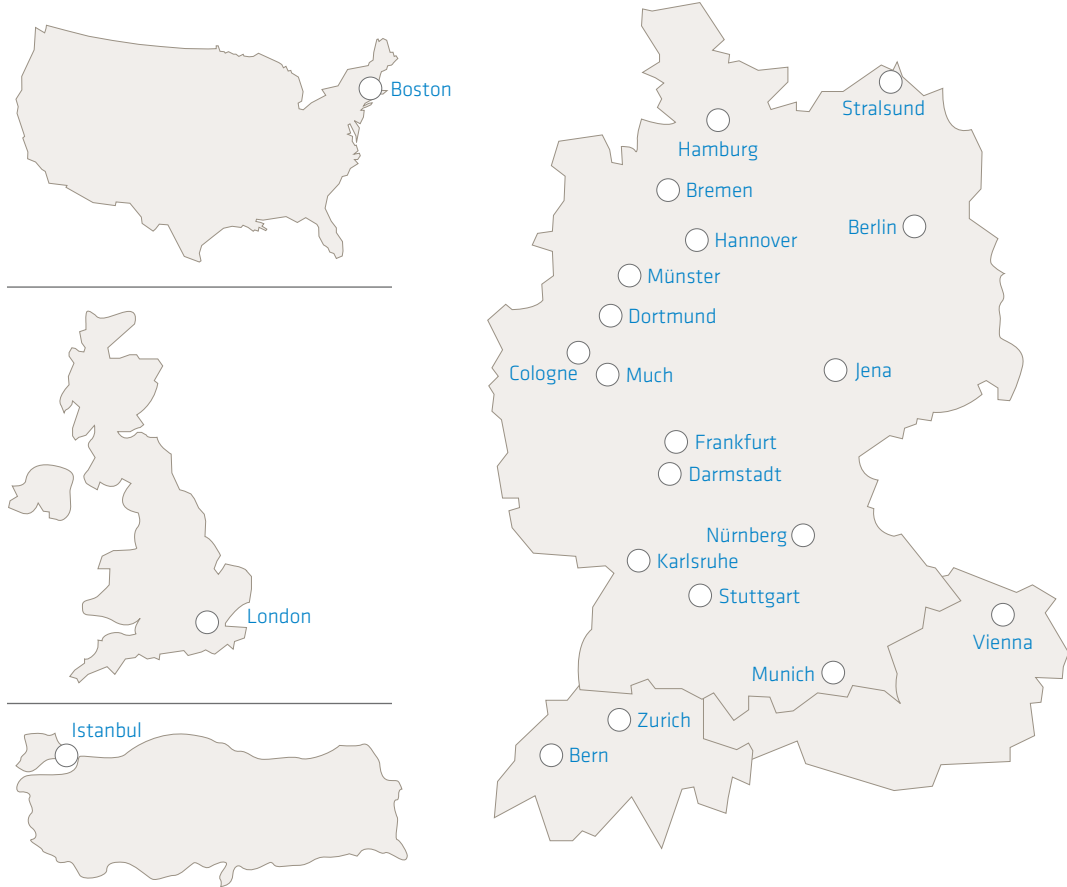


ANNUAL REPORT 2016

A DISPOSITION FOR SUCCESS



LOCATIONS



COMPANIES IN ADESSO GROUP



MISSION STATEMENT

adesso optimises companies' core business processes with the targeted use of information technology. We offer customers expert consulting based on our in-depth industry knowledge and use our technical knowhow to develop customised software solutions. For a defined set of operational tasks adesso provides innovative solutions and products.

As an independent partner, we aim to help our customers make the most of their business potential while retaining flexibility in the future.

ADESSO IS TURNING 20! A DISPOSITION FOR SUCCESS

In 2017, adesso is able to look back on a 20-year history of success, which is why we would like to go back and trace our footsteps with you. Is it even possible to learn how to be successful? Or is business success for the most part the result of a company's original disposition, its founding principles and the talent it recruits? Even if we do not have a patented recipe for successful company development, we think that it is not without reason that adesso's genetic disposition has managed to uphold our business model for more than 20 years, and we believe that it will continue to assist us in years to come.

Find out more about our fundamental components from page 24: our focus on employees and customers, the way that we combine research, teaching and practice, and the expertise that this gives rise to, but also our special company culture.

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24 A DISPOSITION FOR SUCCESS

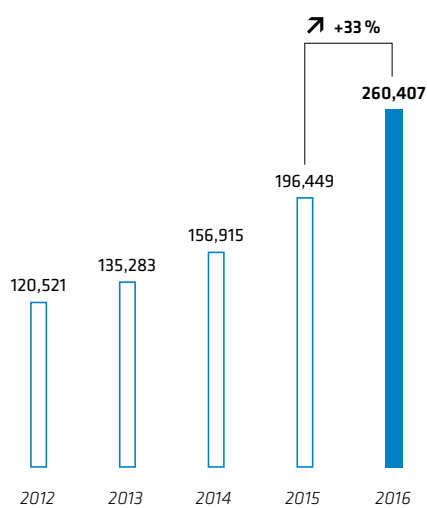
KEY FIGURES

<i>in EUR k</i>	2016	2015	Change	<i>in %</i>
PROFIT SITUATION				
Sales revenues	260,407	196,449	63,958	33
domestic	214,510	152,736	61,774	40
foreign	45,897	43,713	2,184	5
EBITDA	23,060	14,283	8,777	61
EBITDA margin (in %)	8.9	7.3	1.6	22
Consolidated earnings	12,696	5,312	7,384	139
BALANCE SHEET				
Balance sheet total	183,491	120,167	63,324	53
Equity	59,744	42,475	17,269	41
Equity ratio (in %)	32.6	35.3	-2.7	-8
Liquid assets	43,144	28,162	14,982	53
Net cash position	-4,217	6,416	-10,633	-166
EMPLOYEES				
Employees (FTE)	2,174	1,702	472	28
domestic	1,926	1,456	470	32
foreign	248	246	2	1
Gross profit/Employees	119	113	6	5
SHARE				
Number	6,167,423	5,799,720	367,703	6
Price at the end of the period (in EUR)	46.00	24.07	21.93	91
Market capitalisation at the end of the period (in EUR m)	283.7	139.6	144.1	103
Earnings per share (in EUR)	2.14	0.82	1.32	161
Dividend per share (in EUR)	0.36*	0.30	0.06	20
P/E ratio	21.5	29.4	-7.9	-27

* Subject to the approval of the Annual General Meeting

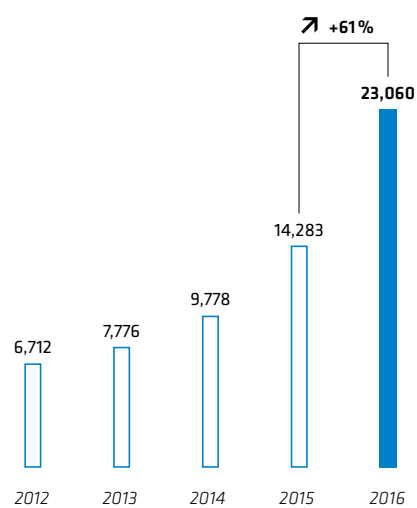
GROWTH IN SALES

in EUR k



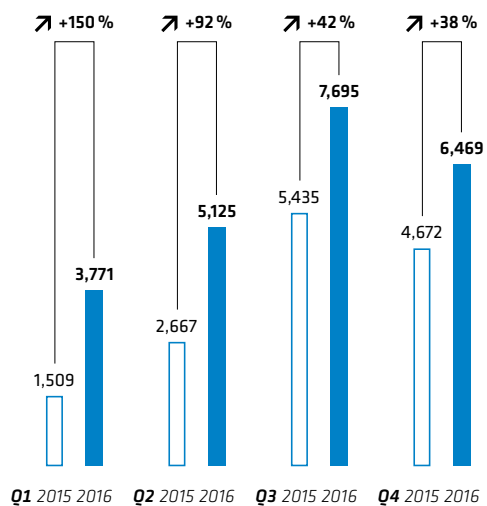
EBITDA-DEVELOPMENT

in EUR k



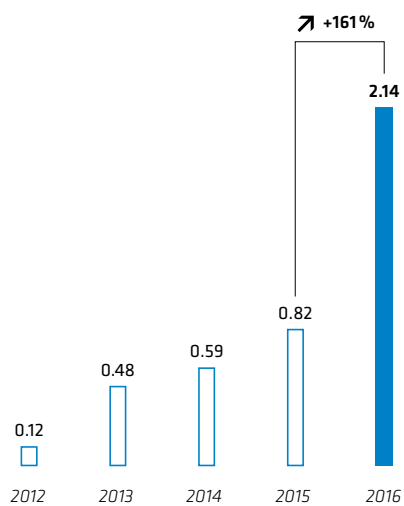
EBITDA DEVELOPMENT (PER QUARTER)

in EUR k



EARNINGS PER SHARE

in EUR



FOREWORD BY THE EXECUTIVE BOARD

*Dear Shareholders, Employees and
Friends of the Company,*

We plunged into 2016 with ambitious, substantive objectives and economic targets. Together with all of our employees, we are therefore pleased and proud to report in this, the company's 20th anniversary year, on adesso's extremely dynamic and successful development in 2016.

We achieved the economic targets for sales and the operating result, which were raised during the year, and exceeded all key figures from 2015. Sales growth of 33 % to EUR 260 million and another disproportionate increase in the operating result EBITDA of 61 % set new records. Based on these developments, the Executive Board and the Supervisory Board have proposed to further increase the dividend by 20 %, following the aim of a steadily rising dividend payout to our shareholders.

In addition to all of the strategic considerations and our focus on promising areas of business, we firmly believe that corporate culture, how people interact with one other, the desire and will to look for new opportunities and giving utmost priority to sustainable customer relationships are the cornerstones of success. They have been since the company was founded 20 years ago, and an important part of our work is to safeguard them for the future. These cornerstones and our corporate culture attract the best and most agile employees, who are essential to breathing life into our strategy and spurring growth. We invite you to read more about our view of the cornerstones of success in this Annual Report and to celebrate adesso's 20th anniversary with us.

As important as it is to look up now and again to survey the big picture, the details of everyday work are just as crucial. In the end, they sum up to success: Thanks to focused and effective recruiting efforts and an exceptionally low fluctuation rate across the industry, the number of employees rose by 19 % when excluding company acquisitions. Sales with new and existing customers increased in all industries. We successfully expanded the business with in|sure, the integrated product family for insurance companies. And we gained another key customer by securing Generali Deutschland, which is the second-largest primary insurance group in the German market. Employees of adesso insurance solutions, with a team that is now more than 100 people strong, have completed the important health insurance sector, as planned. In addition, the bid for developing the other sector solution for car insurance was successful. Content Solutions increased earnings once again thanks to continued efforts to tap into the US market. Plans to further significantly expand the network of adesso offices have been put into motion. Locations in Aachen, Basle, Essen, Hannover and Nuremberg are going to open in order to serve a growing number of customers at the local level and to locally recruit and retain new employees.



Christoph Junge, Andreas Prenneis, Michael Kenfenheuer (left to right)

adesso is using acquisitions to expand its business and customer portfolio, increase its local footprint and recruit entrepreneurial talent. The takeovers of smarthouse, SP Integration and flitcon have enriched adesso in a number of ways. smarthouse is a highly efficient, innovative and international provider of financial information systems, which provides adesso with even greater direct access to the relevant technical departments in the field of banking. This, paired with adesso's excellent positioning with respect to the IT departments at banks, creates additional potential. The acquisitions of SP Integration and flitcon represent another model: well-positioned companies that, as smaller specialists which would have a more difficult time by themselves capitalising on opportunities for growth than with adesso and the broader market access this collaboration ensures, are looking to join forces and merge with adesso AG. The sellers assume key roles within our organisation. We believe this is a model with a future. By acquiring SP Integration, we have gained important expertise and customer relationships in the greater Frankfurt area, and with flitcon, we have added a specialised consulting and development firm for business intelligence and big data.

Valued shareholders, when we look ahead, we see high demand continuing for adesso services and solutions, which will be driven by digitalisation, e-commerce, desired efficiency gains through the intelligent use of IT, as well as the need for modernising large portions of existing software systems. As in many of the previous years, anticipated market growth is well above the forecast for the overall economy. And with regard to the cornerstones of adesso's success, we aim to continue growing significantly faster than our competitors. At the same time, we do not intend to achieve this at the expense of earnings. For 2017, we therefore expect sales growth to EUR 270 million and EUR 300 million and EBITDA ranging from EUR 23 million to EUR 27 million.

We sincerely thank all of our employees, who do their part every day to ensure our success and provide our customers with the kind of support that keeps them coming back to adesso time and again. And we would all like to thank you, our customers, for placing your trust in us and giving us the opportunity to repeatedly prove that the cornerstones of adesso's success also benefit –and are valued by –you.

Dortmund, April 2017

The Executive Board



Michael Kenfenheuer



Christoph Junge



Andreas Prenneis

REPORT BY THE SUPERVISORY BOARD



Prof. Dr. Volker Gruhn

Advising and Monitoring of Management

In financial year 2016, the Supervisory Board continued to constantly monitor the management activities of the Executive Board in accordance with legal provisions and the company's bylaws, and advised it in all important decisions in the management of the company. In compliance with its duty to provide information in a timely and comprehensive manner, the Executive Board informed it regularly, in written and oral form, about the situation and the course of business development at the company and its key subsidiaries, as well as about incidents and measures that were relevant for the company. The Supervisory Board received documents about the asset, financial and earnings situation for this purpose on a quarterly basis. Additionally, it received detailed information from the Executive Board about relevant business transactions.

The Supervisory Board is thoroughly convinced that the operating and financial risks are hedged through organisational and internal approval processes. A sound reporting system and an internal control system exist for the company and the Group, both of which are subject to continued further development. The Supervisory Board was informed at regular intervals about the development of particularly relevant projects and the development of the Group companies.

The members of the Supervisory Board had sufficient opportunity at all times to critically examine the reports and proposals presented by the Executive Board and contribute their own suggestions. In particular, the Supervisory Board discussed in depth all business transactions that were of significance for the company on the basis of written and oral reports by the Executive Board. The Supervisory Board issued its consent to individual business transactions to the extent required by the law, the Articles of Association or the bylaws. Between the board meetings, the Supervisory Board Chairperson additionally remained in close and regular contact with the Executive Board to exchange information and ideas, and to keep abreast of key developments.

Subjects of the Supervisory Board Meetings

Four regular Supervisory Board meetings took place in financial year 2016. All members of the Supervisory Board participated in at least more than half of the meetings. All meetings dealt with the current asset, financial and earnings situation, as well as key questions pertaining to the business development, strategy, risk management and controlling, and personnel development and policies at the company and its key subsidiaries. They also discussed important individual business transactions and projects. In addition, current individual topics were discussed in regular meetings between the members of the Executive Board and the Chairperson of the Supervisory Board. Events of extraordinary significance for the situation and development of the adesso Group, as well as business transactions requiring the approval of the Supervisory Board, were always discussed immediately. The Supervisory Board formed no committees. In this context, the Supervisory Board granted its approval in the year under review for the two increases in share capital decided on by the Executive Board under partial utilisation of authorised capital and under the exclusion of shareholders' subscription rights. A portion of the purchase price for the acquisition of all shares in Arithnea GmbH, completed ahead of schedule, was financed through the issue of 41,715 new shares. To this end, the Supervisory Board granted its approval in late January 2016 for the increase in share capital against contributions in kind decided on by the Executive Board. In order to strengthen the equity base and to finance further growth, the Supervisory Board granted its approval in mid-December 2016 for the Executive Board's resolution to increase the company's share capital by around 5%. As part of a cash capital increase under exclusion of subscription rights, 293,687 new shares were placed with institutional investors in Germany and abroad through an accelerated bookbuild. The placement was significantly oversubscribed.

In March 2016, the focus of the first meeting in the year under review was on the Annual Financial Statements for adesso AG and the Consolidated Financial Statements for financial year 2015. The individual companies were presented as part of a detailed analysis. Participants of the meeting examined deviations from the previous year and from the planned targets, and various items from the income statement were explained. Effects from the Group were described in particular during the presentation of the separate financial statements for adesso AG; these effects were responsible for lower EBT and net income than in the previous year, despite a further rise in EBITDA. In the balance sheet analysis, the Chief Financial Officer explained the strong rise in intangible assets and the decrease in the equity ratio. The key items from the Risk Report were presented and discussed.

The Supervisory Board acknowledged and agreed with the auditor's reports, approved the Annual and Consolidated Financial Statements for financial year 2015, and adopted the Annual Financial Statements. In addition, the Report by the Supervisory Board for financial year 2015 was approved.

Participants of the meeting also decided to follow the Executive Board's suggestion to propose to the Annual Shareholders' Meeting the payment of a dividend of EUR 0.30 per share entitled to dividend distribution, amounting to a distribution of EUR 1,739,916.00. The agenda and proposed resolutions for the Annual Shareholders' Meeting were discussed and adopted. The Corporate Governance Report presented was also adopted.

The Executive Board then presented the earnings plans for the individual companies for 2016, which were adopted after extensive discussion by the Supervisory Board.

As part of M&A activities, reports were made on smarthouse media GmbH from Karlsruhe and the progress of talks regarding adesso's possible acquisition of a company, and subsequently discussed. The Supervisory Board collectively signalled its support in the event that the checks go well and in the event that it is possible to reach a reasonable deal for adesso during the negotiations of the purchase agreement.

The members of the Supervisory Board convened for a second meeting on the day of the Annual Shareholders' Meeting in late May. At this meeting, the Chief Financial Officer presented the interim financial statements as at 31 March 2016 for adesso AG and the adesso Group. During the subsequent analysis, each Group company was addressed individually in depth, concentrating on key points. Based on the extensive report from the Executive Board, the Supervisory Board discussed the Group's economic situation and further strategic development.

The third Supervisory Board meeting in September focused on the interim financial statements for the first half of the year. After the figures were presented and discussed, participants of the meeting addressed various developments in the core industries and looked at earnings performance from a number of different angles. They subsequently touched upon various Group companies and their earnings performance. This was followed by an analysis and discussion of several key figures from the balance sheet. In light of borrowing external capital to finance corporate acquisitions in 2015 and 2016, the Supervisory Board broached the current level of gearing and its appropriateness with regard to expected cash flow. The Supervisory Board determined its appropriateness, given net debt that is less than twice the amount of EBITDA.

At the same meeting, the smaller additional acquisitions of SP Integration GmbH and flitcon GmbH, which were completed in the first half of September and coordinated with the Supervisory Board in advance, were the subject of discussion. The plans for integrating these companies into the Group were presented as well.

The Group's operational performance and further strategic development with particular regard to the individual companies were once again a key focus at this meeting. The participants discussed the development of subsidiary adesso Austria, which is only coming along gradually, and the structural need for growth to make profits on a sustainable basis. It was shown that the measures adopted in 2015 for increasing earnings at e-Spirit AG –also designed to serve as the basis for further investments in internationalisation –are having success. Discussion also touched on the development of adesso insurance solutions GmbH. The Supervisory Board deemed the plans to increase the stake in PSLife Consulting GmbH from 70 % to 100 % and to subsequently merge the company with adesso insurance solutions GmbH as a reasonable course of action.

Finally, participants of the meeting discussed the background of the German Auditor Oversight Reform Act (Abschlussprüferaufsichtsreformgesetz –APAReG) and the German Audit Reform Act (Abschlussprüferreformgesetz –AReg) which went into effect on 17 June 2016, and the most relevant changes that these laws entail for adesso. No formal committee was created.

At the fourth Supervisory Board meeting, held in December, the Chief Financial Officer presented the interim financial statements as at 30 September 2016 for adesso AG and the adesso Group. Discussion included earnings and margin drivers, as well as the negative effect on earnings due to an additional payment as part of the phantom share programme, which was necessary due to the strong rise in share price. The Executive Board also provided an explanation of the write-downs, especially from purchase price allocations, and the lower tax rate. Focus then shifted to earnings performance at the individual companies on a quarterly basis, including comparisons with figures from the previous year and defined targets. Several key figures from the balance sheet and the cash flow statement were also analysed and discussed, in particular gearing and the increase in working capital. In addition, the Executive Board presented the status of the monthly financial statements for October and November, as well as the current business situation of the individual Group companies.

The Executive Board reported on the 2017 planning for various individual companies and explained sales processes, concepts and expected further development at the companies.

The Executive Board presented UnitCon GmbH from Darmstadt as another potential M&A idea and explained the company's range of services, the joint strategy and industry rationale. The Supervisory Board took positive note of this.

As in previous years, current developments pertaining to corporate governance were also a subject of discussion. Participants at this meeting resolved to update the Declaration of Conformity with the German Corporate Governance Code.

