WISeKey International Holding AG

Unaudited Interim Consolidated Financial Statements

The page numbers below refer only to the F pages of the interim report.

Table of Content

1. Unaudited Consolidated Statement of Comprehensive Loss

USD'000	Unaudited 6 months ended June 30, 2018	2017 (Restated)	*Note ref.*
Net sales	25,904	19,206	*28*
Cost of sales	(12,971)	(10,780)	
Gross profit	**12,933**	**8,426**	
Other operating income	292	1,461	
Research & development expenses	(4,068)	(3,283)	
Selling & marketing expenses	(4,102)	(2,380)	
General & administrative expenses	(12,305)	(7,875)	*36*
Total operating expenses	**(20,183)**	**(12,077)**	
Operating income / (loss)	**(7,250)**	**(3,651)**	
Non-operating income	532	1,154	*30*
Gain / (loss) on derivative liability	-	18	
Gain / (loss) on debt extinguishment	-	(550)	
Interest and amortization of debt discount	(1,776)	(1,586)	*21*
Non-operating expenses	(1,109)	(3,595)	*31*
Income / (loss) from operations before income tax expense	**(9,603)**	**(8,210)**	
Income tax (expense)/recovery	(1,100)	449	
Net income / (loss)	**(10,703)**	**(7,761)**	
Less: Net income / (loss) attributable to noncontrolling interests	9	(425)	
Net income / (loss) attributable to WISeKey International Holding AG	**(10,712)**	**(7,336)**	
Loss per share attributable to WISeKey International Holding AG			
Basic	(0.32)	(0.26)	*33*
Diluted	(0.32)	(0.26)	*33*
Other comprehensive income / (loss), net of tax:			
Foreign currency translation adjustments	(109)	(57)	
Defined benefit pension plans:			*22*
Net loss arising during period	182	-	
Other comprehensive income / (loss)	**73**	**(57)**	
Comprehensive income / (loss)	**(10,630)**	**(7,818)**	
Other comprehensive income / (loss) attributable to noncontrolling interests	(100)	(49)	
Other comprehensive income / (loss) attributable to WISeKey International Holding AG	**173**	**(8)**	
Comprehensive income / (loss) attributable to noncontrolling interests	(91)	(474)	
Comprehensive income / (loss) attributable to WISeKey International Holding AG	**(10,538)**	**(7,344)**	

The accompanying notes are an integral part of these consolidated financial statements.

2. Unaudited Consolidated Balance Sheet

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017	*Note ref.*
ASSETS			
Current assets			
Cash and cash equivalents	7,850	12,214	*7*
Restricted cash	2,020	-	*8*
Accounts receivable, net of allowance for doubtful accounts	9,091	7,404	*9*
Notes receivable, net of allowance for doubtful accounts	-	897	
Inventories	3,812	3,463	*10*
Prepaid expenses	1,340	1,447	
Deferred charges, current	184	-	
Other current assets	2,341	645	*11*
Total current assets	**26,638**	**26,070**	
Noncurrent assets			
Marketable securities	808	592	*12*
Deferred income tax assets	780	1,917	
Deferred tax credits	3,346	2,856	*13*
Property, plant and equipment net of accumulated depreciation	4,077	3,966	*14*
Intangible assets, net of accumulated amortization	13,949	15,097	*15*
Goodwill	16,503	16,503	*16*
Deferred charges, noncurrent	307	-	
Other noncurrent assets	162	154	*17*
Total noncurrent assets	**39,932**	**41,085**	
TOTAL ASSETS	**66,570**	**67,155**	
LIABILITIES			
Current Liabilities			
Accounts payable	13,847	15,655	*18*
Notes payable	82	180	*19*
Deferred revenue, current	2,985	4,621	*28*
Income tax payable	125	246	
Other current liabilities	3,457	3,014	*20*
Total current liabilities	**20,496**	**23,716**	
Noncurrent liabilities			
Convertible note payable	18,982	18,592	*21*
Deferred revenue, noncurrent	8,373	2,710	*28*
Indebtedness to related parties, noncurrent	863	1,842	*35*
Employee benefit plan obligation	5,165	5,214	*22*
Deferred income tax liability	1,413	1,476	*23*
Other deferred tax liabilities	8	-	
Other noncurrent liabilities	2,234	-	*24*
Total noncurrent liabilities	**37,038**	**29,834**	
TOTAL LIABILITIES	**57,534**	**53,550**	
Commitments and contingent liabilities			***25***
Redeemable preferred stock	**-**	**4,880**	***27***
SHAREHOLDERS' EQUITY			
Common stock - Class A	400	400	*26*
CHF 0.01 par value			
Authorized - nil and nil			
Issued and outstanding - 40,021,988 and 40,021,988 shares			
Common stock - Class B	1,342	1,261	*26*
CHF 0.05 par value			
Authorized - 11,436,501 and 11,803,428 shares			
Issued and outstanding - 26,215,125 and 24,590,918 shares			
Share subscription in progress	2,020	-	*8*
Additional paid-in capital	198,207	189,152	
Accumulated other comprehensive income / (loss)	(188)	(650)	
Accumulated deficit	(191,782)	(180,554)	
Total shareholders'equity (deficit) attributable to WISeKey shareholders	**10,000**	**9,609**	
Noncontrolling interests in consolidated subsidiaries	(964)	(883)	
Total shareholders'equity deficit	**9,036**	**8,726**	
TOTAL LIABILITIES AND EQUITY AND REDEEMABLE PREFERRED SHARES	**66,570**	**67,155**	

The accompanying notes are an integral part of these consolidated financial statements.

3. Unaudited Consolidated Statements of Changes in Shareholders' Equity (Deficit)

	Number of common shares		Common Share Capital											
USD'000	Class A	Class B	Class A	Class B	Total share capital	Additional paid-in capital	Share subscription in progress	Accumulated deficit	Accumulated other comprehensive income / (loss)	**Total stockholders' equity (deficit)**	Non controlling interests	**Total equity (deficit)**	Redeemable preferred stock	**Total equity (deficit) and redeemable shares**
As at December 31, 2017	40,021,988	24,590,918	400	1,261	1,661	189,152	-	(180,554)	(650)	**9,609**	(883)	**8,726**	4,880	**13,606**
Common stock issued[1]	-	1,464,746	-	73	73	6,681	-	-	-	**6,754**	-	**6,754**	-	**6,754**
Options exercised	-	159,461	-	8	8	195	-	-	-	**203**	-	**203**	-	**203**
Stock-based compensation	-	-	-	-	-	1,050	-	-	-	**1,050**	-	**1,050**	-	**1,050**
Liquidation of WISeKey BRBV	-	-	-	-	-	-	-	-	(86)	**(86)**	-	**(86)**	-	**(86)**
Impact of ASU2016-01 on marketable securities	-	-	-	-	-	-	-	(375)	375	**-**	-	**-**	-	**-**
Resale of treasury shares acquired in 2018	-	-	-	-	-	28	-	-	-	**28**	-	**28**	-	**28**
Acquisition of Quo Vadis Group noncontrolling interest	-	-	-	-	-	1,101	-	-	-	**1,101**	-	**1,101**	(5,021)	**(3,920)**
Creation of WISeCoin AG	-	-	-	-	-	-	-	-	-	**-**	10	**10**	-	**10**
Capital increases pending at period end	-	-	-	-	-	-	2,020	-	-	**2,020**	-	**2,020**	-	**2,020**
Net loss	-	-	-	-	-	-	-	(10,712)	-	**(10,712)**	9	**(10,703)**	-	**(10,703)**
Other comprehensive income / (loss)	-	-	-	-	-	-	-	-	173	**173**	(100)	**73**	-	**73**
Deemed dividend	-	-	-	-	-	-	-	(141)	-	**(141)**	-	**(141)**	141	**-**
As at June 30, 2018	40,021,988	26,215,125	400	1,342	1,742	198,207	2,020	(191,782)	(188)	**10,000**	(964)	**9,036**	-	**9,036**

1. The articles of association of the Company had not been fully updated as of December 31, 2017 with the shares issued out of conditional capital.

The accompanying notes are an integral part of these consolidated financial statements.

4. Unaudited Consolidated Statements of Cash Flows

	Unaudited 6 months ended June 30,	
USD'000	**2018**	**2017 (Restated)**
Cash Flows from operating activities:		
Net loss	(10,703)	(7,761)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Accretion (amortization) of discount (premium) on investment in debt securities	547	1,586
Depreciation of property, plant & equipment	670	462
Amortization of intangible assets	1,286	1,130
Amortization of debt issue costs	-	169
Write-off loss / (gain)	(33)	-
Loss / (gain) on derivative liability	-	(18)
Loss on debt extinguishment	-	550
Stock-based compensation	1,050	2,417
Increase / (decrease) in defined benefit pension liability	(49)	766
Decrease (increase) in other noncurrent assets, net	(8)	17
Provision for bad debt expense	102	264
Inventory valuation adjustment	(61)	273
Income tax expense / (recovery) net of cash paid	1,100	(449)
Other non cash expenses /(income)	(1,365)	99
Unrealized foreign currency transactions	(7)	57
Changes in operating assets and liabilities, net of effects of businesses acquired		
Decrease (increase) in accounts receivables	(1,688)	1,432
Decrease (increase) in inventories	(348)	310
Decrease (increase) in other assets, net	(1,589)	(1,746)
Increase (decrease) in accounts payable	(1,808)	(1,193)
Increase (decrease) in deferred revenue	4,026	149
Increase (decrease) in income taxes payable	(121)	(54)
Increase (decrease) in other current liabilities	443	(2,395)
Net cash provided by (used in) operating activities	**(8,555)**	**(3,935)**
Cash Flows from investing activities:		
Acquisition / (sale) of property, plant and equipment	1,125	42
Decrease / (increase) in notes receivables	896	-
Acquisition of a business, net of cash and cash equivalents acquired	-	(11,629)
Net cash provided by (used in) investing activities	**2,021**	**(11,587)**
Cash Flows from financing activities:		
Proceeds from options exercises	213	22
Proceeds from issuance of Common Stock	1,066	-
Decrease / (increase) in loan payable	(1,078)	-
Proceeds from convertible loan issuance	-	293
Proceeds from debt	2,132	16,155
Repayments of debt	(96)	-
Net cash provided by (used in) financing activities	**2,237**	**16,470**
Effect of exchange rate changes on cash and cash equivalents	(67)	111
Cash and cash equivalents		
Net increase (decrease) during the period	(4,364)	1,059
Balance, beginning of period	12,214	5,221
Balance, end of period	**7,850**	**6,280**
Supplemental cash flow information		
Cash paid for interest, net of amounts capitalized	772	250
Cash paid for incomes taxes	72	78
Issuance of shares in relation to the acquisition of QuoVadis	-	4,307
Issuance / (redemption) of redeemable preferred stock	(5,021)	4,375
Issuance of common stock to purchase non-controlling interest	3,920	3,474
Deemed dividend	141	540
Settlement of Carlos Moreira's loan in shares	473	-
Payment of SEDA fees in shares	(500)	-
Restricted cash received for share subscription in progress	2,020	-
Conversion of loan receivable into marketable securities	-	799

The accompanying notes are an integral part of these consolidated financial statements.

