



KMD HOLDING APS ANNUAL REPORT 2016

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The annual report has been translated from Danish. The Danish text shall govern for all purposes and prevail in case of any discrepancy with the English version.

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, KMD generated revenue of DKK 5.3 billion, and the Group currently has around 3,400 employees.

KMD 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 business 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 offerings to customers, in terms of both solutions and skills, in recent years KMD has acquired several 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 company BanqSoft, the Danish life insurance and pension software company 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 also reinforced its presence in the area of education.

AN ATTRACTIVE WORKPLACE

KMD's 3,400 employees are its key asset. KMD has and wants to maintain a reputation as a good, stimulating place to work. In order for us to 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.

RESULTS AND EARNINGS

REVENUE

The KMD Group's revenue increased by 3.5% or DKK 178 million, which was below expectations.

Given the current market, the revenue development is considered satisfactory.

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

EBITDA BEFORE SPECIAL ITEMS

EBITDA before special items grew 2% from DKK 1,083 million in 2015 to DKK 1,102 million in 2016.

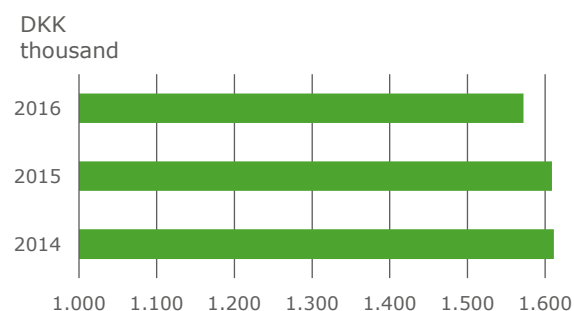
Special items totaled DKK 441 million in 2016 against DKK 150 million in 2015. Special items in 2016 comprised expenditure on rationalization measures related to reorganizations and structural adjustments, as well as provision for penalties and compensations to customers.

NET PROFIT FOR THE YEAR

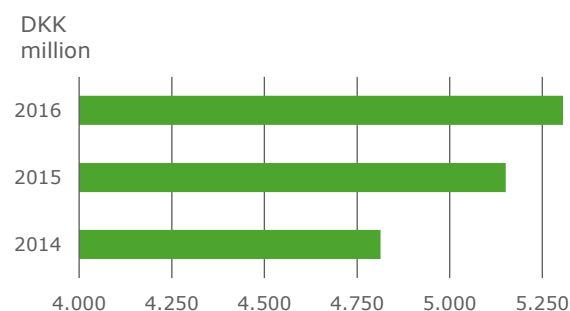
The Group's net profit was a negative DKK 239 million in 2016, against a positive DKK 41 million in 2015. The fall in net profit should be seen in the light of lower EBITDA, increased amortization of intangible assets compared with 2015 and provision for special compensation payments to customers. Impairment losses on development projects for the year were DKK 42 million compared with DKK 8 million in 2015.

The development is not considered satisfactory. However it is satisfactory that both revenue and EBITDA continues to grow.

REVENUE/AVG. NUMBER OF EMPLOYEES

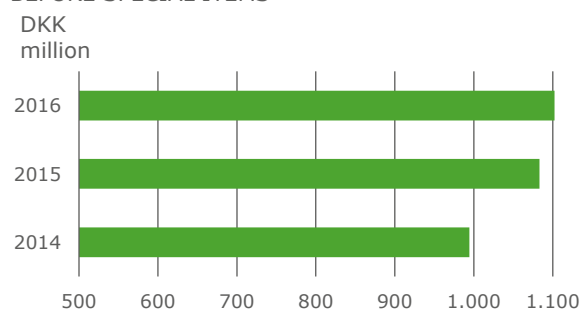


REVENUE



EBITDA

BEFORE SPECIAL ITEMS



FINANCIAL HIGHLIGHTS

THE KMD GROUP

DKK MILLION	2016	2015	2014	2013
INCOME STATEMENT				
Revenue	5,329.9	5,151.2	4,813.6	4,670.3
Expenses	4,227.6	4,068.0	3,819.4	3,768.0
Earnings before interest, tax, depreciation and amortization (EBITDA) before special items	1,102.3	1,083.2	994.2	902.3
Special items	-440.6	-149.6	-57.7	-400.0
Earnings before interest, tax, depreciation and amortization (EBITDA)	661.7	933.6	936.5	502.3
Depreciation, amortization and impairment losses	683.4	591.3	816.2	443.3
Operating profit (EBIT)	-21.7	342.3	120.3	59.0
Net financials	-224.9	-228.1	-197.4	-208.9
Tax	8.0	-73.6	30.8	2.3
Net profit for the year	-238.6	40.6	-107.9	-147.6
Comprehensive income	-230.0	38.6	-110.3	-157.6
BALANCE SHEET				
Total assets	8,340.2	7,507.5	7,858.7	7,550.3
Net interest-bearing debt	-4,671.2	-3,991.5	-2,981.3	-2,840.3
Share capital	21.8	21.8	21.8	21.8
Total equity	884.0	1,114.0	1,908.4	2,018.7
CAPITAL EXPENDITURE				
Property, plant and equipment	42.3	74.7	67.0	93.9
STATEMENT OF CASH FLOWS				
From operating activities	689.6	636.0	247.6	447.6
From investing activities	-1,270.4	-622.5	-396.7	-5,127.5
From financing activities	615.1	-657.8	823.4	5,056.8
Net cash flow for the year	34.3	-644.3	674.3	376.9
FINANCIAL RATIOS				
EBITDA margin	12.4%	18.1%	19.5%	10.8%
EBITDA margin before special items	20.7%	21.0%	20.7%	19.3%
Effective tax rate	3.2%	64.6%	-40.0%	1.7%
Profit margin (EBIT margin)	-0.4%	6.6%	2.5%	1.3%
Solvency ratio	10.6%	14.8%	24.3%	26.7%
Return on equity (ROE)	-23.9%	2.7%	-5.5%	-7.0%
EMPLOYEES				
Average number of full-time equivalents	3,390	3,202	2,988	3,199

EXPENSES

COST MANAGEMENT

Expenses (staff costs and other external expenses) rose by 0.2% to DKK 4,228 million in 2016. Increased project execution expenses meant that KMD Holding ApS did not realize the expected reduction in expenses.

DEVELOPMENT ACTIVITIES

KMD's development activities relate to software development in the business segments below and in 2016 mainly comprised the following:

- _ Local Governments & Regions: Developing new and updated solutions within the social and care area, and institutions and education.
- _ Central Government & Data: Developing new and updated solutions for data distribution and case and document handling.
- _ Private Sector & Infrastructure: Developing new and updated solutions for use in life insurance and pension companies.

OUTLOOK

FINANCIAL OUTLOOK FOR 2016

The outlook for the KMD Group in 2016 was for organic revenue growth of 2-4% and an increase in EBITDA of at least 5%.

KMD delivered total growth in revenue of 3.5%, but did not achieve the expected organic growth.

Earnings were correspondingly lower than expected, primarily because of increased expenses relating to project execution.

The expectations for 2016 were therefore not met in full.

OUTLOOK FOR 2017

For 2017, KMD expects growth in revenue and EBITDA of 2-4%.

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 significant 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 BUSINESS SEGMENTS

LOCAL GOVERNMENTS & REGIONS

KMD's largest business segment mostly concentrates on Denmark's 98 local governments and five regions. This business segment accounts for 59% of revenue. In 2016, the revenue generated by Local Governments & Regions was DKK 3,162 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.

In 2016, EBITDA before special items fell by 4.6% compared with 2015. This overall decline was due to increased costs for a group of large customer projects, with EBITDA for the remainder of the segment growing.

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

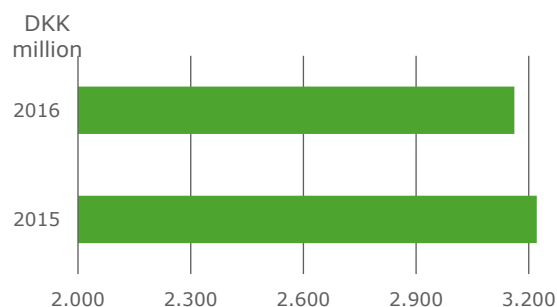
For many years, KMD has supported the work of the regions, which represent a growth market for the Group.

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.

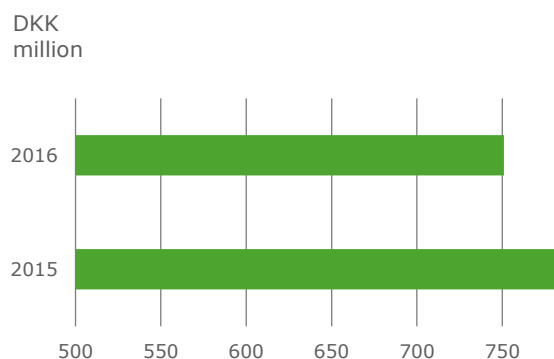
One of the biggest areas of collaboration with the regions is hardware, licenses and standard software. In 2016, KMD signed agreements with, among others, Region Zealand and Central Denmark Region on Citrix licenses.

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

REVENUE, LOCAL GOVERNMENTS & REGIONS



EBITDA BEFORE SPECIAL ITEMS, 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.

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.

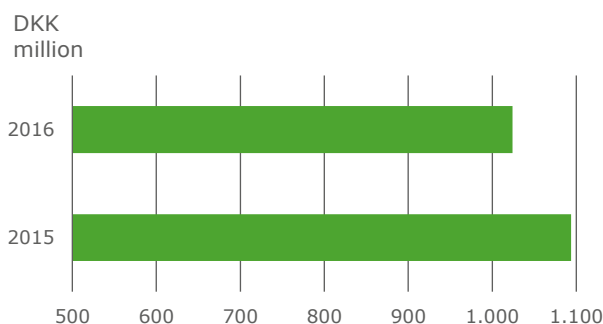
DIGITAL SELF-SERVICE WITH XFORM

KMD XForm – the standard platform for digital self-service solutions – had an excellent year in 2016.

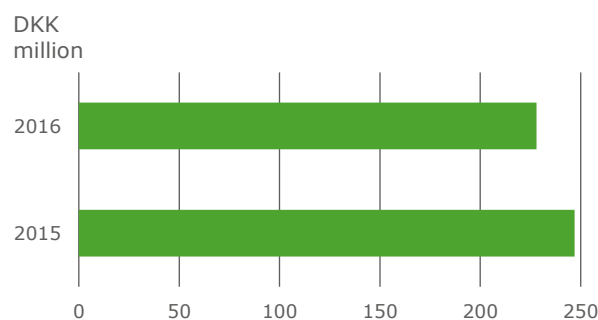
New agreements were signed with the Danish Federation of Social Educators, the Danish Health Data Authority and the Danish National Police.

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.

REVENUE, CENTRAL GOVERNMENT & DATA



EBITDA BEFORE SPECIAL ITEMS, CENTRAL GOVERNMENT & DATA



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.

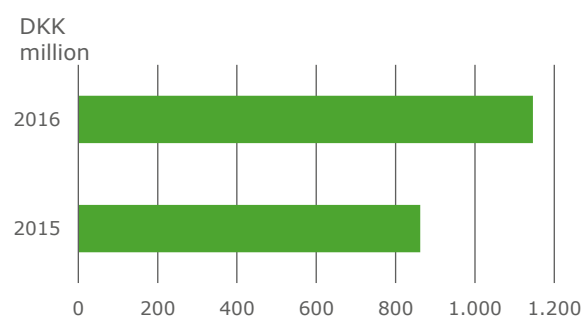
One of the year's big customer agreements in the energy sector was with DONG Energy. KMD has been contracted to deliver a new payment platform for the company's business customers. In 2016, KMD also entered into an agreement with SEAS-NVE, Denmark's second-largest energy company.

OUTPUT MANAGEMENT IN GROWTH

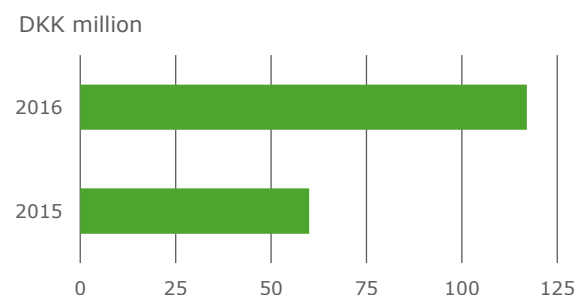
KMD is the market's leading provider of output management, and in 2016 new agreements were signed with Danish telecommunications company TDC, IT operations and technical infrastructure provider JN Data, Danske Bank and others.

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.

REVENUE, PRIVATE SECTOR & INFRASTRUCTURE



EBITDA BEFORE SPECIAL ITEMS, PRIVATE SECTOR & INFRASTRUCTURE



CORPORATE COMPLIANCE AND GOVERNANCE

CORPORATE GOVERNANCE

The Boards of Directors and Executive Boards of the Group enterprises are responsible for ensuring that their respective enterprises' management structures and control systems are appropriate and function satisfactorily. The basis for the Managements' work includes the Danish Companies Act, the Danish Financial Statements Act, the enterprises' bylaws and rules of procedure, and good practice for enterprises of the same size as the KMD Group.

Management's Review has been drawn up based on the Danish Venture Capital and Private Equity Association's guidelines for active ownership and transparency in private equity funds (see www.dvca.dk).

OWNERSHIP AND CAPITAL STRUCTURE

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.