2016 Annual Report

DOSU AG Wirtschaftsprüfungsgesellschaft, Dortmund, the auditor elected by the Annual Shareholders' Meeting, has audited the Annual Financial Statements and the Management Report of the parent company (adesso AG), the Consolidated Financial Statements and the Group Management Report for financial year 2016 and has issued an unqualified audit opinion.

The responsible auditor from DOSU AG Wirtschaftsprüfungsgesellschaft explained the key findings of his audit and was available to the Supervisory Board for questions. He informed the Supervisory Board about services performed by DOSU AG Wirtschaftsprüfungsgesellschaft in addition to the audit. The Supervisory Board thoroughly examined the Annual Financial Statements and Management Report of adesso AG, the Consolidated Financial Statements and Group Management Report as at 31 December 2016, as well as the Executive Board's proposed appropriation of profit. To do so, the Supervisory Board consulted the auditor's reports. The Supervisory Board has agreed with the findings of the audit of the Annual Financial Statements and of the Management Report of adesso AG, as well as of the Consolidated Financial Statements and Group Management Report, and has approved the Annual Financial Statements and Consolidated Financial Statements for financial year 2016.

The Annual Financial Statements have therefore been approved (Section 172 of the German Stock Corporation – Aktiengesetz, AktG).

The Supervisory Board concurs with the Executive Board's proposed appropriation of profit.

The Supervisory Board would like to thank the members of the Executive Board, as well as all employees of adesso AG and its affiliated companies, for their extraordinary commitment and their responsible, dedicated work in the past financial year.

Dortmund, 18 April 2017

On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to read 'Volker Gruhn', written in a cursive style.

Prof. Dr. Volker Gruhn, Chairperson

INVESTOR RELATIONS

The Share

The Trading Year 2016 – General Conditions

The DAX, which is Germany's leading stock market index, closed 2016 at 11,481 points, marking a gain of 7 %. It had managed to increase the previous year by 10 %, posting growth that just broke into the double digits. While the MDAX performed considerably better than the DAX in 2015, it also closed 2016 with an increase of 7 %. The long-standing performance frontrunner TecDAX brought up the rear this time and was even down 1 % on the previous year at the end of 2016. However, the development of these indices over the course of the year was once again volatile. While the DAX staged a rally and set a new all-time high in early 2015, highly subdued sentiment on global stock markets with rapid losses in some cases marked the first several months of 2016. New concerns about the weaker economic outlook in China and its negative effect on the world economy, as well as the continuing downward oil price trend, created uncertainty and dampened the expectations of investors. The DAX and TecDAX lost 19 % by mid-February, while the MDAX gave up 15 % compared to the close of 2015, each hitting their low for the year. The DAX stood at 8,753 points at the close of trading on 11 February 2016, and had to face its weakest start to the year in almost 50 years. The benchmark indices recovered noticeably from the second half of February, despite recurrent major setbacks. The disorientation reached its provisional high point in June in view of the referendum on the United Kingdom remaining in the European Union. The narrow victory for Brexit came as a surprise to many investors and sent share prices plummeting yet again. At the time, the indices were trading above their previous annual low from February, but had forfeited a great deal of their gains for the period. However, uncertainty on the European stock markets over the impact of the Brexit referendum only put a brief damper on investor sentiment. Stock markets began to stage a sustained recovery already in July, which enabled first the MDAX, then the DAX and finally the TecDAX at some delay to once again reach the levels they were trading at from the beginning of the year. The belief that Brexit's economic impact would stay within manageable limits took hold on the trading floor. However,

the further development of the selection indices also remained in check, especially as no additional growth momentum was to be had from pan-European underperformance and the failure of the forecast global economic upturn to materialise. The scepticism of investors prevented a further rise on the German benchmark index and a lasting return to positive performance for the year. Only the conclusion of the presidential election in the United States in November sparked a lasting resurgence on the stock markets once the initial shock over the surprising outcome for many investors had worn off. Pulled along in the wake of US indices, the DAX managed to catch up considerable ground and closed the year with a gain of 7 %.

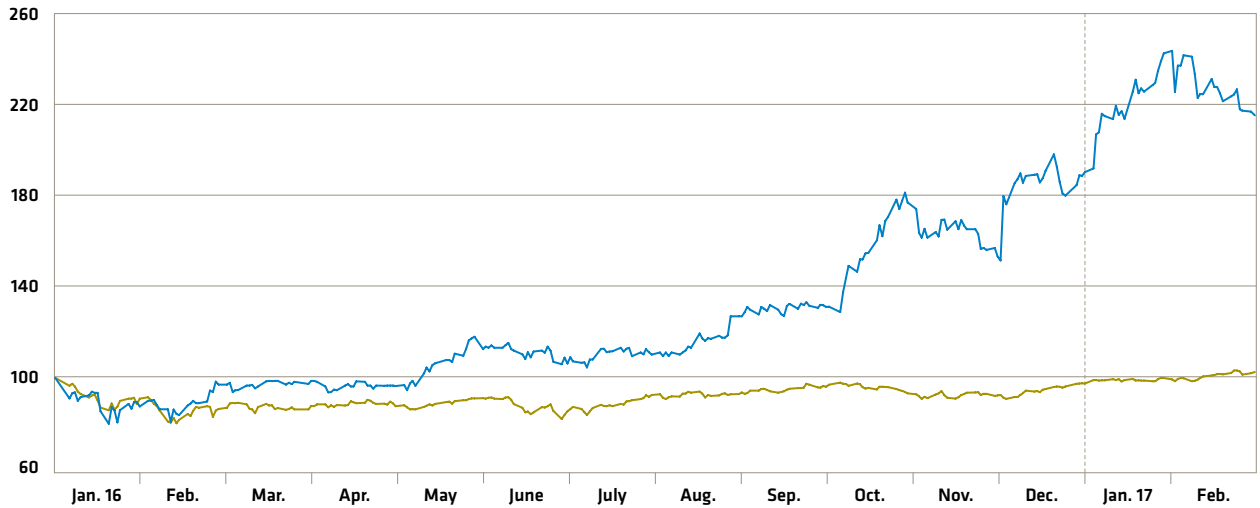
Development of adesso Shares

adesso shareholders once again have cause to be extremely satisfied with the development of the share price in 2016. The share closed up 91 % on the previous year, and its value nearly doubled within twelve months with a closing price of EUR 46.00. At 92 %, the share outperformed the TecDAX reference index even more considerably in 2016 than in previous years. The adesso share reached a new all-time high on 19 December 2016 at EUR 47.91, before closing trading that same day at the level of the previous year's high with a price of EUR 47.88. However, the adesso share price initially fell to EUR 19.47 in early 2016 as a result of generally weak trends on the stock market, hitting its annual low as based on closing price on 18 January 2016. Until mid-February, the share price developed largely in line with the TecDAX. In the second half of the month, the share picked up substantial momentum and left the index behind it following adesso's presentation at a capital markets conference and in anticipation of strong figures from the final quarter of the year. The ad hoc releases on the preliminary year-end figures and on adesso's having exceeded the annual forecast (26 February 2016), as well as the increased dividend proposal (17 March 2016), lifted the share price back to its level from the start of the year. The TecDAX, however, only recovered enough to reach -11 % by the end of the quarter. Without further impetus, the adesso share trod water until into May, accompanied

DEVELOPMENT OF THE ADESSO SHARE COMPARED TO THE TECDAX

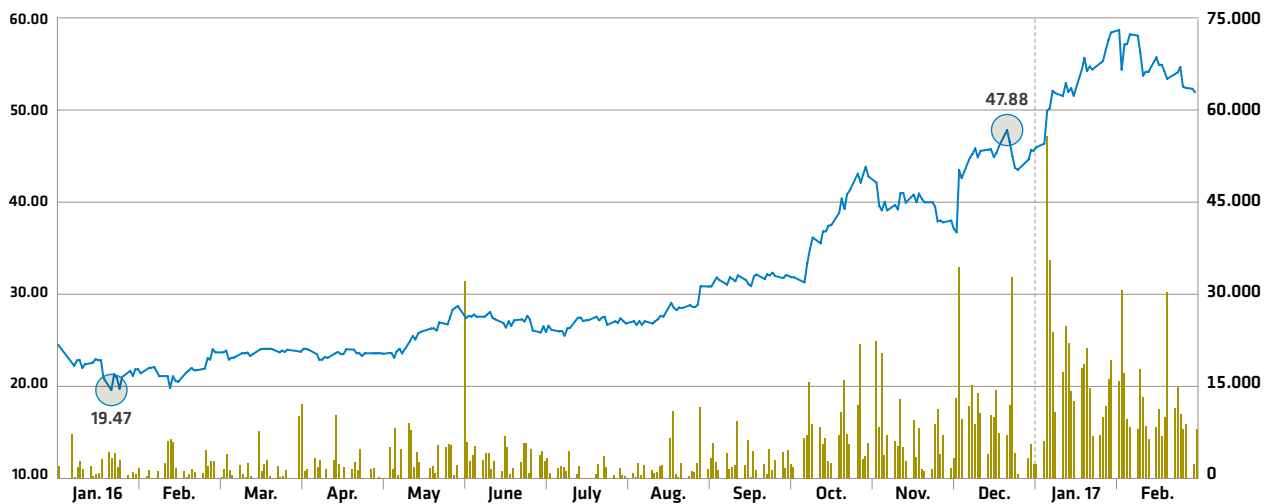
indexed

■ adesso AG ■ TecDAX



DEVELOPMENT OF THE ADESSO SHARE AND TRADING VOLUMES (XETRA)

in EUR / trading volumes in shares



by a slight rise in trading volume. In May, the share price received another powerful boost, accompanied by a leap in trading volume, due to the announcement of a strategic acquisition (4 May 2016), the publication of good quarterly figures (10 May 2016) and their presentation at another conference, and the entry of additional institutional investors. As a result, the share price rose by 18 %, from EUR 23.45 to EUR 27.60, in May alone. Due to profit taking and the general market trend, the share fell to EUR 26.50 by the end of the first half of the year, but held its significant 23-percentage point lead over the benchmark. At the beginning of the second half of the year, European stock markets continued to be dominated by uncertainty over the impact of the Brexit referendum and remained volatile for the time being. Sustained recovery began from 7 July 2016, which continued until mid-August, or in the case of TecDAX, until into October, even if recovery was somewhat less dynamic. As a result, on the final day of trading in July, the benchmark indices were all trading once again above their levels prior to the Brexit vote on 23 June 2016. By mid-August, the DAX had made up its losses sustained since the beginning of the year, and the MDAX posted a gain of 5 %. The TecDAX still faced a loss of 5 % at this point. The adesso share only followed July's upward trend, coupled with low trading volume, in the first days, allowing the indices to make up ground. However, it maintained its leading position, extending its lead to 14 % through 12 August 2016. While the DAX and MDAX subsequently began trading laterally into autumn and the TecDAX only very gradually began to climb out of loss territory, development of the adesso share price continued to pull away from general market performance following the publication of the strong figures for the first half year. As a result of the preliminary half-year figures communicated initially in an ad hoc release on 15 August 2016, the share jumped in trading by another 6 percentage points on the day the release was published. Due to the publication of the complete report, in-depth press coverage, recommendations in several financial media outlets to purchase the adesso share, and an analyst's upward revision of the target price, the share price increased to EUR 31.79 by the beginning of September. This corresponded to a 32 % rise compared to the previous year's closing price. Without additional momentum, the share maintained this price level until the end of the third trading quarter. The DAX and TecDAX closed at -2 % on 30 Sep-

tember 2016, while the MDAX saw slight growth of 4 %. The publication of a new baseline study on adesso AG as part of being included in the coverage by Warburg Research provided the adesso share with another considerable boost in the fourth quarter. The fair value of EUR 47.00 cited in the study, which was much higher than analysts' previous consensus, caused a number of institutional investment clients of the bank, in addition to other investors, to purchase adesso shares for the first time or expand their positions. Trading volume in October set a provisional record at over EUR 10 million and sent the share climbing to EUR 43.85 through 27 October 2016 (+82 % compared to the previous year's closing price). Against the backdrop of continuing high trading volumes, the share fell to EUR 36.70 by the end of November due to profit taking following the considerable rise in share price. Volatile development in this phase, sharply contrasted with jumps in share price at times and high trading volumes, reveals that some investors used the return to lower prices to purchase shares. On 30 November 2016, the preliminary Q3 results –including an upward revision of the forecast –published in an ad hoc release following the close of trading on the Xetra provided the stimulus for a prompt jump in share price back to the level from October. The share price rose by 19 % to EUR 43.49 in just one day of trading. Driven by hefty upward revisions to the target price made by analysts and financial media outlets on the back of the strong third quarter, the share price climbed further to EUR 45.78 on 13 December 2016, before the share capital increase in exchange for cash contributions by approximately 5 %, which had been announced in an ad hoc release, was placed successfully within a matter of hours on 14 December 2016 with international institutional investors. adesso's highest number of investor meetings to date in a given year at conferences and roadshows also helped contribute to this. adesso's equity position, which this move bolstered, and the announcement of the company's intention to appropriate funds for further growth lifted the share price to an annual high and its previous record high as based on closing price of EUR 47.88. This corresponded to roughly a doubling in share price since the close of the year for 2015. By the end of 2016, the share had fallen to its year-end price of EUR 46.00 due to occasional profit taking coupled with significantly lower trading volumes. As a result, the adesso share maintained a considerable gain in share price of 91 % for the year.

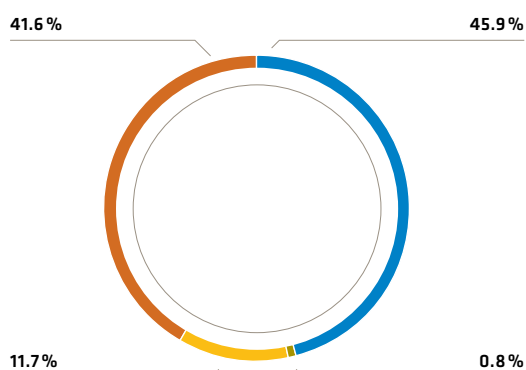
The following table shows the most important share data for 2015 per quarter:

SHARE DATA

	Q1	Q2	Q3	Q4	2016
Price at the end of the period	24.00	26.50	31.81	46.00	46.00
Development (in%)	0	10	32	91	91
Development of TecDAX (in%)	-11	-13	-2	-1	-1
Highest price in EUR	24.00	28.64	32.30	47.88	47.88
Lowest price in EUR	19.47	22.78	25.42	31.25	19.47
Volatility (90 days at the end of the quarter in%)	37.9	21.0	20.5	33.8	33.8
Trading volumes in shares per trading day	2,824	5,040	3,106	12,463	5,835
Trading volumes in EUR per trading day	62,649	130,459	92,344	516,532	199,489
Number of shares	5,841,435	5,873,736	5,873,736	6,167,423	6,167,423
Market capitalisation in EUR million	140.2	155.7	186.8	283.7	283.7

SHAREHOLDERS

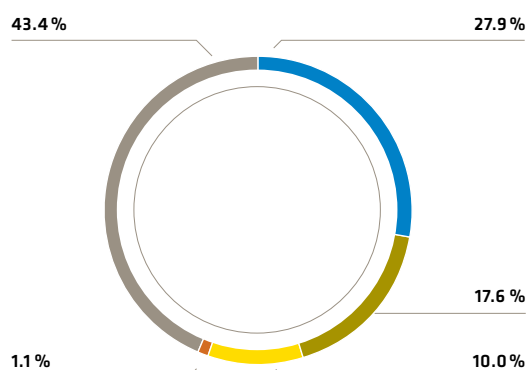
in %



■ Supervisory Board ■ Executive Board ■ Institutional Investors ■ Other

SHAREHOLDER STRUCTURE

in %



■ Prof. Dr. Volker Gruhn (Setanta GmbH)* ■ Rainer Rudolf*
 ■ Ludwig Fresenius ■ Lockup ■ Freefloat
 * Supervisory Board

The market capitalisation of adesso thereby increased sharply in 2016 to EUR 283.7 million compared to EUR 139.6 million at the end of 2015.

In 2016, there was a noticeable decrease in share trading again, after overall trading volumes of all shares on the spot market, including Tradegate, increased by 26.5 % in 2015. The volume decreased in the reporting year by 15.9 % to EUR 1.2 trillion. Investors continued to focus on large caps. Approximately 92 % of the total volume was turned over with securities from the selection indices, even if that figure decreased by 1 % year on year in favour of the other shares. Against the backdrop of lower trading volumes overall, turnover with securities not listed in a selection index saw a disproportionately lower decline by 11 %.

Following a considerable increase of 77 % in the previous year, the trading volume of the adesso share rose even more sharply in 2016 by 237 %, from EUR 15.1 million to EUR 50.9 million. Almost two-thirds of that volume was generated in the last quarter. December was the best trading month at EUR 12.9 million. Trading in July was a mere EUR 1.0 million. An average of 5,835 shares changed ownership per trading day in 2016. This is approximately 81 % more than in 2015. On average, the number of adesso shares traded per month amounted to 123,987. In the months of October, November and December, more than 200,000 shares were traded each month – the largest number was 288,526 shares in December. Around 71 % of the 2016 trading volume used the Xetra platform, a decrease of 3 percentage points from 2015.

BASIC SHARE DATA

			2016	2015
ISIN Code	DE000A0Z23Q5	Number of shares at the end of the year	6,167,423	5,799,720
WKN (national security identification number)	A0Z23Q	Xetra closing price at the end of the year (EUR)	46.00	24.07
Symbol/Code	ADN1	Market capitalisation at the end of the year (EUR million)	283.7	139.6
Reuters Instrument Code	ADNGk.DE	Earnings per share (EUR)	2.14	0.82
Bloomberg Symbol	ADN1:GR	Cash flow per share (EUR)	2.51	2.91
First day of trading	21.06.2000	P/E ratio	21.5	29.4
Trading platforms	Xetra	Price/cash flow ratio	18.3	8.3
Market segment	General Standard	Dividend per share	0.36	0.30
Number of shares	6,167,423	Return on dividend	0.8 %	1.2 %
Currency	EUR			
Nominal value	No share with nominal value: EUR 1.00 (mathematically)			
Share capital	6,167,423 €			
Voting rights per share	1			
Index	CDAX, DAXsector All Software, DAXsubsector All IT-Services, General All-Share, General Standard Index			
Reporting standard	IFRS			
End of financial year	31.12.			

EMPFEHLUNGEN IN FINANZMEDIEN/ANALYSTENBEWERTUNGEN

<i>Date</i>	<i>Subject/ Recommendation</i>	<i>Evaluation</i>	<i>Source</i>
2017-03-09	Favorites for conservative investors – shares in the focus	The IT service provider adesso is an earnings machine. Current rate: 53.99 € / Rate potential: 63.00 €.	Effecten-Spiegel
2017-02-14	Buy	Target Price: EUR 63.00	Warburg Research
2017-01-25	adesso continues to grow after capital increase	[...] The EPS is expected in 2017 in the range of 2.15 euros. This results in a price ratio of 26. Since the growth rate should not end in 2017, this value is also justified. Buy up to 56 euros. Stop high at 45 euros.	Platow Börse
2017-01-13	Top tip: Good insurance	[...] Thanks to the high capacity utilization, the increasing number of licenses and maintenance revenues, adesso remains on the fast lane. The enormous potential of the new software solution in sure, triggered by the modernisation needs of domestic insurance companies, creates additional fantasy [...] This creates the basis for a successful company anniversary and a continuation of the upward movement. Target: 72,00 € / Stop: 41,00 €	Der Aktionär
2016-12-22	Sufficient potential so that the course may rest	[...] Since end of August 2016, when the price was noted above € 30, profit dynamics also led to very high KGV and KBV values, which suggest that the profit increase will continue with annual rates of more than 20%. [...] If this works out, the stock exchange would grant higher rates. Until then, a consolidation might be likely.	Nebenwerte Journal
2016-12-07	Buy	[...] with the concept and implementation of IT-supported business models and business processes, adesso is positioned very well to meet the customer needs and to maintain its growth course. Short dated there may be a need for consolidation, but from an operational perspective there are strong reasons to adhere to the long-term investment. Target price/Stop 51.10 €/34.10 €	Börse Online
2016-12-07	Buy	Target Price: EUR 52.00	SMC Research
2016-12-02	Buy	Target price: EUR 50.00	DZ BANK
2016-12-01	Buy	[...] In the short term, the small cap has yet to digest the leap in price resulting from disclosure of the Q3 figures. Subsequently, the adesso share should go further towards Warburg's price target of 47 euros.	boersenge-fluester.de
2016-08-08	adesso: Prognosis too conservative?	[...] At the stock exchange adesso is worth about Euro 160 million. If we take for granted an EBITDA up to 25 million euros in 2017, the EBITDA-Multiple merely makes up over 6. That does not seem to be too expensive. Since a few months the share consolidates in a rank between 25 and 27 euros. The share should see a reaction up soon. The share is worth buying! [...]	Die Vorstandswoche
2016-06-03	adesso forces the product business	Conclusion: The share stays on the fast lane. Prior Rating: **** of maximum five.	Prior Börse

The positive sentiment on global stock markets in December gave way to a wait-and-see approach among investors in early 2017 due to a number of unanswered questions and a lack of trendsetting decisions. This resulted in a sideways trend on the markets. In particular, the inauguration of the US president, further developments regarding Brexit and central banks' interest rate decisions were the focus of intense observation. Regardless of this restrained environment, the adesso share price rose on the back of reports of orders to a new record high as based on closing price of EUR 58.80 on 30 January 2017. During the course of trading that same day, investors paid up to EUR 59.24 for adesso shares. Compared to the closing price for 2016, the share price had increased by 28 % since the beginning of 2017 due to the relatively high trading volumes. By contrast, the selection indices were up by just 2 %. Due to profit taking and trading that had begun to flag somewhat, the adesso share was unable to continue significantly outperforming the selection indices through the end of February. While the indices began seeing a gradual upward trend starting in the second week of February, the price of adesso shares experienced considerable downward slides at times. By 28 February 2017, the price had decreased almost 12 % from the high in January 2017. The share closed trading on the last day in February at EUR 51.99. This corresponds to a gain of 13 % compared to the closing price for 2016 and outperformance of the TecDAX to that date by 8 percentage points.

