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# KMD A/S ANNUAL REPORT 2016

1 January 2016 – 31 December 2016

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# PROFILE

## KMD – TOGETHER WE DEVELOP

KMD is one of Denmark's largest IT and software companies, with locations in Copenhagen, Aarhus, Odense and Aalborg. The KMD Group also comprises subsidiaries in Norway, Sweden, Finland and Poland.

The majority of KMD's business revolves around software development. The Company creates and delivers IT solutions for local government, central government, regional and private markets. In 2016, the KMD Group generated revenue of DKK 5.3 billion, and the Group currently has around 3,400 employees.

The KMD Group is majority-owned by funds managed by private equity firm Advent International, while Danish pension fund Sampension and KMD's management hold the remainder of the Company's stock.

### NEW REQUIREMENTS, NEW SOLUTIONS

Better services for citizens using fewer resources. Greater expectations for integrated products and services. Rationalization of work processes. Handling of new legislation. Better management and control tools. Digitization and disruption.

These are just some of the challenges faced by public organizations and private companies today. More IT is obviously not the answer to everything. But digitization and digital transformation are often now part of the solution when it comes to meeting new requirements and challenges.

For KMD, participating in the change that is taking place in both the public and private sectors is second nature. But KMD is not acting alone. The best solutions to challenges are created in a collaboration between KMD's employees, customers and technology partners.

### TOGETHER WE DEVELOP ...

When KMD says "Together we develop ...," it is more than just a slogan. It is a promise and an ambition rooted deep in the Company's DNA.

- \_ KMD creates solutions that make customers – and customers' customers – more efficient through better IT support for work tasks and business-critical processes.
- \_ KMD offers flexibility through a wide range of services and solutions that can be routinely scaled and configured.
- \_ KMD creates cohesion and frees up untapped potential by enabling data, systems and people to work better together.

- \_ KMD creates solutions that give customers insight and overview, allowing them to control and develop their business.
- \_ KMD takes responsibility for ensuring that customers' solutions work, that systems are running smoothly, and that confidential data are handled and stored securely.

### A COMPANY IN CHANGE

It is not just the world and KMD's customers that are changing. KMD is also undergoing huge change. Today, KMD is a very different company to the one it was just a few years ago.

The strategy "KMD on more markets" means that KMD now works not just with local governments, but also with Danish regions, Danish central government and a large number of Denmark's many private companies.

At the same time, KMD is increasingly moving beyond Denmark's borders, primarily into Norway and Sweden.

In order to develop our service provision to customers, in terms of both solutions and skills, in recent years KMD has acquired a range of exciting companies, all of which are helping to boost the business and the Group's potential for growth.

With the acquisition of, among others, the Scandinavian financial services software developer Banqsoft, the Danish life insurance and pension software developer Edlund, and energy and environment software specialist EMT Nordic, KMD has strengthened its position within the financial and utility sectors. With the acquisition of UVdata, KMD has reinforced its presence in the area of education.

### AN ATTRACTIVE WORKPLACE

The KMD Group's 3,400 or so employees are its key asset. KMD has and wants to maintain a reputation as a good, stimulating place to work. So that we consistently live up to our customers' requirements, we aim to be one of Denmark's most attractive IT employers, with the strongest specialist teams and the most challenging projects.

# RESULTS

## THE PAST YEAR

Across the KMD Group, 2016 was another eventful year with a high level of activity generating revenue growth. This is satisfying in the current market characterized by increasingly fierce competition.

KMD runs the business according to the growth strategy "KMD in more markets." In 2016, the Board of Directors approved a revised version of the strategy with a general goal of strengthening KMD to make the Company a leading player in both the public and private market segments.

In line with recent years, KMD continued its acquisition strategy in 2016.

The biggest investment of the year was the acquisition of the IT company Edlund, the Danish leader in developing software for life insurance and pension companies.

Edlund's competencies and solid customer experience, combined with KMD's strengths in developing software in complex areas and providing IT support for high-value transactions, have considerable market potential.

There was also good activity in the energy sector in 2016. KMD acquired the IT company EMT Nordic, which develops software and provides consultancy services within the energy and environment sector.

At the end of the year, KMD acquired the Aalborg-based IT company UVdata, one of Denmark's leading developers of software for the education sector. With this acquisition, KMD created the largest software development house in the Danish education sector.

In 2016, KMD also acquired the assets of the customer-owned software company Facilia. The area of unemployment insurance funds has been undergoing significant digital transformation in recent years, and KMD sees great potential in expanding the business. Facilia brings to KMD a number of important elements, not just software, but also skilled personnel and key customers in the market.

The year was an eventful one for all KMD's customer segments. The Company signed significant and commercially important agreements in all markets, allowing the business to grow.

In future, KMD will handle PenSam's IT portfolio in the pension area. The agreement with the labor market pension fund, which represents the largest stand-alone customer agreement in KMD's history, includes an extensive restructuring of PenSam's core IT systems, with KMD and Edlund working together with PenSam to implement a new solution in the life insurance and pension area.

Over the year, a number of new key customer agreements were signed within IT outsourcing in the private sector, including with pension and social security provider ATP, the insurance companies RSA Insurance Group and GF Forsikring, and Danish railway company Banedanmark.

In 2016, KMD also entered into or renewed a number of outsourcing agreements with central government players. The year's biggest agreement was concluded with Danmarks Nationalbank, where KMD will be responsible for overseeing the administrative IT infrastructure, including maintenance of 150 administrative applications as well as development and maintenance of new IT systems.

KMD's product suite within administrative management, KMD Opus, enjoys wide prominence in the local government landscape, and 2016 was another good year with several new and extended agreements. Notably, KMD won the large D7 administrative management tender put out jointly by a number of local governments.

The local governments are also continuing to initiate projects with KMD, where large-scale data collection and implementation of new management tools will help to create better services and generate rationalizations. In 2016, KMD launched Business Intelligence projects in collaboration with, among others, the municipalities of Odsherred, Kolding, Varde and Aabenraa.

In 2016, KMD entered into numerous agreements in the local government market within the social and care area. By way of example, agreements on KMD Nexus were entered into or renewed with the municipalities of Haderslev, Nyborg and Gladsaxe.

## REVENUE AND EARNINGS

### REVENUE

Revenue for KMD A/S ended at DKK 5,074 million, in line with 2015.

Given market conditions, this revenue development is considered satisfactory.

The revenue comes primarily from sales of services relating to legal and administrative software and from IT outsourcing, services and project sales.

### EBITDA

EBITDA ended at DKK 589 million, a decrease of 32% compared with 2015, partly due to higher special items and the effect of increased project execution expenses. Special items in 2016 comprised expenditure on rationalization measures related to reorganizations and structural adjustments, as well as provision for compensation payments to customers.

### EBITDA BEFORE SPECIAL ITEMS

EBITDA before special items decreased by 3,6% from DKK 1,040 million in 2015 to DKK 1,018 million in 2016.

Special items totaled DKK 428 million against DKK 168 million in 2015, mainly comprising expenditure on rationalization measures and provision for compensation payments to customers.

The EBITDA margin before special items was 20%, in line with 2015.

## FINANCIAL HIGHLIGHTS

DKK million	2016	2015	2014	2013	2012
<b>INCOME STATEMENT</b>					
Revenue	5,073.8	5,084.5	4,798.5	4,632.4	4,672.4
Expenses	4,487.6	4,226.2	4,103.6	4,203.7	3,947.0
Other operating income	2.8	12.9	9.8	16.7	19.8
Earnings before interest, tax, depreciation and amortization (EBITDA)	589.0	871.2	704.7	445.4	745.2
EBITDA before special items	1,017.5	1,039.5	991.9	843.6	852.3
Depreciation, amortization and impairment losses	248.2	199.2	568.5	371.1	148.3
Operating profit (EBIT)	340.8	665.5	136.2	74.3	596.9
Net financials	-15.0	-5.9	2.7	-5.8	10.4
Tax	-81.4	-160.8	-46.4	-8.7	-152.6
<b>Net profit for the year</b>	<b>244.4</b>	<b>505.3</b>	<b>92.5</b>	<b>59.8</b>	<b>454.7</b>
<b>BALANCE SHEET</b>					
Investment in property, plant and equipment and intangible assets					
Total assets	3,706.1	2,713.6	2,343.6	2,416.2	2,567.6
Net interest-bearing debt	-526.5	-48.4	160.8	162.5	66.2
Share capital	240.0	240.0	240.0	240.0	240.0
Total equity	1,164.6	920.0	814.7	720.1	959.2
<b>FINANCIAL RATIOS</b>					
EBITDA margin	11.6%	17.1%	14.7%	9.6%	15.8%
EBITDA margin before special items	20.1%	20.4%	20.7%	18.2%	18.2%
Effective tax rate	25.0%	24.1%	33.4%	12.7%	25.9%
Operating profit margin (EBIT margin)	6.7%	13.2%	2.8%	1.6%	12.5%
Solvency ratio	31.4%	33.9%	34.8%	29.8%	37.5%
Return on equity (ROE)	23.4%	58.3%	12.1%	7.1%	55.2%
<b>EMPLOYEES</b>					
Average number of full-time equivalents	2,920	3,071	2,961	2,869	3,272

## OUTLOOK

### FINANCIAL OUTLOOK FOR 2016

The outlook for KMD A/S in 2016 was growth of 2-4% and an increase in EBITDA before special items of at least 5%.

Revenue for KMD A/S remained at the same level as 2015 and earnings were correspondingly lower than expected, primarily because of increased project execution expenses.

The expectations for 2016 were therefore not met in full.

### OUTLOOK FOR 2017

For 2017, KMD expects growth in both revenue and EBITDA.

The main critical factors that could affect KMD's financial performance both positively and negatively are the development in new sales to local governments and sales to the private and central government markets.

With the new strategy in place, KMD expects to be able to retain its position as one of the largest software and IT service providers in Denmark.

### EVENTS AFTER THE BALANCE SHEET DATE

After the expiry of the financial year a settlement with KOMBIT has been reached regarding the development of support systems and extension of the transition agreement. The agreement contains a compensation payment of DKK 100m; the compensation has been taken into account in the annual report.

ATP has on 14 March 2017 decided to terminate the contract regarding development, operation and maintenance of a new pension system. It is KMD's assessment, that the termination will not have any material impact on the group's financial position, besides what have been taken into account in the annual report.

There have been no other events after the balance sheet date with a material impact on the Company's financial position as of 31 December 2016.





# KMD'S MARKETS

## LOCAL GOVERNMENTS & REGIONS

KMD's largest business segment mostly concentrates on Denmark's 98 local governments and five regions. This business segment accounts for 62% of revenue. In 2016, the revenue generated by Local Governments & Regions was DKK 3,150 million, on par with 2015.

The majority of the revenue in the segment is generated through business in open competition, with only a small proportion stemming from what was historically a monopoly business.

It is satisfying that KMD's systems remain a key component of the IT landscape of Denmark's local governments and regions, and equally satisfying that the role of KMD is continuing to evolve with new product launches and business opportunities.

### EVER UPWARD FOR ADMINISTRATIVE MANAGEMENT

Administrative management is one of KMD's largest local government markets. The KMD Opus product suite is widely used in the local government landscape, and 2016 was another good year in which a number of agreements were signed or renewed. Going forward, KMD will be providing IT support for administrative management to local governments including Ringkøbing-Skjern, Hillerød and Middelfart.

KMD also won the large D7 administrative management tender put out jointly by a number of local governments.

At the start of 2016, the City of Copenhagen started using a new finance system in place of a number of older systems. The new system creates better financial overview, making it easier to take the right decisions in relation to accounts, budgets and routine financial follow-up. The system was designed by KMD based on the latest, internationally acclaimed SAP S/4 HANA platform.

The work tasks of administrative employees in the local governments have changed considerably in the past few years, with much more expected of employees in payroll, finance and other areas. In response to a survey of local government managers, in 2016 KMD joined with UCN act2learn, the University College of Northern Denmark's department providing tailor-made special and further education programs, to launch an ECTS (European Credit Transfer System) accredited program that enhances the advisory skills of administrative employees. The program has been well received, and employees from Frederikshavn, Lolland and a number of other local governments have already participated.