All the other consolidated enterprises in the Group are 100% owned by their parent company. The Group structure is illustrated below.

DIVIDEND

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

In 2016, no extraordinary dividend was distributed for KMD Holding ApS.

THE WORK OF THE BOARD OF DIRECTORS

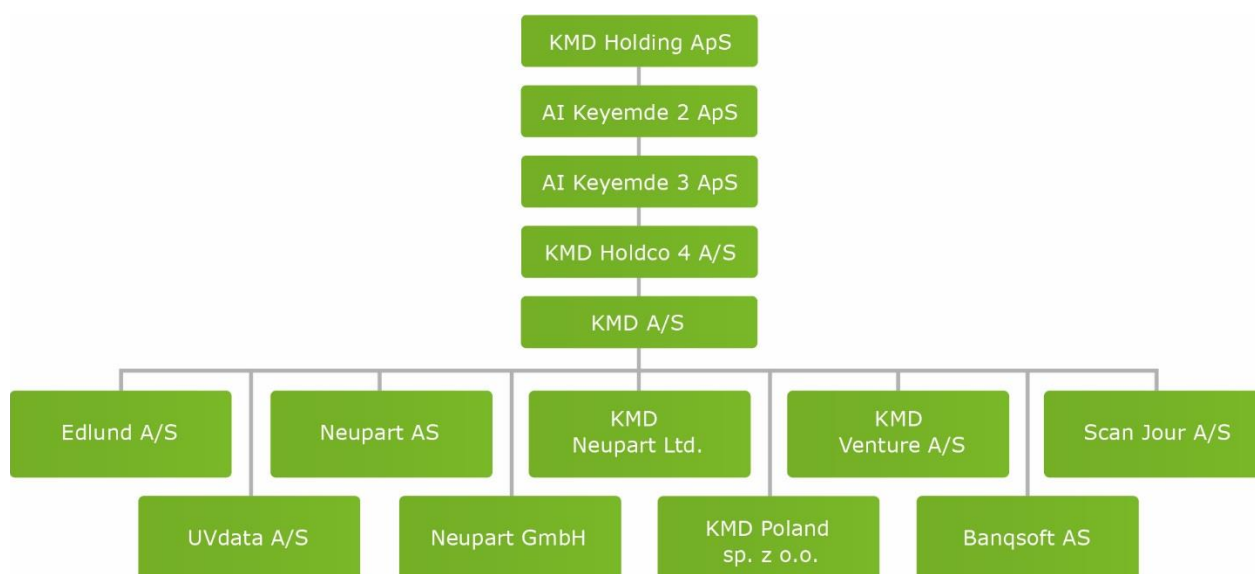
The Boards of Directors of KMD Holding ApS, the other three holding companies and the operating company KMD A/S each held nine meetings in 2016. The other subsidiaries held board meetings as required and commensurate with their levels of activity.

The Boards of Directors worked on the revision of the Group's business strategy, followed up on the implementation of strategy and action plans, and were briefed monthly by the Executive Boards on the companies' financial performance.

Jens Due Olsen joined the Boards of Directors of KMD Holding ApS, AI Keyemde 2 ApS, AI Keyemde 3 ApS, KMD Holdco 4 A/S and the operating company KMD A/S at the end of 2016. At the same time, the members of KMD's Executive Board stepped down from the Board of Directors.

REMUNERATION OF THE EXECUTIVE BOARD AND BOARD OF DIRECTORS

Remuneration to the Executive Board and Board of Directors is shown in Note 24 to the consolidated financial statements.



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 in 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 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.

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.

KMD grew in 2016, and the Group gained 80 employees compared with 2015. This increase was due to acquisitions as well as a number of contracts awarded in existing business areas that required additional competencies.

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

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.

BOARDS OF DIRECTORS OF KMD HOLDING APS AND KMD A/S

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 Group.

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 the KMD Group.

FRED 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 the KMD Group.

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 Group.

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 the KMD Group.

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 the KMD Group.

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 JENSEN

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.

HENRIK HARDER OLSEN

Born 1972

Service consultant, KMD A/S

Employed at KMD since 2003

Member of the board of KMD A/S since 2014

Other positions:

Employee representative, KMD

Director, ITMK HK Østjylland

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
Executive Vice President, Public Sector. Cases & Benefits

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

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

SØREN AMUND HENRIKSEN
Executive Vice President, Central Government

JESPER KRYHLMAND
Executive Vice President, Business & Infrastructure

MICHAEL HOLMBERG ANDERSEN
Executive Vice President, Software Center

FRANK OLESEN
Executive Vice President, Operations

FUNCTIONS

THOMAS FLARUP
COO

LISBETH HALD
Executive Vice President, HR

MORTEN LANGAGER
Senior Vice President, Communication & Marketing

MARK SKRIVER NIELSEN
Senior Vice President, Group Legal

For more than 40 years now, KMD's DNA has been to create solutions that support the operation and maintenance of our society. Together with our customers, we have developed the Danish society of which we are now a fully integrated part, while our IT systems impact on thousands of Danes every single day. We are involved when a new citizen is officially welcomed into Danish society with a civil registration number (CPR). We facilitate the payment of child allowances and salaries to a million Danes. And we play a part in the holding of parliamentary, regional and local elections. Our systems safeguard sensitive personal data against hacking. And we help social care workers and schoolteachers to work more efficiently.

We therefore see it as our duty to act responsibly toward the society in which we have such a prominent place. We are an IT company that wants to help create digital shortcuts that benefit our customers and society. In terms of work on corporate social responsibility (CSR), this means KMD wants to create digital shortcuts that contribute to a richer, safer and more sustainable society.

FOCUSED STRATEGY

In 2016, KMD turned the focus of its CSR strategy onto the use of core competencies. Under the heading "Together we develop society," we are focusing on three main areas: health, education and security. These are a clear extension of some of the strategic focus areas within our business, with data security a particular focus in 2016. In addition, we have clear targets for our work with employees, climate & environment and supply chain.

These four themes have been selected based on our CSR policy, which clearly states that, for KMD, CSR is about making an active contribution – rather than presenting a barrier – to social, economic and environmental sustainability and having a clearly formulated respect for international human rights.

In 2016, we established new partnerships and ensured that we were compliant with all international and national guidelines and legislation. Our work on the four themes are described in more detail below.

SOLID STRUCTURES

Since 2011, KMD has been committed to observing and applying the UN Global Compact's 10 principles for corporate sustainability. We are proud and pleased to continue this commitment, which provides us with a general framework for our CSR work.

The CSR work is coordinated by the Company's CSR Board, which is chaired by the CEO. The CSR Board defines guidelines for the Company's CSR efforts, and monitors and ensures progress on the targets set for the various focus areas. In addition, KMD's works council serves as a reference group for the development of CSR work.

KMD considers its overall CSR efforts to be satisfactory.

Eva Berneke
CEO, KMD Holding ApS

DECLARATION CONCERNING THE UK MODERN SLAVERY ACT

KMD supports the UK Modern Slavery Act and its aim to eradicate all forms of slavery, forced labor and human trafficking. We do so through a range of policies and procedures, including our procurement policy, in which we clearly dissociate ourselves from slavery, forced labor and human trafficking as well as committing our suppliers to do likewise. A more detailed description of our commitments, including in relation to the UN Global Compact, can be found at <http://www.kmd.dk/csr>.

STATUTORY REPORT

This report constitutes the statutory report on corporate social responsibility for KMD Holding ApS for the year 2016 pursuant to section 99a of the Danish Financial Statements Act. It does not, however, cover the subsidiaries Edlund, UVdata and EMT Nordic, all acquired in the calendar year 2016. The report provides an overview of KMD's work as a socially responsible business. As a supplement, further information about KMD's CSR efforts can be found on our website at www.kmd.dk/csr. However, that additional information does not form part of the Company's reporting pursuant to section 99a.

UN'S GLOBAL COMPACT PRINCIPLES	STRATEGIC CSR FOCUS AREAS FOR KMD			
	TOGETHER WE DEVELOP SOCIETY	EMPLOYEES	CLIMATE & ENVIRONMENT	SUPPLY CHAIN
PRINCIPLE 1 Businesses should support and respect the protection of internationally proclaimed human rights.	Article 12 _KMD focuses on privacy and the safeguarding of sensitive personal data – p. 15 Article 21 _KMD supports Danish parliamentary, regional and local elections, and referendums – p. 29 Article 22 _Partnership with DaneAge on IT skills for senior citizens – p. 31 _Partnership with, among others, the Danish IT Industry Association (ITB) on Coding Class, a program that teaches digital skills to school-children in grades 6 to 9 – p. 31 Article 23 _KMD employees act as business mentors for veterans of the Danish Armed Forces – p. 32 _KMD employees act as business mentors for refugees – p. 31 Articles 25, 26 _KMD supports the Indian children's home Helpline Charity Trust – p. 32 Article 26 _Partnership with Homework Online – p. 32 Articles 26, 27 _Donation of PCs to a number of organizations in and outside Denmark – p. 32			Articles 2, 3, 4, 5, 7, 18, 19, 20, 23, 24, 25 _KMD has a Code of Conduct that requires all suppliers to comply with the UN Global Compact's 10 principles for corporate sustainability – p. 38 _In 2016, KMD screened a number of suppliers selected on the basis of industry, geography and sales to KMD. The screening includes 21 criteria covering human and labor rights, environmental and climate protection, and anticorruption – p. 38 _KMD trains all new and all customer-facing employees in anticorruption and corporate compliance – p. 38 _KMD has a whistleblower program for internal and external reporters – p. 38 _All KMD A/S's Danish locations are certified in accordance with the environmental management system ISO 14001 – p. 38
PRINCIPLE 2 Businesses should make sure that they are not complicit in human rights abuses.		Articles 2, 7 _KMD has a diversity policy that protects employees and applicants from discrimination – p. 34 Articles 23, 24, 25 _With employees in Denmark, Norway, Sweden, Finland, Poland and India, KMD complies with all statutory requirements on working environment, pay and freedom to join a union. _Through its works council, KMD conducts constructive dialogue with the union HK/Samdata.		
PRINCIPLE 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.				
PRINCIPLE 4 Businesses should uphold the elimination of all forms of forced and compulsory labour.				
PRINCIPLE 5 Businesses should uphold the effective abolition of child labour.				
PRINCIPLE 6 Businesses should uphold the elimination of discrimination in respect of employment and occupation.				
PRINCIPLE 7 Businesses should support a precautionary approach to environmental challenges.			_Since 2008, KMD has reduced its carbon emissions by 59.9% – p. 36 _In 2016, KMD increased its waste recycling rate to 68.3% – p. 36 _All KMD A/S's Danish locations are certified in accordance with the environmental management system ISO 14001 – p. 36 _KMD has a number of products that help customers to reduce their carbon emissions – p. 36	
PRINCIPLE 8 Businesses should undertake initiatives to promote greater environmental responsibility.				
PRINCIPLE 9 Businesses should encourage the development and diffusion of environmentally friendly technologies.				
PRINCIPLE 10 Businesses should work against corruption in all its forms, including extortion and bribery.		_KMD trains all new and all customer-facing employees in anticorruption and corporate compliance – p. 38		

The articles cited in the table refer to the UN Universal Declaration of Human Rights.

TOGETHER WE DEVELOP SOCIETY

"Together we develop society" is KMD's message to our customers and partners. We therefore want to collaborate with those customers and partners to bring our knowledge to bear and build on our skilled employees and their competencies.

In 2016, we focused on developing digital solutions to relevant social challenges, both nationally and internationally. We have done this with our customers through our solutions in the market, but also in tandem with NGO partners, where we have also deployed our employees' personal skills through mentorships and hackathons. We collaborated on a number of activities in 2016, including with the Danish Red Cross on a Disaster Partnership.

REFUGEES IN DENMARK

In recent years, the number of global refugees has risen to its highest level since World War Two. The trend has also been manifest in Denmark, where the large influx of, in particular, Syrian refugees is presenting a challenge to the Danish welfare system. But KMD also sees an opportunity. Among the many refugees, there may be potential employees for the IT sector, which is short of workers. In 2016, KMD therefore entered into a partnership with the Danish Red Cross and the City of Aalborg in which 16 KMD employees would help 16 refugees with IT skills get closer to the Danish labor market through a six-month mentoring scheme. The aim was not to secure employment for the refugees at KMD, but to identify their needs and wishes in relation to the labor market. On completion of the mentoring scheme, 79% of the refugees were in work placements, jobs or university education. Eight of the 16 mentors stayed in contact with their mentees after the scheme had finished.

KMD has also admitted three Syrian refugees to the KMD Academy, where they are being trained alongside six Danes in .NET programming and, from day one, are part of a KMD department.

FUTURE SKILLS

The challenge of a worker shortage and the need for innovation also led in 2016 to KMD collaborating with a number of other companies in the Danish IT Industry Association (ITB), the association Coding Pirates (which aims to promote IT skills in children and young people), Vejle Municipality and the City of Copenhagen to establish the Coding Class project. This comprises

a teaching program for schoolchildren in grades 6 to 9 that aims to prepare them for the demands of the 21st century, where the ability to understand and create digital solutions is vital. In all, 15 classes in both Vejle and Copenhagen are taking part in the program. KMD donated a total of DKK 100,000 to the project.