Capital Measures

Share capital increased by 41,715 shares in the reporting period to EUR 5,841,435 as a result of a capital increase in exchange for contributions in kind in March 2016. In June 2016, total voting rights and share capital rose by another 32,301 shares to EUR 5,873,736, after stock options from the company's stock option programme were exercised. Share capital increased one final time in December 2016 as part of a capital increase in exchange for cash contributions by 293,687 shares to EUR 6,167,423. adesso AG collected gross proceeds of around EUR 12.5 million from the cash capital increase. In total, share capital increased by 6.3 % in 2016, from EUR 5,799,720 to EUR 6,167,423.

Dividends

The Annual Shareholders' Meeting held on 31 May 2016 approved the proposal by the Supervisory Board and Executive Board on the appropriation of

net income and distributed a 20 % higher dividend of EUR 0.30 per share, which corresponds to a payout ratio of 37 % based on earnings per share (previous year: 42 %). The dividend was credited to shareholders' custodian accounts from 1 June 2016. The dividend yield amounted to 1.2 % based on the 2015 closing share price.

Shareholder Structure

The largest shareholder of adesso AG, with 27.9 % of the voting rights, is Prof. Dr Volker Gruhn, who holds his shares indirectly via the Setanta GmbH investment company. Prof. Dr Gruhn is the Chairperson of the Supervisory Board of adesso AG and its co-founder. The other co-founder, former member of the Executive Board Rainer Rudolf, who has been a member of the Supervisory Board since 2013, holds the second-largest share of the voting rights – 17.6 %. adesso AG's Supervisory Board holds 45.9 % of the company's share capital, while its Executive Board holds 0.8 % of the share capital. The majority of the assigned voting rights, 76.3 %, are held by private investors. Not least due to the capital increase in exchange for contributions in kind placed with international institutional investors in December 2016, the proportion of institutional investors increased further to 11.7 %. The remaining 12.0 % of the company's shares cannot be clearly assigned to a specific class of investor. Due to agreements as part of acquisition proceedings, 1.1 % of the shares are subject to a contractual lock-up. According to Deutsche Börse AG's definition, the free float is 43.4 %. The considerable year-on-year increase is due to the higher number of overall shares as a result of capital increases in 2016 within the scope of authorised capital, as well as the exercising of stock options as part of the stock option programme. This resulted in the passive decrease of a shareholder's voting rights, which had previously been allocated to non-free float.

Investor Relations Activities

Our investor relations activities are dedicated to active communication and ensure that our business activities are transparent. We not only strive to offer ultimate transparency and readily available access to information, but also actively seek dialogue with institutional and private investors, analysts and the financial press. In doing so, we regularly present the development of the company in the course of one-on-one meetings or roadshows. We also take advantage of numerous investor conferences to present adesso AG and enhance our contact to the capital market.

adesso AG was presented at the German Equity Forum in Frankfurt in 2016, as well as at the DVFA Spring Conference (Deutsche Vereinigung für Finanzanalyse und Asset Management), which was also held in Frankfurt. Furthermore, the company was presented at five additional conferences and investor events in Berlin, Frankfurt, Munich and Paris. A roadshow was also held in London with investors. The financial calendar for 2017 once again plans for a similarly high number of investor conferences. In addition, we published information relevant to the capital market and presentations on our company regularly during the financial year. Interested capital market participants have access to comprehensive information in the “Investor Relations” section of the company website, which goes far beyond the mandatory disclosures. The menu item “Questions for the CFO” is a service that permits direct dialogue with the responsible Executive Board member. Distribution lists for mailing or electronically distributing company press releases and reports allow us to actively and automatically supply interested parties with the latest information on adesso AG. More than 460 individuals and companies have already registered to take advantage of this service. Especially for analysts, but also for all other interested investors, adesso offers an investor folder for download which, in addition to the regular publications for the past twelve months, includes a multi-year overview of the income statement and the most important performance figures on a quarterly and annual basis, as well as the consolidated and interim half-yearly financial statements in Excel format. adesso was analysed regularly in 2016 by various analysts. Updates to analyst studies are offered on the adesso website. adesso’s Annual Report 2015 received a Gold Award at one of the largest annual report competitions. The jury ranked it as the second-best report in its size category and industry.

adesso AG is a member of the German Investor Relations Association e.V. (DIRK).

Analyses/Research

Since September 2016, adesso AG has been relying on the support of Warburg Research, one of the most important analysis firms in Germany, to further expand its capital market relations. The firm published a baseline study on adesso AG in October 2016 as the foundation of this collaboration. Since then, the objective has been to track adesso AG’s further devel-

opment as part of regular research comments. Warburg Research makes the analyses it prepares available in German and English to the international institutional investors of the Warburg Group, who are advised, together with the Equity Sales division of the renowned, independent private bank M.M. Warburg & CO. M.M. Warburg & CO also assisted with the successful placement of adesso AG’s cash capital increase in December 2016.

Furthermore, additional assessments are published by the independent analysts of SMC, who have been tracking adesso’s development since May 2013. As part of the merger of WGZ BANK AG with DZ BANK, the new financial institution operating under the name of DZ BANK has continued the coverage of adesso AG from August 2016. The latest analysis was published on 2 December 2016 with a “buy” rating and a price target of EUR 50.00. With a change of analyst, a new DZ BANK baseline study on adesso AG will appear in spring 2017. WGZ BANK had assessed adesso AG’s development since May 2012 as part of regularly appearing analyses. The latest updates from the other analysts were published in February 2017 and December 2016. Both gave adesso’s shares a “buy” rating (Warburg Research, 14 February 2017: price target EUR 63.00 / SMC Research, 7 December 2016: price target EUR 52.00).

Since the beginning of 2011, trading of the adesso share has been supported by Oddo Seydler Bank AG (formerly: Close Brothers Seydler Bank AG), the designated sponsoring market leader.

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HIGHLIGHTS 2016

January

adesso continues to grow with hosting and application management services

At the beginning of 2016, adesso hosting services GmbH (today renamed adesso as a service GmbH) announces strong growth for the previous year with a continuing trend. This company was founded in 2013 and has since been providing hosting and cloud services for the secure operation of customised business-critical applications. One essential driver of growth for the financial year 2015 was adesso hosting services' close collaboration with other companies in the adesso Group, as a result of which the company was able to announce record sales of EUR 1.5 million.

adesso Group continues to expand Industry 4.0 expertise

In February, adesso announces it has taken two steps to strengthen its problem-solving expertise in the growth area Industry 4.0/Cyber-physical Systems. On the one hand, it has acquired a 24 % share in the Dortmund-based start-up com2m GmbH, which is a specialist in solutions for machine-to-machine communication (M2M). This company has its own platform that enables efficient digital networking between machines and devices. On the other hand, adesso in Austria is able to gain Prof Dr Schahram Dustdar as an advisor – an undisputed expert on the topic of Industry 4.0.

March

Another dividend increase recommended after record results

In March, adesso confirms that it has exceeded the earnings forecast previously announced with the presentation of the consolidated financial statements. The company has achieved new record values with sales of EUR 196.4 million and an operating result (EBITDA) of EUR 14.3 million. The Executive Board and the Supervisory Board announce a 20 % dividend increase to EUR 0.30 per share eligible for dividends.

adesso is Germany's best employer among the major companies in the information and telecommunications sector

The renowned research and consultancy institute, Great Place to Work, announces that adesso is the winner in the category of companies with more than 1,000 employees in its industry-specific benchmark survey. This puts adesso AG in first place in its size category, making it the best employer in the information and telecommunications sector for the first time. adesso had already been included in the group of the best employers together with other outstanding companies when it had participated in the past.

April

adesso sets up Academic Advisory Board

In order to strengthen the transfer of knowledge between research and practice, adesso sets up an Academic Advisory Board. This new committee comprises managers and the chairman of the Supervisory Board of adesso AG, as well as renowned professors from six different institutes of higher learning. Its goal is to establish a reciprocal exchange of information about current research and technological topics. The specific measures the Academic Advisory Board will take include setting up closer collaborations and participating actively in research projects.

May

adesso takes over Smarthouse Media GmbH

adesso makes a promising acquisition in May with the full takeover of Karlsruhe-based Smarthouse Media GmbH. This company complements adesso's existing banking portfolio and expands its customer base in this key segment. Later renamed smarthouse adesso financial services GmbH, this company is a leading, globally active full-service provider of digital information and marketing platforms for banks and the financial sector.

June

adesso Switzerland assists with PostFinance's new core banking system

In June, adesso is able to announce its involvement in one significant part of a major project at PostFinance. The Swiss financial institute is setting up a new core banking solution as part of an extensive transformation project, within the scope of which adesso is adjusting and expanding its existing personal data system. It is due to go live in 2018.

July

adesso's 2015 Annual Report receives a gold award

In July, the League of American Communication Professionals (LACP) awards gold to adesso's 2015 Annual Report. Each year, as part of the renowned Vision Awards, the LACP confers awards upon the best annual report entries, submitted from all over the world. The specialist jury considers both content-based and visual criteria. The adesso report receives 98 out of a possible 100 points, making it the second-best report in its industry for a company of its size. A little under 1,000 companies from more than two dozen countries all over the world were in the running.

August

Stuttgarter Lebensversicherung chooses adesso solution for its new claims management system

In August, adesso receives a commission from Stuttgarter Versicherungsgruppe (Stuttgarter). It is replacing its old existing system for processing property/liability, accident and supplementary health insurance claims with the adesso solution in|sure General Claims. Adesso has been commissioned with an introduction to the existing infrastructure and is also developing a solution for service accounting for supplementary dental insurance.

September

adesso announces takeovers of flitcon GmbH and SP Integration GmbH

In September, adesso acquires two more companies as targeted additions to its portfolio in order to keep its growth trajectory on track. With flitcon GmbH from Düren, adesso takes on a business intelligence specialist, strengthening its own expertise in the area, which is of increasing significance for banks and insurance providers. With its acquisition of SP Integration GmbH, adesso gains a team of 30 highly qualified employees, who bring with them extensive experience in the divisions of business intelligence, groupware and portals that run on Microsoft and IBM.

October

adesso increases customer contact with four new offices

In October, adesso announces its plans to continue its regional expansion. Four additional offices will be opened soon. Alongside Nuremberg and Hanover, there will be new branches in Aachen and Essen, which adesso will utilise to increase its contact to existing and potential customers in the surrounding regions.

November

adesso pools its in|sure product family portfolio in one company

adesso pools its in|sure product family portfolio in adesso insurance solutions GmbH in order to streamline its market access. Following its previous successful merger with PSLife GmbH in March 2016, the subsidiary PSLife Consulting GmbH is now being merged with adesso insurance solutions GmbH as well. adesso has acquired the minority interests from the previous partners for this purpose.

Forecast adjusted once again after record operating result in third quarter

Having already adjusted the forecast upwards after its acquisition of smarthouse and after very good results in the third quarter, adesso adjusts its figures once again. It now expects to achieve sales of EUR 252 million and an EBITDA of over EUR 20 million in 2016. It has achieved a new record value in sales and operating results in the third quarter based on good capacity utilisation, profitable projects and license revenues.

December

Cash capital increase attracts a lot of investor interest

In December, adesso AG carries out its first cash capital increase since it was listed on the stock market as adesso AG 10 years ago. As part of an accelerated book-building procedure and with significant oversubscription, 293,687 new shares, i.e. around 5% of share capital so far, are successfully placed with both domestic and international institutional investors at a placement price of EUR 42.70 per share. M. M. Warburg & CO (AG & Co.) KGaA, a new capital market partner of adesso since September 2016, assists adesso during the cash capital increase.



adesso
is turning
20



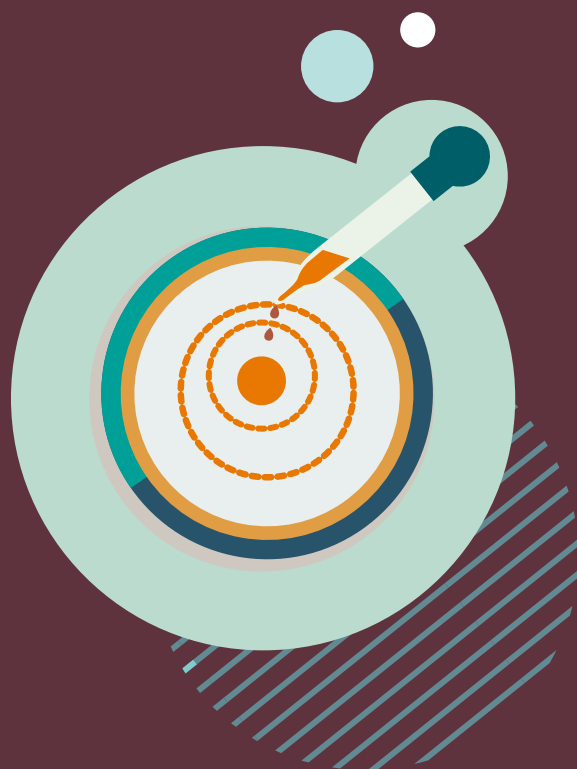
A DISPOSITION
FOR SUCCESS

How do you write a real history of success? What are the necessary elements? Can you learn how to be successful? Or is business success for the most part the result of a company's original disposition, its founding principles and the talent it recruits?

Don't worry: we are not about to become overly philosophical in the year of our 20th anniversary, rather, we are sticking to our tried and tested focus on practice. And if there were a patented recipe for business success, it would still be difficult to gain a competitive advantage, as it would make it almost impossible to make any real differentiation in the market for information technology services and solutions.

However, we think that it is not without reason that our disposition has managed to uphold adesso's business model for over 20 years and we believe that it has led to our considerable growth. Our focus on employees and customers, the way we combine research, teaching and practice, and the expertise that this gives rise to, but above all our special company culture, are adesso's fundamental components – its disposition for success. We have consciously cultivated these values, constantly tended to them and will continue to apply them consistently. This is what enables us to utilise the right combination of technological expertise and experience to help our customers with their software projects. The resulting confidence is the foundation of the way that adesso has been able to develop its market share year after year, which makes us grateful and also a little bit proud. In 2017, the year of our 20th anniversary, and with a current team of more than 2,100 employees, adesso is one of the largest IT service providers in the German-speaking world.





Recruiting

The breeding ground for organic growth

Consulting and customised software development are an absolute “people business”. You need little more than competent, motivated employees and a suitable IT infrastructure. It sounds simple, but in an environment characterised by a shortage of skilled professionals, this is anything but easy if you want to hire the cream of the highly qualified crop. Since adesso’s listing on the stock market 10 years ago, the company has grown by an average of more than 21 % per year, for the most part organically.

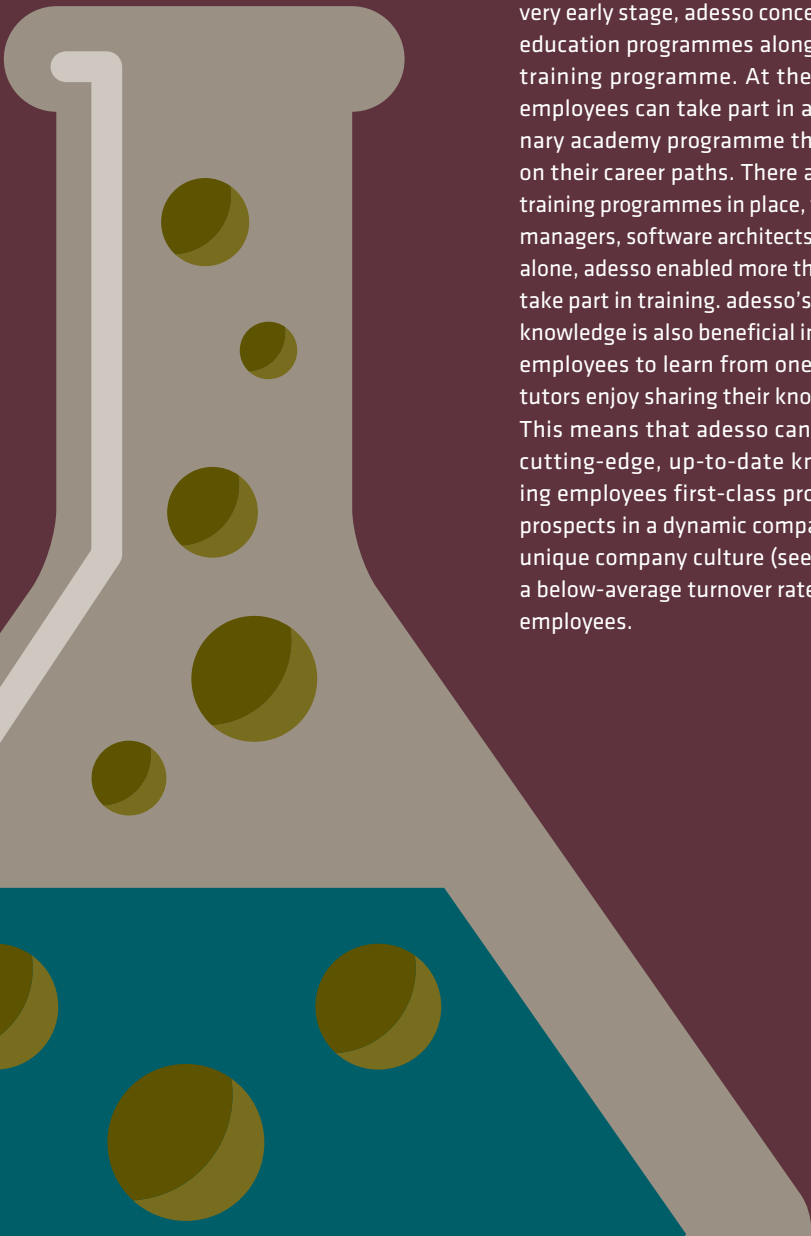
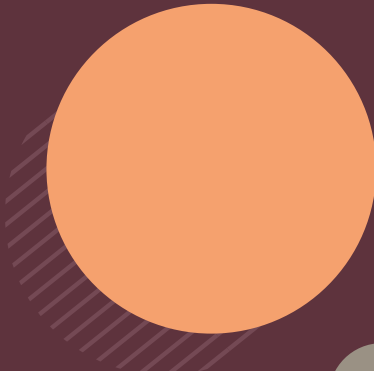
One of adesso’s keys to success is the fact that it has been able to recruit the right number of experts to enable growth like this. To do so, we have put our shoulder to the wheel. In 2016, adesso was awarded the title of Best Employer for a company of its size in the information and telecommunications industry. In the year under review, we registered more than 11,000 applications, which then entered the adesso selection process with its very high quality standards. This testifies to adesso’s growing attractiveness as an employer. In 2017, we intend to once again hire 365 new permanent employees (internal programme: one employee per day).