The local governments are also continuing to initiate Information Management projects with KMD in which large-scale data gathering and implementation of new management tools will help to create better services and generate rationalizations.

The new Business Intelligence tools provide a better decision-making platform for local governments, allowing them to see the correlations between resource expenditures and whether implemented measures are producing the desired outcomes.

In 2016, KMD launched Business Intelligence projects in collaboration with the municipalities of Odsherred, Kolding, Varde, Aabenraa and others.

In the procurement area, important alliances with Comcare and SAS Institute, announced in 2015, bore fruit in 2016 in the form of a number of new customer agreements within procurement analysis and the Rakat procurement solution. New agreements were entered into with, among others, the municipalities of Struer, Syddjurs, Billund, Tårnby and Vesthimmerland.

KMD has also turned to the Nordic market to try to expand its customer base in the procurement business outside Denmark. This is an attractive market, as there has been increasing focus in the Nordic Region on the results of joint procurement agreements and follow-up. In 2016, this produced agreements with, among others, the municipalities of Bergen and Sandnes as well as the University of Oslo in Norway and the municipally owned company Eskilstuna Energy and Environment in Sweden.

### SOCIAL AND CARE AREA EVOLVING

In 2015, KMD acquired the IT company Avaleo, a leading player within local government health IT.

The Avaleo technology is a key element of KMD Nexus, a cross-disciplinary platform for local government citizen programs within the health area and the social and care area.

In 2016, KMD entered into numerous agreements on KMD Nexus in the local government market, including with the municipalities of Haderslev, Mariagerfjord, Nyborg and Gladsaxe.

KMD has high ambitions for the area and is working to make KMD Nexus ready for new initiatives from the Danish public sector. Expansion of existing mobile opportunities and citizen-facing services is also part of the development plans.

The citizen platform KMD Viva is a digital internet-based platform that brings together all the local government's digital services for the citizen, e.g. virtual rehabilitation and online interviews in connection with chronic obstructive pulmonary disease (COPD). In Vallensbæk Municipality, for example, KMD Viva's facility for online video meetings is being used to create networks for COPD sufferers, who might otherwise remain isolated in their homes.

In 2016, KMD renewed a number of local government agreements on KMD Viva, including with the municipalities of Thisted and Odder.

### KMD CREATES DENMARK'S LARGEST SOFTWARE DEVELOPMENT HOUSE WITHIN EDUCATION

IT support in education is a strategic focus area for KMD.

At the end of 2016, KMD acquired the Aalborg-based IT company UVdata, one of Denmark's leading developers of software for the education sector. In so doing, KMD created the largest software development house in the Danish education sector. In 2017, UVdata will become an integral part of KMD's education business, and as a result of the acquisition, KMD has taken over UVdata's portfolio of products, customers and partners.

KMD's and UVdata's current product portfolios are mostly complementary, but there are some overlaps, especially between learning platforms.

With a view to future product development, sales and servicing of learning platforms, KMD intends to proceed with a single product, enhancing UVdata's learning platform, MinUddannelse (MyEducation), with the best elements of its own platform.

KMD also anticipates that this new powerful match-up will be able to take the digitization agenda to even more educational areas and at a faster pace.

### LABOR MARKET READY FOR NEXT STEP

In 2016, a close collaboration between KMD and Microsoft resulted in KMD Momentum becoming the first local government specialist system to be developed on Microsoft's Azure cloud-computing platform.

KMD Momentum uses data intelligently to ensure targeted job placement efforts benefiting the individual citizen as well as local governments and employers.

The system also has an open architecture and supports cross-organizational collaboration, which is especially important in the labor market.

In 2017, KMD Momentum will be the technological renewal of the previous solutions, KMD Opera and Workbase.

In 2016, KMD entered into a series of agreements with local governments in the labor market area, including the municipalities of Gladsaxe, Helsingør and Varde.

### FROM START-UPS TO SOLID BUSINESSES

As an independent investment fund, the subsidiary KMD Venture is focused on creating new business models in collaboration with external business partners and start-ups.

KMD Venture has activities within a range of exciting projects that could create a new dynamic footprint in the local government landscape. In 2016, by way of example, KMD Venture announced that the company had invested in the start-up KUBO Robot, whose robot teaches children how to code.

KMD Venture has also started up activities within the care area and the citizen life cycle. In both areas, projects are scheduled to launch in 2017.

### MORE CONTRACTS WITH THE REGIONS

For many years, KMD has supported the work of the regions, which represent a growth market for the Group.

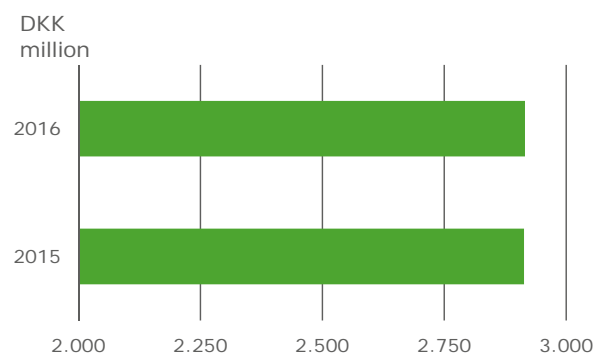
In 2016, following the first ever large EU tender in telemedicine in Denmark, the Region of Southern Denmark entered into a telemedical collaboration with KMD on a new "COPD suitcase," a solution that is tablet-based, wireless and more user-friendly for patients.

One of the biggest areas of collaboration with the regions is hardware, licenses and standard software. In 2016, KMD signed agreements with, among others, Region Zealand and Central Denmark Region on Citrix licenses.

KMD also signed an agreement with North Denmark Region on electronic transfer of structured data via EDI.

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### REVENUE, LOCAL GOVERNMENTS & REGIONS



## CENTRAL GOVERNMENT & DATA

KMD has ambitions to expand its activities in the Central Government & Data business segment, which currently accounts for 19% of revenue.

In 2016, KMD generated revenue of DKK 1,024 million in the segment, a fall of 6.4%. EBITDA followed the same trend with a fall of 7.7%.

The unsatisfactory decline in both revenue and EBITDA is because at the start of 2016 KMD failed to win the anticipated share of contracts in an area dominated by tenders.

KMD is confident that the business segment has generally charted a reasonable, positive growth course. A good finish to 2016 will also mean a better start to 2017.

### CONTINUED OUTSOURCING

In 2016, KMD signed or renewed a number of outsourcing agreements with central government players.

The year's biggest agreement was concluded with Danmarks Nationalbank. KMD will be responsible for running the central bank's administrative IT infrastructure, including maintenance of 150 administrative applications as well as development and maintenance of new IT systems. As part of the agreement, 45 full-time positions have been moved from Nationalbanken to KMD.

KMD will also operate, maintain and develop the public-sector learning solution Campus, which is overseen by the Danish Ministry of Finance's Agency for Modernisation. Among other things, the solution gives employees in central government institutions the opportunity to develop their skills through more than 120 digital courses.

As well as attracting new customers, KMD also succeeded in extending its collaboration with existing customers within IT outsourcing, including renewal of the operating agreement with the Southern Denmark State Administration.

Alongside the public debate on the EFI tax recovery system, in 2016 KMD was tasked with continuing to operate and maintain EFI for the Danish Tax and Customs Administration for several more years.

### DATA IN VAST QUANTITIES

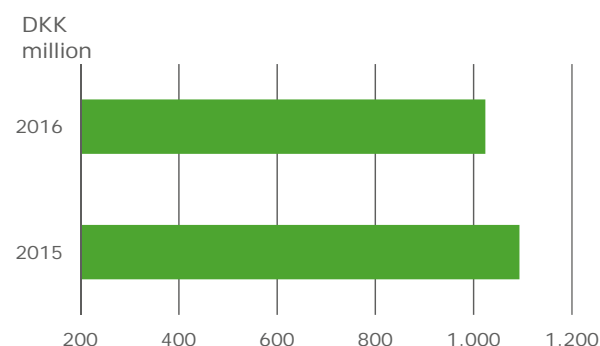
KMD's domain know-how and experience with vast data quantities give the Company a growing business in distributing and comparing data for the benefit of customer business. In particular, KMD helps both public and private companies to use public data more effectively.

In addition to the outsourcing agreement, Danmarks Nationalbank also entered into an agreement with KMD on the supply of land registry data via KMD Cognito, the new data distribution setup.

KMD expects the business in data distribution to grow significantly in the next few years. KMD is playing a major part in the government's basic data program, providing the actual search engine via the Data Distributor digital infrastructure.

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### REVENUE, CENTRAL GOVERNMENT & DATA



#### KMD A CONSULTANT TO CENTRAL GOVERNMENT

Big data is generally a growing area of interest for central government players, and in 2016 KMD signed a framework agreement with the Danish Health Data Authority to provide consultancy services within Business Intelligence.

Framework agreements were also signed with the Danish Agency for Labour Market and Recruitment and the Danish Business Authority, which KMD is assisting on the development front.

#### WORKZONE CONTINUES TO GAIN IN PROMINENCE WITH CENTRAL GOVERNMENT

KMD Workzone has become an even more configurable enterprise content management system, offering even greater market potential.

In 2016, KMD signed a large number of customer agreements on new services connected with the use of Workzone. New partners include the Danish Veterinary and Food Administration, the Danish Financial Supervisory Authority and the Danish National Police.

At the same time, various key customers launched a digitization strategy rooted in their Workzone platform. These included the three largest Danish universities and Defence Command Denmark, which started running a new version of KMD Workzone.

#### DIGITAL SELF-SERVICE WITH XFORM

KMD XForm – the standard platform for digital self-service solutions – had an excellent year in 2016. New agreements were signed with the Danish Federation of Social Educators, the Danish Health Data Authority and the Danish National Police.

As in previous years, KMD XForm also played a key role in the collection of donations in a number of high-profile TV fundraising programs, including the national fundraiser for DanChurchAid.

## PRIVATE SECTOR & INFRASTRUCTURE

Over the years, KMD has increasingly expanded its business with the private sector to the point where the Private Sector & Infrastructure business segment now accounts for 22% of revenue.

In 2016, KMD generated revenue of DKK 1,146 million in the private sector segment, up 33%. EBITDA for the segment grew by 94%.

The extremely satisfying growth in both revenue and EBITDA has been driven by the subsidiaries Banqsoft and Edlund as well as by KMD's strong product portfolio.

### CONTINUED ACQUISITIONS WITHIN FINANCE

KMD views the financial sector as a strategic growth area. In 2016, the Company continued to make investments, strengthening its business within the financial vertical in the private sector.

The biggest investment of the year was the acquisition of the IT company Edlund, the Danish leader in software development for life insurance and pension companies.

Edlund's competencies and solid customer experience, combined with KMD's strengths in developing software in complex areas and providing IT support for high-value transactions, have considerable market potential.

The new strategic match-up of KMD and Edlund showed its strength in 2016 in connection with the signing of the largest stand-alone customer agreement in KMD's history.

PenSam and KMD signed an agreement that places PenSam's IT portfolio in the pension sector in the care of KMD. The agreement includes an extensive restructuring of PenSam's core IT systems, with KMD and Edlund working together with PenSam to implement a new solution in the life insurance and pension area.

KMD has also taken on all the maintenance of the other IT systems at PenSam as well as an expansion of the IT infrastructure, including the area of IT security. All IT operation has also been given over to KMD.

Under the agreement, just over 50 employees have switched workplace from PenSam to the KMD Group.

### EDLUND MAKING GOOD PROGRESS ON STRONG INDUSTRY SOLUTION

KMD and Edlund also see good, broad market potential in the new industry solution for the life insurance and pension area.

At Scandinavian level, Edlund's solution meets a need for extensive software consolidation in the industry, where many players have IT supported by a plethora of different customized solutions.

Edlund is well positioned in respect of developing standard software and, besides the agreement with PenSam, there were also renewals of strategically important agreements with two of the biggest customers in the pension market, Sampension and PFA.

### FINANCIAL PLAYERS OUTSOURCING TO KMD

Last year was also a busy year for the development of KMD's offerings to customers within IT outsourcing.

