WIS@key

Annual Report 2018

ARCHITECTING A WISER WORLD

WELCOME TO OUR ANNUAL REPORT 2018

Today's cybersecurity trends are evolving at an overwhelming pace and information security and secure communication are becoming one of the biggest challenges facing both governments and the private sector and have been identified as mega trends of the Digitalization and IoT. The overall WISeKey objective to provide secured solution including hardware and software components, is viewed as visionary and a unique platform.

WHAT’S INSIDE

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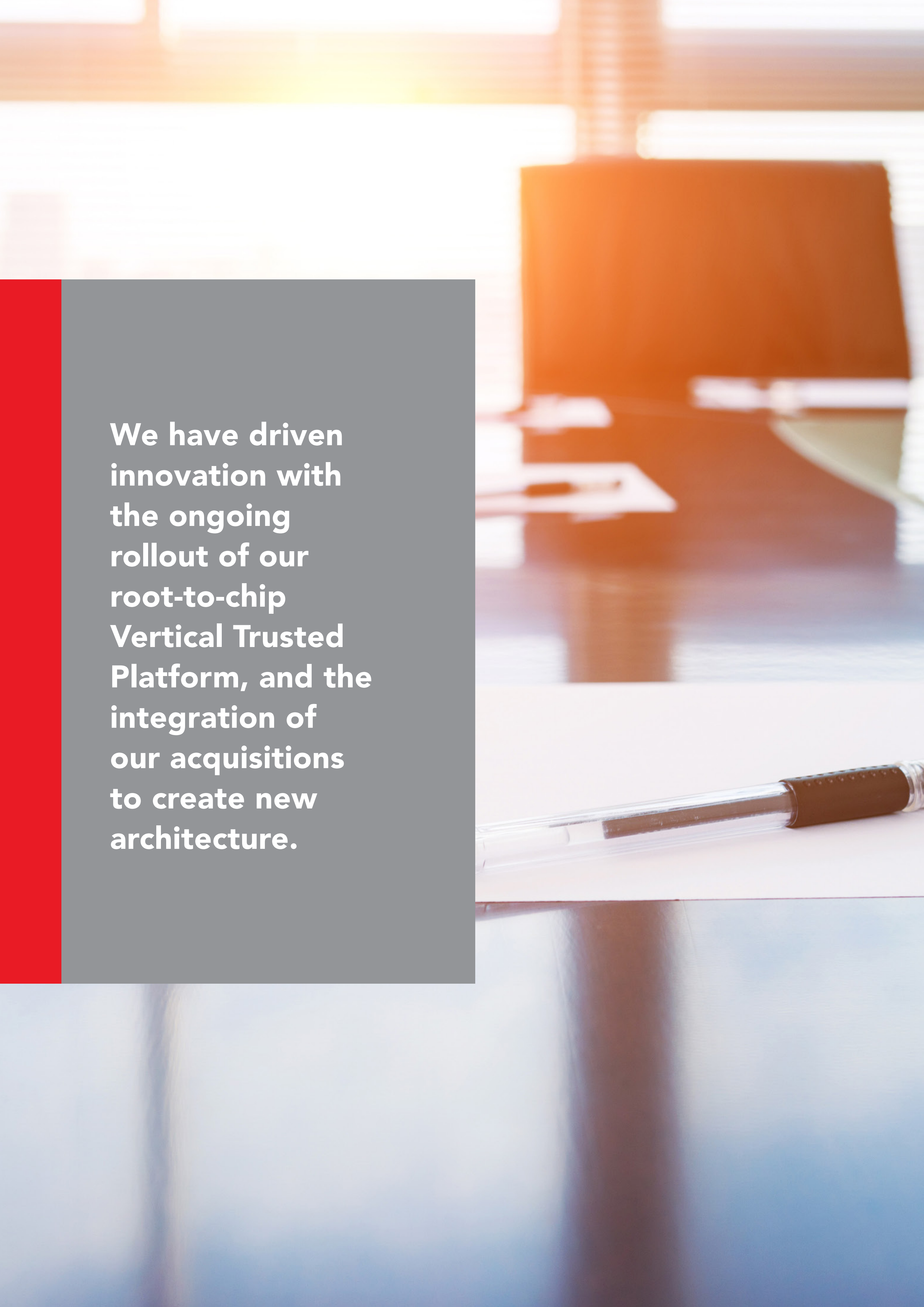


We have driven innovation with the ongoing rollout of our root-to-chip Vertical Trusted Platform, and the integration of our acquisitions to create new architecture.

TO OUR SHAREHOLDERS

Dear WISeKey Shareholders:

Fiscal 2018 was a great year for WISeKey. As I look back, I am incredibly proud of the tremendous progress the team has made and the new directions the company has taken. We continued to grow while transforming our technology platform and business model as we executed efficiently our strategy to become the most trusted platform on the Internet for people and objects, while our innovation breakthroughs and patents pool has never been stronger. I could not be more excited about our future.

2018 Highlights

Technology: In 2018, we made significant progress on many fronts and continued our quest to become a global leader in the delivery of integrated security products for the Internet of Things ("IoT") and digital identity ecosystems. Our fully integrated platform, which is applicable across a broad range of industries, has positioned us well to take advantage of significant opportunities arising from the rapidly growing IoT and cybersecurity market.

We are proud to say that we have carved out a unique space in the IoT se curity market by delivering the highest level of secured chips, digital identities, and trusted services under one roof – allowing us to win contracts for designs from the chip to the cloud.

In today's complex, hyper connected cloud world, trust, security and neutrality are critical. To thrive, companies on this uncertain environment must be capable of understanding the new trust requirements imposed by legislators and consumers and adapt our technologies to new developments in AI, Blockchain, Big Data and IoT in order to anticipate and respond to shifting market conditions and stakeholders' needs. Our development strategy is fully aligned with the changing needs of our users and customers while we advance on new territories with our innovations.

Revenue: 2018 was another record year in terms of revenue. For FY 2018 our total group revenue climbed to $53.7 million, an increase of 24.6%, from $43.1 million reported for FY 2017. This revenue does not include an estimated $5 million to $7 million in revenue from the Secure Token Offering (STO) of WISeCoin and WISePhone Block, which have been postponed to Q3 2019 due the delay in receiving the Non Action Letter from FINMA required to launch the STO which we received in January 2019.

Revenue growth stemmed from strong demand for our products and solutions from current and new customers in existing markets and the result of our continued efforts to expand our geographic footprint. Currently we serve over 4,500 clients in a wide range of market verticals. Approximately 59 % of our revenue comes from European-based clients while 36% is from US-based clients.

Our solid performance in fiscal year 2018 demonstrates a combination of strong customer adoption of our trusted platform solutions, the ongoing value customers see in our IoT and cybersecurity integration and excellent execution. Our customers are looking for us to provide even greater value to them by working with us in the redesigning of their IoT platforms, delivering world class cybersecurity solutions; as well as building, orchestrating, and managing applications. We are delivering cybersecurity / IoT solutions that matter to our customers, our strategy is working, and we believe we are well positioned to capture growth across our technology portfolio.

Sale of QuoVadis SSL and PKI businesses: We completed the sale of QuoVadis TLS/SSL, PKI businesses to DigiCert, the leading global provider of TLS/SSL, IoT and other PKI solutions, for a purchase price of US$45 million.

WISeKey has retained ownership of the ISTANA Platform used to secure the connected car industry, among other things, as part of its offerings for the Internet of Things (IoT) market, together with its latest Blockchain technology.

WISeKey has used part of the US$45 million proceeds from the sale of the QuoVadis SSL/TLS PKI businesses to repay in full its debt to ExWorks Capital ($25.3 million).

Proceeds from the sale of the QuoVadis SSL and PKI businesses will also allow us to reinvest in our core IoT business and expand the WISeCoin and WISephone Blockchain portfolio to further reinforce our position as a major player offering secured and trusted blockchain architectures. Additionally, we plan to significantly expand our sales force to take advantage of the higher demand for strong security, authentication, brand protection and anti-counterfeiting services for segments such as connected devices, smart cars, luxury products, pharmaceuticals and applications in the banking/financial sector.

FY 2018 Financial & Operational Milestones:

Record full-year 2018 Cybersecurity and IoT total group revenue of $53.7 million, an increase of 24.6%, from $43.1 Million Reported for FY 2017.

- Record full-year 2018 Cybersecurity and IoT total group revenue of $53.7 million, an increase of 24.6%, from $43.1 Million reported for FY 2017.
- Reduced FY 2018 net losses by 35% to $16.3 million US GAPP as compared to losses of $24.8 million US GAAP in FY 2017

Achieved strong liquidity and financial position; total cash and restricted cash of $11.2 million at December 31, 2018, compared to $12.2 million at December 31, 2017.

- Increased its R&D effort with $8.1 million spent during the year to develop new IP, patents and products to create business opportunities in cybersecurity, IoT, Microprocessors, Blockchain and AI.
- Aggregated over 39 patent families (more than 200 patents in total) to its patent portfolio, some of them on critical sectors such as Microchip designs and Cybersecurity algorithms.

Growth was driven by higher revenues from both the Cybersecurity and IoT businesses for new sectors requiring strong security such as connected cars, Blockchain, anti-counterfeiting and illicit trade, luxury industry and industrial IoT applications. Particularly, we noticed higher adoption of WISeKey's Semiconductor products for IoT with embedded security which are immune to cybersecurity attacks.

Cash of $11.2 million at December 31, 2018, compared to $12.2 million at December 31, 2018, with the small decline due to the settlement of certain commitments related to the sale of QuoVadis SSL and PKI businesses.

Customer adoption for IoT Cybersecurity services continued to accelerate in 2018, reaching more than 4,500 customers across all regions, mainly due to our integrated vertical trusted platform which combines a range of chips with software applications that cater to our customers' security and business needs.

Our software application offerings include proprietary technology such as Root of Trust (RoT) and Public Key Infrastructure ("PKI"), which are offered as standalone products, as well as part of our fully integrated Vertical Trusted Platform that enables WISeKey clients to manage their digital identity, information, and communication through a seamless process. We enable our clients to easily adapt to a continuously changing landscape of services designed specifically for their needs, without compromising their digital security.

The WISeKey ISTANA PKI platform allowed WISeKey to enter the Connected Car industry by offering manufacturers a secure way to validate the authenticity of different vehicle components. Certificate-based security also protects onboard communication between vehicle components and enables secure over-the-air software updates. Additionally, authentication certificates can be used by employees, dealers and suppliers to access car components that diagnose mechanical/technical issues and update software, from any location. Finally, the ISTANA PKI platform allows users to securely interact with a car's smart features using smartphones and other devices. In late December 2018, we signed an agreement with Daimler AG for the provision of a perpetual license for certain components of our ISTANA PKI platform.

During 2018, WISeKey developed the new NanoSeal Semiconductors product family and architecture for consumer product authentication and traceability. Built around a robust proprietary cryptographic algorithm for data protection and digital signature, a 2kbit long life secure EEPROM non-volatile memory with multiple independent security areas and contact or NFC based communication interfaces, this versatile architecture can be attached to any product to be protected and tracked including sports apparel, drone battery packs, e-cigarettes refills, parcels, medicines and high-tech accessories creating a new market for the company.

The rapid growth and proliferation of internet-based devices, as well as people's dependence on them for personal and business needs, precipitated the connectivity of digital devices. However, such connectivity creates numerous opportunities to alter or manipulate digital footprints. We believe that our integrated products provide the most comprehensive solution to fill these gaps in cybersecurity and data protection. The core of WISeKey's Vertical Trusted Platform is based on our Cybersecurity SaaS business, also known as managed PKI services, and on our Semiconductor chips.

Our outlook for 2019 and beyond remains strong. We expect 2019 to be another year of strong financial and operational performance across our Cybersecurity and IoT businesses due to:

- Higher revenue from the ISTANA platform with already strategic revenue wins in the German and Chinese markets.
- Larger market share and accelerated sales in the US and China markets where we already have a strong presence.
- Larger geographical footprint as we continue to enter new territories via MOUs in China and in Saudi Arabia.

- Monetization of the WISeKey Blockchain Platform and related services.
- Higher revenues from the new Anti-Illicit Trade Technology WISeAuthentic, now expanding from luxury products to new high volume sectors.
- Untapped potential synergies with global organizations thanks to a partnership agreement with DigiCert to explore common opportunities in the IoT market, using their combined products to enhance mutual offerings.

Additionally, during 2019 we plan to further invest in:

- Significantly expanding our sales force to take advantage of the higher demand for strong security, authentication, brand protection and anti-counterfeiting services as Cybersecurity / IoT becomes more pervasive for segments such as connected devices, connected cars, luxury products, pharmaceuticals and banking/financial sector.
- Further developing the WISeKey Foresight platform that will use APIs and keys generated on VaultIC IoT chip sets as the basis for Cybersecurity IoT services unlocking new features that we call "Chip as a Service".
- Reinvesting in our core IoT business with new innovative products and solutions to further reinforce our position as a major player offering secured and trusted Blockchain architectures. These new products and offerings include:

    1. WISeCoin as a method of identification and payment between connected objects, allowing vehicles to pay for example for electricity, gas or parking through the integration of WISeCoin crypto wallets at the Secure Element Chip level. WISeCoin additionally provides highly secured solutions such as biometrics-driven hardware wallets, integrated exchange platforms, microchips, Blockchain enabled semiconductors, and NFC-based contactless payment solutions.
    2. WISePhone Block, the first ever Blockchain mobile phone..

We will continue to drive innovation, cybersecurity, blockchain and AI across the entire network infrastructure. We will also leverage our businesses and the power of connections across our portfolio and create an architecture designed to support our customers' success—all the way from IoT/Cybersecurity to AI/Blockchain—in a trusted way following WISeKey legacy

3. WISeTrustBoot a versatile platform independent solution to provide trust in IoT devices through verifying the authenticity of the boot sequence and firmware, built on a combination of the strength of our tamper resistant secure elements, state-of-the-art crypto libraries and strong digital signatures.

Of note, these initiatives together with ISTANA are expected to gradually offset the revenue impact associated with the sale of QuoVadis SSL and PKI businesses which generated revenue of $19.4 million for FY 2018.

- Broaden our shareholder base and elevate our profile amongst US based investors
- Accelerate expansion and take advantage of substantial business opportunities in the US
- Provide liquidity to our existing shareholders

Looking Ahead:

Through our Cybersecurity/IoT/Blockchain integration, we have sharpened our focus around consumers' expectations by prioritizing innovation, speed, and strategic partnerships. We expect 2019 to continue with a strong performance across our IoT businesses. Our talented teams of IT engineers, sales and marketing professionals are working hard to build on that momentum and take advantage of the significant opportunities ahead.

Every idea we have, every service we develop, and every innovation platform we create all stem from the same source: protecting the individual on the internet.

To serve today's consumer requirements of privacy and security, we are combining our agility with strategic joint ventures capable of scaling the WISeKey's international brand.

We are looking forward to 2019 with a clear focus on Trust enhancement, growth, execution, and innovation. We will continue to drive innovation, cybersecurity, blockchain and AI across the entire network infrastructure. We will also leverage our businesses and the power of connections across our portfolio and create an architecture designed to support our customers' success—all the way from IoT/Cybersecurity to AI/Blockchain—in a trusted way following the WISeKey legacy.

On behalf of our entire management team and board of directors, I would like to thank our shareholders for their ongoing support.

Respectfully,

Carlos Moreira
Founder and CEO
WISeKey International Holding Ltd

$53.7M

WISeKey Revenue

UP

~24.6%

54.3%

Improved Gross Margins

UP

from 48.0%

$11.2M

Cash at 12/31/18

We increased our R&D effort with $8.1 million invested during the year to develop new products and create business opportunities in cybersecurity, IoT, Microprocessors, Blockchain an AI. We aggregated 39 patent families (more than 650 individual patents in total) to our patent portfolio, some of them on critical sectors such as Microchip designs and Cybersecurity algorithms.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

WISeKey International Holding AG and its consolidated subsidiaries (the "Group", "WISeKey") is a leading global cybersecurity Group currently deploying large scale digital identity ecosystems for people and objects using Blockchain, AI and Internet of Things ("IOT") respecting the Human as the Fulcrum of the Internet. WISeKey has an installed base of over 1 billion microchips in virtually all IoT sectors (connected cars, smart cities, drones, agricultural sensors, anti-counterfeiting, smart lighting, servers, computers, mobile phones, crypto tokens etc.). WISeKey is uniquely positioned to be at the edge of IoT as our semiconductors secure a huge amount of Big Data that, when analyzed with Artificial Intelligence (AI), can help industrial applications to predict the failure of their equipment before it happens.

Our technology, trusted by the OISTE/WISeKey's Swiss based cryptographic Root of Trust ("RoT") provides secure authentication and identification, in both physical and virtual environments, for the IoT, Blockchain and AI. The WISeKey RoT serves as a common trust anchor to ensure the integrity of online transactions among objects and between objects and people.

FY 2018 Key Financial Milestones:

The key highlights of the year ended December 31, 2018 were:

- Strong revenue growth and improved margins (FY 2018 vs. FY 2017)
  - 24.6% increase in total revenue to $53.7 million
  - 41% increase in total gross profit to $29.2 million
  - Significantly decreased net losses to $16.3 million
- FY18 adjusted EBITDA of $6.2 million for the WISeKey Group excluding WISeCoin AG and discontinued operations following the sale of the QuoVadis SSL and PKI businesses (the "QuoVadis Group")
- $45 million cash proceeds from the sale of the QuoVadis Group in Q1 2019 paved the way for significant investments in growth IoT, Blockchain and AI initiatives required to increase monetization, and allowed the full repayment of the line of credit with ExWorks Capital Fund I, L.P. of $25.3 million.
- 2018 saw the development of WISeCoin, including the receipt of a non-action letter from FINMA allowing us to move ahead with a Security Token Offering ("STO") in 2019. $1.2 million of operating expenditure relates to the development of WISeCoin and is included in the Operating Loss for the year.
- 2019 expected to be another year of solid IoT operational performance due to strong offerings for securing Connected Cars with the ISTANA platform.

On December 21, 2018, WISeKey signed a sale and purchase agreement (the "SPA") to sell the QuoVadis Group to Digicert Inc. While the sale was completed in the first quarter of 2019, WISeKey assessed the SPA under ASC 205 and concluded that the operation met the requirement to be classified as held for sale (at December 31, 2018) and as such qualified as discontinued operations. This led to the results and assets and liabilities of the QuoVadis Group to be presented separately in the consolidated income statement and consolidated balance sheet. However, WISeKey management reviewed 2018 financials on a consolidated basis, including discontinued operations results.

A summary of the key performance metrics of the Group is set-out in the table below:

(Million US$)		
US GAAP	**2018**	**2017**
Net sales from continuing operations	34.3	33.7
Net sales from discontinued operations	19.4	9.4
	53.7	**43.1**
Gross profit from continuing operations	16.0	15.8
Gross profit from discontinued operations	13.2	4.9
	29.2	**20.7**
Operating loss as reported (continuing)	(9.1)	(7.9)
Net loss attributable to WISeKey as reported	(16.3)	(24.3)
Non-GAAP	**2018**	**2017**
EBITDA	(8.5)	(8.4)
Adjusted EBITDA	(3.5)	(1.8)
Adjusted Net income/(loss) attributable to WISeKey	(3.5)	(0.2)
Total Cash and restricted cash	11.2	12.2

Revenues

Our FY 2018 total revenue grew by $10.6 million or 24.6% from FY 2017. Growth was driven by higher revenues from both the Cybersecurity and IoT businesses, from existing and new clients. Customer adoption continued to accelerate reaching more than 4,500 customers across all regions at the end of 2018.

The year saw strong demand and higher adoption of WISeKey's Semiconductor products for IoT with embedded security, products which are immune to cybersecurity attacks, in segments such as Connected Cars, Blockchain, illicit trade, luxury industry and industrial IoT.

Revenue growth was mainly due to higher revenues generated from the development of the ISTANA platform and the subsequent license and rights sale to Daimler, the development of our partnership with Cisco for semiconductor products, new customer wins in the banking and legal sectors, and a larger geographic footprint in Europe, including Germany. Also, our FY 2018 revenue included a full year of the QuoVadis Group revenue, as compared to approximately nine months in FY 2017 (the QuoVadis Group acquisition was completed in April 2017).

Continuing Operations

Our revenue from continuing operations increased by 1.8% year on year. The majority of this increase was due to revenues relating to the sale of the rights and ownership of a software platform developed to provide PKI services to Daimler AG. The revenues generated by these services are split between WISeKey SA and QuoVadis Trustlink Schweiz AG.

Our French Semiconductor business has identified one of our products is reaching the end of its life and launched a new product during the year to replace it.

Discontinued Operations

The revenue generated by discontinued activities grew by $10.0 million in 2018. This was partially due to the acquisition of QuoVadis taking place on April 03, 2017, so the 2017 figures exclude $3.2 million of revenue generated by QuoVadis in the first three months of the year. The balance of the revenue growth of $6.8 million was driven by several new key clients. This growth included a major contract relating to the provision of cards and certificates generating $1.5 million of additional revenue, an implementation project for a large pharmaceutical company ($0.6 million), the completion of three major implementation projects by our German office ($0.6 million) and significantly increased demand for certificates from both existing customers and a high volume of new clients (almost 120 new clients year on year generating over $1.3 million of revenues.)

Sales by region

WISeKey Group - Net sales by region	**12 months ended December 31,**			
Million US$	**2018**	**% of Total**	**2017**	**% of Total**
Europe	31.5	59%	21.8	51%
North America	19.4	36%	16.3	38%
Asia Pacific	2.6	5%	3.7	8%
Latin America	0.2	0%	1.3	3%
Total Non-GAAP Net sales	**53.7**	100%	**43.1**	100%

In Europe, the main factors behind our growth were the revenue generated from the ISTANA platform and Daimler opportunities exceeding $4 million in total. Our presence for identification services in the banking and legal sectors increased to over $0.7 million and $0.5 million respectively, whilst the growth of our business in Germany generated a revenue increase by over $1.0 million.

FY 2018 revenue from clients in North America grew by 19% or $3.1 million to $19.4 million. Over $2 million of the growth in North America was driven by the development of our partnership with Cisco in our Semiconductors business. The remaining growth is attributable to the mPKI business with a year-on-year revenue increase of 6% in our Bermuda-based business, and the revenue of the QuoVadis Group acquired in April 2017 being recognized for the full 12 months in 2018.

Gross profit

In line with the increase in revenue, our gross profit increased by 41% or $8.5 million.

Our gross profit margin reached 54.3% in FY 2018 as compared to 48.0% in FY 2017. This is primarily due to the increased contribution of our mPKI activity which is software-based and, as such, has lower cost of sales.

Continuing Activities

Continuing activities generated an improved gross profit of $16.0 million at a slightly lower margin of 46.6% against 46.9% in the prior year. The margin was impacted by the new product introduction costs in its Semiconductor business. However, this rise was offset by an improved sales blend for the Semiconductors unit with the Secure Access business moving away from end of line PPxK products that carry a lower gross profit margin, and increased sales of our new products at higher margins.

Discontinued Activities

The increase in cost of sales from discontinued operations of $1.7 million was largely due to the 2017 figures incorporating only nine months. On a like for like comparison, the cost of sales grew by $0.2 million year on year which led to a much improved profit margin of 68.0%. The additional revenue recognized in the 2018 financial statements was largely relating to sales of Certificates and SaaS, PCS and hosting revenues by the QuoVadis Group. These products have a low marginal cost and therefore the overall gross profit margin was higher.

Net Loss

Net losses for FY 2018 were significantly reduced to $16.3 million as compared to losses of $24.8 million for FY 2017. This was primarily due to a decrease in non-operating expenses of $7.8 million because of non-recurring financial charges incurred in FY 2017: a $7.1 million debt extinguishment from the amendment of the ExWorks credit line and a $0.1 million loss on derivative liability from the Inside Secure convertible note.

Non-GAAP Consolidated Statement of Income / (Loss)	**12 months ended December 31,**	
USD'000	**2018**	**2017**
Net sales	53,692	43,078
Cost of sales	(24,515)	(22,386)
Gross profit	**29,177**	**20,692**
Other operating income	316	1,526
Research & development expenses	(8,106)	(7,386)
Selling & marketing expenses	(8,598)	(6,254)
General & administrative expenses	(24,741)	(22,088)
Total operating expenses	**(41,129)**	**(34,202)**
Operating income / (loss)	**(11,952)**	**(13,510)**
Non-operating income	2,243	769
Gain / (loss) on derivative liability	-	(98)
Gain / (loss) on debt extinguishment	-	(7,067)
Interest and amortization of debt discount	(1,206)	(1,501)
Non-operating expenses	(5,502)	(4,380)
Income / (loss) before income tax expense	**(16,417)**	**(25,787)**
Income tax (expense)/recovery	152	1,037
Net income/ (loss)	**(16,265)**	**(24,750)**

The Group continues to show a heavy cost structure dues to its investment strategy and new and innovative lines of business, such as WISeCoin. The sections below on the operating expenses provide additional detail on this.

Analysis of operating income and expenditure

Our total EBITDA remains stable with a loss position of $8.5 million in FY 2018 in comparison with $8.4 million in FY 2017.

However, the Group's operating expenses increased by 20.2% or $6.9 million, from $34.2 million to $41.1 million, to meet WISeKey's development strategy. Moreover, in FY 2018 operating expenses relating to the QuoVadis Group were consolidated for the full year, whereas in FY 2017 they were only consolidated for the period April 03 to December 31, 2017 (i.e. from the acquisition date). Operating expenses for the QuoVadis Group in the period April 03 to December 31, 2017 amounted to $3.1 million, hence a net increase in operating expenses of 11.1% or $3.8 million when excluding this factor. We have analyzed further each category of operating expenses below.

Other Operating Income

Other operating income reduced by $1.2 million from 2017 to 2018. This is as a result of a significant, one-off credit in 2017 of $1.4 million relating to a one-off credit received by our French business following the renegotiation of an unfavorable contract. Upon acquisition, a provision had been made for the losses on a five year supplier contract that, upon renegotiation, were released back to the income statement leading to a one-off upside.

Research and Development expenses

Research and Development ("R&D") expenses increased by $0.7 million, or by $0.3 million when excluding the impact of the QuoVadis Group R&D expenses not consolidated into WISeKey in FY 2017 ($0.4 million). Underlying this, our expenditure on certification costs reduced year on year by $0.4 million which was offset by correspondingly reduced tax credits. An R&D stock-based compensation of $0.1 million was recorded in FY 2018 (Vs $nil in FY 2017). The remaining additional R&D expenses are designed to support the development of new and existing product lines such as the ISTANA platform for the automotive industry and WISePhone.

Selling & Marketing expenses

Selling & marketing ("S&M") expenses increased by $2.3 million, or by $2.2 million when excluding the impact of the QuoVadis Group S&M expenses not consolidated into WISeKey in FY 2017 ($0.1 million). Regarding selling expenses, the expansion of our sales force in Europe and North America resulted in an additional $1.5 million charge. On the marketing side, our $0.6 million investment in several critical ventures including the Blockchain Research Initiative and our successful Blockchain Davos Round Table events were designed to raise awareness on the benefits of the Blockchain technology which will be a core service offering of WISeCoin. A stock-based compensation of $0.6 million was recorded in FY 2018 compared with $0.5 million in FY 2017, hence an increase by $0.1 million.

General and Administrative expenses

Finally General and administrative ("G&A") expenses increased by $2.6 million, but actually remained stable when excluding the impact of the QuoVadis Group G&A expenses not consolidated into WISeKey in FY 2017 ($2.6 million).

Within the 2018 figures, we incurred approximately $1.2 million in costs associated with the development and launch of WISeCoin leading to the receipt of the Non-Action letter from FINMA that will enable us to move forward with our Security Token Offering ("STO") in 2019. However, we managed to offset costs associated with the development of WISeCoin by effectively reducing other components of G&A expenses: our legal fees were reduced by $1.0 million due to the recruitment of a Legal Chief Counsel, stock-based compensation expenses decreased by $0.8 million, non-income tax expenses were lowered by $0.3 million and we had no acquisition in FY 2018, as compared to FY 2017.

The main components of our G&A costs are detailed below:

Total non-GAAP General & administrative expenses USD'000	12 months ended December 31, 2018	12 months ended December 31, 2017
Staff-related costs	12,845	10,152
Depreciation & amortization classified under G&A	2,231	1,884
Legal fees	4,650	4,456
Rental costs	2,740	2,291
Stock based compensation classified under G&A	967	1,765
Non-income tax expense	380	643
Customer contract impairment losses	276	188
Other G&A Operating Costs	652	709
Total G&A expenses	**24,741**	**22,088**

We expect G&A expenses to continue to rise in future periods to support our growth and strategical positioning. Anticipated costs include those relating to:

- Our expansion strategy with potential acquisitions will maintain high legal, auditing and accountancy, and other professional G&A costs;
- The finalization of the WISeKey STO will also generate additional legal and professional costs;
- Employee Stock Option Plan: grants to support our staff retention strategy will impact all cost categories including G&A
- To preserve the flexibility of our local entities, a lot of our staff are involved in projects covering sales & marketing, R&D and general and administrative fields. Where the allocation is not straightforward, these staff have been included entirely in G&A expenses.

As the business stabilizes we will direct our efforts to reduce our cost structure.

Non-operating activities

Income and expenditure resulting from non-operating activities reduced year on year by $7.8 million.

This was primarily due to non-recurring financial charges incurred in FY 2017: a $7.1 million debt extinguishment from the amendment of the ExWorks credit line and a $0.1 million loss on derivative liability from the Inside Secure convertible note.

Non-operating income increased in the year by $1.5 million, which was largely driven by increased foreign exchange gains and was offset by non-operating expenses, which increased by $1.1 million, due to the impact of foreign exchange losses. The group continues to monitor its foreign exchange exposure and looks to balance significant assets in its main currencies with offsetting liabilities to ensure the exposure is limited.

Outlook for 2019 and beyond

We have taken several initiatives to generate new revenue sources, grow our client base and expand our geographic footprint. These initiatives should gradually offset the impact of the sale of QuoVadis SSL and PKI businesses to Digicert.

These initiatives include:

- Significantly larger sales force to take advantage of the higher demand for strong security, authentication, brand protection and anti-counterfeiting services as Cybersecurity / IoT becomes more pervasive for segments such as connected devices, connected cars, luxury products, pharmaceuticals and banking/financial sector.
- Development of the WISeKey Foresight platform that will use APIs and keys generated on VaultIC IoT chips as the basis for Cybersecurity IoT.
- Investments in R&D and core IoT business by developing and offering additional innovative products and solutions to further reinforce our position as a major player offering secured and trusted Blockchain architectures.

Thus, we expect 2019 to be another year of strong financial and operational performance across our Cybersecurity and IoT businesses due to:

- Higher revenue from the ISTANA platform from strategic deals, particularly for the Chinese market
    - WISeKey entered the Connected Car industry in 2017 by offering Daimler AG a secure way to validate the authenticity of different vehicle components, protect onboard communication and provide over-the-air software updates. Also, ISTANA PKI allows employees, dealers and suppliers to access car components to diagnose mechanical/technical issues and update software from any location, and users to securely interact with a car's smart features using smartphones and other devices.
    - In late 2018, WISeKey cemented its role in the Connected Car industry by granting Daimler a perpetual license for the use of certain ISTANA PKI modules in its vehicles.
    - Also, WISeKey will continue to further upgrade its ISTANA PKI platform into an attractive solution to secure a variety of IoT applications.
- Monetization of the WISeKey Blockchain Platform and related services
    - WISeKey Blockchain Centers of Excellence. WISeKey in cooperation with the Blockchain Research Institute (BRI) is creating a number of interconnected Blockchain Centers of Excellence around the world, to facilitate the rapid adaptation and on-boarding of blockchain-based solutions and foster stronger collaboration between the public, private and academic sectors.
    - Each Blockchain Center of Excellence is expected to develop a particular expertise that can be shared among all centers. For example, the Blockchain Center of Excellence in Buenos Aires will spearhead the development of particular platforms and applications to fight counterfeiting, illicit trade and corruption, while the Geneva Blockchain Center of Excellence will focus on Fintech, particularly digital private banking and commodity trading applications.

- High margin revenue from the sale of WISePhone
  - WISePhone, the first ever Blockchain mobile phone, was introduced end of 2018 as the first secure blockchain phone for enterprise-grade security integrating end-to-end encrypted communication and cutting-edge secure storage technology. WISePhone is a cost-effective and flexible platform that empowers efficiency and mobility whilst protecting intellectual property and confidentiality by transforming public networks and mobile devices into highly secure communication channels for enterprises.
- Revenue from WISeCoin starting in the second half of 2019
  - WISekey received the Non-Action Letter from FIMNA to launch its WISeCoin Security Token Offering (STO). WISeCoin is a method of verification, identification and payment between connected objects. WISeCoin provides highly secured solutions such as biometrics-driven hardware wallets, integrated exchange platforms, microchips Blockchain enabled semiconductors, and NFC-based contactless payment solutions. WISeKey expects to start generating revenues in the second half of 2019 by charging users a micro service fee for each transaction completed using the platform.
- Higher revenues from the new Anti-Illicit Trade Technology WISeAuthentic, now expanding from luxury products to other sectors.
  - NanoSEAL: WISeKey has optimized its Brand Protection and Logistics offerings with the New NanoSealRT NFC Secure Element, an innovative solution that provides objects with a unique identity, allows them to authenticate each other and communicate online. By combining in tiny tags original innovative features such as an Android & iOS 12 compatible authentication algorithm, tamper/opening detection and efficient radio communication, WISeKey's NanoSealRT is able to enhance goods traceability and brand-to-consumer direct reach.
  - WISeTrustBoot: In January 2019, WISeKey introduced WISeTrustBoot, a versatile platform independent solution to provide trust in IoT devices through verifying the authenticity of the boot sequence and firmware, built on a combination of the strength of our tamper resistant secure elements, state-of-the-art crypto libraries and strong digital signatures.
- Larger market share and accelerated sales in the US where we already have a strong presence.
- Larger geographical footprint as we continue to enter new territories via MOUs in China and in Saudi Arabia.
- Untapped potential synergies with global organizations thanks to a partnership agreement with Digicert to explore common opportunities in the IoT market, using our combined products to enhance mutual offerings.
- Potential acquisitions to support our business plan of expansion into existing or new areas.

Non-GAAP Financial Measures

On December 21, 2018, WISeKey signed a sale and purchase agreement (the "SPA") to sell the QuoVadis Group to Digicert Inc. While the sale was completed in the first quarter of 2019, WISeKey assessed the SPA under ASC 205 and concluded that the operation met the requirement to be classified as held for sale (at December 31, 2018) and as such qualified as discontinued operations. This led to the results and assets and liabilities of the QuoVadis Group to be presented separately in the consolidated income statement and consolidated balance sheet. However, WISeKey management reviewed 2018 financials on a consolidated basis, including discontinued operations results.

In managing WISeKey's business on a consolidated basis, WISeKey management develops an annual operating plan, which is approved by our Board of Directors, using non-GAAP financial measures. In measuring performance against this plan, management considers the actual or potential impacts on these non-GAAP financial measures from actions taken to reduce costs with the goal of increasing our gross margin and operating margin and when assessing appropriate levels of research and development efforts. In addition, management relies upon these non-GAAP financial measures when making decisions about product spending, administrative budgets, and other operating expenses. We believe that these non-GAAP financial measures, when coupled with the GAAP results and the reconciliations to corresponding GAAP financial measures, provide a more complete understanding of the Company's results of operations and the factors and trends affecting WISeKey's business. We believe that they enable investors to perform additional comparisons of our operating results, to assess our liquidity and capital position and to analyze financial performance excluding the effect of expenses unrelated to operations, certain non-cash expenses related to acquisitions and share-based compensation expense, which may obscure trends in WISeKey's underlying performance. This information also enables investors to compare financial results between periods where certain items may vary independent of business performance, and allow for greater transparency with respect to key metrics used by management.

These non-GAAP financial measures are provided in addition to, and not as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. The presentation of these and other similar items in WISeKey's non-GAAP financial results should not be interpreted as implying that these items are non-recurring, infrequent, or unusual. Reconciliations of these non-GAAP measures to the most comparable measures calculated in accordance with GAAP are provided in the financial statements portion of this release in a schedule entitled "Financial Reconciliation of GAAP to non-GAAP Results (unaudited)."

Non-GAAP to GAAP Reconciliations

Consolidated Statement of Income / (Loss) USD'000	12 months ended December 31, 2018 Non-GAAP	Non-GAAP adjusting entries Reclassification of discontinued operations	US GAAP	12 months ended December 31, 2017 Non-GAAP	Non-GAAP adjusting entries Reclassification of discontinued operations	US GAAP
Net sales	53,692	(19,412)	34,280	43,078	(9,404)	33,674
Cost of sales	(24,515)	6,196	(18,319)	(22,386)	4,516	(17,870)
Gross profit	**29,177**	**(13,216)**	**15,961**	**20,692**	**(4,888)**	**15,804**
Other operating income	316	(28)	288	1,526	-	1,526
Research & development expenses	(8,106)	2,801	(5,305)	(7,386)	2,047	(5,339)
Selling & marketing expenses	(8,598)	2,826	(5,772)	(6,254)	1,795	(4,459)
General & administrative expenses	(24,741)	10,509	(14,232)	(21,945)	6,544	(15,401)
Total operating expenses	**(41,129)**	**16,108**	**(25,021)**	**(34,059)**	**10,386**	**(23,673)**
Operating income / (loss)	**(11,952)**	**2,892**	**(9,060)**	**(13,367)**	**5,498**	**(7,869)**
Non-operating income	2,243	(62)	2,181	769	(7)	762
Gain / (loss) on derivative liability	-	-	-	(98)	-	(98)
Gain / (loss) on debt extinguishment	-	-	-	(7,067)	6,511	(556)
Interest and amortization of debt discount	(1,206)	1,056	(150)	(1,501)	958	(543)
Non-operating expenses	(5,502)	2,676	(2,826)	(4,523)	2,772	(1,751)
Income / (loss) before income tax expense	**(16,417)**	**6,562**	**(9,855)**	**(25,787)**	**15,732**	**(10,055)**
Income tax (expense)/recovery	152	(205)	(53)	1,037	(1,108)	(71)
Income/ (loss) from continuing operations, net	**(16,265)**	**6,357**	**(9,908)**	**(24,750)**	**14,624**	**(10,126)**
Income / (loss) on discontinued operations	**-**	**(6,357)**	**(6,357)**	**-**	**(14,624)**	**(14,624)**
Net income / (loss)	**(16,265)**	**-**	**(16,265)**	**(24,750)**	**-**	**(24,750)**

GAAP to Non-GAAP Operating loss and Net loss

(Million US$)	**2018**	**2017**
Operating loss as reported	(9.1)	(7.9)
Non-GAAP adjustments:		
Operating loss from discontinued operations	(2.9)	(5.5)
Depreciation expense	1.4	1.4
Amortization expense on intangibles	0.5	1.9
PPA amortization expense	1.6	1.7
EBITDA	**(8.5)**	**(8.4)**
Non-GAAP adjustments:		
Stock-based compensation	1.7	2.2
Expenses settled in equity	1.7	-
M&A-related legal fees	1.3	2.6
M&A-related professional fees	0.3	1.8
Adjusted EBITDA	**(3.5)**	**(1.8)**
Net loss attributable to WISeKey as reported	(16.3)	(24.3)
Non-GAAP adjustments:		
Net loss from discontinued operations	-	-
Stock-based compensation	1.7	2.2
Expenses settled in equity	1.7	-
Depreciation expense	1.4	1.4
Amortization expense on intangibles	0.5	1.9
PPA amortization expense	1.6	1.7
M&A-related legal fees	1.3	2.6
M&A-related professional fees	0.3	1.8
Debt extinguishment	-	7.1
Gain from the liquidation of subsidiary	-	-
Debt discount amortization	1.2	1.5
Financial charges	2.8	3.9
Deferred tax write-off	0.3	-
Adjusted Net loss attributable to WISeKey	**(3.5)**	**(0.2)**

GAAP to Non-GAAP Cash and cash equivalents

(Million US$)	**2018**	**2017**
Cash and cash equivalents as reported	9.2	9.6
Restricted cash as reported	0.6	-
Non-GAAP adjustments:		
Cash and cash equivalents held for sale	1.4	3.6
Total Cash and restricted cash	**11.2**	**12.2**

Non-GAAP Consolidated Statement of Income / (Loss)	12 months ended December 31, 2018 Non-GAAP	Non-GAAP adjustment	Non-GAAP adjustment Group Consolidation including discontinued operations	Non-GAAP
USD'000	WISeKey Group excluding WISeCoin AG and discontinued operations	WISeCoin AG		WISeKey Group
Net sales	43,285	-	10,407	53,692
Cost of sales	(18,319)	-	(6,196)	(24,515)
Gross profit	**24,966**	**-**	**4,211**	**29,177**
Other operating income	289	-	27	316
Research & development expenses	(5,306)	-	(2,800)	(8,106)
Selling & marketing expenses	(5,772)	-	(2,826)	(8,598)
General & administrative expenses	(12,842)	(3,143)	(5,272)	(21,257)
EBITDA	**1,335**	**(3,143)**	**(6,660)**	**(8,468)**
Non-GAAP adjustments:				
Non-cash items			-	
Stock-based compensation	1,660	-	-	1,660
Expenses settled in equity	1,685	-	-	1,685
Non-recurring items			-	-
M&A-related legal fees	1,294	-	-	1,294
M&A-related professional fees	183	-	-	183
Adjusted EBITDA	**6,157**	**-**	**-**	**(3,646)**

Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2018 was $11.2 million at, compared to $12.2 million at December 31, 2017, with the small decline due to the settlement of certain commitments related to the sale of the QuoVadis Group.