5. Notes to the Unaudited Consolidated Financial Statements

Note 1. The Group

WISeKey International Holding AG (the "**Company**"), together with its consolidated subsidiaries ("**WISeKey**" or "**the Group**" or "**the WISeKey Group**"), has its headquarters in Switzerland. WISeKey International Holding AG, the ultimate parent of the WISeKey Group, was incorporated in November 2015 and is listed on the Swiss Stock Exchange, SIX SAG with the valor symbol "WIHN".

The Group develops, markets, hosts and supports a range of solutions that enable the secure digital identification of people, content and objects, by generating digital identities that enable its clients to monetize their existing user bases and at the same time, expand its own eco-system. WISeKey generates digital identities from its current products and services in Cybersecurity Services, IoT (internet of Things), Digital Brand Management and Mobile Security.

The Group leads a carefully planned vertical integration strategy through acquisitions of companies in the industry. The strategic objective is to provide integrated services to its customers and also achieve cross-selling and synergies across WISeKey. Through this vertical integration strategy, the Group anticipates being able to generate profits in the near future.

Note 2. Future Operations

The Group experienced a loss from operations in this reporting period, although it does anticipate being able to generate profits in the near future once it finalizes its reorganization fully integrating Quovadis entities and WISeKey Semiconductors, and reducing G&A costs. However, this cannot be predicted with any certainty even though the Group is very focused on growth leveraging current development and growth in the industry. The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern.

The Group incurred a net operating loss of USD 7,250,301 and had working capital of USD 6,141,492 as at June 30, 2018.

Based on the Group's cash projections for the next 12 months to September 30, 2019, it will need approximately USD 14.5 million to fund operations.

Historically, the Group has been dependent on equity financing to augment the operating cash flow to cover its cash requirements. Any additional equity financing may be dilutive to shareholders.

In the period to December 31, 2017, the Company secured an acquisition line of credit agreement with ExWorks Capital Fund I, L.P. ("**ExWorks**") secured on the assets of the Company, with restrictive covenants and an annual interest rate of 12% (see note 21 for detail). The primary purpose of this revolving credit was the acquisition of the QuoVadis group under the holding company QV Holdings Ltd (together with its subsidiaries "**QuoVadis**") which was completed on April 03, 2017ExWorks had initially set the annual interest rate at 18%, maturity to December 31, 2018, and capped the line of credit to USD 16.4m. These terms were amended to more beneficial terms of 12% annual interest rate, maturity of January 16, 2020 and a maximum line of credit of USD 18.9m. In the 6 months to June 30, 2018, ExWorks amended the credit agreement to increase the maximum line of credit to USD 22.6m through the grant of an additional loan of up to USD 4m, out of which USD 2m was drawn as at June 30, 2018. In July 2018, the Group negotiated an extension clause which, if actioned, will extend maturity to January 16, 2021. The agreement includes the option to convert principal repayments, interest charges and fees into WIHN Class B shares. Management believes that ExWorks will continue to use the conversion option for partial repayment of future interest and the loan principal.

On January 19, 2016, the Company had closed a Share Subscription Facility with GEM LLC (Global Equity Markets, "**GEM**", the Share Subscription Facility, "**the GEM Facility**") which is a CHF 60 million facility over 5 years and allows the Company to draw down funds at its option in exchange for WIHN Class B shares (see note 21 for detail). The mechanics of the deal allow for a drawdown essentially 18 times in a year, the amount being in a range related to the trading volume and price of the WIHN class B share trading on the SIX Swiss Stock Exchange. The drawdown amount is based on 90% of the average closing price of the last 15 trading days multiplied by 1,000% of the average volume of the last 15 trading days. GEM can then elect to purchase between 50% and 200% of this figure. After several drawdowns, as at June 30, 2018 the outstanding facility available is CHF 56,094,645.

Lastly, on February 08, 2018 the Company entered into a Standby Equity Distribution Agreement ("**SEDA**") with a fund managed by Yorkville Advisors Global, LLC ("**Yorkville**"). Pursuant to the SEDA, Yorkville commits to provide equity financing to WISeKey in the aggregate amount of up to CHF 50m in exchange for Class B Shares over a three-year period (see note 21 for detail). WISeKey has the right to make draw-downs under the SEDA at its discretion by requesting Yorkville to subscribe for (if the Class B Shares are issued out of authorized share capital) or purchase (if the Class B Shares are delivered out of treasury) Class B Shares in tranches of up to CHF 1m each, or, if WISeKey provides a sufficient number of Class B Shares through share lending, up to CHF 5m each, subject to certain exceptions. WISeKey paid a one-time commitment fee of CHF 0.5 million on April 24, 2018 in 100,000 WIHN Class B Shares. As at June 30, 2018 the outstanding facility available remained unused at CHF 50m.

As demonstrated during previous drawn downs , both the GEM Facility and the SEDA will only be used as a safeguard should there be any difficulties in raising the planned necessary equity to cover the USD 14.5 million projected cash shortfall noted above.

Based on the foregoing, especially the anticipated performance of its two growing segments which will be fully integrated into a platform-type offering, as well as the planned synergies of operating as a Group and increasing revenue by offering enhanced versions of existing products combining cybersecurity with IoT ("Internet of Things") and cross-selling to the existing client base of over 1,500 institutional clients, management believe it is correct to present these figures on a going concern basis.

Note 3. Basis of Presentation

The consolidated financial statements are prepared in United States dollars ("**USD**") on the basis of generally accepted accounting principles in the United States of America ("**US GAAP**").

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with ASC 270 ("Interim Reporting") and, as a consequence, do not include all information and footnotes required by generally accepted accounting principles and should, therefore, be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2017 included in the Annual Report 2017. These statements do include all normal recurring adjustments which the Group believes necessary for a fair presentation of the statements. The interim results of operations are not necessarily indicative of the results to be expected for the full year ended December 31, 2018.
Except as indicated in the notes below, there have been no other material changes in the information disclosed in the notes to the consolidated financial statements included in the Group's Annual Report 2017 for the year ended December 31, 2017.

Restatement of prior period

In the second half of 2017, the Group decided to early adopt ASC 606 Revenue from Contracts with Customers. However the 2017 interim report was not prepared on that same basis.
Therefore the group reviewed the 2017 interim report and assessed the impact of the early adoption of ASC 606 Revenue from Contracts with Customers. The revenue disclosed in the 2017 interim report was analysed entity by entity, and the Group determined that some contracts where revenue should be recognized over the life of the contract under ASC 606 had been recognized at invoicing. The analysis showed that out of the USD 21,168,754 revenue figure disclosed in the 2017 interim report, a balance of USD 1,963,005 should have been deferred on the balance sheet as at June 30, 2017. This adjustment leads to an income tax recovery of USD 439,573, and an increase of the net loss attributable to noncontrolling interests by USD 161,940 for the period.
The table below shows the impact of the restatement on the consolidated income statement for the 6 months to June 30, 2017.
We note that the financial statements as at December 31, 2017 were in compliance with ASC 606 Revenue from Contracts with Customers. Therefore the financial statements as at December 31, 2017 will not be restated.

Consolidated Statement of Income / (Loss)	**6 months ended June 30, 2017**		
USD'000	**Per interim report**	**Restatement**	**Restated**
Net sales	21,169	(1,963)	19,206
Cost of sales	(10,780)	-	(10,780)
Gross profit	**10,389**	**(1,963)**	**8,426**
Other operating income	1,461	-	1,461
Research & development expenses	(3,283)	-	(3,283)
Selling & marketing expenses	(2,380)	-	(2,380)
General & administrative expenses	(7,875)	-	(7,875)
Total operating expenses	**(12,077)**	**-**	**(12,077)**
Operating income / (loss)	**(1,688)**	**(1,963)**	**(3,651)**
Non-operating income	1,154	-	1,154
Gain on derivative liability	18	-	18
Gain/(loss) on debt extinguishment	(550)	-	(550)
Interest and amortization of debt discount	(1,586)	-	(1,586)
Non-operating expenses	(3,595)	-	(3,595)
Income / (loss) from operations before income tax expense	**(6,247)**	**(1,963)**	**(8,210)**
Income tax (expense)/recovery	9	440	449
Net income / (loss)	**(6,238)**	**(1,523)**	**(7,761)**
Less: Net income / (loss) attributable to noncontrolling interests	(263)	(162)	(425)
Net income / (loss) attributable to WISeKey International Holding AG	**(5,975)**	**(1,361)**	**(7,336)**
Loss per share attributable to WISeKey International Holding AG			
Basic	(0.21)		(0.26)
Diluted	(0.21)		(0.26)

Note 4. Summary Of Significant Accounting Policies

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842)
Summary: Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP.
Effective Date: The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.
The Company expects to adopt all of the aforementioned guidance when effective. The impact on its consolidated financial statements is not currently estimable.