In collaboration with various strategic partners, KMD began building the Nordic Region's largest managed cloud. Around 90% of KMD's current servers, storage and networks will gradually be moved to the new cloud platform.

During the year, a number of new key customer agreements were also signed within IT outsourcing.

Following a round of tendering, KMD signed an agreement to handle the IT systems of pension and social security provider ATP. The agreement covers operating, supporting, administering, developing and maintaining ATP's infrastructure.

As part of the agreement, KMD will have the opportunity to move operations from physical to virtual servers using private cloud technology. This will help ensure that ATP achieves even greater flexibility without compromising operational stability. At the same time, it will also provide new possibilities for scaling up and down when ATP has to expand its server capacity, such as when creating new business areas.

KMD and the Indian IT company Wipro have entered into an agreement to provide infrastructure services for the Scandinavian branch of one of the world's biggest insurance companies, RSA Insurance Group, known in Denmark and Norway as Codan and in Sweden as TryggHansa.

Another financial player that decided to place its IT operations with KMD in 2016 was GF Forsikring. Under the agreement, the insurance company's IT systems and data were moved to KMD's cloud-based data center.

KMD also signed new agreements within IT outsourcing with other interesting private-sector players.

Following two big tenders, KMD took over the running of the administrative IT systems of Danish railway company Banedanmark, for whom the Company will also support, maintain and develop a number of central SAP applications.

KMD has also renewed the agreement under which the Company operates the mainframe platform of telecommunications company TDC Group.

#### NEW NORDIC BANKS CHOOSE BANQSOFT

In the Nordic market, a number of new players emerged in the banking and finance sector in 2016. The newly established banks are seeking software that offers a broad, flexible product program with the focus on a high level of automation.

Banqsoft, KMD's Scandinavian subsidiary, is well positioned in the market, and in 2016 signed agreements with most of the new banks, including Instabank, Avida and Bynk. Banqsoft has also expanded its collaboration with Bank Norwegian, which is in the midst of a major IT-supported rollout to further markets.

#### SECURITY MORE IMPORTANT THAN EVER

The largest Danish companies are experiencing a high level of attacks on their data security, many of which succeed in their intentions.

A KMD Analysis survey of IT security officers at the top of Danish business showed that in 2016 companies were subjected to various types of attacks. Ransomware was especially popular with hackers, and around half of the affected companies had their data locked by malicious parties.

In order to raise awareness of security and increase familiarity with KMD's security solutions, in 2016 KMD launched a major security campaign centered around the importance of organizations protecting their business and data.

At the same time, in recent years KMD has significantly scaled up both its own and customer-oriented security. In 2016, the Company acquired more than 70 new customers in the security area.

Denmark's new General Data Protection Regulation has also given rise to considerable activity. KMD's subsidiary Neupart is helping to prepare more than 200 customers for the new regulation.

In 2016, KMD, spearheaded by Neupart, also made inroads into international markets, both private and public, including Germany, the United Kingdom and Norway.

### MORE ENERGY FOR KMD

There was also good activity in the energy sector in 2016. KMD acquired the Funen-based IT company EMT Nordic, which develops software and provides consultancy services within the energy and environment sector. The acquisition was part of KMD's growth strategy, which identifies software in the energy, utility and building management sector as a focus area.

The whole area of energy and building management is a particularly exciting market with increasing requirements for efficient use of energy. Software and data collection have a big role to play, and KMD sees considerable growth potential.

The EMT Nordic acquisition also further strengthened KMD's unit in Odense, which was already the base for most of KMD's sector specialists.

One of the year's big customer agreements in the energy sector was with DONG Energy. KMD has been contracted to deliver a new payment platform for the company's business customers. In 2016, KMD also entered into an agreement with SEAS-NVE, Denmark's second-largest energy company.

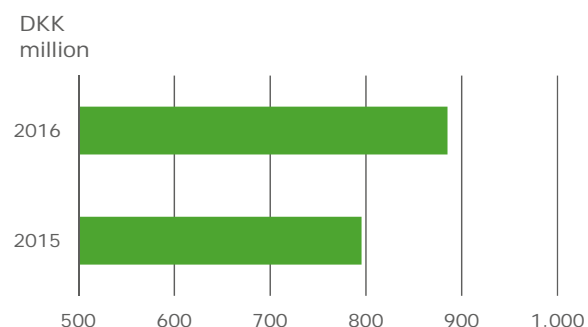
### OUTPUT MANAGEMENT IN GROWTH

KMD is the market's leading provider of output management, and in 2016 new agreements were signed with Danish telecommunications company TDC, IT operations and technical infrastructure provider JN Data, Danske Bank and others.

In recent years, this business area and the customers within it have seen significant reorganization involving major improvements to the digital customer journey. KMD's Output Management unit enjoys high levels of customer trust and satisfaction. The area has embarked on a positive growth journey of which KMD is expecting much in the years ahead.

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### REVENUE, PRIVATE SECTOR & INFRASTRUCTURE





# CORPORATE COMPLIANCE AND GOVERNANCE

## CORPORATE GOVERNANCE

The Board of Directors and Executive Board of KMD A/S are responsible for ensuring that the Company's management structure and control systems are appropriate and function satisfactorily. The basis for Management's work includes the Danish Companies Act, the Danish Financial Statements Act, the Company's bylaws and rules of procedure for the Board of Directors and Executive Board, and good practice for companies of the same size as KMD.

Management's review has been drawn up on the basis of the Danish Venture Capital and Private Equity Association's guidelines for active ownership and transparency in private equity funds (see [www.dvca.dk](http://www.dvca.dk)).

### OWNERSHIP AND CAPITAL STRUCTURE

As of 31 December 2016, the entire share capital of DKK 240 million (240,000 shares) in KMD A/S was owned by the parent company KMD Holdco 4 A/S. All the other companies in the KMD Group – with the exception of KMD Holding ApS – are also 100% owned by their parent company. KMD Holding ApS is owned by AI Keyemde & Cy SCA and the limited partnerships AI Keyemde B K/S, AI Keyemde B2 K/S and AI Keyemde C K/S.

The company structure is illustrated below. The share capital of KMD A/S is not divided into share classes.

### DIVIDEND

The Company's bylaws authorize the Board of Directors to take decisions on distribution of extraordinary dividends where the financial situation of the Company allows.

### THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors of KMD A/S held nine meetings in 2016.

The Board of Directors worked on the revision of the business strategy, followed up on the implementation of strategy and action plans, and was briefed monthly by the Executive Board on the Company's financial performance.

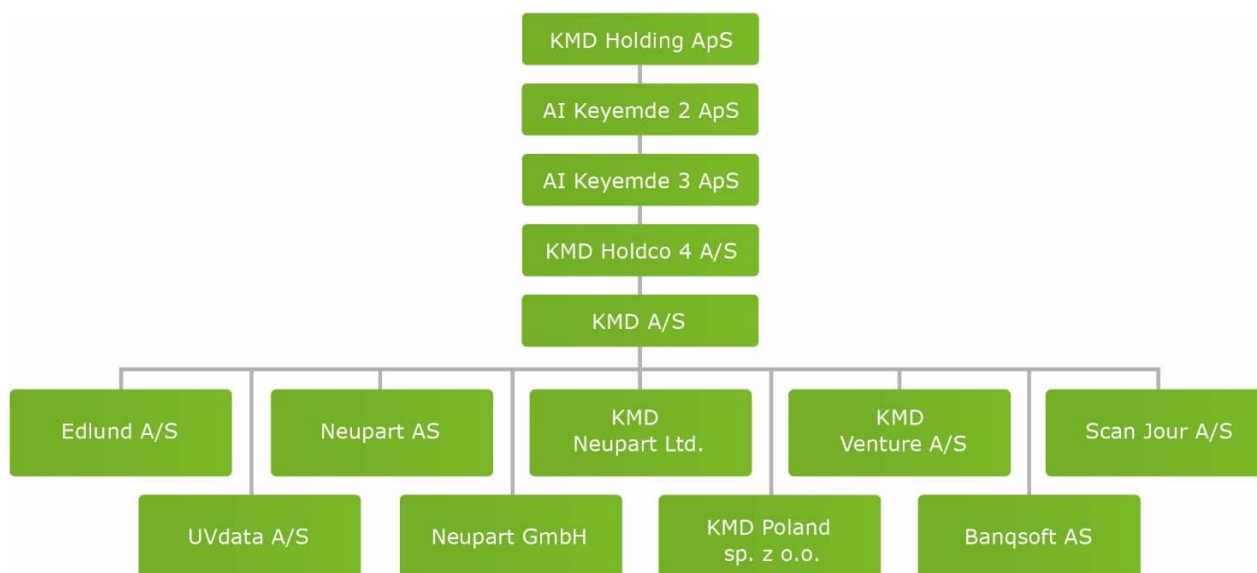
Jens Due Olsen joined the Board of Directors of KMD A/S at the end of 2016.

### REMUNERATION OF THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Total remuneration of DKK 12.3 million was paid to the Board of Directors and the Executive Board in 2016. See Note 5 to the financial statements for further information.

### REMUNERATION

Board of Directors	DKK 0.2 million
Executive Board	DKK 12.1 million
<b>Total</b>	<b>DKK 12.3 million</b>



## CORPORATE COMPLIANCE

In 2016, corporate compliance continued to be a high-priority area for KMD. Following a major revision of the anticorruption policies and program in 2015, KMD initiated a series of compliance-related measures in 2016.

During the year, KMD implemented a new e-learning program across the organization focusing on anticorruption, including KMD's rules on gifts and entertaining. The program, intended for KMD employees with external relations, was completed by more than 1,100 employees from the second to fourth quarters of the year. It is scheduled to be run every two years, with the next round in 2018.

In addition to the e-learning program in anticorruption, new employees at KMD, including those joining the Company as a result of an acquisition, are given general introductory training in corporate compliance, also implemented chiefly through an e-learning program. This continued in 2016, and information on the corporate compliance program has been an agenda item in KMD's induction day for all new employees.

In 2016, KMD also prepared an e-learning program in competition law, which will be rolled out to relevant employees across the organization in 2017.

In the fourth quarter of 2016, KMD ran an information campaign on the rules for giving, receiving and reporting gifts. This initiative was part of the ongoing embedding of the obligation for employees to report any gifts received with a value above a certain triviality limit, which was introduced when the policy on gifts and entertaining was revised in 2015.

In order to ensure compliance with the policy on anticorruption and the policy on gifts and entertaining, regular checks are carried out in various parts of the organization as well as planned audits in conjunction with KMD's Internal Audit. In the second half of 2016, an audit process was initiated in relation to anticorruption compliance and will continue into 2017.

In 2016, KMD continued its work on responsible supplier management, and in the first quarter of 2017 we will be implementing a new Danish tool from Aperitas for screening suppliers. As a so-called Frontier Member, KMD has been active in the development of the tool. KMD carries out annual screening of all high-risk suppliers, identified on the criteria of revenue,

geography and industry. A total of 43 suppliers were screened in 2016, none of which were asked to provide further information on their procedures and policies.

This screening facilitates fact-based dialogue with our suppliers about their CSR work, while placing KMD's Supplier Code of Conduct in a concrete context in which we can collaborate on action plans to help suppliers improve their efforts in selected areas. This will make it easier for us and our suppliers to achieve our goal of all key suppliers working in accordance with the principles of the UN Global Compact.

In 2016, KMD began revising its Supplier Code of Conduct, and the new version is expected to be ready for implementation in the first quarter of 2017.

In 2016, KMD also proceeded with the work of ensuring that our IT security policies and programs support our goal of secure and correct data management.

In 2016, KMD processed two cases within the Company's whistleblower program, which provides employees with an alternative to the regular reporting pathway when notifying breaches of legislation or of KMD's internal rules within the Company's seven compliance areas, namely anticorruption, IT security, authorizations, competition law, intellectual property rights, contractual risk management, and document management and storage. All employees, members of the Executive Board and Board of Directors, and external reporters can make use of the whistleblower program.

KMD is certified in accordance with the international security standard ISO 27001, the international quality management standard ISO 9001 and the IT service management standard ISO 20000. KMD is also certified in accordance with the environmental management standard ISO 14001.