In early 2019, we received net cash proceeds of $37.7 million and $4.5 million cash held in an escrow account (total proceeds of $45 million) from the sale of the QuoVadis Group to Digicert. WISeKey used the cash proceeds to repay in full the Line of Credit with ExWorks Capital Fund I, L.P. in the amount of $25.3 million. This substantially improved the Company's financial position and paved the way for significant investments in growth initiatives.

The Group also continues to have funding arrangements in place with GEM LLC and Yorkville Advisors Global, LLC. These facilities provide the opportunity to draw down up to CHF 56.1 million and CHF 48.3 million respectively and, when combined with the net cash position following the sale of the QuoVadis Group, provide sufficient assurance regarding the future operations of the business. Further details are disclosed in Notes 2 and 24 to the consolidated financial statements.

Commitments and Obligations

The following sets forth the Group's future contractual obligations by the types identified in the table below as of 31 December 2018

Contractual Obligations		Payment due by period			
USD'000	Total	Within 1 year	1 - 3 years	4 - 5 years	After 5 years
Factors for borrowings	934	934	-	-	-
Short-term loans	6,718	6,718	-	-	-
Short-term loan from shareholders	79	79	-	-	-
Convertible note payable	23,940	-	23,940	-	-
Net Operating Leases	1,938	599	1,099	240	-
Total	**33,609**	**8,330**	**25,039**	**240**	**-**

As set out above, the Convertible Note Payable includes $21.3 million relating to the line of credit with ExWorks Capital LLC, due for settlement in January 2020, which was settled in full upon the completion of the sale of the QuoVadis Group in January 2019. Inclusive of fees, interest and net of the debt discount, the final payment amounted to $25.3 million.

Recent Accounting Pronouncements

Note 4 to the consolidated financial statements contains a summary of the Company's significant accounting policies, including a discussion of recently issued accounting pronouncements and their impact or potential future impact on the Company's financial results, if determinable, under the subheading "Recent Accounting Pronouncements".

MANAGEMENT TEAM

CARLOS MOREIRA

Chief Executive Officer

Recognized early stage pioneer in the field of digital identity

Adjunct Professor of the Graduate School of (RMIT) from 1995 to 1999

Head of the Trade Efficiency Lab at the Graduate School of Engineering at RMIT

Founded the Geneva-based online data security firm WISeKey SA in 1999

PETER WARD

Chief Financial Officer

Chartered management accountant

Significant international experience in the IT, FMCG, medical equipment, plastics and Biotech industries

Joined WISeKey SA in 2008 as finance director and has been Chief Financial Officer and a member of the Board since 2012

BERNAND VIAN

Senior VP sales

Over 25 years of experience in the Secure Semiconductor Industry

Started his career at Gemplus with multiple positions in sales and marketing, and opened Gemplus' San Francisco office

Joined INSIDE Contactless in 2002, and positioned INSIDE as a leader of NFC payment chip supplier in the US

Over 25 years of delivering certified chips in the most risk-sensitive applications

ABOUT WISEKEY

WISeKey (SIX Swiss Exchange: WIHN) is a leading global cybersecurity company currently deploying large scale digital identity ecosystems for people and objects using Blockchain, AI and IoT respecting the Human as the Fulcrum of Internet of Things, Blockchain and Artificial Intelligence. The WISeKey RoT serves as a common trust anchor to ensure the integrity of online transactions among objects and between objects and people. For more information, visit www.wisekey.com.

WISeKey was founded in 1999. In September 2016, we acquired WISeKey Semiconductors SAS (formerly known as Vault-IC SAS), a French semiconductor manufacturer and distributor, and WISeKey Singapore Pte, a Singapore-based distribution entity. WISeKey Semiconductors SAS is a well-known name in the secure chip industry with a consistent track record of over 25 years of delivering certified chips in the most risk-sensitive applications including government identification cards and passports, VISA and Mastercard, PAY TV access cards, and authentication and data storage tokens.

WISeKey Semiconductors secure the pervasive computing shaping today's Internet of Everything. WISeKey has an installed base of over 1 billion microchips in virtually every IoT sector (connected cars, smart cities, drones, agricultural sensors, anti-counterfeiting, smart lighting, servers, computers, mobile phones, crypto tokens etc.).

WISeKey is uniquely positioned to be at the edge of IoT as our semiconductors secure a considerable amount of Big Data that, when analyzed with Artificial Intelligence (AI), can help industrial applications to predict the failure of their equipment before it happens.

We also own up to 10% of OpenLimit, a cybersecurity listed company in Germany and we have an option to acquire 22% of Tarmin a US cloud technology company in Boston.

The integration of these companies reinforced our Vertical Trusted Platform by adding significant expertise to their fields of operation, relationships with customers in target markets, and recurring revenue and growth opportunities.

They also brought in-depth operations experience in running secure and high-availability trust center environments under strict accreditation regimes, as well as strong sales and support teams based in important customer markets.

2018 MAJOR DEVELOPMENTS

Products – new developments

ISTANA platform

- Virtually all new cars on the market today include electronic technologies that could pose vulnerabilities to hacking or privacy intrusions if data security is not addressed. For example, smart cars without cybersecurity protection technology could allow hackers to gain remote access by exploiting vulnerabilities in their ecosystem of connected components and online services.
- WISeKey entered the Connected Car industry in 2017 by offering Daimler AG a secure way to validate the authenticity of different vehicle components, protect onboard communication and provide over-the-air software updates. Also, ISTANA PKI allows employees, dealers and suppliers to access car components to diagnose mechanical/technical issues and update software, from any location and users to securely interact with a car's smart features using smartphones and other devices.
- In late 2018, WISeKey cemented its role in the Connected Car industry by granting Daimler a perpetual license for the use of certain ISTANA PKI modules in its vehicles.
- WISeKey is currently working with several smart car manufacturers, including a leading European automobile manufacturer, and its ISTANA Internet of Cars platform is already active in several large-scale projects.
- WISeKey will continue to further upgrade its ISTANA PKI platform into an attractive solution to secure a variety of IoT applications.

WISeCoin

- WISekey received the Non-Action Letter from FIMNA to launch its WISeCoin Secured Token Offering (STO). WISeCoin is a method of verification, identification and payment between connected objects. WISeCoin provides highly secured solutions such as biometrics-driven hardware wallets, integrated exchange platforms, microchips Blockchain enabled semiconductors, and NFC-based contactless payment solutions. WISeKey expects to start generating revenues in the second half of 2019 by charging users a micro service fee for each transaction completed using the platform.
- WISeKey releases first-of-its-kind IoT Cryptocurrency Smart Payment solution allowing Connected Objects to pay with WISeCoin. The IoT CryptoCurrency Smart Payment allows the ability for connected objects secured by WISeKey Semiconductors to pay other connected objects using WISeCoin. WISeKey has tested the technology on connected cars allowing a connected car secured by WISeKey to pay for electricity, gas and parking through the integration of WISeCoin crypto wallets at the Secure Element Chip level.

WIS.WATCH

- WISeKey introduced WIS.WATCH, a secure mechanical watch powered by contactless secure hardware enabled wallet, designed to offer security and ease of use to cryptocurrency users. The WIS.WATCH can securely store users' private key and allows them to make contactless transactions, including bitcoin and other cryptocurrency transactions. WIS.WATCH uses a combination of Near Field Communication ("NFC") technology with highly secured solutions provided by the WISeKey Semiconductors and is now accessible through the WISeWallet App. Every time a contactless Blockchain transaction is initiated, including a Bitcoin transaction, the private key must be first validated using the NFC technology and then the transaction is enabled.

INeS #Think2018

- INeS #Think2018, is a Security Broker Solution, designed to secure devices, cloud & IOT applications, integrated with IBM's new Watson IoT platform, implements a "message broker" that allows the exchange of information between devices and business applications, provides additional security, authentication and data encryption using Public Key Infrastructure (PKI) technology.

WISeWallet App V1.0

- WISeWallet syncs with WISeCoin contactless hardware to offer security and ease of use for cryptocurrency users. WISeWallet, is an application combined with a hardware wallet equipped with its own security hardened operating system and contactless functionality, able to connect with smart phones of any type, as well as desktops/laptops/iPads through NFC communication. The application can be downloaded at https://play.google.com/store/apps/details?id=com.wisekey.wisecoinhd&hl=en. WISeWallet is supplemented with highly secured solutions such as biometrics-driven hardware wallets, integrated exchange platforms, MicroChips Blockchain enabled semiconductors, and Near Field Communication (NFC) based contactless payment solutions. WISeKey's objective with WISeCoin is to become an emerging powerhouse in the global cryptocurrency market by supporting the development of economies built on Blockchain technology.

WISePhone

- WISePhone, the first ever Blockchain mobile phone, will be the first secure blockchain phone for enterprise-grade security integrating end-to-end encrypted communication and cutting-edge secure storage technology. WISePhone is a cost-effective and flexible platform that empowers efficiency and mobility whilst protecting intellectual property and confidentiality by transforming public networks and mobile devices into highly secure communication channels for enterprises.
- The WISePhone native Wallet will provide users with contactless access to their private key, allowing them to make contactless transactions and cryptocurrency payments using the WISePhone. The WISePhone Wallet uses a combination of Near Field Communication ("NFC") technology with highly secured solutions provided by the WISeKey Semiconductors and is now available through the Wallet App.

WISeID

- WISeKey launched an updated version of the WISeID app, its flagship Digital Identity Security Solution, which includes new features for secure email communication and stronger authentication. Following the recent news about the misuse of people's personal information from a data-mining firm, social media companies are working to upgrade their platforms to give users more control over their Digital Identity, although this is not enough to protect user's personal information as the social network platform remains in control of the user's Digital Identities. WISeID provides easy to use strong authentication and email security capabilities that can remediate threats like phishing, ransomware or identity theft. The use of passwords implies risks, as it's a simple security factor that can be stolen using phishing techniques (e.g. a fake email from the bank asking the user to log into a rogue web page using eBanking credentials) or it can be simply guessed if not complex enough (many users prefer to use simple passwords, by fear of forgetting it).

CertifyID

- WISeKey leveraged its CertifyID BlockChain technology to create a Universal Decentralized Identification (UDI) system. Currently, WISeKey is by far the largest provider of Digital Identification in the world with over 20 years of expertise in PKI, IoT and Identity Management. Its Root of Trust (RoT) is the most ubiquitous version on the Internet with a total of over 4 billion downloads and installs. CertifyID https://account.wisekey.com integrates Digital Identity with Blockchain technology. Its CertifyID BlockChain acts as a Digital Identity dual factor authentication-based technology that sits on top of a BlockChain. The CertifyID BlockChain is constantly growing as new Identity blocks are added to it with a new set of recordings. Each CertifyID Identity node gets a copy of the Identity CertifyID BlockChain and gets downloaded automatically upon joining the Identity CertifyID network. The system is totally decentralized and can be operated at national or local levels using a distributed identity ledger run by trusted parties spread across the BlockChain.

Blockchain Platform - WISeKey Blockchain Centers of Excellence

- WISeKey in cooperation with the Blockchain Research Institute (BRI) is creating a number of interconnected Blockchain Centers of Excellence around the world, to facilitate the rapid adaptation and on-boarding of blockchain-based solutions and foster stronger collaboration between the public, private and academic sectors.
- Each Blockchain Center of Excellence is expected to develop a particular expertise that can be shared among all centers. For example, the Blockchain Center of Excellence in Buenos Aires will spearhead the development of particular platforms and applications to fight counterfeiting, illicit trade and corruption, while the Geneva Blockchain Center of Excellence will focus on Fintech, particularly digital private banking and commodity trading applications.

Anti-Illicit Trade Technology WISeAuthentic

- NanoSEAL. WISeKey has optimized its Brand Protection and Logistics offerings with the New NanoSealRT NFC Secure Element, an innovative solution that provides objects with a unique identity, allows them to authenticate each other and communicate online. By combining in tiny tags original innovative features such as an Android & iOS compatible authentication algorithm, tamper/opening detection and efficient radio communication, WISeKey's NanoSealRT is able to enhance goods traceability and brand-to-consumer direct reach.

- WISeTrustBoot is a versatile platform independent solution to provide trust in IoT devices through verifying the authenticity of the boot sequence and firmware, built on a combination of the strength of our tamper resistant secure elements, state-of-the-art crypto libraries and strong digital signatures.
- Gun Control: WISeAuthentic IoT Blockchain technology solution has been adapted to provide safer gun-control measures through a trusted blockchain ledger that digitally certifies, identifies and tracks the gun during its life cycle. Semiconductors tags, when placed on a gun and tapped by an NFC phone or NFC terminal, securely authenticate and track the gun much like an embedded ePassport, confirm the identity of the product on the blockchain ledger, track the manufacturer, history of purchases and transfers of and guns within its ecosystem.

Agreements

MasterCard

WISeKey announces integration of MasterCard's Wearable End-to-End Payment System's solution. Two years ago, WISeKey and MasterCard partnered to enable contactless payments on select luxury brand watches and wearables. Using its WISeWatch as a technology demonstrator, WISeKey developed a platform to embed its Europay-MasterCard-Visa (EMV) certified MICROPASS® banking chip in small consumer objects and allow simple remote provisioning of the chip over a smartphone to make it a valid payment device. As the result of this cooperation, WISeKey now offers a consistent end-to-end payment system from the Root-of-Trust to the security chip that turns any consumer gadget, accessory or wearable – from fitness bands to refrigerators – into a payment device. According to MasterCard's recent figures, 24 percent of Europeans expect to start using "tap and go" contactless payments with a smartwatch, bracelet, keyring or other forms of wearable payment.

Oledcomm

WISeKey was selected by Oledcomm to secure the LI-FI (Light-Fidelity) IoT infrastructures and ecosystems. Li-Fi is a new technology that allows mobile devices (and other connected objects) to connect to each other by using LED lights. Li-Fi transmits data by modulating the light signals from an LED light bulb, a process which is invisible to the human eye. Light signals are received and converted into data by a dongle connected to the device.

Toppan Printing

WISeKey and Toppan, the global printing company involved in the security business for more than a century signed an agreement to provide the industry with versatile smart tags that allow any object to securely authenticate and communicate online. Toppan provides a complete suite of security printing technologies through the company's century-long leadership in printing passports, identity cards, banknotes and other secure documents. More recently Toppan has extended the use of these technologies for anti-counterfeiting protection of branded goods. Similar to the way NFC secure elements are embedded in e-passport covers, Toppan also designs specific tags for a robust integration in any packaging such as wine or spirit bottles, cosmetics and perfume boxes and luxury goods. This is a natural complement to WISeKey's expertise.

VIMANA Global

WISeKey partnered with VIMANA Global, headquartered in Redwood City, CA, to secure the VIMANA Blockchain Airspace Platform, the first blockchain airspace platform for managing Autonomous Aerial Vehicle (AAV) flight, using WISeKey's Cybersecurity IoT technology. Through the partnership, the VIMANA Blockchain Airspace Platform will be secured by the WISeKey RooT of Trust (RoT) technology for IoT, a unique offering that combines all the hardware, software, and Trust Model required to take the IoT security to a new level. The WISeKey IoT Blockchain is a vertical security framework, a one-stop-shop security software tool with a user-friendly interface and easy-to-integrate API that manages the life-cycle of devices and their digital certificates. Easy to implement, hard to attack, the WISeKey IoT Blockchain framework offers secure solutions even when the IoT device is in an unsecured environment, such as during production or in the field.

Saudi Advanced Technologies Ltd (member of E.A. Juffali & Brothers)

WISeKey entered into a Memorandum of Understanding (MoU) with Saudi Advanced Technologies Ltd (SAT), a member of E.A Juffali & Brothers, one of Saudi Arabia's largest companies, for the marketing and distribution of WISeKey's products and services in the Kingdom of Saudi Arabia. As per the MoU, WISeKey and SAT will join forces to implement a strategy for the development of cybersecurity and IoT market in Saudi Arabia – with the objective of expanding WISeKey's presence in the Middle East. Through its strategic partnership with SAT, WISeKey will be deploying its cybersecurity services and Internet of Things (IoT) infrastructure in the Kingdom of Saudi Arabia and in other high growth economies in the Middle East. The technology market in the Kingdom of Saudi Arabia and in the region of Middle East, provides substantial opportunities for WISeKey to expand its presence and offerings to local organizations.

Stimio

WISeKey partnered with Stimio to provide end-to-end secure IoT solutions by combining STIM-MOD, Stimio's IoT hardware platform, with WISeKeyIoT, WISeKey's IoT Security framework. In its latest version of its STIM-MOD platform, STIMIO will be adopting WISeKey's technology and Secure Element for advanced security of IoT data collection, thus bringing to the market a comprehensive platform for a secured IoT system deployment. WISeKeyIoT is a vertical IoT security framework, a one-stop-shop security software tool with a user-friendly interface and easy-to-integrate API that manages the life-cycle of devices and their digital certificates. Easy to implement, hard to attack, the WISeKeyIoT framework offers secure solutions even when the IoT device is in an unsecured environment, such as during production or in the field.

TraNexus

WISeKey partnered with TraNexus, headquartered in Dublin, Ireland, to secure the TraNexus Blockchain Engine, using WISeKey's Cybersecurity IoT technology. This will be a new Blockchain Travel platform for apps that manage documents, currencies, bookings and experiences to make travel easier, better value, greener and more fun. TraNexus will streamline the travel process for business travelers and tourists alike while creating an entirely new travel experience for green-minded adventure-seekers around the world, with a heavy emphasis on augmented reality and big data applications. Through the partnership, the TraNexus Blockchain Platform will be secured by the WISeKey RooT of Trust (RoT) technology for IoT, a unique offering that combines all the hardware, software, and Trust Model required to take the blockchain security to a new level.

China Bridge Capital

WISeKey and China Bridge Capital signed an agreement to establish WISeKey China Joint Venture. As per the terms of the agreement, WISeKey will establish an IoT Root of Trust and a Public Key Infrastructure (PKI) for the operation in China including a globally trusted Certification Authority within a security strategy framework in the country. The Public Key Infrastructure is the center of all of the initiatives that provides the necessary security, encrypted and digital signatures, for electronic transactions. WISeKey has already enter the sophisticated Chinese semiconductor and IoT market through the signing of several commercial agreements with Chinese companies. Recently, WISeKey announced that its IoT Blockchain technology is to be deployed in selected smart cities in China while its chips are already deployed for the Nanjing Smart City project. Chinese companies, such as Feitian Technologies, are working with WISekey to develop innovative hardware and software solutions to enable users, applications and devices to securely authenticate the networks, verify the authenticity and integrity of firmware upgrades, and limit access to sensitive information to authentic users only.

Proton Technologies AG

Proton Technologies AG selected WISeKey as its security partner for its innovative secure email offering. Based in Switzerland, ProtonMail is a secure email service using end-to-end encryption to protect emails and user data before they are sent to ProtonMail servers. The collaboration with WISeKey started early 2016 when ProtonMail adopted TLS/SSL certificates from WISeKey QuoVadis to secure ProtonMail's websites.

Favre-Leuba

Favre-Leuba AG, the second oldest Swiss watch brand that is renowned for its tool watches such as the Bivouac and Bathy, selected WISeKey to implement the WISeAuthentic Blockchain edition to authenticate and protect Favre-Leuba's watches and their owners. Purchasing an exclusive Swiss watch is always a matter of great joy and pride, but this purchase comes with the concern that the timepiece maybe stolen or that the watch itself may not be an original. While most high-end watch brands find it extremely difficult to stop such acts, Favre-Leuba has taken steps to protect its watches. Reliable methods include the use of cutting-edge software or blockchain technology, which together with on-the-ground measures can ensure the authenticity of the watch. Moreover, if the watch is stolen, it can be traced thus making it difficult to be traded on the secondary market. This control is possible to practice because the identity of each watch is stored on an immutable ledger in the implemented system.

Tarmin

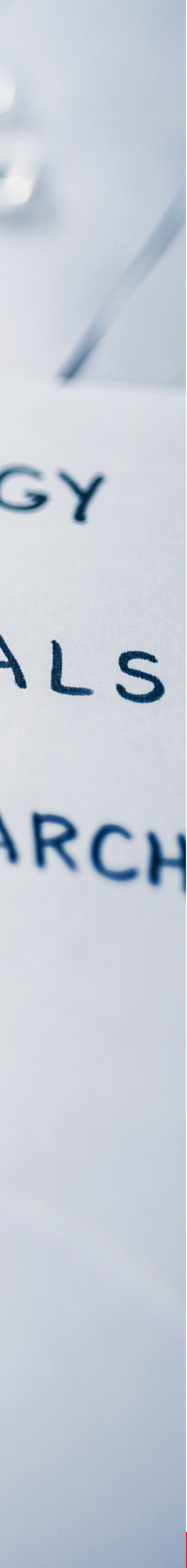
WISeKey partnered with Tarmin, the global pioneer of Data Defined Infrastructure, next generation data management and storage solutions to jointly develop the WISeBox solution. WISeBox is a Managed Cloud service that integrates with WISeKey Root of Trust (ROT), PKI and the Tarmin GridBank Data Management Platform. WISeKey will utilize GridBank's search and e-discovery capabilities, audit and retention policies and encryption features combined with WISeID Signing Agent to provide audited data rooms and legal solutions. Additionally, WISeBox will be adding secure cloud services from Switzerland in cooperation with Tarmin, using Swiss data centers and Swiss Alps Mountain bunkers to store the personal data generated by users and enterprises.

WISeKey, is the first e-security company in the world to offer decentralized Trust Models and PKI architecture. In addition, WISeKey allows data ecosystems to be federated via a unique digital identity, enabling users to interact while maintaining control of their personal data.

Of note, earlier in the year, WISeKey announced an agreement to acquire a 22% interest in Tarmin. This strategic investment allows WISeKey to reinforce its Cybersecurity IoT Platform with the Tarmin GridBank Data Management Platform addressing the key challenges associated with storing, managing and gaining value from massive amounts of data for the long term. Data volumes are growing exponentially, increasing costs and driving greater regulatory risks, while creating opportunities to gain actionable insights from business critical information.

Recognitions

- WISeKey's Digital Identity with Blockchain technology was selected by BBC as one of the Five African tech trends to look out for in 2018 (http://www.bbc.com/news/world-africa-41899173)
- WISekey joined the Cybersecurity Tech Accord together with ten other companies that have joined the watershed agreement in the last two months to defend all customers everywhere from malicious attacks by cybercriminal enterprises and nation-states. The new signatories include Atlassian, Carbon Black, Cyber adAPT, ESET, Gigamon, GitLab, KoolSpan, KPN, MediaPRO, Salesforce, and WISeKey. These companies oversee important aspects of the world's communications infrastructure including cloud-based customer relationship management, collaboration tools, telecommunications, endpoint security, datacenter security, and encryption.
- WISeKey received from the French National Cybersecurity Agency (ANSSI), one of the first security Visas for the Common Criteria security certification of its MS6001 Rev. E secure microcontroller (certification report ANSSI-CC-2018/02). For more information, please refer to the dedicated section on ANSSI website (www.ssi.gouv.fr/uploads/2018/02/anssi-cc-2018_02fr.pdf). The security Visas issued by ANSSI allow to easily identify reliable cyber security solutions that are recognized as such following an evaluation performed in accordance with rigorous and approved methods by licensed evaluation laboratories.
- WISeKey was granded WebTrust Accreditation for the 11th Consecutive Year making it one of the Most Widely Deployed Internet Root of Trust. The WebTrust accreditation of the WISeKey/OISTE Root Certification Authorities is key when connecting to secure websites and authenticating, digitally signing or encrypting electronic transactions, email or documents. Certificates issued under a WebTrust root are trusted by web browsers, operating systems and applications, allowing a seamless and much more secure user experience. By meeting not only the Baseline Requirements but the Extended Validation audit criteria, WISeKey continues to demonstrate its adherence to the most rigorous security controls and best practices in the digital certificate industry.
- WISeKey received a new U.S. patent. No. 7,898,422 for an anti-counterfeiting NFC device integrated in a bottle (Smart Bottle Patent). The device is designed and strategically placed inside the bottle so that the insertion of a corkscrew or a capsule, damages the antenna or the control microcircuit. When the device is intact, it can be interrogated remotely by an NFC reader to retrieve information on the product, and also to confirm the authenticity of the information. When the cork has been removed, the NFC device is damaged, so that the cork or capsule cannot be reused to authenticate the content of a new bottle.
- WISeKey joined The Blockchain Research Institute's (BRI) special category of members dedicated to pushing BlockChain technology forward. BRI, an independent global think-tank, brings together the world's leading authorities to undertake ground-breaking research on BlockChain technology. Currently, WISeKey is the largest provider of Digital Identification in the world with over 20 years of expertise in PKI, IoT and Identity Management. Its Root of Trust (RoT) is the most ubiquitous version on the Internet with over 4 billion downloads and installs.



GOVERNANCE REPORT

WISeKey International Holding Ltd (the "Company", and together with its subsidiaries "WISeKey" or the "Group" or the "WISeKey Group") has prepared this Corporate Governance Report (the "Report") in accordance with the SIX Swiss Exchange ("SIX") Directive of December 13, 2016 on Information Relating to Corporate Governance (the "Directive").

WISeKey believes that sound corporate governance practices are essential for transparency towards its shareholders, investors and the users of its financial statements. As a listed company, WISeKey seeks to follow sound corporate governance practices as a continuing commitment to corporate accountability, efficient and responsible decision-making, and transparency to shareholders.

1 Group Structure and Significant Shareholders

1.1 Group Structure

1.1.1 Operational Group Structure

The Company is domiciled at General-Guisan-Strasse 6, 6300 Zug, Switzerland, and is the holding company of the WISeKey Group. The Group conducts its business through subsidiaries in Europe, North and South America, and Asia. Although not all are wholly-owned, all subsidiaries of the Company as of December 31, 2018 were assessed as being under control of the Group and have therefore been fully consolidated.

As of December 31, 2018, the main operating subsidiaries in the Group were WISeKey Semiconductors SAS, domiciled in France, QuoVa-dis Trustlink Schweiz AG, domiciled in Switzerland, QuoVadis Trustlink BV, domiciled in the Netherlands, QuoVadis Services Ltd, domi-ciled in Bermuda, and WISeKey SA, domiciled in Switzerland.

The Group's segment reporting separates out the semiconductors activities with the manufacture and distribution of chip-based products, and the Public Key Infrastructure ("PKI") activities with operations relating to digital information security, authentication and identity man-agement.

1.1.2 Listed Companies

The Company, with its registered office at General-Guisan-Strasse 6, 6300 Zug, Switzerland, has a dual share structure: shares with a nominal value of CHF 0.01 each (the "Class A Shares"), which are not listed, and shares with a nominal value of CHF 0.05 each (the "Class B Shares" and any Class A Share or Class B Share of the Company a "Share" and collectively the "Shares"), which are listed on the SIX. The initial listing of the Class B Shares occurred on March 31, 2016 (Ticker symbol: WIHN; Security No.: 31402927; ISIN: CH0314029270). As of December 31, 2018, WISeKey had, based on the Class B Shares, a market capitalization of CHF 80,130,959.08.

None of the other companies have securities listed on a stock exchange as of December 31, 2018.

1.1.3 Non-listed Companies Belonging to the WISeKey Group

As of December 31, 2018, the Group structure was as follows:

Group Company Name	Registered Office	Share Capital		% ownership as of December 31, 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 Italia s.r.l.**	Via Montenapoleone 8, CAP 20121, Milano, Italy	EUR	10,000	50.0%	50.0%	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) Holding 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
WISeKey Equities AG	c/o WISeKey International Holding AG, General-Guisan-Strasse 6, 6300 Zug, Switzerland	CHF	100,000	100.0%	not incorporated	Financing, Sales & distribution

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

** dormant or in the process of being liquidated

*** 88% owned by WISeKey SAARC which is controlled by WISeKey International Holding AG

1.1.4 Significant Changes to the Group Structure after December 31, 2018

On January 16, 2019 the Company completed the sale of WISeKey (Bermuda) Holding Ltd (including all of its subsidiaries) to DigiCert, Inc. pursuant to a share purchase agreement entered into by and between the Company and DigiCert, Inc. on December 21, 2018. As of Janu-ary 16, 2019, the following subsidiaries, listed under section 1.1.3 of this Report, are no longer a part of the WISeKey Group: WISeKey (Bermuda) Holding Ltd., QuoVadis Trustlink Schweiz AG, WISeKey (UK) Ltd, QuoVadis Trustlink BVBA, QuoVadis Trustlink BV, QV BE BV, QuoVadis Trustlink GmbH and QuoVadis Ltd.

The transfer of the shares in QuoVadis Services Ltd to DigiCert, Inc. was dependent on the approval from the Bermuda Regulatory Authority. This approval from the Bermuda Regulatory Authority for the transfer of ownership was obtained on February 28, 2019 when the shares in QuoVadis Services Ltd were effectively transferred to DigiCert, Inc.

Also refer to 2.7.3 of this Report regarding the repayment of the Credit Facility (as defined below) and the expiration of ExWorks' (as the lender under the Credit Facility) right to convert the tem loans outstanding under the Credit Facility into Class B Shares.

1.2 Significant Shareholders

The Swiss Financial Market Infrastructure Act ("FMIA") and the rules and regulations promulgated thereunder, to which the Company and beneficial owners of its Shares are subject, requires persons who directly, indirectly or in concert with other parties acquire or dispose of Shares or purchase or sale rights or obligations relating to such Shares, and, thereby, directly, indirectly or in concert with other parties reach, exceed or fall below a threshold of 3%, 5%, 10%, 15%, 20%, 25%, 33⅓%, 50% or 66⅔% of the Company's voting rights (whether exercisable or not) to notify the Company and the Disclosure Office of the SIX of such acquisition or disposal in writing.

Each Class A Share and each Class B Share carry one vote at a general meeting of shareholders of the Company (the "General Meeting") and, as such, the number of shares held by each person or entity set forth below is equal to the number of voting rights held by such person or entity.

The table below sets out, to the knowledge of the Company, beneficial owners holding 3% or more of the voting rights of the Company as disclosed on the SIX disclosure platform on December 31, 2018. The percentages indicated above have been established based on the share capital of the Company registered with the commercial register of the Canton of Zug on the date on which the respective disclosure obligation pursuant to the FMIA was triggered. For a full review of the disclosure reports that were made to the Company and the SIX Disclo-sure Office during fiscal year 2018, and then published on the SIX electronic publication platform in accordance with the FMIA and the rules and regulations promulgated thereunder, please refer to the search facility of the SIX Disclosure Office at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

	Number of Shares					
Name	Class A Shares	Class B Shares	Purchase Position Class B Shares	Sale Position Class B Shares	Total number of voting rights	Percentage of voting rights
ExWorks*	-	299,079	8,403,461	-	8,702,540	12.58%
GEM Global Yield Fund LLC SCS	-	-	12,281,638	-	12,281,638	22.47%
YA II PN, Ltd. / D-Beta One EQ, Ltd.	-	386,239	15,140,280	-	15,526,519	25.08%
Lock-up group consisting Carlos Moreira and five additional members	40,021,988	-	-	-	40,021,988	65.52%
WISeKey International Holding, Ltd.*	-	-	1,777,100	34,627,620	36,404,720	51.88%

** Refer to 2.7.3 of this Report regarding significant changes after December 31, 2018. ExWorks' purchase position has decreased below 3% of the Company's voting rights as a result of the repayment of the Credit Facility (as defined below) on January 16, 2019. Concurrently, the Company's sale positions with respect to ExWorks (as defined below) has decreased below 50%. As a result of the monthly update of the Company's sale positions as of February 1, 2019 in accordance with the Disclosure Office Notice II/13 of December 3, 2013 (as amended on September 20, 2018), the Company's overall sale position crossed again the threshold of 50% and amounted to 50.48%. In addition, the Company owned 1,777,100 Class B Shares on December 31, 2018 (refer to 2.1 below), corresponding to 2.58% of the Compa-ny's voting rights.*

1.3 Cross-shareholdings

The Company is not aware of any cross-shareholdings.

2 Capital Structure

2.1 Capital

As of December 31, 2018, the Company's statutory share capital amounted to CHF 1,838,709.73, divided into 40,021,988 Class A Shares and 28,769,797 Class B Shares. In addition, as of December 31, 2018 the Company had outstanding 54,289 Class B Shares, corresponding to a nominal value of CHF 2,714.45, issued out of the Company's conditional share capital that had not yet been registered with the com-mercial register. As of December 31, 2018, the total outstanding capital therefore amounted to CHF 1,841,424.18, divided into 40,219,988 Class A Shares and 28,824,086 Class B Shares.

All Shares are registered shares (Namenaktien) and all Class A Shares and 28,719,046 Class B Shares are issued in form of intermediated securities (Bucheffekten) and 105,040 Class B Shares are issued in certificated form. The Shares are fully paid and rank economically pari passu with each other.

As of December 31, 2018, the Company held no Class A Shares and 1,777,100 Class B Shares in treasury.

As regards the Company's authorized and conditional share capital, please refer to item 2.2 below.

2.2 Authorized and Conditional Share Capital

2.2.1 Authorized Share Capital

The Board of Directors of the Company (the "Board") is authorized to issue new Class B Shares at any time during a period expiring May 25, 2020 and thereby increase the Company's share capital, without the approval of the shareholders, in a maximum amount of CHF 444,091.45 through the issuance of up to 8,881,829 new fully paid-in Class B Shares, corresponding to 24.15% of the share capital and 12.91% of the voting rights of the Company registered with commercial register of the Canton of Zug as of December 31, 2018. An increase in partial amounts is permitted.

After the expiration of the initial period, and each subsequent two-year period, authorized share capital will be available to the Board for issuance of additional Class B Shares only if the authorization is reapproved by the Company's shareholders.

According to the Company's authorized share capital, the Board determines the time of the issuance, the issue price, the manner in which the new Class B Shares have to be paid in, the date from which the new Class B Shares carry the right to dividends and, subject to the provisions of the articles of association of the Company (the "Articles"), the conditions for the exercise of the pre-emptive rights with respect to the issuance and the allotment of pre-emptive rights that are not exercised.

The Board may issue new Class B Shares by means of a firm underwriting through a banking institution or a third party and a subsequent offer of these shares to the current shareholders.

The Board is entitled to permit, to restrict or to exclude the trade with pre-emptive rights. The Board may allow pre-emptive rights that are not exercised to expire, or it may place such rights or Class B Shares, the pre-emptive rights in respect of which have not been exercised, at market conditions or use them otherwise in the interest of the Company.

The Board is further authorized to limit or withdraw the pre-emptive rights of shareholders and allocate such rights to third parties if the shares are to be used:

a) for issuing new shares if the issue price of the new shares is determined by reference to the market price; or

b) for the acquisition of an enterprise, parts of an enterprise or participations or for new investment projects or for purposes of financ-ing or refinancing any such transactions; or

c) for the purpose of broadening the shareholder constituency in certain financial or investor markets or in connection with the listing of new shares on domestic or foreign stock exchanges; or

d) for purposes of national and international offerings of shares for the purpose of increasing the free float or to meet applicable list-ing requirements; or

e) for purposes of the participation of strategic partners; or

f) for an over-allotment option ("greenshoe") being granted to one or more financial institutions in connection with an offering of shares; or

g) for the participation of directors, officers, employees, contractors, consultants of, or other persons providing services to the Com-pany, or a subsidiary, or

h) for raising capital in a fast and flexible manner which could only be achieved with great difficulty without exclusion of the pre-emptive rights of the existing shareholders.

Further to the above-mentioned instances, there is no restriction as to the types of beneficiaries who have the right to subscribe for this additional capital.

The subscription and acquisition of the new Class B Shares as well as any subsequent transfer of the Class B Shares is subject to the restrictions pursuant to Article 6 of the Articles (see item 2.6 below).

2.2.2 Conditional Share Capital

As per December 31, 2018[1], the Articles provided for a conditional share capital that authorized the issuance of new Class B Shares of up to a maximum amount of CHF 594,718.95 or up to 11,894,379 new Class B Shares, corresponding to 32.34% of the share capital and 17.29% of the voting rights of the Company registered with commercial register of the Canton of Zug as of December 31, 2018, without obtaining additional shareholder approval. Pursuant to the Articles, the additional shares may be issued:

- up to an amount of CHF 352,692.00 by the issuance of up to 7,053,840 fully paid-in Class B Shares with a nominal value of CHF 0.05 through the exercise of conversion, option, exchange, warrant or similar rights for the subscription of shares granted to third parties or shareholders in connection with bonds (including convertible bonds and bonds with options), options, warrants, notes, other securities newly or already issued in national or international capital markets or new or already existing contractual obligations by, or of a member of, the Company (the "Rights-Bearing Obligations"); and
- up to an amount of CHF 242,026.95 by the issuance of up to 4,840,539 fully paid-in Class B Shares with a nominal value of CHF 0.05 in connection with the issuance of Class B Shares, Rights-Bearing Obligations, options or other share-based awards granted to members of the Board of Directors, members of executive management, employees, contractors, consultants or other persons providing services to the Company or a member of the Company.