In March 2018, the FASB issued ASU 2018-03, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.
Summary: ASU 2018-03 clarifies certain amendments included in ASU 2016-013 on the recognition and measurement of financial instruments. The amendments address the following specific issues within ASU 2016-01:
1. Under ASU 2016-01, an entity may measure an equity security without a readily determinable fair value at cost, as adjusted for observable price changes and impairment ("the measurement alternative"). An entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with Topic 8204 through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer. Once an entity makes this election, the entity should measure all future purchases of identical or similar investments of the same issuer using a fair value method in accordance with Topic 820.
2. The adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place.
3. Remeasuring the entire value of forward contracts and purchased options on securities that lack a readily determinable fair value is required when observable transactions occur on the underlying equity securities.
4. When the fair value option is elected for a financial liability, the guidance in paragraph 825-10-45-5 should be applied, regardless of whether the fair value option was elected under either Subtopic 815-155 or 825-10.
5. For financial liabilities for which the fair value option is elected, the amount of change in fair value that relates to the instrument- specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in the fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates.
6. The prospective transition approach for equity securities without a readily determinable fair value in the amendments in Update 2016-01 is meant only for instances in which the measurement alternative is applied. An insurance entity subject to the guidance in Topic 9446 should apply a prospective transition method when applying the amendments related to equity securities without readily determinable fair values. An insurance entity should apply the selected prospective transition method consistently to the entity's entire population of equity securities for which the measurement alternative is elected.
Effective Date: The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in Update 2016-01. For all other entities, the effective date is the same as the effective date in Update 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.
The Company expects to adopt all of the aforementioned guidance when effective. Management is assessing the impact of the aforementioned guidance on its consolidated financial statements but does not expect it to have a material impact.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting.
Summary: ASU 2018-07 supersedes most of the prior accounting guidance on nonemployee share-based payments, and instead aligns it with existing guidance on employee share-based payments in Topic 718. As a result, nonemployee share-based payment transactions will be measured by estimating the fair value of the equity instruments that an entity is obligated to issue and the measurement date will be consistent with the measurement date for employee share-based payment awards (i.e., grant date for equity-classified awards). Probability is to be considered on nonemployee awards with performance conditions. The classification will continue to be subject to the requirements of Topic 718, although cost recognition of nonemployee awards will remain unchanged, i.e., as if paid in cash
The ASU provides certain accounting alternatives to private companies, including the use of the calculated value method and a one-time option to apply intrinsic value to liability-classified awards.
Effective Date: The amendments become effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.1
The Company expects to adopt all of the aforementioned guidance when effective. Management is assessing the impact of the aforementioned guidance on its consolidated financial statements but does not expect it to have a material impact.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements.
Summary: ASU 2018-09 affects a wide variety of Topics in the FASB Accounting Standards Codification. These include:

- Amendments to Subtopic 220-10, *Income Statement— Reporting Comprehensive Income—Overall*
- *Amendments to Subtopic 470-50,* Debt—Modifications and Extinguishments
- *Amendments to Subtopic 480-10,* Distinguishing Liabilities from Equity—Overall

- *Amendments to Subtopic 718-740,* Compensation—Stock Compensation—Income Taxes
- Amendments to Subtopic 805-740, *Business Combinations— Income Taxes*
- *Amendments to Subtopic 815-10,* Derivatives and Hedging— Overall
- *Amendments to Subtopic 820-10,* Fair Value Measurement— Overall
- *Amendments to Subtopic 940-405,* Financial Services—Brokers and Dealers—Liabilities
- *Amendments to Subtopic 962-325,* Plan Accounting—Defined Contribution Pension Plans—Investments—Other

Effective Date: The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in ASU 2018-09 do not require transition guidance and will be effective upon issuance of ASU 2018-09. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities.
The Company expects to adopt all of the aforementioned guidance when effective. Management is assessing the impact of the aforementioned guidance on its consolidated financial statements but does not expect it to have a material impact.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): *Targeted Improvements*.
Summary: ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract intended to reduce costs and ease implementation of the leases standard for financial statement preparers.
1. The amendments provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP in Topic 840, Leases.
An entity that elects this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The amendments do not change the existing disclosure requirements in Topic 840 (for example, they do not create interim disclosure requirements that entities previously were not required to provide).
2. The amendments provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606) and both of the following are met:

- ➢ The timing and pattern of transfer of the nonlease component(s) and associated lease component are the same.
- ➢ The lease component, if accounted for separately, would be classified as an operating lease.

An entity electing this practical expedient (including an entity that accounts for the combined component entirely in Topic 606) is required to disclose certain information, by class of underlying asset, as specified in the ASU.
Effective Date: For entities that have not adopted Topic 842 before the issuance of this ASU, the effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU No. 2016-02: The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.
The Company expects to adopt all of the aforementioned guidance when effective. Management is assessing the impact of the aforementioned guidance on its consolidated financial statements but does not expect it to have a material impact.

In August 2018, The FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*.
Summary: ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820 as follows:
The following disclosure requirements were removed from Topic 820:
The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; The policy for timing of transfers between levels; The valuation processes for Level 3 fair value measurements; and for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.
The following disclosure requirements were modified in Topic 820:
In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.
The following disclosure requirements were added to Topic 820:
The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. In addition, the amendments eliminate at a minimum from the phrase "an entity shall disclose at a minimum" to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements.
Effective Date: The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU No. 2018-13 and delay adoption of the additional disclosures until their effective date.
The Company expects to adopt all of the aforementioned guidance when effective. Management is assessing the impact of the aforementioned guidance on its consolidated financial statements but does not expect it to have a material impact.

In August 2018, The FASB issued ASU 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): *Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.*
Summary: ASU 2018-14 applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans.
ASU 2018-14 deletes the following disclosure requirements:
The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; the amount and timing of plan assets expected to be returned to the employer; related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
For public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits.
ASU 2018-14 adds/clarifies disclosure requirements related to the following:
The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period; The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets; The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.
Effective Date: The amendments are effective for fiscal years ending after December 15, 2020 for public business entities. Early adoption is permitted.
The Company expects to adopt all of the aforementioned guidance when effective. Management is assessing the impact of the aforementioned guidance on its consolidated financial statements but does not expect it to have a material impact.

Note 5. Concentration of credit Risks

Financial instruments that are potentially subject to credit risk consist primarily of cash and cash equivalents and trade accounts receivable. Our cash is held with large financial institutions. Management believes that the financial institutions that hold our investments are financially sound and accordingly, are subject to minimal credit risk. Deposits held with banks may exceed the amount of insurance provided on such deposits.
The Group sells to large, international customers and, as a result, may maintain individually significant trade accounts receivable balances with such customers during the year. We generally do not require collateral on trade accounts receivable. Summarized below are the clients whose revenue or trade accounts receivable balances were 10% or higher than the respective total consolidated net sales and trade accounts receivable balance for the 6 months to June 30, 2018 and 2017, and in fiscal year 2017:

	Revenue concentration (% of total net sales)		Receivables concentration (% of total accounts receivable)	
	6 months ended June 30, 2018 (unaudited)	6 months ended June 30, 2017 (unaudited)	As at June 30, 2018 (unaudited)	As at December 31, 2017
IoT operating segment				
Multinational electronics contract manufacturing company	7%	10%	11%	0%
US provider of authentications & encryption solutions	6%	4%	15%	6%

Note 6. Fair value measurements

ASC 820 establishes a three-tier fair value hierarchy for measuring financial instruments, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1, defined as observable inputs such as quoted prices in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

	As at June 30, 2018		As at December 31, 2017			
USD'000	Carrying amount	Fair value	Carrying amount	Fair value	Fair value level	Note ref.
Cash and cash equivalents	7,850	7,850	12,214	12,214	1	7
Restricted cash	2,020	2,020	-	-	1	8
Accounts receivables	9,091	9,091	7,404	7,404	3	9
Notes receivable - related parties	-	-	897	897	3	35
Marketable securities	808	808	592	592	1	12
Accounts payable	13,847	13,847	15,655	15,655	3	18
Notes payable	82	82	180	180	3	19
Convertible note payable	18,982	18,982	18,592	18,592	3	21
Indebtedness to related parties, noncurrent	863	863	1,842	1,842	3	35
Redeemable preferred stock	-	-	4,880	4,880	3	

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair Value Measurements section above, we used the following methods and assumptions to estimate the fair value of our financial instruments:

- Cash and cash equivalents – carrying amount approximated fair value.
- Restricted cash – carrying amount approximated fair value.
- Accounts receivables – carrying amount approximated fair value due to their short term nature.
- Notes receivable from third parties– carrying amount approximated fair value due to their short term nature
- Notes receivable from related parties– carrying amount approximated fair value due to their short term nature
- Notes receivable of related parties, noncurrent - carrying amount approximated fair value.
- Marketable securities – fair value remeasured as at June 30, 2018.
- Accounts payable – carrying amount approximated fair value.
- Notes payable - carrying amount approximated fair value due to their short term nature
- Indebtedness to related parties, noncurrent - carrying amount approximated fair value.

Note 7. Cash and cash equivalents

Cash consists of deposits held at major banks.

Note 8. Restricted cash and Share subscription in progress

Restricted cash as at June 30, 2018 relates to two capital increases that materialized on July 10, 2018 (see Note 37), but for which cash had already been received and was held on behalf of WISeKey in a restricted account. As at June 30, 2018, the obligation of the Group to the other parties to deliver WIHN class B shares in exchange for the investment/drawdown were not fulfilled, therefore the Group recorded the shares to be issued as Share subscription in progress in equity.