Through the KMD Educa Award, which recognizes innovative digital teaching programs devised by trainee teachers, KMD is also focusing on the next generation of teachers and the need to train them in 21st-century skills. The KMD Educa Award was presented at the School Fair in Aarhus, attended by four of the seven University Colleges in Denmark. In 2017, the award will be renamed the Digital Teaching Prize and presented at the Learning Festival in Copenhagen.

Citizens at the other end of life also have a need to acquire digital skills. Since 2012, KMD has worked with DaneAge to develop and update the digital training program "Get to know your PC." In that time, more than 148,000 senior citizens¹ have completed the program on DaneAge's courses. In 2016, the program was used by 18,616 senior citizens. It was also used by 44% of DaneAge's teachers, 4 percentage points lower than in 2015, which meant that KMD and DaneAge failed to achieve their minimum target of 55%.

In 2016, KMD and DaneAge jointly updated the program, producing a version intended for use on tablets, which are increasingly the preferred digital device of senior citizens². The target is for at least 10,000 senior citizens to be using the tablet version in 2017.

DIGITAL SOLUTIONS TO FUTURE PROBLEMS

In 2016, KMD partnered with the Danish Red Cross to establish the Code for Good hackathon. More than 50 KMD employees and experts from the Danish Red Cross met up for 32 hours in October to tackle five challenges arising from the Danish Red Cross's experience of digital issues, from re-establishing contact between family members fleeing from wars and natural disasters, through system integrations that make it easier for asylum seekers to enter the Danish job market, to an improved understanding of the work of the Danish Red Cross in visiting the many thousands of Danes living on their own. The winners of Code for Good had the honor of being able to donate DKK 50,000 to the Danish Red Cross's disaster fund on behalf of KMD.

¹ As at 31 December 2016.

² Danish Agency for Culture: Internet use and devices 2015, <http://slks.dk/mediernes-udvikling-2015/internetbrug-og-enheder/>.

KMD was also a partner in Open Innovation X, organized by the Technical University of Denmark (DTU) with the aim of increasing innovation in Denmark and finding solutions to actual business problems. More than 50 students participated in the project, working over the course of a single weekend to come up with solutions for KMD, Danske Bank, IBM and others.

Furthermore, KMD partnered with CBS and Danske Bank in a competition for students focused on use of open data. KMD provided access to public data that, when processed in parallel with customer data from Danske Bank, could give new insight for customers and the bank. The first prize of DKK 75,000 went to four students who used the large quantities of data to improve the contact between customers and the bank.

EMPLOYEE INVOLVEMENT

Together with Falck, Copenhagen Airports and a number of military organizations, in 2016 KMD set up the association Welcome Home, which aims to help veterans of the Danish Armed Forces find civilian employment after they have finished their military service. While 85% of all veterans are fully functioning and able to take a job, they often lack the know-how to convert their military skills into a civilian context. Through a six-month mentoring scheme, the member companies' employees give the veterans an increased appreciation of their own skills and how they fit with a company's needs. In 2016, KMD employees mentored four veterans; two are now in jobs, while two are still in mentoring. KMD donated a total of DKK 100,000 to the project.

The Homework Online project closed at the end of 2016. KMD had been a partner since 2012, and during the lifetime of the project more than 120 KMD employees were involved as online homework helpers. From call centers at KMD's offices in Odense, Aalborg and Ballerup, the employees provided homework help on more than 4,000 occasions to children and young people from disadvantaged areas³.

At KMD's Polish subsidiary, we have established a collaboration with Akademia Integracji, an organization that supports education, socializing and, especially, sport regardless of disability. Among other things, KMD's employees run the KMD Junior Academy, where upper-secondary pupils can learn coding once a week at KMD's offices. The pupils work in teams on designing apps for use in everyday situations, such as an app that

helps wheelchair users to find disabled-friendly roads in Warsaw. The employees also participate in Akademia Integracji's annual summer camp, where terminally ill children can enjoy camaraderie and find respite from the loneliness that often affects their lives.

Together with the organization Warsaw Family, employees from KMD have provided tutoring and homework help for children with ADHD. This help has given the children greater self-confidence and improved their academic performance, with the vast majority improving by one or two grades in mathematics, physics, chemistry, English, Spanish, Polish and other subjects.

In all, 40 employees have taken part in the Polish programs.

KMD DONATES

In addition to the strategic partnerships on developing future skills and solutions, KMD also donates both equipment and money to projects that we consider a good fit with our focus on digital solutions. By way of example, in 2016 we donated more than 40 laptops to the organizations Mind Your Own Business, Football for A New Tomorrow (FANT) and the Foundation for Social Responsibility. All these organizations use IT to support their aims, namely integration of disadvantaged young people through entrepreneurship, the promotion of democracy in Sierra Leone through sporting associations, and the development of solid association structures with a social aim.

In 2016, KMD has also donated DKK 40,000 to Helpline Charity Trust in Bangalore, India, which runs the children's home Vishwas. The donation covers the entire food budget for five employees and 45 children aged 6-18. The children also get help with their homework as well as mentoring time with employees attached to KMD's operation in Bangalore. The children have also visited KMD's offices in Bangalore and taken part in various other KMD events.

In connection with KMD's Disaster Partnership with the Danish Red Cross, a group of KMD employees collected more than DKK 20,000 from their colleagues during the Danish Red Cross's national appeal in October.

³ KMD's employees had the opportunity to swap four working hours a month for shifts as homework helpers. All homework

helpers at KMD completed an induction program with Homework Online.

Finally, in 2016 KMD's employees had the option to donate their company Christmas gift to the Danish Red Cross and the Menu project, which helps poor women in Nepal to create a sustainable business by sewing quality clothes and toys. The option was taken up by 283 employees, who donated more than DKK 40,000 for the project.

KMD considers its overall CSR efforts in relation to "Together we develop Denmark" to be satisfactory.



GOALS FOR 2017

REFUGEES IN DENMARK

KMD will repeat the refugee mentoring program and expects to have at least 15 employees mentoring refugees in the Capital Region of Denmark.

FUTURE SKILLS

Coding Class: Together with a number of companies in the Danish IT Industry Association (ITB), KMD will continue its engagement with Coding Class and extend the project to more schools, local governments and teacher-training establishments.

The Digital Teaching Prize: In 2017, the KMD Educa Award will be renamed the Digital Teaching Prize and presented at the Learning Festival in Copenhagen.

DaneAge: In 2017, KMD and DaneAge will have at least 15,000 unique users of "Get to know your PC" and at least 10,000 users of "Get to know your tablet." At least 55% of all DaneAge's tutors will use one of the two programs in their teaching.

EMPLOYEE INVOLVEMENT

Code for Good: KMD will again hold the Code for Good hackathon with at least 40 employees participating.

Welcome Home: KMD will mentor at least four veterans and remain on the association's board.

Akademia Intergracji, Poland: KMD will continue its engagement in the project for children and young people in Warsaw.

Helpline Charity Trust/Vishwas Children's Home, India: KMD will donate DKK 40,000 to buy food for all 45 children and five employees. Furthermore, KMD's employees in Bangalore will continue their voluntary work as mentors to the children.

EMPLOYEES

KMD wants to be an attractive workplace where employees are proud of the contribution we make to society, by virtue of both our products and our behavior and knowledge. We believe we will remain strong as a company if we create clear structures for our employees and give them scope for personal and professional development.

In 2016, the level of overall employee satisfaction at KMD increased following a few years of falling satisfaction attributable to a number of organizational changes. Intensive efforts involving workshops and dialogue meetings identified various improvement actions, and these have contributed to higher employee satisfaction.

There is fierce competition for employees in the IT sector⁴, which is a huge challenge to KMD's ability to develop and retain employees. We have therefore launched a number of initiatives intended to help ensure that KMD continues to have the right employees going forward. One such initiative is our ambitious graduate program, which in 2016 brought in 27 new graduates in areas such as project management, business development and, in particular, SAP platforms.

In 2016, we also established a new KMD Academy with special focus on Microsoft's .NET, where we boost new employees' competencies in relevant technologies to create the right match for KMD's needs.

A DIVERSE WORKPLACE

KMD strives to attract the most talented employees regardless of gender, ethnicity, age, religion or sexual orientation. This is why KMD also has a diversity policy addressing issues such as the representation of women in Management, attracting more new graduates and increasing ethnic diversity. In 2016, 26% of all new employees were either straight out of university or had little professional experience.

By 2020, KMD is aiming to increase the proportion of employees with a non-Danish ethnic background to reflect the national average. In 2016, we again made progress toward achieving this aim, reaching 3.6%, compared with 2.8% in 2015. However, this is still below the national average of 7.9%.

In 2016, three Syrian refugees were admitted to the KMD Academy, and our work with the Danish Red Cross on a mentoring scheme for refugees in Aalborg has also turned the spotlight onto ethnicity in the workplace.

HEALTHY EMPLOYEES

In 2016, the average sickness absence among KMD's employees was 3.3%, above the national average for private companies of 2.9%.

This is partly explained by a greater number of long-term absences resulting from stress and other factors. KMD has therefore established a health insurance scheme that erects a "scaffold" around the individual and has introduced initiatives to counter long-term sickness absence. In 2016, 40% of employees benefited from KMD's in-house clinics, attending 5,155 appointments. Furthermore, we have trained more than 30 "stress spotters," who are able to intervene early where needed.

In collaboration with Danish pension fund Sampension, in 2017 we will also be launching the Health Percentage, an online guide that enables individual employees to self-test and aspire to a healthier lifestyle.

KMD is also keen to provide opportunities for employees to exercise at whatever level. With this in mind, KMD organizes training for employees both at and away from its locations. In 2016, more than 450 employees took part in KMD's IRONMAN triathlons. Furthermore, KMD has a number of running and cycling clubs as well as various other sports and staff clubs.

KMD considers the CSR work relating to employees to be satisfactory.

⁴ In May 2016, a government report concluded that by 2030 Denmark would be facing a shortage of 19,000 IT experts,

https://erhvervsstyrelsen.dk/sites/default/files/media/rapport_-_virksomheders_behov_efter_digitale_kompetencer.pdf.



GOALS FOR 2017

DIVERSITY

KMD will strive to maintain a share of female managers that is proportionate to the overall number of female employees (24.2% against 34% as at 31 December 2016).

KMD will continue to ensure a high proportion of new graduates (26% of all new appointments in 2016 were in the “young professionals” category).

KMD will repeat the mentoring scheme for Syrian refugees – this time in Ballerup – and explore the possibility of creating additional places for refugees at our KMD Academy.

HEALTHY EMPLOYEES

KMD will maintain its focus on a healthy workplace based on its already successful sports clubs. Special training programs for employees wanting to take part in the KMD 4:18:4 and KMD IRONMAN triathlons will continue across the business. KMD expects more than 500 employees to take part in one of these events.

KMD will also seek to reduce the level of sickness absence from the current 3.3% to the national average (2.9%) and continue health-promoting measures in the workplace, including prevention of stress-related illness.

CLIMATE & ENVIRONMENT

With 3,200 employees plus large data centers and Denmark's largest print center, KMD uses a lot of energy and generates a lot of waste. For this reason, we are very aware of our environmental footprint, and in 2016, we expanded the scope of our certification under the environmental management standard ISO 14001 to cover all KMD A/S locations in Denmark.

KMD's policy and strategy for our environmental work focus on our own impacts as well as the positive effect of our products on our customers' energy consumption⁵.

ENERGY

In 2016, KMD was audited in accordance with section 4.3.3 of the ISO 50001 energy management standard. In mapping our energy consumption, we found that KMD's total energy consumption comprised 58% in data centers, 35% in offices and 7% in print centers.

In 2016, KMD had total electricity consumption of 31,980,991 million kWh, an increase of 1.8 million kWh, or 6%, compared with 2015. The increase was primarily due to outsourcing of cloud infrastructure to Tech Mahindra and growth in customers. The outsourcing has meant duplication on a number of applications and, as a consequence, greatly increased energy consumption in our data centers (8.7%). KMD expects energy consumption to be the same in 2017⁶. However, as we go forward, the newer cloud structure will be far more energy efficient and KMD therefore expects to achieve a reduction in energy consumption once implementation is complete⁷. Since 2008, KMD has found energy savings of 15.1 million kWh – equivalent to the annual consumption of 3,000 detached houses and 28.2% of KMD's total energy consumption in 2008. Total heat consumption increased by 573.6 MWh, or 6.9%.

In 2016, KMD's carbon emissions from direct energy consumption totaled 7,128.3 tons, up 3.5% on 2015. The increase was due to generally higher energy consumption⁸. Over the period 2008 to 2016, KMD cut its carbon emissions from 17,796 to 7,128 tons, a reduction of 59.9%.

TRANSPORT

In 2016, KMD reduced total carbon emissions from transport by 3.4% compared with 2015. Since 2012, KMD has specifically focused on reducing its carbon footprint from transport between the Company's locations, and over the period we have achieved a reduction of almost 1,000 tons, or 11.4%, thereby meeting our goal of 10%. In all, KMD emitted 2,021 tons of CO₂ from transport in 2016.

WASTE

KMD produced 648 tons of waste in 2016, of which we recycled 68.3%. We thus achieved the goal set in 2014 to increase our overall recycling rate from 62% to 67% by the end of 2017. In our print and data centers, which account for 48% of our waste, our recycling rate in 2016 was 97.3%, an increase of 14 percentage points compared with 2015. The remaining 52% of our waste comes from offices and canteens, where the recycling rate in 2016 was 41.2%, an increase of 1.3 percentage points compared with 2015. In total, we improved our recycling rate by 4.5 percentage points compared with 2015.