The pre-emptive rights of the shareholders are excluded in connection with the issuance of any Rights-Bearing Obligations by any member of the Company. The then-current owners of such Rights-Bearing Obligations shall be entitled to subscribe for the new Class B Shares issued upon conversion, exchange, or exercise of the Rights-Bearing Obligations. The conditions of the Rights-Bearing Obligations shall be determined by the Board.

1 The Company issued Class B Shares out of the conditional share capital during fiscal year 2018, as further set out under Section 2.3. Only Class B Shares issued out of the conditional share capital between January 1, 2018 and May 01, 2018 are reflected in the Articles in force as of December 31, 2018.

The Board is authorized to restrict or deny the advance subscription rights of shareholders in connection with the issuance by the Company of Rights-Bearing Obligations if:

a) such issuance is for the purpose of financing or refinancing the acquisition of an enterprise, parts of an enterprise, or participa-tions or for new investment projects; or

b) such instruments are issued to strategic investors; or

c) such instruments are issued on national or international capital markets or through a private placement.

If advance subscription rights are neither granted directly or indirectly by the Board, (i) the Rights-Bearing Obligations must be issued or entered into at market conditions, (ii) the conversion, exchange or exercise price of the Rights-Bearing Obligations must be set with refer-ence to the market conditions prevailing at the date on which the Rights-Bearing Obligations are issued and (iii) the Rights-Bearing Obliga-tions may be converted, exchanged or exercised during a maximum period of 30 years from the date of the relevant issuance or entry.

In connection with the issuance of any new Class B Shares or Rights-Bearing Obligations pursuant to the second limb of the conditional share capital described above (i.e. the conditional share capital to satisfy our obligations towards employee compensation plans), the pre-emptive rights and advance subscription rights of the shareholders are generally excluded. Class B Shares or Rights-Bearing Obligations must be issued to members of the Board, members of executive management, employees or other persons providing services to the Com-pany in accordance with one or more benefit or incentive plans. Class B Shares may be issued to any of such persons at a price lower than the current market price, but at least at par value.

2.3 Changes in Capital

Since the incorporation of the Company on December 02, 2015, the share capital of the Company has been increased as follows:

— On March 02, 2016, prior to the listing of the Class B Shares on the SIX (the "Initial Listing"), the Company acquired the entire equity interest of WiseTrust SA against the issuance of 30,021,988 new Class A Shares, thus increasing the share capital of the Company from CHF 100,000 to CHF 400,219.88. The equity interest of WiseTrust SA was contributed at the book value of Wi-seTrust SA at December 31, 2015, i.e. net assets of CHF 4,102,244. CHF 300,219.88 were contributed to the share capital of WISeKey, and CHF 3,802,024.12 to the capital contribution reserves of the Company.

— On March 21, 2016, in order to settle the offer submitted by the Company on February 17, 2016 to all holders of WISeKey SA shares for the exchange of five WISeKey SA shares for one Class B Share in the Company (the "Exchange Offer"), the Company issued 13,234,027 new Class B Shares against the contribution in kind of all WISeKey SA shares tendered into the Exchange Of-fer. As of March 21, 2016, 90.3% of WISeKey SA shares were tendered into the Exchange Offer. The total contribution value of the tendered WISeKey SA shares was determined by reference to the net asset value of WISeKey SA. The total net asset value rela-tive to the WISeKey SA shares tendered was CHF 1,051,392.50, of which CHF 661,701.35 were contributed to the Company's share capital, and CHF 389,691.15 were contributed to the capital contribution reserves of the Company.

— In a financing round that took place immediately prior to the date of the Initial Listing on March 30, 2016, the Company issued a total of 1,434,365 Class B Shares against a contribution in cash. 100,000 of these Class B Shares were issued in an ordinary share capital increase, carried out concurrently with the settlement of the Exchange Offer, at an issue price of CHF 10, thereby increasing the share capital by CHF 5,000 and the capital contribution reserves by CHF 995,000. The remaining 1,334,365 of these Class B Shares were issued out of authorized share capital on March 29, 2016 at an issue price of CHF 5, increasing the share capital by CHF 66,718.25 and the capital contribution reserves by CHF 6,605,106.75.

— On March 08, 2017, the Company issued 284,198 new Class B Shares out of authorized capital to GEM Investments America LLC as settlement of the CHF 1,200,000.00 fee due for the use of a Share Subscription Facility Agreement contracted on January 19, 2016 with GEM Investments America LLC and GEM Global Yield Fund LLC SCS. CHF 14,209.90 were contributed to the share capital of WISeKey, and CHF 1,185,790.10 to the capital contribution reserves of the Company.

— On April 03, 2017 the Company amended its Articles by recording the Class B Shares issued out of the conditional share capital of the Company during the financial year 2016. A total number of 3,595,510 Class B Shares were issued out of the Company's condi-tional share capital during the financial year 2016 at an aggregate issue price of CHF 10,054,716, thereby increasing the share cap-ital by CHF 179,775.50 and the capital contribution reserves by CHF 9,863,690.50.

— On April 03, 2017, the Company issued 1,110,000 new Class B Shares out of authorized capital as partial consideration for the acquisition of WISeKey (Bermuda) Holding Ltd (formerly QV Holdings Ltd), resulting in an increase in share capital by CHF 55,500.00, and a contribution to the capital contribution reserves of the Company of respectively CHF 4,262,400.00.

— On May 31, 2017, the annual General Meeting of shareholders of the Company resolved to increase the Company's authorized share capital to CHF 691,562.40, corresponding to the issuance of up to 13,831,248 Class B Shares, and the Company's condition-al share capital to CHF 691,562.40, of which CHF 441,562.40, corresponding to the issuance of up to 8,831,248 Class B Shares, is reserved for Rights-Bearing Obligations and CHF 250,000, corresponding to the issuance of up to 5,000,000 Class B Shares, for the issuance of Class B Shares or Rights-Bearing Obligations granted to employees and/or advisors of the Company.

— On June 29, 2017, the Company issued 100,000 new Class B Shares out of authorized capital to GEM Global Yield Fund LLC SCS against the contribution in cash of CHF 279,900.00 in line with the drawdown process within the Share Subscription Facility Agreement contracted on January 19, 2016 with GEM Investments America LLC and GEM Global Yield Fund LLC SCS. CHF 5,000.00 were contributed to the share capital, and CHF 274,900.00 to the capital contribution reserves of the Company.

— On August 16, 2017, the Company issued 325,000 new Class B Shares out of authorized capital to GEM Global Yield Fund LLC SCS against the contribution in cash of CHF 1,396,575.00 in line with the drawdown process within the Share Subscription Facility Agreement contracted on January 19, 2016 with GEM Investments America LLC and GEM Global Yield Fund LLC SCS. CHF 16,250.00 were contributed to the share capital, and CHF 1,380,325.00 to the capital contribution reserves of the Company.

— On September 28, 2017, the Company issued 841,069 new Class B Shares out of authorized capital to WISeKey SA Minority Shareholder. On September 27, 2017, the Company entered into several separate contribution-in-kind agreements (the "Contribu-tion-in-Kind Agreements") with WISeKey SA Minority Shareholders. Pursuant to the terms of the Contribution-in-Kind Agreements, the WISeKey SA Minority Shareholders have contributed to WISeKey an aggregate of 4,205,350 Subsidiary Shares, corresponding to 4.51% of the Subsidiary Shares, against the issuance by WISeKey of the Share Exchange Shares. The exchange of the Subsid-iary Shares acquired by WISeKey through the Contribution-in-Kind Agreements for the Share Exchange Shares has occurred at an exchange ratio of five Subsidiary Shares for one Share Exchange Share (the "Exchange Ratio"). The total contribution value of the tendered WISeKey SA shares was determined by reference to the market price on September 28, 2017 on the SIX of the 841,069 WIHN Class B shares issued as consideration. The total net asset value relative to the WISeKey SA shares tendered was CHF 3,566,132.56, of which CHF 42,053.45 were contributed to the Company's share capital, and CHF 3,524,079.11 were contributed to the capital contribution reserves of the Company.

— On September 28, 2017, in order to settle the interests accrued for the month of July 2017 on the Acquisition Line of Credit Agree-ment ("Credit Facility") that WISeKey entered into on January 16, 2017 with the loan provider ExWorks Capital Fund I, LLC ("Ex-Works"), as amended several times, the Company issued 53,844 new Class B Shares out of authorized capital. The interests ac-crued for the month of July 2017 amounted to CHF 247,799.22 resulting in an increase in share capital by CHF 2,692.20, and a con-tribution to the capital contribution reserves of the Company of CHF 245,107.02.

— On September 28, 2017, as full settlement of a short-term loan granted by ExWorks to WISeKey on July 21, 2017, the Company issued 83,333 new Class B Shares out of authorized capital. The short-term loan amounted to CHF 242,729.50 resulting in an in-crease in share capital by CHF 4,166.65, and a contribution to the capital contribution reserves of the Company of CHF 238,562.85.

— On December 29, 2017, as part of a private investment in public equity transaction, the Company issued 198,298 new Class B Shares out of authorized capital to a private investor against the contribution in cash of CHF 1,000,000.00 resulting in an increase in share capital by CHF 9,914.90, and a contribution to the capital contribution reserves of the Company of CHF 990,085.10.

— On December 29, 2017, 26,276 Class B Shares were issued to Inside Secure SA in connection with an agreement dated December 28, 2017, pursuant to which the Company and Inside Secure SA have agreed that a claim, due by the Company to Inside Secure SA in connection with a convertible loan note agreement dated as of September 20, 2016, as amended, be paid in the form of Class B Shares. The claim amounted to CHF 111,100.00 resulting in an increase in share capital by CHF 1,313.80, and a contribution to the capital contribution reserves of the Company of CHF 109,786.20.

— On December 29, 2017, the Company issued 400,000 new Class B Shares out of authorized capital to GEM Global Yield Fund LLC SCS against the contribution in cash of CHF 2,228,880.00 in line with the drawdown process within the Share Subscription Facility Agreement contracted on January 19, 2016 with GEM Investments America LLC and GEM Global Yield Fund LLC SCS. CHF 20,000.00 were contributed to the share capital, and CHF 2,208,880.00 to the capital contribution reserves of the Company.

- On December 29, 2017, the Company amended its Articles and registered a total number of 2,904,998 Class B Shares issued out of its conditional share capital during the period commencing on January 1, 2017 and ending on December 7, 2017. A total number of 2,904,998 Class B Shares were issued out of the Company's conditional share capital during that period at an aggregate issue price of CHF 11,035,350.60, thereby increasing the share capital by CHF 145,249.90 and the capital contribution reserves by CHF 10,890,100.70.

- After December 6, 2017, an additional number of 120,242 Class B Shares that have not yet been recorded in the Articles was is-sued out of the Company's conditional share capital, thereby increasing the share capital by CHF 6,012.10 and the capital contribu-tion reserves by CHF 558,131.61.

- On February 08, 2018, as part of a private investment in public equity transaction, the Company issued 162,718 new Class B Shares out of authorized capital to a private investor against the contribution in cash of CHF 1,000,000.00 resulting in an increase in share capital by CHF 8,135.90, and a contribution to the capital contribution reserves of the Company of CHF 991,864.10.

- On February 26, 2018, the Company issued 199,367 new Class B Shares out of authorized capital to ExWorks as partial settlement of the fees owed by the Company to ExWorks in connection with the sixth amendment to the Credit Facility. The fees amounted to CHF 887,238.97 (USD 945,000), resulting in an increase in share capital by CHF 9,968.35, and a contribution to the capital contri-bution reserves of the Company of CHF 877,270.62.

- On May 25, 2018, the annual General Meeting of shareholders of the Company resolved to increase the Company's authorized share capital to CHF 614,825.05, corresponding to the issuance of up to 12,296,501 Class B Shares, and the Company's condition-al share capital to CHF 614,825.05, of which CHF 364,825.05, corresponding to the issuance of up to 7,296,501 Class B Shares, is reserved for Rights-Bearing Obligations and CHF 250,000, corresponding to the issuance of up to 5,000,000 Class B Shares, for the issuance of Class B Shares or Rights-Bearing Obligations granted to employees and/or advisors of the Company.

- On June 20, 2018, the Company issued 860,000 new Class B Shares out of authorized capital as consideration for the acquisition of the remaining 15% noncontrolling interest in WISeKey (Bermuda) Holding Ltd (formerly QV Holdings Ltd), resulting in an increase in share capital by CHF 43,000.00, and a contribution to the capital contribution reserves of the Company of CHF 4,621,994.42.

- On June 20, 2018, the Company also amended its Articles and registered a total number of 402,122 Class B Shares issued out of its conditional capital during the period commencing on December 12, 2017 and ending on April 30, 2018. A total number of 402,122 Class B Shares were issued out of the Company's conditional share capital during that period at an aggregate issue price of CHF 1,325,588.34, thereby increasing the share capital by CHF 20,106.10 and the capital contribution reserves by CHF 1,305,482.24.

— On July 10, 2018, the Company issued 554,672 new Class B Shares out of authorized capital at an aggregate issue price of CHF 2,407,813.14, corresponding to an increase of the share capital by CHF 27,733.60 and the capital contribution reserves by CHF 2,380,079.54, whereby (i) 258,397 Class B Shares were issued to YA II PN, Ltd in connection with a drawdown by the Compa-ny under the Standby Equity Distribution Agreement, entered into by and between YA II PN, Ltd and the Company on February 8, 2018, as amended on September 28, 2018 (the "SEDA"), (ii) 203,005 Class B Shares were issued to a private investor against the contribution in cash of CHF 1,000,003.00, as part of a private investment in public equity transaction, and (iii) 93,270 Class B Shares were issued to Inside Secure SA in connection with the assumption of debt agreement entered into by and between France Brevets, WISeKey Semiconductors SAS, Inside Secure SA and the Company on July 06, 2018.

— On November 30, 2018, the Company issued 2,000,000 new Class B Shares at nominal value out of authorized capital to WISeKey Equities AG against a contribution in cash of CHF 100,000, resulting in an increase in share capital by CHF 100,000.00. No capital contribution reserves were created. The issuance of these 2,000,000 Class B Shares occurred for the sole purpose of creating an advance of Class B Shares for delivery to YA II PN Ltd pursuant to the SEDA and to Crede CG III, Ltd. pursuant to a Convertible Loan Agreement entered into by and between Crede CG III, Ltd. and the Company.

— Between June 21, 2018 and December 31, 2018, 54,289 Class B Shares that have not yet been recorded in the Articles were issued out of the Company's conditional share capital in connection with the exercise of options and similar rights granted to employees, Board members and consultants of the WISeKey Group, thereby increasing the share capital by CHF 2,714.45. No capital contribu-tion reserves were created because these Class B Shares were issued at nominal value.

2.4 Shares and Participation Certificates

For information regarding the total number, nominal value, and types of Shares of the Company, please see item no. 2.1. All of the Shares are fully paid in. Each Class A Share and each Class B Share carry one vote. Relative to the investment required to acquire a Class A Share, holders of Class A Shares benefit from a voting privilege, as one Class A Share grants its holder the same voting right as the higher par value Class B Shares. Pursuant to the Swiss Code of Obligations (the "CO"), the voting privilege of Class A Shares does not apply to the following matters to be resolved upon at the General Meeting:

— the election of the Company's auditor;

— the appointment of an expert to audit the Company's business management or parts thereof;

— any resolution regarding the instigation of a special investigation; and

— any resolution regarding the initiation of a liability action.

Both categories of Shares confer equal entitlement to dividends relative to the nominal value of the Class A Shares and the Class B Shares, respectively.

2.5 Dividend-Right Certificates

The Company has not issued any non-voting equity securities, such as participation certificates (Partizipationsscheine) or profit sharing certificates (Genussscheine).

2.6 Limitations on Transferability and Nominee Registrations

The Company's share register is maintained by Computershare Schweiz Ltd. The share register lists the names, addresses and nationali-ties of the registered owners of the Shares. Nominees can be entered into the share register with voting rights. The Company does not limit or restrict nominee registrations.

Only holders of Shares (including nominees) that are recorded in the share register as of the record date (see item 6.5 below) are entitled to vote at a General Meeting.

Any person who acquires Shares and does not expressly state in his/her/its application to the Company that the relevant Shares were acquired for his/her/its own account may not be entered in the share register as a shareholder with voting rights for the Shares.

The Board may, after having heard the concerned registered shareholder or nominee, cancel entries in the share register that were based on false information with retroactive effect to the date of entry.

Any acquirer of Shares who is not registered in the share register as a shareholder with voting rights may not vote at or participate in any General Meeting, but will still be entitled to dividends and other rights with financial value with respect to such Shares.

Each holder of Class A Shares has entered into an agreement (each such agreement a "Shareholder Agreement") with the Company, pursuant to which such holder of Class A Shares has given the undertaking vis-à-vis the Company not to (i) directly or indirectly offer, sell, transfer or grant any option or contract to purchase, purchase any option or contract to sell, grant instruction rights with respect to or other-wise dispose of, or (ii) solicit any offers to purchase, otherwise acquire or be entitled to, any of his/her/its Class A Shares or any right asso-ciated therewith (collectively a "Transfer"), except if such Transfer constitutes a "Permitted Transfer", as defined hereafter. A Permitted Transfer is defined as a Transfer by a holder of Class A Share to his/her spouse or immediate family member (or a trust related to such immediate family member) or a third party for reasonable estate planning purposes, the transfer to an affiliate and any transfer following conversion of his/her/its Class A Shares into Class B Shares. Each holder of a Class A Share has the right to request that, at the Company's annual General Meeting, an item be included on the agenda according to which Class A Shares are, at the discretion of each holder of Class A Shares, converted into Class B Shares.

2.7 Convertible Bonds and Options

2.7.1 Convertible Bonds and Equity-Linked Instruments

On January 19, 2016, GEM Global Yield Fund LLC SCS, 412f Route d'Esch, 2086 Luxembourg, Luxembourg, and GEM Investments Amer-ica, LLC, East 62nd Street 10065 New York, NY, USA (the latter being beneficially owned by GEM Global Yield Fund LLC SCS; collectively referred to as "GEM") entered into a share subscription facility agreement (the "SFF") with the Company, according to which GEM granted the Company the right, at any date after the date on which the Class B Shares are listed on the SIX, during the period expiring on the earlier of January 19, 2021 and the date on which GEM has subscribed for Class B Shares with an aggregate subscription price of CHF 60,000,000 (exercise period), to request GEM, in one or several steps, to subscribe for Class B Shares up to an aggregate subscription amount of CHF 60,000,000. After drawdowns made by the Company under the SSF in June, August and December 2017, the remaining aggregate subscription amount was CHF 56,094,645 as at December 31, 2018.

The subscription price for each subscription request of the Company corresponds to 90% of the average of the closing bid prices for Class B Shares on the SIX (as adjusted for variations) as reported by Bloomberg during relevant pricing period. Assuming a subscription price of CHF 4.35 per new Class B Share (as disclosed on the SIX Disclosure Platform as of December 31, 2018) and that the entire remaining subscription amount of CHF 56,094,645 was drawn down by the Company, GEM would receive 12,895,320 new Class B Shares, corresponding to a nominal value of CHF 644,766, which represents 35.07% of the share capital and 18.75% of the voting rights of the Company registered with the commercial register of the Canton of Zug as of December 31, 2018.

On January 16, 2017, the Company and ExWorks entered into the Credit Facility. Pursuant to the terms of the Credit Facility, ExWorks has the right, at its election, to convert (i) monthly interest of 1% (each an "Interest Payment") accruing until January 16, 2020 or, if the Compa-ny exercises its unilateral option to extend the maturity by one year, until January 16, 2021, on the term loans in the amount of up to USD 22,646,437 granted by ExWorks to WISeKey under the Credit Facility (the "Term Loans"), in each case due on the first day of the month in arrears, (ii) the principal amount of any Term Loan and (iii) fees either linked to an amendment to the Credit Facility as negotiated with ExWorks, or incurred by ExWorks in connection with the Credit Facility and payable by WISeKey to ExWorks (the "Fees"). As at December 31, 2018, an amount of USD 4,424.52 had not yet been drawn down by the Company. If and when converted, the conversion price applicable to any Interest Payment, Fee and Term Loan is USD 4.74. If the Company was to drawn down the full amount available under the Credit Facility and exercise the extension option, ExWorks would receive, upon conversion of all Fees, Interest Payments accruing until Maturity and Term Loans, up to 7,137,506 Class B Shares with an aggregate nominal value of CHF 356,875.30, corresponding to 19.41% of the share capital and 10.38% of the voting rights of the Company registered with the commercial register of the Canton of Zug as of Decem-ber 31, 2018. All Term Loans, Fees and Interest Payments accrued up until, and including, January 16, 2019 were repaid by the Company on January 16, 2019. Please see below 2.7.3 regarding significant changes.

On February 08, 2018 the Company entered into the SEDA (as amended) YA II PN, Ltd., George Town, Cayman Islands, 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 50,000,000 in exchange for Class B Shares (physical settlement) over a three-year period ending March 01, 2021. After several drawdowns made by WISeKey under the SEDA in 2018, the remaining amount available for drawdown as at December 31, 2018 is CHF 48,250,003.61. Provided that a sufficient number of Class B Shares is provided through share lending, the Company has the right to make drawdowns 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 worth up to CHF 5,000,000 by drawdown, subject to certain exceptions and limitations (including the exception that a drawdown request by WISeKey shall in no event cause the aggregate number of Class B Shares held by Yorkville to meet or exceed 4.99% of the total number of shares registered with the commercial register of the Canton of Zug). The subscription or purchase price will be 93% of the relevant market price at the time of each drawdown, determined by reference to a ten-day trading period following the drawdown request by WISeKey. In accordance with the Disclo-sure Office Notice II/2013, as amended on September 20, 2018, and the Company's disclosure on the SIX Disclosure Platform, the Compa-ny's sale position with respect to the SEDA is calculated based on the closing price of a Class B Share on the SIX Swiss Exchange Ltd on the date of the execution of the SEDA and corresponds to the quotient of (i) the total amount available for drawdown (i.e. CHF 48,250,003.61) and (ii) CHF 5.39.

Based on this exercise price and assuming that the entire remaining SEDA subscription amount of CHF 48,250,003.61 is drawn down by the Company, Yorkville would receive 14,891,976 new Class B Shares, corresponding to a nominal value of CHF 744,598.80, which represents 40.50% of the share capital and 21.65% of the voting rights of the Company registered with the commer-cial register of the Canton of Zug as of December 31, 2018.

On September 28, 2018, WISeKey entered into a convertible loan agreement ("Convertible Loan Agreement") with Crede CG III, Ltd., Hamilton, Bermuda ("Crede"), pursuant to which Crede has committed to grant a loan to WISeKey in the amount of USD 3,000,000 (the "Convertible Loan"). The Convertible Loan will mature on September 28, 2020 ("Maturity") and bear interest at a yearly rate of 10% ("In-terest"). The Convertible Loan shall be repaid at Maturity by way of conversion into such number of Class B Shares as corresponds to the quotient of the (i) Convertible Loan (i.e. USD 3,000,000) and (ii) 93% of the average of the two lowest daily volume weighted average share prices of a Class B Share, quoted on the SIX Swiss Exchange Ltd during the ten trading days immediately preceding the relevant conver-sion date, converted into USD at the relevant exchange rate. Crede may effect the conversion of the Convertible Loan anytime before Maturi-ty. In accordance with the Disclosure Office Notice II/2013, as amended on September 20, 2018, the Company's sale position with respect to the Convertible Loan is calculated based on the closing price of a Class B Share on the SIX Swiss Exchange Ltd on the date of the execution of the Convertible Loan Agreement (CHF 3.47) and thus corresponds to the quotient of (i) amount of the the Convertible Loan (i.e., USD 3,000,000) and (ii) CHF 3.23 (i.e., CHF 3.47, discounted by 7%, in accordance with the terms of the Convertible Loan Agreement), converted into USD at the relevant exchange rate. Based on this calculation methodology, Crede would receive 914,634 Class B Shares, corresponding to an aggregate nominal value of CHF 45,731.70 and representing, as per December 31, 2018, 2.49% of the share capital and 0.50% of the voting rights of the Company.

Pursuant to the terms of the Convertible Loan Agreement, the Company has the right, at its sole election, to convert quarterly interests of 2.5% accruing until Maturity of the Convertible Loan, due on the last business day of the calendar year quarter in arrears, into Class B Shares. Based on an exercise price calculated in accordance with the preceding paragraph and assuming that the Company pays all inter-est in Class B Shares, Crede would receive 182,926 Class B Shares with an aggregate nominal value of CHF 9,146.34, corresponding to 1.33% of the share capital and 0.27% of the voting rights of the Company.

2.7.2 Options, Warrants and Similar Instruments

As of December 31, 2018, the Company has an aggregate number of 4,285,193 outstanding options and warrants, which entitle the respec-tive holders of such options and warrants to acquire a total of 4,285,193 Class B Shares:

— On May 06, 2016, the Company issued to GEM Global Yield Fund LLC SCS, 412f Route d'Esch, 2086 Luxembourg, Luxembourg, a warrant according to which GEM Global Yield Fund LLC SCS has the right to subscribe for 1,459,127 Class B Shares (subscription ratio: 1:1), equaling 3.97% of the Company's share capital and 2.12% of the Company's voting rights registered with the commercial register of the Canton of Zug as of December 31, 2018. The subscription price corresponds to CHF 8.85432. The warrant expires on May 06, 2021. The warrant can be exercised at any time during the exercise period. If the warrant was exercised in full, the share capital would be increased by CHF 72,956.35, and the capital contribution reserves by CHF 12,846,621.03.

— On February 06, 2017, the Company signed an Option Agreement with ExWorks whereby it granted ExWorks the right to acquire up to 1,075,000 Class B Shares (subscription ratio: 1:1) at an exercise price of CHF 3.15. The Option Agreement expires on February 06, 2020. The options can be exercised at any time during the exercise period, either in full, or in part in which case the number of exercises is limited to four. If the options were exercised in full, the capital contribution reserves would increase by CHF 3,332,500.00 and the share capital by CHF 53,750.00, equalling to 2.92% of the share capital and 1. 56% of the voting rights, calculated based on the share capital of the Company registered with commercial register of the Canton of Zug as of December 31, 2018.

— On September 28, 2018, the Company signed an Option Agreement with Crede whereby it granted Crede the right to acquire up to 408,247 Class B Shares (subscription ratio: 1:1) at an exercise price of CHF 3.84. The Option Agreement expires on October 29, 2021. The options can be exercised at any time during the exercise period, either in full, or in part. If the options were exercised in full, the capital contribution reserves would increase by CHF 1,547,256.13 and the share capital by CHF 20,412.35, equalling to 1.11% of the share capital and 0.59% of the voting rights, calculated based on the share capital of the Company registered with commercial register of the Canton of Zug as of December 31, 2018

— As of December 31, 2018, the Company had 1,342,819 options outstanding under the ESOP (as defined below), entitling its holders to acquire up to 1,342,819 Class B Shares:

  o 132,772 options to acquire 132,772 Class B Shares (subscription ratio: 1:1), corresponding to 663,860 options granted by WISeKey SA to employees of WISeKey SA under the WISeKey SA employee share ownership plan and assumed by the Company with effect as of the Initial Listing, as amended (exercise period: December 31, 2022, exercise ratio: 1:1, exercise price per option: CHF 0.05, vesting: all options have vested). Assuming that all options are exercised, the share capital of the Company would be increased by 0.36% and the total voting rights by 0.19%, based on the share capital of the Company registered with commercial register of the Canton of Zug as of December 31, 2018.

  o The Company has granted 397,047 options to employees of the WISeKey Group. Each option is exercisable to purchase one Class B Share (subscription ratio: 1:1). 132,346 of these options have vested, whilst the remaining 264,701 options are unvested. Once vested, the options can be exercised at any time during the exercise period. If all options were exercised, a total number of 397,047 Class B Shares would be issued, thereby causing an increase in share capital by CHF 19,852.35, equaling to 1.08% of the share capital and 0.58% of voting rights based on the share capital of the Company registered with commercial register of the Canton of Zug as of December 31, 2018. The exercise price is CHF 0.05. The vesting date and exercise period of these options are detailed below:

  o 132,346 options, fully vested, with an exercise period of approximately 7 years ending on June 30, 2025;

  o 132,349 options, vesting on December 31, 2019, with an exercise period of approximately 5.5 years ending on June 30, 2025; and

  o 132,352 options, vesting on December 31, 2020, with an exercise period of approximately 4.5 years ending on June 30, 2025.

- The Company has granted 813,000 options to persons providing consultancy, advisory and other services to WISeKey in connection with business development activities. Each option is exercisable to purchase one Class B Share (subscription ratio: 1:1). 646,333 of these options have vested, whilst the remaining 166,667 options are unvested. Once vested, the op-tions can be exercised at any time during the exercise period. If all options were exercised, a total number of 813,000 Class B Shares would be issued, thereby causing an increase in share capital by CHF 40,650.00, equaling to 2.21% of the share capital and 1.18% of voting rights based on the share capital of the Company registered with commercial register of the Can-ton of Zug as of December 31, 2018, and an increase in the capital contribution reserves by CHF 3,579,550. The exercise prices, vesting date and exercise period of these options are detailed below:
- 99,000 options, fully vested, with an exercise period of 23 months ending on January 30, 2019 and an exercise price of CHF 5.00;
- 166,666 options, fully vested, with an exercise period of 3 years ending on July 05, 2020 and an exercise price of CHF 4.15;
- 166,667 options, fully vested, with an exercise period of 2 years ending on July 05, 2020 and an exercise price of CHF 4.15;
- 166,667 options, vesting on July 05, 2019, with an exercise period of 1 year ending on July 05, 2020 and an exercise price of CHF 4.15;
- 100,000 options, fully vested, with an exercise period of approximately 1 year ending on January 30, 2019 and an ex-ercise price of CHF 5.00,
- 10,000 options, fully vested, with an exercise period of approximately 7 years ending on April 08, 2025 and an exer-cise price of CHF 5.00;
- 4,000 options, fully vested, with an exercise period of approximately 21 months ending on February 06, 2021 and an exercise price of CHF 0.05; and
- 100,000 options, fully vested, with an exercise period of approximately 21 months ending on February 06, 2021 and an exercise price of CHF 5.00.

Assuming that all options granted under the ESOP are exercised, the aggregate number of Class B Shares issuable upon exercise of the options amounts to 1.95% of the voting rights and to 3.65% of the share capital of the Company registered with the commer-cial register of the Canton of Zug on December 31, 2018.

2.7.3 Significant Changes after December 31, 2018

On January 16, 2018, the Company completed the sale of WISeKey (Bermuda) Holding Ltd and its subsidiaries to DigiCert, Inc. pursuant to a share purchase agreement entered into by and between the Company and DigiCert, Inc. on December 21, 2018. The proceeds have partly been used to repay all amounts outstanding under the Credit Facility on January 16, 2019. As a result of the repayment of the Credit Facili-ty, all of ExWorks' conversion rights with respect to the Term Loans, Interest Payments and Fees have lapsed. Accordingly, ExWorks' purchase position with respect to the conversion of the Credit Facility into Class B Shares (7,328,461 Class B Shares), as disclosed by ExWorks on the disclosure platform of SIX Swiss Exchange Ltd on July 28, 2018, and the respective sale position of the Company (7,234,687 Class B Shares), as disclosed by the Company on the disclosure platform of SIX Swiss Exchange Ltd on October 6, 2018, have ceased to exist. The adjusted purchase and sale positions have been disclosed by ExWorks on the disclosure platform of SIX Swiss Exchange Ltd on January 23, 2019 and by the Company on February 8, 2019 in connection with the monthly update of the Company's sale positions in accordance with the Disclosure Office Notice II/13 of December 3, 2013 (as amended on September 20, 2018).

3 Board of Directors

3.1 Members of the Board of Directors

The following table sets forth the name, function, committee membership, age as at December 31, 2018, first time election and terms of office of each member of the Board.

Name	Function	Committee Membership	Age	Initial Election	Term of Office Expires at AGM
Philippe Doubre	Independent Member of the Board	Nomination & Compensation Committee	83	2016	2019
David Fergusson	Independent Member and Vice-Chairman of the Board	Audit Committee, Nomination & Compensation Committee	58	2017	2019
Juan Hernandez Zayas	Independent Member of the Board	Audit Committee, Strategy Committee	56	2016	2019
Thomas Hürlimann	Independent Member of the Board		55	2018	2019
Dourgam Kummer	Member of the Board		53	2015	2019
Carlos Moreira	Executive member (CEO) and Chairman of the Board	Strategy Committee	60	2015	2019
Maryla Shingler Bobbio	Independent member of the Board	Audit Committee, Nomination & Compensation Committee	55	2016	2019
Peter Ward	Executive member of the Board (CFO)	Strategy Committee	66	2015	2019

Philippe Doubre

Philippe Doubre, born in 1935, a Swiss citizen, graduated in mathematics from the Collège Saint Barbe (Paris). M. Doubre has held the position of president and secretary general of the World Trade Centre (WTCA), Geneva from 1979 to 2015. He is the founder and president of Lake of Geneva Services and Consulting (LGSC SA) since 1996, as well as co-founder of WISeKey in 1999 and Member of the Board. Further, he serves as president of the OISTE Foundation since 1998 and, since 1999, as a member of the board of the WTCA in New York. Philippe Doubre also is the former chairman of the WTCA Committee on Information and Communication. He is the president of the China Hub in Geneva and a permanent representative of the WTCA organization to the UN in Geneva. Philippe Doubre also held several senior positions in the banking and finance industry, including Vice President and General Cashier of American Express Paris, and General Manager of the Overseas Development Bank between 1967 and 1970.

David Fergusson

David Fergusson, born in 1960, a Canadian citizen, is the president and CEO of "The M&A Advisor", the world's premier think tank for corporate finance, mergers & acquisition, and restructuring. From London and New York, Mr. Fergusson leads the company's market intelli-gence, media, event, and consulting services for a global constituency of over 350,000 finance industry professionals. Mr. Fergusson is a sought-after speaker and contributor on the subjects of finance, technology and operational innovation with international media, educational institutions and leadership assemblies. A market expert on the impact of technological innovation on corporations, Mr. Fergusson is also the editor of 5 annual editions of "The Best Practices of the Best Dealmakers" with over 500,000 readers and distribution in over 60 coun-tries. Prior to joining The M&A Advisor in 2010, he conducted over 25 acquisitions as an investor. Mr. Fergusson is the founder of the global Corporate Finance Emerging Leaders program, founding member of the City of London's Guild of Entrepreneurs, a member of British Ameri-can Business and the Association of Corporate Growth (ACG). In 2013, Mr. Fergusson led the formation of the program. A pioneer in cross border M&A between the United States and China, he was recognized with the 2017 M&A Leadership Award from the China Mergers & Acquisitions Association and is Chairman of the US Chapter of the Asia M&A Association. Mr. Fergusson is a graduate of Kings College School and the University of Guelph where he earned a Bachelor of Arts in Political Studies. Recipient of the 2015 Albert Schweitzer Lead-ership Award for his work in youth leadership development, Mr. Fergusson is the President of Hugh O'Brien Youth Leadership (HOBY), the world's largest social leadership philanthropic foundation for high school students. He joined the Board of Wisekey in April 2017 and is a director of and advisor to several social innovation initiatives and corporate finance advisory firms.

Juan Hernandez Zayas

Juan Hernández Zayas, born in 1962, a Spanish citizen, graduated in Economics and Business Administration in Bilbao in 1987, and obtained an MBA at the LSFT (London). In 1989 he joined the audit and corporate division of PricewaterhouseCoopers (PwC). He spent seven years at PwC specializing in corporate finance, mergers and takeovers, working with large corporates and multinationals as well as important family groups. He is a member of the ROAC, the official Spanish College of Chartered Accountants. In 1995, he moved to the Eguizabal-Paternina Group, one of Spain's leading wine producers, as director of affiliates, responsible for the national and international expansion and coordinating the Eguizabal-Paternina Group's IPO in 1998. In 2001, Juan Hernández Zayas was appointed chief executive officer of the Cosimet-Velasco Group, playing a major role in the company's diversification strategy and in the consolidation of a large industrial holding, with companies involved in several sectors, including steel, real estate, construction and services. In recent years, Juan Hernández Zayas has been focusing on leading development in several new tech and renewable energy entities, based in Spain, in the EU, and South America. Further he serves as a member of the board of directors of Welzia Management SA, Igurco SL., SaltX Technology Holding AB and CEO of Grupo TDG SL.

Thomas Hürlimann

Thomas Hürlimann, born in 1963, a Swiss citizen, brings 25 years of global leadership experience in banking, reinsurance and insurance. Most recently he led the Global Corporate business at Zurich with USD 9bn of premium and 3,500 employees. He has extensive experience in M&A, Private Banking, Corporate Insurance, Reinsurance, global transformations, B2B, risk management and as a board member. He is a Non Executive Director of Hiscox Ltd., Hiscox SA and a Senior Advisor of Drake Star Partners.

Thomas Hürlimann began his career in banking, working in treasury and corporate finance. He then moved into the insurance sector, spend-ing seven years with Swiss Re where he led the Insurance Practice of Swiss Re New Markets. He was also Managing Director of Fox-Pitt Kelton. Throughout his career, Mr. Hürlimann has gained international experience in Central and Eastern Europe, North and South America, South East Asia and West Africa. He joined Zurich in 2003 as Global Head of Group Reinsurance. In 2005, he became Chief Operating Officer for Zurich Global Corporate, and was appointed as CEO Global Corporate in Europe in June 2006. For over 5 years until 2016 he was CEO, Global Corporate.

He holds a degree in business administration and economics from the University of Zurich and an MBA from IMD, Lausanne, Switzerland.

Dourgam Kummer

Dourgam Kummer, born in 1965, a Swiss citizen, held several leading positions in the structured and corporate finance of international companies and financial institutions, in particular André & Cie SA, where he served in management positions in their former USSR and Austria representation offices. From 2001 to 2005, Dourgam Kummer served on the board of directors for Bisange SA and was a managing director. He joined the board of directors of WISeKey SA in 2005 and was its chief financial officer from 2005 until 2011. From 2011 to 2015 he was chief operations officer at WISeKey SA. Since 2007, he has served on WISeKey SA's board of directors. Since January 2016, he has been a senior partner at FRACTAL-SWISS AG and FounderTrust SA and on the board of directors of both companies. He graduated with honors in company management and finance at "l'école de Cadre" in 1988 in Lausanne and obtained a degree on structured finance in 1998 and in strategic finance in 2006 at IMD. He is also a member of the IMD alumni club since 1999 and member of the HEC alumni club since 2001.