Note 9. Accounts receivable

The breakdown of the accounts receivable balance is detailed below:

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017
Trade accounts receivable	9,660	7,861
Allowance for doubtful accounts	(615)	(537)
Accounts receivable from Board Members	6	-
Accounts receivable from other related parties	16	1
Accounts receivable from underwriters, promoters, and employees	5	2
Other accounts receivable	19	77
Total accounts receivable net of allowance for doubtful accounts	**9,091**	**7,404**

The accounts receivable from Board Members is made up of short-term cash advances to Carlos Moreira for his travel expenses.
The receivables from other related parties consist of balances with Indian Potash Limited, OISTE and Edmund Gibbons (See Note 35).

Note 10. Inventories

Inventories consisted of the following:

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017
Raw materials	1,448	1,104
Work in progress	2,364	2,359
Total inventories	**3,812**	**3,463**

Note 11. Other current assets

Other current assets consisted of the following:

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017
Value-Added Tax Receivable	2,188	300
Advanced payment to suppliers	70	322
Deposits, current	79	23
Other currrent assets	4	-
Total other current assets	**2,341**	**645**

Note 12. Marketable securities

On March 29, 2017, the Group announced that the respective boards of directors of WISeKey and OpenLimit Holding AG (DE: O5H) ("**OpenLimit**") had decided that discussions in relation to a possible merger transaction between WISeKey and OpenLimit as previously announced on 25 July 2016 are not being further pursued. The then current interim financing provided by WISeKey to OpenLimit in a principal amount of EUR 750,000 was, in accordance with applicable terms of a convertible loan agreement, converted into OpenLimit Shares issued by OpenLimit out of its existing authorized share capital. The conversion price was set at 95% of the volume weighted average price ("**VWAP**") of the OpenLimit shares traded on XETRA as reported by the XETRA for the ten trading days immediately preceding and including March 29, 2017. WISeKey received 2,200,000 newly issued fully fungible listed OpenLimit Shares representing – post issuance of these new shares – an 8.4% stake in OpenLimit on an issued share basis. The conversion price was EUR 0.3409. The marketable securities were fair valued at market price on the date of the transaction to USD 983,553.

In line with ASU 2016-01, the Group fair valued the OpenLimit securities as at December 31, 2017 to USD 592,305 and booked the difference in fair value from prior period to the income statement. As at June 30, 2018, the fair value was recalculated using the closing market price on the XETRA of EUR 0.3140 (USD 0.3671) and amounted to USD 807,588.The difference of USD 215,283 was accounted for in the income statement as a non-operational income in the 6 months to June 30, 2018.

Prior to adopting ASU 2016-01 as of January 01, 2018 the OpenLimit securities were classified as available for sales equity securities and changes in fair value were recorded in other comprehensive income. The amount previously reported in accumulated comprehensive income/(loss) that existed as of the date of adoption was reclassified to accumulated deficit.

Note 13. Deferred tax credits, noncurrent

Noncurrent deferred tax assets consisted of the following:

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017
Deferred research & development tax credits	3,266	2,784
Deferred other tax credits	80	72
Total deferred tax credits	**3,346**	**2,856**

WISeKey Semiconductors SAS is eligible for Research tax credits provided by the French government. As of June 30, 2018 and December 31, 2017, WISeKey Semiconductors SAS had a receivable balance of respectively USD 3,266,197 and USD 2,784,255 of tax credit. The credit is deductible from the entity's income tax charge for the year or payable in cash after three years, whichever event occurs first and is therefore shown under noncurrent deferred tax assets.

Note 14. Property, plant and equipment

Property, plant and equipment, net consisted of the following.

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017
Buildings and building improvements	-	97
Machinery & equipment	3,949	3,855
Office equipment and furniture	2,533	2,603
Computer equipment and licences	2,901	2,279
Total property, plant and equipment gross	9,383	8,834
Accumulated depreciation for:		
Buildings and building improvements	-	(57)
Machinery & equipment	(1,514)	(1,114)
Office equipment and furniture	(2,164)	(2,206)
Computer equipment and licences	(1,628)	(1,491)
Total accumulated depreciation	(5,306)	(4,868)
Total property, plant and equipment, net	**4,077**	**3,966**
Depreciation charge for the 6 months to June 30	670	462

Note 15. Intangible assets

Intangible assets, net consisted of the following.

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017
Trademarks	3,215	3,217
Patents	2,281	2,281
License agreements	10,553	10,694
Other intangibles	18,198	18,278
Total intangible assets gross	34,247	34,470
Accumulated amortization for:		
Trademarks	(510)	(357)
Patents	(962)	(749)
License agreements	(10,515)	(10,640)
Other intangibles	(8,311)	(7,627)
Total Accumulated amortization	(20,298)	(19,373)
Total intangible assets, net	**13,949**	**15,097**
Amortization charge for the 6 months to June 30	1,286	1,130

The Other intangibles balance includes:

- A balance of USD 923,421 of firm customer orders backlog acquired with WISeKey Semiconductors SAS from Inside Secure SA in fiscal year 2016. The orders making up this balance are clearly itemized, they are firm, non-refundable, noncancellable orders. The balance is amortized as and when the products are delivered, customers are invoiced and the revenue is recognized in the income statement. As at June 30, 2018, the balance was fully amortized. An amortization charge of USD 1,711 was recorded for the 6 months to June 30, 2018.
- A balance of USD 8,721,000 for customer relationships acquired with QuoVadis on April 03, 2017. Customer relationships consist of interactions with clients which can be identified and where the target has a history and pattern of conducting business with. QuoVadis has a loyal customer base comprising more than 3'300 customers in 6 countries which generate recurring sales to the company. Customer relationships were valued using the Multi-period excess earnings method ("MEEM") at acquisition. The balance is amortized over the estimated remaining useful life of 14 years. An amortization charge of USD 311,460 was recorded for the period to June 30, 2018.
- A balance of USD 2,452,000 for software acquired with QuoVadis on April 03, 2017. The software was valued using the cost approach (reproduction cost method) at acquisition. The balance is amortized over the estimated remaining useful life of 6 years. An amortization charge of USD 204,320 was recorded for the period to June 30, 2018, hence a carrying amount of USD 1,941,170.

- A balance of USD 990,000 for accreditations acquired with QuoVadis on April 03, 2017. The accreditations were valued using the cost approach (reproduction cost method) at acquisition. The balance is amortized over the estimated remaining useful life of 1 year, which is the expected time between each accreditation recertification. As at June 30, 2018, the balance was fully amortized. An amortization charge of USD 247,500 was recorded for the period to June 30, 2018.

Future amortization charges are detailed below:

Future estimated aggegate amortization expense	**USD'000**
2018	899
2019	1,872
2020	1,941
2021	1,340
2022	1,340
2023 and beyond	6,557

Note 16. Goodwill

We test goodwill for impairment annually on October 1 or as and when indicators of impairment arise. After a review of the incoming orders and order backlog, no instances of impairment were identified as of June 30, 2018.

Goodwill	**USD'000**
Goodwill balance as at December 31, 2017	**16,503**
Movement during the period	-
Goodwill balance as at June 30, 2018	**16,503**

Note 17. Other noncurrent assets

Other noncurrent assets consisted solely of long-term deposits. Deposits are primarily made up of rental deposits on the premises rented by the Group.

Note 18. Accounts Payable

The current accounts payable are composed as follows:

USD'000	**As at June 30, 2018 (unaudited)**	**As at December 31, 2017**
Trade creditors	8,620	8,876
Factors or other financial institutions for borrowings	954	979
Accounts payable to Board Members	136	232
Accounts payable to employees	2,493	2,101
Other accounts payable	1,644	3,467
Total accounts payable	**13,847**	**15,655**

Accounts payable to Board Members are solely made up of accrued board fees.

Accounts payable to employees consist primarily of holiday, bonus and 13^{th} month accruals across WISeKey.

Other accounts payable are mostly amounts due or accrued for professional services (e.g. legal, accountancy, and audit services) and accruals of social charges in relation to the accrued liability to employees.

Note 19. Notes payable

Notes payable consisted of short-term loan from the noncontrolling shareholders of WISeKey SAARC for a total amount of USD 81,889 at closing rate. These loans do not bear interests.

Note 20. Other current liabilities

Other current liabilities consisted of the following:

USD'000	As at June 30, 2018 (unaudited)	As at December 31, 2017
Value-Added Tax Payable	2,313	615
Other tax payable	125	122
Customer contract liability, current	681	1,088
Onerous contracts, current	-	753
Other current liabilities	338	436
Total other current liabilities	**3,457**	**3,014**

Note 21. Loans and line of credit

Acquisition line of credit agreement with ExWorks Capital Fund I, L.P

On January 16, 2017 the Company signed an acquisition line of credit agreement with ExWorks Capital Fund I, L.P. ("ExWorks") headquartered in the USA, is an international, import and export finance company that offers financing solutions to businesses utilizing its own capital as well as by leveraging its Delegated Authority granted by both the SBA and ExIm Bank. A first amendment was subsequently signed on February 06, 2017, a second amendment on March 31, 2017, a third amendment on July 21, 2017, a fourth amendment on August 10, 2017, a fifth amendment on September 19, 2017, a sixth amendment on February 5, 2018, a seventh amendment on March 30, 2018, and an eighth amendment on June 20, 2018.

As of June 30, 2018, with this line of credit agreement, the Company may borrow up to USD 22,646,437, including a loan of up to USD 4,000,000 to support the launch of WISeKey's WISeCoin setup. Borrowings under the line of credit agreement bear interest payable monthly at 1%. The maturity date of the arrangement is January 16, 2020 therefore all outstanding balances are classified as noncurrent liabilities in the balance sheet. Under current terms, ExWorks can elect to have part of or all of the principal loan amount and interests paid either in cash or in WIHN Class B shares at a conversion price of USD 4.74 per share.

