039,583
Depreciation	(325,000)				(325,000)
Balance at 31 December 2016	5,714,583	0	0	0	5,714,583

7. INTANGIBLE ASSETS

IN CHF	31.12.2016	31.12.2015
Patents and trademarks	200,000	200,000
Software licenses	0	233,128
Total intangible assets	200,000	433,128

8. SHORT-TERM INTEREST-BEARING LIABILITIES

IN CHF	31.12.2016	31.12.2015
Current portion of finance lease liabilities	653,971	628,436
Short-term interest-bearing loans from shareholders	0	9,614,748
Short-term interest-bearing convertible notes from shareholders	1,072,889	5,330,822
Short-term interest-bearing convertible notes from third parties	0	1,443,240
Total short-term interest-bearing liabilities	1,726,860	17,017,246

9. OTHER SHORT-TERM LIABILITIES

IN CHF	31.12.2016	31.12.2015
Short-term non interest-bearing loans from shareholders	5,173	1,420,987
Short-term non interest-bearing convertible notes from shareholders	0	20,053,769
Short-term non interest-bearing convertible notes from third parties	0	4,776,410
Other liabilities due to third parties	1,177,569	252,191
Total other short-term liabilities	1,182,742	26,503,357

On 31 December 2016 the Company had no liability to the pension funds (same at 31 December 2015).

10. SHORT-TERM PROVISIONS

Short-term provisions include a provision for litigation with a former employee and board member that is expected to be settled in 2017.

11. ACCRUED EXPENSES AND DEFERRED INCOME

IN CHF	31.12.2016	31.12.2015
Accrued expenses with third parties	323,645	34,452
Total accrued expenses and deferred income	323,645	34,452

12. LONG-TERM INTEREST-BEARING LIABILITIES

IN CHF	31.12.2016	31.12.2015
Long-term finance lease liabilities	4,369,266	5,076,731
Total long-term interest-bearing liabilities	4,369,266	5,076,731
By maturity:		
Up to five years	4,369,266	5,076,731
Total by maturity	4,369,266	5,076,731

13. LONG-TERM PROVISIONS

The long-term provision includes the provision for unrealised foreign exchange gains.

14. SHAREHOLDERS' EQUITY

Share capital in the amount of CHF 163,596 consists of 16,359,640 registered shares at a par value of CHF 0.01 each.

During 2016, the Company made three authorised share capital increases in total from CHF 120,328 to CHF 163,596 by issuing 4,326,963 ordinary shares at a nominal value of CHF 0.01 each with a share premium of CHF 173,072,050.

The reserves from capital contributions in legal capital reserve include the premium for capital increases made since 2012. From a fiscal point of view, reserves from capital contributions may be distributed without being subject to Swiss withholding tax, if certain conditions are met.

A revaluation of Investment in Alevo Analytics Inc. was recognised for CHF 29,996,250 in 2013 in accordance with art. 670 of Swiss Code of Obligation. In 2016 a depreciation of CHF 9.7 mio was recognised on the investment of Alevo Analytics (see note 5).

The movements of changes in shareholders' equity are explained below:

IN CHF	Share Capital	Legal Capital Reserve	Legal Retained Earnings	Voluntary Retained Earnings	Total
Balance at 1st January 2012					
Issue of capital	100,000				100,000
Profit / (loss) for the year				(158,107)	(158,107)
Balance at 31 December 2012	100,000	0	0	(158,107)	(58,107)
Capital increase	3,598	11,871,402			11,875,000
Profit / (loss) for the year				(5,737,995)	(5,737,995)
Balance at 31 December 2013	103,598	11,871,402	0	(5,896,102)	6,078,898
Capital increase	12,680	70,606,223			70,618,902
Profit / (loss) for the year				(37,805,873)	(37,805,873)
Revaluation of investment			29,996,250		29,996,250
Balance at 31 December 2014	116,278	82,477,625	29,996,250	(43,701,975)	68,888,177
Capital increase	4,050	40,486,784			40,490,834
Profit / (loss) for the year				7,290,102	7,290,102
Balance at 31 December 2015	120,328	122,964,408	29,996,250	(36,411,873)	116,669,113
Capital increase	43,269	173,072,050			173,115,319
Profit / (loss) for the year				(1,291,644)	(1,291,644)
Depreciation of investment			(9,702,700)		(9,702,700)
Balance at 31 December 2016	163,596	296,036,458	20,293,550	(37,703,517)	278,790,088

15. AUTHORISED SHARE CAPITAL, NOT ISSUED

The Board of Directors may increase the Company's share capital by an amount of CHF 81,790 by issuing a maximum of 8,179,000 registered shares of CHF 0.01 each. The Board may use this authorisation on one or several occasions within the limits of the maximum amount authorised. This authorisation is valid until 7 December 2018.