Carlos Moreira, Chairman

Carlos Moreira, born in 1958, a Swiss citizen, began his career as a United Nations expert on Information Technology, eSecurity and Trust Models, working for the International Labor Organization (ILO), the United Nations (UN), United Nations Conference on Trade and Develop-ment (UNCTAD), the World Trade Organization (WTO) and International Trade Centre (ITC), the World Bank, the United Nations Develop-ment Programme (UNDP) and the Economic and Social Commission for Asia and the Pacific (ESCAP) from 1983 to 1998. A recognized early stage pioneer in the field of digital identity, he was also Adjunct Professor of the Graduate School of Engineering Royal Melbourne Institute of Technology (RMIT) from 1995 to 1999 and Head of the Trade Efficiency Lab at the Graduate School of Engineering at RMIT. In 1999, Carlos Moreira founded the Geneva-based online data security firm WISeKey SA.

Carlos Moreira is a member of the UN Global Compact, member of the World Economic Forum's Global Agenda Council, founding member of the World Economic Forum for Global Growth Companies, World Economic Forum New Champion 2007 to 2016, Vice Chair of the World Economic Forum Global Agenda Council on Illicit Trade 2012/16, founder and board member of Geneva Security Forum SA, member of the Global Clinton Initiative, founder of Geneva Philanthropy Forum, Vice President of Malaga Valley, co-founder of the Association Interna-tional Mobility AIM, Vice-President of the World Trade Center, Geneva, a commitment holder at the Global Clinton Initiative On Mobile-Banking and Digital Identification for Poverty Alleviation 2007 to 2016, and a member of the World Economic Forum's Partnering Against Corruption Initiative (PACI). Carlos Moreira holds a Bachelor of Science in Business Administration from the University of Málaga, Spain.

Maryla Shingler Bobbio

Maryla Shingler Bobbio, born in Poland in 1963, a UK citizen and qualified English Solicitor, is founder and managing director of Argentum Group SA. She started her professional career working for a number of well-established law firms in London, including Linklaters, Beachcrofts and Charles Russell where she specialized in private client tax planning and trusts. She continued her career by focusing on offshore tax planning for international high-net worth clients and worked as an in-house legal counsel for Rathbones plc in London before relocating to head their Legal Department in Geneva between 2002 and 2004. In 2004, she moved on to become a director of a small private trust company in Canton Vaud before deciding to utilize her international legal skills, expertise and contacts to establish her own independ-ent company Argentum Group SA in 2005. Between 2010 and 2014, Maryla Shingler Bobbio also served on the supervisory Board of Budev BV, a Dutch Healthcare R&D company.

Peter Ward

Peter Ward, born in 1952, a UK citizen, is a chartered management accountant with significant international experience in the IT, fast mov-ing consumer goods, retail/distribution, medical equipment, plastics and Biotech industries, having worked at companies such as ITT, General Electric, Iomega and Isotis, both in field and headquarters position. He has worked in the UK, the Netherlands, Germany, Belgium and Switzerland, where he currently resides. He has worked for many years at the executive staff level in international, multi-cultural envi-ronments. He began his tenure with WISeKey SA in 2008 as Finance Director and has been Chief Financial Officer and a Board member since 2012. He has in depth experience in change management, process improvement, business integration & restructuring as well as extensive knowledge of international tax, statutory and US GAAP reporting and Sarbanes-Oxley requirements. He has a BA (honors) degree in Business Administration from Wolverhampton University, U.K. Peter Ward served as a member of the board of directors of Iomega International SA from 1996 to 2004 and from 2005 to 2008 as a member of the board of directors of Isotis Orthobiologics.

3.2 Other Activities and Vested Interests

See item 3.1 above.

3.3 Permitted Activities

The Articles limit the number of mandates in the supreme governing bodies and the executive management of legal entities that are registered in the Swiss commercial register or a foreign equivalent register outside the Company to ten (10) mandates for members of the Board and four (4) mandates for members of the Executive Management (as defined below). Mandates in associations, charitable organizations, family trusts and foundations relating to post-retirement benefits are not subject to these limitations. However, no member of the Board or the Executive Management may hold more than ten (10) such mandates.

3.4 Elections and Terms of Office

The Articles provide that the Board consists of a minimum of three and a maximum of 12 directors. The Board currently consists of eight directors.

The General Meeting elects the members of the Board and the chairman of the Board (the "Chairman") individually and for a term of office until the completion of the next annual General Meeting. Re-election is possible. If the office of the Chairman of the Board is vacant, the Board appoints a new Chairman from among its members for a term of office extending until completion of the next annual General Meeting.

Except for the election of the Chairman and the members of the Nomination & Compensation Committee by the General Meeting, the Board constitutes itself. The Board may elect one or several Vice-Chairpersons. The Board further appoints a secretary who need not be member of the Board.

Please see the table provided under item 3.1 above for the time of each Board member's initial election and term of office.

3.5 Internal Organizational Structure

3.5.1 Allocation of Tasks Within the Board

Except for the Chairman who is elected by the General Meeting, the Board constitutes itself. The Board may elect one or several Vice-Chairpersons. The Board further appoints a secretary who need not be member of the Board.

The Board is entrusted with the ultimate direction of the Company, the definition of its strategy and the supervision of management. The Board's non-transferable and irrevocable duties further include issuing the necessary directives, determining the organization, organizing the accounting system, the financial controls and the financial planning and appointing, supervising and removing the persons entrusted with the management and representation of the Company.

Furthermore, the Board's duties include the responsibility for the preparation of the management report and the General Meeting, the carrying out of shareholders' resolutions and the notification to the judge in case of over-indebtedness of the Company.

In addition, further duties of the Board are the responsibility for passing resolutions regarding the increase of the share capital, provided that the Board has the authority to do so (art. 651(4) CO), and the attestation of the capital increase, the preparation of the capital increase report and the corresponding amendment to the Articles.

According to the Company's organizational rules, resolutions of the Board are passed by way of a simple majority vote. The Chairman has a casting vote. To validly pass a resolution, more than half of the members of the Board have to attend the meeting. No quorum is required for confirmation resolutions and adaptations of the Articles in connection with capital increases pursuant to articles 634a, 651a, 652g and 653g CO.

In accordance with Swiss law, the Articles and the organizational regulations (the "Organizational Regulations"), the Board has delegated the Company's Executive Management to the chief executive officer of the Company (the "CEO"), who is supported by the other members of the Executive Management. In the Company's current structure, the positions of Chairman and CEO are held by the same person. The Organizational Regulations may be accessed over the weblinks referenced on page CG-17 of this Report.

3.5.2 Board Committees

The Board has established the following committees:

Strategy Committee

The Strategy Committee currently consists of three members of the Board: Carlos Moreira (Chairman), Juan Hernandez Zayas and Peter Ward. The Chairman and the other members of the Strategy Committee are appointed by the Board.

The Strategy Committee develops the strategy of the Company and prepares the relevant resolutions of the Board. It advises the Board on all strategic matters, including acquisitions, divestments, joint ventures, restructurings and similar matters. The Strategy Committee contin-uously reviews the strategic direction of the Company and assesses the impact of changes in the environment of the Company.

Audit Committee

The Audit Committee currently consists of three members of the Board: Juan Hernandez Zayas (Chairman), David Fergusson and Maryla Shingler Bobbio. All of the Audit Committee's members are non-executive members of the Board and independent. The Chairman and the other members of the Audit Committee are appointed by the Board.

The function of the Audit Committee is to serve as an independent and objective body with oversight of:

— the Company's accounting policies, financial reporting and disclosure controls and procedures;

— the quality, adequacy and scope of external audits;

— the Company's accounting compliance with financial reporting requirements;

— the Executive Management's and the internal audit's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance; and

— the performance of the internal audit.

Nomination & Compensation Committee

The Nomination & Compensation Committee currently consists of three members of the Board: David Fergusson (Chairman), Philippe Doubre, and Maryla Shingler-Bobbio, all of whom are non-executive and independent. The members of the Nomination & Compensation Committee are elected by the General Meeting for a one-year term, commencing on the date of their election at the annual General Meeting and expiring after completion of the subsequent annual General Meeting. The Chairman of the Nomination & Compensation Committee is appointed by the Board.

The Nomination & Compensation Committee establishes, in accordance with the requirements of the Compensation Ordinance and the Articles, the compensation principles for members of the Board and the Executive Management and other members of senior management, including, without limitation, with respect to bonus programs, share purchase plans and option programs. The Nomination & Compensation Committee is also informed of succession plans for members of the Board and the Executive Management and other members of senior management, as well as development programs associated with such succession planning.

3.5.3 Working Methods of the Board and its Committees

The cooperation and allocation of competencies between the Board and its committees are as described under this item 3.5. The Chairman coordinates, together with the respective committee chairmen, the work of all committees. He may attend the meetings of all committees, subject to a committee resolving otherwise, and with the exception of discussions relating to his own compensation as member of the Executive Management.

Members of senior management or external consultants may be called in on ad-hoc basis to discuss specific issues or topics where the Board feels that specialized input is required. The Company's legal advisors are regularly called upon to ensure compliance of the Board, Executive Management and the Company's operations with all applicable Swiss rules and regulations.

The Board meets as often as the business requires, at least four times a year, hence an average quarterly frequency. The Board meetings can be held at the Company's place of incorporation, over the phone, or at such other place as the Chairman may determine from time to time. In 2018, the Board officially met ten times, not taking into account Board conference calls held ad-hoc to discuss or resolve on specif-ic items. The average duration of Board meetings was forty minutes.

The Audit Committee meets as often as the business requires. In 2018, the Audit Committee formally met six times for an average duration of half an hour.

The Nomination & Compensation Committee meets as often as the business requires. In 2018, the Nomination & Compensation Committee met twice for an average duration of one and a half hour. The compensation for members of the Board for the period between the 2018 annual General Meeting and the 2019 annual General Meeting, as well as the compensation for members of the Executive Management for the financial year 2019 were approved by the Nomination & Compensation Committee, submitted and approved by the Board, then submitted and voted by the general assembly of shareholders that took place on May 25, 2018 during the annual General Meeting. There were no changes to the Board or to the executive management during the remaining of the fiscal year 2018 requiring the Nomination & Compensation Committee to meet to review the compensation voted during the Annual general Meeting.

3.6 Definition of Areas of Responsibility

The tasks assumed by the Board are described under item 3.5.1 and 3.5.2 above.

The Board has delegated full management of the Company to the CEO and the Executive Management. The CEO and the Executive Man-agement coordinates the operations of the Company in accordance with the Organizational Regulations of the Company.

The Board has not made any specific resolutions by the Executive Management subject to Board's approval (apart from the tasks under art. 716a of the Swiss Code of Obligations). The Board has not reserved the right to make specific decisions.

3.7 Information and Control Instruments Vis-à-vis the Executive Management

The Board supervises the Executive Management in particular with regard to the Executive Management's performance in meeting agreed goals and objectives; and the compliance with applicable laws, rules and regulations.

Members of the Board have access to all information concerning the business and the affairs of the Company as may be necessary or helpful for them to fulfil their duties as Board members. At Board meetings, any Board member is entitled to request information on any matter relating to the Company regardless of the agenda and the members of the Board or the Executive Management present must provide such information to the best of their knowledge. Outside Board meetings, each Board Member may request information from the Executive Management on the general course of business and, upon approval by the Chairman, each Board member may obtain information on specif-ic transactions and/or access to business documents.

The Executive Management, acting through the CEO, ensures that the Chairman and the Board are kept informed in a timely manner with information in a form and of a quality appropriate to enable the Board to discharge its duties. The Executive Management, through its CEO, regularly reports to the Board at Board Meetings (or outside Board Meetings) in a manner agreed with the Chairman on the current business development and on important business issues, including on all matters falling within the duties and responsibilities of the Board.

Such reports must cover (i) the current business developments including key performance indicators, existing and emerging risks and updates on developments in relevant markets; (ii) quarterly reports on the profit and loss situation, cash flow and balance sheet develop-ment, investments, personnel and other pertinent data of the Company; and (iii) information regarding all issues which may affect the super-visory or control function of the Board, including the internal control system.

4 Executive Management

4.1 Members of the Executive Management

The following table sets forth the name, age and principal position of those individuals who currently are part of the Executive Management, followed by a short description of each member's business experience, education and activities:

Officer	Office	Age as of December 31, 2018
Carlos Moreira	Chief Executive Officer (CEO)	60
Peter Ward	Chief Financial Officer (CFO)	66

In relation to Carlos Moreira's and Peter Ward's biographical information, please refer to the information provided under item 3.1 above.

4.2 Other Activities and Vested Interests

See item 3.1 above.

4.3 Additional Disclosure of Information Pursuant to art. 12 para. 1 point 1 of the Ordinance against Excessive Compensation (OaEC)

Please refer to the audited Compensation Report in page CR-1 of this annual report.

4.4 Management Contracts

There are no management contracts in place.

In accordance with the Articles and the Organizational Regulations, the Board has delegated the operational management to the CEO and the Executive Management. The CEO and the Executive Management conduct the operational management of the Company under the supervision of the Board and report to the Board on a regular basis in accordance with the Organizational Regulations.

5 Compensation, Shareholdings and Loans

The annual General Meeting held on May 25, 2018 approved the maximum amounts of Board and Executive Management compensation for the 2018/2019 Board term and the 2019 financial year, respectively (see "Compensation Approved by the General Meeting" in section 5.1 for further details).

Please refer to the Compensation Report starting on page CR-1 of this Annual Report for additional information regarding the compensation of Board members and members of the Executive Management.

5.1 Content and Method of Determining the Compensation and the Shareholding Programs

Principles and Elements of Compensation

The Company assumed the WISeKey Share Ownership Plan from WISeKey SA, the Company's predecessor prior the Initial Listing, as amended by the Company from time to time (the "ESOP"). The ESOP authorizes the Board to grant, at its discretion, options for the pur-chase of Class B Shares to employees, directors, officers and persons providing advisory services to the Company. The terms of options granted under the WISeKey Share Ownership Plan are determined on an individual basis, but generally vest over a period of three years. Further, holders of options granted under the WISeKey Share Ownership Plan may generally exercise their rights under vested options at any time until the seventh anniversary of the option grant date. If options are not exercised within the exercise period, they are forfeited. In the event of a change of control (as defined in the WISeKey Share Ownership Plan; see item 7.2 below), all options vest immediately. If an employment agreement is terminated with a cause by the Company, or if an option holder breaches any material obligation, all options held by such option holder (whether vested or not) are forfeited.

Although the definitive compensation policy of the Company continues to be subject to review by the Company's Nomination & Compensa-tion Committee, the Company currently believes the Company's compensation plans will continue to be based on the following key princi-ples:

- Coherence in remuneration against the tasks, workload and level of responsibility assumed;
- Adequacy of remuneration in general depending on the course of business, changes of the market in which the Company operates and the compensation the Company's peers pay;
- Enhancement of the Company's long-term interests by maintaining compensation plans designed to align the interest of key staff with long-term shareholder interest; and
- Link of long-term incentive compensation to both relative and absolute performance metrics.

For non-executive Board members, the Company is and will be using a combination of cash and equity compensation to attract and retain qualified candidates to serve on the Board. The Board believes that any compensation method should have a significant compensation component in the form of equity in order to more closely align director compensation with shareholders' interests. Executive Board members will not receive any compensation for their Board service.

Compensation for the members of the Executive Management, including the executive directors, will in particular contain the following elements:

- The overall annual remuneration of the members of the Executive Management will include a fixed base salary and variable remu-neration, which will consist of a bonus and long-term incentive compensation. The methodology determining the variable compen-sation will be designed to encourage the members of the Executive Management to achieve pre-established performance goals, both short-term and long-term.
- The bonus will be paid in cash, in Class B Shares or options or other instruments entitling its holder to acquire Class B Shares.
- Long-term incentive compensation is expected to be awarded in Class B Shares or share units with ratable vesting over a longer period so as to provide a direct correlation of realized pay to shareholder value.

Procedure for Determining Compensation

The Nomination & Compensation Committee is responsible for determining the compensation policy and the compensation plans of the Company and submits such policies and plans to the Board for approval. Subject to the Board's and the General Meeting's approval, the Nomination & Compensation Committee sets the compensation of each Board member and each member of the Executive Management. Such compensation must be within the total fixed amount of compensation for Board Members and members of Executive Management, respectively, approved by the General Meeting (see under "Compensation Approved by the General Meeting" under this item 5.1 for further details).

The Nomination & Compensation Committee also reviews the annual compensation report and submits it to the Board for approval.

Compensation Approved by the General Meeting

The Company's shareholders approved the Board compensation for the 2018/2019 Board term and the Executive Management compensa-tion for financial year 2019 at the annual General Meeting held on May 25, 2018. The maximum amount of the Board's compensation for the 2018/2019 Board term is CHF 1 million. The maximum amount of compensation for the Executive Management for financial year 2019 is CHF 5.5 million.

5.2 Rules Related to Compensation in the Articles

5.2.1 Principles Applicable to Compensation

Non-Executive Members of the Board

The compensation of the non-executive members of the Board of Directors consists of a fixed base compensation and may consist of further compensation elements, including equity components.

Executive Members of the Board and Executive Management

The compensation of the executive members of the Board and of the members of the Executive Management consists of fixed and variable compensation elements. Variable compensation shall take into account the achievement of specific performance targets.

The performance targets may include individual targets, targets of the Company or parts thereof or targets in relation to the market, other companies or comparable benchmarks, taking into account position and level of responsibility of the recipient. The Board or, to the extent delegated to it, the Nomination & Compensation Committee, shall determine the relative weight of the performance targets and the respective target values.

Compensation may be paid in the form of cash, Class B Shares, or in the form of other types of benefits; for the executive members of the Board and the members of the Executive Management, compensation may in addition be granted in the form of options or comparable instruments or units. The Board and, to the extent delegated to it, the Nomination & Compensation Committee, shall determine grant, vest-ing, exercise, restriction and forfeiture conditions and periods. In particular, they may provide for continuation, acceleration or removal of vesting, exercise, restriction and forfeiture conditions and periods, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of pre-determined events such as a change-of-control or termination of an employ-ment or mandate agreement. The Company may procure the required shares or other securities through purchases in the market or by using conditional share capital.

5.2.2 Loans, Credit Facilities and Post-Employment Benefits for Members of the Board of Directors and Executive Committee.

Under the current Articles, the Company or companies controlled by it may grant loans to members of the Board of Directors or the Executive Management, provided they are granted at arm's length terms.

As at December 31, 2018, the Company had no loan outstanding to members of the Board of Directors.

Under the Articles, the Company or companies controlled by it may grant members of the Executive Management post-retirement benefits beyond occupational pension, provided, however, that such pension benefits may not exceed 50% of the base salary in the financial year immediately preceding the retirement.

5.2.3 Vote on Pay at the General Meeting of Shareholders

The Articles provide that the General Meeting must each year vote separately on the proposals by the Board regarding the maximum aggre-gate amounts of:

- the total compensation of the Board for the next term of office; and
- the total compensation of the Executive Management for the period of the next financial year.

If the General Meeting does not approve a proposal of the Board, the Board determines the maximum aggregate amount or maximum partial amounts taking into account all relevant factors and submits such amounts for approval to the same General Meeting, to an extraordinary General Meeting or to the next annual General Meeting for retrospective approval.

6 Shareholders’ Participation Rights

6.1 Voting Rights Restrictions and Representation

Each Share of the Company carries one vote at a General Meeting of shareholders. Accordingly, each Class A Share and each Class B Share entitle to one vote, irrespective of their different par value. Relative to the investment required to acquire a Class A Share, holders of Class A Shares benefit from a voting privilege, as one Class A Share grants its holder the same voting right as the higher par value Class B Shares. Pursuant to the CO, the voting privilege of Class A Shares does not apply to the following matters to be resolved upon at the Com-pany’s General Meeting of shareholders:

— the election of the Company’s auditor;

— the appointment of an expert to audit the Company’s business management or parts thereof;

— any resolution regarding the instigation of a special investigation; and

— any resolution regarding the initiation of a liability action.

Voting rights may be exercised by shareholders registered in the Company’s share register or by a duly appointed proxy of a registered shareholder or nominee, which proxy need not be a shareholder of the Company up to a specific qualifying day designated by the Board.

Shareholders may also instruct the independent voting rights representative with the exercise of their voting rights. The annual General Meeting shall elect the independent voting rights representative for a term of office until completion of the next annual General Meeting. Re-election is possible. If the Company does not have an independent voting rights representative, the Board shall appoint the independent voting rights representative for the next General Meeting.

Acquirers of Shares of the Company must be entered into the share register as shareholders with the right to vote, provided that such acquir-ers expressly declare that they have acquired the Shares of the Company in their own name and for their own account.

The Articles do not limit the number of Shares of the Company that may be voted by a single shareholder. Holders of treasury shares of the Company, whether the holder is the Company or one of its majority-owned subsidiaries, will not be entitled to vote at General Meetings of the shareholders.

The acting chairman may direct that elections be held by use of an electronic voting system. Electronic resolutions and elections are considered equal to resolutions and elections taken by way of a written ballot.

6.2 Supermajority Requirements

Pursuant to the Articles, the shareholders generally pass resolutions by the affirmative vote of a majority of the votes represented at the General Meeting, unless otherwise provided by law or the Articles.

The CO and the Articles require the affirmative vote of at least two-thirds of the voting rights and an absolute majority of the par value of the Shares, each as represented (in person or by proxy) at a General Meeting to approve the following matters:

— the amendment to or the modification of the purpose of the Company;

— the creation or cancellation of shares with privileged voting rights;

- the restriction on the transferability of shares or cancellation thereof;
- the restriction on the exercise of the right to vote or the cancellation thereof;
- an authorized or conditional increase in the share capital;
- an increase in the share capital through (i) the conversion of capital surplus, (ii) a contribution in kind, or for purposes of an acquisi-tion of assets, or (iii) a grant of special privileges;
- the limitation on or withdrawal of pre-emptive rights;
- a change in the registered office of the Company;
- the conversion of registered shares into bearer shares and vice versa; and
- the dissolution of the Company.

6.3 Convocation of the General Meeting

6.3.1 Notice

The Board generally convenes a General Meeting of shareholders. Under Swiss law, the convocation notice is published in the Swiss Official Gazette of Commerce and must be sent to each registered shareholder at the address recorded in the share register at least 20 days prior to the meeting.

6.3.2 Extraordinary General Meetings

An extraordinary General Meeting may be called upon the resolution of the Board or, under certain circumstances, by the auditor. In addition, the Board is required to convene an extraordinary General Meeting if so requested by shareholders holding an aggregate of at least 10% of the Shares, specifying the items for the agenda and their proposals and including evidence of the required shareholdings recorded in the share register, or if it appears from the annual standalone statutory balance sheet that half of the Company's share capital and legal re-serves are not covered by the Company's assets. In the latter case, the Board must immediately convene an extraordinary General Meeting and propose financial restructuring measures.

6.4 Inclusion of Items on the Agenda

Shareholders holding Shares of the Company with a nominal value of at least CHF 1 million or 10% of the nominal share capital registered in the commercial register have the right to request that a specific proposal be put on the agenda for the next General Meeting of sharehold-ers, setting forth the item and proposal. In accordance with the Articles, a request to put an item on the agenda has to be made at least 45 calendar days prior to the meeting.

6.5 Entries in the Share Register

Registration in the Company's share register maintained by the Company's registrar, SIX SAG Ltd., occurs upon request and is subject to the condition that the acquiring shareholders expressly declare that they have acquired the registered Shares in their name and for their account. Individual persons who do not declare to have acquired the Shares in their name and for their account may be registered as nomi-nees with voting rights.

After hearing the registered shareholder or nominee, the registration in the share register may be cancelled with retroactive effect as of the date of registration if such registration was made based on false or misleading information. The relevant shareholder or nominee shall be promptly informed of the cancellation.

Only those shareholders (including nominees) who are registered in the share register on the record date have the right to vote at General Meetings. The Company generally expects to set the record date for each General Meeting to be a date not more than 20 calendar days prior to the date of the relevant General Meeting and announce the date of the General Meeting prior to the record date.

7 Change of Control and Defence Measures

7.1.1 Duty to Make an Offer

Pursuant to the applicable provisions of the FMIA, any person that acquires shares of a listed Swiss company, whether directly or indirectly or acting in concert with third parties, which shares, when taken together with any other shares of such company held by such person (or such third parties), exceed the threshold of 331/3% of the voting rights of such company, must make a takeover bid to acquire all the other listed shares of such company. A company's articles of association may either eliminate the mandatory takeover obligation under the FMIA or may raise the relevant threshold to 49% ("opting-out" or "opting-up", respectively).

The Articles contain an opting-out provision. Therefore, a potential acquirer or Company of acquirers exceeding the threshold of 331/3% of the voting rights of the Company will not be required to make a takeover bid to acquire all the other Class B Shares.

7.1.2 Clauses on Changes of Control

The Company is not aware of any agreements containing change of control clauses. The WISeKey Share Ownership Plan, as mentioned in item 5.1 above, stipulated, with respect to its predecessor WISeKey SA, i.e., the holding company prior to the Company's listing, that all options granted to employees, members of the Board or the Executive Management shall vest upon an initial public offer, a mandatory public tender offer, or the acquisition by any person or entity, alone or jointly, of more than 50% of the shares or voting rights of the Compa-ny.

8 Auditors

8.1 Duration of the Mandate and Term of Office of the Lead Auditor

Under the Company's Articles, the shareholders elect the Company's independent statutory auditor each year at the annual General Meet-ing. Re-election is permitted.

The Company's auditor is BDO SA (BDO), Route de Meyrin 123, 1219 Châtelaine, Switzerland. BDO has been the auditor since the Company's incorporation on December 2, 2015, and has been re-elected at the ordinary General Meetings on May 31, 2017 and May 25, 2018. Since December 2, 2015, the responsible lead audit partner is Christoph Tschumi. In accordance with article 730a para. 2 CO, the rotation frequency of the responsible lead audit partner is seven years.

8.2 Auditing Fees

The auditing fees (gross of VAT) invoiced to the Company by BDO in the fiscal year 2018 amount to CHF 663,387.37.

8.3 Additional Fees

BDO has not charged the Company any additional fees.

8.4 Information Instruments Pertaining to the External Audit

The supervision of the external audit is to be exercised by the Audit Committee and by the full Board of Directors (see also the duties and functions as described under item 3.5 above). For the December 31, 2018 audit, the supervision of the external audit has been exercised primarily by the Audit Committee.

BDO provides the Audit Committee with a report before each meeting of the Audit Committee regarding the execution and results of its work for WISeKey, proposals to correct or improve identified problems and the implementation of decisions made by the Audit Committee. For future reporting periods, it is planned to include the auditor's representatives to take part in meetings of the Audit Committee as external participants.

In 2018, the Audit Committee and BDO met five times.

9 Information Policy

The Company releases its annual financial results in the form of a business report. Under Swiss law, the convocation notice is published in the Swiss Official Gazette of Commerce. WISeKey's business report is published in electronic form within four months of the December 31 balance sheet date, the first time for financial year 2015. In addition, results for the first half of each financial year are released in electronic form within three months of the June 30 balance sheet date. The Company's annual report and half-year results will be announced via press releases and media and investor conferences in person or via telephone.

WISeKey's annual and interim reports are available at https://www.wisekey.com/investors/reports/.

The Company's agenda is available at https://www.wisekey.com/investors_corporate-calendar/.

As from the listing, copies of all information and documents pertaining to press releases, media conferences, investor updates and presen-tations at analyst and investor presentation conferences can be downloaded from the Company's website at www.wisekey.com/investors or obtained from the Company upon request at Investor Relations (telephone number: +41 22 594 3000, email: info@wisekey.com).

Additional information on WISeKey is available on the Company's website: https://www.wisekey.com/.

Weblinks regarding the SIX Swiss Exchange push and pull system concerning ad-hoc publicity issues are:

Investor relations contact:
https://www.wisekey.com/investors/contact/

Press releases:
https://www.wisekey.com/investors_press-release/

Current Articlesof Association:
https://www.wisekey.com/investors/corporate-governance/organisation/

Organizational Regulations:
https://www.wisekey.com/investors/corporate-governance/organisation/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COMPENSATION REPORT

BDO

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BDO Ltd.
Route de Meyrin 123
Case postale 150
1215 Genève 15

To the General Meeting of
WISeKey International Holding AG
General-Guisan-Strasse 6
6300 Zug

Report of the Statutory Auditor on the Audit of the Compensation Report for the year 2018

(for the period from 01.01. to 31.12.2018)

22 March 2019

Phone: +41 22 322 24 24
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BDO Ltd.
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1215 Genève 15

REPORT OF THE STATUTORY AUDITOR

To the General Meeting of WISeKey International Holding AG, Zug

As statutory auditor, we have audited the accompanying Compensation Report dated 22 March 2019 of WISeKey International Holding AG for the period from 01 January 2018 to 31 December 2018. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) in sections 5 and 6 of the Compensation report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report for the period from 1 January 2018 to 31 December 2018 of WISeKey International Holding AG complies with Swiss law and articles 14 – 16 of the Ordinance.

Geneva, 22 March 2019

BDO Ltd

Christoph Tschumi	Philipp Kegele
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

1 Introduction

In accordance with the Ordinance against Excessive Compensation (the "OaEC") applicable to Swiss listed companies, the remuneration of members of the Board of Directors and the Executive Management of WISeKey International Holding AG (the "Company", and together with its subsidiaries "WISeKey" or the "Group" or the "WISeKey Group") is disclosed below for the periods ended December 31, 2018 and 2017.

This Compensation Report should be read in conjunction with the compensation policy as disclosed in the Corporate Governance Report presented in this Annual Report on page CG-1.

2 Compensation Policy

2.1 Board of Directors

It is our general policy that compensation for the members of the board of directors of the Company (the "Board") consists of a mix of cash and equity stock options in order to ensure a commitment to the long-term success of the Company.

2.2 Executive Management

Our compensation strategy aims to compensate the members of the Executive Management in line with industry standards and as a fair reward for their success in implementing the Company's strategy, expansion plans and performance targets.

The key underlying elements taken into account to define the Executive Management compensation are:

- Alignment with industry standards – in order to attract and retain talented executives and employees, the Nomination & Compensation Committee has ensured that the various compensation elements are reasonable and in line with the compensation of similar listed companies benchmarking against sources such as the BDO 600 Report, S&P 600 Small Cap report and white papers from other recognized institutions.
- Alignment with shareholders' interests – part of the compensation of the Executive Management consists of equity stock options in order to ensure that the Executive Management works towards the long-term success of the Company and takes into account shareholders' interests to define and plan the Company's future.
- Compensation in line with performance and results – part of the Executive Management's compensation is variable and may therefore be linked to the achievement of the strategic objectives defined by the Company.

3 Determination of Compensations

3.1 The Nomination & Compensation Committee

The Nomination & Compensation Committee assists the Board in the preparation of compensation proposals for members of the Board and the Executive Management to be submitted for approval to the annual general meeting of shareholders of the Company (the "General Meeting"). Further tasks and responsibilities of the Nomination & Compensation Committee are set forth in articles 23 et seq. of the articles of association of the Company (the "Articles").

In line with OaEC requirements, the Nomination & Compensation Committee members are elected annually and individually by the General Meeting. Members can be re-elected. Should a vacancy in the Nomination & Compensation Committee arise, the Board would appoint a new member from the Board until the following General Meeting.

The Nomination & Compensation Committee aims to meet as and when necessary in view of the Company's activities and will hold at least two meetings per financial year.

The chairman of the Board and the members of the Executive Management are not present at meetings where their personal compensation is discussed.

The current members of the Nomination & Compensation Committee were elected at the General Meeting held on May 25, 2018, each for a term extending until completion of the next General Meeting. The Nomination & Compensation Committee consists of non-executive members of the Board. As at December 31, 2018, the following members of the Board served on the Nomination & Compensation Committee:

- David Fergusson, Chairman of the Nomination & Compensation Committee
- Philippe Doubre
- Maryla Shingler-Bobbio

3.2 Approval of Compensation at the General Meeting

The General Meeting approves annually and separately the proposals of the Board regarding:

- the maximum aggregate amount of compensation of the members of the Board for the period up until the following General Meeting, and
- the maximum aggregate amount of compensation of the members of the Executive Management for the next fiscal year commencing after the General Meeting on which the compensation is voted on.

If the General Meeting does not approve a proposal, or part of a proposal, the Board, pursuant to the Articles, may submit a new proposal during the same meeting. Should the Board not submit a new proposal, or if the new proposal is also rejected, the Board may call an extraordinary General Meeting to submit new proposals.

4 Compensation Components

4.1 Compensation of the Board

With the exception of Carlos Moreira, Chairman and CEO, and Peter Ward, CFO, both executive members, each member of the Board receives an annual compensation consisting of:

- A board fee in cash in an amount of CHF 52,500 for Committee Chairs and CHF 40,000 for all other Directors; and
- Equity-based compensation equivalent to CHF 52,500 for Committee Chairs and CHF 40,000 for all other Directors, granted in options using the closing price of a Class B Share on the SIX on the last trading day of each fiscal year as conversion price, exercisable for Class B Shares at an exercise price of CHF 0.05.

Additional cash and equity-based compensation was paid to certain members of the Board for additional services.

4.2 Compensation of the Executive Management

The Executive Management compensation for fiscal year 2018 consists of fixed compensation and variable compensation, whereby the ratio of the fixed to the variable compensation ranges from 1:1.5 to 1:2.5. The fixed and the variable compensation are composed of the following elements:

- Fixed Compensation and Other Benefits:
  - Annual base compensation, and
  - Pension and other social charges and contributions;
- Variable Compensation:
  - Annual incentive award
  - Equity-based compensation

The annual base compensation of each member of the Executive Management is set to reflect his role and responsibilities within the Company and the WISeKey Group in general, his experience, his skill set and his representative functions for the Company. It is paid in cash, typically monthly, over a thirteen-month period. The thirteenth-month compensation is paid in December of each year, together with the twelfth month base compensation. Base compensation is reviewed annually by the Board and adjusted as necessary based on performance and industry standards.

Pension and other benefits are designed to provide the members of the Executive Management with a fair level of security for them and their dependents.

Annual incentive compensation reflects the efforts of the Executive Management to support the expansion and evolution of the WISeKey Group.

Equity-based compensation is designed to ensure the commitment of Executive Management members towards the long-term success of the WISeKey Group, to align the Executive Management's strategy to shareholders' interests, and to maximize operating cash in the Company.

5 Compensation for the fiscal year 2018

In line with OaEC requirements, compensation of the Board and the Executive Management includes all elements that are subject to disclosure pursuant to article 14 para. 1 of the OaEC.

5.1 Compensation of the members of the Board

Compensation for Carlos Moreira and Peter Ward, who are executive members of the Board and therefore do not receive separate compensation for their roles as members of the Board, are reflected in the Executive Management section set forth below.

Compensation of the Board of Directors of WISeKey International Holding AG for the 12 months ending December 31, 2018

CHF'000 [1]	Function	Board Fee[2]	Additional Fees[3]	Other Stock Based Compensation[4]	Total Compensation
Philippe Doubre	Board Member, NCC[5] Member	74	-	4	78
David Fergusson	Board Member, NCC Chairman, Audit Committee Member	46	-	-	46
Juan Hernandez Zayas	Board Member, Audit Committee Chairman, Strategy Committee Member	82	-	4	86
Thomas Hürlimann	Board Member	23	-	-	23
Dourgam Kummer	Board Member, Vice-Chairman of the Board	72	179	4	255
Maryla Shingler Bobbio	Board Member, NCC Member, Audit Committee Member	74	-	4	78
Total Board Members		**371**	**179**	**16**	**566**

1 Board members are remunerated in Swiss Francs (CHF).

2 Board fees can be paid in a mix of cash and options.
The cash fee voted by the Board as remuneration to Board Members for the 2018/2019 Board term is disclosed in application of the accrual-based principle when it has not yet been paid. The cash fee for 2017/2018 and 2018/2019 Board memberships was not paid to all Board members in 2018 and, where applicable, has been accrued in current liabilities on a prorata temporis basis in the 2018 consolidated financial statements.
Compensation in options on WIHN CLass B Shares is disclosed in the period it was granted, regardless of whether it relates to Board fees from prior financial periods. The amount shown reflects the fair value of options granted in line with US GAAP standards. The options granted were valued using the Black-Scholes method, using the market price of WIHN shares at the relevant date. In 2018, Board members received the options relating to their 2016/2017 Board Term.
The amount of Board fees includes employer social charges paid by the Company.

3 Additional fees relate to services other than Board duties rendered to the Company.

4 Other stock based compensation refers to stock based compensation for services other than Board services.
The amount shown reflects the fair value of options granted in line with US GAAP standards. The options granted were valued using the Black-Scholes method, using the market price of WIHN shares at the relevant date.

5 Nomination & Compensation Committee

Compensation of the Board of Directors of WISeKey International Holding AG
for the 12 months ending December 31, 2017

CHF'000 [1]	Function	Board Fee[2]	Additional Fees[3]	Stock Based Compensation[4]	Total Compensation
Philippe Doubre	Board Member, NCC[5] Member	18	-	-	18
Thomas J. Egger[6]	formerly Board Member, Audit Committee Member	-	-	97	97
David Fergusson[7]	Board Member, Vice-Chairman of the Board, NCC Chairman, Audit Committee Member	18	19	317	354
Juan Hernandez Zayas	Board Member, Audit Committee Chairman, Strategy Committee Member	18	-	-	18
Dr. Franz Humer	formerly Vice-Chairman of the Board, CNC Member, Strategy Committee Member	-	-	-	-
Dourgam Kummer	Board Member	18	83	-	101
Maryla Shingler Bobbio	Board Member, NCC Member, Audit Committee Member	18	-	-	18
Thomas Whayne III[8]	Board Member	-	-	-	-
Total Board Members		**88**	**102**	**414**	**604**

1 Board members are remunerated in Swiss Francs (CHF).

2 The cash fee voted by the Board as remuneration to Board Members for the 2017/2018 Board term is disclosed in application of the accrual-based principle. The cash fee for 2017/2018 Board membership was not paid in 2017 and has been accrued in current liabilities on a prorata temporis basis in the 2017 consolidated financial statements.

3 Additional fees relate to services other than Board duties rendered to the Company.

4 The amount shown reflects the fair value of options granted in line with US GAAP standards. The options granted were valued using the Black-Scholes method, using the market price of WIHN shares at the relevant date.

5 Nomination & Compensation Committee

6 The Stock Based compensation for Thomas J. Egger included the stock options due as compensation of his 2016/2017 Board term, and compensation for his prior Board duties as WISeKey SA Board Member not yet paid nor accrued.

7 David Fergusson was first elected as Board member in the last annual General Meeting on May 31, 2017. Prior to his election to the Board, David Fergusson was compensated for additional services to the Company. No additional fees were paid or due to him after his election.

8 Thomas Whayne III resigned from the Board on October 24, 2017. He did not attend any Board meetings and as such is not owed any compensation for Board duties.

The options part of the 2017/2018 and 2018/2019 Board term remuneration, with the exception of MM. Egger and Humer, have not yet been granted as at December 31, 2018, and are therefore not reflected in the above compensation tables. In line with applicable US GAAP principles, the related stock-based compensation will be recognized in the period when these options are granted.

5.2 Compensation of the members of the Executive Management

The members of the Executive Management during fiscal year 2018 were Carlos Moreira, Chief Executive Officer, and Peter Ward, Chief Financial Officer. Consistent with the OaEC, the Company discloses the aggregate amount paid to the Executive Management and the highest amount paid to an individual member, specifying his name and function.