Under the terms of the line of credit, the Company is required to not enter into agreements that would result in restriction on liens, reserved restriction on indebtedness, mergers, consolidations, organizational changes except with an affiliate, contingent and third party liabilities, any substantial change in the nature of its business, restricted payments, insider transactions, certain debt payments, certain agreements, negative pledge or asset transfer other than sale of assets in the ordinary course of business. Furthermore, the Company is required to maintain its existence and pay all taxes and other liabilities, provide ExWorks with periodical accounting reports and the detail of any material litigation, comply with applicable laws, meet the financial covenants set in the line of credit agreement in terms of average cash on hand and minimum ending cash on hand. The Company has complied with the line of credit covenants in the 6 months to June 30, 2018.

Borrowings under the line of credit are secured by (i) the grant of options to ExWorks exercisable for up to 1,075,000 WIHN Class B registered shares, par value CHF 0.05, at an exercise price of CHF 3.15; (ii) 100% of the shares in WiseTrust SA; (iii) all of the equity interest of the Company in WISeKey SA; (iv) a first ranking Swiss law pledge over intellectual property ("IP") rights of WISeKey SA; (v) 100% of the shares in QuoVadis Trustlink Schweiz AG; (vi) any cash bank account of the Company held in Switzerland; (vii) 100% of the shares in WISeKey USA; (viii) 100% of the shares in WISeKey Singapore; and (ix) 100% of the shares held by the Company in WISeKey SAARC Ltd; (x) all shares owned by WISeKey (Bermuda) Holding Ltd and QuoVadis Ltd in each of its respective subsidiaries; and (xi) a first and primary pledge on WISeCoin AG.

In 2017, the fifth amendment triggered debt extinguishment accounting in line with ASC 470-50-40-6 and as at December 31, 2017, there were no unamortized debt discount/premium or debt issuance costs. We note that the conversion option was assessed as an equity instrument which did not require bifurcation from its debt host. The credit entry from the recognition of the conversion option fair value was booked in additional paid-in capital ("**APIC**").

The sixth amendment signed on February 05, 2018 extended maturity of the loans to January 16, 2020 (instead of January 15, 2019), reduced the monthly interest rate to 1% (instead of 1.5%), and introduced a clause whereby cash repayments are restricted in time. The amendment fee was USD 1,890,000.

The seventh amendment signed on March 30, 2018, granted an extension of USD 4m to the maximum loan amount to be used for "Other Approved Business Purpose". The amendment fee was USD 400,000. As at June 30, 2018 WISeKey has drawn USD 2m from this extended facility to fund the creation of WISeCoin AG.

Both the sixth and seventh amendments were analysed as debt modification and accounted for under ASC 470-50-40-14. Total debt issue costs of USD 2,290,000 were recorded as debt discounts and are being amortized over the duration of the credit line.

As at June 30, 2018 a total interest and amortization of debt discount expense of USD 547,209 was recognized in the income statement, and the carrying amount of the unamortized debt discount was USD 1,742,791.

As at June 30, 2018, outstanding borrowings were USD 20,724,604.20. The amount available for additional borrowings under this arrangement as at June 30, 2018 was USD 1,921,832.80.

Share Subscription Facility with GEM LLC

On January 19, 2016 the Company closed a Share Subscription Facility ("**the GEM Facility**") with GEM LLC, (Global Equity Markets, "**GEM**), which is a CHF 60 million facility over 5 years and allows the Company to draw down funds at its option in exchange for WIHN class B shares.

The mechanics of the deal allow for a drawdown essentially 18 times in a year, the amount being in a range related to the trading volume and price of the WIHN class B share trading on the Swiss SIX Stock Exchange. The drawdown amount is based on 90% of the average closing price of the last 15 trading days multiplied by 1,000% of the average volume of the last 15 trading days. GEM can then elect to purchase between 50% and 200% of this figure.
On June 29, 2017 WISeKey made one drawdown for CHF 279,900 (USD 292,538 at historical rate) in exchange for 100,000 WIHN class B shares issued out of authorized share capital.
On August 16, 2017 WISeKey executed another drawdown for CHF 1,396,575 (USD 1,432,727 at historical rate) in exchange for 325,000 WIHN class B shares issued out of authorized share capital.
On December 29, 2017 WISeKey executed another drawdown for CHF 2,228,880 (USD 2,287,573 at historical rate) in exchange for 400,000 WIHN class B shares issued out of authorized share capital.

Therefore, as at June 30, 2018 the outstanding facility available is CHF 56,094,645.

Standby Equity Distribution Agreement

On February 08, 2018 the Company entered into a Standby Equity Distribution Agreement ("SEDA") with a fund managed by Yorkville Advisors Global, LLC ("Yorkville"). Under the terms of the SEDA, Yorkville has committed to provide WISeKey, upon a draw-down request by WISeKey, up to CHF 50 million in equity financing over a three-year period in tranches of up to CHF 1 million each or, if WISeKey provides a sufficient number of Class B Shares through share lending, up to CHF 5 million each. WISeKey will make its draw-downs either by using authorized share capital on a non-preemptive rights basis or treasury shares. The purchase price will be 93% of the relevant market price at the time of the draw-down, determined by reference to a five-day trading period following the draw down request by WISeKey. WISeKey paid a one-time commitment fee of CHF 0.5 million on April 24, 2018 in 100,000 WIHN Class B Shares.
As at June 30, 2018 the outstanding equity financing available remained CHF 50,000,000.

Note 22. Employee Benefit Plans

Defined Benefit Post-retirement Plan

The group maintains three pension plans: one maintained by WISeKey SA covering its employees in Switzerland, one maintained by QuoVadis Trustlink Schweiz AG covering its employees in Switzerland, and a third one maintained by WISeKey Semiconductors SAS covering its French employees.
All plans are considered defined benefit plans and accounted for in accordance with ASC 715 Compensation – Retirement Benefits. This model allocates pension costs over the service period of employees in the plan. The underlying principle is that employees render services rateably over this period, and therefore, the income statement effects of pensions should follow a similar pattern ASC 715 requires recognition of the funded status or difference between the fair value of plan assets and the projected benefit obligations of the pension plan on the balance sheet, with a corresponding adjustment recorded in the net loss. If the projected benefit obligation exceeds the fair value of the plan assets, then that difference or unfunded status represents the pension liability.
The Group records a net periodic pension cost in the statement of comprehensive loss.
The liabilities and annual income or expense of the pension plan is determined using methodologies that involve several actuarial assumptions, the most significant of which are the discount rate and the long-term rate of asset return (based on the market-related value of assets). The fair value of plan assets are determined based on prevailing market prices.

The defined benefit pension plan maintained by WISeKey Semiconductors SAS and its obligations to employees in terms of retirement benefits are limited to a lump sum payment based on remuneration and length of service, determined for each employee. The plan in not funded.

The pension liability calculated as at June 30, 2018 is based on annual personnel costs and assumptions from December 31, 2017.

The expected future cash flows to be paid by the Group for employer contribution for the year ended December 31, 2018 are USD 1,051,520.

Movement in Funded Status USD'000	6 months to June 30, 2018	6 months to June 30, 2017
Net Service cost	250	209
Interest cost/(credit)	50	40
Expected return on Assets	-	-
Amortization on Net (gain)/loss	47	52
Amortization on Prior service cost/(credit)	31	31
Total Net Periodic Benefit Cost/(credit)	**377**	**331**
Employer contributions paid in the period	(167)	(114)
Total Cashflow	**(167)**	**(114)**

All of the assets are held under the collective contract by the plan's re-insurer company and are invested in a mix of Swiss and International bond and equity securities.

Note 23. Deferred income tax liability, noncurrent

On acquisition of QuoVadis, indicative deferred tax liabilities of USD 1'557,000 were recorded in relation to the fair value of customer relationships and property, plants and equipment ("**PPE**") located with the local QuoVadis subsidiaries. Deferred tax liabilities for customer relationships and PPE have been considered based on the tax jurisdictions of the individual countries.
For the 6 months to June 30, 2018 an amortization of the deferred tax liability of USD 57,520 was credited to the income statement. The deferred income tax liability remaining as at June 30, 2018 was USD 1,413,770 noncurrent.

Note 24. Other noncurrent liabilities

Other noncurrent liabilities consisted of the fully earned fees payable to ExWorks at maturity under the Credit line agreement (see Note 21).

Note 25. Commitments and contingencies

Lease Commitments

We lease certain facilities and equipment under operating leases. As of June 30, 2018, future minimum annual operating lease payments were as follows:

Year		USD'000
	2018	608
	2019	1,032
	2020	894
	2021	699
	2022	311
Total future minimum operating lease payments		**3,543**

Guarantees

Our software and hardware product sales agreements generally include certain provisions for indemnifying customers against liabilities if our products infringe a third party's intellectual property rights. Certain of our product sales agreements also include provisions indemnifying customers against liabilities in the event we breach confidentiality or service level requirements. It is not possible to determine the maximum potential amount under these indemnification agreements due to our lack of history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, we have not incurred any costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in our consolidated financial statements.

Note 26. Stockholders' equity

WISeKey International Holding AG Share Capital	As at June 30, 2018		As at December 31, 2017	
	Class A Shares	*Class B Shares*	*Class A Shares*	*Class B Shares*
Total number of authorized shares	-	11,436,501	-	11,803,428
Total number of conditional shares	-	10,485,735	-	10,926,250
Total number of fully paid-in shares	40,021,988	26,215,125	40,021,988	24,590,918
Par value per share (in CHF)	0.01	0.05	0.01	0.05
Share capital (in USD)	400,186	1,342,167	400,186	1,260,956
Total share capital (in USD)	**1,742,353**		**1,661,142**	

Note: unregistered conversion of conditional capital NOT deducted from total number of conditional shares, i.e. as if the issue had not taken place.

Note 27. Redeemable preferred stock

On April 03, 2017 WISeKey acquired QV Holdings Ltd, a Bermuda based company, and its affiliates (together the "**QuoVadis group**"). As part of the consideration, a shareholders' put and call option agreement over the 15% remaining noncontrolling interest ("**NCI**") was signed by the Group and the 15% NCI shareholders.