The preferred right of subscription of the shareholders may be suppressed for at least one of the following reasons:

- The takeover of enterprises, parts of enterprises or shareholdings through the exchange of shares
- The financing of the acquisition of enterprises, parts of enterprises or shareholdings
- The purpose of strategic partnerships or strategic investors

16. REVENUE FROM SALE OF GOODS AND SERVICES

IN CHF	2016	2015
Revenue from services to subsidiaries	847,593	1,121,614
Total revenue from sale of goods and services	847,593	1,121,614

17. GENERAL & ADMINISTRATIVE EXPENSES

IN CHF	2016	2015
Other general & administrative expenses	86,482	35,061
Professional fees	2,895,188	1,302,206
Travel expenses	722,898	0
Board member fees	1,106,054	0
Depreciation & amortisation expenses	558,128	383,282
Total financial income	5,368,750	1,720,549

18. PERSONNEL EXPENSES

In 2016, the Company had no employees. For the previous year, the annual average number of full-time equivalents did not exceed 50.

19. DEPRECIATION AND IMPAIRMENT ON FIXED ASSETS

IN CHF	2016	2015
Depreciation on property, plant and equipment	325,000	325,000
Depreciation on intangible assets	233,128	58,282
Total depreciation and impairment on fixed assets	558,128	383,282

20. FINANCIAL INCOME

IN CHF	2016	2015
Interest income on loans granted to subsidiaries	2,767,065	1,479,393
Interest income from third parties	205	279
Foreign exchange gains	1,408,409	49,965
Reversal of provision for impairment on loans granted to subsidiaries	0	8,000,000
Total financial income	4,175,678	9,529,637

21. FINANCIAL EXPENSES

IN CHF	2016	2015
Interest expenses on loans from shareholders	634,914	640,163
Interest expenses on finance lease liabilities	194,471	215,166
Interest expenses and bank charges third parties	61,055	320,245
Foreign exchange losses	32,773	488,907
Total financial expenses	923,212	1,664,482

22. TAXES

The Company is liable for Swiss federal income tax and cantonal/communal income and capital taxes. The Company accrues for all taxes due for the period.

23. OPTIONS ON SHARES FOR MEMBERS OF THE BOARD AND EMPLOYEES

In 2016, no options on shares were allocated to members of the board or to employees. The following information relates to the allocation in 2014:

Stock Options			
CHF	Maturity Date	Quantity	Strike Price
Total allocated to employees in 2014	1 July 2020	292,000	71
Options cancelled in 2015	1 July 2020	(20,000)	71
Options cancelled in 2016	1 July 2020	(5,000)	71
Total outstanding end 2016		267,000	

24. COLLATERAL PROVIDED FOR LIABILITIES OF THIRD PARTIES

ALEVO GROUP SA has provided comfort letters to the following subsidiaries, ALEVO Manufacturing Inc, \$14,800,000.00 (CHF 15,244,000) and ALEVO USA Inc., \$7,400,000.00 (CHF7,622,000.00).

25. AUDIT FEES

IN CHF	2016	2015
Audit services	48,000	48,400
Total audit fees	48,000	48,400

26. GOING CONCERN

ALEVO GROUP SA will continue to have large capital requirements in the future in order to fund the continued development of the Group's operations. It will be necessary to obtain these funds from outside resources and existing shareholders. In this respect, the Group is dependent on raising additional financing to continue as a going concern. The Group has a successful track record of raising capital, including that demonstrated by the January 2017 new funding round, and expects it will be able to continue to raise equity and debt capital as required in the future.

27. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In January 2017, ALEVO GROUP SA conducted a new funding round of CHF 75,000,000 to its existing shareholders. The funding is to be utilised in particular for the working capital, purchase of raw material, inventory and further improvements to the production line by way of issuance of a maximum of 2,678,571 new registered ordinary shares in the Company with a nominal value of CHF 0.01 per share, each fully paid in cash at an issue price of CHF 28.00 per share, thereby increasing the issued share capital of the Company by a maximal nominal amount of CHF 26,785.71. In connection with the subscription of shares, shareholders undertake to make three convertible loan remittances as follows:

- 33.33% of the total subscription amount with a value date at the latest on 6 February 2017
- 33.33% of the total subscription amount with a value date at the latest on 15 March 2017
- 33.33% of the total subscription amount with a value date at the latest on 5 May 2017

The convertible loans may be converted to shares at the issue price at any time by the Company prior to 1 August 2017. The offering included an equal amount of share options at the CHF 28.00 per share strike price, most of which are expected to be exercised during 2017, bringing additional working capital into the Company.

As of 20 March 2017, per the terms of the subscription agreements, a total amount of CHF 50.5 million has been remitted to the Company already.