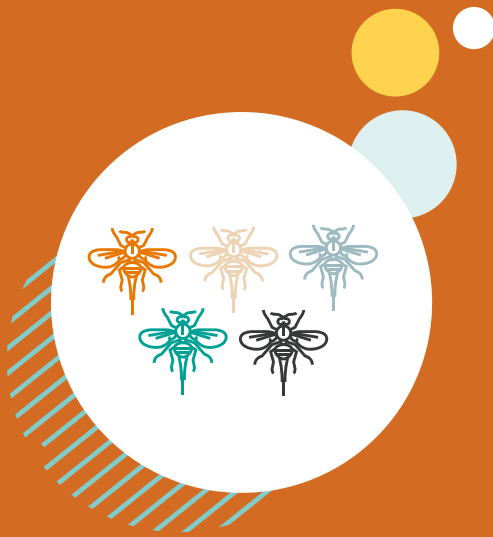
EMPLOYEE FOCUS



Professional development Sharing in order to multiply

In light of a sustained shortage of qualified professionals and adesso's strong growth rate, we are barely able to fulfil our huge requirements for experienced employees who are optimally qualified to perform their respective tasks through the labour market alone. Moreover, innovation cycles in the IT sector are short. Nevertheless, young graduates can expect exciting projects, tasks that allow them to take on responsibility right away, and good career prospects. With targeted training and further education programmes based on our needs, adesso is able to fulfil a diverse range of requirements. At a very early stage, adesso conceived of its own further education programmes alongside a comprehensive training programme. At the "academy", selected employees can take part in a 1.5-year interdisciplinary academy programme that accompanies them on their career paths. There are also other targeted training programmes in place, for example, for project managers, software architects and managers. In 2016 alone, adesso enabled more than 3,000 employees to take part in training. adesso's transparent culture of knowledge is also beneficial in this respect. It allows employees to learn from one another, and internal tutors enjoy sharing their knowledge with the team. This means that adesso can take action based on cutting-edge, up-to-date knowledge while offering employees first-class projects and good career prospects in a dynamic company. Combined with its unique company culture (see page 30, this ensures a below-average turnover rate and highly motivated employees.



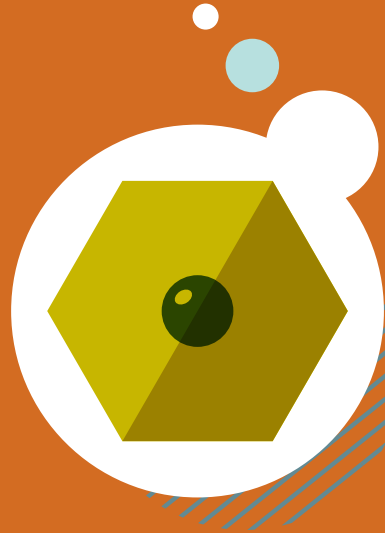


Long-term customer relationships

Small details make a big difference

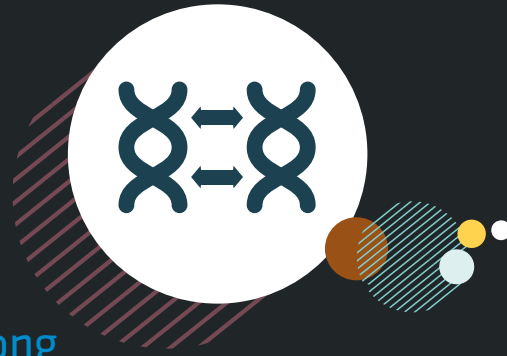
Customer satisfaction is a topic that is very close to our hearts. It is a complex issue, which requires problem-solving expertise, professional collaboration, open communication, confidence that goals will be reached, planning security and appropriate remuneration. Only those who are able to empathise with a customer's situation can really understand their motivations and act to the benefit of the customer's long-term satisfaction. When optimising customers' key business processes, the dominant factor is not the price – what counts most is the result. Customer relationships, some of which have been in place for over 10 years, prove that customers appreciate the quality of our work and our personal adesso style. adesso has been working with one of its major customers, the BITMARCK Group, for more than 14 years. In this way, adesso has played a significant role in the projects of Germany's largest full-service provider in the IT market of the statutory health-insurance providers. Due to its exceptional expertise and extensive experience, adesso also has the confidence of major customers in the state lottery sector. Even after 19 years of collaboration, these clients include West-Lotto, one of adesso's first major customers, and adesso has been working with Swisslos since 2006. A promising and entirely innovative standard software product for the life insurance segment emerged from its successful business relationship with Barmenia Versicherungen (a customer since 2007).

CUSTOMER FOCUS



Regional expansion Always at the centre of the action

adesso will significantly increase its presence in Germany, both for customers and employees, with five new offices, promoting regional growth. Alongside its new Darmstadt office with more than 30 employees – a result of its takeover of UnitCon GmbH in February 2017 – adesso AG recently opened branches in Aachen, Essen, Hanover and Nuremberg that are expanding our service network, allowing customers to get in contact with competent employees from their region on site. Our new offices are attractive from a customer, employee and company point of view, as they reduce the need for project-related travel activities. Even if the workplace is increasingly trying to meet the demands of the digital age, personal meetings on site are still essential every now and then. True to the adesso growth strategy, we are initiating and supporting the cell-oriented growth by experienced and long-standing office managers.

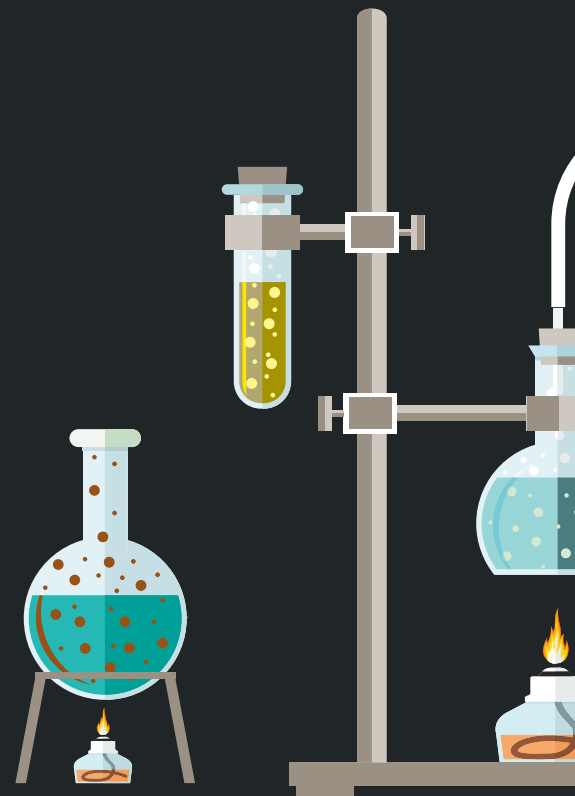


An atmosphere of appreciation Diversity makes us strong

adesso has taken part in the “Germany’s Best Employer” awards five times and has finished as one of the best companies in its industry every time. In 2016, it was awarded first place among the major companies in the information and telecommunications sector. It received high scores for the areas of team spirit, fairness, pride and respect, which reflect our company culture. We place great value on cultivating a friendly, relaxed environment shaped by a sense of community, and put our emphasis on an open exchange of information and reciprocal support. What is special about working at adesso is its high regard it has for every single employee’s everyday achievements. This includes, in particular, its special ability to integrate new employees into the existing adesso team. It doesn’t matter whether the new colleague is fresh out of university or is bringing years of practical experience with them. Everybody is welcome and receives optimal preparation for their role within the adesso Group during its informative and integrative Welcome Days mentoring programme, as well as the appropriate equipment and access. This applies in particular to the employees of companies that have been acquired by adesso, because our company culture, shaped by openness, does not stop at the boundaries of our organisational units.

Flat hierarchies, a company open-door policy, quick decision-making processes and reciprocal support when answering questions are other key elements that allow us to compete dynamically and flexibly. At adesso, it is always the argument that counts and not the position of the person using it. This is also reflected in the first-name basis that applies to all levels of the hierarchy. A culture that is this beneficial needs to be maintained, which is where our written management principles and adesso values come in. Team building exercises such as joint excursions and parties, and an eye for the small details that make the working day that bit more pleasant, round off this coherent overall picture.

COMPANY CULTURE





Entrepreneurial thinking

The nucleus of growth

Successful business is based on innovative ideas and solid technologies, as well as on committed people who combine these two things at the highest level. Thinking outside the box of our own projects, regularly exchanging information with colleagues and experts, and creating space for innovation – this is what enables continuous progress and secures our technological lead. Since its founding, the entire adesso Group, including all of its organisational units, have been geared towards growth. The focus here is by no means simply on the employee's own area of responsibility, but on the big picture. Because, alongside the typical growth initiatives that focus on specific business divisions, the way that available expertise is connected within the company group and, above all, the way that models that have been successfully applied are transferred to other sectors and technologies provides a diverse range of development opportunities. This requires absolute team players but sometimes lateral thinkers too. It also requires an incentive system that also honours the initiative that employees take outside their own area of responsibility. Promising ideas are openly discussed, tested and, if possible, implemented in practice.

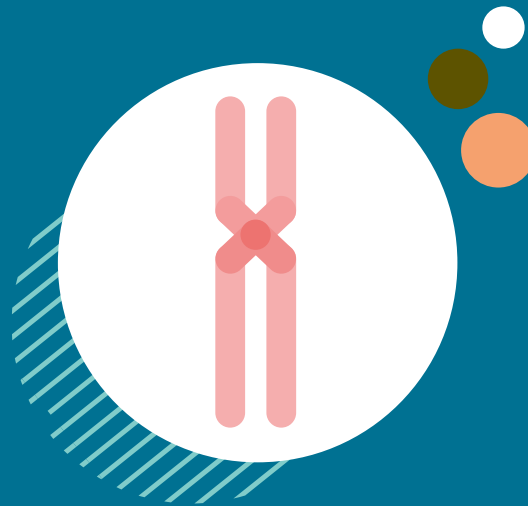
There are more than enough examples of this in adesso's history, for example the platform drebis, which was successfully established to carry out the standardised exchange of information between lawyers and legal protection insurers. The expansion of adesso's successful health insurance solution PS|Life into a complete, multidisciplinary product family is a result of this philosophy of growth. adesso also provides sufficient space and support for strategic initiatives like this, including the necessary equipment and staff where needed. Committed employees who are fascinated by technological advances have the opportunity to implement their own ideas and plans. Companies organised within the adesso Group also complement each other to the extent that they can handle interdisciplinary calls for projects or project requests.



Proximity to universities “Curiosity” as a genetic marker

adesso's collaboration with research and teaching institutions is not just something we talk about in order to advertise our company. Our roots actually go back to a university because, ultimately, it was Prof Dr Volker Gruhn – today the chair of Software Engineering at the University of Duisburg-Essen, the main shareholder and chairman of adesso's Supervisory Board – who helped launch adesso in 1997. Since day one, it is through him that we have been in direct contact with developments in the university environment, and this relationship has continued to intensify over the course of the last 20 years. Today, adesso works on many different levels with educational institutions in Germany, Austria and Switzerland, covering everything from training to joint projects to research. Over the course of the last two decades, countless student employees have worked for adesso, which has supervised numerous final theses, put on lectures and introduced school pupils to software development.

adesso has now institutionalised its close proximity to the world of higher education with an Academic Advisory Board. It was founded in 2016 and serves to facilitate the systematic transfer of knowledge between research and practice. This committee comprises adesso managers and a number of professors from renowned universities. The Academic Advisory Board enables us to participate even more actively in research projects. In turn, we will be able to intensify the way that we integrate academic expertise into our customers' projects.



COMBINING RESEARCH, TEACHING AND PRACTICE



A practical approach Peak performance with the right fundamentals

adesso's customers directly profit from its close contact to educational and research institutes, as seemingly academic topics always emerge from the perspective of the practitioner. What counts is the way that we think about how new technology or a new concept can help us and our customers to implement projects more efficiently, to develop leaner software and to achieve results more quickly.

The Interaction Room, a project tool for facilitating communication between IT and technical experts, is one of the most prominent results of this connection between research and practice. The Interaction Room concept was developed by the research institute "paluno - the Ruhr Institute for Software and Technology" at the University of Duisburg-Essen in collaboration with adesso and other partners. We have already used the Interaction Room successfully in a number of projects. Customers have been won over by the way that it has been used in an extremely wide range of projects, as it encourages stakeholders to develop a joint understanding of the solutions in development.





Technological competence Blessed with talent

Talent is hereditary. adesso's close contact to a university blessed it with special technological expertise from the very start, and adesso has fostered and developed this talent enthusiastically. For example, at the end of the 1990s, adesso set up the first inventory control system using Java technology, which was still very new at that point, for an insurance provider in the German market. It was a feat of technological daring that we were warned about at the time, but it helped adesso to write history as a trailblazer, marking a milestone in the development of the company. Trusting our instincts and our special expertise paid off. Since then, the world of technology has continued to develop rapidly. adesso has invested a lot in fostering its special talents. The result of this is a company where one thing has always been clear: the foundation of its business is its expertise in state-of-the-art technologies. When adesso helps companies with the Internet of Things or to digitally transform, its consultants and developers can make use of a solid portfolio of technologies, which is all state of the art but has also been extensively tried and tested. This has also made adesso's employees sought-after authors for specialist magazines throughout the IT spectrum. We do not keep our knowledge secret, but rather share it with the community, which leads to productive discussions and new ideas.

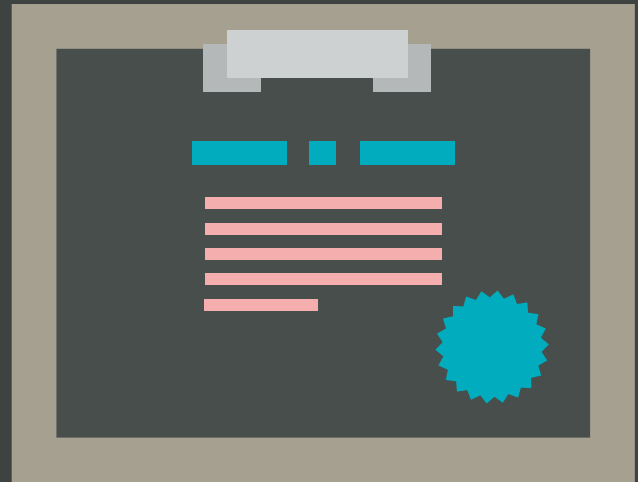
But we have to be able to apply technology too. This means managing risks and working efficiently. 20 years of experience have given rise to a method that combines these two aspects. We have been implementing our software projects agilely for many years now. This requires us to be goal-oriented, but it also poses challenges, in particular as customers want to have budget security. The adesso adVANTAGE approach lets us combine the two. Internal monitoring and management processes have also reached a level of maturity that makes adesso projects especially secure.

EXPERTISE



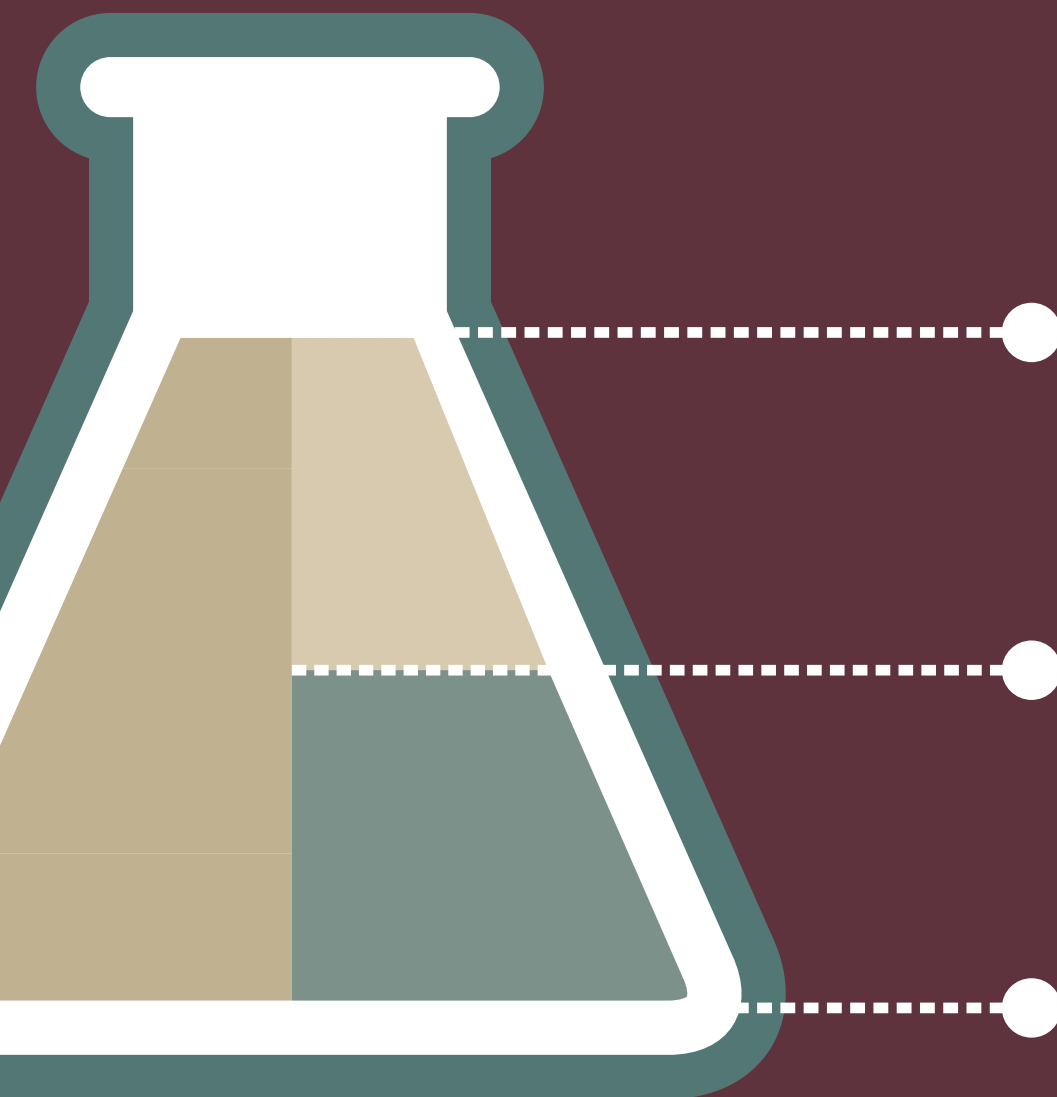
Specialist expertise It's all about the right combination

There is an expert for almost every challenge among our more than 2,000 adesso employees. adesso's tight industry focus over the years now means that adesso consultants are able to understand every particular of their customers' business. They are able to identify best practices and industrial standards for countless questions of detail. Or they sketch out fully customised solutions, depending on what the customer's specific situation requires. adesso's project teams are interdisciplinary in their make-up. For example, insurance mathematicians work alongside specialists in requirements engineering together with sales specialists. Its particularly intensive professional development programme (see page 27) ensures that software developers and technology experts understand customers' specialist processes in just as much detail, and we put together a special combination of different competencies for each project. Always on board: 20 years of experience.



GROUP MANAGEMENT REPORT





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GROUP PRINCIPLES

Business Model, Targets and Strategies

adesso Group is a fast growing IT company which has set its sights on becoming one of the leading consulting and technology groups for industry-specific business processes in Central Europe. With a high level of expertise in the areas it caters to, adesso operates at the interface between business processes and IT, implementing software projects at the highest technical level. The development of its own software solutions increases market penetration and strengthens the company's position in promising IT fields, such as mobilisation and enterprise content management. adesso pursues the internationalisation of its own product sales as a strategic goal. Enterprise development is complemented by a well-defined acquisition strategy.

Fuelled by past growth and growth in the making, a focused business model and an insistence on outperforming industry average margins, adesso Group's value is continually being enhanced. To achieve this, we invest significant resources in targeted business development, the expansion of sales capacities, recruiting and marketing. These investments, coupled with extensive industry and consulting expertise, enable growth rates which exceed the industry average by far.

We are a leading technology group in the field of software development and invest more than average in the training and development of our workforce and in the ongoing development of the adesso model for the software development process.

The Executive Board is committed to a strategy of striving for the right balance of growth, solid finances and profitability.

For 2016, the Executive Board targeted sales growth of 12 % to 18 % to EUR 220 million to EUR 232 million, stable operating profit measured as EBITDA of between EUR 14.5 million and EUR 17.0 million and an increased minimum EBITDA margin of 6.5 % compared to the previous year. All targets were met and even exceeded.

Employees and Structure

Founded in 1997, adesso had a total of 2,174 employees (FTE) (previous year: 1,702) in Germany, Austria, Switzerland, Turkey and the USA at the end of 2016. While the adesso Group employed 248 (previous year: 246) staff members outside of Germany, 1,234 (previous year: 1,058) employees were deployed in Germany and work for the parent company, adesso AG, which is both by far the largest operating unit and the holding company.

adesso AG's largest location is Dortmund, which is also the city in which the company was founded and where its corporate headquarters are located. To stay close to its customers and keep travel times and costs as low as possible, adesso maintains fourteen other offices in all of Germany's major economic regions. This broad local presence is also extremely important in terms of recruitment. International sites include Bern, Boston, Istanbul, London, Vienna and Zurich. Further sites are scheduled to open in Aachen, Basel and Essen in 2017.