Compensation of the Executive Management of WISeKey International Holding AG
for the 12 months ending December 31, 2018

CHF'000 [1]	Function	Base Salary[2]	Annual Incentive	Additional Fees[3]	Stock Based Compensation[4]	Other Compensation[5]	Total Compensation
Highest Paid Executive							
Carlos Moreira	Chairman of the Board, Chief Executive Officer	574	324	-	-	155	1,053
Peter Ward	Board Member, Chief Financial Officer	474	268	-	-	119	861
Total Executive Management		**1,048**	**592**	**-**	**-**	**274**	**1,914**

1 The executive management members are remunerated in Swiss Francs (CHF).

2 Base salary includes employee social security costs.

3 Additional Fees include fees paid for special services rendered to the Company.

4 The amount shown reflects the fair value of options granted in line with US GAAP standards. The options granted are valued using the Black-Scholes method, using the market price of WIHN shares at the relevant date.

5 Other compensation includes pension contributions and employer social charges paid by the Company.

Compensation of the Executive Management of WISeKey International Holding AG
for the 12 months ending December 31, 2017

CHF'000 [1]	Function	Base Salary[2]	Annual Incentive	Additional Fees[3]	Stock Based Compensation[4]	Other Compensation[5]	Total Compensation
Highest Paid Executive							
Carlos Moreira	Chairman of the Board, Chief Executive Officer	570	285	16	-	121	992
Other Members[6]		587	235	-	-	118	940
Total Executive Management		**1,157**	**520**	**16**	**-**	**239**	**1,932**

1 The executive management members are remunerated in Swiss Francs (CHF).
2 Base salary includes employee social security costs.
3 Additional Fees include fees paid for special services rendered to the Company.
4 The amount shown reflects the fair value of options granted in line with US GAAP standards. The options granted are valued using the Black-Scholes method, using the market price of WIHN shares at the relevant date.
5 Other compensation includes pension contributions and employer social charges paid by the Company.
6 The compensation paid to Other Members includes the compensation for Carlos Moreno as long as he was a member of the Executive Management, i..e from January 01, 2017 to September 27, 2017.

6 Loans, credits and other payments

As at December 31, 2018, there were no loans outstanding to members of the Board.

FINANCIAL REPORT

BDO

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To the General Meeting of
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General-Guisan-Strasse 6
6300 Zug

Report on the Audit of the Consolidated Financial Statements 2018

(for the year ended 31 December 2018)

22 March 2019

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BDO Ltd
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STATUTORY AUDITOR'S REPORT
To the General Meeting of Wisekey International Holding AG, Zug

Report on the Audit of the Consolidated Financial Statements

Opinion

As statutory auditor, we have audited the accompanying consolidated financial statements of Wisekey International Holding AG, Zug and its subsidiaries ("the Group"), which comprise the Consolidated Balance Sheets as at 31 December 2018 and 31 December 2017 and Consolidated Statements of Comprehensive Loss, Consolidated Statements of Changes in Shareholders' Equity (Deficit) and Consolidated Statements of Cash Flows for each of the two years in the period ended 31 December 2018, and Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In our opinion, the consolidated financial statements (pages 94-137) present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2018 and 31 December 2017, and the consolidated results of its operations and its cash flows for each of the two years in the period ended 31 December 2018, in accordance with U.S. generally accepted accounting principles and comply with Swiss law.

Board of Directors' responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm and are required to be independent with respect to the Company. We conducted our audits in accordance with Swiss law, Swiss Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or er ror.

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

BDO

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Revenue Recognition	
The Group generates revenues from the sale of semiconductor secure chips, digital certificates, Software as a Service (SaaS), Software license and post contract customer support (PCS) and implementation and integration of multiple element cybersecurity solutions. We considered revenue recognition to be a key audit matter because erroneous revenue recognition is a presumed increased risk that has a significant impact on the consolidated financial statements including disclosures. We refer to Note 4 and Note 31 to the consolidated financial statements for the Group's disclosure on the nature of its major revenue sources and method for accounting.	We evaluated the related accounting policy adopted by the Group for compliance with US GAAP. We walked through the Group's process and controls over the different steps from contract identification to revenue recognition. We challenged management's assessment over the identification of the contract, identifying the performance obligation, determining the transaction price, allocating the transaction price, the timing and the amount of revenue recognition. We tested revenue transactions for compliance with ASC 606 on a sample basis. We assessed the appropriateness of the related disclosures in Note 4 and Note 31.

Key Audit Matter	How our audit addressed the key audit matter
Goodwill - Impairment Considerations	
The Group carries significant goodwill of total USD 16.5 million of which USD 8.2 million is recorded in assets held for sale related to the acquisitions of WISeKey Semiconductor SAS ("Semiconductor") and WISeKey (Bermuda) Holding Ltd ("QuoVadis Group" or "QuoVadis") on the consolidated balance sheet. ASC 350 requires the Group to assess whether the fair value of the goodwill is less than the carrying amount. The Group selected to bypass the qualitative assessment and proceeded directly to the quantitative assessment for Semiconductor goodwill but calculated fair value based the income approach the basis of discounted future cash flows. The QuoVadis goodwill was assessed by comparing the expected sales price of QuoVadis to the carrying amount of the net assets to be sold. Due to the significant impact of goodwill on the consolidated financial statements and due to the significant estimates of management involved we consider this area to be a key audit matter. We refer to Note 18 to the consolidated financial statements for additional disclosure of the Group's Goodwill.	We evaluated the appropriateness of the Group's identification of the reporting units and the allocation of the net assets to the reporting units. Regarding Semiconductor, we inspected Group's assessment on impairment consideration for appropriateness. We evaluated the budgeting approach. We challenged management's analysis around the key drivers of cash flow projections. We assessed key assumptions used, e.g. WACC and considered sensitivity of key assumptions. With the support of our internal valuation specialist, we tested the accuracy and appropriateness of the model used. Regarding QuoVadis we compared the purchase price according to the sale and purchase agreement dated December 21, 2018 to the carrying amount of the net assets to be sold. We assessed the appropriateness and completeness of the related disclosures in Note 18.

Key Audit Matter	How our audit addressed the key audit matter
Loans and line of credit	
The Group has signed an acquisition line of credit agreement and eleven different contract amendments on the initial line of credit with ExWorks Capital Fund I, L.P. ("ExWorks"). The accounting for debt issuance costs and the accounting for the conversion option required the Group to make judgments and estimates. Furthermore, the Group entered into a convertible loan agreement with Crede CG III, Ltd. ("Crede") with an embedded put option and a detachable warrant agreement. The classification of the transactions and the accounting was complex, the underlying calculation required judgment and there was a significant impact on the consolidated financial statements. Therefore, we considered it to be a Key Audit Matter. We refer to Note 24 to the consolidated financial statements for additional disclosure of the Group's loans and line of credit.	We inspected the underlying legal documents and the Group's accounting memorandum. We assessed the Group's accounting treatment. For the ExWorks agreement, it was assessed whether the the contract amendments give rise to debt modification or debt extinguishment accounting. For the Crede agreement, the proper accounting for the put option and the detachable warrant was assessed. We verified the assumption and the method used in the calculations as well as the correctness of the journal entries. We assessed the appropriateness and completeness of the related disclosures in Note 24.

Report on other legal and regulatory requirements

We are a public accounting firm registered with the Swiss Federal Audit Oversight Authority (FAOA) and the PCAOB and we confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA). We are independent with respect to the Group in accordance with Swiss law (article 728 CO and article 11 AOA) and U.S. federal securities laws as well as the applicable rules and regulations of the Swiss audit profession, the U.S. Securities and Exchange Commission and the PCAOB, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

We have served as the Company’s auditor since 2015.

Geneva, 22 March 2019

BDO Ltd

Christoph Tschumi	Philipp Kegele
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

1. Consolidated Statement of Comprehensive Loss

USD'000	12 months ended December 31, 2018	2017	Note ref.
Net sales	34,280	33,674	31
Cost of sales	(18,319)	(17,870)	
Gross profit	**15,961**	**15,804**	
Other operating income	289	1,526	32
Research & development expenses	(5,306)	(5,339)	
Selling & marketing expenses	(5,772)	(4,459)	
General & administrative expenses	(14,232)	(15,401)	
Total operating expenses	**(25,021)**	**(23,673)**	
Operating income / (loss)	**(9,060)**	**(7,869)**	
Non-operating income	2,181	762	34
Gain / (loss) on derivative liability	-	(98)	6
Gain / (loss) on debt extinguishment	-	(556)	24
Interest and amortization of debt discount	(150)	(543)	24
Non-operating expenses	(2,826)	(1,751)	35
Income / (loss) from continuing operations before income tax expense	**(9,855)**	**(10,055)**	
Income tax (expense)/recovery	(53)	(71)	
Income/ (loss) from continuing operations, net	**(9,908)**	**(10,126)**	
Discontinued operations:			12
Net sales from discontinued operations	19,412	9,404	
Cost of sales from discontinued operations	(6,196)	(4,516)	
Total operating and non-operating expenses from discontinued operations	(19,778)	(20,620)	
Income tax (expense)/recovery from discontinued operations	205	1,108	
Income / (loss) on discontinued operations	**(6,357)**	**(14,624)**	
Net income / (loss)	**(16,265)**	**(24,750)**	
Less: Net income / (loss) attributable to noncontrolling interests	13	(483)	
Net income / (loss) attributable to WISeKey International Holding AG	**(16,278)**	**(24,267)**	
Earnings per share			
Earnings from continuing operations per share - Basic	(0.29)	(0.34)	38
Earnings from continuing operations per share - Diluted	(0.29)	(0.34)	38
Earnings from discontinued operations per share - Basic	(0.19)	(0.50)	38
Earnings from discontinued operations per share - Diluted	(0.19)	(0.50)	38
Earning per share attributable to WISeKey International Holding AG			
Basic	(0.48)	(0.82)	38
Diluted	(0.48)	(0.82)	38

USD'000	12 months ended December 31, 2018	2017	Note ref.
Other comprehensive income / (loss), net of tax:			
Foreign currency translation adjustments	108	1,548	
Unrealized loss on securities:			
Unrealized holding loss arising during period	-	(375)	*14*
Defined benefit pension plans:			*25*
Net loss arising during period	287	(102)	
Other comprehensive income / (loss)	**395**	**1,071**	
Comprehensive income / (loss)	**(15,870)**	**(23,679)**	
Other comprehensive income / (loss) attributable to noncontrolling interests	(23)	(369)	
Other comprehensive income / (loss) attributable to WISeKey International Holding AG	**418**	**1,440**	
Comprehensive income / (loss) attributable to noncontrolling interests	(10)	(851)	
Comprehensive income / (loss) attributable to WISeKey International Holding AG	**(15,860)**	**(22,828)**	

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

2. Consolidated Balance Sheet

USD'000	As at December 31, 2018	2017	Note ref.
ASSETS			
Current assets			
Cash and cash equivalents	9,146	9,583	7
Restricted cash	618	-	8
Accounts receivable, net of allowance for doubtful accounts	7,620	3,954	9
Notes receivable, related parties	8	897	10
Inventories	4,186	3,463	11
Prepaid expenses	521	752	
Deferred charges, current	184	-	
Current assets held for sale	8,916	6,777	12
Other current assets	919	645	13
Total current assets	**32,118**	**26,071**	
Noncurrent assets			
Equity securities, at fair value	857	592	14
Deferred income tax assets	8	47	36
Deferred tax credits	2,541	2,856	15
Property, plant and equipment net of accumulated depreciation	2,370	2,996	16
Intangible assets, net of accumulated amortization	1,132	1,591	17
Goodwill	8,317	8,317	18
Deferred charges, noncurrent	214	-	
Equity securities, at cost	7,000	-	19
Noncurrent assets held for sale	23,744	24,532	12
Other noncurrent assets	152	154	20
Total noncurrent assets	**46,335**	**41,085**	
TOTAL ASSETS	**78,453**	**67,156**	
LIABILITIES			
Current Liabilities			
Accounts payable	12,917	12,155	21
Notes payable	6,797	84	22
Deferred revenue, current	91	306	31
Income tax payable	9	120	
Current liabilities held for sale	14,085	8,763	12
Other current liabilities	976	2,288	23
Total current liabilities	**34,875**	**23,716**	
Noncurrent liabilities			
Convertible note payable	23,940	18,592	24
Deferred revenue, noncurrent	9	-	31
Indebtedness to related parties, noncurrent	-	985	40
Employee benefit plan obligation	4,465	4,585	25
Deferred income tax liability	-	5	36
Other deferred tax liabilities	4	-	
Noncurrent liabilities held for sale	8,590	5,667	12
Other noncurrent liabilities	2,595	-	26
Total noncurrent liabilities	**39,603**	**29,834**	
TOTAL LIABILITIES	**74,478**	**53,550**	

USD'000	As at December 31, 2018	2017	Note ref.
Commitments and contingent liabilities			**27**
Redeemable preferred stock	**-**	**4,880**	**28**
SHAREHOLDERS' EQUITY			
Common stock - Class A	400	400	29
CHF 0.01 par value			
Authorized - 40,021,988 and 40,021,988 shares			
Issued and outstanding - 40,021,988 and 40,021,988 shares			
Common stock - Class B	1,472	1,261	29
CHF 0.05 par value			
Authorized - 41,063,901 and 35,517,168 shares			
Issued - 28,769,797 and 24,590,918 shares			
Outstanding - 26,681,736 and 24,590,918 shares			
Teasury stock, at cost (2,088,061 and nil shares held)	(1,139)	-	29
Additional paid-in capital	201,373	189,152	
Accumulated other comprehensive income / (loss)	100	(650)	30
Accumulated deficit	(197,348)	(180,554)	
Total shareholders'equity (deficit) attributable to WISeKey shareholders	**4,858**	**9,609**	
Noncontrolling interests in consolidated subsidiaries	(883)	(883)	
Total shareholders'equity	**3,975**	**8,726**	
TOTAL LIABILITIES AND EQUITY AND REDEEMABLE PREFERRED SHARES	**78,453**	**67,156**	

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

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

USD'000	Number of common shares Class A	Number of common shares Class B	Common Share Capital Class A	Common Share Capital Class B	Total share capital	Treasury Shares	Additional paid-in capital	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, 2016	40,021,988	14,668,392	400	756	1,156		159,431	(155,691)	(1,901)	**2,995**	(1,083)	**1,912**	-	**1,912**
Common stock issued[1]	-	5,899,125	-	300	300		18,292	-	-	**18,592**	-	**18,592**	-	**18,592**
Options exercised	-	2,072,332	-	106	106		81	-	-	**187**	-	**187**	-	**187**
Stock-based compensation	-	-	-	-	-		2,232	-	-	**2,232**	-	**2,232**	-	**2,232**
Change in ownership in WISeKey India	-	-	-	-	-		581	(56)	-	**525**	771	**1,296**	-	**1,296**
Acquisition of Quo Vadis Group	-	1,110,000	-	55	55		4,252	-	-	**4,307**	-	**4,307**	4,340	**8,647**
Change in ownership in QuoVadis BV and QuoVadis BVBA	-	-	-	-	-		(759)	-	(204)	**(963)**	(405)	**(1,368)**	-	**(1,368)**
Change in ownership in WISeKey SA	-	841,069	-	43	43		(743)	-	14	**(685)**	685	**0**	-	**0**
ExWorks credit line agreement	-	-	-	-	-		5,785	-	-	**5,785**	-	**5,785**	-	**5,785**
Net loss	-	-	-	-	-		-	(24,267)	-	**(24,267)**	(483)	**(24,750)**	-	**(24,750)**
Other comprehensive income / (loss)	-	-	-	-	-		-	-	1,440	**1,440**	(369)	**1,071**	-	**1,071**
Deemed dividend	-	-	-	-	-		-	(540)	-	**(540)**	-	**(540)**	540	**-**
As at December 31, 2017	40,021,988	24,590,918	400	1,261	1,661	-	189,152	(180,554)	(650)	**9,608**	(883)	**8,725**	4,880	**13,606**
Common stock issued[1]	-	1,761,021	-	90	90	-	7,663	-	-	**7,753**	-	**7,753**	-	**7,753**
Options exercised	-	159,461	-	8	8	-	205	-	-	**213**	-	**213**	-	**213**
Stock-based compensation	-	-	-	-	-	-	1,660	-	-	**1,660**	-	**1,660**	-	**1,660**
Changes in treasury shares	-	2,000,000	-	100	100	(2,177)	619	-	-	**(1,458)**	-	**(1,458)**	-	**(1,458)**
Impact of ASU2016-01 on marketable securities	-	-	-	-	-	-	-	(375)	375	**-**	-	**-**	-	**-**
Liquidation of subsidiaries	-	-	-	-	-	-	-	-	(43)	**(43)**	-	**(43)**	-	**(43)**
Yorkville SEDA	-	258,397	-	13	13	1,038	606	-	-	**1,657**	-	**1,657**	-	**1,657**
Acquisition of Quo Vadis Group noncontrolling interest	-	-	-	-	-	-	1,101	-	-	**1,101**	-	**1,101**	(5,021)	**(3,920)**
Creation of WISeCoin AG	-	-	-	-	-	-	-	-	-	**-**	10	**10**	-	**10**
Crede convertible loan	-	-	-	-	-	-	368	-	-	**368**	-	**368**	-	**368**
Net loss	-	-	-	-	-	-	-	(16,278)	-	**(16,278)**	13	**(16,265)**	-	**(16,265)**
Other comprehensive income / (loss)	-	-	-	-	-	-	-	-	418	**418**	(23)	**395**	-	**395**
Deemed dividend	-	-	-	-	-	-	-	(141)	-	**(141)**	-	**(141)**	141	**-**
As at December 31, 2018	40,021,988	28,769,797	400	1,472	1,872	(1,139)	201,373	(197,348)	100	**4,858**	(883)	**3,975**	-	**3,975**

1. The articles of association of the Company had not been fully updated as of December 31, 2018 with the shares issued out of conditional capital.

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

4. Consolidated Statements of Cash Flows

USD'000	12 months ended December 31, 2018	2017
Cash Flows from operating activities:		
Net loss	(16,265)	(24,750)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Interest and amortization of debt discount	1,165	1,467
Depreciation of property, plant & equipment	1,437	1,376
Amortization of intangible assets	2,047	3,645
Loss / (gain) on derivative liability	-	98
Loss on debt extinguishment	-	7,067
Stock-based compensation	1,660	2,232
Decrease / (increase) in deferred research & development tax credits, net	279	-
Decrease / (increase) in other noncurrent assets, net	(63)	-
Increase / (decrease) in defined benefit pension liability	(109)	711
Increase / (decrease) in other noncurrent liabilities	-	(487)
Provision for bad debt expense	276	537
Inventory obsolescence impairment	284	(2,277)
Deferred tax asset write-off	161	132
Loss /(gain) on disposal of property and equipment	-	(49)
Income tax expense / (recovery) net of cash paid	(152)	(1,115)
Release of provision	(218)	(1,700)
Other non cash expenses /(income)		
Expenses settled in equity	1,685	-
Unrealized and non cash foreign currency transactions	(201)	(365)
Changes in operating assets and liabilities, net of effects of businesses acquired		
Decrease (increase) in accounts receivables	(2,898)	2,591
Decrease (increase) in inventories	(722)	(480)
Decrease (increase) in other current assets, net	(4,385)	(45)
Increase (decrease) in accounts payable	(126)	1,509
Increase (decrease) in deferred revenue	5,992	4,625
Increase (decrease) in income taxes payable	349	149
Increase (decrease) in other current liabilities	1,312	198
Net cash provided by (used in) operating activities	**(8,492)**	**(4,931)**
Cash Flows from investing activities:		
Sale / (acquisition) of equity securities	(3,000)	-
Sale / (acquisition) of property, plant and equipment	(1,244)	(669)
Decrease / (increase) in notes receivables	-	(554)
Acquisition of a business, net of cash and cash equivalents acquired	-	(11,629)
Net cash provided by (used in) investing activities	**(4,244)**	**(12,852)**

USD'000	12 months ended December 31, 2018	2017
Cash Flows from financing activities:		
Proceeds from options exercises	217	36
Proceeds from issuance of Common Stock	2,904	5,039
Decrease / (increase) in loan payable	(895)	1,842
Proceeds from convertible loan issuance	3,000	-
Proceeds from debt	7,656	19,142
Repayments of debt	(106)	(550)
Repurchase of treasury shares	(900)	-
Net cash provided by (used in) financing activities	**11,876**	**25,509**
Effect of exchange rate changes on cash and cash equivalents	(200)	(733)
Cash and cash equivalents		
Net increase (decrease) during the period	(1,060)	6,993
Balance, beginning of period	12,214	5,221
Balance, end of period	**11,154**	**12,214**
Reconciliation to balance sheet		
Cash and cash equivalents from continuing operations	9,146	9,583
Restricted cash from continuing operations	618	-
Cash and cash equivalents from discontinued operations	1,390	2,631
Balance, end of period	**11,154**	**12,214**
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)	4,340
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	-
Purchase of equity securities	4,000	
Conversion of loan receivable into equity securities	-	799

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

5. Notes to the Consolidated Financial Statements

Note 1. The WISeKey Group

WISeKey International Holding AG, 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 December 2015 and is listed on the Swiss Stock Exchange, SIX SAG with the valor symbol "WIHN" since March 2016.
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, WISeKey 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 the WISeKey Group does anticipate being able to generate profits in the near future, this cannot be predicted with any certainty. 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 9.1 million and had positive working capital of USD 4.9 million as at December 31, 2018. Based on the Group's cash projections for the next 12 months to March 31, 2020, it will need approximately USD 16.6 million to fund operations and financial commitments. 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.

After December 31, 2018 the completion of the sale of WISeKey (Bermuda) Holding Ltd (formerly named QV Holdings Ltd) and its affiliates (together "**QuoVadis**" or the "**QuoVadis Group**") to Digicert Inc generated a net cash inflow of USD 37.7 million and allowed WISeKey to repay in full the line of Credit it had contracted with ExWorks Capital Fund I, L.P. ("**ExWorks**") in an amount of USD 25.3 million (see notes 24 and 41). This cash injection together with the cash generated by its operations is sufficient to cover the projected cash outflow until March 31, 2020.

In the year 2017, the Group secured an acquisition line of credit agreement with ExWorks secured on the assets of the Group, with restrictive covenants and an annual interest rate of 12% (see note 24 for detail). The purpose of this line of credit was the acquisition of the QuoVadis group which was completed on April 03, 2017. ExWorks had initially set the annual interest rate at 18%, maturity to December 31, 2018, and capped the line of credit to USD 16.4 million. 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 18.9 million with the option to convert principal repayment, interest charges and fees into WIHN class B shares.
In the year 2018, WISeKey obtained two more loans: (i) a short-term Facility Agreement with Yorkville (the "**Yorkville Loan**") to borrow USD 3.5 million repayable by May 01, 2019 in monthly cash instalments starting in November 2018, with an interest rate of 4% per annum payable monthly in arrears; and (ii) a Convertible Loan Agreement ("the **Crede Convertible Loan**") with Crede CG III, Ltd ("**Crede**") for an amount of USD 3.0 million, with an interest rate of 10% per annum, and repayable in WIHN class B Shares any time between November 30, 2018 and the maturity date of September 28, 2020.
These loans demonstrate the availability of lenders to support the WISeKey Group in its activities and development.

On January 19, 2016, the Group had closed a Share Subscription Facility with GEM LLC (Global Equity Markets, "**GEM**", the Share Subscription Facility, "**the GEM Facility**") which is a CHF 60.0 million facility over 5 years and allows the Group to draw down funds at its option in exchange for WIHN class B shares (see note 24 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. In the year 2018, WISeKey made no drawdowns under the GEM Facility. Therefore, as at December 31, 2018 the outstanding facility available remained CHF 56.1 million.
On February 08, 2018 the Group entered into a Standby Equity Distribution Agreement ("**SEDA**") with a fund managed by Yorkville Advisors Global, LLC ("**Yorkville**") (see note 24 for detail). Pursuant to the SEDA, Yorkville commits to provide equity financing to WISeKey in the aggregate amount of up to CHF 50.0 million in exchange for Class B Shares over a three-year period. Provided that a sufficient number of Class B Shares is provided through share lending, WISeKey has the right to make drawdowns 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 worth up to CHF 5.0 million by drawdown, subject to certain exceptions and limitations. In the year 2018, WISeKey made four drawdowns under the SEDA Facility, for a total amount of CHF 1.7 million. As at December 31, 2018 the outstanding equity financing available was CHF 48.3 million.
Both the GEM Facility and the SEDA will be used as a safeguard should there be any difficulties in raising the necessary equity to cover the USD 16.6 million projected cash outflow noted above.

Based on the foregoing, 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 accordance with the Generally Accepted Accounting Principles in the United States of America ("**US GAAP**") as set forth in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC). All amounts are in United States dollars ("**USD**") unless otherwise stated.

Discontinued Operations relating to WISeKey (Bermuda) Holding Ltd and affiliates

On December 21, 2018 the Group signed a sale and purchase agreement (the "**SPA**") to sell WISeKey (Bermuda) Holding Ltd, a Bermuda based company, and its affiliates to Digicert Inc. The sale is expected to be completed in the first quarter of 2019. The group subsidiaries making up the QuoVadis Group in scope for the sale are WISeKey (Bermuda) Holding Ltd, QuoVadis Trustlink Schweiz AG, WISeKey (UK) Ltd, QuoVadis Trustlink BVBA, QuoVadis Trustlink BV, QV BE BV, QuoVadis Trustlink GmbH, QuoVadis Services Ltd, and QuoVadis Ltd.
We assessed the SPA under ASC 205 and concluded that, although the sale had not been completed as at December 31, 2018, the operation met the requirement to be classified as held for sale and as such qualifies as a discontinued operation.
In line with ASC 205-20-45-3A, we reported the results of the discontinued operations as a separate component of income, and classified their assets and liabilities separately as held for sale in the balance sheet for all periods presented. Long lived assets classified as held for sale were recorded at the lower of (i) their carrying value, and (ii) their fair value less costs to sell.
No gain or loss on classification as held for sale was recorded in 2018.
The Group elected to allocate interest to discontinued operations in accordance with ASC 205-20-45-6 to 205-20-45-8. The allocation method is detailed in Note 12.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with current year presentation and recent accounting pronouncements.

The SPA to sell the QuoVadis Group met the requirement to be classified as held for sale and as such qualifies as a discontinued operation. Therefore, the results of the QuoVadis Group have been reclassified as discontinued operations for all periods presented in the consolidated statement of comprehensive loss. Additionally, the QuoVadis Group's assets and liabilities as of December 31, 2017 have been reclassified and are now separately presented as held for sale on the consolidated balance sheet.

In accordance with the Group's adoption of ASU No. 2017-07, non-service cost expense and income related to defined benefit plans were reclassified to "Non-operating expenses" for the year ended December 31, 2017.
Non-service cost expenses related to defined benefit plans of USD 140,000 for the year ended December 31, 2017 which was previously included in "General & administrative expenses", has been reclassified to "Non-operating expenses" in the consolidated statement of comprehensive loss, to conform to the current period presentation.

Note 4. Summary of significant accounting policies

Fiscal Year

The Group's fiscal year ends on December 31.

Principles of Consolidation

The consolidated financial statements include the accounts of WISeKey and its wholly-owned or majority-owned subsidiaries over which the Group has control.
The consolidated comprehensive loss and net loss of non-wholly owned subsidiaries is attributed to owners of the Group and to the noncontrolling interests in proportion to their relative ownership interests.
Intercompany income and expenses, including unrealized gross profits from internal group transactions and intercompany receivables, payables and loans have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make certain estimates, judgments and assumptions. We believe these estimates, judgements and assumptions are reasonable, based upon information available at the time they were made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are differences between these estimates, judgments or assumptions and the actual results, our consolidated financial statements will be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by US GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting from available alternatives would not produce a materially different result.

Foreign Currency

In general, the functional currency of a foreign operation is the local currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income/loss. The Group's reporting currency is USD.

Cash and Cash Equivalents

Cash consists of deposits held at major banks that are readily available. Cash equivalents consist of highly liquid investments that are readily convertible to cash and that mature within three months or less from the date of purchase. The carrying amounts approximate fair value due to the short maturities of these instruments.

Accounts Receivable

Receivables represent rights to consideration that are unconditional and consist of amounts billed and currently due from customers, and revenues that have been recognized for accounting purposes but not yet billed to customers. The Group extends credit to customers in the normal course of business and in line with industry practices.

Allowance for Doubtful Accounts

We record allowance for doubtful accounts based upon a specific review of all outstanding invoices. We write off a receivable and charge it against its recorded allowance when we have exhausted our collection efforts without success.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs are calculated using standard costs, approximating average costs. Finished goods and work-in-progress inventories include material, labor and manufacturing overhead costs. The Group records write-downs on inventory based on an analysis of obsolescence or a comparison to the anticipated demand or market value based on a consideration of marketability and product maturity, demand forecasts, historical trends and assumptions about future demand and market conditions.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives which range from 1 to 8 years. Leasehold improvements are amortized over the lesser of the estimated useful lives of the improvements or the lease terms, as appropriate. Property, plant and equipment are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Intangible Assets

Those intangible assets that are considered to have a finite useful life are amortized over their useful lives, which generally range from 1 to 14 years. Each period we evaluate the estimated remaining useful lives of intangible assets and whether events or changes in circumstances require a revision to the remaining periods of amortization or that an impairment review be carried out. As at December 31, 2018 and 2017, all intangible assets held by the Group have been determined to have a finite life.

Capital Leases

Obligations recorded under capital leases are identified separately on the balance sheet. Assets under capital leases and their accumulated amortization are disclosed separately in the notes.
Capital lease assets and capital lease obligation are measured initially at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

Goodwill and Other Indefinite-Lived Intangible Assets:

Goodwill and other indefinite-lived intangible assets are not amortized, but are subject to impairment analysis at least once annually.
Goodwill is allocated to the reporting unit in which the business that created the goodwill resides. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. We review our goodwill and indefinite lived intangible assets annually for impairment, or sooner if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We use October 1st as our annual impairment test measurement date.

Equity Securities

Equity securities are any security representing an ownership interest in an entity or the right to acquire or dispose of an ownership interest in an entity at fixed or determinable prices, in accordance with ASC 321, i.e. investments that do not qualify for accounting as a derivative instrument, an investment in consolidated subsidiaries, or an investment accounted for under the equity method.
We account for these investments in equity securities at fair value at the reporting date, except for those investments without a readily determinable fair value where we have elected the measurement at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, in line with ASC 321. Changes in fair value are accounted for in the income statement as a non-operating income/expense.

Provision for Onerous Contracts

The Group recognizes a provision where the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated. It is recorded in Other Liabilities.

Revenue Recognition

WISeKey's policy is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, WISeKey applies the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. We typically allocate the transaction price to each performance obligation on the basis of the relative standalone selling prices of each distinct good or service promised in the contract. If a standalone price is not observable, we use estimates.

The Group recognizes revenue when it satisfies a performance obligation by transferring control over goods or services to a customer. The transfer may be done at a point in time (typically for goods) or over time (typically for services). The amount of revenue recognized is the amount allocated to the satisfied performance obligation. For performance obligations satisfied over time, the revenue is recognized over time, most frequently on a *prorata temporis* basis as most of the services provided by the Group relate to a set performance period.

If the Group determines that the performance obligation is not satisfied, it will defer recognition of revenue until it is satisfied.

We present revenue net of sales taxes and any similar assessments.

The Group delivers products and records revenue pursuant to commercial agreements with its customers, generally in the form of an approved purchase order or sales contract.

Where products are sold under warranty, the customer is granted a right of return which, when exercised, may result in either a full or partial refund of any consideration received, or a credit that can be applied against amounts owed, or that will be owed, to WISeKey. For any amount received or receivable for which we do not expect to be entitled to because the customer has exercised its right of return, we recognize those amounts as a refund liability.

Deferred Revenue

Deferred revenue consists of amounts that have been invoiced but have not been recognized as revenue. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current and the remaining deferred revenue recorded as non-current. This would relate to multi-year certificates or licenses.

Sales Commissions

Sales commission expenses where revenue is recognized are recorded in the period of revenue recognition.

Research and Development and Software Development Costs

All research and development costs and software development costs are expensed as incurred.

Advertising Costs

All advertising costs are expensed as incurred.

Pension Plan

The Group maintains four defined benefit post retirement plans:

- two that cover all Swiss employees working for WISeKey SA and QuoVadis Trustlink Schweiz AG in Switzerland,
- one for the French employees of WISeKey Semiconductors SAS, and
- one for the Indian employees of WISeKey India Private Ltd.

In accordance with ASC 715-30, *Defined Benefit Plans – Pension,* the Group recognizes the funded status of the plan in the balance sheet. Actuarial gains and losses are recorded in accumulated other comprehensive income / (loss).

Stock-based Compensation

Stock-based compensation costs are recognized in earnings using the fair-value based method for all awards granted. Fair values of options and awards granted are estimated using a Black-Scholes option pricing model. The model's input assumptions are determined based on available internal and external data sources. The risk-free rate used in the model is based on the Swiss treasury rate for the expected contractual term. Expected volatility is based on historical volatility of WIHN class B shares.

Compensation costs for unvested stock options and awards are recognized in earnings over the requisite service period based on the fair value of those options and awards. For employees, fair value is estimated at the grant date, and, for non-employees, fair value is measured at each reporting date, as required by ASC 718 and ASC 505-50.

Income Taxes

Taxes on income are accrued in the same period as the revenues and expenses to which they relate.

Deferred taxes are calculated on the temporary differences that arise between the tax base of an asset or liability and its carrying value in the balance sheet of our companies prepared for consolidation purposes, with the exception of temporary differences arising on investments in foreign subsidiaries where WISeKey has plans to permanently reinvest profits into the foreign subsidiaries.

Deferred tax assets on tax loss carry-forwards are only recognized to the extent that it is "more likely than not" that future profits will be available and the tax loss carry-forward can be utilized.

Changes to tax laws or tax rates enacted at the balance sheet date are taken into account in the determination of the applicable tax rate provided that they are likely to be applicable in the period when the deferred tax assets or tax liabilities are realized.
WISeKey is required to pay income taxes in a number of countries. WISeKey recognizes the benefit of uncertain tax positions in the financial statements when it is more likely than not that the position will be sustained on examination by the tax authorities. The benefit recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on settlement with the tax authority, assuming full knowledge of the position and all relevant facts. WISeKey adjusts its recognition of these uncertain tax benefits in the period in which new information is available impacting either the recognition or measurement of its uncertain tax positions.

Research Tax Credits

Research tax credits are provided by the French government to give incentives for companies to perform technical and scientific research. Our subsidiary WISeKey Semiconductors SAS is eligible to receive such tax credits.
These research tax credits are presented as a reduction of Research & development expenses in the income statement when companies that have qualifying expenses can receive such grants in the form of a tax credit irrespective of taxes ever paid or ever to be paid, the corresponding research and development efforts have been completed and the supporting documentation is available. The credit is deductible from the entity's income tax charge for the year or payable in cash the following year, whichever event occurs first. The tax credits are included in noncurrent deferred tax credits in the balance sheet in line with ASU 2015-17.

Earnings per Share

Basic earnings per share are calculated using WISeKey International Holding AG's weighted-average outstanding common shares. When the effects are not antidilutive, diluted earnings per share is calculated using the weighted-average outstanding common shares and the dilutive effect of stock options as determined under the treasury stock method.

Segment Reporting

Our chief operating decision maker, who is also our Chief Executive Officer, regularly reviews information collated into two segments for purposes of allocating resources and assessing budgets and performance. We report our financial performance based on this segment structure described in Note 37.

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 Group expects to adopt all of the aforementioned guidance when effective. The impact on its consolidated financial statements is not currently estimable.

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 Group 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 Group 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 Group 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 non-public 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 non-public 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 Group 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 Group expects to adopt all of the aforementioned guidance when effective. Management does not expect the aforementioned guidance to have an impact on its consolidated financial statements, other than the required changes in disclosures.

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 fiscal years 2018 and 2017:

	Revenue concentration (% of total net sales)		Receivables concentration (% of total accounts receivable)	
	Year to December 31, 2018	Year to December 31, 2017	As at December 31, 2018	As at December 31, 2017
IoT operating segment				
Multinational electronics contract manufacturing company	8%	7%	12%	0%

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 December 31, 2018		As at December 31, 2017			
USD'000	Carrying amount	Fair value	Carrying amount	Fair value	Fair value level	Note ref.
Notes receivable - related parties	8	8	897	897	3	10
Equity securities, at fair value	857	857	592	592	1	14
Equity securities, at cost	7,000	7,000	-	-	3	19
Notes payable	6,797	6,797	84	84	3	22
Convertible note payable	23,940	23,940	18,592	18,592	3	24
Indebtedness to related parties, noncurrent	-	-	985	985	3	40
Redeemable preferred stock	-	-	4,880	4,880	3	28

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:

- Notes receivable, related parties – carrying amount approximated fair value due to their short-term nature.
- Equity securities, at fair value - fair value remeasured as at reporting period.
- Equity securities, at cost - no readily determinable fair value, measured at cost minus impairment
- Notes payable – carrying amount approximated fair value.
- Convertible note payable - carrying amount approximated fair value.
- Indebtedness to related parties, noncurrent – carrying amount approximated fair value.
- Redeemable preferred stock - fair value remeasured as at reporting period.

Derivative liabilities

In 2017, the Group held one derivative instrument which was measured at estimated fair value on a recurring basis and linked to the acquisition on September 20, 2016 of WISeKey Semiconductors SAS, net assets used in the semiconductors operations but previously held at Inside Secure SA level and WISeKey Singapore Pte. As partial consideration for the acquisition of this single reporting unit, WISeKey issued a convertible note for a principal amount of CHF 11,000,000 (USD 10,794,795 at exchange rate on December 3, 2016).
The convertible note had a maturity date of June 18, 2017, that was extended to July 20, 2017, by an amendment signed on June 20, 2017, with early conversion permitted from December 14, 2016. It contained a cash redemption right for the borrower (WISeKey) and a limited cash redemption right for the lender (Inside Secure SA). Conversion could be made in full or in partial increments for at least 20% of the principal amount. The Group expected the full principal amount to be settled in WISeKey Class B shares. The exercise price was set as the lower of

- a fixed conversion price set at CHF 7.444
- a floating conversion price calculated as 90% of the volume-weighted average price during the 15 trading days prior to conversion.

In line with ASU 2014-16, the convertible note was assessed as a hybrid instrument, being a debt instrument with an equity-linked component (the conversion option). Per ASC 815-10, the embedded conversion option met the definition of a derivative and was accounted for separately.
The hosting debt instrument was recorded using the residual method.
The derivative component (the conversion option) was fair valued using a binomial lattice model, building in quoted market prices of WIHN class B shares, and inputs such as time value of money, volatility, and risk-free interest rates.

As at December 31, 2016, the full principal amount was still outstanding and no conversion rights had been exercised. In 2017, the lender issued three exercise notices:

- the first on January 11, 2017 for the conversion of CHF 2,200,000. A total of 530,772 WHIN class B shares were delivered on January 16, 2017 as a result of the conversion;
- the second notice on February 28, 2017 for the conversion of CHF 2,200,000. A total of 585,230 WHIN class B shares were delivered on March 08, 2017 as a result of the conversion; and
- the third notice on July 20, 2017 for the conversion of CHF 6,600,000. A total of 1,560,984 WHIN class B shares were delivered on July 31, 2017 as a result of the conversion.