The higher recycling rate is mainly due to improved sorting across KMD. We have established bio-waste sorting in the canteens and introduced "follow me" printing, which reduces wasted prints. Both schemes were introduced in 2015, but the full effect was only seen in 2016.

⁵ The international think tank GeSI estimates that digital solutions will be able to reduce current carbon emissions by up to 20%: SMARTer2030, <http://smarter2030.gesi.org/>.

⁶ A major renovation of our oldest buildings in Ballerup is also expected to result in a reduction in energy consumption, partly through the introduction of LED lighting. However, this will not be complete until 2018.

⁷ In 2016, KMD verified energy savings of 6,290,395 kWh from the replacement of equipment in our data centers.

⁸ The CO₂ equivalents for heating and electricity are from 2015 and thus unchanged, as the equivalents for 2016 were not available at the time of writing.

PRODUCTS

In 2016, KMD began implementing KMD Atrium, a fully integrated facility management system that will ensure improved monitoring and overview of our energy consumption, thereby providing a better basis for environmentally friendly decision-making. Combined with the Energy Key product from our subsidiary EMT Nordic, KMD is able to deliver full monitoring of environmental data to our customers. Depending on the customer's maturity level, this could mean reductions in carbon emissions of up to 15%.

Efficient operation of our server parks and continual focus on energy efficiency allow us to offer customers more energy-efficient performance than if they were to operate their own data centers.

Finally, KMD offers a full palette of services in the area of welfare technology. By way of example, patients and healthcare professionals are able to meet virtually, thus saving on transport and reducing carbon emissions as a result.

KMD considers the CSR work relating to climate & environment to be satisfactory.



GOALS FOR 2017

ENERGY

KMD will continue to focus on identifying energy savings in data centers and offices, but does not yet anticipate a change in energy consumption due to the continued migration of data in connection with the outsourcing of the server park to our Indian partner, Tech Mahindra.

TRANSPORT

In 2017, KMD will establish a new target for reducing carbon emissions from transport between own locations. This follows successful achievement of the goal of a 10% reduction in 2016.

WASTE

In 2017, KMD will establish new targets for proportion of recycled waste. This follows successful achievement of the goal of 68% waste recycling in 2016. KMD will continue to focus on its recycling rate in office buildings and canteens.

ENVIRONMENTAL MANAGEMENT

In 2017, KMD will switch to the environmental management standard ISO 14001:2015.

KMD will establish a number of new goals for energy, transport and waste as part of developing a new environmental strategy.

PRODUCTS

KMD will map the climate effect of selected products and present these to our customers.

SUPPLY CHAIN

Signing the UN Global Compact has committed KMD to 10 fundamental principles relating to protection of human and labor rights, climate & environment issues, and anticorruption measures. These considerations are formulated in our policy for social responsibility and in our Supplier Code of Conduct, which provide a concrete framework for the requirements that we place on ourselves and our suppliers.

SUPPLIER SCREENING

In 2016, KMD initiated a process to transition from EcoVadis SAS's screening tool to a new Danish tool from Aperitas. As a so-called Frontier Member, KMD has been active in developing the tool and expects to begin using it in the first quarter of 2017. KMD carries out annual screening of all high-risk suppliers, identified on the criteria of revenue, geography and industry. In 2016, 43 suppliers were screened, none of which were asked to provide further information relating to their procedures and policies.

This screening gives KMD a tool that enables 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 updating its Supplier Code of Conduct, which is expected to be completed and implemented in the second quarter of 2017.

CORPORATE COMPLIANCE

Corporate Compliance continued to be a high-priority area for KMD in 2016. Following a major revision of the anticorruption policy and program in 2015, KMD initiated a number 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 in 2016. It is scheduled to be run every two years.

New employees, including those who join following a company acquisition, also complete an induction course in corporate compliance via an e-learning program.

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

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

During the year, 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'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 supplier 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.

In 2016, KMD's certifications comprised ISO 20000 (IT service management), ISO 9001 (quality assurance), ISO 14001 (environmental management) and ISO 27001 (information security), which now also cover KMD's subsidiary in Poland.

KMD considers the overall CSR work relating to the supply chain to be satisfactory.



GOALS FOR 2017

PARTNERSHIPS

KMD will implement a new screening platform for suppliers in relation to CSR parameters. KMD will screen at least 75 selected suppliers and draw up relevant action plans for suppliers identified via screenings in the Aperitas system.

KMD will revise its Code of Conduct for Responsible Supplier Management.

CORPORATE COMPLIANCE

KMD will continue implementation of the prioritized compliance measures, which focus on, among other things, compliance in KMD's independent subsidiaries, control measures relating to anticorruption, and rollout of an e-learning program in competition law for relevant employees.

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

DKK million

Note		2016	2015
4	Revenue	5,329.9	5,151.2
5	Other external expenses	2,081.1	1,936.7
6	Staff costs	2,146.5	2,131.3
	Earnings before interest, tax, depreciation and amortization (EBITDA) before special items	1,102.3	1,083.2
7	Special items	-440.6	-149.6
	Earnings before interest, tax, depreciation and amortization (EBITDA)	661.7	933.6
9,10	Depreciation and amortization	683.4	591.3
	Operating profit (EBIT)	-21.7	342.3
8	Financial income	20.5	7.6
8	Financial expenses	245.4	235.7
	Earnings before tax (EBT)	-246.6	114.2
16	Tax on profit for the year	-8.0	73.6
	Net profit for the year	-238.6	40.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK million

Note		2016	2015
	Net profit for the year	-238.6	40.6
	Other comprehensive income		
	Items that will subsequently be reclassified to the income statement		
	Value adjustments of hedging transactions before tax	-2.4	-22.3
	Value adjustments of hedging transactions included in financial items	11.8	19.4
	Foreign currency translation adjustment of foreign enterprises	-0.3	0.8
	Tax on comprehensive income	-0.5	0.1
	Other comprehensive income after tax	8.6	-2.0
	Total comprehensive income	-230.0	38.6
	Attributable to:		
	Shareholders in the Parent Company	-230.0	38.6

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

ASSETS

DKK million

Note		2016	2015
NON-CURRENT ASSETS			
	Customer relationships	854.6	790.4
	Trademarks	92.8	92.8
	Rights and software	129.7	140.3
	Goodwill	4,380.4	3,692.1
	Completed development projects	710.3	635.5
	Development projects in progress	399.2	344.5
9	Intangible assets	6,567.0	5,695.6
	Land and buildings	61.8	68.7
	Leasehold improvements	44.3	42.5
	Plant and machinery	40.9	59.0
	Fixtures, operating equipment and vehicles	28.9	18.7
10	Property, plant and equipment	175.9	188.9
	Investments in associates	1.8	0.0
11	Deposits	48.0	44.9
16	Deferred tax asset	9.4	9.9
	Other non-current assets	59.2	54.8
	Total non-current assets	6,802.1	5,939.3
CURRENT ASSETS			
12	Inventories	3.5	4.2
19	Trade receivables	890.0	830.4
	Receivables from Group enterprises	0.0	50.8
	Receivables from associates	0.3	0.0
13	Contract work in progress	121.6	113.4
	Other receivables	27.0	119.4
	Corporation tax receivable	8.4	7.0
14	Prepayments	46.0	36.0
	Cash	441.3	407.0
	Total current assets	1,538.1	1,568.2
	Total assets	8,340.2	7,507.5

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES

DKK million

Note		2016	2015
EQUITY			
15	Share capital	21.8	21.8
	Hedging reserve	-8.1	-17.0
	Reserve for foreign currency translation adjustments	2.3	2.6
	Retained earnings	868.0	1,106.6
	Proposed dividend	0.0	0.0
Total equity		884.0	1,114.0
LIABILITIES			
16	Deferred tax	325.1	336.3
17	Provisions	158.6	171.0
19	Credit institutions	4,549.2	3,891.1
19	Other payables	34.7	33.5
Non-current liabilities		5,067.6	4,431.9
19	Credit institutions	285.0	254.5
	Prepayments from customers	35.6	33.7
19	Trade payables	692.4	524.0
19	Payables to Group enterprises	222.8	219.8
18	Other payables	655.7	603.9
	Derivative financial instruments	9.0	21.1
	Corporation tax payable	80.6	104.0
17	Provisions	257.8	60.9
	Prepayments	149.7	139.7
Current liabilities		2,388.6	1,961.6
Total liabilities		7,456.2	6,393.5
Total equity and liabilities		8,340.2	7,507.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Hedging reserve	Reserve for foreign currency translation adjustments	Retained earnings	Proposed dividend	Total
Equity at 1 January 2015	21.8	-14.2	1.8	1,899.0	0.0	1,908.4
Net profit for the year				40.6		40.6
Other comprehensive income		-2.8	0.8			-2.0
Proposed dividend				-833.0	833	0.0
Dividend paid					-833	-833.0
Equity at 31 December 2015	21.8	-17.0	2.6	1,106.6	0.0	1,114.0
Net profit for the year				-238.6		-238.6
Other comprehensive income		8.9	-0.3			8.6
Proposed dividend						0.0
Dividend paid						0.0
Equity at 31 December 2016	21.8	-8.1	2.3	868.0	0.0	884.0

The reserve for foreign currency translation adjustments relates to translation adjustment of profit and net assets for Group enterprises with a functional currency other than the presentation currency.

The dividend paid in 2016 was DKK 0 per share against DKK 38.3 per share in 2015.

CONSOLIDATED STATEMENT OF CASH FLOWS

DKK million

Note		2016	2015
	Earnings before interest, tax, depreciation and amortization (EBITDA)	661.7	933.6
20	Adjustments of non-cash items	-15.2	-52.9
21	Change in working capital	379.1	-48.2
	Corporation tax paid	-143.1	3.5
	Financial income	20.6	7.7
	Financial expenses	-213.5	-207.7
	Total cash flow from operating activities	689.6	636.0
9	Investments in intangible assets	-269.7	-202.8
10	Investments in property, plant and equipment	-42.3	-74.7
	Sale of property, plant and equipment	13.6	73.5
22	Investment in enterprises	-972.0	-419.2
	Sale of securities	0.0	0.7
	Total cash flow from investing activities	-1,270.4	-622.5
	Repayments of loans	-341.9	-197.3
	Raising of loans	920.4	198.0
	Other payables	1.1	6.4
	Repayments of finance leases	-18.3	-38.7
	Loans to Group enterprises	53.8	206.8
	Dividend paid	0.0	-833.0
	Total cash flow from financing activities	615.1	-657.8
	Total cash flow	34.3	-644.3
	Cash and cash equivalents at 1 January	407.0	1,051.3
	Cash and cash equivalents at 31 December	441.3	407.0

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NOTE 01_ACCOUNTING POLICIES

The consolidated financial statements for KMD are presented in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU at 31 December 2016 and the additional Danish disclosure requirements contained in the IFRS Order issued by the Danish Business Authority.

BASIS OF PREPARATION

The accounting figures have been prepared using the historical cost convention, except where IFRS explicitly requires use of other values.

CONSOLIDATION

The consolidated financial statements cover the Parent Company KMD Holding A/S and subsidiaries in which the Parent Company directly or indirectly owns more than 50% of the voting rights or otherwise has control. Subsidiaries are recognized from when control is obtained.

The consolidated financial statements have been prepared by combining the financial statements of the Parent Company and the subsidiaries by adding together items of a uniform nature. The financial statements used in the consolidated financial statements are presented in accordance with the Group's accounting policies.

Intercompany income, expenditure, shareholdings, dividends and balances are eliminated, as are realized and unrealized internal gains and losses on transactions between the consolidated enterprises.

Enterprises in which the Parent Company directly or indirectly owns between 20% and 50% of the voting rights or otherwise exercises significant influence are considered associates.

BUSINESS COMBINATIONS

Newly acquired or newly established subsidiaries are recognized from the time control is gained over the acquired enterprise (acquisition date). The purchase method is applied to acquisition of subsidiaries. Associates held for sale are recognized at the lower of cost and net realizable value.

The cost of acquisitions is calculated as the fair value of the acquired assets and liabilities and shares issued. The cost incorporates the fair value of any contingent considerations (earn-outs). Expenses in connection with the acquisition are charged to the income statement in the period in which they are incurred.

Identifiable assets, liabilities and contingent liabilities (net assets) relating to the acquired enterprise are recognized at fair value on the acquisition date.

In connection with each acquisition, goodwill and non-controlling interests are recognized in accordance with one of the following methods:

_ Goodwill related to the acquired enterprise is made up of any positive difference between the total fair value of the acquired enterprise and the fair value of the total net assets for accounting purposes. Non-controlling interests are recognized at the share of the acquired enterprise's total fair value (full goodwill).

_ Goodwill related to the acquired enterprise is made up of any positive difference between the purchase price and the fair value of the Group's share of the acquired enterprise's total net assets for accounting purposes at the acquisition date. Non-controlling interests are recognized at the proportionate share of the acquired net assets (proportionate goodwill).

Goodwill is recognized under intangible assets. Goodwill is not amortized but is assessed on an annual basis, or where there are indications of a decrease in value, in order to determine whether it has been subject to a decrease in value. If this is the case, it is written down to the asset's lower recoverable value.

Enterprises that are sold or wound up are recognized until the date of disposal. Any gain or loss relative to the carrying amount at the disposal date is taken to income at the time of sale where control of the subsidiary is also being relinquished.

The difference between cost and carrying amount of acquired non-controlling interests is recognized in equity. Profit or loss on sale of non-controlling interests is also recognized in equity.