In addition to adesso AG, the largest operating unit and parent company, adesso Group also includes 23 majority-owned companies, consolidated second-tier subsidiaries and a minority interest as at the reporting date.

adesso has two different segments: IT Services and IT Solutions. While the IT Services segment offers customised, project-oriented services in the areas of consulting and software development, the IT Solutions businesses market their own solutions in the shape of home-grown products or standard software products.

The parent company adesso AG is publicly traded and listed on nearly all German stock exchanges (ISIN code: DE000A0Z23Q5, WKN [national security identification number]: A0Z23Q).

Management System

As the spearhead of adesso Group, adesso AG defines the strategy and operational targets of all group companies. It controls the legally independent group companies by implementing a target system, an ongoing reporting process and by occupying positions in the supervisory bodies and management teams.

Operational control is ensured by a reporting system which has been implemented group-wide. In the process, each group company prepares full monthly financial statements based on national legal regulations. Key performance figures for reporting are sales, EBITDA, earnings before tax (EBT), the EBT margin, number and proportion of employees not fully utilised, number of employees and net liquidity. The most important performance indicators are subject to continuous comparisons with plan and actual data. All indicators are carried forward and subject to an internal group benchmark. An updated rolling forecast is prepared per Group company for the entire year so that possible planning deviations can be identified in a timely manner. Fixed reporting channels and cycles have been defined and there is also a fixed appointment schedule for management meetings. There are no fundamental differences between key performance indicators in the reporting systems for each segment.

Research and Development

The bulk of adesso Group's turnover is generated through its sales in IT services. With few exceptions, adesso solutions represent the core of project solutions which are then tailored to customer requirements in client-specific projects. Research expenses in IT Solutions segment are negligible in relation to group expenses. None of the group companies has its own dedicated research department.

ECONOMIC REPORT

Macroeconomic Climate and Industry-specific Conditions

Macroeconomic Climate

Economic growth in Germany accelerated slightly again in 2016. According to initial calculations by the Federal Statistical Office (Destatis), gross domestic product (GDP) growth is expected to increase to 1.9% for 2016 following on from growth of 1.7% in the previous year. This would see the original projection of the federal government for 2016 be exceeded by 0.2 percentage points. According to the ministry, the German economy is on a solid growth course and is reinforcing its potential in an extremely challenging climate, particularly in terms of foreign trade. In the wake of significant growth of 0.7% in the first quarter of 2016, growth momentum slowed over the course of the year to 0.2% in the third quarter. However, economic growth picked up again in the final quarter of 2016. The outlook for the global economic climate and international trade became bleaker during the year, particularly due to the Brexit referendum and the slowdown in growth in the USA. In Germany, however, the domestic market was in robust shape.

The labour market developed dynamically, boasting new record employment figures once again. Rising incomes and only moderate rates of inflation stimulated private consumption, which remained the key pillar of growth. The increase in incomes and low interest rates also benefited private investment in residential property. Financial policy also had significant expansive effects on economic development. This was due in part to additional spending to deal with the influx of refugees, but there was also a major increase in public-sector investment.

Investments in equipment, on the other hand, were limited by weak exports and uncertainties surrounding the foreign trade environment. As a result, robust domestic demand stood against negative growth from foreign trade. There was slight recovery in economic development in the second half of 2016. As a result, there was also a significant upturn in the business climate. Further growth is expected in 2017.

The Swiss economy continued its recovery in 2016. Following relatively weak GDP growth of 0.8 % in 2015, which was impacted by the currency appreciation, growth is expected to have come in at 1.5 % in 2016. However, the fall in the growth dynamic was also evident in Switzerland in 2016, with Swiss GDP stagnating in the third quarter after four positive quarters in succession. That being said, early indicators suggest that growth has picked up once again. Global economic development is expected to continue to provide positive impetus.

Economic recovery accelerated in Austria once again in 2016. In the wake of GDP growth of 1.0% in the prior year, expansion is expected to stand at between 1.4% and 1.5% in 2016. Private spending, bolstered by tax reductions, is one of the main pillars of growth here.

Industry-specific Conditions

The industry association BITKOM expects that the German market for information technology product and service providers grew by 3.6 % to EUR 84.0

billion in 2016. As a result, the growth dynamic has slowed considerably compared to the previous year's figure of 4.2 %. This was largely due to the significant fall in growth in the IT hardware sector to 2.8 %.

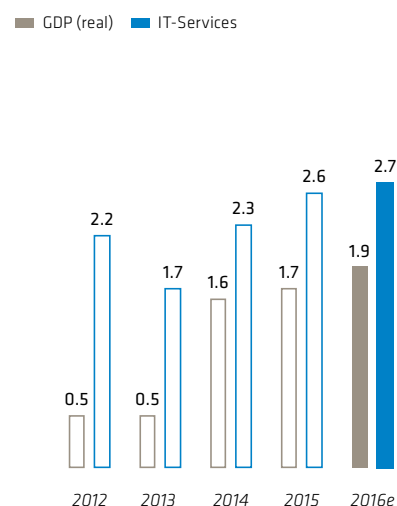
However, the IT market grew at almost twice the rate of the economy as a whole. After a solid increase in the previous year, growth in the software segment was somewhat lower in 2016 at +6.2 % and reached a market volume of EUR 24.3 billion.

Growth in the IT services industry, which is the most important for adesso Group in terms of sales, rose slightly year on year by 0.1 percentage point to 2.7 %. According to BITKOM, this was largely due to digitalisation among companies. The market volume of this segment now amounts to EUR 38.2 billion.

Industry-specific conditions therefore continued to be positive for adesso's business performance.

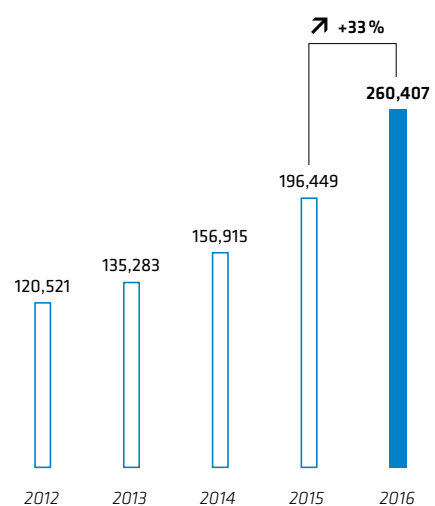
GROWTH OF GDP COMPARED TO IT-SERVICES MARKET

in %



GROWTH IN SALES

in EUR k



Business Performance

There were no individual events that could be seen as having significantly affected the business performance in the reporting period. The acquisition of what is now known as smarthouse adesso financial solutions GmbH, Karlsruhe, Germany, in the second quarter of 2016 has to be taken into account in assessing the development of key performance figures such as sales, the number of employees, operating earnings and depreciation and amortisation.

Overall Statement on Business Performance by the Management

adesso Group was able to improve sales by 33 % (of which 19 % is organic) and operating earnings (EBITDA) by 61 % year on year, achieving its 2016 targets for these key performance figures. The objective of generating a minimum EBITDA margin of 6.5 % was also achieved, with the final margin coming in at 8.9 % and resulting in a margin increase of 1.6 percentage points.

Internationalisation targets were not able to be achieved in full. The development of adesso's own product family for the insurance sector remains positive. Pre-tax earnings (EBT) increased by 76 % to EUR 16.7 million.

Position

Earnings Situation

Growth in Sales

adesso Group successfully increased its sales by 33 % from EUR 196.4 million to EUR 260.4 million in financial year 2016. By expanding the existing business activities and growing the service and product portfolio, purely organic growth was 19 %, excluding the company acquisitions in 2016.

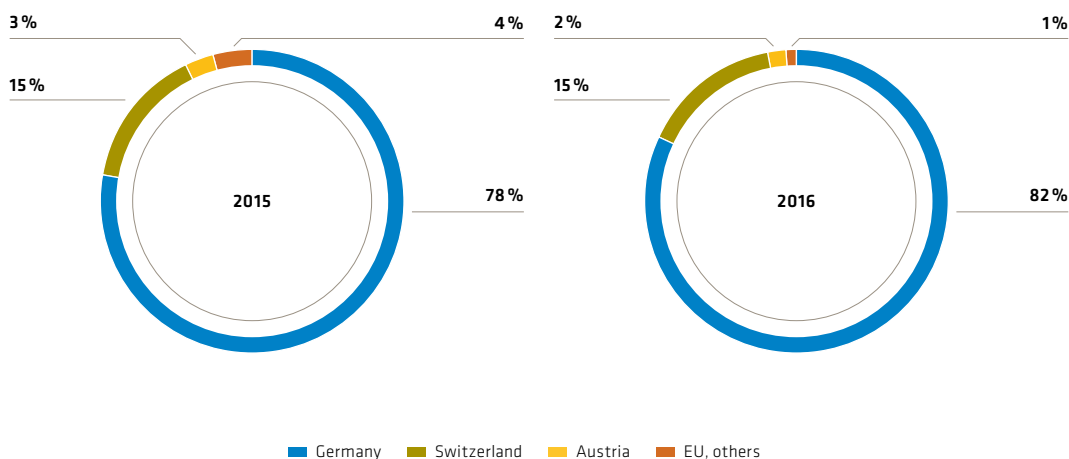
With estimated market growth of 3.0 % for the industry, adesso, as it did in previous years, had significantly higher organic growth than the market in 2016 and was, therefore, able to gain additional market share.

During the financial year 2016, sales revenues increased from EUR 119.0 million in the first six months to a new high of EUR 141.4 million in the second half of the year. The increase is due to the higher number of potential working days, a further increase in the number of employees, higher licensing proceeds and increased sales contributions from company acquisitions.

In the IT Services segment, the adesso Group's leading subsidiary by size in Germany, adesso AG, was able to increase its sales significantly by 29 % as in

SALES BY COUNTRY

in %



the previous year due to the high proportion of externally purchased services. In Switzerland, sales including subsequent M&A effects rose by 24 %, while in Turkey sales were up by 14 %. In Austria, no organic growth was generated.

Most of the sales with external experts are generated in the context of adesso Group projects. External resources are used here for capacity reasons or to obtain specialised knowledge. The share of sales generated with external experts rose in 2016. Sales revenues generated in the area of “Expert Resourcing” rose by 34 % year on year to EUR 13.6 million. An additional contribution to sales growth in the IT Services segment was made by the business activities with Smart Hosting & Cloud Services with a growth rate of 40 %. Further significant growth contributions came from the E-Commerce business area.

In the IT Solutions segment, the Content Solutions business area was able to increase the licensing and maintenance sales for the in-house content management system FirstSpirit by 3 %. Due to the increased share of contractual models with diverse sales realisation, such as in the case of software as a service

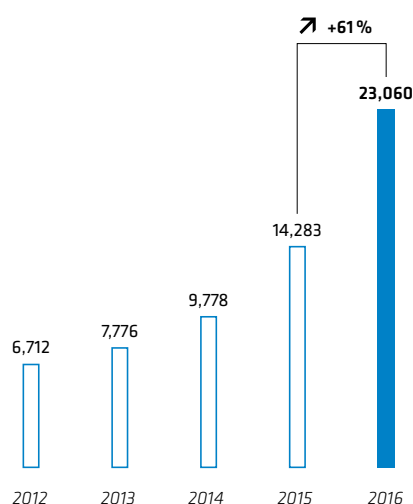
agreement, there is a delay between rising order intake and rising sales revenues from licences. This applies particularly in the USA, where new customers were once again acquired.

Sales in the Mobile Solutions segment rose significantly. Mobilising web content and business processes is one of the fastest-growing areas in IT. In this field, adesso Group is a leading company for enterprise mobility in Germany. Its own in|MOTION technology, along with proven expertise in the development of mobile applications and integration with knowledge about core business processes among adesso customers, make a contribution here. Continuing to expand the business with in|sure, adesso’s own family of products for the insurance sector, is an important growth driver in the IT Solutions segment. Sales revenues from licences and from implementation projects both rose, with sales able to be increased with many of adesso Group’s top ten customers.

Percentage sales growth was highest in the core banking/financial services and lottery industries. Double-digit growth rates were consistently achieved in banking/financial services, insurance and healthcare

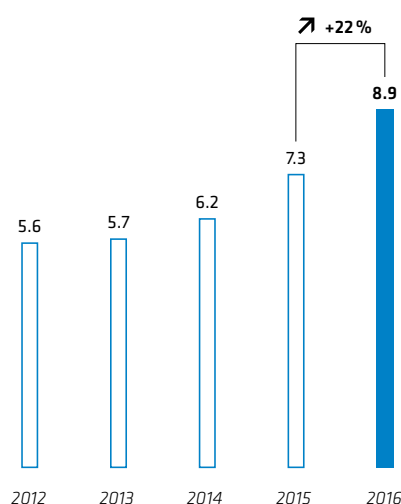
EBITDA DEVELOPMENT

in EUR k



EBITDA MARGIN

in %



as the core industries that account for the largest proportion of adesso's sales. The automotive and transportation industry, established as a new core industry in 2016, was able to attract new customers and increase sales.

Sales with customers outside of Germany increased by 5 % in 2016 to EUR 46.0 million.

Earnings

Operating earnings (EBITDA) increased by 61 % in 2016, while the EBITDA margin improved from 7.3 % to 8.9 %. The targets were therefore exceeded. The most important factors in the significant increase in earnings were the organic sales growth of 19 % and the earnings contributions from company acquisitions in 2015 and 2016.

A higher gross margin (sales revenues less cost of materials) per employee was also realised through improved daily rates, especially in the course of implementation projects for the own insurance solutions, and through high capacity utilisation. The contribution margin from maintenance and licensing proceeds with a significant impact on earnings increased, as well.

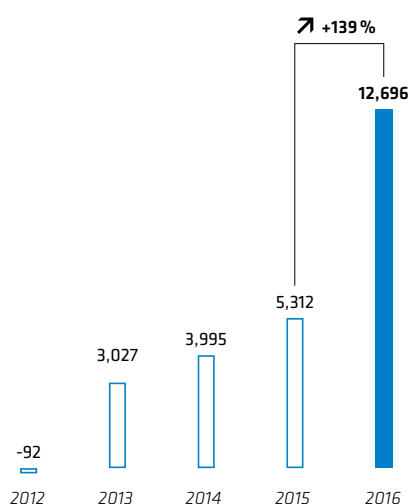
At sales growth of 33 %, the average number of employees (FTEs) grew by 28 %, or 422 employees, to 1,956 in 2016. With a lower material usage ratio of 10.8 % (previous year: 11.7 %), gross profit per employee increased significantly by 5 % to EUR 119 thousand (previous year: EUR 113 thousand). At EUR 3.3 million, other operating income rose by EUR 1.4 million year on year. This increase was due to a rise in revenues from the reversal of provisions.

The cost of materials came in at EUR 28.1 million (previous year: EUR 23.0 million) and was mainly associated with the cost of integrating subcontractors into projects, which rose by 22 % and therefore by a less-significant margin than sales. This means that gross profit increased by a greater margin than sales, namely by 34 % to EUR 232.3 million (previous year: EUR 173.6 million).

Personnel costs were up by 34 % to EUR 168.3 million. This included higher variable compensation due to earnings growth throughout the Group and a EUR 4.0 million (prior year: EUR 1.3 million) increase in the valuation of long-term incentives, as the price of the adesso share increased significantly in

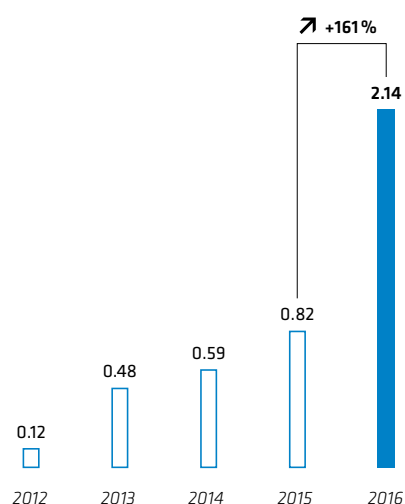
CONSOLIDATED EARNINGS

in EUR k



EARNINGS PER SHARE

in EUR



financial year 2016. There was a major increase in the average personnel costs per employee from EUR 82 thousand to EUR 86 thousand.

Other operating expenses increased by a disproportionately low margin compared to sales revenues by 23 % to EUR 44.3 million (previous year: EUR 36.1 million). A large share of this increase was due to the rise in the number of employees. Costs such as travel, vehicle and training expenses tend to increase proportionately with each employee. Occupancy and related costs also increased due to relocations and expansions. However, the increase in other operating expenses was lower than the increase in sales, which had a positive impact on margins in the previous year.

Total operating earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 61 %, or EUR 8.8 million in absolute terms, in 2016 to EUR 23.1 million (previous year: EUR 14.3 million). This means that adesso Group exceeded both the target corridor for 2016 of between EUR 14.5 million and EUR 17.0 million and the new corridor, raised to EUR 20.0 million to EUR 24.0 million mid-way through the year due to the acquisitions.

The operating EBITDA margin came to 8.9 %, up from 7.3 % in the previous year. This rise in the margin was partly due to the first-time inclusion of smarthouse adesso financial solutions GmbH, which maintains a particularly high-margin business model.

CONSOLIDATED INCOME STATEMENT

<i>in T€</i>	2016	2015	2014	2013	2012
Sales revenues	260,407	196,449	156,915	135,283	120,521
Other operating income	3,309	1,862	2,069	2,150	2,857
Own work capitalised	0	165	274	0	290
Total output	263,716	198,476	159,258	137,433	123,668
Cost of materials	-28,078	-22,975	-18,980	-13,789	-13,767
Personnel costs	-168,288	-125,144	-98,903	-87,739	-77,426
Other operating expenses	-44,290	-36,074	-31,597	-28,129	-25,764
EBITDA	23,060	14,283	9,778	7,776	6,711
Depreciation and amortisation	-6,352	-4,877	-2,407	-2,936	-4,154
EBIT	16,708	9,406	7,371	4,840	2,557
Income from financing and investment activities	14	69	-83	-217	-139
EBT	16,722	9,475	7,288	4,623	2,418
Income taxes	-4,026	-4,163	-3,293	-1,596	-2,510
Consolidated profit/loss	12,696	5,312	3,995	3,027	-92
Gross profit	232,329	173,639	137,935	121,494	106,754
Gross income margin	89 %	88 %	88 %	90 %	89 %
EBITDA margin	8.9 %	7.3 %	6.2 %	5.7 %	5.6 %
Growth in sales	33 %	25 %	16 %	12 %	14 %
Change in personnel costs	34 %	27 %	12 %	13 %	18 %
Change in other operating expenses	23 %	14 %	13 %	9 %	21 %

EBITDA of EUR 8.9 million (previous year: EUR 4.2 million) was generated in the first half of the year and rose to EUR 14.2 million in the second half (previous year: EUR 10.1 million). The increase during the year was largely due to the higher number of potential working days, company acquisitions and higher license sales.

Both segments contributed to the increase in earnings. In the IT Services segment, the subsidiaries in Germany and Switzerland and e-commerce business made a particular contribution to the rise in earnings, whereas earnings declined in Austria and Turkey. In the IT Solutions segment, additional earnings contributions from the sale and introduction of in|sure, adesso's own insurance solutions, and the rise in income from licences and maintenance with FirstSpirit had a positive effect.

Depreciation and amortisation increased by 30 % in the reporting period to EUR 6.4 million. This significant increase was due both to organic growth and to the amortisation of intangible assets from the acquisition of what is now smarthouse adesso financial solutions GmbH and of flitcon GmbH. This includes amortisation resulting from business combinations of EUR 2.3 million (previous year: EUR 2.1 million). It also includes depreciation on property, plant and equipment and amortisation of intangible assets, which increased significantly by EUR 1.2 million to EUR 4.0 million. Besides the growth of the company during 2016 and in the previous year, the further expansion of the licensing base for internal software tools due to amendments to partnership contracts was the driving force behind the increase in depreciation and amortisation. As in the previous year, no goodwill impairments were recognised.

Income from financing and investment activities remained at approximately EUR 0.0 million. Interest expense increased significantly by 53 % to EUR 0.4 million due to revolving money market loans granted for acquisitions in the amount of EUR 24.0 million and EUR 6.5 million respectively. This was offset by the year-on-year rise in income from investment activities from EUR 0.3 million to EUR 0.4 million.

Earnings before taxes (EBT) were up by 76 % to EUR 16.7 million (previous year: EUR 9.5 million) due to the significant rise in operating earnings. Income tax expense stood at EUR 4.0 million (previ-

ous year: EUR 4.2 million) and the effective tax rate came in at 24 % (previous year: 44 %). The utilisation of tax loss carry-forwards, on which no deferred tax assets had been formed in previous years, had a positive effect on the tax result. Overall, the aforementioned effects led to positive consolidated earnings of EUR 12.7 million in 2016, up from EUR 5.3 million in the previous year. The proportion of consolidated earnings allocated to minority interests amounted to EUR 0.2 million, down from EUR 0.6 million in the previous year, so that the portion allocated to adesso shareholders rose by EUR 7.8 million to EUR 12.5 million. Earnings per share stood at EUR 2.14, increasing from EUR 0.82 in the previous year.