Per the shareholders' put and call option agreement over the 15% noncontrolling interest, WISeKey granted the noncontrolling interest shareholders an option (put option) pursuant to which the noncontrolling interest shareholders were entitled to sell all of their shares in QV Holdings Ltd to WISeKey, and the noncontrolling interest shareholders granted WISeKey an option (call option) pursuant to which WISeKey was entitled to buy all shares in QV Holdings Ltd held by the noncontrolling interest shareholders. Both options were exercisable at the earliest on May 01, 2018 and at the latest on May 31, 2018.

The purchase price to be paid by WISeKey to the noncontrolling interest shareholders was agreed as CHF 5m if the consolidated revenue of the QuoVadis group for financial year 2017 equalled USD 20m. If the consolidated revenue of the QuoVadis group for financial year 2017 was lower than USD 20m, the purchase price was to be reduced proportionally to the amount of the resulting deviation in revenue. If the consolidated revenue of the QuoVadis group for financial year 2017 exceeded USD 20m, the purchase price was to be increased proportionally to the amount of the resulting deviation in revenue, but in no event exceeding CHF 5.5m. The purchase price could be paid in cash or in fully paid WIHN class B shares using a conversion price calculated as the volume-weighted average price of WIHN class B shares as quoted on the SIX Swiss Exchange Ltd ("SIX") in the 30 SIX trading days immediately following the public announcement of the 2017 consolidated annual report of WISeKey. For a purchase price of CHF 5m, the payment in shares was capped at a maximum of 860,000 WIHN class B shares.

In line with ASC 480, the put and call options on the 15% noncontrolling were assessed to be embedded features of the shares held by the noncontrolling interests in QV Holdings Ltd. They were deemed to be contingently redeemable instruments as a result. The Company elected to apply ASC 480-10-S99 under which such redeemable instruments should be presented outside of the permanent equity in what is generally called the mezzanine equity section. The Company therefore accounted for the part of the consideration as redeemable preferred shares in 2017 and the carrying amount was accreted back to the expected redemption amount of CHF 5M over the period to the redemption date on May 31, 2018.

At acquisition, the put and call option agreement was fair valued at USD 4,340,000 by discounting the expected purchase price of CHF 5M (USD 5,021,000) due by May 31, 2018 to the transaction date of April 03, 2017 using the Company's weighted average cost of capital (WACC). The expected purchase price of CHF 5M was based on a revenue target of USD 20m for QuoVadis in financial year 2017. In the period from acquisition to December 31, 2017, a deemed dividend of USD 540,000 was accreted, hence a balance of redeemable preferred shares as at December 31, 2017 of USD 4,880,000. In the period from January 01, 2018 to May 31, 2018, a deemed dividend of USD 141,000 was accreted, hence a balance of redeemable preferred shares as at May 31, 2018 of USD 5,021,000.

In May 2018, the NCI shareholders exercised their put option. The consolidated revenue of the QuoVadis group for financial year 2017 was USD 20m, therefore the purchase price was set at CHF 5M (USD 5,021,000) as per above-mentioned terms of the shareholders' agreement. The purchase price was paid on June 20, 2018 in the form of 860,000 newly issued WIHN class B shares out of authorized capital.

In line with ASC 810-10-45-23, upon redemption, any difference between the carrying amount of the redeemable preferred stock and the fair value of the consideration paid should be recognized directly in additional paid in capital and retained earnings. At redemption, the carrying amount of redeemable preferred stock was USD 5,021,000 and the fair value of the consideration was calculated as USD 3,919,775 at historical rate using the CHF 4.52 (USD 4.56 rounded) market price of the WIHN class B shares on May 24, 2018, which is the date when WISeKey management and the noncontrolling interest shareholders signed the final settlement agreement. Therefore a credit of USD 1,101,225 was recognized in APIC for the 6 months to June 30, 2018 for the acquisition of the remaining 15% NCI in the QuoVadis group.

As at June 30, 2018 the redeemable preferred shares were fully redeemed and there were no further obligation from WISeKey.

Note 28. Revenue

Disaggregation of revenue

The following table shows the Company's revenues disaggregated by reportable segment and by product or service type:

Disaggregation of revenue	Typical payment	At one point in time 6 months ended June 30,		Over time 6 months ended June 30,		Total 6 months ended June 30,	
USD'000		**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
IoT Segment							
Payment at one point in time:							
Secure chips	Upon delivery	15,591	15,027	-	-	15,591	15,027
Total IoT segment revenue		**15,591**	**15,027**	**-**	**-**	**15,591**	**15,027**
mPKI Segment							
Certificates	Upon issuance	-	-	1,925	755	1,925	755
Licenses and integration	Upon delivery	2,524	1,606	-	-	2,524	1,606
SaaS, PCS and hosting	Quarterly or yearly	-	-	5,864	1,818	5,864	1,818
Total mPKI segment revenue		**2,524**	**1,606**	**7,789**	**2,573**	**10,313**	**4,179**
Total Revenue		**18,115**	**16,633**	**7,789**	**2,573**	**25,904**	**19,206**

For the periods ended June 30, 2018 and 2017, the Company recorded no revenues related to performance obligations satisfied in prior periods.

The following table shows the Company's revenues disaggregated by geography, based on our customers' billing addresses:

Net sales by region	**6 months ended June 30,**	
USD'000	**2018**	**2017 (Restated)**
IoT Segment		
Europe	7,533	6,352
North America	7,111	7,017
Asia Pacific	872	1,526
Latin America	75	132
Total IoT segment revenue	**15,591**	**15,027**
Europe	8,320	3,350
North America	1,948	829
Asia Pacific	45	-
Latin America	-	-
Total mPKI segment revenue	**10,313**	**4,179**
Total Net sales	**25,904**	**19,206**

Contract assets and contract liabilities

Our contract assets and liabilities consist of:

USD'000	As at June 30, 2018	As at December 31, 2017
Trade accounts receivables		
Trade accounts receivable - IoT segment	5,647	3,523
Trade accounts receivable - mPKI segment	4,014	4,338
Total trade accounts receivables	**9,661**	**7,861**
Contract assets	-	-
Total contract assets	**-**	**-**
Deferred Revenue (Contract Liabilities)		
Deferred Revenue - mPKI segment	11,358	7,331
Total Deferred Revenue	**11,358**	**7,331**
Revenue recognized, respectively, in the 6 months and in the year from amounts included in the deferred revenue of the mPKI segment at the beginning of the year	1,707	769

Increases or decreases in trade accounts receivable, contract assets and deferred revenue were primarily due to normal timing differences between our performance and customer payments.

Remaining performance obligations

As part of our adoption of the new revenue standard, we have elected to use a practical expedient to exclude disclosure of transactions prices allocated to remaining performance obligations, and when we expect to recognize such revenue, for all periods prior to the date of initial application of the standard.

As of June 30, 2018, approximately USD 11,358,000 is expected to be recognized from remaining performance obligations for mPKI contracts. We expect to recognize revenue for these remaining performance obligations during the next three years approximately as follows:

Estimated mPKI revenue from remaining performance obligations as at June 30, 2018		USD'000
	2018	5,266
	2019	3,639
	2020	2,230
	2021 and beyond	223
Total remaining performance obligation		**11,358**

Note 29. Stock-based compensation

Employee Stock Option Plans

The Stock Option Plan ("ESOP 1") was approved on December 31, 2007 by the stockholders of WISeKey SA, representing 2'632'500 options convertible into WISeKey SA shares with an exercise price of CHF 0.01 per share.
The Stock Option Plan ("ESOP 2") was approved on December 31, 2011 by the stockholders of WISeKey SA, representing 16'698'300 options convertible into WISeKey SA shares with an exercise price of CHF 0.01 per share.

At March 22, 2016 as part of the reverse acquisition transaction, both ESOP plans in existence in WISeKey SA were transferred to the Group at the same terms, with the share exchange term of 5:1 into WIHN Class B shares.

Grants

In the 6 months to June 30, 2018, the Group granted a total of 438,188 options or warrants, each option or warrant being exercisable into one class B share, as per below.
The warrants granted consist of:

- 314,000 warrants with immediate vesting granted to external advisors, 100,000 of which had been exercised as of June 30, 2018;
- 97,854 warrants with immediate vesting granted to employees, all of which had been exercised as of June 30, 2018.
- 26,334 warrants with 50%, i.e.13,167 warrants, vesting on February 01, 2018 and 50% vesting on August 01, 2018 granted to an employee. None of the vested options had been exercised as of June 30, 2018.

The warrants granted were valued at grant date using the Black-Scholes model. Unvested warrants to external advisers as at June 30, 2018 were revalued to their fair value as at June 30, 2018 using the same model. Unvested options to employees as at June 30, 2018 were recognized prorata temporis over the service period (grant date to vesting date).

Stock Option Charge to the Income Statement

The Group calculates the fair value of options granted by applying the Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Group over the prior 12 months.
As a result, in the 6 months to June 30, 2018, a total charge of USD 1,050,461 for options granted to employees and nonemployees was recognized in the consolidated income statement calculated by applying the Black-Scholes model at grant.

The following assumptions were used to calculate the compensation expense and the calculated fair value of stock options granted:

Assumption	June 30, 2018	June 30, 2017
Dividend yield	None	None
Risk-free interest rate used (average)	1.00%	1.00%
Expected market price volatility	57.88%	62.20%

The following table illustrates the development of the Group's non-vested options during the 6 months ended June 30, 2018.

Non-vested options	Number of WIHN Class B Shares under options	Weighted-average grant date fair value (USD)
Non-vested options as at December 31, 2017	**333,334**	**1.78**
Granted	438,188	3.62
Vested	(425,021)	3.54
Non-vested forfeited or cancelled	-	-
Non-vested options as at June 30, 2018	**346,501**	**1.95**

As at June 30, 2018, there was an unrecognized compensation expense of $ 12,926 related to non-vested stock option based on compensation arrangements.

The following table summarizes the Group's stock option activity for the 6 months ended June 30, 2018.