Comparative figures are not restated for enterprises that are newly acquired, sold or wound up.

FOREIGN CURRENCY TRANSLATION

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

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.

Balance sheets of foreign subsidiaries with a functional currency other than DKK are translated at the rate prevailing on the balance sheet date. The subsidiaries' income statements and statements of cash flows are translated at average rates approximately equivalent to the rate prevailing on the transaction date. Foreign currency translation adjustments that arise on translation of foreign subsidiaries' equity at 1 January and foreign currency translation adjustments that arise because of the income statement being translated at an average exchange rate and the balance sheet being translated at the rate prevailing on the balance sheet date are recognized in the statement of comprehensive income.

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 used to hedge future cash flows are recognized in comprehensive income and accumulated as a reserve in equity.

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.

STAFF COSTS

Staff costs cover wages, salaries and pensions paid to the Group'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 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 based on 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 staff costs plus a proportion of other expenses that can directly 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 år

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 based on 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 Group's accounting policies, plus goodwill.

In the balance sheet, equity investments in associates are recognized at the proportionate share of the equity value in the enterprises calculated in accordance with the Group'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 based on the 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 based on 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 based on these expected lower payments. It is further assessed whether groups of receivables that are not significant individually have been subject to a decrease in value. These receivables are then written down by group based on the Group'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 based on 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, because of an event that has occurred before or on the balance sheet date, the Group 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 based on 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 crystallize as current tax. Changes in deferred tax due to 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 based on 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.

STATEMENT OF CASH FLOWS

The statement of cash flows shows the enterprise's cash flows for the year, change in cash and cash equivalents for the year, and the enterprise's cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities is shown using the indirect method and is calculated as the net profit for the year adjusted for non-cash operating items, change in working capital, financial items paid and corporation tax paid.

Cash flow from investing activities includes payments in connection with purchase and sale of non-current assets, securities attributed to investing activities, and dividends received from subsidiaries and associates.

Cash flow from financing activities includes dividend payments to shareholders, capital increases and reductions, plus the raising of loans and repayments of interest-bearing debt.

Cash and cash equivalents includes cash at bank and in hand, and highly liquid securities with an insignificant risk of changes in value.

NOTE 02_SIGNIFICANT ACCOUNTING ASSESSMENTS AND ESTIMATES

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

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

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 Group'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 because of changes in the circumstances that formed the basis of the previous estimates or based on 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. See Note 9 for a description of the impairment test for intangible assets. The carrying amount of goodwill at 31 December 2016 was DKK 4,380.4 million (31 December 2015: DKK 3,692.1 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 (2015: DKK 8.2 million). The write-downs in 2016 were a result of a change of technology platform and consequent reassessment of future cash flows.

The carrying amount of completed development projects at 31 December 2016 was DKK 710.3 million (31 December 2015: DKK 635.5 million).

In the case of development projects in progress, an 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 based on 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 121.6 million (31 December 2015: DKK 113.4 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 175.9 million (31 December 2015: DKK 188.9 million).

PROVISIONS

Provisions essentially relate 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 03_NEW FINANCIAL REPORTING STANDARDS

CHANGE IN ACCOUNTING POLICIES, INCLUDING PRESENTATION AND IMPLEMENTATION OF FINANCIAL REPORTING STANDARDS

The accounting policies for the financial statements for the Group and the Parent Company are unchanged from last year.

MOST RECENTLY ADOPTED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS (IFRIC)

KMD has implemented the financial reporting standards, and amendments to these, and the interpretations that have been endorsed by the IASB and the EU and entered into force in the 2016 financial year. These are as follows for KMD:

- _ Annual Improvements (2012-2014). These entail a number of minor amendments to IFRS:
 - _ IFRS 5: Change in accounting treatment in connection with reclassification of an asset between the categories "held for sale" and "held for distribution."
 - _ IFRS 7: Addition of disclosures on continued involvement in the form of contracts for continued servicing of transferred customer contracts and concerning disclosures on financial instruments in interim financial reports.
 - _ IAS 19: Addition concerning determination of the discount rate on pension obligations in regional currencies, e.g. EUR.
 - _ IAS 34: Clarification of what is meant by references to disclosures "elsewhere in the interim financial report."
 - _ IFRS 11: Acquisition of interests in a joint operation must be treated as acquisition of individual assets or acquisition of an entity.
 - _ IAS 16/IAS 38: No longer permits application of revenue-based depreciation methods.
 - _ IAS 27: Makes it possible to apply the equity method to recognition of interests in subsidiaries, associates and joint ventures in parent company financial statements.
 - _ IAS 1: Amendments to IAS 1 with a view to improving the disclosure requirements in accordance with IFRS. The amendment concerns materiality, presentation of items and subtotals in the income statement and balance sheet, and sequence of the notes.
 - _ IFRS 10, IFRS 12 and IAS 28: Amendments concerning use by investment companies of the exemption from consolidating subsidiaries.

KMD has assessed the effect of the new IFRS standards and interpretations, and has concluded that all the standards and interpretations that have come into force for financial years beginning 1 January 2016 are either not relevant to KMD or do not have a material impact on the consolidated financial statements.

NEW FINANCIAL REPORTING STANDARDS (IAS/IFRS) AND INTERPRETATIONS (IFRIC) ADOPTED – BUT NOT APPLICABLE TO THE FINANCIAL YEAR UNDER REVIEW

The following amended financial reporting standards and interpretations that may be relevant to KMD have been adopted by the IASB and endorsed by the EU. The standards come into force at a later date, which is why they will not be implemented until the annual reports for the years in which they become effective.

- _ IFRS 15: "Revenue from Contracts with Customers." New standard on revenue recognition. The standard may potentially affect recognition of revenue in a number of areas including:
 - _ When revenue is recognized
 - _ Recognition of variable remuneration
 - _ Allocation of revenue in combined contracts (contracts with multiple performance obligations)
 - _ Recognition of revenue from licensing rights
 - _ Costs of entering into contracts
 - _ Additional disclosure requirements

The standard becomes effective for financial years beginning 1 January 2018 or later.

- _ IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities." The number of categories of financial assets is reduced to three: those measured at amortized cost and those measured at fair value via the income statement, and those measured at fair value via other comprehensive income. In accordance with IFRS 9, entities that choose to measure financial liabilities at fair value (the fair value option) must present the part of the change in fair value for the period that can be attributed to changes in the entity's own credit risk in other comprehensive income. The rules governing write-downs of financial assets are being changed to a model based on expected credit losses such that changes in the credit risk entail changes in the provision for bad debts. The rules governing hedge accounting are being relaxed, so that they are more closely aligned with the entity's risk management strategy and goals. The standard becomes effective for financial years starting 1 January 2018 or later.

KMD is in the process of assessing the effect of the new IFRS standards and interpretations, and will implement the standards as they become effective.

IASB HAS ISSUED THE FOLLOWING AMENDMENTS TO STANDARDS AND NEW INTERPRETATIONS THAT COULD BE RELEVANT TO KMD BUT HAVE NOT YET BEEN ENDORSED BY THE EU:

_ IFRS 14: "Regulatory Deferral Accounts." New common standard on regulatory assets (surplus/deficit) in connection with first-time adoption of IFRS. However, the EU has decided this standard will not be applicable in the EU. The standard became effective for financial years beginning 1 January 2016 or later.

_ IFRS 16: "Leasing." New standard on accounting treatment of leases by lessees. In future, all leases must be recognized in the balance sheet in the form of a lease commitment and lease asset. The standard becomes effective for financial years beginning 1 January 2019 or later.

_ IAS 12: Amendments clarifying the requirements to recognize deferred tax assets on unrealized losses on securities that are adjusted to fair value via other comprehensive income. The amendment becomes effective for financial years beginning 1 January 2017 or later.

_ IAS 7: Requirement for additional disclosures on reconciliation of financial liabilities. The opening and closing balances of interest-bearing debt must be reconciled. The amendment becomes effective for financial years beginning 1 January 2017 or later.

_ IAS 2: Amendments concerning vesting conditions on cash-based schemes and accounting treatment of modifications to a cash-based scheme. The amendment becomes effective for financial years beginning 1 January 2018 or later.

_ IFRIC 22: "Foreign Currency Transactions and Advance Consideration." Foreign currency translation must be carried out on the transaction date of the

prepayment. If there are several prepayments, a transaction date must be determined for each one. The interpretation becomes effective for financial years beginning 1 January 2017 or later.

_ IAS 40: The amendments clarify application of the provisions on transfers to and from investment properties in IAS 40, "Investment Property." The amendment becomes effective for financial years beginning 1 January 2018 or later.

Annual Improvements (2014-2016). These entail a number of minor amendments to IFRS:

_ IFRS 1: Short-term exemptions for first-time adoption of IFRS linked to transitional provisions in specific standards are being repealed because they are no longer relevant. The amendment becomes effective for financial years beginning 1 January 2017 or later.

_ IFRS 12: Some disclosures under IFRS 12 are also applicable to equity interests held for sale, held for distribution or classified as discontinued operations under IFRS 5. An exemption is made for assets held for sale under Other disclosures in accordance with IFRS 12. The amendment becomes effective for financial years beginning 1 January 2017 or later.

_ IAS 28: If a venture company chooses to measure equity investments in an associate or joint venture at fair value with value adjustment, this choice must be applied to every joint venture or associate. The amendment becomes effective for financial years beginning 1 January 2018 or later.

KMD expects to implement these standards and interpretations when they become effective. IFRS 16 "Leasing" in particular is expected to impact the Group's non-current assets by more than DKK 0.8 billion, and non-current and current payables by an equivalent amount when implemented. The Group's EBITDA is expected to be impacted by more than DKK 100 million. No material impact is expected on profit and equity for the period.

NOTE 04_SEGMENTS

DKK million

	2016	2015
Revenue by business segment		
Local Governments & Regions	3,161.6	3,220.6
Central Government & Data	1,024.1	1,093.5
Private Sector & Infrastructure	1,146.2	862,5
Other	-2.0	-25.4
Total	5,329.9	5,151.2

EBITDA before special items by business segment

DKK million	2016	2015
Local Governments & Regions	750.8	786.5
Central Government & Data	227.8	247.1
Private Sector & Infrastructure	117.3	60.5
Other	6.4	-10.9
Total	1,102.3	1,083.2

NOTE 05_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
Total	8.9	11.4

NOTE 06_STAFF COSTS

DKK million	2016	2015
Wages and salaries	2,045.8	2,061.0
Pensions	186.8	175.6
Other social security costs	20.5	22.3
Total	2,253.1	2,258.9
Staff costs recognized in special items	106.6	127.6
Staff costs recognized in EBITDA before special items	2,146.5	2,131.3
Average number of employees	3,390	3,202

An amount of DKK 100 million (2015: DKK 128 million) has been expensed in 2016 for salaries and compensation for employees who left the Company due to structural adjustments.

The remuneration and shareholdings of the Executive Board and Board of Directors are described in note 24.

NOTE 07_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		-124.7		-124.7
Transformation programs	-23.5			-23.5
Other	-6.9	-2.9	8.4	-1.4
Total	-30.4	-127.6	8.4	-149.6

2016

DKK million	Other external expenses	Staff costs	Other operating income	Total
Reorganization and structural adjustments		-93.7		-93.7
Transformation programs	-75.0			-75.0
Other	-261.8	-12.9	2.8	-271.9
Total	-336.8	-106.6	2.8	-440.6

NOTE 08_FINANCIAL INCOME/EXPENSES

2015

DKK million	Interest	Foreign currency translation adjustments	Fair value adjustments	Total
Income				
Receivables	1.8	5.6		7.4
Receivables from Group enterprises	0.2	0.0		0.2
Financial liabilities measured at amortized cost				0.0
Total	2.0	5.6	0.0	7.6
Expenses				
Loans	195.7	11.9		207.6
Financial liabilities measured at amortized cost	28.1			28.1
Total	223.8	11.9	0.0	235.7

2016

DKK million	Interest	Foreign currency translation adjustments	Fair value adjustments	Total
Income				
Receivables	1.8	16.0		17.8
Receivables from Group enterprises	0.1	0.0		0.1
Financial liabilities measured at amortized cost			2.6	2.6
Total	1.9	16.0	2.6	20.5
Expenses				
Loans	202.6	10.9		213.5
Loans to Group enterprises	0.0			0.0
Financial liabilities measured at amortized cost	31.9			31.9
Total	234.5	10.9	0.0	245.4

NOTE 09_INTANGIBLE ASSETS

2015

DKK million	Customer relation- ships	Trademarks	Rights and software	Goodwill	Develop- ment projects in progress	Completed develop- ment projects	Total
Cost at 1 January	1,286.8	92.8	172.4	3,403.0	302.3	1,397.0	6,654.3
Acquisitions	136.4		15.0	289.1		38.6	479.1
Additions during the year			28.5		154.5	19.8	202.8
Disposals during the year					-106.1	-570.7	-676.8
Transfers					-2.3	2.3	0.0
Foreign currency translation adjustments			-1.1		0.1		-1.0
Cost at 31 December	1,423.2	92.8	214.8	3,692.1	348.5	887.0	6,658.4
Amortization and impairment losses at 1 January	386.3	0.0	46.4	0.0	110.1	623.5	1,166.3
Acquisitions			7.0			0.5	7.5
Impairment losses						8.2	8.2
Disposals during the year					-106.1	-570.7	-676.8
Amortization for the year	246.5		21.8			190.0	458.3
Foreign currency translation adjustments			-0.7				-0.7
Amortization and impairment losses at 31 December	632.8	0.0	74.5	0.0	4.0	251.5	962.8
Carrying amount at 31 December	790.4	92.8	140.3	3,692.1	344.5	635.5	5,695.6
Carrying amount of capitalized interest at 31 December		0.0	0.0	0.0	7.0	1.4	8.4
Of which assets held under finance leases		0.0	0.0	0.0	0.0	0.0	0.0