Orders

Order intake increased throughout 2016 due to high demand. A general slump in demand was not observed in any region, segment or industry. Business activities continued at the start of 2017 with the vast majority of the leading customers for 2016.

Employee indicators

The leading performance figures for employees developed as follows:

EMPLOYEE INDICATORS

	2016	2015	2014	2013	2012
Employees at year end	2,382	1,840	1,499	1,352	1,138
Full time equivalents (FTE) at year end	2,174	1,702	1,377	1,221	1,084
Full time equivalents (FTE), average for the year	1,956	1,534	1,298	1,156	1,007
Sales per Ø FTE (in EUR k)	134	128	121	117	120
Gross profit per Ø FTE (in EUR k)	119	113	106	105	106
Personnel costs per Ø FTE (in EUR k)	86	82	76	76	77

Financial Position

Financial Management Principles and Objectives

adesso pursues a balanced financial policy. The objective of financial management is to assure short-term liquidity, including a margin of safety, as well as to

secure and acquire financial assets to fund medium- and long-term investment projects. In principle, the company does not enter into investment transactions with speculative elements.

There are no variable interest rates on investments. The maximum investment term is six months, with investments on a daily basis being the most common in view of interest rates tending towards zero for low-risk investments in order to remain flexible in response to investment opportunities that arise.

Central cash management at the level of daily account clearing has not been set up. Bank borrowing is centralised with the parent company. The account balances and financial position of all companies are transparent to the Group's Executive Board, and constitute a standard element of the monthly reporting system. All interest-bearing liabilities are denominated in euros, except for the 2015 acquisition in Switzerland denominated in Swiss francs. Factoring or other methods of selling receivables are not used.

Capital Structure

Financing is needed primarily for the receivables portfolio and services that have not been settled in the amount of EUR 70.0 million (previous year: EUR 46.7 million). Working capital (trade receivables plus PoC receivables less trade payables and PoC liabilities) came to EUR 47.0 million as at 31 December 2016 (previous year: EUR 30.4 million). As a result, the need for advance financing of business operations rose by 55 % year on year, while sales increased by 33 %. Acquired companies not included in the consolidated financial statements for the full year are to be taken into consideration here.

In 2016, the Group took out loans totalling EUR 24.0 million (on instalment payments) to acquire shares in what is now smarthouse adesso financial solutions GmbH and increase the shareholding in ARITHNEA GmbH to 100 %. The loans have been granted for terms of five years at a fixed rate of interest of 1.0 % p.a. Newly taken out revolving money market loans with terms of between three and six months and interest rates of between 0.2 % and 0.3 % p.a. continued to exist as at the reporting date. The portfolio of interest-bearing financial liabilities increased as a result and following instalment payments from EUR 25.6 million in the previous year to EUR 47.0 million on the reporting date. Interest is fixed over

the respective entire term. All interest-bearing liabilities are denominated in euros or Swiss francs. Credit balances are available in the short term and bear fixed rates of interest. Net liquidity after deducting the financial liabilities is EUR -4.2 million (previous year: EUR 6.4 million).

Investments, Acquisitions and Divestments

The adesso business model requires relatively low investments in property, plant and equipment. The capital assets of EUR 6.7 million (previous year: EUR 5.3 million) largely consist of hardware, such as laptops and servers, as well as office furnishings. Investments in more employees, as well as the expansion of licenses for software programs used internally are responsible for the increase. There are no significant subsequent obligations from property, plant and equipment investment projects as at 31 December 2016, and no investment backlog to report.

In the reporting period, adesso AG acquired all shares in what is now smarthouse financial solutions GmbH, Karlsruhe, Germany, at a cost of EUR 23.6 million. This company has established an excellent position in the financial services industry in the provision and maintenance of efficient and high-tech financial information websites. This expands adesso Group's access to financial institutions' specialist departments and widens its portfolio in this sector.

The increase in the stake in ARITHNEA GmbH from 51 % to 100 %, which was contractually agreed in 2015, was successfully implemented in 2016 partly through a non-cash capital increase. Purchase agreements concerning the full acquisition of SP Integration GmbH and flitcon GmbH were concluded in September 2016.

SP Integration GmbH is expanding its capacities and Microsoft customer portfolio, particularly in the metropolitan area of Frankfurt am Main. The company employs 30 people; the purchase price amounts to up to EUR 0.4 million, EUR 0.3 million fixed, with anticipated EBIT of EUR 0.1 million.

flitcon GmbH is a consulting firm with 15 employees specialising in business intelligence in the insurance industry. The purchase price amounted to EUR 2.2 million with anticipated EBIT of EUR 0.4 million.

DEVELOPMENT OF BANK BALANCES AND FINANCIAL LIABILITIES

<i>in EUR k</i>	<i>Cash at bank</i>	<i>Change in %</i>	<i>Financial liabilities</i>	<i>Change in %</i>
2012	21,280	- 6	10,359	+76
2013	21,644	+1	6,091	-41
2014	23,724	+10	5,724	-6
2015	28,162	+19	21,746	+280
2016	43,144	+53	47,361	+118

DEVELOPMENT OF LIQUIDITY

<i>in EUR k</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>Change 2016</i>
Liquid assets	43,144	28,162	23,724	14,982
(-) Financial liabilities	47,361	21,746	5,724	25,615
(=) Net cash position	-4,217	6,416	18,000	-10,633
Net liquidity to EBITDA	-0.18	0.45	1.84	-0.63
Liquid assets	43,144	28,162	23,724	14,982
(+) Trade accounts receivable and receivables PoC	70,023	46,730	34,655	23,293
(-) Current liabilities	80,723	55,540	38,209	25,183
(=) Net cash position 2	32,444	19,352	20,170	13,092

DEVELOPMENT OF THE FINANCIAL

<i>in EUR k</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Liquid assets	43,144	28,162	23,724	21,644	21,280
Financial liabilities	47,361	21,746	5,724	6,091	10,359
Net cash position	-4,217	6,416	18,000	15,553	10,921
Cash flow from operating activities	15,465	16,877	9,248	7,646	373
Cash flow from investing activities	-30,181	-26,878	-5,408	-1,231	-2,624
Cash flow from financing activities	29,716	14,081	-1,735	-6,007	1,103
Currency translation differences	-18	358	-25	-44	25
Total change in liquid assets	14,982	4,438	2,080	364	-1,211

Both companies were merged with adesso AG with retroactive economic effect in 2016. Last but not least, the stake in PSLife Consulting GmbH was increased from 70 % to 100 % at a cost of EUR 1.4 million. The notes to the consolidated financial statements provide more details on this.

Liquidity

Cash and cash equivalents totalled EUR 43.1 million on the reporting date (previous year: EUR 28.2 million). They were partly offset by financial liabilities, mainly from acquisition loans, in the amount of EUR 47.4 million (previous year: EUR 21.7 million). Net liquidity after the deduction of interest-bearing liabilities decreased by EUR 10.6 million to EUR -4.2 million (previous year: EUR 6.4 million).

Cash flow from operating activities stood at EUR 15.5 million (previous year: EUR 16.9 million). The considerable growth in net operating assets of EUR 7.1 million prevented any further increase, despite the sharp rise in EBITDA. Cash flow from investment activities stood at EUR -30.2 million (previous year: EUR -26.9 million). This amount was the result of company acquisitions as well as payments for non-current assets, which increased from EUR 2.1 million to EUR 2.3 million year on year. Cash flow from financing activities amounted to EUR 29.7 million, up from EUR 14.1 million in the previous year. This was the result of taking out EUR 30.5 million of new acquisition and money market loans and the addition of EUR 12.7 million from a cash capital increase.

Dividends of EUR 2.3 million (previous year: EUR 2.1 million) were paid out, of which EUR 1.7 million went to adesso AG's shareholders (previous year: EUR 1.4 million). All in all, cash and cash equivalents rose by EUR 15.0 million compared to an increase of EUR 4.4 million in the previous year.

Variable salary components are paid from cash and cash equivalents and are paid out in the first few months of 2017. This is typical for the business. Overall, the liquidity of the adesso Group is adequate to carry on current business operations, for the planned redemption of liabilities and to compensate for ordinary fluctuations in capacity utilisation.

Results of Operations

Analysis of the Asset Structure

Total assets on the reporting date increased year on year by 53 %, or EUR 63.3 million, to EUR 183.5 million. The acquisitions and the capital increase were the main driving forces behind this development, besides the organic growth of business activities.

On the assets side, goodwill increased by EUR 17.6 million as a result of the acquisition. Other intangible assets increased by EUR 5.3 million. Sales growth and the acquisition caused trade receivables to increase by EUR 17.3 million and PoC receivables by EUR 6.0 million.

In absolute terms, current assets increased more sharply than non-current assets. On the liabilities side, non-current liabilities, and in particular liabilities to banks, increased by EUR 20.9 million. Consolidated equity increased by EUR 17.3 million to EUR 59.7 million due to the capital increase at the parent company and the positive consolidated earnings. The sharp rise in total assets resulted in the consolidated equity ratio fall from 35.3 % to 32.6 %.

Financial and Non-financial Performance Indicators

The key financial performance indicators used for internal control of the Group are sales growth, EBITDA and the EBITDA margin. Targets and actual values for the reporting period as well as the medium and long-term target corridor are provided in the following table.

adesso Group does not use any group-wide non-financial performance indicators for the internal control of the group. Given the outstanding importance to the group of adesso AG, which is responsible for over 50 % of adesso Group business, and the otherwise broad range of control-relevant performance indicators within the group due to the business it conducts, the financial and non-financial performance indicators used for the internal control of adesso AG are reported on below.

The development of earnings generated by adesso AG depends on a number of performance indicators. In addition to the growth rate which is achieved, these are in particular:

MULTI-PERIOD VIEW OF ASSETS AND LIABILITIES

<i>in EUR k</i>	2016	2015	2014	2013	2012
Balance sheet total	183,491	120,167	84,030	75,129	76,940
Current assets	117,948	78,656	60,789	53,004	52,735
of which liquid assets	43,144	28,162	23,724	21,644	21,368
of which trade accounts receivable and receivables PoC	70,023	46,730	34,655	29,011	29,306
Non-current assets	65,543	41,511	23,241	22,125	24,205
Current liabilities	80,723	55,540	38,209	32,687	33,746
of which loans and other financial liabilities	13,530	4,212	1,583	2,567	4,482
of which trade accounts payable and liabilities PoC	23,071	16,379	11,055	7,263	7,284
Non-current liabilities	43,024	22,152	7,073	6,398	8,718
thereof loans and other financial liabilities	33,831	17,534	4,141	3,525	5,877
Equity	59,744	42,475	38,748	36,044	34,476

FINANCIAL PERFORMANCE INDICATORS

	2016 target	2016 actual	target corridor
Growth in sales (organic)	12 % to 18 % to EUR 220 to 232 million	33 % to EUR 260 million (EUR 234 million in organic terms)	At least double industry growth (2016: approx. 3.0 %)
EBITDA	EUR 14.5 to 17.0 million	EUR 23.1 million	Increase over previous year
EBITDA margin (indirect)	> 6.5 %	8.9 %	9 % to 11 % (long-term)

PERFORMANCE INDICATOR CAPACITY UTILISATION INVERSE*

	2016	2015	2014	Ziel
Annual average	9.0 %	12.0 %	13.1 %	9 % to 13 %
Maximum	13.4 %	14.4 %	15.6 %	15 %
Minimum	6.6 %	9.1 %	9.9 %	7 %

* Due to a change in the system of calculating this indicator in 2016 (with the inclusion of all managers and non-billable special roles in the basis for calculating the utilisation rate of operating divisions), the values are higher than reported in the previous year, as they have been adjusted under the new system. The targets have also been adjusted (increased).

PERFORMANCE INDICATOR BOOKING INTENSITY

	2016	2015	2014	Ziel
Annual average	88%	93%	94%	90 % to 99 %
Maximum	94%	99%	99%	100%
Minimum	82%	81%	78%	80%

Employee capacity utilisation (proportion of employees working on customer projects)

The proportion of employees working on billable customer projects has a direct influence on earnings. The greatest possible constant and high utilisation is the goal, without severely limiting flexibility in staffing new projects. Since the end and beginning of projects cannot always be optimally scheduled in sequence, some basic non-utilisation of capacity is unavoidable. Utilisation is measured biweekly according to the number of employees in operations and is reported as the proportion of employees that are not assigned to a project.

A higher utilisation was achieved in 2016 compared to the previous year. The achieved value is within the target corridor and above the two previous years.

Booking Intensity

(Average of Billed Hours per Project Day)

The number of billable customer hours as the basis for sales and earnings is subject to fluctuations, which do not depend on the order situation, such as the number of potential working days, holidays taken, illness and capacity utilisation. When these effects are neutralised in the analysis of billable customer hours, it is possible to determine the average billable customer hours per project day for an employee assigned to a project, provided that structures remain unchanged. Changes to structures, such as the management team, career levels and working models, are also included in booking intensity. The booking intensity determined this way measures the development of quantitative value creation per employee in the project and structural efficiency.

Since additional or fewer hours worked per project day leave costs virtually unchanged, a change in the booking intensity has a direct impact on earnings. The booking intensity is also influenced by the intensity of pursuing internal projects for company development, business development or pre-sales. It is specified as a percentage of an eight-hour workday.

Average booking intensity fell again slightly in 2016 compared to the previous year and stood below the target range. This was due to the introduction of a trainee model, in which trainees are introduced to the company and project work through a mixture of training and project involvement that is either free for the customer or at a very low cost. This model has

been a resounding success from a recruiting perspective as well as for projects and trainees themselves and, thanks to the high number of trainees (over 50), has had a significantly positive impact on booking intensity, as trainees perform much fewer billable customer hours.

Average Daily Rates

The change in the average daily rates, both in projects billed on a time and materials basis and in fixed-price projects on a calculation basis, is a key earnings driver. In particular compared to the change in labour cost per employee as the leading cost item, it has a significant impact on the operating earnings margin. Accordingly, the daily rates are a fixed internal control element. Their development is tracked on an individual customer basis and they are purposefully examined for improvement potential. The change in the average daily rate is reported as a percentage compared to the previous period. In financial year 2016, the daily rate – billed on a time and materials basis – was once again successfully increased within the target range.

Calculated Daily Rates and Budget

Overruns for Fixed-price Projects

The number of project days in fixed-price projects that exceed the budget has a direct impact on earnings, since those days are not available for other potential working time. Even if they can only be used in combination with projects completed below budget for an overall image of the impact that fixed-price projects have on earnings, the change in budget overruns serves as a signal for progress or setbacks related to fixed-price projects. The evaluation is based on days and not on euros, so this is a qualitative view.

Together with the daily rates used in project calculations, the under- and over-budget ratio is used to derive the calculated daily rate on fixed-projects during post-calculation. In 2016, adesso Group was able to avoid devaluation-induced budget shortfalls and significantly increase the calculated daily rate on fixed-projects. The target corridor was met.

adesso AG examines employee aspects as non-financial performance indicators. As a fast-growing premium IT service provider, adesso depends on the ability to gain many of the best graduates and experienced experts as new employees to pursue their

PERFORMANCE INDICATOR DAILY RATE T&M

	2016	2015	2014	Target corridor
Annual average	+ 2%	+ 2%	+ 4%	min. + 2 %

PERFORMANCE INDICATOR FIXED-PRICE PROJECTS *

	2016	2015	2014	Target corridor
Budget overruns (% of work in fixed-price projects)	0%	+ 3%	16 pp.	< 5 %
Arithmetical daily rates	+ 10%	- 11%	+ 2%	min. + 2 %

* The target corridor for budget shortfalls in fixed-price projects was redefined. It is now based on the share of the additional hours devalued in the inventory in relation to total hours in fixed-price projects. Previously, the calculation was based on year-on-year variance.

PERFORMANCE INDICATOR RECRUITING

	2016	2015	2014	Target corridor
Development of applications	+ 26 %	+ 13 %	+ 24 %	>= Gross profit increase, previous year
Development of initial job interviews	+ 20 %	+ 14 %	+ 22 %	>= Gross profit increase, previous year
New hires (all positions)	472	359	259	Increase over previous year
Turnover ratio (change and maximum value)	- 0.2 pp. < 10 %	- 1.3 pp. < 10 %	+ 1.8 pp. < 10 %	Improvement; < 10 %

PERFORMANCE INDICATOR SOFTWARE PRODUCTS **

	2016	2015	2014	Target corridor
License sales	6%	1%	36%	> 5 %
Maintenance sales	23%	14%	10%	> 5 %

** The insure product was included for the first time in 2016.

internal further development as extensively as possible and to retain them over the long term. Here the following two performance indicators are of particular relevance.

Recruiting Performance Figures and Turnover

Recruiting examines the number of applications received, initial interviews conducted and new hires. The turnover ratio is based on employee resignations of permanent staff.

In 2016, the number of applications received and initial interviews were increased by 26 % and 20 % respectively and at a higher rate of year-on-year growth than gross profit. The rapid organic growth continued, with the number of new hires for all positions increasing by 30 %. This was due to the expansion of the trainee programmes, further efforts to integrate students early on and the receipt of more-targeted applications. The turnover ratio decreased and remains at a good level within the target corridor.

Group management also examines the development of licence and maintenance proceeds from the FirstSpirit product and from the in|sure product for insurance companies as internal performance indicators, since licence proceeds in a short-term quarterly and financial year view have a major direct impact on earnings, and because maintenance proceeds form the basis for growing the development and marketing cost base of the product. Licence and maintenance proceeds were increased within the target corridor in 2016.

FORECAST, OPPORTUNITIES AND RISK REPORTS

Forecast Report

Group Orientation over the Coming Financial Year

adesso's vision of becoming one of Central Europe's leading IT consulting firms for industry-specific business processes will be pursued with vigour. The strategic guidelines for profitable growth through industry segmentation, new industries, new technologies, regional expansion and the expansion of the company's solution portfolio will continue to determine what action adesso takes over the next two years.

adesso Group will continue to invest in its own products and solutions, such as FirstSpirit, in|MOTION in the Enterprise Mobility segment, and in|sure and drebis for the insurance sector. It will continue to pursue its active acquisition policy and also prioritise the rapid expansion of business activities while accepting that margins may be negatively impacted as a result.

Future Macroeconomic Situation

In the wake of the significant upturn in economic development in Germany in 2014, growth momentum only rose slightly in 2015 by 0.1 percentage points to 1.7 %. The federal government had expected the rate of growth to remain stable in the reporting year, but economic growth continued to accelerate by a low margin to 1.9 % of gross domestic product.

In its latest projection issued in autumn 2016, the federal government expects there to be a major decrease in GDP growth momentum to 1.4 % in 2017. However, the government puts this decline down to the lower number of working days rather than any kind of economic downturn. Adjusted for calendar effects, growth in 2017 and 2018 is forecast to be much steadier at 1.6 %. The federal government expects continued solid growth for Germany even though the global economic environment is mixed.

Based on forecasts from international organisations, the global economy is expected to expand from 3.25 % in 2017 to 3.75 % in 2018. Prospects for individual regions, however, are extremely varied. The situation in emerging economies is said to have stabilised, while the outcome of the Brexit referendum has significantly reduced growth prospects for the United Kingdom, particularly in the coming year. The eurozone is set to continue its moderate growth, even though growth forecasts for 2017 are somewhat bleaker due to Brexit effects. All in all, weak growth on Germany's most important sales markets means that export growth is only set to be moderate.

Although the outlooks for foreign trade and the global economy have been somewhat brighter since the end of 2016, development continues to be fuelled by solid domestic economies. Private consumption, bolstered by further rises in employment rates and significant real income increases, is set to inject significant momentum into economic development in the coming years.

Based on information provided by a federal expert group, SECO, the Swiss State Secretariat for Economic Affairs, expects the Swiss economy to experience subdued growth in the coming years following widespread recovery in 2016 to GDP growth of 1.5 %. It anticipates growth of 1.8 % and 1.9 % in 2017 and 2018 respectively, which will be driven by domestic demand and foreign trade.

Based on projections by the Austrian Institute of Economic Research (WIFO) and the Austrian Institute for Advanced Studies (IHS), the Austrian Federal Ministry of Science, Research and Economy expects GDP growth to remain stable at between 1.4 % and 1.5 % in 2017. The IHS expects the rate of growth to increase slightly to 1.5 % in 2018, whereas the WIFO anticipates a slight slowdown in growth to 1.4 % due to the planned end to tax breaks midway through 2017 and the impact on consumer demand.