KMD's corporate compliance work is continually being developed based on risks, trends and requirements, both internally and in the outside world. In 2017, there will be particular focus on compliance in the supply chain and in KMD's independent subsidiaries, audit initiatives in relation to anticorruption, and rollout of an e-learning program in competition law for relevant employees.

## SPECIAL RISKS

### BUSINESS RISKS

In common with all other IT companies, KMD is exposed to a number of business risks relating to market developments, shifts in customer demand, technological changes, employee recruitment, project execution, etc.

Work to identify risks, consolidate the overview and ensure that relevant measures are initiated is an integral part of managing the business.

KMD's enterprise risk management processes are executed within the frameworks defined by the Board of Directors.

A significant part of KMD's business is delivered in the form of customer projects, with performance terms outlined in the relevant contracts.

In 2016, KMD was awarded several major contracts in addition to those it already had. The total contract portfolio is managed via the project management organization in close collaboration with Management.

Active management of project risks is a key element of this work. At portfolio level, too, progress is monitored with a view to identifying and addressing risks in the individual project and across the portfolio both proactively and reactively.

Active management of project risks is a key prerequisite for financial control across the portfolio, as the projects represent a significant direct cost factor as well as a risk in terms of indirect costs by virtue of the penalty clauses agreed in the contracts.

On 14 September 2016, KMD A/S, as part of a consortium with CapGemini Sogeti Danmark A/S, was sued by SKAT (the Danish Tax and Customs Administration) for DKK 692,970,605 plus penalty interest. The case concerns the provision of the EFI tax recovery system.

KMD A/S fully rejects the claims that have been brought, but has nevertheless set aside an amount to cover compensation that the Company estimates SKAT might be awarded if the courts were to broadly uphold the claims.

ATP has on 14 March 2017 decided to terminate the contract regarding development, operation and maintenance of a new pension system. As a consequence of the termination, ATP has made a claim concerning compensation for DKK 881m.

KMD has rejected ATP's right to termination of the contract and the basis for the claim for compensation. In addition, KMD has made reservations for a counterclaim.

KMD A/S has taken a provision equivalent to KMD's assessment of the most likely outcome of the dispute with ATP into account.

## CONTROL AND RISK MANAGEMENT

KMD has established a number of control and risk management systems in connection with financial reporting, the purpose of which is:

- \_ To ensure timely, accurate and informative financial reporting in accordance with applicable accounting legislation.
- \_ To create a basis for internal financial control and budget follow-up.

The control and risk management systems established are improved continuously and are designed to ensure that errors and irregularities are detected and corrected in time. These systems can be divided into:

- \_ Control environment
- \_ Risk assessment
- \_ Control activities
- \_ Information and communication
- \_ Monitoring

### CONTROL ENVIRONMENT

Responsibilities and authorities are defined in the Board of Directors' instructions for the Executive Board, policies, procedures and codes. The Board of Directors approves KMD's main treasury, finance and risk management policies, while the Executive Board approves other policies and procedures, and the responsible functions issue guidelines and supervise the application of all policies and procedures. Systems have been established to ensure correct functional separation in the accounting department. The organizational structure and the internal guidelines define the control environment in conjunction with laws and other rules and regulations.

### RISK EVALUATION

Calculation of a number of items in the financial reporting is based on estimates, some of which are generated through processes based on complex assumptions. The ongoing process for risk assessment of contracts and projects in progress identifies these items, and the scope of the risks associated with them is determined by the controllers responsible for the business in close collaboration with the accounting department.

### CONTROL ACTIVITIES

The aim of control activities is to prevent, detect and correct any errors and irregularities. These activities are integrated into KMD's accounting and reporting procedures, and include procedures for certification, authorization, approval, reconciliation, analysis of results, separation of incompatible functions, controls relating to IT applications and general IT controls.

All risk assessments and associated controls are consistent with KMD's strategy and targets.

### INFORMATION AND COMMUNICATION

KMD maintains information and communication systems to ensure that the financial reporting is reliable and complete. KMD's bookkeeping rules and procedures for financial reporting are set out in an accounting manual. This and other reporting instructions, including budget and month-end procedures, are updated as necessary. Together with other policies relevant to internal control of financial reporting, these are available to all finance employees and other relevant employees on KMD's intranet.

### MONITORING

KMD uses a comprehensive enterprise system to monitor the Company's results, making it possible to detect and correct any errors and irregularities in the financial reporting at an early stage, including weaknesses in internal controls and non-compliance with procedures and policies.

Compliance with the accounting manual is monitored on an ongoing basis at Group level.

# STRATEGY AND ORGANIZATION

## KMD'S STRATEGY

KMD is running the business in accordance with the growth strategy covering the period through 2020, "KMD in more markets."

In 2016, the Board of Directors approved a revised version of the strategy with a general goal of strengthening KMD to make the Company a leading player in both the public and private market segments.

### STRATEGY 2020

"KMD in more markets" operates with three main focus areas:

- \_ KMD must strengthen its engagement on more markets. KMD has a clear growth strategy for central government, the private market, regions and the new citizen-centered areas in the local governments. Growth in the private and central government markets will ensure better balance and a broader market footprint.
- \_ KMD must increase customer focus. Customers must be satisfied, such that they become increasingly loyal to KMD and recommend us to others.
- \_ KMD must be more efficient. KMD maintains its cost focus to make the business as competitive as possible.

### KMD ON MORE MARKETS

KMD continues to strengthen and grow the business outside the historically strong local government core market.

The revenue distribution among the various market segments continues to be steadily transformed toward a more even distribution.

The year was an eventful one for all KMD's customer segments. The Company signed significant and commercially important agreements in all markets, allowing the business to grow.

In line with recent years, KMD continued its acquisition strategy in 2016.

KMD further increased its activities within the financial vertical, which fits well with KMD's strengths.

The strategic rationale lies in part in a common focal point of IT support for regulated business areas with knowledge-intensive employees who understand the need for stable operations and a high level of security.

The biggest investment of the year was the acquisition of the IT company Edlund, the Danish leader in developing software for life insurance and pension companies.

Edlund's exceptional competencies and solid customer experience, combined with KMD's strengths in developing software in complex areas and providing IT support for high-value transactions, have considerable market potential.

There was also good activity in the energy area in 2016. KMD acquired the Funen-based IT company EMT Nordic, which develops software and provides consultancy services within the energy and environment sector.

The whole area of energy and building management is a particularly exciting market with increasing requirements for efficient use of energy. Software and data collection have a big role to play, and KMD sees considerable growth potential.

KMD also has major ambitions to continue to develop its position in the local government market. For a number of years, one particular area of focus has been developing the Company's role within citizen-centered software.

IT support for education is a strategic focus area for KMD within citizen-centered software.

At the end of 2016, KMD acquired the Aalborg-based IT company UVdata, one of Denmark's leading developers of software for the education sector. In doing so, KMD created the largest software development house in the Danish education sector. In 2017, UVdata will become an integral part of KMD's education business.

KMD anticipates that this new powerful match-up will be able to take the digitization agenda to even more educational areas and at a faster pace.

KMD has a growing business within software for trade unions and unemployment insurance funds. The latter area has been undergoing significant digital transformation in recent years, and KMD sees great potential in expanding the business.

In 2016, KMD acquired the assets of the customer-owned software company Facilia, bringing in a number of important elements, not just important software, but also skilled personnel and key customers in the market.

#### FROM START-UPS TO SOLID BUSINESSES

As an independent investment fund, the subsidiary KMD Venture is focused on creating new business models in collaboration with external business partners and start-ups.

KMD Venture's task is to identify and invest in opportunities that are not generally being exploited by KMD's current business but could, in the long term, be of major strategic and financial importance for the Company.

KMD Venture has activities within a number of exciting projects. In 2016, by way of example, KMD Venture was able to announce that the company had invested in the Funen start-up KUBO Robot, whose robot teaches children how to code. The investment highlights KMD's ambitions and strategy to develop new business concepts that support pupil learning.

At the end of the year, KUBO Robot won the PITCH start-up competition at the internationally acclaimed Web Summit in Portugal.

#### INCREASE CUSTOMER FOCUS

Customer focus and customer understanding are the keys to greater customer satisfaction and growth.

KMD is continuously working on initiatives to increase customer satisfaction, where high delivery quality and positive delivery processes are crucial factors.

In 2016, we worked on strengthening project execution through the Projects@Work program and on servicing customers through the Service Excellence program.

In 2016, we succeeded in raising the level of customer satisfaction in the customer surveys (C-SAT) on a broad front.

#### A MORE EFFICIENT KMD

KMD is continually working to increase its competitiveness and be as strong in the market as possible.

In 2016, we launched a number of major initiatives that are helping to increase our efficiency. As an example, we entered into a strategic and expanded collaboration with IBM on mainframe operation and mainframe storage operation.

KMD has also entered into a collaboration with IBM in order to be able to keep up with market developments long term and ensure competitiveness and delivery reliability.

Under this agreement, KMD has transferred technical mainframe tasks to IBM, in connection with which nearly 70 mainframe specialists have moved from KMD to IBM.

KMD has also removed further tasks to a near-shore setup. In order to support KMD's strategy, the Finance Department has moved a number of functions to KMD's operation in Poland.

KMD has also continued to rationalize its procurement processes, securing significant rationalizations for acquired services via the Procurement function.

## KMD'S EMPLOYEES

People are the most important success factor for a knowledge-intensive company such as KMD, and the Company is continuously striving to improve in areas such as recruitment, employee development, leadership and organizational development.

In September 2016, KMD outsourced mainframe operation to IBM, which involved the transfer of almost 70 employees to IBM Danmark.

### DEVELOPMENT OF YOUNG TALENTS

In recent years, there has been a shortage of specialist competencies in the IT sector. To address this issue, KMD has launched a number of initiatives, not least to help train and develop young talents.

KMD has two development programs for new graduates. The first, KMD Graduate, was introduced in 2015 and comprises three lines: IT, project management and business. In this program, KMD takes on young graduates with an IT- or business-related degree. The second program, KMD SAP Graduate, was introduced in 2016 with the clear aim of training and developing future SAP consultants and SAP architects.

Both KMD Graduate and KMD SAP Graduate are two-year, tailored development programs combining relevant training with specific assignments and projects at KMD. The participants have all completed a degree course and excelled in their year group. In 2016, around 30 graduates embarked on KMD's two programs.

In 2016, KMD also continued the KMD Microsoft Academy, which is primarily aimed at new graduates with either a bachelor's or a master's degree in the field of IT.

The task of KMD Microsoft Academy is to train profiles in the .Net technology, for which there is a demand in the Group's Software Center. This has proved to be a very effective way of easing young people into the Company and quickly bringing them up to the right level. Going forward, KMD therefore expects to extend this form of training to other core technologies and product areas.

### SPONSORSHIPS EXTENDED

As part of KMD's employer branding, in 2016 the Company extended its collaboration with COPENHELL, Denmark's largest rock and metal festival. KMD sees this collaboration as an excellent opportunity to reach out to potential candidates while at the same time creating a fun framework for current employees interested in this particular genre of music.

In 2016, KMD also extended its long-standing main sponsorship of KMD IRONMAN Copenhagen, one of the world's biggest and most comprehensive IRONMAN sponsorships and IRONMAN's longest-running main sponsorship.

On the branding side, this is an extremely strong main sponsorship, as KMD IRONMAN Copenhagen is now one of the major sporting events in Denmark, with KMD IRONMAN Copenhagen alone drawing competitors from 48 nations and more than 200,000 spectators in 2016.

Every year, hundreds of KMD employees also take part in the various regional KMD 4:18:4 triathlons and in the shorter IRONMAN events in Aarhus and Elsinore as well as KMD IRONMAN Copenhagen.

#### EMPLOYEE SATISFACTION ON THE INCREASE

KMD has a clear ambition to be an attractive workplace, and the Company believes that it also conforms to market standards for IT workplaces to a significant degree.

Following a dip in employee satisfaction with KMD as a workplace from 2014 to 2015, the level of satisfaction increased in 2016 despite the many changes.

Although KMD is still slightly below the industry average, it is pleasing that the curve is again heading in the right direction. In 2017, KMD will continue to launch initiatives aimed at further increasing the level of employee satisfaction.