Options on WIHN Shares	WIHN Class B Shares under options	Weighted-average exercise price (USD)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (USD)
Granted	3,316,139	3.30	-	-
Exercised or converted	(678,905)	0.09	-	1,326,653
Forfeited or cancelled	(9,541)	0.05	-	-
Expired	(32,000)	5.13	-	-
Outstanding at December 31, 2017	**3,265,899**	**5.93**	**2.77**	**(12,704,389)**
Of which vested	2,932,565	6.12	2.80	(11,965,721)
Of which non-vested	333,334	-	-	-
Granted	438,188	2.90	-	-
Exercised or converted	(197,854)	1.05	-	226,681
Forfeited or cancelled	-	-	-	-
Expired	-	-	-	-
Outstanding as at June 30, 2018	**3,506,233**	**5.74**	**2.28**	**(12,447,935)**
Of which vested	3,159,732	5.93	2.29	(11,809,567)
Of which non-vested	346,501	-	-	-

Summary of Stock-Based Compensation Expenses

Stock-based compensation expenses **USD'000**	**6 months ended** **June 30, 2018**	**6 months ended** **June 30, 2017**
In relation to warrants issued	(114)	2,417
In relation to Employee Stock Option Plans	1,164	-
Total	**1,050**	**2,417**

Stock-based compensation expenses are recorded under the following expense categories in the income statement:

Stock-based compensation expenses **USD'000**	**6 months ended** **June 30, 2018**	**6 months ended** **June 30, 2017**
Selling & marketing expenses	218	-
General & administrative expenses	832	266
Non-operating expenses - Financial charges	-	2,151
Total	**1,050**	**2,417**

Note 30. Non-operating income

Non-operating income consisted of the following:

	6 months ended June 30,	
USD'000	**2018**	**2017**
Foreign exchange gain	242	1,168
Financial income	46	16
Other	244	2
Total non-operating income	**532**	**1,186**

Other non-operating income includes a USD 215,283 income from the recalculation of the fair value of the OpenLimit marketable securities (see Note 12).

Note 31. Non-operating expenses

Non-operating expenses consisted of the following:

	6 months ended June 30,	
USD'000	**2018**	**2017**
Foreign exchange losses	689	332
Financial charges	15	3,258
Interest Expense	11	-
Other	394	5
Total non-operating expenses	**1,109**	**3,595**

Note 32. Segment Information and Geographic Data

The Group has two segments: Internet of Things ("**IoT**", previously referred to as "Semiconductors") and managed Public Key Infrastructure ("**mPKI**", previously referred to as "Others"). The Group's chief operating decision maker, who is its Chief Executive Officer, reviews financial performance according to these two segments for purposes of allocating resources and assessing budgets and performance.

The IoT segment encompasses the design, manufacturing, sales and distribution of microprocessors operations. The mPKI segment includes all operations relating to the provision of secured access keys, authentication, signing software, certificates and digital security applications.

6 months to June 30, 2018

USD'000	IoT	mPKI	Total
Revenues from external customers	15,711	10,193	25,904
Intersegment revenues	59	1,040	1,099
Interest revenue	25	26	51
Interest expense	18	1,243	1,261
Depreciation and amortization	652	386	1,038
Segment income /(loss) before income taxes	1,643	(11,194)	(9,551)
Profit / (loss) from intersegment sales	3	50	52
Income tax recovery /(expense)	-	(1,100)	(1,100)
Other significant non cash items			
Share-based compensation expense	-	1,050	1,050
Interest and amortization of debt discount and expense	-	1,776	1,776
Segment assets	18,893	66,842	85,735

Revenue reconciliation	USD'000
Total revenue for reportable segment	27,003
Elimination of intersegment revenue	(1,099)
Total consolidated revenue	25,904

Loss reconciliation	USD'000
Total profit / (loss) from reportable segments	(9,551)
Elimination of intersegment profits	(52)
Loss before before income taxes	(9,603)

Assets	USD'000
Total assets from reportable segments	85,735
Elimination of intersegment receivables	(6,373)
Elimination of intersegment investment and goodwill	(12,792)
Consolidated total assets	**66,570**

Revenue and Property, plant and equipment by geography

The following tables summarize geographic information for net sales based on the billing address of the customer, and for property, plant and equipment.

Net sales by region	6 months ended June 30,	
USD'000	2018	2017 (Restated)
Europe	15,853	10,539
North America	9,059	7,009
Asia Pacific	917	1,526
Latin America	75	132
Total Net sales	**25,904**	**19,206**

Property, plant and equipment, net of depreciation by region	As at June 30,	As at December 31,
USD'000	2018	2017
Europe	3,391	3,490
North America	658	440
Asia Pacific	28	35
Latin America	-	-
Total Property, plant and equipment, net of depreciation	**4,077**	**3,966**

Note 33. Loss per share

The computation of basic and diluted net loss per share for the Group is as follows:

	6 months ended June 30,	
Loss per share	**2018**	**2017 (Restated)**
Net loss attributable to WISeKey International Holding AG (USD'000)	(10,703)	(7,336)
Weighted average shares outstanding - basic	33,266,555	27,897,989
Basic and diluted weighted average loss per share attributable to WIHN (USD)	(0.32)	(0.26)

For purposes of the diluted net loss per share calculation, stock options, share subscriptions in progress, convertible instruments and warrants are considered potentially dilutive securities and are excluded from the calculation of diluted net loss per share, because their effect would be anti-dilutive. Therefore basic and diluted net loss per share was the same for the periods presented due to the Group's net loss position.

Note 34. Legal proceedings

We are currently not party to any other legal proceedings and claims.

Note 35. Related parties disclosure

Subsidiaries

The consolidated financial statements of the Group include the entities listed in the following table. All are fully consolidated in the financial statements of the Group.

Group Company Name	Registered Office	Share Capital		% ownership as of June 30, 2018	% ownership as of December 31, 2017	Nature of business
WISeKey SA	Route de Pré-Bois 29, 1215 Geneva 15, Switzerland	CHF	933,436	95.35%	95.35%	Main operating company. Sales and R&D services
WISeKey Semiconductors SAS	Rue de la carrière de Bachasson, Arteparc de Bachasson, CS 70025, 13590 Meyreuil, France	EUR	1,298,162	100.0%	100.0%	Chip manufacturing, sales & distribution
WiseTrust SA	Route de Pré-Bois 29, 1215 Geneva 15, Switzerland	CHF	680,000	100.0%	100.0%	Non-operating investment company
WISeKey (Suisse) SA	Route de Pré-Bois 29, 1215 Geneva 15, Switzerland	CHF	100,000	100.0%	100.0%	Dormant
WISeKey ELA SL	Calle Rodriguez Arias No 15, Bilbao, Spain	EUR	4,000,000	100.0%	100.0%	Sales & support
WISeKey SAARC Ltd	20-22 Bedford Row, London WC1R 4JS, United Kingdom	GBP	100,000	51.0%	51.0%	Non trading
WISeKey USA Inc	731 James Street, Suite 400, Syracuse, New York 13203-2003, USA	USD	6,500	100% *	100% *	Sales & support
WISeKey India Private Ltd***	C-4/5, Lower Ground Floor, Safdarjung Development Area, New Delhi, South Delhi, Delhi, India, 110016	INR	1,000,000	45.9%	45.9%	Sales & support
WISeKey France SAS**	11 rue de Longjumeau, 91160 Champlan, France	EUR	37,000	100.0%	100.0%	Dormant
WISeKey Italia s.r.l.**	Via Montenapoleone 8, CAP 20121, Milano, Italy	EUR	10,000	100.0%	100.0%	Dormant
WISeKey Singapore Pte Ltd**	77 Science Park Drive, #02-18/19 CINTECH III, Singapore 118256, Singapore	SGD	100,000	100.0%	100.0%	Sales & distribution
WISeKey KK	3F, 1-9-7 Kanda-Awajicho, Chiyoda-ku, Tokyo, Japan	JPY	1,000,000	100.0%	100.0%	Sales & distribution
QuoVadis Trustlink Schweiz AG	Poststrasse 17, Postfach, 9001 St. Gallen, Switzerland	CHF	100,000	100.0%	85.0%	Sales & distribution
WISeKey (UK) Ltd	Unit 7 Hayters Court, Grigg Lane, Brockenhurst, Hampshire SO42 7PG, United Kingdom	GBP	200	100.0%	85.0%	Sales & distribution
QuoVadis Trustlink BVBA	Schaliënhoevedreef 20 Bus T, 2800 Mechelen, Belgium	EUR	6,267	100.0%	85.0%	Sales & distribution
QuoVadis Trustlink BV	Nevelgaarde 56, 3436 ZZ Nieuwegein, The Netherlands	EUR	18,000	100.0%	85.0%	Sales & distribution
QV BE BV	Nevelgaarde 56, 3436 ZZ Nieuwegein, The Netherlands	EUR	10,000	100.0%	85.0%	Non trading
QuoVadis Trustlink GmbH	Ismaninger Str. 52, D-81675 München, Germany	EUR	25,000	100.0%	85.0%	Sales & distribution
QuoVadis Services Ltd	Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda	USD	12,000	51.0%	43.4%	Support and R&D services
QuoVadis Ltd	5th Floor, Andrew's Place, 51 Church Street, Hamilton HM 12, Bermuda	USD	12,000	100.0%	85.0%	Support and R&D services
WISeKey (Bermuda) Holdings Ltd	5th Floor, Andrew's Place, 51 Church Street, Hamilton HM 12, Bermuda	USD	109,392	100.0%	85.0%	Holding for the QuoVadis group
WISeKey Taiwan	Hun Tai Centre, 2/F-A, 170 Dunhua North Road, Singshan District, Taipei 10548, Taiwan	TWD	100,000	100.0%	100.0%	Sales & distribution
WISeCoin AG	General Guisan Strasse 6, 6300 Zug, Switzerland	CHF	100,000	90.0%	not incorporated	Sales & distribution

* 50% owned by WISeKey SA and 50% owned by WiseTrust SA

** dormant or in the process of being liquidated

*** 90% owned by WISeKey SAARC which is controlled by WIHN

WISeKey BRBV was liquidated at the end of 2017 and as a result is no longer showing in the consolidated subsidiaries as at June 30, 2018. WISeCoin AG was incorporated on May 14, 2018. It is controlled and 90%-owned by the Group, and was therefore consolidated from the date of its incorporation.