As a result, adesso expects a largely friendly macroeconomic market environment in 2017, associated with ongoing and some new risks in regards to actual development. One key tenet of the German federal government's projection is that Brexit and other effects will not lead to any negative develop-

ments that will result in uncertainty rising significantly in the projection period. In addition, it is also assumed that the financial sector will remain stable and that there will be no further escalation in geopolitical risks. Based on previous measures and tendencies towards stabilisation of the financial sector and the eurozone, a serious worsening of the current positive economic development in the sectors important for adesso is not expected in 2017 and 2018.

Future Industry Situation

According to the assessment of the industry association BITKOM, the ITC market will continue to grow in 2017. BITKOM expects the overall ITC market to expand by 1.2 % to EUR 162.4 billion in 2017. Growth in the previous year stood at 1.7 %. Besides the slight slowdown in macroeconomic growth, the lower rate of growth is due to the anticipated weakening of business involving IT hardware such as desktop PCs and notebooks and a more-significant decline in sales involving landline and mobile phone services owing to price competition and regulatory effects.

According to research institute Gartner, global IT investment is expected to rise by 2.7 % to USD 3.5 trillion in 2017. The highest rates of growth are expected to be generated by the Enterprise Software segment, with growth of 6.8 % (2016: 5.9 %) to USD 355 billion, and the IT services segment, with growth of 4.2 % (2016: 3.9 %) to USD 938 billion. Both segments are also expected to experience accelerated growth rates in 2018.

Internally, adesso Group assumes the market growth relevant to adesso in 2017 will be up by 3.0 % in the DACH region.

Anticipated Sales and Earnings Situation

The report on risks and opportunities is a pivotal part of management's considerations of the further development of adesso and of the forecast report. Potential acquisitions or acquisitions targeted after the point at which the consolidated management report is prepared are not included in the forecast report.

Based on anticipated economic growth of 3.0 % in relevant segments of the IT market as well as on internal calculations, adesso's management expects the following developments in financial year 2017:

- > Sales revenues are expected to increase to between EUR 270 million and EUR 300 million (2016: EUR 196 million and 2015: EUR 157 million).
- > Operating earnings (EBITDA) are expected to range between EUR 23.0 million and EUR 27.0 million (2016: EUR 23.1 million and 2015: EUR 14.3 million).
- > In terms of the operating EBITDA margin, a minimum value of 7.5 % is being targeted (2016: minimum value of 6.5 %).

Growth significantly above the industry average is expected in both segments. It must be noted that, on average, there are three fewer working days in 2017 compared to the previous year, which will result in a lower earnings contribution per employee in the IT Services segment and dampen potential earnings growth. The organic expansion of the number of employees in Germany in 2016 resulted in a corresponding rise in sales expectations for 2017.

The planned increase in the operating result was predominantly based on growth targets and earnings contributions from company acquisitions. Earnings are expected to be higher in the second half of 2017 than in the first half of the year. This is due to the slightly higher number of working days in the second half of the year, higher licence proceeds based on empirical figures and assumed growth throughout the year.

For 2018, we are anticipating further sales growth as well as further positive development of the operating result.

Expected Financial Position

adesso Group's liquid asset base is considered solid and will be sufficient to cover financial obligations in 2017 should the forecast business development come to fruition. The consolidated balance sheet structure at adesso Group and the balance sheet structure at adesso AG allow them to assume additional liabilities for investment projects to ensure that there are no shortfalls in terms of financing.

adesso Group is aiming to achieve net debt of between zero and 1.5 times EBITDA in the past financial year. Only if there is an opportunity to acquire a company of unusual size and profitability with a high strategic value for adesso Group would a deviation be considered.

The Executive Board intends to continue the dividend policy on this basis, calling for a balanced weighting of investments in growth, financial stability and shareholder participation in the company's earnings. If the earnings targets can largely be achieved, the Executive Board will strive to further increase the dividend. The dividend proposed for 2017 will reflect actual business development.

Opportunities and Risk Report

Risk management is a pivotal component of all decisions and business processes. adesso takes a broad view of risk, defined as the risk of not achieving financial and operating targets as planned and, in the strictest sense, factors endangering the existence of the company. In order to safeguard the success of the company over the long term, it is therefore essential that adesso identifies and analyses risks efficiently and combats or mitigates them by implementing sufficient control measures. adesso's active risk management therefore also opens up opportunities for the company.

Risk Management System

adesso Group possesses a system of processes and data analysis structures to monitor risks posed to the Group. An exclusive risk management software system is not used. Instead, adesso uses an integrated system developed by Corporate Planning AG for financial and operational planning as well as operational controlling. All plan and actual data from all business areas is stored in a central database for the purposes of reporting. Current figures are recorded directly from the company's financial accounting. Key performance indicators such as sales per employee, available liquidity, resources not fully utilised and incoming orders and the order backlog are registered. All companies included in the scope of consolidation are part of the reporting system.

Fixed reporting channels have been established for other risks, such as those arising from the absence of contracts, high levels of receivables from customers or projects that are threatening to go over budget. Certain reporting thresholds apply, which, if breached, result in the issue being included on the agenda of Executive Board meetings. Similar risks posed to companies in the adesso Group are identified through close cooperation with the respective responsible Executive Board member of adesso AG. adesso does not have a central risk manager. Risk reporting and assessment is documented in a risk manual. The risk manual is submitted to the Supervisory Board and to the auditor so that the risk management system can be acknowledged and reviewed.

Recognising opportunities and new areas of business are just as important for the development of adesso Group. Working groups consisting of the Executive

Board, Business Development, the management of companies in adesso Group and heads of business areas, meet on a regular basis to analyse new business opportunities and develop new business models, industries, solutions or regions. The progress made in implementing these measures is presented at regular intervals.

Within the scope of a risk inventory, the following risks were assessed as relevant to the business and subsequently assessed in view of their probability of occurrence and amount of loss. In principal, only risks that would have negative implications for the asset, financial or profit situation are listed here.

Moreover, adesso Group is potentially exposed to further risks which may not be known or be considered as major risks at the current time. The risk factor is calculated from the probability of occurrence and the amount of loss, which determines how relevant the risk is. The following risks were identified as at the reporting date and as at the preparation of the management report as having a risk factor worthy of inclusion in this report:

Primary Risk Carrier

Project Risks

In the event of the budgeted time frame and costs being exceeded, fixed-price projects can lead to project-related losses. Budget deviations are identified and analysed constantly during every fixed-price project. There is also an escalation mechanism that extends to the Executive Board. A customer has refused acceptance under a service contract as at the reporting date (previous year: one refusal of acceptance). One customer claimed back payments totalling more EUR 0.1 million (previous year: no customers). Several projects presented for customer approval have not yet been formally accepted by the customer. However, given that none of these customers has refused approval, this delay is not unusual in normal business practice.

The backlog of fixed-price projects that have yet to be invoiced in full rose year on year. However, project risk remains unchanged since the proportion of budget overruns in fixed-priced projects was further reduced.

A customer in Austria threatened damage claims of EUR 1.3 million in 2013 for allegedly high subse-

quent costs relating to the software supplied as part of a project. Those claims have not been pursued in court and adesso cannot see any grounds for the claims. As in the past two years, there was no further communication with the former customer regarding the claim in 2016.

adesso Group uses an Excel-based project controlling and reporting system, which directly draws on data from the ERP system implemented in mid-2016 and from the respective time and project management systems.

Depending on the project structure, sub-projects are defined and mapped on our web-based project and schedule management system. Expenses are distributed across the sub-projects and milestones are defined. Over the course of the project, actual time and expenses are compared with planning figures, the expenses are calculated and compliance with the defined schedule is documented. Additional monthly or weekly assessments of work still to be completed are used to calculate the level of completion of the project underway.

By comparing the level of completion and the remaining expenses, any potential budget deviations can be identified at an early stage. Projects that are likely to exceed the budget are given “overspend” status and are then added to the agenda of subsequent Executive Board meetings.

Aside from acknowledging the risk, the Executive Board meeting also discusses potential strategies to improve the situation by analysing the reasons for the overspending. In most cases, the estimations of remaining costs are determined and cost development displayed as a graph in order to counteract the tendency that project inconsistencies are identified too late. However, the share of projects with fixed budgets in the form of service contracts in terms of overall adesso Group sales is low at under 20 %.

adesso AG has established a Project Management Office (PMO) where experts supervise particularly large-scale or challenging projects using standardised tools and mechanisms alongside the regular project management team. These tools and processes are routinely used. Expenses arising from budget overspends for new fixed-price projects tended to be lower compared to the average of previous years.

Risks from a Shortfall in Planned Sales

In the event of a high gross margin and a large proportion of fixed costs, low sales can be directly reflected in adesso’s results. Sales improved year on year in 2016 and planned sales were exceeded, as in the previous year. General expectations in terms of economic development in 2017 are cautiously optimistic, although uncertainty surrounds elections in the USA, France and Germany. Demand, therefore, appears to be dynamic at a level of certainty similar to the previous planning period (the low growth rate and the low oil price had a negative impact in the previous year), albeit with a greater level of uncertainty. The IT Services segment in 2017 is planning for capacity utilisation to remain unchanged in 2017, which, given political uncertainty, leads to a higher planning risk. This risk factor is considered higher compared to the previous year due to the higher likelihood of sales revenues not meeting planned figures. However, a decline in order intake or the termination of important ongoing customer orders could result in idle periods with corresponding implications for the profit and financial situation within a short period of time. Given that the IT Services business area in particular generates business over specific periods of time, such idle periods are difficult to compensate for. As this risk factor is highly relevant to the company, adesso monitors the following values on a monthly and sometimes biweekly basis in order to identify trends at an early stage and take corresponding action: Order backlog, order intake, number of hours invoiced and capacity utilisation rates, number of employees not working at full capacity. Planning reliability for the subsidiary in Turkey that is under development is considered unchanged.

The IT Solutions segment pursues a product strategy. In this segment, even standard solutions developed by adesso are sold and implemented through licensing with maintenance contracts. While the established base of maintenance contracts represents a relatively stable basis for sales, the achievement of targets and the results of product companies are reliant on order intake and much more volatile than the service business, given the low number of new licences sold. Sales revenues from maintenance activities do not cover total ongoing costs at any of the adesso Group companies. As a result, the product companies’ licence sales and related sales pipelines are monitored in detail in terms of structure and development over time. The planning deviation

risk factor remains constant in the IT Solutions segment for 2017 (previous year: stable after slight rise in 2015 due to increased license sales in the USA for the FirstSpirit product).

In each business area, there are detailed plans in which actual figures and previous year's figures are compared on a monthly basis. A forecast is also prepared and revised on a cycle, identifying possible future deviations in a timely manner. Corresponding reports form the basis for the monthly discussions of business development and prospects. This applies to all companies of adesso Group.

Financial Risks

The risks posed by the financial situation and liquidity have increased slightly (previous year: slight increase). Due to borrowing of approximately EUR 20 million in further loans as part of a company acquisition, the indebtedness of adesso Group rose despite the successful implementation of a capital increase at the parent company with cash inflows of over EUR 12 million.

These loans, and acquisition loans taken out in previous years, must be repaid regardless of the economic performance of the company. As at 31 December 2016, the loan liabilities exceeded the level of cash and cash equivalents (previous year: cash and cash equivalents exceeded loan liabilities). Currency risks remain low for us. Only a small proportion of sales are conducted in a currency other than the euro. These transactions mainly concern adesso Schweiz AG and e-Spirit Schweiz AG, which conduct business in Swiss francs, adesso Turkey, which operates in Turkish lira, e-Spirit UK Ltd., which conducts business in British pounds and e-Spirit Inc., which operates in US dollars. These companies process the majority of their business in the respective national currency. No currency hedging transactions were carried out.

As part of the review into the allocation of costs of the market launch and entry of the FirstSpirit content management system in the USA, it was determined within the scope of an arm's length comparison that – unlike previous practices – adesso Group company e-Spirit AG must bear significant shares of the losses which were incurred and continue to be incurred by the US subsidiary e-Spirit Inc. (categorised as a limited-risk distributor).

All losses incurred in the USA have so far been fully financed by loans granted to e-Spirit Inc. by e-Spirit AG. For the years 2011 to 2016, the market entry compensation invoiced to e-Spirit AG by e-Spirit Inc. amounted to EUR 5.1 million, including the reversal of impairments in previous years. This results in a reduction of the overall tax burden of adesso AG (as the parent company of the income tax group, including with e-Spirit AG) and of adesso Group, as losses in the USA were not previously recognised as deferred tax assets. In the case of incomplete or only partial recognition, the effective tax rate of adesso AG and adesso Group in 2016 would be too low.

Financial risks can arise from the payment terms of service agreements for completed projects with significant volumes. In addition to prepayments and instalments, payments are often linked to the completion of the project. In the case of delayed completion, significant liquidity shortfalls can arise. The resulting risks can be predicted in the scope of project controlling, but not prevented. In some cases, project completion bonds must be deposited and are paid out if a project fails. In the case of major projects, service agreements can lead to large receivables. For example, if a customer has not paid two monthly invoices and the third month of service is already being provided.

The level of unpaid receivables and their development are included in monthly reporting at the individual company level. The CFO includes major receivables on the part of adesso AG in the agenda of Executive Board meetings, where individual strategies for collection are determined. There are currently several major projects (previous year: several) that could have a significant negative effect on adesso's liquidity. Projects relating to adesso solutions for the insurance industry, in particular, involve flows of liquidity that are largely independent of the provision of services. The corresponding risk factor was already increased in previous periods and remains at that level.

There were no notable risks from financial instruments.

Personnel Risks

adesso Group is an IT company, and its most important assets are its employees. As a result, adesso constantly monitors and assesses a number of key per-

formance indicators such as headcount, number of unproductive employees, number of employees on sick leave, employee costs/sales per employee and capacity utilisation.

The top-level management is always informed about every dismissal and new recruit. The Executive Board regularly analyses trends and discussed measures in its meetings. This allows any potential loss of knowledge and expertise to be identified promptly. In the product segments, essential knowledge is concentrated around a small group of key developers. These developers are a particular focus of human resources activities.

The search for suitable, experienced employees remains characterised by a demand surplus from companies. Circumstances remain difficult with no change compared to the previous year (previous year: no change, difficult). As in the past, the resulting entry-level salary expectations expressed by new recruits, as well as existing employees' expectations regarding pay rises, cannot always be compensated through a corresponding adjustment of market prices, meaning that the operating margin can be negatively impacted as a result.

We reinforce our position as a premium IT service provider through extraordinarily talented employees with a vast amount of experience in their fields. Competitors in this area continue to increase their headcounts – not simply IT service providers, but also between user companies and the IT industry. A small number of employees are responsible for adesso's outstanding position in its core industries. The simultaneous departure of more than one of these employees would expose the company to medium-term risks in terms of its further development. Such risks are combated through active recruiting, strategies to intensify employee loyalty and excellent career prospects in a prospering company. The numbers of incoming applications and new hires were further increased in 2016 over the already high level in the previous year.

Employee turnover decreased further year on year in 2016 (previous year: decreased) and remains under the industry average. The risk of insufficient availability of experienced employees for adesso is still considered high (previous year: high). The risk from high employee turnover and salaries increasing dis-

proportionately to market prices was assessed as constant. Personnel risk remains one of the Group's highly weighted main risks.

Internationalisation/Risks from Business Activities in other Legal Systems

adesso Group has expanded internationally in past years, entering new legal systems. This involves possible risks related to lacking knowledge of legal affairs and business practices, as well as difficulties with direct supervision by adesso AG's Executive Board due to distance.

In 2012, e-Spirit AG established the business operations of a company in the USA, e-Spirit Inc. based in Boston, and continuously expanded its structures and customer base. In the USA, the risk of product manufacturers taking legal action is greater than it is in Germany. e-Spirit Inc. has an insurance policy with the maximum amount of liability that it could be granted. In terms of both the legal structure of the company as well as internal cost allocation, it has been ensured that the potential for any problems to spread across to e-Spirit AG is as low as possible.

In 2013 the company established adesso Turkey in Istanbul and has begun operations there. The company did not turn a profit in 2016. The risk associated with Turkey appears to remain high due to political uncertainties. Given the size of the previous negative impact to earnings in the USA and in Turkey, this risk is still considered to be a primary risk.

Other Relevant Risks

Risks from the Customer Structure

As sales from individual customers or customer groups increase, so does the risk posed by such customer relationships from potential project terminations or normal project expiry. The largest customer accounted for 7 % (half year; previous year total: 8 %) of total sales in 2016. Thirty eight percent of total sales were generated with the ten largest customers (half year; previous year total: 38 %, 2014 total: 40 %). Customer structure risks tend to decrease with the growth of adesso and the proportion of sales with the top ten customers is constant. Continued cooperation with the largest customers was agreed for 2017.

The risk is considered to be unchanged year on year (previous year: unchanged) and remains in the group of other relevant risks. However, the abrupt loss of one of the top three customers or more than one of the ten largest customers would have the potential to negatively impact the earnings and financial situation of the Group substantially, at least in the short term. The relationship to each of these top customers is managed by a member of the Executive Board or by the management of the respective subsidiary in order to recognise potential risks promptly and take appropriate action.

The top ten customers are regularly listed by sales, with each customer's share of overall sales also being calculated. This avoids concentration on a small number of customer relationships and therefore allows a cluster risk to be recognised promptly.

Declining or Insufficiently Increasing Daily Rates

A significant proportion of sales is generated by service agreements and the charging of hours or days of service provided to the customer. With rising salaries and prices providing the basis for other costs, increases in nominal hourly and daily rates are essential in order to maintain the earnings margin and ultimately the existence of the Group. However, one must differentiate between a change in the daily rate for a certain activity for a certain customer and a change in average daily rates resulting from a different combination of orders or changes in the customer structure.

At adesso AG, volumes and daily rates are recorded for all service agreements and analysed in terms of their development. The volume-weighted average daily rate of the contract is thus calculated on a

monthly, quarterly and annual basis and reflected in the historical development. This does not include orders based on framework agreements or public tenders, which implies that the figures are suitable for general statements only. The daily rate for the orders increased by 2 % in 2016 compared to 2015 (previous year: 2 %), so that the risk of realised average daily rates is considered unchanged in the context of low overall increases in costs.

The realised daily rates are also periodically recorded at adesso AG at customer level and analysed by the Executive Board in terms of necessary adjustments. Any identified need for action will be implemented by sales wherever possible, which has anchored the relevant elements in its target-based system. Realised increases of daily rates are recorded for each customer and a price history is maintained. Daily rates were increased slightly in many cases among existing customers during 2016, with new customers tending to pay significantly more than the average daily rate. However, it was not possible to increase the prices paid by several major customers. It was not necessary to accept a price reduction with any of the ten leading customers (previous year: none). The risk of insufficiently rising daily rates compared to salary increases and prices on the cost side therefore remains, but has not increased compared to the previous year.

Risks from the Development of New Products and Solutions

Since 2012, the adesso Group has significantly increased its investment in the development of new products and solutions and, therefore, shifted the risk profile of its heavily service-oriented business model towards its product business.

The volume of investment was substantial in relation to the consolidated income statement and, as a result, was included as one of the main risks in 2012. Development of dynamic.suite, the company's single most important development, was stopped in mid-2012; investments made thus far have been lost. While this underscores the relevance of this risk, it has declined due to a reduction in investment in 2013 and has been reassigned to the other relevant risk category. With its solutions for the insurance sector, adesso is now pursuing the strategy of becoming one of the most important providers of software solutions for the insurance industry in addition to its service business. With this aim in mind, the company is carry-

ing out major development projects for customers in the health insurance, property insurance and vehicle insurance segments. The available life insurance system is being marketed broadly. All these products involve increasing risk from service and maintenance obligations. In the development phase, there is also increased risk from higher than planned development costs, for which adesso is partially responsible. However, those risks are offset by opportunities for considerable income from licences and maintenance. The risk remains unchanged due to the stage of the development of health insurance and property insurance interpreted positively by new customers.

Risks from Regulatory Law

As a listed company on the regulated market, adesso AG is subject to a number of additional legal regulations and obligations. adesso follows corresponding developments in case law, obtains assessments from experience solicitors and familiarises its entire workforce with the fulfilment of the legal obligations of a listed company. It has established the position of a Compliance Officer, maintains an insider directory and continuously identifies transactions that could either constitute breaches of insider trading regulations or could lead to imbalances in the information supplied to the capital market.

In 2015, BaFin reviewed and objected to an ad-hoc release from 2014 regarding suspicion of incomplete and late publication. The matter was handed over to the corresponding department of the federal agency for follow-up. The department requested that adesso provide a further statement in February 2017. If BaFin issues a fine as a result of the case, the fine guidelines it published in November 2013 shall apply.