#### WOMEN ON THE BOARD OF DIRECTORS (SECTION 99B)

KMD has a policy for the representation of women on the Board of Directors, including a target of 17% by the end of 2017. At the end of 2016, there were no shareholder elected women on the Board of Directors.

In addition, KMD has set a target of having a number of female managers proportionate to the number of female employees. In 2016, 34% of KMD's employees were women and the share of women at all levels of Management was 25%, a slight fall compared with 2015.



## BOARD OF DIRECTORS

### CHAIRMAN

LÉO APOTHEKER

Born 1953

BA Economics & International Relations, Hebrew University, Jerusalem

Chairman of KMD Holding ApS and KMD A/S since 2012

Other positions:

Vice chairman, Schneider Electric SA

Independence:

Considered independent of the KMD.

### BOARD MEMBERS

JOHN WOYTON

Born 1978

BSc Economics, London School of Economics

Director, Advent International Corporation

Member of the boards of KMD Holding ApS and KMD A/S since 2012

Independence:

Considered independent of KMD.

FREDERIC WAKEMAN

Born 1962

BA Economics and History, University of California, Berkeley, and MBA, Georgetown University School of Business

Managing Partner, Advent International Corporation

Member of the boards of KMD Holding ApS and KMD A/S since 2012

Other positions:

Director, DFS and Oberthur Technologies

Independence:

Considered independent of KMD.

MICHAEL CHRISTIANSEN

Born 1945

LLB, University of Copenhagen

Member of the boards of KMD Holding ApS and KMD A/S since 2010

Other positions:

Chairman, DR, Dansk Retursystem A/S, Aarhus University, Kraft & Partners A/S, Lead Agency A/S and SHL A/S

Director, the Norwegian Opera and Ballet, the Royal Opera in Stockholm, CEJ A/S and Capnova A/S

Independence:

Considered independent of the KMD.

MORTEN HÜBBE

Born 1972

BA Business, Language and Culture and MSc Financing and Accounting, Copenhagen Business School;

Executive Leadership Program at the Wharton School, University of Pennsylvania

Member of the boards of KMD Holding ApS and KMD A/S since 2015

Other positions:

Director, Tryg Ejendomme A/S, Ejendomsselskabet af 8. maj 2008 A/S and Tjenestemændenes Forsikring

Independence:

Considered independent of KMD.

JENS DUE OLSEN

Born 1963

MSc Economics, University of Copenhagen

Member of the boards of KMD Holding ApS and KMD A/S since 2016

Other positions:

Chairman, NKT and BørneBasketFonden

Vice Chairman, PFA Pension A/S

Director, Auriga Industries A/S, Bladt Industries A/S, Heptagon Advanced Micro Optics Inc., Pierre.dk A/S, Cryptomathic A/S, Gyldendal A/S, Royal Unibrew A/S and Auris Luxembourg III S.A.

Independence:

Considered independent of KMD.

ELSE BERGMAN

Born 1954

Technical consultant, KMD A/S

Employed at KMD since 1980

Member of the board of KMD A/S since 2012

Other positions:

Employee representative, KMD

Independent:

Not considered independent as employed in the Group.

KIM SKOVGAARD

Born 1962

Service consultant, KMD A/S

Employed at KMD since 1987

Member of the board of KMD A/S since 2014

Other positions:

Employee representative, KMD

Independent:

Not considered independent as employed in the Group.

THOMAS BISBALLE

Born 1970

Process operator, KMD A/S

Employed at KMD since 2004

Member of the board of KMD A/S since 2014

Other positions:

Employee representative, KMD

Working environment representative, KMD

Chairman, Samdata\HK (Union of Commercial and

Clerical Employees in Denmark)

Independent:

Not considered independent as employed in the Group.

The Boards of Directors of other subsidiaries are listed by those enterprises.

## EXECUTIVE BOARD AND SENIOR MANAGEMENT OF KMD A/S

### EXECUTIVE BOARD

EVA BERNEKE  
CEO

JANNICH KIHOLM LUND  
CFO

### BUSINESS MANAGEMENT

OLE N.J. JENSEN  
Senior Vice President, Public Sector. Cases & Benefits

METTE KAAGAARD  
Senior Vice President, Local Governments & Regions.  
Citizen Centered Software Solutions

HELLE HUSS  
Senior Vice President, Local Governments & Regions.  
Administrative Software Solutions

SØREN AMUND HENRIKSEN  
Senior Vice President, Central Government

JESPER KRYHLMAND  
Senior Vice President, Business & Infrastructure

MICHAEL HOLMBERG ANDERSEN  
Senior Vice President, Software Center

FRANK OLESEN  
Senior Vice President, Operations

### FUNCTIONS

THOMAS FLARUP  
COO

LISBETH HALD  
Senior Vice President, HR

MORTEN LANGAGER  
Senior Vice President, Communication & Marketing

MARK SKRIVER NIELSEN  
Senior Vice President, Legal & Business Support

## CORPORATE SOCIAL RESPONSIBILITY

### CORPORATE SOCIAL RESPONSIBILITY

The Company and the Group report on Corporate Social Responsibility (CSR) will be found in the Annual Report for KMD Holding ApS.

# FINANCIAL STATEMENTS

## FINANCIAL STATEMENTS

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# FINANCIAL STATEMENTS

## INCOME STATEMENT

DKK million

Note		2016	2015
3	Revenue	5,073.8	5,084.5
4	Other external expenses	2,437.7	2,019.8
5	Staff costs	2,049.9	2,206.4
	Other operating income	2.8	12.9
	<b>Earnings before tax, interest, depreciation and amortization (EBITDA)</b>	<b>589.0</b>	<b>871.2</b>
10.11	Depreciation and amortization	248.2	199.2
	<b>Operating profit (EBIT)</b>	<b>340.8</b>	<b>665.5</b>
7	Financial income	11.9	12.3
8	Financial expenses	26.9	18.2
	<b>Earnings before tax (EBT)</b>	<b>325.8</b>	<b>666.1</b>
9	Tax on profit for the year	81.4	160.8
	<b>Net profit for the year</b>	<b>244.4</b>	<b>505.3</b>
	Allocated as follows:		
	Dividend	0.0	0.0
	Retained earnings	244.4	505.3

## BALANCE SHEET AT 31 DECEMBER

### ASSETS

DKK million

Note	2016	2015
<b>NON-CURRENT ASSETS</b>		
Customer relationships	43.3	40.9
Rights	126.3	133.0
Goodwill	248.6	228.2
Completed development projects	201.4	121.8
Development projects in progress	399.2	344.5
10 <b>Intangible assets</b>	<b>1,018.8</b>	<b>868.4</b>
Land and buildings	61.8	68.7
Leasehold improvements	42.5	42.5
Plant and machinery	40.9	59.0
Fixtures, operating equipment and vehicles	16.5	11.9
11 <b>Property, plant and equipment</b>	<b>161.7</b>	<b>182.1</b>
12 Equity investments in subsidiaries	1,261.2	334.2
Deposits	44.2	43.6
<b>Other non-current assets</b>	<b>1,305.4</b>	<b>377.8</b>
<b>Total non-current assets</b>	<b>2,485.9</b>	<b>1,428.3</b>
<b>CURRENT ASSETS</b>		
Inventories	3.5	4.2
Trade receivables	834.9	806.5
Receivables from Group enterprises	104.4	90.9
13 Contract work in progress	118.2	110.3
Other receivables	25.4	117.1
14 Prepayments	39.6	33.8
Derivative financial instruments	2.2	0.0
Cash	92.0	122.5
<b>Total current assets</b>	<b>1,220.2</b>	<b>1,285.3</b>
<b>Total assets</b>	<b>3,706.1</b>	<b>2,713.6</b>

## BALANCE SHEET AT 31 DECEMBER

### EQUITY AND LIABILITIES

DKK million

Note		2016	2015
<b>EQUITY</b>			
15	Share capital	240.0	240.0
	Hedging reserve	-0.3	-0.5
	Reserve for development projects	179.8	0.0
	Retained earnings	745.1	680.7
	Proposed dividend	0.0	0.0
<b>Total equity</b>		<b>1,164.6</b>	<b>920.2</b>
<b>LIABILITIES</b>			
9	Provision for deferred tax	55.9	71.5
16	Provisions	10.0	9.7
	Other payables	34.7	33.5
17	Credit institutions	582.2	212.9
16	<b>Non-current liabilities</b>	<b>682.8</b>	<b>323.0</b>
	Credit institutions	26.8	25.1
	Prepayments from customers	27.6	29.5
	Trade payables	667.3	519.2
	Payables to Group enterprises	127.4	23.8
18	Other payables	580.6	576.1
	Derivative financial instruments	0.0	0.8
	Corporation tax payable	71.0	107.0
16	Provisions	241.1	60.4
	Deferred income	116.9	123.9
<b>Current liabilities</b>		<b>1,858.7</b>	<b>1,465.8</b>
<b>Total liabilities</b>		<b>2,541.5</b>	<b>1,793.4</b>
<b>Total equity and liabilities</b>		<b>3,706.1</b>	<b>2,713.6</b>



## STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Hedging reserve	Retained earnings	Reserve for development projects	Proposed dividend	Total
Equity at 1 January 2016	240.0	-0.5	646.4	0.0	0.0	885.9
Additions relating to merger			34.1			34.1
Equity at 1 January 2016 after merger	240.0	-0.5	680.5	0.0	0.0	920.0
Net profit for the year			244.4			244.4
Value adjustment of hedging transactions before tax		0.2				0.2
Tax effect of hedging transactions		0.0				0.0
Capitalized development costs			-179.8	179.8		0.0
Provision for dividend						0.0
Dividend paid						0.0
Proposed dividend to shareholders						0.0
<b>Equity at 31 December 2016</b>	<b>240.0</b>	<b>-0.3</b>	<b>745.1</b>	<b>179.8</b>	<b>0.0</b>	<b>1,164.6</b>

The dividend paid in 2016 was DKK 0 per share against DKK 1,666.66 per share in 2015.

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- 19\_Contingent assets and liabilities
- 20\_Related parties
- 21\_Events after the balance sheet date

## NOTE 01\_ACCOUNTING POLICIES

The Annual Report for KMD A/S is presented in accordance with the provisions of the Danish Financial Statements Act regarding large class C enterprises.

The accounting policies applied by the Company are consistent with those used in 2015.

In 2016 KMD A/S was merged with the 100%-owned subsidiaries KMD BPO A/S, Avaleo ApS and EMT Nordic ApS. Comparative figures for 2015 and previous years have consequently been restated in accordance with the consolidated method.

According to the Danish financial statements Act, § 112 (1) consolidated accounts are not prepared as the company and its subsidiaries are included in the consolidated financial statements for KMD Holding ApS.

### EXEMPTION FROM PRESENTING A CASH FLOW STATEMENT

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flow is included in the consolidated cash flow statement for the parent company, KMD Holding ApS.

### REPORTING CURRENCY

The financial statements are presented in Danish kroner (DKK).

### FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated during the year at the rate prevailing on the transaction date. Gains and losses that arise between the rate on the transaction date and the payment date are recognized in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled on the balance sheet date are translated at the rate prevailing on the balance sheet date. The difference between the rate on the balance sheet date and the transaction date is recognized in the income statement under financial items.

### DIVIDENDS AND INCOME FROM EQUITY INVESTMENTS IN SUBSIDIARIES

A dividend is recognized when the shareholders' entitlement to receive a dividend has been approved by the competent company bodies.

If the dividend exceeds total earnings after the acquisition date, it is recognized as a write-down of the cost of the investment.

## DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial contracts considered to satisfy the conditions for recognition as cash flow hedges are termed "effective," while hedging instruments not considered to satisfy these conditions are termed "ineffective."

Changes in the fair value of effective derivative financial contracts are recognized in comprehensive income and accumulated as a reserve in equity under Hedging reserve.

Changes in the fair value of ineffective derivative financial contracts are recognized directly in the income statement under financial items.

Derivative financial instruments are recognized in the balance sheet at fair value on the trade date and subsequently measured at fair value. Positive and negative fair values of derivative financial contracts are included under Other receivables and Derivative financial instruments respectively.