Related Party Transactions and Balances

Related Party (In USD'000)	Receivables as at June 30, 2018	Receivables as at December 31, 2017	Payables as at June 30, 2018	Payables as at December 31, 2017	Net income from in the 6 months ended June 30, 2018	Net income from in the 6 months ended June 30, 2017	Net expenses to in the 6 months ended June 30, 2018	Net expenses to in the 6 months ended June 30, 2017
1 Carlos Moreira	6	488	-	-	-	-	-	-
2 Maryla Shingler-Bobbio	-	54	33	49	-	-	51	-
3 Philippe Doubre	-	-	33	49	-	-	54	-
4 Juan Hernandez-Zayas	-	-	33	49	-	-	55	-
5 Thomas Hürlimann	-	-	3	-	-	-	3	-
6 Dourgam Kummer	-	-	33	63	-	-	163	-
7 David Fergusson	-	-	-	22	-	-	34	20
8 Roman Brunner	-	-	413	407	-	-	6	-
9 Harald Steger	-	-	-	-	-	-	445	-
10 Don Tapscott	-	-	-	-	-	-	194	-
11 Wei Wang	-	-	-	-	-	-	187	-
12 OISTE	1	-	-	-	-	55	112	109
13 Todd Ruppert	-	354	-	-	-	-	354	-
14 Edmund Gibbons Limited	2	1	450	546	200	-	86	-
15 Terra Ventures Inc	-	-	32	33	-	-	-	-
16 SAI LLC (SBT Ventures)	-	-	33	34	-	-	-	-
17 GSP Holdings Ltd	-	-	17	17	-	-	-	-
18 Indian Potash Limited	12	-	-	-	44	-	-	-
Total	22	897	1,078	1,269	243	55	1,744	129

1. Carlos Moreira is the Chairman of the Board and CEO of the Company. A short-term loan for an amount of CHF 472,500 (USD 484,751) was granted to Carlos Moreira on November 03, 2017. The loan bore no interest. On April 24, 2018 Carlos Moreira repaid the loan in 100,000 WIHN Class B shares in full settlement of the amount due. A short-term receivable in an amount of CHF 5,671 (USD 5,727) from Carlos Moreira was also outstanding as at June 30, 2018, made up of short-term cash advances to Carlos Moreira for his travel expenses. This short-term receivable will be cleared when the latest expense claim is processed.

2. Maryla Shingler-Bobbio is a Board member of the Company, and member of the Company's audit committee and nomination & compensation committee. On September 23, 2016, the Company made a loan for an amount of CHF 50,000 (USD 51,296) to Maryla Shingler-Bobbio. It carries an interest rate of 5% per annum. For the year 2017, interests in the amount of CHF 2,500 (USD 2,540 at average rate) were added to the loan amount. The loan was fully settled on April 12, 2018. The payable to Maryla Shingler-Bobbio as at June 30, 2018 relates to her Board fees.

3. Philippe Doubre is a Board member of the Group, and member of the Group's nomination & compensation committee, as well as a shareholder. The payable to Philippe Doubre as at June 30, 2018 relates to his Board fee.

4. Juan Hernandez-Zayas is a Board member of the Group, and member of the Group's audit committee and the strategy committee, as well as a shareholder. The payable to Juan Hernandez-Zayas as at June 30, 2018 relates to his Board fee.

5. Thomas Hürlimann is a Board member of the Group, appointed at the 2018 Annual General Meeting. The payable to Thomas Hürlimann as at June 30, 2018 relates to his Board fee.

6. Dourgam Kummer is a Board member of the Group, as well as a shareholder. The payable to Dourgam Kummer as at June30, 2017 relates to his Board fee. In 2018, M. Kummer was also compensated for additional services to the Group.

7. David Fergusson is a Board member of the Group, and member of the Group's audit committee and nomination & compensation committee.

8. Roman Brunner is the Chief Revenue Officer of the Group, and CEO of QuoVadis. He entered into a loan agreement with WISeKey (Bermuda) Holding Ltd in 2007 and has made loans to WISeKey (Bermuda) Holding Ltd of varying amounts since 2004. The loan carries an interest rate of 5% per annum and has no fixed repayment date. As at June 30, 2018 the balance of the loan due by WISeKey (Bermuda) Holding Ltd to Roman Brunner was USD 412,602.

9. Harald Steger is a member of the Group's strategy committee.

10. Don Tapscott is a member of the Group's strategy committee.

11. Wei Wang is a member of the Group's strategy committee.

12. The Organisation Internationale pour la Sécurité des Transactions Electroniques ("**OISTE**") is a Swiss non-profit making foundation that owns a cryptographic rootkey. In 2001 WISeKey SA entered into a contract with OISTE to operate and maintain the global trust infrastructures of OISTE. In line with the contract, WISeKey pays a regular fee to OISTE for the use of its cryptographic rootkey. A member of the Board of Directors of WISeKey is also a member of the Counsel of the Foundation which gives rise to the related party situation.
As at June 30, 2018 WISeKey SA had a short-term receivable balance of CHF 1,353 (USD 1,366).
The expenses relating to OISTE recognized in the period to June 30, 2018 relates solely to the license fee for the 6 months to June 30, 2018 under the contract agreement with WISeKey SA.

13. Todd Ruppert is a shareholder and on May 12, 2016, the Group extended a loan of USD 339,123. It matures on September 30, 2017. The loan was fully provided for in the period to June 30, 2018.

14. Edmund Gibbons Limited has a 49% shareholding in QuoVadis Services Ltd. QuoVadis Services Ltd has issued a promissory note to Edmund Gibbons Limited for USD 450,000 outstanding as at June 30, 2018. The note is non-interest bearing. A bank loan with Clarien Bank, an affiliate of Edmund Gibbons Ltd, in the amount of USD 96,192 outstanding as at December 31, 2017 was repaid in full in the period to June 30, 2018.

15. Terra Ventures Inc has a 16% shareholding in WISeKey SAARC Ltd. Terra Ventures issued a USD 32,365 loan (at closing rate) to WISeKey SAARC Ltd on January 24, 2017. The loan is non-interest bearing and has no set repayment date.

16. SAI LLC, doing business as SBT Ventures, has a 16% shareholding in WISeKey SAARC Ltd. SAI LLC issued a USD 33,016 loan (at closing rate) to WISeKey SAARC Ltd on January 25, 2017. The loan is non-interest bearing and has no set repayment date.

17. GSP Holdings Ltd has a 16% shareholding in WISeKey SAARC Ltd. GSP Holdings Ltd issued a USD 16,508 loan (at closing rate) to WISeKey SAARC Ltd on February 02, 2017. The loan is non-interest bearing and has no set repayment date.

18. Indian Potash Limited ("**IPL**") has a 10% shareholding in WISeKey India Private Ltd. IPL is also the primary customer of WISeKey India Private Ltd. The outstanding receivable as at, and income for the period to, June 30, 2018 relate to services provided by WISeKey India Private Ltd to IPL.

Note 36. General & administrative expenses

The key factors behind the period-to-period increase in General & administrative ("**G&A**") expenses are as follows:

- In the period to June 30, 2018, G&A expenses include the full 6-month expenses from the QuoVadis group whilst the period to June 30, 2017 only included less than one quarter of such G&A expenses as the QuoVadis group was acquired on April 03, 2017. This accounts for most of the period-to-period increase.
- A stock-based compensation expense of USD 832,000 was incurred in the period to June 30, 2018, which was USD 566,000 more than the USD 266,000 stock-based compensation expense reported in the period to June 30, 2018
- Staff costs have increased by USD 2,8m due to the 93 days QuoVadis staff costs accounted for in 2018 but not in 2017 as mentioned above, and also due to some strategic recruitment to scale up the operational team to deliver on large contract wins and support the Group's growth.

Note 37. Subsequent events

Amendment of ExWorks line of credit agreement

On July 24, 2018, the Group signed a ninth amendment to the line of credit agreement with ExWorks (see Note 21). Per this amendment, ExWorks adds an extension clause, whereby WISeKey can elect to extend the maturity date to January 16, 2021 for a fee in the amount of 12% of the outstanding loans at the time of the exercise. The prepayment option introduced in the sixth amendment remains unchanged in that the loans granted under the line of credit agreement may not be prepaid (in cash) by, or on behalf of, the Company before the earlier of: (i) the Initial Maturity date of January 16, 2020 or (ii) twenty (20) Trading days after a public offering and listing of the Company's stock (or American Depository Receipts ("ADRs") or American Depositary Shares representing WIHN's stock) on the New York Stock Exchange or NASDAQ, that raises at least USD 20 million in new capital to the Company.

On August 17, 2018, the Group signed a tenth amendment to the line of credit agreement with ExWorks whereby the amount available for additional borrowings of USD 1,921,832.80 can be drawn up until July 31, 2019.

On August 31, 2018, the Group drew an additional USD 1m loan from the line of credit agreement.

Capital increase

On July 05, 2018, the Group issued 1,664 WIHN class B shares out of conditional capital as a result of an exercise of options granted under the ESOP plan of the Company.

On July 10, 2018 WISeKey executed a drawdown on the SEDA Facility described in note 21 for CHF 999,996.39 in exchange for 258,397 WIHN class B shares issued out of authorized share capital. Therefore as at July 10, 2018 the outstanding facility available was CHF 49,000,003.61.

On July 10, 2018, the Group made an Authorised Share Capital increase by issuing 203,005 WIHN Class B shares against an investment of CHF 1,000,003 from a private fund.

On July 10, 2018, the Group made an Authorised Share Capital increase by issuing 93,270 WIHN Class B shares in settlement of a CHF 407,813.75 debt to Inside Secure SA.