For the year 2017, WISeKey recorded to the income statement, a net loss on derivative of CHF 95,970 (USD 97,502), a net loss on extinguishment of CHF 546,780 (USD 555,507), and a net debt discount amortization expense of CHF 1,366,039 (USD 1,387,842).

In the year to December 31, 2018, no new derivative liability arose.

Derivative liabilities	**USD'000**
Balance as at December 31, 2016	1,193
Loss on derivative recognized as a separate line in the statement of loss	98
Derivative extinguishment	(1,332)
Foreign exchange loss	41
Balance as at December 31, 2017	-
Movements on derivative instruments	-
Balance as at December 31, 2018	-

Note 7. Cash and cash equivalents

Cash consists of deposits held at major banks.

Note 8. Restricted cash

On August 10, 2018, WISeKey started using the services of a market maker. As part of the contract, WISeKey funded a liquidity account with CHF 1,000,000 on August 24, 2018. As at December 31, 2018, the liquidity account had a balance of CHF 607,502, i.e. USD 617,796 at the reporting exchange rate. The carrying amounts approximate fair value due to the short maturities of these instruments.

Note 9. Accounts receivable

The breakdown of the accounts receivable balance is detailed below:

USD'000	As at December 31, 2018	As at December 31, 2017
Trade accounts receivable	7,607	3,892
Allowance for doubtful accounts	(4)	(18)
Accounts receivable from other related parties	1	1
Accounts receivable from underwriters, promoters, and employees	-	2
Other accounts receivable	16	77
Total accounts receivable net of allowance for doubtful accounts	**7,620**	**3,954**

Note 10. Notes receivable, related parties

The breakdown of the notes receivable balance is detailed below:

USD'000	As at December 31, 2018	As at December 31, 2017
Short-term loan to Board Members	8	542
Short-term loan to other related parties	-	355
Total notes receivable net of allowance for doubtful notes of nil and nil	**8**	**897**

As at December 31, 2018, the short-term loan to Board Members consisted of a CHF 7,713.14 (USD 7,844) receivable from Carlos Moreira made up of short-term cash advances for his travel expenses. This short-term receivable will be cleared when expense claims are processed.

The short-term loans to Board Members outstanding as at December 31, 2017 were both repaid in the year 2018: See note 40 for detail. The short-term loan to other related parties outstanding as at December 31, 2017 consisted of a loan for an amount of CHF 345,570 (USD 354,530) granted by WISeKey on May 12, 2016 to a former US investor. The note bore no interest. In the year 2018, the loan was provided for in the income statement resulting in an expense of CHF 345,570 (USD 353,475 at average rate), although WISeKey will continue its efforts to recover the full amount.

Note 11. Inventories

Inventories consisted of the following:

USD'000	As at December 31, 2018	As at December 31, 2017
Raw materials	1,342	1,104
Work in progress	2,844	2,359
Total inventories	**4,186**	**3,463**

Note 12. Discontinued operations

On December 21, 2018 the Group signed a sale and purchase agreement (the “**SPA**”) to sell WISeKey (Bermuda) Holding Ltd and the QuoVadis Group to Digicert Inc, excluding the ISTANA product line. The sale is expected to be completed in the first quarter of 2019. The group subsidiaries making up the QuoVadis Group in scope for the sale are WISeKey (Bermuda) Holding Ltd, QuoVadis Trustlink Schweiz AG, WISeKey (UK) Ltd, QuoVadis Trustlink BVBA, QuoVadis Trustlink BV, QV BE BV, QuoVadis Trustlink GmbH, QuoVadis Services Ltd, and QuoVadis Ltd.
The completion of the sale is conditional on: (i) the release of liens on QuoVadis companies held by ExWorks; (ii) consent from Edmund Gibbons Ltd, the joint venture partner holding 49% of QuoVadis Services Ltd; (iii) consent from the Bermuda Monetary Authority; and (iv) consent from the Regulatory Authority in Bermuda (the “**RAB**”) (the “**RAB Consent**”) to the change in ultimate beneficial ownership of QuoVadis Services Ltd, being the entity holding the Communications Operating Licence in Bermuda. The SPA states that should the RAB Consent not have been obtained when the other completion conditions are satisfied, WISeKey or Digicert Inc may require to complete the transaction except for QuoVadis Services Ltd, in which case the transfer of ownership of all QuoVadis entities to Digicert Inc would occur except for the shares held by WISeKey (Bermuda) Holding Ltd in QuoVadis Services Ltd which would be transferred to WISeKey International Holding AG until the RAB Consent is obtained.
The purchase price set in the SPA is USD 45,000,000 to be split USD 40,500,000 at completion of the sale and USD 4,500,000 to be paid into an escrow account used for the settlement of any post-completion claims and released in an amount up to USD 2,500,000 on the first anniversary of the completion and the remaining amount on the second anniversary of completion. The net purchase price to be paid to WISeKey will take into account the following adjustments: (a) all accounts payable items and other liability items due for payment on or

before December 31, 2018 shall have been paid in full; (b) the QuoVadis Group companies shall be free of indebtedness including any loan with WISeKey; and (c) the equivalent of USD 4,000,000 in cash in aggregate is retained in the bank accounts of the QuoVadis companies. ISTANA-related contracts and rights were transferred to WISeKey SA prior to December 31, 2018.

We assessed the SPA under ASC 205 and concluded that, although the sale had not been completed as at December 31, 2018, the operation met the requirement to be classified as held for sale and as such qualifies as a discontinued operation. In line with ASC 205-20-45-3A and ASC 205-20-45-10 respectively, we reported the results of the discontinued operations as a separate component of income, and classified their assets and liabilities separately as held for sale in the balance sheet for all periods presented.
No gain or loss on classification as held for sale was recorded in 2018.

The table below shows the reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operations to the total assets and liabilities classified as held for sale and presented separately in the balance sheet:

USD'000	As at December 31, 2018	As at December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	1,390	2,631
Trade accounts receivable	3,420	3,969
Allowance for doubtful accounts	(777)	(519)
Other accounts receivable	38	-
Prepaid expenses	1,013	696
Other current assets	3,832	-
Total current assets held for sale	**8,916**	**6,777**
Noncurrent assets		
Deferred income tax assets	2,190	1,870
Property, plant and equipment net of accumulated depreciation	1,384	970
Intangible assets, net of accumulated amortization	11,919	13,506
Goodwill	8,186	8,186
Other noncurrent assets	65	-
Total noncurrent assets held for sale	**23,744**	**24,532**
TOTAL ASSETS HELD FOR SALE	**32,660**	**31,309**
LIABILITIES		
Current Liabilities		
Trade creditors	2,086	1,859
Other accounts payable	526	1,641
Notes payable	-	96
Deferred revenue, current	7,537	4,315
Current portion of obligations under capital leases	22	-
Income tax payable	586	126
Other current liabilities	3,328	726
Total current liabilities held for sale	**14,085**	**8,763**
Noncurrent liabilities		
Deferred revenue, noncurrent	5,687	2,710
Indebtedness to related parties, noncurrent	868	857
Capital leases	39	-
Employee benefit plan obligation	640	629
Deferred income tax liability	1,356	1,471
Total noncurrent liabilities held for sale	**8,590**	**5,667**
TOTAL LIABILITIES HELD FOR SALE	**22,675**	**14,430**

The table below shows the reconciliation of the major classes of line items constituting income / (loss) on discontinued operations to the income / (loss) on discontinued operation reported in discontinued operations in the income statement:

USD'000	12 months ended December 31, 2018	12 months ended December 31, 2017
Net sales from discontinued operations	19,412	9,404
Cost of sales from discontinued operations	(6,196)	(4,516)
Gross profit	**13,216**	**4,888**
Other operating income	28	-
Research & development expenses	(2,801)	(2,047)
Selling & marketing expenses	(2,826)	(1,795)
General & administrative expenses	(10,509)	(6,544)
Non-operating income	62	7
Non-operating expenses	(2,676)	(2,772)
Gain / (loss) on debt extinguishment	-	(6,511)
Interest and amortization of debt discount	(1,056)	(958)
Total operating and non-operating expenses from discontinued operations	**(19,778)**	**(20,620)**
Income / (loss) from discontinued operations before income tax	**(6,562)**	**(15,732)**
Income tax (expense)/recovery from discontinued operations	205	1,108
Income / (loss) on discontinued operations	**(6,357)**	**(14,624)**
Less: Net income on discontinued operations attributable to noncontrolling interests	309	82
Net loss on discontinued operations attributable to WISeKey International Holding AG	**(6,666)**	**(14,706)**

The depreciation charge for the years 2018 and 2017 from discontinued operations was respectively USD 581,757 and USD 481,467.
The amortization charge for the years 2018 and 2017 from discontinued operations was respectively USD 1,587,895 and USD 1,953,606.

WISeKey considered guidance on allocation of interest to discontinued operations per ASC 205-20-45-6 to 205-20-45-8. In the year 2017, the Group secured an acquisition line of credit agreement with ExWorks with an annual interest rate of 12% (see note 24 for detail). The purpose of this line of credit was the acquisition of the QuoVadis group which was completed on April 03, 2017. Although the debt and interest on debt will not be assumed by Digicert Inc nor is required to be repaid upon disposal, we have assessed that the amount of debt and related interest contracted for the acquisition of the QuoVadis Group is not directly attributable to or related to other operations of WISeKey, and elected to allocate those interests relating to the debt to acquire QuoVadis to discontinued operations. We reviewed the method of allocation based on net assets proposed under ASC 205-20-45-7 and considered that such allocation would not provide meaningful results because it would spread the interest onto other operations of the entity to which the interest is not directly attributable or related. Therefore WISeKey further elected to apply ASC 205-20-45-8 and to allocate interest to the discontinued operations based on the debt that can be identified as specifically attributed to the operations of QuoVadis.
The interest amounts allocated to and included in discontinued operations were respectively USD 3,602,553 and USD 9,903,009 for the years to December 31, 2018 and 2017.

In previous annual and interim reports, the results of the discontinued operations were included in the mPKI segment.

The table below shows the total operating and investing cash flows of the discontinued operation:

USD'000	12 months ended December 31, 2018	12 months ended December 31, 2017
Net cash provided by (used in) operating activities	(6,164)	(6,526)
Net cash provided by (used in) investing activities	1,245	(440)

Property, plant and equipment net of accumulated depreciation in discontinued operations include a capital lease with a total gross amount of USD 104,122 and USD nil total accumulated depreciation as at December 31, 2018 as the asset has not yet been put in use. The lease started on August 01, 2018 for a 3-year period until July 31, 2021.
The net minimum payments for this lease will be USD 26,424 per annum for the years 2019 and 2020, and USD 15,414 for 2021 when the final minimum payment is scheduled.

Note 13. Other current assets

Other current assets consisted of the following:

USD'000	As at December 31, 2018	As at December 31, 2017
Value-Added Tax Receivable	858	300
Advanced payment to suppliers	53	322
Deposits, current	4	23
Other currrent assets	4	-
Total other current assets	**919**	**645**

Note 14. Equity securities, at fair value

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 were not being further pursued. The 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 the Frankfurt stock exchange as reported by the Frankfurt stock exchange 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 effective conversion ratio was EUR 0.3409 per share. The equity securities were fair valued at market price on the date of the transaction to USD 846,561 In line with ASC 320-10-35-1b on available-for-sale securities, the Company fair valued the OpenLimit securities as at December 31, 2017, using the closing market price of EUR 0.2650 on the Frankfurt stock exchange, hence a balance of USD 592,305. The decrease in fair value from the date of the transaction amounting to USD 374,817 was recorded in other comprehensive income as an unrealized holding loss. Upon adoption of ASU 2016-01 as of January 01, 2018 the amount previously reported in accumulated comprehensive income/(loss) that existed as of the date of adoption was reclassified to accumulated deficit.
As at December 31, 2018, the fair value was recalculated using the closing market price on the XETRA of EUR 0.3400 and amounted to USD 856,870.The difference of USD 264,565 was accounted for in the income statement as a non-operational income in the year to December 31, 2018.

Note 15. Deferred tax credits

Deferred tax credits consisted of the following:

USD'000	As at December 31, 2018	As at December 31, 2017
Deferred research & development tax credits	2,505	2,784
Deferred other tax credits	36	72
Total deferred tax credits	**2,541**	**2,856**

WISeKey Semiconductors SAS is eligible for Research tax credits provided by the French government (see Note 4 Summary of significant accounting policies). As of December 31, 2018 and 2017, WISeKey Semiconductors SAS had a receivable balance of respectively USD 2,505,264 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 the following year, whichever event occurs first and is therefore shown under noncurrent deferred tax assets in line with ASU 2015-17.

Note 16. Property, plant and equipment

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

USD'000	As at December 31, 2018	As at December 31, 2017
Machinery & equipment	3,815	3,666
Office equipment and furniture	2,469	2,454
Computer equipment and licences	1,056	1,016
Total property, plant and equipment gross	7,340	7,136
Accumulated depreciation for:		
Machinery & equipment	(1,828)	(1,070)
Office equipment and furniture	(2,169)	(2,126)
Computer equipment and licences	(973)	(944)
Total accumulated depreciation	(4,970)	(4,140)
Total property, plant and equipment from continuing operations, net	**2,370**	**2,996**
Depreciation charge for the year from continuing operations	855	894

The useful economic life of property plant and equipment is as follow:

- Office equipment and furniture: 2 to 5 years
- Production masks 5 years
- Production tools 3 years
- Licenses 3 years
- Software 1 year

Note 17. Intangible assets

Intangible assets and future amortization expenses consisted of the following:

USD'000	As at December 31, 2018	As at December 31, 2017
Trademarks	128	129
Patents	2,281	2,281
License agreements	10,615	10,694
Other intangibles	6,070	6,115
Total intangible assets gross	19,094	19,219
Accumulated amortization for:		
Trademarks	(126)	(125)
Patents	(1,175)	(749)
License agreements	(10,591)	(10,640)
Other intangibles	(6,070)	(6,114)
Total Accumulated amortization	(17,962)	(17,628)
Total intangible assets, net	**1,132**	**1,591**
Amortization charge for the year from continuing operations	460	1,691

The fully amortized 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 were clearly itemized, they were firm, non-refundable, noncancellable orders. The balance was amortized as and when the products were delivered, customers were invoiced and the revenue was recognized in the income statement. An amortization charge of USD 1,711 and USD 303,339 was recorded respectively for the years to December 31, 2018 and 2017, and accumulated amortization amounted to, respectively, USD 923,421 and USD 921,710 as at December 31, 2018 and 2017, hence a carrying amount of respectively USD nil and USD 1,711.

The useful economic life of intangible assets is as follow:

- Trademarks: 5 to 10 years
- Patents 5 to 10 years
- License agreements: 3 to 5 years
- Other intangibles:
  - Backlog of firm customer orders as and when corresponding revenue is recognized
  - Other 5 to 10 years

Future amortization charges are detailed below:

Future estimated aggegate amortization expense from continuing operations	USD'000
2019	532
2020	600
Total intangible assets, net	**1,132**

Note 18. Goodwill

We test goodwill for impairment annually on October 1st, or as and when indicators of impairment arise. As at October 1, 2018, the fair value of the net assets of the reporting unit concerned by goodwill was superior to the carrying value of the net assets and goodwill allocated. After October 1, 2018, there were no impairment indicators identified triggering a new impairment test. Therefore, no impairment loss was recorded in 2018.
Impairment reviews have been conducted for 2 items of goodwill allocated to 2 reporting units (RUs), one in the continuing operations as disclosed above and below relating to the acquisition of WISeKey Semiconductors SAS in 2016), and one in discontinued operations relating to the acquisition of the QuoVadis Group in 2017. For each RU, the fair value is higher than its carrying value.
For the goodwill allocated to the RU in the continuing operations, fair value has been determined based on the income approach. Cash flows have been projected over 5 years from the date of the assessment and have been discounted at the pre-tax weighted average cost of capital of the RU.
For the goodwill allocated to the RU in the discontinued operations, fair value has been determined based on the price stated in the SPA signed on December 21, 2018.

USD'000	IoT Segment	mPKI Segment	Total
Goodwill balance as at December 31, 2016	**8,317**	**-**	**8,317**
Goodwill acquired during the year	-	-	-
Impairment losses	-	-	-
As at December 31, 2017			
Goodwill	8,317	-	8,317
Accumulated impairment losses	-	-	-
Goodwill balance as at December 31, 2017	**8,317**	**-**	**8,317**
Goodwill acquired during the year	-	-	-
Impairment losses	-	-	-
As at December 31, 2018			
Goodwill	8,317	-	8,317
Accumulated impairment losses	-	-	-
Goodwill balance as at December 31, 2018	**8,317**	**-**	**8,317**

The assumptions included in the impairment tests require judgment, and changes to these inputs could impact the results of the calculations. Other than management's projections of future cash flows, the primary assumptions used in the impairment tests were the weighted-average cost of capital and long-term growth rates. Although the Group's cash flow forecasts are based on assumptions that are considered reasonable by management and consistent with the plans and estimates management is using to operate the underlying businesses, there are significant judgments in determining the expected future cash flows attributable to a reporting unit.

Note 19. Equity securities, at cost

On September 27, 2018 WISeKey purchased a warrant agreement in Tarmin from ExWorks as part of the eleventh amendment of the ExWorks Credit Agreement (see note 24). As a result, WISeKey entered into a warrant agreement with Tarmin Inc ("**Tarmin**") (the "**Tarmin Warrant**"), a private Delaware company, leader in data & software defined infrastructure to acquire 22% of common stock deemed outstanding at the time of exercise. The warrant may be exercised in parts or in full, at an exercise price of USD 0.01 per share at nominal value USD 0.0001. The purchase price of the Tarmin Warrant was USD 7,000,000, of which USD 3,000,000 was paid in cash on October

05, 2018, and the remaining USD 4,000,000 corresponds to a promissory term note from WISeKey to ExWorks payable on March 31, 2019. The promissory note bears no interest.
The Tarmin Warrant was assessed as an equity investment without a readily determinable fair value and we elected the measurement at cost less impairment, adjusted for observable price changes for identical or similar investments of the same issuer as permitted by ASU 2016-01. As such, the Tarmin Warrant was initially recognized on the balance sheet at USD 7,000,000.
As at December 31, 2018, we performed a qualitative assessment to consider potential impairment indicators and did not identify impairment indicators. Therefore, no impairment loss was recorded in 2018. We also made reasonable efforts to identify any observable transactions of identical or similar investments of Tarmin, but did not identify any transaction requiring an adjustment to the carrying value of the Tarmin Warrant as at December 31, 2018. Therefore the carrying value of the Tarmin Warrant as at December 31, 2018 was USD 7,000,000.

Note 20. Other noncurrent assets

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

Note 21. Accounts payable

The current accounts payable consisted of the following:

USD'000	As at December 31, 2018	As at December 31, 2017
Trade creditors	6,995	7,017
Factors or other financial institutions for borrowings	934	979
Accounts payable to Board Members	239	232
Accounts payable to other related parties	292	-
Accounts payable to employees	2,185	2,101
Other accounts payable	2,272	1,826
Total accounts payable	**12,917**	**12,155**

Accounts payable to Board Members are made up of accrued board fees and a payable balance of CHF 13,386 (USD 13,613) to Dourgam Kummer relating to the additional services to the Group (see note 40 for detail).

Accounts payable to other related parties is made up of a USD 200,000 payable balance to the Tapscott Group and CHF 90,468 (USD 92,001) payable to OISTE (see note 40 for detail).

Accounts payable to employees consist primarily of holiday, bonus and 13th 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 22. Notes payable

Notes payable consisted of the following:

USD'000	As at December 31, 2018	As at December 31, 2017
Short-term loan	6,718	-
Short-term loan from shareholders	79	84
Total notes payable	**6,797**	**84**

As at December 31, 2018, the Short-term loan balance was made up of:

- a USD 4 million promissory note to ExWorks to finalize the acquisition of a warrant agreement with Tarmin to acquire 22% of common stock (see note 19 for detail)
- a short-term loan with YA II PN, Ltd. with an outstanding balance of USD 2,774,780 as at December 31, 2018 (see note 24 for detail)

The balance of short-term loan from shareholders is made up of loans from the noncontrolling shareholders of WISeKey SAARC for a total amount of USD 79,122 at closing rate (USD 83,727 as at December 31, 2017). These loans do not bear interests.

The weighted–average interest rate on current notes payable outstanding at the reporting date, excluding loans from shareholders at 0%, was respectively 1.62% per annum and nil as at December 31, 2018 and 2017.

Note 23. Other current liabilities

Other current liabilities consisted of the following:

USD'000	As at December 31, 2018	As at December 31, 2017
Value-Added Tax Payable	422	62
Other tax payable	91	122
Customer contract liability, current	142	1,088
Onerous contracts, current	-	753
Other current liabilities	321	263
Total other current liabilities	**976**	**2,288**

The onerous supply contract provision that was outstanding as at December 31, 2017 related to an outsourcing of operations made by the previous owner of WISeKey Semiconductors SAS, Inside Secure SA, in an agreement dated June 04, 2015. As part of this agreement, circa 40 employees were transferred from the previous owner to the outsource manufacturer. At that time a charge of EUR 4.1 million was made corresponding to the present value of the most probable estimation of the amount payable to the outsource provider during the first 3 years of the agreement to June 04, 2018, compared to the fair value of the services expected during this period. The fair value was determined in relation to the market price for these types of services and was based on the information available at the date of transfer.
As at December 31, 2017 the outstanding liability was USD 752,974 classified as current. In 2018, the full remaining provision was utilized until the termination of the onerous contract on June 04, 2018. Subsequently, a new contract at arm's length was entered into with the provider.

Note 24. Loans and line of credit

Share Subscription Facility with GEM LLC

On January 19, 2016 the Group 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 Group 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.
In 2017, WISeKey made three drawdowns for a total of CHF 3,905,355 in exchange for a total of 825,000 WIHN class B shares issued out of authorized share capital.
There were no drawdowns made in 2018.

Therefore, as at December 31, 2018 the outstanding facility available is CHF 56,094,645.

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

On January 16, 2017 the Group signed an acquisition line of credit agreement with ExWorks Capital Fund I, L.P. ("**ExWorks**") (the "**ExWorks Line of Credit**") 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, an eighth amendment on June 20, 2018, a ninth amendment on July 24, 2018, a tenth amendment on August 17, 2018, and an eleventh amendment on September 27, 2018.
As of December 31, 2018, under the ExWorks Line of Credit as amended, the Group 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 ExWorks Line of Credit bear interest payable monthly at 1%. The maturity date of the arrangement is January 16, 2020 with an option to extend maturity to January 16, 2021 for a fee equal to 12% of the outstanding loan at the time WISeKey exercises the extension option. 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 ExWorks Line of Credit, the Group 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 Group 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 Group has complied with the line of credit covenants in the 12 months to December 31, 2018.
As at December 31, 2018, borrowings under the ExWorks 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 QuoVadis

Trustlink Schweiz AG; (iii) any cash bank account of the Group held in Switzerland; (iv) 100% of the shares in WISeKey USA; (v) 100% of the shares in WISeKey Singapore; (vi) 100% of the shares held by the Group in WISeKey SAARC Ltd; and (vii) all shares owned by WISeKey (Bermuda) Holding Ltd in each of its subsidiaries.
The ExWorks Line of Credit can be up-sized / syndicated at the same terms for up to an additional USD 10,000,000 by way of adding co-lender(s) or selling a participation interest.

The line of credit was initially recognized as a revolving credit falling under ASC 480, and, in line with ASU 2015-15 the commitment fee and debt issuance costs totalling USD 3,165,880 were capitalized as deferred charges to be amortized over the duration of the contract. These deferred charges included the fair value of an option agreement signed by both parties on February 06, 2017, granting ExWorks the option to acquire up to 1,075,000 WIHN class B shares at an exercise price of CHF 3.15, exercisable in a maximum of four separate exercises, between June 28, 2017 and February 06, 2020. The option agreement exercisable for up to 1,075,000 WIHN class B shares was fair valued at grant for an amount of USD 2,173,395 using the Black-Scholes model and the market price of WIHN class B shares on the date of grant, February 06, 2017, of CHF 4.04. The option agreement was assessed as equity instrument. The credit entry from the recognition of the option agreement fair value was booked in Additional Paid-In Capital ("**APIC**").
However, the fifth amendment on September 19, 2017 introduced an option to convert payments of the full or partial amounts of principal loan, interests and fees in WIHN class B shares. The introduction of the conversion option was assessed to be a substantial modification of terms for the existing contract and therefore, in line with ASC 470-50-40-6, was accounted for like an extinguishment. As a result, all fees and debt issuance costs, including the option agreement, previously capitalized were fully amortized into the income statement in 2017, the old debt was written off, and the new debt was accounted for. This gave rise to a USD 6,511,421 loss on extinguishment in 2017 made up of total amendment fees of USD 700,000, the unamortized portion of the commitment fee and debt issuance costs totalling USD 2,199,502 (of which USD 1,467,746 related to the option agreement), and the fair value of the conversion option introduced for USD 4,087,519 calculated using the Black-Scholes model and the market price of WIHN class B shares as at the date of the fifth amendment of CHF 4.10 (USD 4.26 at historical rate).
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 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 December 31, 2018 WISeKey has drawn USD 3,995,575 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 amortized over the duration of the credit line.

The eighth, ninth and tenth amendments were assessed and did not give rise to any debt modification or debt extinguishment accounting.

With the eleventh amendment on September 27, 2018 ExWorks removed liens on some intellectual property of the Group in exchange for WISeKey purchasing from ExWorks a 22% warrant in Tarmin (see note 19) for a total purchase price of USD 7,000,000 made up of a USD 3,000,000 cash payment made on October 05, 2018 and a USD 4,000,000 promissory note payable on March 31, 2019. The amendment fee was USD 250,000. The Tarmin Warrant was assessed as an equity investment without a readily determinable fair value and we elected the measurement at cost less impairment, adjusted for observable price changes for identical or similar investments of the same issuer as permitted by ASU 2016-01. As such, the Tarmin Warrant was initially recognized on the balance sheet at USD 7,000,000.
In line with ASC 470-50, we compared the present value of the new debt per the eleventh amendment to the present value of the old debt under the tenth amendment and concluded that the difference was below the 10% threshold. The eleventh amendment was analysed as a debt modification and accounted for under ASC 470-50-40-14. Total debt issue costs of USD 2,540,000 were recorded as debt discounts and amortized over the duration of the credit line.
In 2018, WISeKey recorded a total debt amortization charge of USD 1,164,626 and an unamortized debt discount of USD 1,375,374 remained as at December 31, 2018.
As at December 31, 2018, outstanding borrowings were USD 22,642,012.48. The amount available for additional borrowings under this arrangement as at December 31, 2018 was USD 4,424.52.

Standby Equity Distribution Agreement with YA II PN, Ltd.

On February 08, 2018 WISeKey entered into a Standby Equity Distribution Agreement with a fund managed by Yorkville Advisors Global, LLC. Under the terms of the SEDA as amended, Yorkville has committed to provide WISeKey, upon a drawdown request by WISeKey, up to CHF 50,000,000 in equity financing over a three-year period ending March 01, 2021. Provided that a sufficient number of Class B Shares is provided through share lending, WISeKey has the right to make drawdowns 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 worth up to CHF 5,000,000 by drawdown, subject to certain exceptions and limitations (including the exception that a drawdown request by WISeKey shall in no event cause the aggregate number of Class B Shares held by Yorkville to meet or exceed 4.99% of the total number of shares registered with the commercial register of the Canton of Zug). The purchase price will be 93% of the relevant market price at the time of the drawdown, determined by reference to a five-day trading period following the draw down request by WISeKey.

The instrument was assessed under ASC 815 as an equity instrument. WISeKey paid a one-time commitment fee of CHF 500,000 (USD 524,231 at historical rate) on April 24, 2018 in 100,000 WIHN Class B Shares. In line with ASU 2015-15 the commitment fee was capitalized as deferred charges to be amortized over the duration of the contract as a reduction of equity.
On July 10, 2018 WISeKey made one drawdown for CHF 999,996 (USD 1,007,579 at historical rate) in exchange for 258,397 WIHN class B shares issued out of authorized share capital.
On November 19, 2018 WISeKey made one drawdown for CHF 249,997 (USD 249,975 at historical rate) in exchange for 88,432 WIHN class B shares issued out of treasury share capital.
On December 03, 2018 WISeKey made one drawdown for CHF 249,999 (USD 249,399 at historical rate) in exchange for 88,413 WIHN class B shares issued out of treasury share capital.
On December 17, 2018 WISeKey made one drawdown for CHF 250,000 (USD 248,425 at historical rate) in exchange for 104,297 WIHN class B shares issued out of treasury share capital.

The amortization charge for the capitalized fee recognized in APIC amounted to USD 126,278 for the year to December 31, 2018 and the remaining deferred charge balance was USD 397,953 made up of USD 183,631 current and USD 214,322 noncurrent.
As at December 31, 2018 the outstanding equity financing available was CHF 48,250,008.

Facility Agreement with YA II PN, Ltd.

On September 28, 2018 WISeKey entered into a Facility Agreement with Yorkville to borrow USD 3,500,000 repayable by May 01, 2019 in monthly cash instalments starting in November 2018. The loans bears an interest rate of 4% per annum payable monthly in arrears. A fee of USD 140,000 and debt issuance costs of USD 20,000 paid at inception.
The debt instrument was assessed as a term debt. A discount of USD 160,000 was recorded at inception and will be amortized using the effective interest method over the life of the debt.
The discount amortization expense recorded for the period to December 31, 2018 was USD 102,993.
In the period to December 31, 2018, WISeKey repaid USD 725,220 of the principal loan amount in cash.
The remaining loan balance at December 31, 2018 was USD 2,717,773 including unamortized debt discount of USD 57,007.

Convertible Loan with Crede CG III, Ltd

On September 28, 2018 the Group closed a Convertible Loan Agreement with Crede CG III, Ltd for an amount of USD 3,000,000. The funds were made available on October 31, 2018. The loan bears a 10% p.a. interest rate, payable in arrears on a quarterly basis starting December 31, 2018, and is repayable in WIHN class B Shares any time between November 30, 2018 and the maturity date of September 28, 2020, at Crede's election. Accrued interests are payable, at WISeKey's sole election, either in cash or in WIHN class B Shares. The conversion price applicable to the prepayment of the principal amount or accrued interest is calculated as 93% of the average of the 2 lowest daily volume-weighted average prices quoted on the SIX Stock Exchange during the 10 Trading Days immediately preceding the relevant conversion date or interest payment date respectively, disregarding any day on which Crede (or its Affiliates or related party) has effected any trade, converted into USD at the exchange rate reported by Bloomberg at 9 a.m. Swiss time on the relevant conversion date or interest payment date. As at December 31, 2018 the full amount of USD 3 million remained outstanding and accrued interest of USD 50,833 were recognized in the income statement.

Due to Crede's option to convert the loan in part or in full at any time before maturity, the Crede Convertible Loan was assessed as a share-settled debt instrument with an embedded put option. Because the value that Crede will receive at settlement does not vary with the value of the shares, the settlement provision is not considered a conversion option. We assessed the put option under ASC 815 and concluded that it is clearly and closely related to its debt host and therefore did not require bifurcation. Per ASC 480-10-25, the Crede Convertible Loan was accounted for as a liability measured at fair value using the discounted cash flow method at inception.

On the date of the agreement, WISeKey signed an option agreement granting Crede the option to acquire up to 408,247 WIHN class B shares at an exercise price of CHF 3.84, exercisable between October 31, 2018 and October 29, 2021. Per the option agreement's term, the date of grant under US GAAP is October 29, 2018 upon issuance of a Tax Ruling from the Swiss Federal Tax Administration and the Zug tax authority. In line with ASC 470-20-25-2, the proceeds from the convertible debt with a detachable warrant was allocated to the two elements based on the relative fair values of the debt instrument without the warrant and of the warrant at time of issuance. The option agreement was assessed as an equity instrument and was fair valued at grant for an amount of USD 408,056 using the Black-Scholes model and the market price of WIHN class B shares on the date of grant, October 29, 2018, of CH 3.06. The fair value of the debt was calculated using the discounted cash flow method as USD 2,920,556. Applying the relative fair value method per ASC 470-20-25-2, the recognition of the option agreement created a debt discount on the debt host in the amount of USD 367,771, and the credit entry was booked in APIC.

As at December 31, 2018, the full principal amount was still outstanding and no conversion rights had been exercised.
For the year 2018, the Group recorded in the income statement a net debt discount amortization expense of USD 41,285.

Note 25. 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 WISeKey Semiconductors SAS covering its French employees, and
- one maintained by WISeKey India Private Ltd covering its Indian 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 net service cost as an operating expense and other components of defined benefit plans as a non-operating expense in the statement of comprehensive loss.

The liabilities and annual income or expense of the pension plan are 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 is determined based on prevailing market prices.

The defined benefit pension plan maintained by WISeKey Semiconductors SAS and WISeKey India private Ltd, and their 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 plans are not funded.

The pension liability calculated as at December 31, 2018 is based on annual personnel costs and assumptions as of December 31, 2018.

Personnel Costs	**As at December 31,**	
USD'000	**2018**	**2017**
Wages and Salaries	9,738	8,698
Social security contributions	2,974	2,647
Net service costs	372	361
Other components of defined benefit plans, net	140	143
Total	**13,224**	**11,849**

			As at December 31,			
Assumptions	**2018**	**2018**	**2018**	**2017**	**2017**	**2017**
	France	Switzerland	India	France	Switzerland	India
Discount rate	1.50%	0.80% - 0.90%	7.72%	1.31%	0.60% - 0.70%	6.90%
Expected rate of return on plan assets	n/a	1.50% - 2%	n/a	n/a	1.50% - 2%	n/a
Salary increases	3%	0.5% - 1.50%	9%	3%	0.5% - 1.50%	3%

For WISeKey SA's funded plan, the expected long term rate of return on assets is based on the pension fund policy which is based on approximately +0.5% in addition to the minimum interest by law in Switzerland ("Min LPP"). In 2019, Min LPP is 1.0% hence an assumption of 1.5%.

As at December 31, 2018 the Group's accumulated benefit obligation amounted to USD 12,195,361.

Reconciliation to Balance Sheet start of year

USD'000

Fiscal year	2018	2017
Fair value of plan assets	(7,789)	(5,969)
Projected benefit obligation	12,374	9,779
Surplus/deficit	**4,585**	**3,810**
Opening balance sheet asset/provision (funded status)	**4,585**	**3,810**
Reconciliation of benefit obligation during the year		
Projected benefit obligation at start of year	12,374	9,779
Net Service cost	372	361
Interest expense	86	71
Plan participant contributions	180	158
Net benefits paid to participants	(88)	737
Actuarial losses/(gains)	(37)	744
Acquistions	0	0
Currency translation adjustment	(148)	523
Projected benefit obligation at end of year	**12,740**	**12,374**
Reconciliation of plan assets during year		
Fair value of plan assets at start of year	(7,789)	(5,969)
Employer contributions paid over the year	(293)	(250)
Plan participant contributions	(180)	(158)
Net benefits paid to participants	88	(737)
Interest income	(116)	(93)
Return in plan assets, excl. amounts included in net interest	(56)	(299)
Acquistions	0	0
Currency translation adjustment	71	(283)
Fair value of plan assets at end of year	**(8,275)**	**(7,789)**
Reconciliation to balance sheet end of year		
Fair value of plan assets	(8,275)	(7,789)
Defined benefit obligation - funded plans	12,740	12,374
Surplus/deficit	**4,465**	**4,585**
Closing balance sheet asset/provision (funded status)	**4,465**	**4,585**
Amounts recognized in accumulated OCI		
Net loss (gain)	1,964	2,187
Unrecognized transition (asset)/obligation	0	0
Prior service cost/(credit)	357	423
Surplus/deficit	**2,321**	**2,609**
Estimated amount to be amortized from accumulated OCI into NPBC over next fiscal year		
Net loss (gain)	88	108
Unrecognized transition (asset)/obligation	0	0
Prior service cost/(credit)	62	62

Movement in Funded Status

USD'000

Fiscal year	**2018**	**2017**
Opening balance sheet liability (funded status)	**4,585**	**3,810**
Net Service cost	372	361
Interest cost/(credit)	86	71
Expected return on Assets	(116)	(93)
Amortization on Net (gain)/loss	108	103
Amortization on Prior service cost/(credit)	62	61
Currency translation adjustment	1	0
Total Net Periodic Benefit Cost/(credit)	**512**	**504**
Actuarial (gain)/loss on liabilities due to experience	272	743
Actuarial gain/loss on liab. from changes to fin. assump	(309)	1
Actuarial (gain)/loss on liab. from changes to demo. assump	1	0
Return in plan assets, excl. amounts included in net interest	(56)	(299)
Prior service cost/(credit)	0	0
Amortization on Net (gain)/loss	(108)	(103)
Amortization on Prior service cost/(credit)	(62)	(61)
Currency translation adjustment	(0)	(3)
Total gain/loss recognized via OCI	**(262)**	**279**
Employer contributions paid in the year	(293)	(250)
Total cashflow	**(293)**	**(250)**
Acquistions	**0**	**0**
Currency translation adjustment	(77)	242
Closing balance sheet liability (funded status)	**4,465**	**4,585**

Reconciliation of Net Gain / Loss		
Amount at beginning of year	2,187	1,852
Amortization during the year	(109)	(103)
Asset (gain) / loss	(56)	(299)
Liability (gain) / loss	(37)	744
Acquistions	0	(24)
Currency translation adjustment	(21)	16
Amount at year-end	**1,964**	**2,187**

Reconciliation of prior service cost/(credit)		
Amount at beginning of year	423	479
Amortization during the year	(62)	(61)
Effect of curtailment	0	0
Plan amendment	0	0
Currency translation adjustment	(4)	5
Amount at year-end	**357**	**423**

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. In line with ASC 820's three-tier fair value hierarchy, pension assets belong to the fair value level 3 (see note 6).

Expected future benefit payments (in USD'000)	**France**	**Switzerland**	**India**
2019	-	1,048	-
2020	19	329	-
2021	-	330	-
2022	-	323	-
2023	-	348	-
2024-2027	180	3,358	-

The Group expects to make contributions of approximately $314,000 in 2019.

Note 26. Other noncurrent liabilities

Other noncurrent liabilities consisted of the fully earned fees payable to ExWorks at maturity under the Credit line agreement (see Note 24).

Note 27. Commitments and contingencies

Lease commitments

We lease certain facilities and equipment under operating leases. As of December 31, 2018, future minimum annual operating lease payments were as follows:

Year		USD'000
	2019	599
	2020	559
	2021	540
	2022	240
Total future minimum operating lease payments		**1,938**

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 28. 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. WISeKey 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. WISeKey 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 WISeKey International Holding AG'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 12 months to December 31, 2018 for the acquisition of the remaining 15% NCI in the QuoVadis group.
As at December 31, 2018 the redeemable preferred shares were fully redeemed and there were no further obligation from WISeKey.