The fair value of derivative financial instruments is calculated using standard valuation methods for such contracts based on observable market data. The fair value of interest rate-hedging contracts is calculated as the present value of expected future cash flows.

For both effective and ineffective derivative financial contracts, the part of the fair value adjustment that can be attributed to time value is always recognized directly in the income statement.

All fair values are based on prices calculated at market value or using standard pricing models.

## INCOME STATEMENT

### REVENUE

Income from the sale of services is recognized when the service is provided.

Income from the disposal of goods for resale is included in revenue at the time of delivery and risk transfer where the income is considered reliable. Revenue is stated net of VAT, charges and discounts.

Income from consultancy services is taken to income as the work is performed, with the revenue corresponding to the selling price of the work performed for the year.

License income is recognized when the criteria for risk transfer have been fulfilled, which is typically the same as the time of delivery.

#### OTHER EXTERNAL EXPENSES

Other external expenses include accounting items incurred to achieve the revenue for the year, including cost of sales in connection with the disposal of goods for resale, and other external expenses for distribution, sales, advertising, administration, premises, bad debts, operating lease payments, etc.

#### OTHER OPERATING INCOME AND EXPENSES

Gains and losses in connection with disposal of non-current assets are recognized under Other operating income or Other operating expenses.

#### STAFF COSTS

Staff costs cover wages, salaries and pensions paid to the Company's staff and other staff costs.

#### SPECIAL ITEMS

Special items are expenses or income items recorded in the income statement that cannot directly be attributed to ordinary activities. These expenses and income items comprise expenses for restructuring, fundamental structural adjustments and adjustment of provision for special compensation payments to customers. They are therefore presented separately so as to provide a more comparable basis for assessing the underlying business.

Gains and losses in connection with disposal of non-current assets are recognized under Special items.

#### SHARE-BASED PAYMENT

Share options are measured at the fair value of the granted share options at the grant date minus any amount paid by the employees. If the fair value exceeds the amount paid by the employees, the excess amount is considered as payment for services received from employees. The excess amount is therefore recognized in the income statement under staff costs over the period in which the final entitlement to the options is earned. The set-off is recognized directly in equity in the case of equity-settled schemes.

#### FINANCIAL ITEMS

Financial income and expenses are recognized in the income statement at the amounts relating to the financial year. Financial items cover interest income and expenses, share dividends, financial expenses in connection with finance leases, realized and unrealized exchange gains and losses relating to securities and transactions in foreign currencies, amortization of exchange losses, and borrowing costs. Borrowing costs that can be attributed directly to purchase, construction or production of a qualifying asset are included as part of the cost of the asset. A qualifying asset is an asset that it necessarily takes a significant period to make ready for its intended use or sale.

#### TAX

Tax on the profit for the year comprises current tax and deferred tax for the year, the effect on deferred tax of changes in tax rates, and prior-year adjustments. The part of tax for the year that can be attributed to entries made directly in the statement of comprehensive income is recognized directly therein.

Current tax is calculated at the tax rate applicable for the year. Deferred tax is calculated on the basis of the tax rules and tax rates in the respective countries that will be applicable by law on the balance sheet date where the deferred tax is expected to give rise to current tax.

#### BALANCE SHEET

##### INTANGIBLE ASSETS

Goodwill is recognized at cost minus any accumulated impairment losses.

Goodwill is tested for impairment each year if there are indications of a decrease in value. The impairment test is carried out for the activity or business area to which the goodwill relates. Goodwill is written down to the higher of the value in use and the net selling price for the activity or business area to which the goodwill relates (recoverable value) where this is lower than the carrying amount.

Intangible assets also include acquired intellectual property rights and development projects that meet the criteria for capitalization.

Customer-related assets are measured at cost less accumulated amortization and impairment losses based on the expected consumption pattern for future economic benefits.

Development projects that are clearly defined and identifiable, where the technical rate of utilization, adequate resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where the intention is to manufacture, market or use the product or process, are recognized as intangible assets where there is sufficient assurance that future earnings will cover the costs of production, sales and administrative expenses, and total development costs. Other development costs are recognized as expenses in the income statement as they are incurred.

Development costs are calculated as directly incurred expenses plus a proportion of other expenses that can indirectly be attributed to the individual development projects.

Amortization of intangible assets excl. goodwill is carried out on a straight-line basis over a period of up to 20 years based on experience of the period of use.

The useful life of the assets is assessed and adjusted if necessary on each balance sheet date. The main amortization periods are:

#### AMORTIZATION PERIOD

Acquired software rights	3-5 years
Development projects	3-15 years
Customer relationships	5-15 years
Other rights	3-20 years

Acquired intellectual property rights and completed development projects are tested for impairment where there are indications of a decrease in value. Development projects in progress are also subject to an annual impairment test.

The impairment test is carried out for each individual asset or group of assets. The assets are written down to the higher of the asset's or the asset group's value in use or net selling price (recoverable value) where this is lower than the carrying amount.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes land and buildings, plant and machinery, and fixtures, operating equipment and vehicles. Property, plant and equipment is measured at cost plus any revaluations and minus any accumulated depreciation and impairment losses.

Property, plant and equipment is depreciated on a straight-line basis over the expected useful life of the individual assets. The main depreciation periods are:

#### DEPRECIATION PERIOD

Land and buildings	50 years
Leasehold improvements	10-30 years
Major installations	10 years
Plant and machinery	2-5 years
Fixtures, operating equipment and vehicles	2-5 years

Assets held under finance leases are measured at the lower of the fair value pursuant to the lease and the present value of the lease payments, calculated on the basis of the internal interest on the lease minus any accumulated depreciation and impairment losses. Property, plant and equipment is tested for impairment where there are indications of a decrease in value.

The impairment test is carried out for each individual asset or group of assets. The assets are written down to the higher of the value in use and the net selling price (recoverable value) of the asset or group of assets where this is lower than the carrying amount.

#### INVESTMENTS

Equity investments in associates are measured using the equity method and recognized in the income statement at the proportionate share of the equity value in the enterprises calculated in accordance with the Company's accounting policies, plus goodwill.

In the balance sheet, equity investments in associates are recognized at the proportionate share of the equity owned in the enterprises calculated in accordance with the Company's accounting policies, plus goodwill. Associates with negative equity are measured at DKK 0, and any receivables from these enterprises are written down where an individual assessment shows this to be necessary. Where there is a legal or constructive obligation to cover the associate's negative value, a liability is recognized for this.

#### INVENTORIES

Inventories are recognized at cost calculated on the basis of average cost. Where the cost exceeds the expected selling price minus costs of completion and sale, inventories are written down to the lower net realizable value.

#### RECEIVABLES

Receivables and loans cover receivables that have arisen in connection with sales. Such receivables are classified as current with the exception of the part falling due more than 12 months from the balance sheet date. The amounts are included in the items Trade receivables and Other receivables.

Receivables are recognized in the balance sheet at fair value and subsequently measured at amortized cost. In the case of current non-interest-bearing receivables and receivables at variable rates of interest, this will usually correspond to nominal value.

On each balance sheet date the Company assesses whether there are circumstances indicating that significant individual receivables have been subject to a decrease in value. This is assessed on the basis of an age criterion and objective indications of financial problems on the part of debtors. If it is assessed that the receivable will not be paid in full, amortized cost is calculated on the basis of these expected lower payments. It is further assessed whether groups of receivables that are not significant receivables individually have been subject to a decrease in value.

These receivables are then written down by group on the basis of the Company's past experiences.

#### CONSULTANCY SERVICES IN PROGRESS

Consultancy services in progress are measured at the selling price of the work performed. The stage of completion is calculated on the basis of the direct and indirect expenses incurred in relation to the expected total expenses.

The value of the individual items of work in progress minus invoicing on account is classified as receivables where the amounts are positive and as payables where the amounts are negative.

Provision is made for expected losses on work in progress based on an individual assessment of the loss until completion of the work.

#### PREPAYMENTS (ASSET)

Prepayments recognized under assets include prepaid expenses relating to subsequent financial years and are measured at amortized cost.

#### EQUITY

Dividends are recognized as a liability at the date of adoption by the general meeting.

#### PROVISIONS

Provisions are recognized where, as a result of an event that has occurred before or on the balance sheet date, the Company has a legal or constructive obligation and it is likely that an outflow of funds will be required to settle the liability.

#### CORPORATION TAX

Current tax liabilities are recognized in the balance sheet as tax calculated on the expected taxable income for the year, adjusted for tax on taxable income in previous years and taxes paid on account.

Deferred tax is calculated on the basis of the tax rules and tax rates in the respective countries that will be applicable by law on the balance sheet date where the deferred tax is expected to give rise to current tax. Changes in deferred tax as a result of changes in tax rates are recognized in the income statement, with the exception of the effect concerning items recognized in Other comprehensive income.

Provision for deferred tax is calculated on all temporary differences between carrying amount and tax base.

Deferred tax assets are recognized at the value that is expected to be utilized, either by elimination in tax on future earnings or by offsetting against deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity and jurisdiction.

#### LEASE COMMITMENTS

Finance lease commitments are measured at the present value of the remaining lease payments, including any guaranteed residual value based on the internal rate of interest on the individual leases.

#### FINANCIAL LIABILITIES

Financial liabilities are recognized at the time of borrowing at the proceeds received minus transaction costs incurred, and subsequently measured at amortized cost calculated on the basis of the effective rate of interest on the borrowing date.

#### DEFERRED INCOME (LIABILITY)

Deferred income recognized under liabilities includes payments received relating to income in subsequent years and is measured at amortized cost.

## NOTE 02\_SIGNIFICANT ACCOUNTING ASSESSMENTS AND ESTIMATES

In preparing KMD's annual report, the Company's Management makes a number of accounting assessments and estimates that form the basis for recognition and measurement of the Company's assets and liabilities. The most important accounting assessments and estimates are set out below. The accounting policies are described in detail in Note 1.

### ACCOUNTING ASSESSMENTS

#### ACQUISITION OF ENTERPRISES

On acquisition of enterprises the Company's Management assesses whether, for accounting purposes, it is acquiring an enterprise or individual assets and liabilities. The assessment is based on whether the acquired enterprise constitutes integrated activities or assets.

#### APPLICATION OF THE PERCENTAGE OF COMPLETION METHOD

The Company's Management makes significant accounting assessments in connection with revenue recognition. If a project is customized to a high degree, revenue relating to projects in progress is recognized under the percentage of completion method, corresponding to the selling price of the work carried out based on the stage of completion. If a project does not qualify for recognition under the percentage of completion method, revenue is not recognized until risk is transferred to the purchaser. Delays, etc. can cause significant fluctuations in the timing of the company's recognition of revenue and thus earnings relative to expectations.

### ESTIMATION UNCERTAINTIES

Calculation of the carrying amount of certain assets and liabilities requires assessments, estimates and assumptions concerning future events. The estimates made are based on historical experiences and other factors that Management considers appropriate in the circumstances, but that by their very nature are uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise. Moreover, the enterprise is subject to risks and uncertainties that may result in actual results differing from these estimates. It may be necessary to change estimates made previously as a result of changes in the circumstances that formed the basis of the previous estimates or on the basis of new knowledge or subsequent events.

### IMPAIRMENT OF ASSETS

#### GOODWILL

In performing the annual impairment test, an estimate is made as to whether the individual units of the

enterprise (cash-generating units) to which goodwill relates will be able to generate sufficient positive net cash flows in the future to support the value of goodwill and other necessary investments. The estimate of future net cash flows is based on budgets and business plans for the coming year and projections for subsequent years. Key parameters are revenue development, profit margin, investments in net working capital and growth expectations for the years ahead. Budgets and business plans for the coming year are based on concrete future business measures, with risks in the key parameters being assessed and recognized in the future expected cash flows. Projections beyond this first year are based on general expectations and risks. The discount rates used to calculate the recoverable value are before tax and reflect the risk-free interest plus specific risks in the individual business areas.

The cash flows used incorporate the effect of the future risks associated with this, which is why such risks are not incorporated in the discount rates used. The carrying amount of goodwill at 31 December 2016 was DKK 248.6 million (31 December 2015: DKK 228.2 million).