2016

DKK million	Customer relation- ships	Trademarks	Rights and software	Goodwill	Develop- ment projects in progress	Completed develop- ment projects	Total
Cost at 1 January	1,423.2	92.8	214.8	3,692.1	348.5	887.0	6,658.4
Acquisitions	359.5		0.0	688.3		205.4	1,253.2
Additions during the year			25.5		223.2	21.0	269.7
Disposals during the year						-59.6	-59.6
Transfers			-11.3		-172.5	183.8	0.0
Foreign currency translation adjustments			0.9				0.9
Cost at 31 December	1,782.7	92.8	229.9	4,380.4	399.2	1,237.6	8,122.6
Amortization and impairment losses at 1 January	632.8	0.0	74.5	0.0	4.0	251.5	962.8
Acquisitions						17.2	17.2
Impairment losses						42.3	42.3
Amortization for the year	295.3		31.4			223.6	550.3
Transfers			-6.0		-4.0	10.0	0.0
Disposals during the year						-17.3	-17.3
Foreign currency translation adjustments			0.3				0.3
Amortization and impairment losses at 31 December	928.1	0.0	100.2	0.0	0.0	527.3	1,555.6
Carrying amount at 31 December	854.6	92.8	129.7	4,380.4	399.2	710.3	6,567.0
Carrying amount of capitalized interest at 31 December		0.0	0.0	0.0	1.7	6.5	8.2
Of which assets held under finance leases		0.0	0.0	0.0	0.0	0.0	0.0

The carrying amount of goodwill in 2016 was DKK 4,380.4 million against DKK 3,692.1 million in 2015.

The key part of goodwill has arisen in connection with the acquisitions of KMD in 2012, Banqsoft in 2015, and Edlund and UVD Holding in 2016, and relates to the business areas Public Sector Centralized Administrative Software Solutions, Citizen Centered Software Solutions and Private Sector & Infrastructure.

The carrying amount of intangible assets excluding goodwill was DKK 2,186.6 million in 2016 against DKK 2,003.5 million in 2015 and relates primarily to software development.

Capitalized interest in 2016 was DKK 8.2 million against DKK 8.4 million in 2015. The average interest rate applied was 4.4%.

IMPAIRMENT TEST FOR GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill and other intangible assets is impairment-tested annually.

The impairment test for cash-generating units compares the recoverable value, calculated as the discounted value of expected future cash flows, with the carrying amount of the individual cash-generating units.

For all the cash-generating units, the key parameters in the impairment test are EBITDA, funds tied up in working capital, growth in the business segment and the discount rate.

Citizen Centered Software Solutions primarily concern goodwill related to the acquisitions of Avaleo ApS in 2015, UVD Holding ApS in 2016 and Medialogic A/S in 2013. The goodwill is tested at an aggregated level for the Local Governments & Regions business segment. The individual entities cannot be assessed separately because the value-creating processes are generated across the Group, including synergies from combined operations, economies of scale and future growth potential.

Public Sector Centralized Administrative Solutions primarily comprise goodwill related to the acquisition of KMD in 2013. The goodwill is tested at an aggregated level for the Local Governments & Regions business segment. The individual entities cannot be assessed separately because the value-creating processes are generated across the Group, including synergies from combined operations, economies of scale and future growth potential.

Central Government & Data primarily comprises goodwill related to the acquisitions of KMD in 2013 and Scanjour A/S in 2014. The goodwill is tested at an aggregated level for the Central Government & Data business segment. The individual entities cannot be assessed separately because the value-creating processes are generated across the Group, including synergies from combined operations, economies of scale and future growth potential.

Private Sector & Infrastructure primarily comprises goodwill related to the acquisitions of Banqsoft AS in 2015, and EMT Nordic Holding ApS and Edlund A/S in 2016. The goodwill is tested at an aggregated level for the Private Sector & Infrastructure business segment. The individual entities cannot be assessed separately because the value-creating processes are generated across the Group, including synergies from combined operations, economies of scale and future growth potential.

Budgets and business plans, typically for the next four years, are used in the impairment tests. These are based on KMD's known and expected events and risks in the key parameters, and incorporated in future expected cash flows.

For intangible assets with an indefinite useful life, the terminal value is determined taking into account general growth expectations. The growth in the terminal period is set at 1% p.a.

The discount rate of 9.8% applied in calculating the recoverable value in both 2016 and 2015 is calculated before tax and reflects the risk-free interest and risk premium in the individual cash-generating units. The cash flows used incorporate the effect of future risks linked to this, which is why such risks are not added to the discount rates used.

The value in use is impacted mainly by changes in profit margin and discount rate.

DEVELOPMENT PROJECTS

At 31 December 2016 Management performed an impairment test on the carrying amount of development projects.

Recognized development projects in progress and completed development projects cover development primarily focused on solutions within Citizen Centered Software Solutions.

The value of the recognized development projects is compared with expected earnings from the products.

Due to the purchase of UVData, KMD chose to make a write-down of its' own learning management system and continue development on the purchased platform from UVData. This has led to a re-assessment of future cash flows, and in 2016 KMD made a write-down of DKK 42.3 million. A write-down of DKK 8.2 million was made on development projects in 2015.

The Company does not have any research costs. Development costs charged to the income statement in 2016 were DKK 87 million against DKK 81 million in 2015.

GOODWILL

At 31 December 2016 Management performed an impairment test on the carrying amount of goodwill.

Goodwill in KMD relates to the following cash-generating units:

DKK million	2016	2015
Citizen Centered Software Solutions	490.6	210.2
Public Sector Centralized and Administrative Software Solutions	2,740.1	2,740.1
Central Government	306.5	306.5
Private Sector & Infrastructure	843.2	435.3
Total	4,380.4	3,692.1

The impairment test was carried out in the fourth quarter of the financial year based on the budgets and business plans approved by the Executive Board and Board of Directors and other information. The discount rate of 9.8% applied for all cash-generating units is calculated before tax. Estimated growth, etc. is based on past performance and expected useful life of the contracts.

The tests carried out in 2016 and 2015 did not indicate any impairment.

Management does not consider that likely changes in the underlying assumptions would result in the carrying amounts exceeding the recoverable value. The value is mainly affected by the development in market shares, and changes in profit margin and discount rate.

NOTE 10_PROPERTY, PLANT AND EQUIPMENT

2015

DKK million	Land and buildings	Leasehold improvements	Plant and machinery	Fixtures, operating equipment and vehicles	Total
Carrying amount at 1 January	143.2	57.7	617.9	227.1	1,045.9
Acquisitions		0.2		6.4	6.6
Additions during the year		9.0	50.8	14.9	74.7
Disposals during the year	-2.9	-3.6	-278.9	-13.8	-299.2
Foreign currency translation adjustments				-0.2	-0.2
Cost at 31 December	140.3	63.3	389.8	234.4	827.8
Depreciation at 1 January	64.7	18.6	455.0	196.2	734.5
Acquisitions		0.0		5.3	5.3
Depreciation for the year	8.0	5.5	84.5	26.8	124.8
Depreciation eliminated on disposals	-1.1	-3.3	-208.7	-12.4	-225.5
Transfers					0.0
Foreign currency translation adjustments				-0.2	-0.2
Depreciation at 31 December	71.6	20.8	330.8	215.7	638.9
Carrying amount at 31 December	68.7	42.5	59.0	18.7	188.9
Of which assets held under finance leases			0.0		0.0

2016

DKK million	Land and buildings	Leasehold improvements	Plant and machinery	Fixtures, operating equipment and vehicles	Total
Carrying amount at 1 January	140.3	63.3	389.8	234.4	827.8
Acquisitions		4.5		35.2	39.7
Additions during the year		6.4	18.6	17.3	42.3
Disposals during the year	-0.4	-0.2	-78.3	-4.0	-82.9
Foreign currency translation adjustments				-0.2	-0.2
Cost at 31 December	139.9	74.0	330.1	282.7	826.7
Depreciation at 1 January	71.6	20.8	330.8	215.7	638.9
Acquisitions		2.3		30.2	32.5
Depreciation for the year	6.6	6.6	23.6	11.7	48.5
Depreciation eliminated on disposals	-0.1		-65.2	-3.7	-69.0
Transfers					0.0
Foreign currency translation adjustments				-0.1	-0.1
Depreciation at 31 December	78.1	29.7	289.2	253.8	650.8
Carrying amount at 31 December	61.8	44.3	40.9	28.9	175.9
Of which assets held under finance leases			0.0		0.0

NOTE 11_DEPOSITS

DKK million	2016	2015
Cost at 1 January	44.9	45.8
Acquisitions	4.5	0.0
Additions during the year	0.6	7.5
Disposals during the year	-2.0	-8.4
Cost at 31 December	48.0	44.9
Carrying amount at 31 December	48.0	44.9

NOTE 12_INVENTORIES

DKK million	2016	2015
Hardware and software for resale	3.1	2.8
Raw materials and consumables	0.4	1.4
Carrying amount at 31 December	3.5	4.2

Cost of sales charged to the income statement under other external expenses was DKK 583 million in 2016 against DKK 582 million in 2015.

Inventories expected to be sold after more than one year were DKK 0 million at 31 December 2016, unchanged from 2015.

Write-downs on inventories for the year were DKK 0.6 million in 2016 against DKK 0 million in 2015.

No write-downs were reversed in 2016 or 2015.

NOTE 13_CONTRACT WORK IN PROGRESS

DKK million	2016	2015
Work in progress at 31 December at selling price	238.5	479.5
Work in progress invoiced on account	-116.9	-366.1
Work in progress, net	121.6	113.4
Recognized as follows:		
Work in progress (assets)	121.6	113.4
Work in progress (liabilities)	0.0	0.0
Revenue recognized via work in progress	140.1	437.5

NOTE 14_PREPAYMENTS

DKK million	2016	2015
Prepaid salaries	0.8	0.8
Other prepayments	45.2	35.2
Carrying amount at 31 December	46.0	36.0

Other prepayments mainly include prepayments relating to third-party software/maintenance subscriptions.

NOTE 15_SHARE CAPITAL

Number	2016	2015
The Parent Company's capital is made up as follows:		
A shares	20,853,808	20,853,808
A2 shares	15,000	15,000
B shares	890,051	890,051
C shares	5,000	5,000
Total	21,763,859	21,763,859

The Company was incorporated on 1 September 2012 with share capital of DKK 80,000. The share capital was increased by DKK 21,631,000 on 19 December 2012 and by DKK 53,000 on 5 April 2013.

The share capital comprises 21,763,859 shares with a nominal value of DKK 1.

The Company's shares are registered by name and are not negotiable papers.

C shares do not carry voting rights.

NOTE 16_TAX ON PROFIT FOR THE YEAR

DKK million	2016	2015
Current tax	104.8	124.0
Change in deferred tax	-115.1	-49.7
	-10.3	74.3
Prior-year adjustment	1.8	-0.8
Total	-8.5	73.5
Made up as follows:		
Tax on profit for the year	-8.0	73.4
Tax relating to other comprehensive income	-0.5	0.1
Total	-8.5	73.5

In percent	2016	2015
Reconciliation of effective tax rate for the year		
Corporation tax rate in Denmark (%)	22.0	23.5
Non-deductible expenses	-18.6	42.9
Differences in foreign subsidiaries' tax rates compared with Danish tax rates	0.6	-0.3
Use of unregistered tax loss carryforward	0.1	1.1
Adjustment to deferred tax due to change in tax rates	0.0	-2.0
Prior-year adjustment	-0.9	-0.6
Effective tax rate for the year (%)	3.2	64.6

DEVELOPMENT IN DEFERRED TAX CAN BE SPECIFIED AS FOLLOWS:

DKK million	2016	2015
Balance at 1 January	336.3	333.0
Adjustment of deferred tax, 1 January	-6.0	12.0
Adjustment of deferred tax in connection with acquisitions	109.4	40.2
Adjustment of tax assets	0.5	0.8
Adjustment for the year	-115.1	-49.7
Balance at 31 December	325.1	336.3
Deferred tax is made up as follows:		
Intangible assets	434.0	435.2
Property, plant and equipment	-43.2	-44.8
Other liabilities	-14.0	-46.5
Non-current portion	376.8	343.9
Current assets	8.3	6.4
Other liabilities	-60.0	-14.0
Current portion	-51.7	-7.6
Carrying amount at 31 December	325.1	336.3

DKK million	2016	2015
Deferred tax assets not recognized in the balance sheet		
Temporary differences	-3.4	-0.4
Tax loss	12.8	13.4
Carrying amount at 31 December	9.4	13.0

Utilization of the Group's deferred tax assets is not subject to any time restrictions.