Note 29. Stockholders' equity

WISeKey International Holding AG	**As at December 31, 2018**		**As at December 31, 2017**	
Share Capital	*Class A Shares*	*Class B Shares*	*Class A Shares*	*Class B Shares*
Par value per share (in CHF)	0.01	0.05	0.01	0.05
Share capital (in USD)	400,186	1,472,276	400,186	1,260,956
Per Articles of association and Swiss capital categories				
Authorized Capital - Total number of authorized shares	-	8,881,829	-	11,803,428
Conditional Share Capital - Total number of conditional shares	-	11,894,379	-	10,926,250
Total number of fully paid-in shares	40,021,988	28,769,797	40,021,988	24,590,918
Per US GAAP				
Total number of authorized shares	40,021,988	41,063,901	40,021,988	35,517,168
Total number of fully paid-in issued shares	40,021,988	28,769,797	40,021,988	24,590,918
Total number of fully paid-in outstanding shares	40,021,988	26,681,736	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	1,472,276	400,186	1,260,956
Total share capital (in USD)	**1,872,462**		**1,661,142**	
Treasury Share Capital				
Total number of fully paid-in shares held as treasury shares	-	2,088,061	-	-
Treasury share capital (in USD)	-	1,138,596	-	-
Total treasury share capital (in USD)	**-**	**1,138,596**	**-**	**-**

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

In the year to December 31, 2018, WISeKey purchased a total of 2,729,657 treasury shares at an average purchase price of USD 0.96 per share, and sold a total of 641,596 treasury shares at an average sale price of USD 2.92 per share. There were no purchases or sales of treasury shares in the year 2017.

Note 30. Accumulated other comprehensive income

USD'000		
Accumulated other comprehensive income as at December 31, 2016		**(1,901)**
Total net foreign currency translation adjustments	1,875	
Total unrealized loss on securities	(375)	
Total defined benefit pension adjustment	(249)	
Total change in other comprehensive income/(loss), net		1,251
Accumulated other comprehensive income as at December 31, 2017		**(650)**
Total net foreign currency translation adjustments	131	
Total defined benefit pension adjustment	287	
Total unrealized loss on securities reclassified to accumulated deficit	375	
Total adjustment from liquidation of group companies	(43)	
Total change in other comprehensive income/(loss), net		750
Accumulated other comprehensive income as at December 31, 2018		**100**

Note 31. Revenue

Nature of goods and services

The following is a description of the principal activities – separated by reportable segment – from which the Group generates its revenue. For more detailed information about reportable segments, see note 37 - Segment Information and Geographic Data.

- IoT Segment

The IoT segment of the Group principally generates revenue from the sale of semiconductors secure chips. Although they may be sold in connection with other services of the Group, they always represent distinct performance obligations.
The Group recognizes revenue when a customer takes possession of the chips, which usually occurs when the goods are delivered. Customers typically pay once goods are delivered.

- mPKI Segment

The mPKI Segment of the Group generates revenues from Digital Certificates, Software as a Service, Software license and Post-Contract Customer Support (PCS) for cybersecurity applications. Products and services are sold principally separately and more in bundled packages. For bundled packages, the Group accounts for individual products and services separately if they are distinct – i.e. if a product or service is separately identified from other items in the bundled package and if a customer can benefit from it. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices when available or estimated based on the Adjusted Market Assessment approach (e.g. licenses), or the Expected Cost-Plus Margin approach (e.g. PCS), or the Residual approach, based on the elements which are available.

Product and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Certificates	The Group recognizes revenue on a straight-line basis over the validity period of the certificate, which is usually one to three years. This period starts after the certificate has been issued by the Certificate Authority and may be used by the customer for authentication and signature, by checking the certificate validity against the Root of Trust which is maintained by the Group on its IT infrastructure. Customers pay certificates when certificates are issued and invoiced. The excess of payments over recognized revenue is shown as deferred revenue.
SaaS	The Group's SaaS arrangement cover the provision of cloud-based certificate life-cycle-management solutions and signing and authentication solutions. The Group recognizes revenue on a straight-line basis over the service period which is usually yearly renewable. Customers usually pay ahead of quarterly or yearly service periods; the paid amounts which have not yet been recognized are shown as deferred revenue.
Software	The Group provides software for certificates life-cycle management and signing and authentication solutions. The Group recognizes license revenue when the software has been delivered and PCS revenue over the service period which is usually one-year renewable. Customers pay upon delivery of the software or over the PCS.
Implementation, integration and other services	The Group provides services to implement and integrate multi-element cybersecurity solutions. Most of the time the solution elements are off-the-shelve non-customized components which represent distinct performance obligations. Implementation and integration services are payable when rendered, while other revenue elements are payable and recognized as per their specific description in this section. WISeKey also provides hosting and monitoring of infrastructure services which are distinct performance obligations and are paid and recognized over the service period.

Disaggregation of revenue

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

Disaggregation of revenue	Typical payment	At one point in time		Over time		Total	
USD'000		2018	2017	2018	2017	2018	2017
IoT Segment							
Payment at one point in time:							
Secure chips	Upon delivery	29,404	30,435	-	-	29,404	30,435
Total IoT segment revenue		**29,404**	**30,435**	**-**	**-**	**29,404**	**30,435**
mPKI Segment							
Certificates	Upon issuance	-	-	338	716	338	716
Licenses and integration	Upon delivery	4,538	808	-	-	4,538	808
SaaS, PCS and hosting	Quarterly or yearly	-	-	-	1,715	-	1,715
Total mPKI segment revenue		**4,538**	**808**	**338**	**2,431**	**4,876**	**3,239**
Total Revenue		**33,942**	**31,243**	**338**	**2,431**	**34,280**	**33,674**

For the years ended December 31, 2018 and 2017, the Group recorded no revenues related to performance obligations satisfied in prior periods.
The following table shows the Group's revenues disaggregated by geography, based on our customers' billing addresses:

Net sales by region	12 months ended December 31,	
USD'000	2018	2017
IoT Segment		
Europe	11,866	12,838
North America	15,165	12,714
Asia Pacific	2,257	3,649
Latin America	116	1,234
Total IoT segment revenue	**29,404**	**30,435**
Europe	4,768	3,133
North America	0	-
Asia Pacific	49	15
Latin America	58	91
Total mPKI segment revenue	**4,876**	**3,239**
Total Net sales	**34,280**	**33,674**

Contract assets and deferred revenue

Our contract assets and deferred revenue consist of:

USD'000	As at December 31, 2018	As at December 31, 2017
Trade accounts receivables		
Trade accounts receivable - IoT segment	4,871	3,690
Trade accounts receivable - mPKI segment	2,736	202
Total trade accounts receivables	**7,607**	**3,892**
Contract assets	-	-
Total contract assets	**-**	**-**
Deferred Revenue		
Deferred Revenue - mPKI segment	100	306
Total Deferred Revenue	**100**	**306**
Revenue recognized in the year from amounts included in the deferred revenue of the mPKI segment at the beginning of the year	297	771

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 of December 31, 2018, approximately USD 99,839 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 December 31, 2018		USD'000
	2019	91
	2020	9
Total remaining performance obligation		**100**

Note 32. Other operating income

Other operating income consisted of the following:

USD'000	12 months ended December 31, 2018	12 months ended December 31, 2017
Other operating income from related parties	-	88
Other operating income - other	289	1,438
Total other operating income	**289**	**1,526**

As at December 31, 2018 the Group recorded a USD 288,746 gain on the liquidation of its subsidiary WISeKey BRBV classified as other operating income.

In the year 2017, Other operating income from related parties was made up of the amounts invoiced by WISeKey to the OISTE Foundation for the use of its premises and equipment.
Other operating income – other was mainly made up of the release of an unused provision for USD 1,420,769, being USD 292,612 from other current liabilities and USD 1,128,157 from other noncurrent liabilities. The remaining balance of other operating income derived from unsolicited refunds.

Note 33. 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 WISeKey International Holding AG at the same terms, with the share exchange term of 5:1 into WIHN class B shares.

Grants

In the 12 months to December 31, 2017, the Group granted a total of 782,012 options exercisable on WISeKey International Holding AG’s class B shares. Each warrant is exercisable into one class B share.
The warrants granted consist of:

- 159,996 warrants with immediate vesting granted to external advisors, all of which had been exercised as of December 31, 2017;
- 23,016 warrants with immediate vesting granted to external advisors, all of which had been exercised as of December 31, 2017;
- 265,666 warrants with immediate vesting granted to external advisors, none of which had been exercised as of December 31, 2017.
- 166,667 warrants vesting on July 05, 2018
- 166,667 warrants vesting on July 05, 2019

The warrants granted were valued at grant date using the Black-Scholes model. Unexercised warrants to external advisers at December 31, 2017 were revalued to their fair value at December 31, 2017 using the same model.

In the 12 months to December 31, 2018, the Group granted a total of 851,131 options exercisable on WIHN class B shares. Each warrant is exercisable into one class B share.
The warrants granted consist of:

- 113,750 options with immediate vesting granted to employees, all of which had been exercised as of December 31, 2018;
- 100,000 options with immediate vesting granted to an external advisor, all of which had been exercised as of December 31, 2018;

- 214,000 options with immediate vesting granted to external advisors, none of which had been exercised as of December 31, 2018;
- 13,167 options granted to an employee, which vested on February 01, 2018 but were not exercised and were forfeited on September 30, 2019;
- 13,167 options granted to an employee, which vested on August 01, 2018 but were not exercised and were forfeited on September 30, 2019.
- 132,346 options vesting on December 31, 2018 granted to employees, none of which had been exercised as of December 31, 2018;
- 132,349 options vesting on December 31, 2019 granted to employees;
- 132,352 options vesting on December 31, 2020 granted to employees.

The warrants granted were valued at grant date using the Black-Scholes model. Unexercised warrants to external advisers at December 31, 2018 were revalued to their fair value at December 31, 2018 using the same model.

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 WIHN class B shares.

In the fiscal year 2018, a total charge of USD 1,659,501 was recognized in the consolidated income statement in relation to options:

- USD 1,501,222 for options granted to employees;
- USD 158,279 for options granted to nonemployees applying the Black-Scholes model at grant, of which a credit for USD 695,531 correspond to options granted in 2017 some of which vested in 2018 and were revalued at vesting date using the same model, and the remaining part still not vested as of December 31, 2018 and revalued using the same model at year end. Total fair value was USD 310,273 compared to USD 1,005,804 at December 31, 2017, hence an accounting gain for the change in fair value of USD 695,531.

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

Assumption	December 31, 2018	December 31, 2017
Dividend yield	None	None
Risk-free interest rate used (average)	1.00%	1.00%
Expected market price volatility	46.11% - 58.22%	57.88%
Average remaining expected life of stock options (years)	3.10	3.37

The following table illustrates the development of the Group's non-vested options for the years ended December 31, 2018 and 2017.

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, 2016	**-**	**-**
Granted	782,012	2.33
Vested	(448,678)	2.73
Non-vested forfeited or cancelled	-	-
Non-vested options as at December 31, 2017	**333,334**	**1.78**
Granted	851,131	3.67
Vested	(753,097)	3.22
Non-vested forfeited or cancelled	-	-
Non-vested options as at December 31, 2018	**431,368**	**2.99**

As at December 31, 2018, there was a USD 767,696 unrecognized compensation expense related to non-vested stock option-based compensation arrangements. Non-vested stock options outstanding as at December 31, 2018 were accounted for as one of two ways:

- options granted to external advisors in compensation for past services rendered to the Group were recognized in the income statement at fair value as at December 31, 2018 using the Black-Scholes model and the market price of WIHN class B shares of CHF 2.78 on December 31, 2018;
- options granted to employees were accounted for using the graded-vesting method, as permitted under ASC 718-10-35-8, and we therefore recognized compensation costs calculated using the Black-Scholes model and the market price of WIHN class B shares at grant date, over the requisite service period. This leaves an unrecognized compensation expense of USD 767,696.

The following table summarizes the Group's stock option activity for the years ended December 31, 2018 and 2017.

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)**
Outstanding at December 31, 2016	**670,206**	**0.31**	**3.58**	**821,207**
Of which vested	670,206	0.31	3.58	821,207
Of which non-vested	-	-	-	-
Granted	782,012	3.39	-	-
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	**731,772**	**3.61**	**2.59**	**(1,149,461)**
Of which vested	398,438	3.07	2.65	(410,792)
Of which non-vested	333,334	-	-	-
Granted	851,131	1.56	-	-
Exercised or converted	(213,750)	0.98	-	238,614
Forfeited or cancelled	(26,334)	0.05	-	-
Expired	-	-	-	-
Outstanding as at December 31, 2018	**1,342,819**	**2.76**	**3.00**	**(895,404)**
Of which vested	911,451	3.28	2.26	(1,082,233)
Of which non-vested	431,368	-	-	-

Summary of stock-based compensation expenses

Stock-based compensation expenses USD'000	**12 months ended December 31,2018**	**12 months ended December 31, 2017**
In relation to Employee Stock Option Plans (ESOP)	1,278	2,147
In relation to non-ESOP Option Agreements	382	85
Total	**1,660**	**2,232**

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

Stock-based compensation expenses USD'000	**12 months ended December 31, 2018**	**12 months ended December 31, 2017**
Selling & marketing expenses	571	466
General & administrative expenses	967	1,765
Research & Development expenses	121	-
Total	**1,660**	**2,232**

Note 34. Non-operating income

Non-operating income consisted of the following:

USD'000	12 months ended December 31, 2018	12 months ended December 31, 2017
Foreign exchange gain	1,664	687
Financial income	85	31
Interest Income	-	2
Other	432	42
Total non-operating income from continuing operations	**2,181**	**762**

Note 35. Non-operating expenses

Non-operating expenses consisted of the following:

USD'000	12 months ended December 31, 2018	12 months ended December 31, 2017
Foreign exchange losses	1,984	477
Financial charges	104	1,120
Interest Expense	244	-
Other components of defined benefit plans, net	140	143
Other	354	11
Total non-operating expenses from continuing operations	**2,826**	**1,751**

Note 36. Income taxes

The components of income before income taxes are as follows:

Income / (Loss) USD'000	As at December 31, 2018	As at December 31, 2017
Switzerland	(11,428)	(24,363)
Foreign	(4,989)	(1,424)
less Discontinued Operations	6,562	15,732
Income/(loss) from continuing operations before income tax	**(9,855)**	**(10,055)**

Income taxes relating to the Group are as follows:

Income taxes USD'000	As at December 31, 2018	As at December 31, 2017
Switzerland	328	(293)
Foreign	(479)	(744)
less Discontinued Operations	205	1,108
Income tax expense from continuing operations	**53**	**71**

Deferred income tax assets/(liabilities) USD'000	As at December 31, 2018	As at December 31, 2017
Switzerland	134	307
Foreign	708	134
less Discontinued Operations	(834)	(399)
Deferred income tax assets/(liabilities)	**8**	**42**

Income tax at the Swiss statutory rate compared to the Group's income tax expenses as reported are as follows:

Income taxes at the Swiss statutory rate	**As at December 31,**	**As at December 31,**
USD'000	**2018**	**2017**
Net income/(loss) from continuing operations before income tax	(9,855)	(10,055)
Statutory tax rate	24%	24%
Expected income tax (expense)/recovery	2,365	2,433
Income tax (expense)/recovery	(53)	(71)
Change in valuation allowance	4,228	(4,487)
Permanent Difference	(9)	(344)
Change in expiration of tax loss carryforwards	(6,584)	2,397
Income tax (expense) / recovery from continuing operations	**(53)**	**(71)**

The Group assesses the recoverability of its deferred tax assets and, to the extent recoverability does not satisfy the "more likely than not" recognition criterion under ASC 740, records a valuation allowance against its deferred tax assets. The Group considered its recent operating results and anticipated future taxable income in assessing the need for its valuation allowance.

The Group's deferred tax assets and liabilities consist of the following:

Deferred tax assets and liabilities	**As at December 31,**	**As at December 31,**
USD'000	**2018**	**2017**
Stock-based compensation	9	344
Defined benefit accrual	1,272	1,289
Tax loss carry-forwards	10,606	14,888
Deferred Income tax liability	(1,356)	(1,476)
Deferred tax asset from acquisition	477	477
Other temporary adjustments	2,426	1,396
Less discontinued Operations	(3,196)	(2,418)
Valuation allowance	(10,230)	(14,458)
Deferred tax assets / (liabilities)	**8**	**42**

As of December 31, 2018, the Group's operating cumulated loss carry-forwards of all jurisdictions for its continuing operations are as follows:

USD	**United States**	**Switzerland**	**Spain**	**France**	**Singapore**	**UK**	**India**	**Total**
2019	-	3,794,241	-	985,193	101,463	29,836	-	4,910,732
2020	-	2,012,354	-	-	348,659	2,769	-	2,363,783
2021	-	7,998,669	210,265	421,480	83,301	-	-	8,713,715
2022	-	6,430,029	1,221,126	-	-	-	-	7,651,154
2023	-	11,424,146	1,252,387	-	-	-	-	12,676,533
2024	-	5,045,130	-	-	-	-	-	5,045,130
2025	-	9,492,604	-	-	-	-	378,165	9,870,769
2026	-	-	-		-	-	357,577	357,577
2027	-	-	-	-	-	-	-	-
2028	91,163	-	-	-	-	-	-	91,163
2029	9,294	-	23,550	-	-	-	-	32,844
2030	1,660	-	23,760	-	-	-	-	25,420
2031	53,669	-	70,655	-	-	-	-	124,324
2032	89,339	-	80,589	-	-	-	-	169,928
2033	-	-	185,157	-	-	-	-	185,157
2034	-	-	-	-	-	-	-	-
2035	247,494	-	-	-	-	-	-	247,494
2036	-	-	-	-	-	-	-	-
2037	158,569	-	-	-	-	-	-	158,569
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
Total operating loss carry-forwards / Year of expiration if applicable								
	651,188	**46,197,172**	**3,067,490**	**1,406,673**	**533,423**	**32,605**	**735,742**	**52,624,294**

The following tax years remain subject to examination:

Significant jurisdictions	Open years
Switzerland	2016 - 2018
USA	2016 - 2018
France	2015 - 2018
Spain	2015 - 2018
Singapore	2018
Japan	2018
Taiwan	2017 - 2018
India	2018
UK	2018
Italy	2018

As at December 31, 2018, WISeKey Semiconductors SAS has recorded a USD 90,831 tax provision following a tax audit started in 2018. Although the final conclusions have not yet been communicated formally, management believes that it is more probable than not that the entity will have to pay a penalty and has calculated the provision based on preliminary discussions with the tax authorities. The Group has no other uncertain tax positions as at December 31, 2018.
As at December 31, 2017, WISeKey Semiconductors SAS had recorded a USD 62,671 tax provision following a tax audit started in 2017. In the year to December 31, 2018 USD 50,185 was utilized, the remaining USD 12,487 was released to the income statement.

Note 37. 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.

12 months to December 31, 2018

USD'000	IoT	mPKI	Total
Revenues from external customers from continuing operations	29,404	4,876	34,280
Intersegment revenues from continuing operations	725	2,563	3,288
Interest revenue from continuing operations	37	167	204
Interest expense from continuing operations	275	2,608	2,883
Depreciation and amortization from continuing operations	1,299	16	1,315
Segment income /(loss) from continuing operations before income taxes	(1,232)	(8,466)	(9,698)
Profit / (loss) from intersegment sales from continuing operations	35	122	157
Income tax recovery /(expense) from continuing operations	2	(55)	(53)
Other significant non cash items			
Share-based compensation expense	-	1,660	1,660
Interest and amortization of debt discount and expense	-	150	150
Segment assets	19,082	52,675	71,757

Revenue reconciliation from continuing operations	USD'000
Total revenue for reportable segment	37,568
Elimination of intersegment revenue	(3,288)
Total consolidated revenue from continuing operations	34,280

Loss reconciliation from continuing operations	USD'000
Total profit / (loss) from reportable segments	(9,698)
Elimination of intersegment profits	(157)
Loss before income taxes from continuing operations	(9,855)

Assets	USD'000
Total assets from reportable segments	71,757
Elimination of intersegment receivables	(6,430)
Elimination of intersegment investment and goodwill	(19,533)
Total assets held for sale from discontinued operations	32,659
Consolidated total assets	**78,453**

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 from continuing operations	12 months ended December 31,	
USD'000	2018	2017
Europe	16,634	15,971
North America	15,165	12,714
Asia Pacific	2,306	3,664
Latin America	175	1,325
Total Net sales from continuing operations	**34,280**	**33,674**

Property, plant and equipment, net of depreciation by region	As at December 31,	As at December 31,
USD'000	2018	2017
Europe	2,345	3,490
North America	1	1
Asia Pacific	23	35
Latin America	-	-
Total Property, plant and equipment, net of depreciation	**2,370**	**2,996**

Note 38. Loss per share

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

Loss per share	12 months ended December 31, 2018	12 months ended December 31, 2017
Net loss attributable to WISeKey International Holding AG (USD'000)	(16,278)	(24,267)
Weighted average shares outstanding - basic	33,904,659	29,505,629
Basic and diluted weighted average loss per share attributable to WIHN (USD)	(0.48)	(0.82)

For purposes of the diluted net loss per share calculation, stock options, 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.

The following table shows the number of stock equivalents that were excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive.

Dilutive vehicles	**2018**	**2017**
Total stock options	1,342,819	731,772
Warrants	2,942,374	2,534,127
Redeemable preferred stock	-	860,000
Total convertible instruments	6,821,804	3,922,438
Total number of shares from dilutive vehicles	**11,106,997**	**8,048,337**

Note 39. Legal proceedings

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

Note 40. Related parties disclosure

Subsidiaries

The consolidated financial statements of the Group include the entities listed in the following table:

Group Company Name	Country of incorporation	Year of incorporation	Share Capital		% ownership as of December 31, 2018	% ownership as of December 31, 2017	Nature of business
WISeKey SA	Switzerland	1999	CHF	933,436	95.35%	95.35%	Main operating company. Sales and R&D services
WISeKey Semiconductors SAS	France	2010	EUR	1,298,162	100.0%	100.0%	Chip manufacturing, sales & distribution
WiseTrust SA	Switzerland	1999	CHF	680,000	100.0%	100.0%	Non-operating investment company
WISeKey (Suisse) SA	Switzerland	2002	CHF	100,000	100.0%	100.0%	Dormant
WISeKey ELA SL	Spain	2006	EUR	4,000,000	100.0%	100.0%	Sales & support
WISeKey SAARC Ltd	U.K.	2016	GBP	100,000	51.0%	51.0%	Non trading
WISeKey USA Inc	U.S.A	2006	USD	6,500	100%*	100%*	Sales & support
WISeKey India Private Ltd***	India	2016	INR	1,000,000	45.9%	45.9%	Sales & support
WISeKey Italia s.r.l.**	Italy	2011	EUR	10,000	50.0%	50.0%	Dormant
WISeKey Singapore Pte Ltd**	Singapore	2007	SGD	100,000	100.0%	100.0%	Sales & distribution
WISeKey KK	Japan	2017	JPY	1,000,000	100.0%	100.0%	Sales & distribution
QuoVadis Trustlink Schweiz AG	Switzerland	2005	CHF	100,000	100.0%	85.0%	Sales & distribution
WISeKey (UK) Ltd	U.K.	2007	GBP	200	100.0%	85.0%	Sales & distribution
QuoVadis Trustlink BVBA	Belgium	2013	EUR	6,267	100.0%	85.0%	Sales & distribution
QuoVadis Trustlink BV	The Netherlands	2008	EUR	18,000	100.0%	85.0%	Sales & distribution
QV BE BV	The Netherlands	2013	EUR	10,000	100.0%	85.0%	Non trading
QuoVadis Trustlink GmbH	Germany	2014	EUR	25,000	100.0%	85.0%	Sales & distribution
QuoVadis Services Ltd	Bermuda	2000	USD	12,000	51.0%	43.4%	Support and R&D services
QuoVadis Ltd	Bermuda	2000	USD	12,000	100.0%	85.0%	Support and R&D services
WISeKey (Bermuda) Holding Ltd	Bermuda	1999	USD	109,392	100.0%	85.0%	Holding for the QuoVadis group
WISeKey Taiwan	Taiwan	2017	TWD	100,000	100.0%	100.0%	Sales & distribution
WISeCoin AG	Switzerland	2018	CHF	100,000	90.0%	not incorporated	Sales & distribution
WISeKey Equities AG	Switzerland	2018	CHF	100,000	100.0%	not incorporated	Financing, Sales & distribution

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

** dormant or in the process of being liquidated

*** 88% owned by WISeKey SAARC which is controlled by WISeKey International Holding AG

Related party transactions and balances

Related Party (In USD'000)	Receivables as at December 31, 2018	Receivables as at December 31, 2017	Payables as at December 31, 2018	Payables as at December 31, 2017	Net income from in the year ended December 31, 2018	Net income from in the year ended December 31, 2017	Net expenses to in the year ended December 31, 2018	Net expenses to in the year ended December 31, 2017
1 Carlos Moreira	8	488	-	-	209	-	-	12
2 Maryla Shingler-Bobbio	-	54	-	49	-	3	80	-
3 Philippe Doubre	-	-	54	49	-	-	80	-
4 Juan Hernandez-Zayas	-	-	62	49	-	-	88	-
5 Thomas Hürlimann	-	-	24	-	-	-	24	-
6 Dourgam Kummer	-	-	68	63	-	-	264	81
7 David Fergusson	-	-	31	22	-	-	47	224
8 Roman Brunner	-	-	418	407	-	-	242	-
9 Anthony Nagel	-	-	-	-	-	-	164	-
10 Harald Steger	-	-	-	-	-	-	445	-
11 Don Tapscott	-	-	200	-	-	-	394	-
12 Wei Wang	-	-	-	-	-	-	187	-
13 OISTE	-	-	92	-	-	88	221	219
14 Todd Ruppert	-	354	-	-	-	-	353	-
15 Edmund Gibbons Limited	-	1	451	546	434	431	173	130
16 Terra Ventures Inc	-	-	31	33	-	-	-	-
17 SAI LLC (SBT Ventures)	-	-	32	34	-	-	-	-
18 GSP Holdings Ltd	-	-	16	17	-	-	-	-
19 Indian Potash Limited	-	-	-	-	42	-	-	-
20 Thomas J. Egger	-	-	-	-	-	-	-	129
21 AXCIT Capital	-	-	-	-	696	-	-	1,302
Total	8	897	1,479	1,269	1,381	522	2,762	2,097

1. Carlos Moreira is the Chairman of the Board and CEO of WISeKey. 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 7,713.14 (USD 7,844) from Carlos Moreira was also outstanding as at December 31, 2018, made up of short-term cash advances to Carlos Moreira for his travel expenses. This short-term receivable will be cleared when expense claims are processed.
A credit of CHF 204,633 (USD 209,314) was recorded in the income statement in 2018 in relation to a loan of 322,900 WIHN class B shares from Carlos Moreira to WISeKey on September 25, 2018. The equivalent of 100,000 WIHN class B shares was repaid by WISeKey in cash at market price CHF 3.22 per share, hence a repayment of CHF 322,000 on November 13, 2018, and the remaining 222,900 WIHN class B shares were delivered back to M. Moreira on December 28, 2018 as full and final repayment of the loan. The credit recorded in the income statement correspond to the accounting revaluation of the loan at market price at each transaction date, there was and will not be any cash paid to Carlos Moreira for this credit entry.

2. Maryla Shingler Bobbio is a Board member of the Group, and member of the Group's audit committee and nomination & compensation committee. On September 23, 2016, the Group made a loan for an amount of CHF 50,000 (USD 51,296) to Maryla Shingler Bobbio. It carried an interest rate of 5% per annum. In the year 2018, Maryla Shingler Bobbio repaid in full the outstanding loan of CHF 50,000 and accrued interests in the amount of CHF 2,500. The expenses recorded in the income statement in the year to December 31, 2018 relate 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 December 31, 2018 and expenses recorded in the income statement in the year to December 31, 2018 relate 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 December 31, 2018 and expenses recorded in the income statement in the year to December 31, 2018 relate to his Board fees.

5. Thomas Hürlimann is a Board member of the Group, appointed in the Group's last Annual General Meeting on May 25, 2018. The payable to Thomas Hürlimann as at December 31, 2018 and expenses recorded in the income statement in the year to December 31, 2018 relate to his Board fees.

6. Dourgam Kummer is the Vice-Chairman of the Board of the Group, as well as a shareholder. In 2018, M. Kummer also provided additional services to the Group which amounted to CHF 179,090 (USD 183,187), the remaining expenses recorded in the income statement in the year to December 31, 2018 relate to his Board fees. The payable to Dourgam Kummer as at December 31, 2018 relates to his Board fees for USD 54,237 and additional services to the Group for CHF 13,386 (USD 13,613).

7. David Fergusson is a Board member of the Group, and member of the Group's audit committee and nomination & compensation committee, as well as a shareholder. The payable to David Fergusson as at December 31, 2018 and expenses recorded in the income statement in the year to December 31, 2018 relate to his Board fees.

8. Roman Brunner is the Chief Revenue Officer of the Group and a shareholder. 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 December 31, 2018 the balance of the loan and accrued interests due by WISeKey (Bermuda) Holding Ltd to Roman Brunner was USD 418,334. Roman Brunner was a shareholder of WISeKey (Bermuda) Holding Ltd until WISeKey acquired the noncontrolling interest in May 2018 (see note 28 for detail). In addition to the transaction to purchase Roman Brunner's shares in WISeKey (Bermuda) Holding Ltd, he was granted options on WIHN Class B shares which were valued at grant using the Black-Scholes model and triggered a charge in the income statement for the year to December 31, 2018 of USD 241,830.

9. Anthony Nagel is the Chief Operations Officer of QuoVadis and a shareholder. Anthony Nagel was a shareholder of WISeKey (Bermuda) Holding Ltd until WISeKey acquired the noncontrolling interest in May 2018 (see note 28 for detail). In addition to the transaction to purchase Anthony Nagel's shares in WISeKey (Bermuda) Holding Ltd, he was granted options on WIHN Class B shares which were valued at grant using the Black-Scholes model and triggered a charge in the income statement for the year to December 31, 2018 of USD 164,423.

10. Harald Steger is a member of the Group's strategy committee. On January 11, 2018, WISeKey granted options to Harald Steger which were valued using the Black-Scholes model and the market price of the WIHN class B shares at grant. The stock-based expense recorded in 2018 was USD 445,162.

11. Don Tapscott is a member of the Group's strategy committee, and cofounder of The Tapscott Group Inc. On January 09, 2018, WISeKey granted options to Don Tapscott which were valued using the Black-Scholes model and the market price of the WIHN class B shares at grant. The stock-based expense recorded in 2018 was USD 194,455.
The Blockchain Research Institute (the "**BRI**") is a division of The Tapscott Group Inc. On December 20, 2018 WISeKey and the BRI entered into an agreement to establish BlockChain Centers of Excellence and promote BlockChain technology worldwide. WISeKey will pay a one-time fee of USD 200,000 to BRI which was expensed in the income statement in 2018 and remained as a short-term payable as at December 31, 2018.

12. Wei Wang is a member of the Group's strategy committee. On January 09, 2018, WISeKey granted options to Wei Wang which were valued using the Black-Scholes model and the market price of the WIHN class B shares at grant. The stock-based expense recorded in 2018 was USD 187,365.

13. 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.
OISTE is also the minority shareholder in WISeCoin AG with a 10% ownership.
The expenses relating to OISTE recognized in 2018 relate solely to the license fee for the year 2018 under the contract agreement with WISeKey SA. As at December 31, 2018 WISeKey had a payable balance of CHF 90,468 (USD 92,001) with OISTE.

14. Todd Ruppert was a shareholder on May 12, 2016 when the Group extended a loan to him of CHF 345,570 (USD 354,530) which matured on September 30, 2017. The loan bore no interest. In 2018, the Group assessed the recoverability of the loan and provided for the full balance to the income statement, hence a charge of USD 353,475 at average rate. WISeKey will continue its efforts to recover the full amount from Todd Ruppert.

15. 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 December 31, 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 December 31, 2018. In the year 2018, Edmund Gibbons Ltd charged rental fees of USD 172,543 to QuoVadis Services Ltd. The revenue of USD 434,291 relates to a Managed Services contract with Clarien Bank.

16. Terra Ventures Inc has a 16% shareholding in WISeKey SAARC Ltd. Terra Ventures granted a GBP 24,507 loan to WISeKey SAARC Ltd on January 24, 2017. The loan is non-interest bearing and has no set repayment date.

17. SAI LLC, doing business as SBT Ventures, has a 16% shareholding in WISeKey SAARC Ltd. SAI LLC granted a GBP 25,000 loan to WISeKey SAARC Ltd on January 25, 2017. The loan is non-interest bearing and has no set repayment date.

18. GSP Holdings Ltd has a 16% shareholding in WISeKey SAARC Ltd. GSP Holdings Ltd granted a GBP 12,500 loan to WISeKey SAARC Ltd on February 02, 2017. The loan is non-interest bearing and has no set repayment date.

19. 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 income for the year to December 31, 2018 relate to services provided by WISeKey India Private Ltd to IPL.

20. Thomas J. Egger is a former Board member of the Group, and former member of the Group's audit committee, as well as a shareholder.

21. AXCIT Capital Partners, an international corporate finance and investment advisory firm, has provided advisory services to WISeKey since 2014. On July 05, 2017, WISeKey granted options to ACXIT in settlement of past services rendered to WISeKey. The options were valued using the Black-Scholes model and the market price of the WIHN class B shares at grant. Unvested options were revalued using the market price of the shares on the last SIX trading day of the year. The stock-based income derived from the revaluation of unvested options recorded in 2018 was USD 695,531.

Note 41. Subsequent events

Crede Convertible Loan

On January 03, 2019 Crede exercised a conversion in the amount of USD 73,559 in exchange for 30,000 WIHN class B shares issued out of treasury share capital.
On January 03, 2019 Crede exercised a conversion in the amount of USD 265,099 in exchange for 100,000 WIHN class B shares issued out of treasury share capital.
On February 26, 2019 Crede exercised a conversion in the amount of USD 279,525 in exchange for 100,000 WIHN class B shares issued out of treasury share capital.
The outstanding convertible loan balance outstanding after these conversions was USD 2,381,817.

Employment of Dourgam Kummer

On January 07, 2019, Dourgam Kummer, non-executive member of the Board started a full-time employment contract with WISeKey SA as Head Corporate M&A. On the basis of this employment contract M. Kummer became an executive member of the Board from January 07, 2019.

SEDA drawdown

On January 08, 2019 WISeKey made one drawdown for CHF 250,000 (USD 245,125 at historical rate) in exchange for 97,125 WIHN class B shares issued out of treasury share capital. The outstanding equity financing available after this drawdown was CHF 48,000,008.

Yorkville Loan

At the time of release of this annual report, WISeKey has repaid another USD 1,727,703 toward the Yorkville loan and the remaining loan balance is USD 1,054,959

FINMA Non-action letter relating to WISeCoin AG

On January 11, 2019 the Swiss Financial Market Supervisory Authority ("**FINMA**") issued a non-action letter in relation to the planned Secure Token Offering ("**STO**") planned by WISeCoin AG.

Sale of QuoVadis

On January 16, 2019 WISeKey completed the sale of WISeKey (Bermuda) Holding Ltd (including all of its subsidiaries) to DigiCert, Inc. pursuant to a Share Purchase Agreement entered into by and between WISeKey and DigiCert, Inc. on December 21, 2018. As of January 16, 2019, the following subsidiaries are no longer part of the WISeKey Group: WISeKey (Bermuda) Holdings Ltd., QuoVadis Trustlink Schweiz AG, QuoVadis Trustlink BVBA, QuoVadis Trustlink BV, QV BE BV, QuoVadis Trustlink GmbH, WISeKey (UK) Ltd, QuoVadis Services Ltd. and QuoVadis Ltd.
As at January 16, 2019, the RAB consent to transfer the ownership of QuoVadis Services Ltd had not yet been obtained. Therefore, in application of the SPA terms and conditions, the shares in QuoVadis Services Ltd held by WISeKey (Bermuda) Holding Ltd were transferred to WISeKey International Holding AG who, as a result, held a 51% interest in QuoVadis Services Ltd and directly operated QuoVadis Services Ltd on trust for DigiCert, Inc. until the effective transfer of the shares in QuoVadis Services Ltd to DigiCert, Inc.
WISeKey received the RAB Consent on February 28, 2019 and, on the same day, the 51% ownership of QuoVadis Services Ltd held by WISeKey was transferred to DigiCert, Inc.
After all purchase price adjustments as listed in note 12 above, WISeKey received a net cash consideration of USD 37,673,749, including USD 6,291,588 as repayment of intercompany loans and receivables held with QuoVadis companies. In addition, the balance of USD 4,500,000 was held in an escrow account as detailed in note 12.

Full repayment of the loan from Roman Brunner

On January 16, 2019, immediately prior to the sale of WISeKey (Bermuda) Holding Ltd, WISeKey repaid in full the principal loan balance due by WISeKey (Bermuda) Holding Ltd to Roman Brunner of USD 227,382 and accrued interests of USD 191,450.

Full repayment of the loan from Edmund Gibbons Limited

On January 16, 2019, immediately prior to the sale of WISeKey (Bermuda) Holding Ltd, WISeKey repaid in full the principal loan balance due by QuoVadis Services Ltd to Edmund Gibbons Limited for USD 450,134.

Full repayment of the ExWorks Line of Credit

On January 16, 2019, following the sale of WISeKey (Bermuda) Holding Ltd, WISeKey used part of the consideration to repay in full the principal loan balance of the ExWorks Line of Credit of USD 22,618,226, accrued interests of USD 120,654, and fees of USD 2,595,000, hence a total payment of USD 25,333,880.

Forfeiture of options granted to QuoVadis management

As a result of the disposal of some QuoVadis entities, the employment or contractual relationship between WISeKey and some QuoVadis employees or QuoVadis consultants was terminated on January 16, 2019. This triggered the immediate forfeiture of any non-vested options held by such employees or consultants, and the forfeiture within 30 days of any non-exercised vested options.
At the publication date of this annual report, a total of 249,853 unvested options were forfeited on January 16, 2019 and 79,256 vested options were forfeited on February 15, 2019.

Options granted under WISeKey ESOP

After December 31, 2018 a total of 61,521 options were granted under the Group's ESOP.

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Report on the Audit of the Financial Statements 2018

(for the year ended 31.12.2018)

22 March 2019

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STATUTORY AUDITOR'S REPORT

To the General Meeting of WISeKey International Holding AG, Zug

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of WISeKey International Holding AG ("the Company"), which comprise the balance sheet as at 31 December 2018, the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 141-156) as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of Investments in subsidiaries	
The Company carries investments in subsidiaries in the amount of CHF 46.9 million on the balance sheet. Investments are valued individually at acquisition costs less impairment. The valuation of investments involves judgment in the projections and assumptions used, which are sensitive to the expected future market developments that could affect the profitability of these entities. We focused on this area due to the degree of management's judgment involved, its significant impact on the financial statements and the impact it has on presentation and disclosures.	We assessed the Company's impairment considerations and valuation for all significant investments for reasonableness. We evaluated key assumptions relating to future expected cash flows of each significant subsidiary applied in performing the valuation.