#### DEVELOPMENT COSTS

Completed development projects are reviewed annually for indications of impairment. Where indications of impairment are identified, an impairment test is carried out for the individual development projects. Completed development projects were written down for impairment by DKK 42.3 million in 2016 (2015: DKK 8.2 million). The write-downs in 2016 were a result of the closure of various software projects under development following a change of technology and consequent reassessment of future cash flows.

The carrying amount of completed development projects at 31 December 2016 was DKK 201.4 million (31 December 2015: DKK 121.8 million).

In the case of development projects in progress, an actual impairment test is carried out each year. The impairment test is based on various factors, including future use of the projects, the present value of expected future earnings, plus interest rate and other risks. No write-down on development projects in progress was made in 2015 or 2016.

For KMD the measurement of development projects in progress could be significantly impacted by material changes in estimates and assumptions underlying the calculated values, including developments in technologies and interest rates.

The carrying amount of development projects in progress at 31 December 2016 was DKK 399.2 million (31 December 2015: DKK 344.5 million).

#### CONSULTANCY SERVICES IN PROGRESS

Consultancy services in progress are measured at the selling price of the work performed. The stage of completion is calculated on the basis of the direct and indirect expenses incurred in relation to the expected total expenses. Provision is made for expected losses on work in progress based on an individual assessment of the loss until completion of the work.

The carrying amount of consultancy services in progress at 31 December 2016 was DKK 118.2 million (31 December 2015: DKK 110.3 million).

#### PROPERTY, PLANT AND EQUIPMENT

Impairment testing of property, plant and equipment is carried out if events or circumstances indicate the assets have been impaired.

The value in use is determined using the same method as for impairment losses relating to goodwill. Calculation of the impairment loss is therefore associated with the same degree of uncertainty for property, plant and equipment as for goodwill.

The carrying amount of property, plant and equipment at 31 December 2016 was DKK 161.7 million (31 December 2015: DKK 182.1 million). The decrease can partly be attributed to outsourcing of basic server operations.



## NOTE 03\_SEGMENT INFORMATION

KMD A/S operates within the following business segments.

DKK million	2016	2015
<b>Revenue by business segment</b>		
Local Governments & Regions	3,149.5	3,170.4
Central Government & Data	1,024.1	1,093.5
Private Sector & Infrastructure	885.2	795.5
Other	15.0	25.1
<b>Total</b>	<b>5,073.8</b>	<b>5,084.5</b>

## NOTE 04\_AUDIT FEE

DKK million	2016	2015
Fee to the Company's auditor, PricewaterhouseCoopers		
Statutory audit fee	1.0	1.0
Other assurance engagements	4.9	4.4
Tax advisory services	0.7	0.4
Other services	2.3	5.6
<b>Total</b>	<b>8.9</b>	<b>11.4</b>

## NOTE 05\_STAFF COSTS

DKK million	2016	2015
Wages, salaries and remuneration	1,879.0	2,024.0
Pensions	169.5	171.5
Other social security costs	1.4	10.9
<b>Total</b>	<b>2,049.9</b>	<b>2,206.4</b>
Board of Directors Remuneration	0.2	0.2
<b>Total</b>		
Executive Board Salaries, etc.	11.0	11.9
Pensions	1.1	1.0
<b>Total</b>	<b>12.1</b>	<b>12.9</b>
<b>Average number of employees</b>	<b>2,920</b>	<b>3,071</b>

An amount of DKK 94 million has been expensed in 2016 for salaries and compensation for employees who left the Company as a result of structural adjustments.

### SHARE-BASED PAYMENT – SHARE OPTION PROGRAM

An investment program has been established for the Executive Board and a number of senior employees. Investment is by means of endorsing the purchase of B and C shares in KMD Holding ApS made by three limited partnerships.

The share purchases comprise 4.11% of the share capital in KMD Holding ApS.

At 31 December 2016 the limited partnerships have not offered all the acquired shares to those covered by the program.

The holders of the shares have only limited voting rights and are entitled to sell the shares to third parties only in connection with a stock exchange listing or the sale of KMD Holding ApS (exit event). If an employee covered by the program leaves their position before an exit event has occurred, the person is obliged to sell their shares at a price based on a predetermined formula.

The investment of the Executive Board and senior employees in KMD Holding ApS is specified in the table below.

SHARES	B shares	C shares
<b>At 1 January 2016</b>	<b>396,137</b>	<b>4,754</b>
Granted during the year	208,610	225
Terminations	0	0
Exercised	0	0
Expired	0	0
<b>Outstanding at 31 December 2016</b>	<b>604,747</b>	<b>4,979</b>

## NOTE 06\_SPECIAL ITEMS

### REORGANIZATION AND STRUCTURAL ADJUSTMENTS

Expenses relating to reorganization and structural adjustments primarily concern termination expenses.

### TRANSFORMATION PROGRAMS

Expenses relating to transformation programs primarily concern expenses associated with changing the business setup, including server and mainframe operation.

### OTHER

Other expenses of a special nature, including acquisition-related expenses and special compensation payments to customers.

## 2015

DKK million	Other external expenses	Staff costs	Other operating income	Total
Reorganization and structural adjustments		-121.6		-121.6
Transformation programs	-23.5			-23.5
Other	-31.6		8.4	-23.2
<b>Total</b>	<b>-55.1</b>	<b>-121.6</b>	<b>8.4</b>	<b>-168.3</b>

## 2016

DKK million	Other external expenses	Staff costs	Other operating income	Total
Reorganization and structural adjustments		-93.6		-93.6
Transformation programs	-75.0			-75.0
Other	-262.7		2.8	-259.9
<b>Total</b>	<b>-337.7</b>	<b>-93.6</b>	<b>2.8</b>	<b>-428.5</b>

## NOTE 07\_FINANCIAL INCOME

DKK million	2016	2015
Interest income	4.6	1.7
Foreign currency translation adjustments	2.9	1.8
Interest income, Group enterprises	4.4	8.8
<b>Carrying amount at 31 December</b>	<b>11.9</b>	<b>12.3</b>

## NOTE 08\_FINANCIAL EXPENSES

DKK million	2016	2015
Interest expenses	19.7	13.9
Foreign currency translation adjustments	3.5	3.6
Interest expenses, Group enterprises	3.7	0.7
<b>Total</b>	<b>26.9</b>	<b>18.2</b>

#### NOTE 09\_TAX ON PROFIT FOR THE YEAR

DKK million	2016	2015
Current tax	98.4	128.9
Change in deferred tax	-17.6	33.1
<b>Total</b>	<b>80.8</b>	<b>162.0</b>
Prior-year adjustments	0.6	-1.2
<b>Total</b>	<b>81.4</b>	<b>160.8</b>
Made up as follows:		
Tax on profit for the year	81.4	160.8
Tax on changes in equity	0.0	0.0
<b>Total</b>	<b>81.4</b>	<b>160.8</b>

#### DEVELOPMENT IN DEFERRED TAX CAN BE SPECIFIED AS FOLLOWS:

DKK million	2016	2015
Balance at 1 January	71.5	14.7
Adjustment of deferred tax, 1 January	-5.7	11.7
Additions relating to merger	7.7	12.8
Provisions for the year	-17.6	32.3
<b>Balance at 31 December</b>	<b>55.9</b>	<b>71.5</b>
Deferred tax is made up as follows:		
Intangible assets	158.9	137.3
Property, plant and equipment	-41.4	-44.9
Other liabilities	-18.0	-11.3
<b>Non-current portion</b>	<b>99.5</b>	<b>81.1</b>
Current assets	8.1	6.4
Other liabilities	-51.7	-16.0
<b>Current portion</b>	<b>-43.6</b>	<b>-9.6</b>
<b>Balance at 31 December</b>	<b>55.9</b>	<b>71.5</b>

# NOTE 10\_INTANGIBLE ASSETS

2016

DKK million	Customer relation- ships	Rights and software	Goodwill	Development projects in progress	Completed develop- ment projects	Total
<b>Cost at 1 January</b>	<b>78.2</b>	<b>200.0</b>	<b>229.6</b>	<b>348.5</b>	<b>223.1</b>	<b>1,079.4</b>
Additions relating to merger	17.6		67.7		21.5	106.8
<b>Cost at 1 January after merger</b>	<b>95.8</b>	<b>200.0</b>	<b>297.3</b>	<b>348.5</b>	<b>244.6</b>	<b>1,186.2</b>
Additions relating to merger	23.7		47.9		20.4	198.8
Additions during the year		22.8		223.2	19.5	265.5
Transfers				-172.5	172.5	0.0
Disposals during the year				0.0	-59.6	-59.6
<b>Cost at 31 December</b>	<b>119.5</b>	<b>222.8</b>	<b>345.2</b>	<b>399.2</b>	<b>397.4</b>	<b>1,484.1</b>
Amortization and impairment losses at 1 January	54.9	67.0	69.1	4.0	118.8	313.8
Additions relating to merger	3.5				4.0	7.5
Amortization and impairment losses at 1 January after merger	58.4	67.0	69.1	4.0	122.8	321.3
Transfers				-4.0	4.0	0.0
Disposals during the year					-59.6	-59.6
Impairment losses					42.3	42.3
Amortization for the year	17.8	29.5	27.5		86.5	161.3
Amortization and impairment losses at 31 December	<b>76.2</b>	<b>96.5</b>	<b>96.6</b>	<b>0.0</b>	<b>196.0</b>	<b>465.3</b>
<b>Carrying amount at 31 December</b>	<b>43.3</b>	<b>126.3</b>	<b>248.6</b>	<b>399.2</b>	<b>201.4</b>	<b>1,018.8</b>
Carrying amount of capitalized interest at 31 December	0.0	0.0	0.0	1.7	6.5	8.2

# NOTE 11\_PROPERTY, PLANT AND EQUIPMENT

## 2016

DKK million	Land and buildings	Leasehold improvements	Plant and machinery	Fixtures, operating equipment and vehicles	Total
<b>Cost at 1 January</b>	<b>140.2</b>	<b>62.8</b>	<b>335.8</b>	<b>163.5</b>	<b>702.3</b>
Additions relating to merger		0.6		2.0	2.6
<b>Cost at 1 January after merger</b>	<b>140.2</b>	<b>63.4</b>	<b>335.8</b>	<b>165.5</b>	<b>704.9</b>
Additions relating to merger				0.4	3.0
Additions during the year		6.4	18.6	12.5	37.5
Disposals during the year	-0.4		-78.3	-2.3	-81.0
<b>Cost at 31 December</b>	<b>139.8</b>	<b>69.8</b>	<b>276.1</b>	<b>176.1</b>	<b>661.8</b>
Depreciation at 1 January	71.5	20.8	276.8	151.7	520.8
Additions relating to merger		0.1		1.9	2.0
Depreciation at 1 January after merger	71.5	20.9	276.8	153.6	522.8
Depreciation for the year	6.6	6.4	23.6	8.0	44.6
Depreciation eliminated on disposals	-0.1		-65.2	-2.0	-67.3
Depreciation at 31 December	78.0	27.3	235.2	159.6	500.1
<b>Carrying amount at 31 December</b>	<b>61.8</b>	<b>42.5</b>	<b>40.9</b>	<b>16.5</b>	<b>161.7</b>
Of which assets held under finance leases	0.0	0.0	0.0	0.0	0.0

## NOTE 12\_EQUITY INVESTMENTS IN GROUP ENTERPRISES

DKK million	2016	2015
Cost at 1 January	334.2	79.4
Additions	1,012.0	391.3
Disposals due to mergers	-85.0	-136.5
<b>Cost at 31 December</b>	<b>1,261.2</b>	<b>334.2</b>
Accumulated impairment losses at 1 January	0.0	0.0
Impairment losses for the year		
Disposals	0.0	0.0
Accumulated impairment losses at 31 December	0.0	0.0
<b>Carrying amount at 31 December</b>	<b>1,261.2</b>	<b>334.2</b>

Group enterprises 2016	Domicile	Currency	Ownership interest
Edlund A/S	Valby, Denmark	DKK	100.0%
UVdata A/S	Nørresundby, Denmark	DKK	100.0%
KMD Neupart Ltd	London, UK	GBP	100.0%
KMD Venture A/S	Ballerup, Denmark	DKK	100.0%
ScanJour A/S	Ballerup, Denmark	DKK	100.0%
KMD Poland sp. z o.o.	Warsaw, Poland	PLN	100.0%
Banqsoft AS	Oslo, Norway	NOK	100.0%
Neupart AS	Lysaker, Norway	NOK	100.0%
Neupart GmbH	Düsseldorf, Germany	EUR	100.0%

## NOTE 13\_CONTRACT WORK IN PROGRESS

DKK million	2016	2015
Selling price of work performed	241.9	476.4
Payments received on account	-123.7	-366.1
<b>Carrying amount at 31 December</b>	<b>118.2</b>	<b>110.3</b>



#### NOTE 14\_PREPAYMENTS

DKK million	2016	2015
Prepaid salaries	0.8	0.8
Other prepayments	38.8	33.0
<b>Carrying amount at 31 December</b>	<b>39.6</b>	<b>33.8</b>

#### NOTE 15\_SHARE CAPITAL

DKK million	2016	2015
The Parent Company's capital is made up as follows:		
1 share class of A shares of DKK 1,000	240.0	240.0
<b>Total</b>	<b>240.0</b>	<b>240.0</b>

The share capital has been unchanged at DKK 240.0 million for the last five financial years.