NOTE 17_PROVISIONS

DKK million	2016	2015
Provisions at 1 January	231.9	301.5
Acquisitions	23.0	0.0
Additions during the year	228.0	33.9
Used during the year	-66.5	-103.5
Reversed during the year	0.0	0.0
Carrying amount at 31 December	416.4	231.9

Provisions mainly relate 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 18_OTHER CURRENT PAYABLES

DKK million	2016	2015
Holiday pay obligations	315.8	299.9
Other staff-related items	198.8	215.4
VAT, A tax (PAYE), social security contributions and ATP supplementary pension	89.6	75.1
Other payables	51.5	13.5
Balance at 31 December	655.7	603.9

NOTE 19_FINANCIAL INSTRUMENTS, ETC.

THE GROUP'S RISK MANAGEMENT POLICY

Because of its operations, investments and financing, the Group is not particularly exposed to financial risks. The Group's revenue essentially comes from the local government market, which is less subject to cyclical impacts than the private market.

The Group's policy is not to speculate in financial risks. The Group follows a Board-approved finance policy that operates with a low risk profile, such that interest rate and credit risks primarily arise from commercial matters.

CREDIT RISK

The Group is exposed to credit risks on receivables and bank deposits. The maximum credit risk is equivalent to the carrying amount. The credit risk on receivables

is considered minimal because of KMD's customer segment.

The Group strives to spread bank deposits across several different banks with a minimum credit rating of A- with Standard & Poor's or A3 with Moody's.

Outstanding receivables are followed up centrally on an ongoing basis in accordance with the Company's credit procedures. Credit ratings are carried out for customers outside the public sector.

Where there is uncertainty as to a customer's ability or willingness to pay a receivable, and the claim is judged to be risky, the receivable is written down.

TRADE RECEIVABLES

DKK million	2016	2015
Trade receivables	890.2	831.0
Write-downs	-0.2	-0.6
Trade receivables, net	890.0	830.4
Receivables from Group enterprises	0.0	0.0
Total	890.0	830.4
Receivables past due that have been impaired	0.2	0.6
Receivables past due that have not been impaired can be specified as follows:		
Receivables past due, less than 6 months	35.1	22.8
Receivables past due, between 6 and 12 months	1.8	2.2
Receivables past due, more than 12 months	0.0	0.8
Total	37.1	26.4

NON-CURRENT RECEIVABLES

DKK million	2016	2015
Receivables due after 12 months	0.0	0.0

LIQUIDITY RISK

The required liquidity in the Group's entities is ensured based on the Company's credit facilities and the liquidity generated by operations. The Group's liquidity management is the responsibility of the finance function, and entities in the Group are guaranteed access to liquidity via internal loans.

The maturity analysis is shown by category and class broken down by maturity period. Calculation of interest payments on liabilities at variable rates of interest is based on the rate prevailing on the balance sheet date.

The Group's loans are subject to specific covenants and can therefore only be canceled early on the lender's part in the event of breach of the covenants specified in the loan agreements.

Cash outflows are expected to be covered by the current excess liquidity and unutilized credits.

The calculation of fair value of hedging instruments is based on observable assumptions such as forward interest rates, etc. (Level 2 in the fair value hierarchy).

2015

DKK million	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	No agreed settle- ment	Total	Carrying amount	Fair value
Measured at fair value via the income statement and hedging instruments:								
Interest rate swap	11.5	9.6				21.1	21.1	21.1
Measured at amortized cost:								
Borrowings	475.5	994.2	3,442.6	30.3		4,942.6	4,145.6	4,145.6
Payables to Group enterprises	219.8					219.8	219.8	219.8
Trade payables	524.0					524.0	524.0	524.0
Other current liabilities	603.9					603.9	603.9	603.9
Financial liabilities	1,834.7	1,003.8	3,442.6	30.3	0.0	6,311.4	5,514.4	5,514.4
Measured at fair value via the income statement and hedging instruments:								
Interest rate swap								
Loans and receivables:								
Deposits					44.9	44.9	44.9	44.9
Trade receivables	830.4	0.0				830.4	830.4	830.4
Receivables from Group enterprises		50.8				50.8	50.8	50.8
Contract work in progress	113.4					113.4	113.4	113.4
Other receivables – current	119.4					119.4	119.4	119.4
Cash and cash equivalents	407.0					407.0	407.0	407.0
Financial assets	1,470.2	50.8	0.0	0.0	44.9	1,565.9	1,565.9	1,565.9
Net cash outflow	364.5	953.0	3,442.6	30.3	-44.9	4,745.5	3,948.5	3,948.5

Unutilized credits were DKK 250 million.

2016

DKK million	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	No agreed settle- ment	Total	Carrying amount	Fair value
Measured at fair value via the income statement and hedging instruments:								
Interest rate swap	9.0					9.0	9.0	9.0
Measured at amortized cost:								
Borrowings	325.7	2,866.4	2,130.2	9.0		5,331.3	4,834.2	4,834.2
Payables to Group enterprises	222.8					222.8	222.8	222.8
Trade payables	692.4					692.4	692.4	692.4
Other current liabilities	655.7					655.7	655.7	655.7
Financial liabilities	1,905.6	2,866.4	2,130.2	9.0	0.0	6,911.2	6,414.1	6,414.1
Measured at fair value via the income statement and hedging instruments:								
Interest rate swap								
Loans and receivables:								
Deposits					48.0	48.0	48.0	48.0
Trade receivables	890.0					890.0	890.0	890.0
Receivables from Group enterprises						0.0	0.0	0.0
Contract work in progress	121.6					121.6	121.6	121.6
Other receivables – current	27.0					27.0	27.0	27.0
Cash and cash equivalents	441.3					441.3	441.3	441.3
Financial assets	1,479.9	0.0	0.0	0.0	48.0	1,527.9	1,527.9	1,527.9
Net cash outflow	425.7	2,866.4	2,130.2	9.0	-48.0	5,383.3	4,886.2	4,886.2

Unutilized credits were DKK 250 million.

INTEREST RATE RISK

Most of the Group's loans are at variable rates of interest, which exposes the Group to fluctuations in short-term interest rates.

The interest rate risk is partly hedged by 57% of the interest being at fixed rates, which is why an increase of 1 percentage point in the market rate is estimated to impact earnings before tax by a negative DKK 20 million and equity by an equivalent amount. The corresponding figure for 2015 was a negative DKK 9 million.

The Group's overdraft facilities are at variable rates of interest, which is why interest income/expenses in the individual years will depend on the development in the short-term interest rate. KMD does not hedge this interest rate risk. Correspondingly, loans to the Parent Company are not hedged.

CURRENCY

The Group's currency policy is to allow subsidiaries to operate in their own currency wherever possible and for contracts with foreign suppliers primarily to be entered into in the Group enterprises' local currencies or the euro.

In 2016, 97% of the Group's revenue was earned in DKK against 99% in 2015.

To minimize the risk of the Group being impacted by currency fluctuations, significant expected incomes and expenses in currencies other than the individual Group companies' functional currencies are hedged for a period of up to 12 months. This does not apply to the euro.

The Group's currency risk is considered limited.

CAPITAL MANAGEMENT

The Company's capital management is partly governed by the loan agreements entered into in the Group, which contain specifications for financial ratios. The Group's gearing, defined as net interest-bearing debt to EBITDA, is monitored on a monthly basis as part of managing the Group's capital structure. At year-end 2016 the maximum gearing was not permitted to exceed 5.10. At 31 December 2016 it was 4.13 (31 December 2015: 3.66).

NOTE 20_ADJUSTMENTS OF NON-CASH ITEMS

DKK million	2016	2015
Adjustment of non-current liabilities	-15.3	-52.8
Other adjustments	0.1	-0.1
Total adjustments	-15.2	-52.9

NOTE 21_CHANGE IN WORKING CAPITAL

DKK million	2016	2015
Change in inventories	0.7	3.0
Change in receivables	-22.7	-13.6
Change in contract work in progress	-6.6	-68.0
Change in trade payables	162.9	139.9
Change in other items, net	244.8	-109.5
Total change in working capital	379.1	-48.2

NOTE 22_INVESTMENTS IN ENTERPRISES

2015

In 2015, KMD acquired all the shares in Banqsoft AS, Avaleo ApS, Avaleo Hjælpebidler ApS and Neupart A/S.

At the end of 2015 a preliminary assessment of allocation of the purchase consideration for the assets and liabilities acquired in connection with the acquisitions of Banqsoft AS, Avaleo ApS,

Avaleo Hjælpebidler ApS and Neupart A/S was carried out. The statement below of assets and liabilities on the acquisition dates represents the final allocations recognized in 2016.

If the business acquisitions had been completed at the start of the year, the Group's total revenue and net profit would have been DKK 5,539 million and a negative DKK 134 million respectively.

FAIR VALUE AT ACQUISITION DATE

DKK million	Avaleo ApS	Banqsoft AS	Neupart A/S	Total
Property, plant and equipment	42.4	115.1	26.4	183.9
Inventories and receivables	6.2	31.7	8.9	46.8
Deferred liabilities, net	-7.6	-28.3	-6.6	-42.5
Non-current payables	0.0	0.0	0.0	0.0
Current payables	-18.1	-45.4	-1.6	-62.3
Corporation tax payable, net	0.0	4.5	-0.3	4.2
Acquired net assets	22.9	77.6	26.8	130.1
Goodwill	67.7	201.3	22.9	289.1
Net cash flow arising from acquisitions	90.6	278.9	49.7	419.2
Cash and cash equivalents in acquired subsidiary	6.1	5.4	-3.6	7.9
Acquisition cost	96.7	284.3	46.1	427.1

AVALEO

The activities in Avaleo (Avaleo ApS and Avaleo Hjælpebidler ApS) were acquired on 15 February 2015 and recognized in the financial statements from this date. Avaleo is one of Denmark's leading companies within IT solutions for local government healthcare provision, supplying case management and record systems for the care, social and health areas.

If the enterprises had been owned for the entire reporting period, recognized revenue and net profit would have been DKK 49 million and DKK 2 million respectively.

Revenue relating to Avaleo has been recognized in the income statement and statement of comprehensive income since the acquisition and amounted to DKK 34.8 million in 2015.

Goodwill mainly comprises intangible assets in the form of know-how and existing staff. The calculated goodwill is not amortizable for tax purposes.

Transaction costs of DKK 2.4 million have been recognized in other external expenses.

BANQSOFT AS

The enterprise was acquired on 17 July 2015 and recognized from this date. The core business of the Scandinavian Banqsoft Group is software solutions for efficient management of portfolios in connection with loans, leasing, wholesale, vehicle fleets, and accounts for finance companies and banks.

If the enterprise had been owned for the entire reporting period, recognized revenue and net profit would have been DKK 145 million and DKK 1 million respectively.

Revenue relating to Banqsoft AS has been recognized in the income statement and statement of comprehensive income since the acquisition and totaled DKK 67 million in 2015.

Goodwill represents the value of existing staff and know-how. The calculated goodwill is not amortizable for tax purposes.

Transaction costs of DKK 6.3 million have been recognized in other external expenses.

NEUPART A/S

The enterprise was acquired on 2 September 2015 and recognized from this date. Neupart assists companies and public authorities with IT risk management and compliance with IT security requirements, e.g. ISO 27001 and EU personal data legislation.

If the enterprise had been owned for the entire reporting period, recognized revenue and net profit would have been DKK 16 million and DKK 3 million respectively.

Goodwill represents the value of existing staff and know-how. The calculated goodwill is not amortizable for tax purposes.

The company was merged with KMD A/S with effect from 2 September 2015.

Transaction costs of DKK 0.5 million have been recognized in other external expenses.

2016

In 2016, KMD acquired all the shares in EMT Nordic Holding ApS, Edlund A/S and UVD Holding A/S.

At the end of 2016 a preliminary assessment of allocation of the purchase consideration of the assets and liabilities acquired in connection with the

acquisitions of EMT Nordic Holding ApS, Edlund A/S and UVD Holding A/S was carried out. The statement below of assets and liabilities on the acquisition dates represents the preliminary allocations recognized in 2016.

FAIR VALUE AT ACQUISITION DATE

DKK million	EMT Nordic Holding ApS	Edlund A/S	UVD Holding A/S	Total
Property, plant and equipment	40.7	359.4	155.7	555.8
Inventories and receivables	6.6	35.0	10.6	52.2
Deferred liabilities, net	0.0	-5.9	-10.4	-16.3
Non-current payables	-8.3	-17.1	-91.2	-116.6
Current payables	-6.8	-58.1	-9.3	-74.2
Corporation tax payable, net	-9.9	-69.2	-35.4	-114.5
Acquired net assets	22.3	244.1	20.0	286.4
Goodwill	47.9	347.2	290.5	685.6
Net cash flow arising from acquisitions	70.2	591.3	310.5	972.0
Cash and cash equivalents in acquired subsidiary	3.0	0.2	35.2	38.4
Acquisition cost	73.2	591.5	345.7	1,010.4

EMT NORDIC HOLDING APS

The activities in EMT were acquired on 6 June 2016 and recognized in the financial statements from this date. EMT Nordic develops software and provides consultancy services within the energy and environment sector.

If the enterprise had been owned for the entire reporting period, recognized revenue and net profit would have been DKK 25 million and DKK 7 million respectively.

Revenue relating to EMT has been recognized in the income statement and statement of comprehensive income since the acquisition and totaled DKK 15 million in 2016.

Goodwill mainly represents the value of intangible assets in the form of know-how and existing staff. The calculated goodwill is not amortizable for tax purposes.

The total consideration has been calculated at DKK 73 million excluding transaction costs and was paid in cash.

Transaction costs of DKK 0.8 million have been recognized in other external expenses.