BDO

Key Audit Matter	How our audit addressed the key audit matter
Valuation of intercompany loans	
The Company carries an intercompany loan balance in the amount of CHF 19.8 million on the balance sheet. We focused on this area due to its significant impact on the financial statements and the impact it has on presentation and disclosures.	We assessed the financial solvency based on the net asset values as well as future expected cash flows of the corresponding subsidiaries with regards to the collectability of the receivable amount.

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

Geneva, 22 March 2019

BDO Ltd

Christoph Tschumi	Philipp Kegele
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

WISeKey International Holding AG

BALANCE SHEET AS AT 31ST DECEMBER 2018

CHF

ASSETS	2018	Note ref:	2017
Current Assets			
Cash and bank deposits	2,782,942		3,913,211
Short-term intercompany receivables	10,419,980	4	1,271,277
Other receivables	233,728	5	38,920
Prepaid expenses	111,536		87,833
Accrued income and interests	-		2,500
Intercompany accrued income and interests	866,004	4	5,460,248
Total Current Assets	14,414,191		10,773,989
Non-current Assets			
Loans to shareholders, net	-	6	50,000
Investments in subsidiaries, net	46,873,178	7	44,018,184
Other investment	7,719,486	8	681,841
Intercompany loans	19,760,455	9	9,162,027
Loans to third parties, net	-	6	345,570
Total Capital Assets	74,353,119		54,257,622
Total Non-current Assets	74,353,119		54,257,622
TOTAL ASSETS	88,767,310		65,031,611

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

WISeKey International Holding AG

BALANCE SHEET AS AT 31ST DECEMBER 2018

CHF

LIABILITIES AND SHAREHOLDERS' EQUITY	2018	Note ref:	2017
Current Liabilities			
Trade payables	490,989		1,521,396
Intercompany accounts payable	4,457,698	10	340,519
Short-term loan - interest bearing	2,686,368		-
Short-term loan - non-interest bearing	3,926,884	13	-
Intercompany short-term loans payable - interest bearing	912,439	11	750,000
Intercompany short-term loans payable	3,260,168	11	479,285
Payable to related parties - non-interest bearing	418,642	12	207,500
Accrued liabilities	607,725		1,524,515
Total Current Liabilities	16,760,913		4,823,215
Non-Current Liabilities			
Long term loans - interest bearing	25,214,740		18,187,385
Long-term accrued liabilities	2,454,112	14	959,556
Total Non-Current Liabilities	27,668,853		19,146,941
Total Liabilities	44,429,766		23,970,157
Shareholders' Equity			
Share Capital	1,838,710	15	1,629,766
Capital Contribution Reserves *	58,143,211		47,690,298
Reserve for Treasury Shares held by subsidiaries	88,855	16	-
Treasury Shares held by WISeKey International Holdings AG	(1,015,563)	16	-
Accumulated Deficit	(8,347,465)	17	(4,547,017)
Net Loss for the Period	(6,370,203)	17	(3,711,593)
Total Shareholders' Equity	44,337,544		41,061,454
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	88,767,310		65,031,611

*: this amount of capital contribution reserves is subject to the approval of the Swiss Federal Tax Administration. For further information, see also note 15.1 to the financial statements.

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

WISeKey International Holding AG

INCOME STATEMENT FOR THE PERIOD

CHF	2018 01.01.18 to 31.12.18	Note ref:	2017 01.01.17 to 31.12.17
INCOME			
Other Income	145,498		-
Management Fee Income	5,425,907		5,929,094
Total Sales	5,571,405		5,929,094
OPERATING EXPENSES			
Office Expenses	(25,238)		(11,979)
Insurances	(201,940)		(168,449)
Travel & Accomodation	(15,217)		(5,813)
Consultancy and Professional Services	(4,455,546)	20	(4,755,613)
Marketing	(501,158)		(99,522)
Intercompany Charges	(432,697)		(354,841)
Other Operating Expenses	(164,628)		(29,750)
FINANCIAL COSTS AND FINANCIAL INCOME			
Foreign Exchange Gain	1,409,541		484,173
Foreign Exchange Loss	(1,442,773)		(366,151)
Other Financial Charges	(573,703)		(121,246)
Financial Charges on Loan	(4,931,625)		(3,961,731)
Interest Income	396,200		322,869
Interest Expense	(36,699)		(152,195)
Profit on sale of Treasury Shares	50,679	16	-
Loss on sale of Treasury Shares	(305,648)	16	-
NON-OPERATIONAL COSTS AND INCOME			
Non-Operating Losses	(954,264)	21	(418,524)
Non-Operating Gains	242,788	22	-
LOSS BEFORE TAXES	(6,370,523)		(3,709,676)
Taxes	320		(1,916)
LOSS FOR THE YEAR	(6,370,203)		(3,711,593)

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

WISeKey International Holding A.G., Zug

Notes to the Financial Statements

For the year ended December 31, 2018

Note 1. Background and Operations

WISeKey International Holding A.G., (**the Company)**, was registered in Zug, Switzerland, on November 17, 2015 and was listed on the Swiss Stock Exchange, SIX AG, with the valor symbol "WIHN" on March 31, 2016. The Company's purpose is to incorporate, acquire, hold and dispose of participations in companies, both in Switzerland and abroad, especially in the field of cybersecurity and related areas. The Company may engage in all types of transactions that appear appropriate to promote, or are related to the purpose of the Company.

The Company does not currently have any full time employees.

On March 3, 2016, the Company acquired 100% of the shares of WISeTrust SA.

On March 22, 2016, WISeKey SA's shareholders exchanged a total of 90.3% of their shares into those of the Company shares. During 2017, several shareholders approached the Company to exchange their shares in WISeKey SA, having failed to participate in the original share exchange program of 2016. As at December 31, 2017, the Company had acquired an additional 5.05% of WISeKey SA's shares, bringing its holding up to 95.35%. The remaining 4.65% of the WISeKey SA's share capital will be obtained either through share exchanges or as part of a squeeze-out merger, anticipated to take place in 2019.

On September 20, 2016 the Company acquired the semiconductor assets and supporting operations from Inside Secure, a French company listed on the Euronext, Stock Exchange in Paris, in the form of a carve-out. The entity was renamed WISeKey Semiconductors. As part of the deal, the Company also acquired the supporting operations in Japan, Taiwan and Singapore, renamed WISeKey KK, WiseKey Taiwan and WISeKey Singapore Pte Ltd respectively.

On October 5, 2016, the Company established a Joint Venture, WISeKey SAARC Ltd, in London, for operations in the South Asian region. It owns 51% of the venture. WISeKey SAARC Ltd owns 88% of WISeKey India Private Ltd, a sales and support operation based in New Delhi, India

On April 3, 2017, the Company acquired 85% of the share capital of QuoVadis Holding Ltd, a Bermudan-based company in the managed PKI and digital signature management business, having operations in the UK, Netherlands, Belgium, Germany and Switzerland, as well as Bermuda itself. As part of the consideration, a shareholders' put and call option agreement over the 15% remaining non-controlling interest ("NCI") was signed by the Group and the 15% NCI shareholders. Per the shareholders' put and call option agreement over the 15% non-controlling interest, WISeKey granted the non-controlling interest shareholders an option (put option) pursuant to which the non-controlling interest shareholders were entitled to sell all of their shares in QV Holding Ltd to WISeKey, and the non-controlling interest shareholders granted WISeKey an option (call option) pursuant to which WISeKey was entitled to buy all shares in QV Holding Ltd held by the non-controlling interest shareholders. Both options were exercisable at the earliest on May 01, 2018 and at the latest on May 31, 2018. In May 2018, the NCI shareholders exercised their put option. On May 24, 2018, the Company acquired the remaining 15% of QuoVadis Holding Ltd through the issue of 860,000 Ordinary B shares valued at CHF5.42 per share for a total consideration of CHF4,664,994.

On January 16, 2019 the Company completed the sale of WISeKey (Bermuda) Holding Ltd (including all of its subsidiaries) to DigiCert, Inc. pursuant to a Share Purchase Agreement entered into by and between the Company and DigiCert, Inc. on December 21, 2018. As of January 16, 2019, the following subsidiaries are no longer part of the WISeKey Group: WISeKey (Bermuda) Holding Ltd., QuoVadis Trustlink Schweiz AG, QuoVadis Trustlink BVBA, QuoVadis Trustlink BV, QV BE BV, QuoVadis Trustlink GmbH, QuoVadis Services Ltd. and QuoVadis Ltd.

At January 16, 2019, the Regulatory Authority in Bermuda ("RAB") consent to transfer the ownership of QuoVadis Services Ltd had not yet been obtained. Therefore, in application of the SPA terms and conditions, the shares in QuoVadis Services Ltd. held by WISeKey (Bermuda) Holding Ltd were transferred to WISeKey International Holding AG who, as a result, holds a 51% interest in QuoVadis Services Ltd, and WISeKey directly operates QuoVadis Services Ltd. on trust for DigiCert, Inc. until receipt of the RAB Consent and the effective transfer of the shares in QuoVadis Services Ltd. to DigiCert, Inc. The Company expects to receive the RAB Consent in the first quarter 2019.

WISeKey International Holding A.G., Zug

Notes to the Financial Statements – December 31, 2018

Note 2. Future Operations

The Company experienced a loss from operations in this reporting period. The Company does anticipate being able to reduce the losses generated through the process of charging management fees to align the costs incurred on behalf of the group across the companies that have received the benefit of the services. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

The Company incurred a net loss of CHF 6,370,203 and had net current liabilities of CHF 3,153,123 as at December 31, 2018. Historically, the Company has been dependent on debt and equity financing to augment the operating cash flow to cover its cash requirements. Any additional equity financing may be dilutive to shareholders.

In the year 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 and its susbidiary understakings, with restrictive covenants and an annual interest rate of 12%. The purpose of this line of credit was the acquisition of the QuoVadis group under the holding company WISeKey (Bermuda) Holding Ltd (formerly named QV Holding Ltd, together with its subsidiaries "**QuoVadis**") which was completed on April 03, 2017. ExWorks 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 with the option to convert principal repayment, interest charges and fees into WIHN class B shares.

In the year 2018, WISeKey obtained two more loans: (i) a short-term Facility Agreement with Yorkville (the "**Yorkville Loan**") to borrow USD 3,500,000 (CHF 3,436,024 at historic rate) repayable by May 01, 2019 in monthly cash instalments starting in November 2018, with an interest rate of 4% per annum payable monthly in arrears; and (ii) a Convertible Loan Agreement ("the **Crede Convertible Loan**") with Crede CG III, Ltd ("**Crede**") for an amount of USD 3,000,000 (CHF 2,945,163 at historic rate), with a 10% p.a. interest rate, and repayable in WIHN class B Shares any time between November 30, 2018 and the maturity date of September 28, 2020.

These loans demonstrate the availability of lenders to support the Company and the WISeKey Group in its activities and development.

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 60m 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 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. In the year 2018, WISeKey made no drawdowns under the GEM Facility. Therefore, as at December 31, 2018 the outstanding facility available remained CHF 56,094,645.

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. Provided that a sufficient number of Class B Shares is provided through share lending, the Company has the right to make drawdowns 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 worth up to CHF 5m by drawdown, subject to certain exceptions and limitations. In the year 2018, WISeKey made four drawdowns under the GEM Facility, for a total amount of CHF 1,749,992. As at December 31, 2018 the outstanding equity financing available was CHF 48,250,008.

Both the GEM Facility and the SEDA will be used as a safeguard should there be any difficulties in raising the necessary equity to cover the cash requirements of the Company during the year to 31 December 2019.

After December 31, 2018 the completion of the sale of WISeKey (Bermuda) Holding Ltd and its affiliates (together "**QuoVadis**" or the "**QuoVadis Group**") to Digicert Inc generated a net cash inflow of USD 37,673,749

(CHF 37,502,786) and allowed WISeKey to repay in full the line of Credit it had contracted with ExWorks in an amount of USD 25,333,880 (CHF25,218,915). This cash injection together with the cash generated by its operations is sufficient to cover the projected cash requirements of both the Company and its subsidiary undertakings of USD16.6 million until March 31, 2020.

Based on the foregoing, Management believe it is correct to present these figures on a going concern basis.

Note 3. Significant accounting policies

These financial statements were prepared according to the provisions of the Swiss financial reporting law (32nd title of the Swiss Code of Obligations). Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

As WISeKey International Holding AG prepares consolidated financial statements under a recognized accounting standard (US GAAP), it has elected in these financial statements, as permitted by law, not to prepare a management report and to omit a cash flow statement and notes on interest-bearing liabilities and audit fees.

The significant accounting policies adopted by the Company are as follows:

Foreign currency translation

The accounting records of the Company are maintained in Swiss Francs. All transactions in other currencies are translated into Swiss Francs at the rate prevailing at the time of the transaction. Assets and liabilities in other currencies remaining at the balance sheet date are translated at the appropriate year-end rate. Transaction and translation foreign exchange profits and losses are included in the statement of income and expenses in the year in which they are incurred. Unrealized foreign exchange gains on non-current assets and liabilities at the balance sheet date are provided for in accrued liabilities at the year-end.

Cash and cash equivalents

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

Tax

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

Other investments

Other investments are carried at cost less any necessary provision for impairment in value.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less any necessary provision for impairment in value.

Note 4. Short-term intercompany receivables

As the Ultimate Parent Company of the Group, WISeKey International Holding AG incurs costs that are for the benefit of other companies within the Group. The Company raises invoices to its subsidiary undertakings for the recharge of these costs.

At December 31, 2017, the balance receivable from group undertakings was included as intercompany accrued income and interests. The invoices were issued in March 2018 whilst those relating to the recharges of 2018's costs were issued throughout the year and all invoices were raised by December 31, 2018.

As at December 31, 2018, the balance of fees raised for both 2017 and 2018 were outstanding. The major balance related to the borrowing costs associated with the acquisition of the QuoVadis group of companies, due from WISeKey (Bermuda) Holding Limited. This balance was repaid in January 2019.

WISeKey International Holding A.G., Zug

Notes to the Financial Statements – December 31, 2018

Note 5. Other receivables

The balance due to the company under other receivables relates to VAT reclaimable for the final quarter of the year.

Note 6. Loans, net

6.1 Loans to Shareholders, net

At December 31, 2018, there were no loans to shareholders outstanding.

During 2018 and the prior year, the Company or its affiliates had the following loans outstanding to members of the Board of Directors, who were also shareholders:

> A loan for an amount of CHF 50,000 to Mme. Shingler-Bobbio was made on September 23, 2016. This loan matured on September 30, 2017. It carried an interest rate of 5% per annum. It was settled in full on April 12, 2018 by exchange of options for Board fees owed by the Company to Mme. Shingler-Bobbio.

6.2 Loans to 3rd Parties,net

At December 31, 2018, the company had the following loan outstanding to a former shareholder.

> Todd Ruppert was a shareholder on May 12, 2016 when the Group extended a loan to him of CHF 345,570 which matured on September 30, 2017. The loan bore no interest. In 2018, the Group assessed the recoverability of the loan and provided for the full balance to the income statement, hence a charge of CHF 345,570. WISeKey will continue its efforts to recover the full amount from Todd Ruppert.

WISeKey International Holding A.G., Zug

Notes to the Financial Statements – December 31, 2018

Note 7. Investments in subsidiaries, net

Cost CHF	Ownership /Voting interests %	Gross value of the investment as at 31.12 2018	Ownership /Voting interests %	Gross value of the investment as at 31.12 2017
WISeKey SA *Geneva, Switzerland*	**95.35%**	7,818,025	95.35%	7,818,025
WISeTrust SA *Geneva Switzerland*	**100%**	4,102,244	100%	4,102,244
WISeKey Semiconductors SAS *Meyreuil, France*	**100%**	11,000,000	100%	13,000,000
WISeKey Singapore Pte Ltd *Singapore*	**100%**	P.M.	100%	P.M.
WISeKey SAARC Ltd *London, United Kingdom*	**51%**	64,966	51%	64,966
WISeKey KK *Tokyo, Japan*	**100%**	9,011	100%	9,011
WISeKey International Holding Ltd *Tapei, Taiwan*	**100%**	3,337	100%	3,337
WISeKey Bermuda Ltd (formerly QuoVadis Holding Ltd) *Hamilton, Bermuda*	**100%**	23,685,594	85%	19,020,600
WISeCoin SA *Zug, Switzerland*	**90%**	90,000		
WISeKey Equities SA *Zug, Switzerland*	**100%**	100,000		
Total		**46,873,178**		**44,018,184**

Management has reviewed the carrying value of the investments in the Company's subsidiaries and has adjusted the value of the investments as needed.

In assessing the potential impairment of the investments, the Company considers the net asset value as well as the expected cash-flows that will be generated by each of these investments. Management believes that, on the basis of these net asset values as well as expected cash-flows, the carrying value of these investments as at December 31, 2018 is not impaired.

The value of the investment held in WISeKey Semiconductors SAS has changed as, subsequent to the acquisition by WISeKey International Holding AG, WISeKey Semiconductors SAS purchased certain assets from WISeKey International Holding AG through a loan of CHF 2million. The investment held in WISeKey Semiconductors SAS has decreased and the balance of the intercompany loan has increased accordingly.

WISeKey International Holding A.G., Zug

Notes to the Financial Statements – December 31, 2018

Note 8. Other Investments

CHF	Ownership /Voting interests %	Carrying value of the investment as at 31.12 2018	Ownership /Voting interests %	Carrying value of the investment as at 31.12 2017
OpenLimit AG *Baar, Switzerland*	**8.4%**	842,591	8.4%	681,841
Tarmin Inc. *Deleware, USA*		6,876,895		
Total		**7,719,486**		**681,841**

The investment in OpenLimit AG is held at cost less provision for impairment.

On September 27, 2018, the Company entered into a warrant agreement with Tarmin Inc., a private Delaware company, a leader in data & software defined infrastructure, to acquire 22% of common stock deemed outstanding at the time of exercise. The warrant may be exercised in parts or in full, at an exercise price of USD 0.01 per share at nominal value USD 0.0001. The purchase price of the Tarmin Warrant was USD 7,000,000 (CHF6,876,895), of which USD 3,000,000 (CHF 2,950,011) was paid in cash on October 05, 2018, and the remaining USD 4,000,000 (CHF 3,926,884) is payable on March 31, 2019. Tarmin Inc. is a privately held company and the investment is carried at cost less any provision for impairment. At December 31, 2018, management believes that the carrying value of this investment is not impaired.

Note 9. Intercompany loans

The Company has extended multiple loans to its subsidiary undertakings. These bear an interest rate of 3%.

Note 10. Intercompany accounts payable

Intercompany accounts payable includes charges payable to the Company's subsidiary undertaking, WISeKey SA, for management fees charged and costs incurred on behalf of the Company. These balances will be repaid in the first quarter of 2019. In the previous year this charge had not been invoiced and so was held under accrued liabilities.

Note 11. Intercompany short-term loans payable

The Company has multiple loans payable to its subsidiary undertakings, each made on a short-term basis. The loans carry interest rates between 0% and 3% and all were repaid on January 16, 2019 upon completion of the sale of WISeKey (Bermuda) Holding Limited.

Note 12. Payable to related parties – non-interest bearing

The balances payable to related parties represent accruals for fees of CHF 221,975 payable to the Members of the Board of the Company and a balance of CHF 196,667 payable to the Blockchain Research Institute (the "BRI"), a division of The Tapscott Group Inc. The founder of The Tapscott Group Inc., Don Tapscott, is a Member of the WISeKey Group's Strategy Committee.

Note 13. Short-term loan, non-interest bearing

Short-term loan represents the balance due on 31st March 2019 under the agreement to purchase warrants in Tarmin Inc. as set out in Note 8.

Note 14. Long-term accrued liabilities

The balance held under long-term accrued liabilities represent fees due upon the repayment of the acquisition line of credit provided by ExWorks Capital Fund I, L.P.

WISeKey International Holding A.G., Zug

Notes to the Financial Statements – December 31, 2018

Note 15. Share Capital

The Company has 2 classes of shares in its share capital, Class “A” shares with a nominal value of CHF 0.01 per share and Class “B” shares with a nominal value of CHF 0.05 per share. Both classes of share have the same voting rights, namely 1 share, 1 vote. Only the Class “B” shares are listed on the International Reporting Standard of the SIX Stock Exchange.

The share capital as at 31st December 2018 is CHF 1,838,709.73 and is divided into 40,021,988 registered shares (Class “A” shares) and in 28,769,797 registered shares (Class “B” shares). It is fully paid in.

	31 December 2018		31 December 2017	
	Number of Shares	CHF	Number of Shares	CHF
Share Capital Class "A" Shares	40,021,988	400,220	40,021,988	400,220
Share Capital Class "B" Shares	28,769,797	1,438,490	24,590,918	1,229,546
Total Share Capital	68,791,785	1,838,710	64,612,906	1,629,766
Issued Share Capital	68,791,785	1,838,710	64,612,906	1,629,766
Authorised Share Capital, not issued	8,881,829	444,091	11,803,428	590,171
Conditional Share Capital	11,894,379	594,719	10,926,250	546,313

15.1 Movement of share capital

The movements of the changes in shareholders’ equity are explained further here.

Movements in shareholders’ equity in 2018 mainly relate to the issuance of shares resulting from various capital increases during the period.

The legal general reserves from capital contribution relate to capital contributions contributed to the Company by its shareholders since 1997, which, under Swiss tax law, may be distributed without being subject to Swiss withholding tax effective 1 January 2011, if certain conditions are met.

One of the conditions is that the reserves from capital contribution have to be declared to the Federal tax administration no later than 30 days following the ordinary general meeting of the shareholders.

As of 31st December 2018, the capital contribution reserves have yet to be approved by the Swiss Tax authorities.

15.2 Conditional share capital

The share capital may be increased in an amount not to exceed CHF 594,718.95 with a nominal value of CHF 0.05 per share.

Its use is limited to 2 categories, namely:

- up to an amount of CHF 352,692.00 by the issuance of up to 7,053,840 fully paid-in registered shares with a nominal value of CHF 0.05 each in connection with the exercise of conversion, option, exchange, warrant or similar rights for the subscription of shares (the **Rights**) granted to third parties or shareholders in connection with bonds (including convertible bonds and bonds with options), options, warrants, notes, other securities or contractual obligations newly or already issued or granted by the Company or one of its group companies (the **Rights-Bearing Obligations**); and

WISeKey International Holding A.G., Zug

Notes to the Financial Statements – December 31, 2018

- up to an amount of CHF 242,026.95 by the issuance of up to 4,840,539 fully paid-in registered shares with a nominal value of CHF 0.05 each in connection with the issuance of shares or Rights-Bearing Obligations granted to the members of the Board of Directors, members of executive management, employees, contractors, consultants or other persons providing services to the Company or one of its group companies.

15.3 Authorised share capital, not issued

The Board of Directors is authorized, at any time until 25th May 2020, to increase the share capital in an amount not to exceed CHF 444,091.45 through the issuance of up to 8,881,829 fully paid in registered shares with a nominal value of CHF 0.05 per share.

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

- for issuing new shares if the issue price of the new shares is determined by reference to the market price. The takeover of enterprises, parts of enterprises or shareholding through the exchange of shares,
- for the acquisition of an enterprise, parts of an enterprise or participations or for new investment projects or for purposes of financing or refinancing any such transactions Financing of the acquisition of enterprises, parts of enterprises or shareholding
- for the purpose of broadening the shareholder constituency in certain financial or investor markets or in connection with the listing of new shares on domestic or foreign stock exchanges. The purpose of strategic partnerships or strategic investors
- for purposes of national and international offerings of shares for the purpose of increasing the free float or to meet applicable listing requirements
- for purposes of the participation of strategic partners
- for an over-allotment option ("*greenshoe*") being granted to one or more financial institutions in connection with an offering of shares
- for the participation of directors, officers, employees, contractors, consultants of, or other persons providing services to the Company or a group company
- for raising capital in a fast and flexible manner which could only be achieved with great difficulty without exclusion of the pre-emptive rights of the existing shareholders

15.4 Significant shareholders

The Swiss Financial Market Infrastructure Act (**FMIA**) and the rules and regulations promulgated thereunder, to which the Company and beneficial owners of its Shares are subject, requires persons who directly, indirectly or in concert with other parties acquire or dispose of Shares or purchase or sale rights or obligations relating to such Shares, and, thereby, directly, indirectly or in concert with other parties reach, exceed or fall below a threshold of 3%, 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% or 66 2/3% of the Company's voting rights (whether exercisable or not) to notify the Company and the Disclosure Office of SIX of such acquisition or disposal in writing.

Each Class A share and each Class B share carries one vote at a general meeting of shareholders of the Company and, as such, the number of shares held by each person or entity set forth below is equal to the number of voting rights held by such person or entity.

The table below sets out, to the knowledge of the Company, beneficial owners holding more than 3% of the voting rights of the Company as of December 31st, 2018. The number of voting rights of the Company as of December 31st, 2018 is equal to the number of Class A and Class B shares issued, 40,021,988 Class A shares + 28,769,797 Class B Shares = 68,791,785 voting rights.

The Purchase Positions disclosed below relating to ExWorks Capital Fund I, L.P., GEM Global Yield Fund LLC SCS 1, and YA II PN, Ltd. / D-Beta One EQ, Ltd. represent the potential purchases that could be made under the terms of contractual arrangements held with the relevant entities. These contracts contain additional clauses that need to be met before the purchases can be made and, as such, the percentage of voting rights calculation is hypothetical.

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Notes to the Financial Statements – December 31, 2018

Name	Number of Shares owned		Purchase Position	Sale Position	Total number of voting rights	Percentage of voting rights
	Class A Shares	Class B Shares	Class B Shares	Class B Shares		
ExWorks Capital Fund I, L.P.*	- -	299,079	6,210,623	- -	8,702,540	12.58%
GEM Global Yield Fund LLC SCS1	- -	- -	12,281,638	- -	12,281,638	22.47%
YA II PN, Ltd. / D-Beta One EQ, Ltd.	- -	386,239	15,140,280	- -	15,526,519	25.08%
A lock-up group consisting of: Carlos Moreira and five additional individuals	40,021,988	- -	- -	- -	40,021,988	65.52%

* Subsequent to 31st December 2018, ExWorks' purchase position has decreased below 3% of the Company's voting rights as a result of the repayment of the Credit Facility (as defined below) on January 16, 2019. Concurrently, the Company's sale positions with respect to ExWorks (as defined below) has decreased below 50%. As a result of the monthly update of the Company's sale positions as of February 1, 2019 in accordance with the Disclosure Office Notice II/13 of December 3, 2013 (as amended on September 20, 2018), the Company's overall sale position crossed again the threshold of 50% and amounted to 50.48%. In addition, the Company owned 1,777,100 Class B Shares on December 31, 2018, corresponding to 2.58% of the Company's voting rights.

Note 16. Reserve for Treasury Shares

During the year, the Company and its subsidiary undertaking, WISeKey Equities SA, acquired Treasury Shares for various purposes. These Treasury shares came from various sources. A summary of the Treasury Shares acquired is as follows:

- M Moreira, a Company director and CEO, loaned 322,900 Ordinary 'B' shares to the Company on 25th September 2018. These shares were valued at the price of CHF 3.55, being the closing price of the shares on the SIX Swiss Exchange on this date. These shares were used to settle drawdowns against the YA II SEDA and, at the year-end, 40,758 of these shares were held by the Company

- Kepler Chevreux, a company registered in Paris, France, was mandated by the Company to provide bid and ask prices for Ordinary 'B' shares and to trade on behalf of the Company to ensure adequate liquidity of the Company's Ordinary 'B' shares. At the 31st December 2018, there were 270,203 Ordinary 'B' shares held by Kepler Chevreux on the Company's behalf.

- WISeKey Equities SA, a subsidiary of the Company, purchased 2,000,000 Ordinary 'B' shares at nominal value for the purpose of fulfilling exercise notices under option agreements, SEDA drawdowns and other such arrangements. 222,900 of these were sold to WISeKey International Holding AG for the purpose of repaying the aforementioned loan of shares of M Moreira. At the 31st December 2018, there remained 1,777,100 Ordinary 'B' shares held by WISeKey Equities SA.

Treasury shares held by subsidiaries **CHF**	**Number of shares**	**Reserve for treasury shares held by subsidiaries as at 31.12.2018**	**Number of shares**	**Reserve for treasury shares held by subsidiaries as at 31.12.2017**
January 1	**-**	**-**	-	-
Number of shares purchased / sold, reserves transferred	**1,777,100**	**88,855**	-	-
December 31	**1,777,100**	**88,855**	**-**	**-**

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Notes to the Financial Statements – December 31, 2018

Treasury share purchases by subsidiaries during 2018 totaled 2,000,000 (2017: nil) with an average purchase price of CHF 0.05 per share (2017: nil.) Treasury share sales totaled 222,900 (2017: nil) with an average sale price of CHF 0.05 per share (2017: nil.)

Treasury shares held by WISeKey International Holding AG (WIHN)	Number of shares	Reserve for treasury shares held by WIHN as at 31.12.2018	Number of shares	Reserve for treasury shares held by WIHN as at 31.12.2017
CHF				
January 1	-	-	-	-
Number of shares purchased / sold, reserves transferred	**310,961**	**1,015,563**	-	-
December 31	**310,961**	**1,015,563**	**-**	**-**

Treasury share purchases by the Company during 2018 totaled 729,657 (2017: nil) with an average purchase price of CHF 3.39 per share (2017: nil.) Treasury share sales totaled 418,696 (2017: nil) with an average sale price of CHF 2.83 per share (2017: nil.) During the year, the Company recognized profits of CHF 50,679 on the sale of Treasury Shares and losses of CHF 305,648 on the sale of Treasury Shares.

Total Treasury shares	Number of shares	Total reserve for treasury shares as at 31.12.2018	Number of shares	Total reserve for treasury shares as at 31.12.2017
CHF				
January 1	-	-	-	-
Number of shares purchased / sold, reserves transferred	**2,088,061**	**1,104,418**	-	-
December 31	**2,088,061**	**1,104,418**	**-**	**-**

WISeKey International Holding AG has met the legal requirements of the Swiss Code of Obligations under Article 659 et. seq. for the treasury shares.

Treasury share purchases by the Group during 2018 totaled 2,729,657 (2017: nil) with an average purchase price of CHF 0.94 per share (2017: nil.) Treasury share sales totaled 641,596 (2017: nil) with an average sale price of CHF 2.81 per share (2017: nil.) .

The number of treasury shares held by the company and its subsidiaries meet the definitions and requirements of the Swiss Code of Obligations, Article 659b.

WISeKey International Holding A.G., Zug

Notes to the Financial Statements – December 31, 2018

Note 17. Movements in reserves

Accumulated deficit **CHF**	**Accumulated deficit as at 31.12.2018**	**Accumulated deficit as at 31.12.2017**
January 1	**(8,258,610)**	(4,547,017)
Transfer to reserve for treasury shares	**(88,855)**	0
Net loss for the period	**(6,370,203)**	(3,711,593)
December 31	**(14,717,668)**	(8,258,610)

Due to the balance of Treasury Shares held by WISeKey Equities SA, a subsidiary undertaking of the Company, CHF 88,855 has been transferred from the Accumulated Deficit into the Reserve for Treasury Shares held by Subsidiaries.

Note 18. Guarantees to Related Parties

On July 3, 2018, the Company signed a written agreement to subordinate its claims against WISeKey SA for an amount of CHF 3,600,000 until such time as the liabilities of WISeKey SA are covered by its assets.

On February 28, 2019, the Company signed a written guarantee in favour of WISeKey SA for the value of investments in and long-term receivables owed by certain subsidiaries of WISeKey SA.

On February 28, 2019, the Company provided a letter of comfort to its subsidiary WISeKey Semiconductors SAS. The Company confirmed that it will provide financial and other support to WISeKey Semiconductors for at least the next 18 months and thereafter for the foreseeable future.

Note 19. Shares & Options held by Board of Directors and Executive Management

	Class A shareholding	**Class B shareholding**			**% of voting rights**	
		Own name	**Related Party Transaction**	**Total**		**Name of the Related Party Transaction**
Maryla SHINGLER BOBBIO	**-**	-	-	**-**	**0.0%**	
Dourgam KUMMER	**626,085**	40,390		**40,390**	**1.0%**	
Peter WARD		30,643		**30,643**	**0.0%**	
Juan HERNANDEZ ZAYAS	**-**	25,646	1,989,090	**2,014,736**	**3.1%**	Veliba Sectec
Thomas HUERLIMANN		12,000	-	**12,000**	**0.0%**	
Philippe DOUBRE	**701,695**	26,380		**26,380**	**1.1%**	
Carlos CREUS MOREIRA	**38,694,208**	222,900		**222,900**	**60.1%**	
David FERGUSSON	**-**	7,500	-	**7,500**	**0.0%**	

There were no share options held by the Board of Directors and Executive Management at the 31 December 2018. Subsequent to the year end, the following share options were granted to the Board of Directors and Executive Management:

	Class B Options
Maryla SHINGLER BOBBIO	**12,544**
Dourgam KUMMER	**17,210**
Juan HERNANDEZ ZAYAS	**14,450**
Philippe DOUBRE	**17,317**

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Notes to the Financial Statements – December 31, 2018

Note 20. Consultancy and Professional Services

Costs incurred under Consultancy and Professional Services in the year includes CHF 1,737,487 (2017: CHF 905,155) relating to management fees charged by its subsidiary undertaking, WISeKey SA, for salaries and associated costs incurred on behalf of the parent company, as well as CHF 1,255,388 (2017: CHF 2,077,265) of legal costs and CHF 311,495 (2017: CHF 243,088) of professional fees relating to merger and acquisition activity.

Note 21. Non-Operating Losses

The non-operating loss incurred during the year relates to stamp duties payable on the issuance of additional share capital, a provision for a balance due from a former shareholder (see note 6) and a charge incurred upon the assignment of a debt held by its subsidiary undertaking, WISeKey Semiconductors, which was settled by the Company through an issuance of additional shares.

The non-operating loss incurred in the prior year relates to stamp duties payable on the issuance of additional share capital and a provision for the impairment of the value of the investment held in OpenLimit AG.

Note 22. Non-Operating Gains

The Non-operating gains recognized during the year relate to the increase in the value of the investment held in OpenLimit AG (see note 8) and a gain made on the loan of Treasury Shares to the Company.

Note 23. Subsequent Events

Crede Convertible Loan

On January 03, 2019 Crede exercised a conversion in the amount of CHF 72,716 (USD 73,559) in exchange for 30,000 WIHN class B shares issued out of treasury share capital.

On January 03, 2019 Crede exercised a conversion in the amount of CHF 262,061 (USD 265,099) in exchange for 100,000 WIHN class B shares issued out of treasury share capital.

On February 26, 2019 Crede exercised a conversion in the amount of CHF 279,593 (USD 279,525) in exchange for 100,000 WIHN class B shares issued out of treasury share capital.

The convertible loan balance outstanding after these conversions was CHF 2,392,742 (USD 2,381,817.)

SEDA drawdown

On January 08, 2019 WISeKey made one drawdown for CHF 250,000 (USD 245,320 at historical rate) in exchange for 97,125 WIHN class B shares issued out of treasury share capital. The outstanding equity financing available after this drawdown was CHF 48,000,008.

Yorkville Loan

At the time of release of this annual report, WISeKey has repaid another CHF 1,719,935 (USD 1,727,703) toward the Yorkville loan and the remaining loan balance is CHF 1,050,216 (USD 1,054,959.)

Sale of QuoVadis

On January 16, 2019 WISeKey completed the sale of WISeKey (Bermuda) Holding Ltd (including all of its subsidiaries) to DigiCert, Inc. pursuant to a Share Purchase Agreement entered into by and between WISeKey and DigiCert, Inc. on December 21, 2018. As of January 16, 2019, the following subsidiaries are no longer part of the WISeKey Group: WISeKey (Bermuda) Holdings Ltd., QuoVadis Trustlink Schweiz AG, QuoVadis Trustlink BVBA, QuoVadis Trustlink BV, QV BE BV, QuoVadis Trustlink GmbH, WISeKey (UK) Ltd, QuoVadis Services Ltd. and QuoVadis Ltd.

As at January 16, 2019, the RAB consent to transfer the ownership of QuoVadis Services Ltd had not yet been obtained. Therefore, in application of the SPA terms and conditions, the shares in QuoVadis Services Ltd held by WISeKey (Bermuda) Holding Ltd were transferred to WISeKey International Holding AG who, as a result, held a 51% interest in QuoVadis Services Ltd and directly operated QuoVadis Services Ltd on trust for DigiCert, Inc. until the effective transfer of the shares in QuoVadis Services Ltd to DigiCert, Inc.

WISeKey received the RAB Consent on February 28, 2019 and, on the same day, the 51% ownership of QuoVadis Services Ltd held by WISeKey was transferred to DigiCert, Inc.

After all purchase price adjustments as listed in note 12 above, WISeKey received a net cash consideration of USD 37,673,749, including USD 6,291,588 as repayment of intercompany loans and receivables held with QuoVadis companies. In addition, the balance of USD 4,500,000 was held in an escrow account as detailed in note 12.

Full repayment of the ExWorks Line of Credit

On January 16, 2018, following the sale of WISeKey (Bermuda) Holding Ltd, WISeKey used part of the consideration to repay in full the principal loan balance of the ExWorks Line of Credit of CHF 22,391,750 (USD 22,618,226), accrued interests of CHF 119,446 (USD 120,654), and fees of CHF 2,569,016 (USD 2,595,000), hence a total payment of CHF 25,080,212 (USD 25,333,880.)

Forfeiture of options granted to QuoVadis management

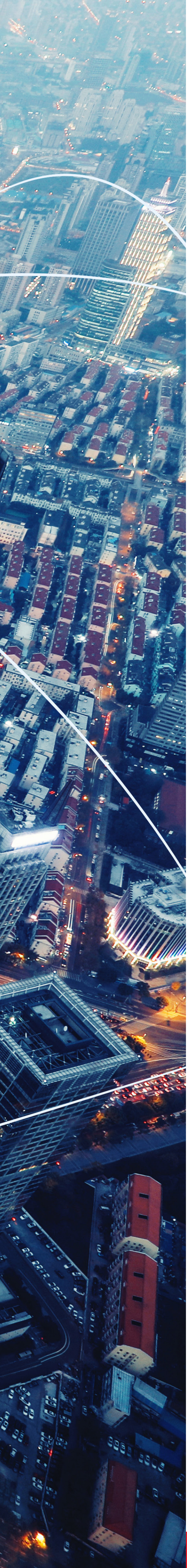
As a result of the disposal of some QuoVadis entities, the employment or contractual relationship between WISeKey and some QuoVadis employees or QuoVadis consultants was terminated on January 16, 2019. This triggered the immediate forfeiture of any non-vested options held by such employees or consultants, and the forfeiture within 30 days of any non-exercised vested options.

At the publication date of this annual report, a total of 249,853 unvested options were forfeited on January 16, 2019 and 79,256 vested options were forfeited on February 15, 2019.

Options granted under WISeKey ESOP

After December 31, 2018 a total of 61,521 options were granted under the Group's ESOP.

P. Ward	**C. Moreira**
Chief Financial Officer	Chairman and Chief Executive Officer



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