#### NOTE 16\_PROVISIONS

DKK million	2016	2015
Provisions at 1 January	70.1	87.1
Additions during the year	213.0	24.6
Used during the year	-32.0	-41.6
Reversed during the year	0.0	0.0
<b>Carrying amount at 31 December</b>	<b>251.1</b>	<b>70.1</b>

Provisions relate essentially to expected expenses in connection with customer projects and legal cases.

There is some uncertainty regarding the size of the actual amounts and the time they fall due.

#### NOTE 17\_NON-CURRENT LIABILITIES

DKK million	2016	2015
Non-current payables due more than 5 years after the balance sheet date	8.5	29.5
<b>Carrying amount at 31 December</b>	<b>8.5</b>	<b>29.5</b>

## NOTE 18\_OTHER PAYABLES

DKK million	2016	2015
Holiday pay obligations	283.8	290.4
Other staff-related items	172.6	211.2
VAT, A tax (PAYE), social security contributions and ATP supplementary pension	73.2	62.5
Other payables	51.0	12.0
<b>Carrying amount at 31 December</b>	<b>580.6</b>	<b>576.1</b>

## NOTE 19\_CONTINGENT ASSETS AND LIABILITIES

The Company has entered into leases and operating leases that are non-cancelable on the part of the Company beyond 1 year. The value of the total rental and lease commitments is as follows:

### RENTAL COMMITMENTS

DKK million	2016	2015
Rental commitments due within 1 year	94.7	93.5
Rental commitments due within 2 to 5 years	358.8	354.0
Rental commitments due after 5 years	764.1	861.8
<b>Total</b>	<b>1,217.6</b>	<b>1,309.3</b>

Rental commitments relate primarily to the Company's owner-occupied properties where contracts have been entered into that are non-cancelable until 1 January 2024.

Expenses recognized in the income statement relating to the above rental commitments amount to DKK 95 million (2015: DKK 94 million).

### LEASE COMMITMENTS

DKK million	2016	2015
Lease commitments due within 1 year	437.5	286.3
Lease commitments due within 2 to 5 years	816.1	461.8
Lease commitments due after 5 years	48.7	76.6
<b>Total</b>	<b>1,302.3</b>	<b>824.7</b>

Lease commitments mainly comprise lease commitments concerning third-party software/maintenance subscriptions. Expenses recognized in the income statement relating to the above operating leases amount to DKK 438 million (2015: DKK 286 million).

### OTHER LIABILITIES AND CONTINGENT LIABILITIES

The Company is involved in normal commercial disputes. Although the final outcome of these matters cannot be predicted, Management does not consider that they will have a material impact on the Company's results or financial position.

The senior loan agreement is a loan facility comprising four loan facilities and a revolving credit facility. On 31 December 2016 the nominal debt in relation to the loan agreement was DKK 4,805 million. The shares in KMD A/S and its subsidiaries have been pledged as security for the senior loan agreement.

KMD has entered into an agreement with KL (Local Government Denmark) concerning regulation of price development and service level for certain IT systems critical in relation to local governments' administration of legislation in the welfare area.

KMD A/S is jointly taxed with the other Danish companies in the KMD Holding Group. The joint taxation also covers withholding tax in the form of tax on dividends, royalties and interest. The Danish companies are jointly and severally liable for the joint taxation. Any subsequent corrections to the taxable income subject to joint taxation or withholding taxes may lead to a higher liability.

## NOTE 20\_RELATED PARTIES

The Company has had the following transactions with related parties:

DKK million	2016	2015
Trading and balances with related parties comprise:		
Sale of goods and services, Group enterprises	23.7	10.2
Purchase of goods and services, Group enterprises	128.2	32.9
Interest income, Group enterprises	4.4	8.8
Interest expenses, Group enterprises	3.7	0.7
Receivables, Group enterprises	104.4	90.9
Payables, Group enterprises	127.4	23.8

The Company's related parties are:	Domicile	Relationship	Ownership interest
AI Keyemde & Cy SCA	Luxembourg	Shareholder in KMD Holding ApS	95.9%
AI Keyemde B K/S	Ballerup, Denmark	Shareholder in KMD Holding ApS	3.9%
AI Keyemde B2 K/S	Ballerup, Denmark	Shareholder in AI KEYEMDE ApS	0.2%
AI Keyemde C K/S	Ballerup, Denmark	Shareholder in KMD Holding ApS	0.0%
KMD Holding ApS	Ballerup, Denmark	Shareholder in AI Keyemde 2 ApS	100.0%
AI Keyemde 2 ApS	Ballerup, Denmark	Shareholder in AI Keyemde 3 ApS	100.0%
AI Keyemde 3 ApS	Ballerup, Denmark	Shareholder in KMD A/S	100.0%
KMD Holdco 4 A/S	Ballerup, Denmark	Shareholder in KMD A/S	100.0%
Edlund A/S	Valby, Denmark	Subsidiary of KMD A/S	100.0%
UVdata A/S	Ballerup, Denmark	Subsidiary of KMD A/S	100.0%
KMD Poland sp. z o.o.	Warsaw, Poland	Subsidiary of KMD A/S	100.0%
KMD Neupart Ltd	London, UK	Subsidiary of KMD A/S	100.0%
MetaTech AS	Trondheim, Norway	Subsidiary of KMD A/S	100.0%
Banqsoft AS	Oslo, Norway	Subsidiary of KMD A/S	100.0%
Banqsoft AB	Stockholm, Sweden	Subsidiary of Banqsoft AS	100.0%
Banqsoft OY	Espoo, Finland	Subsidiary of Banqsoft AS	100.0%

The Company's related parties are:	Domicile	Relationship	Ownership interest
Banqsoft sp. z o.o.	Warsaw, Poland	Subsidiary of Banqsoft AS	100.0%
KMD Venture A/S	Ballerup, Denmark	Subsidiary of KMD A/S	100.0%
Neupart AS	Lysaker, Norway	Subsidiary of KMD A/S	100.0%
Neupart GmbH	Düsseldorf, Germany	Subsidiary of KMD A/S	100.0%
ScanJour A/S	Ballerup, Denmark	Subsidiary of KMD A/S	100.0%
Legacy ApS	Copenhagen, Denmark	Associate of KMD Venture A/S	42.9%
Dansk Teknologisk Læringsdesign IVS	Odense, Denmark	Associate of KMD Venture A/S	8.2%
Code Creation IVS	Copenhagen, Denmark	Associate of KMD Venture A/S	15.0%
Credito ApS	Copenhagen, Denmark	Associate of KMD Venture A/S	5.3%
Relabee ApS	Copenhagen, Denmark	Associate of KMD Venture A/S	41.2%

AI Keyemde & Cy SCA owns 95.89% of the shares in KMD Holding ApS. The ultimate owner of AI Keyemde & Cy SCA is funds managed by Advent International Corporation. These funds, which own more than 25% of the shares in AI Keyemde & Cy SCA, are Advent International GPE VII-B Limited Partnership (29%) and Advent International GPE VII-E Limited Partnership (20%). No other Advent funds own or manage more than 15% of the shares.

More information about Advent International is available at [www.adventinternational.com](http://www.adventinternational.com).

KMD Holding ApS is included as a subsidiary in the financial statements of AI Keyemde & Cy SCA. The parent company can be contacted at the company's address: 2-4, rue Beck, 1222 Luxembourg, Grand Duchy of Luxembourg.

KMD A/S is 100% owned by KMD Holdco 4 A/S. KMD A/S is included in the consolidated financial statements of KMD Holding ApS. A copy of the consolidated financial statements is available by contacting the Group Secretariat, Lautrupparken 40, 2750 Ballerup, Denmark.

#### RELATED PARTY TRANSACTIONS

The Company's related parties comprise the Board of Directors, Executive Board and senior employees, and family members of these persons.

Related parties also comprise companies in which the specified group of people have significant influence.

Remuneration and shareholdings of the Board of Directors and Executive Board are described in Note 5. There have not been any other transactions with the Board of Directors, Executive Board or other related parties during the year.

## NOTE 21\_EVENTS AFTER THE BALANCE SHEET DATE

After the expiry of the financial year a settlement with KOMBIT has been reached regarding the development of support systems and extension of the transition agreement. The agreement contains a compensation payment of DKK 100m; the compensation has been taken into account in the annual report.

ATP has on 14 March 2017 decided to terminate the contract regarding development, operation and

maintenance of a new pension system. It is KMD's assessment, that the termination will not have any material impact on the group's financial position, besides what have been taken into account in the annual report.

There have been no other events after the balance sheet date with a material impact on the Company's financial position as of 31 December 2016.

## EXPLANATION OF FINANCIAL RATIOS

The financial ratios have been prepared in accordance with *Recommendations and Key Ratios 2015*, issued by the Danish Society of Financial Analysts.

The financial ratios cited in the Financial highlights have been calculated as follows:

Profit margin (EBIT margin)	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBITDA margin	$\frac{\text{Earnings before interest, tax, depreciation and amortization (EBITDA)}}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity} \times 100}{\text{Total assets}}$
Return on equity (ROE)	$\frac{\text{Net profit for the year}}{\text{Average equity}}$
Interest-bearing debt	Debt to credit institutions + deposits + bonds + subordinated debt
EBITDA before special items	EBITDA in accordance with the consolidated financial statements adjusted for share of the accounting items Other operating income and expenses (gains and losses on sale of non-current assets plus profit on sale of companies) and Restructuring costs of a one-off nature

# STATEMENTS

## STATEMENT BY THE EXECUTIVE BOARD AND BOARD OF DIRECTORS

The Board of Directors and the Executive Board have considered and adopted the Annual Report of KMD A/S for the financial year 1 January – 31 December 2016.

The Annual Report is presented in accordance with the Danish Financial Statements Act.

Management's Review, which is not included in the audit, has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016.

In our opinion, the Management's Review includes a true and fair account of the matters addressed in the review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Ballerup, 15 March 2017  
EXECUTIVE BOARD

Eva Berneke  
CEO

Jannich Kiholm Lund  
CFO

### BOARD OF DIRECTORS

Léo Apotheker  
Chairman

John Woyton

Frederic Wakeman

Michael Christiansen

Morten Hübbe

Jens Due Olsen

Else Bergman

Kim Skovgaard

Thomas Bisballe

# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF KMD A/S

### OPINION

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016, and of the results of the Company's operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of KMD A/S for the financial year 1 January – 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, 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.

### STATEMENT ON MANAGEMENT'S REVIEW

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish

Financial Statements Act. We did not identify any material misstatement in Management's Review.

### MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management 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, Management 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 in preparing the financial statements unless Management either intends to liquidate the Company 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 ISAs and the additional requirements applicable in Denmark 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.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- \_ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- \_ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- \_ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material

- \_ Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 15 March 2017

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab

CVR no. 33 77 12 31

Mikkel Sthyr  
State Authorized Public Accountant

Leif Ulbæk Jensen  
State Authorized Public Accountant