EDLUND A/S

The activities in Edlund were acquired on 15 July 2016 and recognized in the financial statements from this date. Edlund is the Danish leader in developing software for life insurance and pension companies.

If the enterprise had been owned for the entire reporting period, recognized revenue and net profit would have been DKK 265 million and DKK 10 million respectively.

Revenue relating to Edlund has been recognized in the income statement and statement of comprehensive income since the acquisition and totaled DKK 117 million in 2016.

Goodwill mainly represents the value of intangible assets in the form of know-how and existing staff. The calculated goodwill is not amortizable for tax purposes.

The total consideration has been calculated at DKK 592 million excluding transaction costs and was primarily loan-financed.

Transaction costs of DKK 3.5 million have been recognized in other external expenses.

UVD HOLDING A/S

The activities in UVD Holding, including the subsidiary UVdata A/S, were acquired on 10 October 2016 and recognized in the financial statements from this date. UVdata is one of Denmark's leading developers of software for the education sector. With this acquisition, KMD has created the largest development house in the Danish education sector.

If the enterprises had been owned for the entire reporting period, recognized revenue and net profit

would have been DKK 55 million and DKK 25 million respectively.

Revenue relating to UVdata has been recognized in the income statement and statement of comprehensive income since the acquisition and totaled DKK 14 million in 2016.

Goodwill mainly represents the value of intangible assets in the form of know-how and existing staff. The calculated goodwill is not amortizable for tax purposes.

The total consideration has been calculated at DKK 346 million excluding transaction costs and was primarily loan-financed.

Transaction costs of DKK 1.0 million have been recognized in other external expenses.

NOTE 23_CONTINGENT ASSETS AND LIABILITIES

The Group has entered into rental agreements and operating leases that are non-cancelable on the part of the Group 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	121.7	80.9
Rental commitments due within 2 to 5 years	421.0	305.0
Rental commitments due after 5 years	777.1	774.5
Total	1,319.8	1,160.4

Rental commitments relate primarily to the Group's owner-occupied properties.

LEASE COMMITMENTS

DKK million	2016	2015
Lease commitments due within 1 year	439.3	286.3
Lease commitments due within 2 to 5 years	817.1	461.8
Lease commitments due after 5 years	48.7	76.6
Total	1,304.8	824.7

Lease commitments mainly comprise lease commitments concerning third-party software/maintenance subscriptions.

OTHER LIABILITIES AND CONTINGENT LIABILITIES

The Group 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 4,804.6 million.

The shares in AI Keyemde 2 ApS 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 Holding ApS and its Danish subsidiaries are 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.

The tax for the individual companies is fully allocated based on the expected taxable income.

NOTE 24_RELATED PARTIES

The Company's related parties are:	Domicile	Relationship	Ownership interest
AI Keyemde & Cy SCA	Luxembourg	Shareholder in KMD Holding ApS	95.89%
AI Keyemde B K/S	Ballerup, Denmark	Shareholder in KMD Holding ApS	3.85%
AI Keyemde B2 K/S	Ballerup, Denmark	Shareholder in KMD Holding ApS	0.24%
AI Keyemde C K/S	Ballerup, Denmark	Shareholder in KMD Holding ApS	0.02%
KMD Holding ApS	Ballerup, Denmark	Shareholder in AI Keyemde 2 ApS	100.00%
AI Keyemde 2 ApS	Ballerup, Denmark	Shareholder in AI K Keyemde 3 ApS	100.00%
AI Keyemde 3 ApS	Ballerup, Denmark	Shareholder in KMD Holdco 4 A/S	100.00%
KMD Holdco 4 A/S	Ballerup, Denmark	Shareholder in KMD A/S	100.00%
Edlund A/S	Valby, Denmark	Subsidiary of KMD A/S	100.00%
UVdata A/S	Ballerup, Denmark	Subsidiary of KMD A/S	100.00%
KMD Poland sp. z o.o.	Warsaw, Poland	Subsidiary of KMD A/S	100.00%
KMD Neupart Ltd	London, UK	Subsidiary of KMD A/S	100.00%
MetaTech AS	Trondheim, Norway	Subsidiary of KMD A/S	100.00%
Banqsoft AS	Oslo, Norway	Subsidiary of KMD A/S	100.00%
Banqsoft AB	Stockholm, Sweden	Subsidiary of Banqsoft AS	100.00%
Banqsoft OY	Espoo, Finland	Subsidiary of Banqsoft AS	100.00%
Banqsoft sp. z o.o.	Warsaw, Poland	Subsidiary of Banqsoft AS	100.00%
KMD Venture A/S	Ballerup, Denmark	Subsidiary of KMD A/S	100.00%
Neupart AS	Lysaker, Norway	Subsidiary of KMD A/S	100.00%
Neupart GmbH	Düsseldorf, Germany	Subsidiary of KMD A/S	100.00%
ScanJour A/S	Ballerup, Denmark	Subsidiary of KMD A/S	100.00%
Legacy ApS	Copenhagen, Denmark	Associate of KMD Venture A/S	42.90%
Dansk Teknologisk Læringsdesign IVS	Odense, Denmark	Associate of KMD Venture A/S	8.20%
Code Creation IVS	Copenhagen, Denmark	Associate of KMD Venture A/S	15.00%
Credito ApS	Copenhagen, Denmark	Associate of KMD Venture A/S	5.26%
Relabee ApS	Copenhagen, Denmark	Associate of KMD Venture A/S	41.17%

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.

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.

RELATED PARTY TRANSACTIONS

The Company's related parties comprise the companies' boards of directors, executive boards and senior employees, and family members of these persons.

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

There have not been any other transactions with the Board of Directors or Executive Board during the year

beyond what is shown in the overview of remuneration below.

REMUNERATION FOR BOARD OF DIRECTORS AND EXECUTIVE BOARD

DKK million	2016	2015
Board of Directors		
Remuneration	0.5	0.2
Total	0.5	0.2
Executive Board		
Salary	6.7	6.1
Bonus	4.0	5.8
Benefits	0.3	0.3
Pensions	1.1	1.0
Total	12.1	13.2

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 the Company 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
At 1 January 2016	396,137	4,754
Granted during the year	208,610	225
Terminations		
Exercised		
Expired	0	0
Outstanding at 31 December 2016	604,747	4,979

NOTE 25_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 significant 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

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

DKK million

Note		2016	2015
	Other external expenses	0.2	1.2
	Operating profit (EBIT)	-0.2	-1.2
	Financial income	0.4	1.1
	Financial expenses	2.3	0.0
	Earnings before tax (EBT)	-2.1	-0.1
5	Tax on profit for the year	-0.1	0.2
	Net profit for the year	-2.0	-0.3
	Allocated as follows:		
	Dividend	0.0	0.0
	Retained earnings	-2.0	-0.3

PARENT COMPANY BALANCE SHEET AT 31 DECEMBER

ASSETS

DKK million

Note	2016	2015
NON-CURRENT ASSETS		
3 Investments in subsidiaries	1,311.1	1,311.1
Total non-current assets	1,311.1	1,311.1
CURRENT ASSETS		
Receivables from Group enterprises	0.1	0.0
Corporation tax receivable	0.1	0.0
Cash	249.9	252.3
Total current assets	250.1	252.3
Total assets	1,561.2	1,563.4

PARENT COMPANY BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES

DKK million

Note		2016	2015
EQUITY			
13	Share capital	21.8	21.8
	Retained earnings	1,319.5	1,321.5
	Proposed dividend	0.0	0.0
Total equity		1,341.3	1,343.3
LIABILITIES			
	Trade payables	0.1	0.2
	Payables to Group enterprises	219.8	219.8
	Corporation tax payable	0.0	0.1
Current liabilities		219.9	220.1
Total liabilities		219.9	220.1
Total equity and liabilities		1,561.2	1,563.4

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2016	21.8	1,321.5	0.0	1,343.3
Provision for dividend				0.0
Dividend paid				0.0
Net profit for the year		-2.0		-2.0
Proposed dividend to shareholders				0.0
Equity at 31 December 2016	21.8	1,319.5	0.0	1,341.3

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

OVERVIEW

- 01_Accounting policies
- 02_Staff costs
- 02_Financial income
- 04_Financial expenses
- 05_Tax on profit for the year
- 06_Investments in Group enterprises
- 07_Share capital
- 08_Related parties
- 09_Events after the balance sheet date

NOTE 01_ACCOUNTING POLICIES

The financial statements for the Parent Company have been prepared in accordance with the provisions of the Danish Financial Statements Act for companies in accounting class C.

The Group's accounting policies are set out in the consolidated financial statements. The accounting policies for the Parent Company are the same as for the Group with the adjustments set out below.

SUPPLEMENTARY ACCOUNTING POLICIES FOR THE PARENT COMPANY

DIVIDENDS AND INCOME FROM EQUITY INVESTMENTS IN SUBSIDIARIES

In the Parent Company financial statements this accounting item comprises dividends from 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.

INVESTMENTS

Equity investments in subsidiaries are measured in the Parent Company financial statements at cost minus any write-down for impairment.

Loans to subsidiaries are recognized under non-current assets in the Parent Company financial statements if these are considered part of the investment.

NOTE 02_STAFF COSTS

DKK million	2016	2015
Wages, salaries and remuneration	0.0	0.0
Pensions	0.0	0.0
Other social security costs	0.0	0.0
Total	0.0	0.0
Board of Directors	0.0	0.0
Remuneration	0.0	0.0
Pensions	0.0	0.0
Total	0.0	0.0
Average number of employees	0.0	0.0

A new share investment program was established on 20 December 2012 for the Executive Board and a number of senior employees. Investment is by means of endorsing three limited partnerships, which together have purchased 4.11% of the shares in KMD Holding ApS. See Note 24 to the consolidated financial statements for further information.

NOTE 03_FINANCIAL INCOME

DKK million	2016	2015
Interest income	0.0	1.1
Foreign currency translation adjustments	0.4	0.0
Interest income, Group enterprises	0.0	0.0
Carrying amount at 31 December	0.4	1.1

NOTE 04_FINANCIAL EXPENSES

DKK million	2016	2015
Interest expenses	1.1	0.0
Foreign currency translation adjustments	1.2	0.0
Interest expenses, Group enterprises	0.0	0.0
Total	2.3	0.0

NOTE 05_TAX ON PROFIT FOR THE YEAR

DKK million	2016	2015
Current tax	0.1	0.2
Change in deferred tax	0.0	0.0
Total	0.1	0.2
Prior-year adjustments	0.0	0.0
Total	0.1	0.2

NOTE 06_INVESTMENTS IN GROUP ENTERPRISES

DKK million	2016	2015
Cost at 1 January	1,311.1	1,311.1
Additions	0.0	0.0
Dividends	0.0	0.0
Disposals	0.0	0.0
Cost at 31 December	1,311.1	1,311.1
Accumulated write-downs at 1 January	0.0	0.0
Write-downs for the year	0.0	0.0
Accumulated write-downs at 31 December	0.0	0.0
Carrying amount at 31 December	1,311.1	1,311.1

Group enterprises	Domicile	Currency	Ownership interest	Equity	Profit after tax
AI Keyemde 2 ApS	Ballerup, Denmark	DKK	100.0%	1,310.8	-0.1

NOTE 07_SHARE CAPITAL

DKK million	2016	2015
The Parent Company's capital is made up as follows:		
A shares	20,853,808	20,853,808
A2 shares	15,000	15,000
B shares	890,051	890,051
C shares	5,000	5,000
Total	21,763,859	21,763,859

NOTE 08_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	0.0	0.0
Purchase of goods and services, Group enterprises	0.0	0.1
Interest income, Group enterprises	0.0	0.0
Interest expenses, Group enterprises	0.0	0.0
Receivables, Group enterprises	0.1	0.0
Payables, Group enterprises	219.8	219.8

See Note 24 to the consolidated financial statements for further information on transactions with related parties.

NOTE 09_EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred since the balance sheet date that have a material impact on the Company's financial position at 31 December 2016.

STATEMENTS

STATEMENT BY THE EXECUTIVE BOARD AND BOARD OF DIRECTORS

The Board of Directors and the Executive Board have today discussed and approved the annual report for the financial year 1 January – 31 December 2016 for KMD Holding ApS.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU, and the Parent Company financial statements have been prepared in accordance with the Danish Financial Statements Act. The consolidated financial statements and the Parent Company financial statements have also been prepared in accordance with additional Danish disclosure requirements for annual reports. 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 consolidated financial statements provide a fair presentation of the Group's assets, equity, liabilities and financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January 2016 – 31 December 2016.

Ballerup, 15 March 2017

EXECUTIVE BOARD

Eva Berneke
CEO

Jannich Kiholm Lund
CFO

BOARD OF DIRECTORS

Léo Apotheker
Chairman

John Woyton

Fred Wakeman

Michael Christiansen

Morten Hübbe

Jens Due Olsen

In our opinion the Parent Company financial statements provide a fair presentation of the Company's assets, liabilities and financial position 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 Management's Review provides a fair account of the development in the Group's and the Company's operations and financial circumstances, net profit for the year, and the Group's and the Company's financial position, plus a description of the key risks and elements of uncertainty to which the Group and the Company are subject.

It is recommended that the annual report be approved by the Annual General Meeting.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF KMD HOLDING APS

OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

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

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of KMD Holding 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, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group ("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 Group 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 Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement 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 Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company 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 Group's and the Parent 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 Group or the Parent 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 Group's and the Parent 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 uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

_ 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.

_ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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