Other Risks

The risk manual specifies a number of other risks as at the balance sheet date, the risk factor (probability of occurrence multiplied by the expected average loss) of which has not changed compared to the previous year and is lower than average. These risks are:

- > risks from falling order backlog
- > risks from insufficient sales pipeline
- > change to market and competition structure
- > liquidity risks from bank credit lines
- > risks from falling market volume
- > risks from technical infrastructure
- > risks from lack of insurance cover

Overall Statement Concerning the Group's Risk Situation

The overall risk profile of adesso Group rose slightly year on year by 16 points, or 3 %, to 492 points (previous year: declined by 6 % to 476 points). The fall in risk from incorrect products and the solid order backlog and sales pipeline as a result of the reception of the in|sure product range for insurance companies had a positive impact.

The increase in risk associated with the use of loss carry-forwards following the reassessment of e-Spirit Inc. as a limited-risk distributor and with liquidity risks from the borrowing of further acquisition loans had a negative impact. Due to the political uncertainty following the US elections and the Brexit referendum, and with upcoming elections in Germany, France and the Netherlands, the risk of planning adherence is considered higher. None of the identified risks can be considered at the current point in time as risks that endanger the existence of the company as a going concern. However, the risks detailed above could have a negative impact on the Group's asset, financial and earnings situation as well as on business performance.

Opportunities

We have introduced a series of measures to identify, assess and monitor opportunities for positive group development. In order to do so, organisational units were established to monitor portfolio development within a particular industry, to assess new technological developments and to evaluate the suitability of other industries for adesso.

With the group further increasing in size, the systematic networking of all units within adesso Group is leading to ever-increasing synergy effects, particularly in sales, and an integrated service approach for major customers.

In 2017, there will be a wide range of further opportunities to expand business activities and increase profits. In terms of the in|sure product range for insurance companies, the product geared towards the next insurance sector was completed at the end of 2016, in the wake of in|sure Life and in|sure Health for private health insurance companies. This product range can be launched in 2017. The development of the in|sure General segment for property insurance companies is already at an advanced stage to enable

the first sales cycle to begin. Further new customers are expected to be attracted to insure on the basis of the expanded range. The development of the vehicle insurance segment offers further opportunities in subsequent years.

In the Content Solutions segment, with the international product FirstSpirit, a range of further modules have been developed that open up potential for further growth. FirstSpirit CaaS (Content as a Service), companies can migrate their content management systems into the digital world and future. CaaS enables content to be provided for everything that can be reached using the internet, both at the current time and moving forward – mobile apps, smart/connected devices in the internet of things, shops, portals, software or third-party websites. This can be activated overnight without any additional implementation work. The entry to the US market, which has been pursued for some time now, offers potential, as the USA is the world's largest market for content management software.

The takeover of UnitCon GmbH at the start of 2017 adds valuable SAP skills, such as SAP CRM, SAP Hybris Marketing and SAP HANA Analytics, to the business activities and toolset of the adesso Group's E-Commerce business area. This consolidation of e-commerce platform, customer management and core ERP system makes adesso one of the largest providers in the German-speaking world, putting it in an outstanding position to rise to customers' challenges in relation to digitalisation. New opportunities for the acquisition of large transformation projects arise through the interplay with in-depth knowledge of the core business processes and the significant position of adesso mobile solutions.

In 2017, a great many activities and skills in the areas of smart hosting, application operations and cloud offers are to be migrated under the roof of adesso as a service GmbH, formerly known as adesso hosting services GmbH, with the company increasing its footprint as a provider in this area as a result.

We have established our own platform to invest in and develop start-up companies in the shape of inQventures GmbH (www.inqventures.de). The plan here is to make targeted investments in business ideas and companies offering potential synergies in adesso's core sectors and act as a partner to

start-ups by providing infrastructure, advice and software development services and helping them to gain market access as a means of testing the business model. The aim here is to attract further equity partners. Further opportunities can also open up for the entire adesso Group on the basis of the business models and adesso's position as a driver of innovation. In addition, value can be increased if companies in which adesso Group holds a stake develop positively.

The increase in the number of employees during the year and the continued pursuit of headcount growth, in particular for adesso in Germany, once again offers opportunities for growth that far outstrips general market growth in 2017. This is supported by completed and planned office openings in Nuremberg, Hanover, Essen and Aachen.

We continue to consider ourselves as an active consolidator in the IT market, even after the two major company acquisitions in 2015 and 2016. This was shown once again in early 2017 with the acquisition of UnitCon GmbH. Possible M&A transactions offer additional growth opportunities.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM FOR THE CONSOLIDATED ACCOUNTING PROCESS

In the accounting process, there is a risk that the financial reports based on the accounts could contain misrepresentations of facts that could have a significant influence on decisions made by the intended recipients of the reports.

These can include the misallocation of resources and non-performance of certain measures by the Executive Board in terms of the internal operational management of the Group, as well as misinterpretation on the part of report recipients, and particularly existing and potential shareholders. The processes and systems established at adesso are geared toward identifying potential sources of errors in the accounting process and thus limiting the resulting risks. They are intended to ensure that the annual report and consolidated financial statements are prepared in accordance with legal requirements. The report is standardised and identical in form for both the management report of the annual financial statement as well as for the group management report of adesso AG.

At adesso, no control and risk management system was defined and documented especially for the purposes of the accounting process. There is no internal auditing structure or risk committee. No external advisors or auditors were regularly engaged to review the efficiency of the controls in place as part of the consolidated accounting process.

A separate IT audit took place as part of the audit of the annual financial statements in 2016, which focused on the accounting system and the completeness and transparency of accounting systems due to the introduction of a new ERP system at adesso AG in mid-2016.

The structure of the internal control mechanisms and risk management system is primarily the result of how the accounting and reporting processes are organised. The majority of the accounting is car-

ried out decentrally by each of the Group's subsidiaries. As the parent company, adesso AG performs accounting services for some adesso Group companies together with centralised administrative processes such as payroll accounting. These companies' accounts are primarily kept on the same accounting system as clients. The fact that the same people are responsible for this process throughout the Group and that the adesso AG CFO has ongoing, direct access provides a good basis for the standardised, correct representation of facts.

Almost all companies use a standardised consolidated accounts system, minimising the number of discrepancies from the standard style of accounts. The detailed coverage of Group accounts means that it is simple to coordinate internal Group performance processes. The respective management teams are responsible for individual annual financial statements. Each annual financial statement that forms part of the consolidated financial statement is reviewed by the group auditor in terms of its plausibility and compliance with group standards, irrespective of any audits performed by the local auditor or tax consultant. For this purpose, the auditor of the consolidated financial statements visits the respective local auditor and inspects the documentation of key group companies.

All individual financial statements are submitted to a centralised consolidation system in adesso AG's Finance department and consolidated into the consolidated financial statement in accordance with the IFRS reconciliation statement. The software solution specially procured for this purpose was audited and certified in accordance with the "Erteilung und Verwendung von Softwarebescheinigungen" auditing standards ("Issuance and Use of Software Certificates") published by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW PS 880). All IFRS reconciliation and consolidation processes are fully documented and traceable.

The core elements of the control and risk management system when it comes to accounting is the monthly, standardised reporting of full monthly financial statements on the basis of the consolidated accounts system, the comparison of actual data with plan data and the update to the full-year forecast. A member of the adesso AG Executive Board is directly responsible for every company in adesso Group.

These Executive Board members discuss monthly financial statements with the respective company management and are thus able to identify abnormal developments and discrepancies in a timely manner. The monthly financial statements of all companies are analysed monthly by the adesso AG Executive Board. For the quarterly financial statements, each company must prepare an extensive IFRS package containing information for consolidation and details of the notes. This allows the Finance department of adesso AG to carry out a further audit of all information intended for external reporting during the financial year. The auditor of the consolidated financial statement is referred to for selected issues.

TAKEOVER-RELEVANT INFORMATION

adesso Group reports in accordance with the specification taken from the Übernahmerrichtlinie-Umsetzungsgesetz (ÜbernRLUG – German act on the implementation of EU directive on takeover bids) and assumed in Section 315 (4) HGB and Section 289 (4) HGB with the aim of providing potential takeover bidders with a complete overview of adesso as well as any potential takeover hurdles before they submit an offer.

There is only one type of share. Each common share grants one vote. adesso shares do not have restricted transferability. The Executive Board is authorised to increase the share capital until 3 June 2018 with the consent of the Supervisory Board in the amount of up to EUR 2,538,456 by issuing 2,538,456 new bearer shares, on one or more occasions, in exchange for cash contributions and/or contributions in kind. Shareholders' subscription rights can be excluded for contributions in kind in the form of companies, parts of companies and investments in companies, licence rights or receivables as well as capital increases for cash which are smaller than 10 % of the share capital.

The Executive Board is authorised to acquire own shares of up to 10 % of the share capital with the consent of the Supervisory Board until 1 June 2020. This authorisation for the acquisition and utilisation of own shares can be exercised one or more times, at

once or in several partial amounts, or for one or more purposes. When own shares are acquired through the stock exchange, the consideration paid per share is not permitted to exceed the opening price on the acquisition date by more than 10 % nor fall more than 20 % below it.

In case of acquisition through a public offer to buy, the offered purchase price or the limits of the purchase price range offered per share may not be more than 20 % higher or lower than the average values of the closing auction prices during the last three trading days in Frankfurt am Main prior to the day the offer is publicly announced. The own shares can be utilised by the Executive Board within the scope of stock option plans, sold to third parties with the consent of the Supervisory Board for cash or contributions in kind, especially in the context of company mergers or the acquisition of companies, offered to employees or managers, either to buy or as compensation elements, or also surrendered or withdrawn without consideration. As at the reporting date, adesso AG itself held none of its own shares. In addition, we are not aware of any other restrictions with regard to voting rights. In principle, there are no restrictions in respect of the transfer of adesso shares. As at 31 December 2016, 41,715 adesso shares were subject to a hard lock-up agreement, which expired on 30 March 2017.

A further 21,764 adesso shares are subject to what is known as a soft lock-up agreement, under which a premature sale of adesso shares would lead to a retrospective reduction in the purchase price paid by adesso for the corresponding company, until 13 September 2018. We are not aware of any further restrictions that could arise from agreements between shareholders.

Further information on equity and the company's capital measures can be found in the equity section of the notes.

As at 31 December 2016, founding shareholder and Supervisory Board Chairperson Prof. Dr. Volker Gruhn held 27.9 % of share capital through a company he controls. Founding shareholder and member of the Supervisory Board, Rainer Rudolf, held 17.6 % of shares as at 31 December 2016. As at his most recent voting rights announcement, Ludwig Fresenius held 10.0 % of share capital.

Please refer to the notes to the consolidated financial statements for more information on the company's ownership structure.

We are not aware of any other direct or indirect share capital participations which exceed 10 % of voting rights. As the shares in the company are bearer shares, the company is in principle only notified of changes to share ownership insofar as the changes of ownership are subject to notification obligations and the respective parties fulfil these obligations. The company is only made aware of transactions that are completed within minimum and maximum notification thresholds in exceptional cases. Voting rights announcements, and the shareholder structure derived as a result, are always kept up to date and can be accessed via the Investor Relations section of the website, www.adesso-group.de.

The Articles of Association do not permit any adesso shareholder to appoint members of the Supervisory Board. No shareholder possesses any other special rights that confer them powers of control. There are no restrictions to the voting rights of the adesso shares held by our employees.

Members of the Executive Board are appointed or dismissed in accordance with Sections 84 and 85 AktG. The Executive Board consists of at least one person in accordance with Article 6 of the Articles of Association. The Supervisory Board determines the number of Executive Board members, as well as the appointment and dismissal of members and the appointment of a member of the Executive Board as CEO. Changes to our Articles of Association are carried out in accordance with Sections 133 and 179 AktG by means of a resolution by the General Meeting passed with a majority of at least three-quarters of the share capital represented at said meeting. The Articles of Association do not contain any derogative provision. The Supervisory Board is entitled to resolve changes to the wording of the Articles of Association (Article 10 (7) of the Articles of Association). The resolutions of the General Meeting are decided on the basis of a simple majority of submitted votes, unless a different voting system is stipulated by law (Article 15 of the Articles of Association).

The company is not part of any material agreement containing special provisions in the event of a change of control or acquisition of control, such as in the event of a takeover bid. Our Articles of Association do not contain any provisions which grant the Executive Board special powers in the event of a takeover bid. Agreements concerning the phantom share plan stipulate a shorter waiting period of phantom shareholders in the event of a change of control. Moreover, there are no agreements with members of the Executive Board or the Supervisory Board or any employees concerning compensation in the event of a change of control.

DECLARATION OF CONFORMITY (SECTION 289A HGB) AND CORPORATE GOVERNANCE REPORT

In accordance with Section 3.10 of the German Corporate Governance Code, the Executive Board and Supervisory Board of adesso AG report on an annual basis regarding the corporate governance of the company and publish this report in conjunction with the Declaration of Conformity in accordance with Section 289a HGB. The report and declaration, including the declaration of conformity, are available online at www.adesso-group.de/corporate-governance/.

REMUNERATION REPORT

Principles of the Remuneration System

At adesso, variable remuneration systems are in place throughout the group for a variety of functions. Management remuneration is primarily geared toward the success of the company and industry standards.

In addition to fixed remuneration, the adesso AG Executive Board is compensated depending on the amount of operating earnings (in reference to EBITDA), as well as earnings per share at the Group level, constituting performance-based remuneration. Part of the Executive Board's variable remuneration is share-based in the form of stock options and virtual stock options, and phantom shares granted to some members. The Executive Board participated in the company-wide stock option scheme open to many employees and which expired at the end of 2013. This was replaced by a model of virtual stock options for the Executive Board. Since this model has expired, no new virtual stock options are being issued.

The members of the Supervisory Board are reimbursed for their expenses and also receive annual remuneration.

Executive Board Remuneration

Basic remuneration is paid as a monthly salary and is performance related. An annual pay rise of 1 % was contractually agreed for the Executive Board members appointed in each year up to and including 2019. Negotiations for salary adjustments are conducted when inflation exceeds 3 %. The members of the Executive Board also receive payments in kind and other remuneration, including the use of a company car, the reimbursement of travel expenses, coverage of direct insurance premiums, a personal pension and reimbursement of half the documented premiums for voluntary health and nursing care insurance.

Variable, Performance-based remuneration

The variable remuneration model for the Executive Board is based directly on the relevant metrics of EBITDA and earnings per share (EPS), which are reported to adesso AG shareholders in the consolidated financial statements according to IFRS.

Variable remuneration increases proportionally to EBITDA and EPS. At a defined point, the increase is limited to EUR 60 thousand for the EBITDA value and EUR 90 thousand for the EPS value. One of two different variants, which are differentiated by the rate of increase and watershed, can be selected each year.

Long-term remuneration

A phantom share programme for certain members of the Executive Board and employees at the first management level of adesso AG was approved by the Supervisory Board in financial year 2009. It was intended to help bind managers to the company in the long term. The phantom shares participate in dividends just like actual shares but the payments are included in salaries. After being with the company for a term of five to eight years, the holders of phantom shares have a right to receive the value represented at the time by the number of phantom shares and the underlying share price. Payment is included in salaries. The members of the Executive Board obtained additional rights from these phantom shares in 2016. In case a board member leaves the Executive Board, the following has been established with regard to the phantom share programme: If a board member leaves before the end of three years from the start of the programme (for one board member, three years and eight months) due to termination of contract, the board member only has to return the shares in exchange for compensation in case of a change of control. This is the case if shareholders Rainer Rudolf and Prof. Dr. Volker Gruhn (or companies through which they hold their shares) hold less than 35 % of the company's share capital through the sum of their shares. If a board member leaves after at least three years (for one board member, three years and eight months) because the Supervisory Board dismisses the member, or due to the termination of their contract, or if the company fails to make a contract renewal offer at terms and conditions at least equivalent to those of the current contract, the board member has to return the shares. Compensation is 75 % of the applicable value. If a board member leaves after at least eight years (for one board member, six years and eight months), the shares have to be returned in exchange for compensation.

The share option programme of adesso AG duly expired on 31 December 2013. In view of the

granted stock options, the Executive Board received virtual stock options for financial year 2014. The aim of the virtual stock options was that they are financially equal to option rights when post-tax income is used for subscribing the virtual stock options in order to buy adesso AG shares on the market. The same conditions apply to virtual stock options as for stock options granted by the programme expiring on 31 December 2013. The number of virtual stock options issued to the Executive Board depends on the variable performance-based remuneration component, which means it is also performance-based. The virtual stock options only result in cash value compensation if the exercise criteria are met after the end of the minimum holding period. 140 virtual stock options are granted for each EUR 1,000 paid as the performance-based variable remuneration component 1 for a year. The virtual stock options remain valid even if a board member leaves before exercising the virtual stock options. Due to the further development of the variable remuneration model based on EBITDA and earnings per share, the virtual stock options program was terminated, as well. This means the members of the Executive Board did not earn any new claims under this program for 2016.

Former members of the Executive Board who have left the company do not receive any remuneration and were not granted any pension commitments. No loans or advances were granted to members of the Executive Board. A former member of the Executive Board has continued to work in the company as a manager since 1 July 2015 at adapted terms without Executive Board membership.

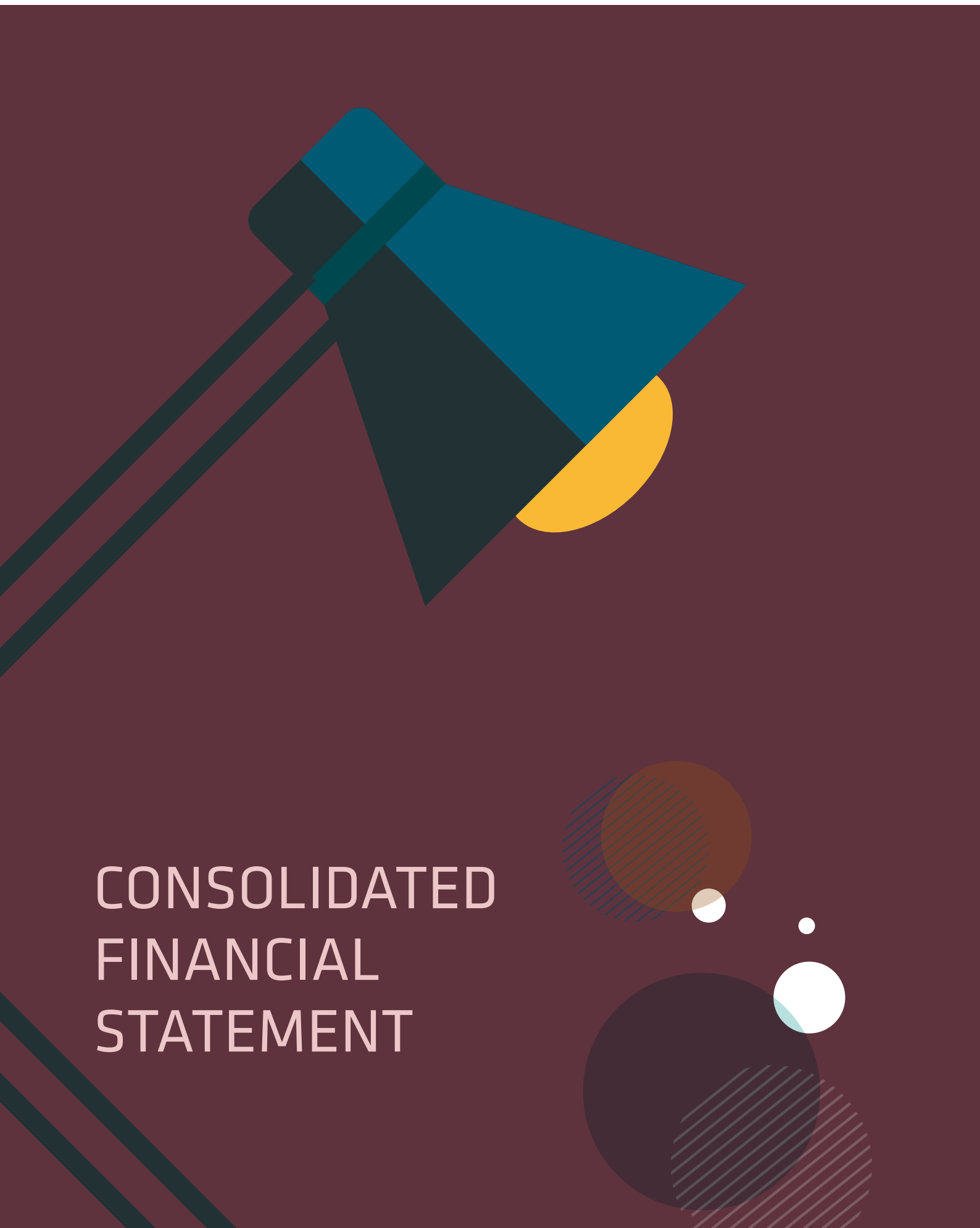
Supervisory Board Remuneration

According to Section 11 of the bylaws, the members of the Supervisory Board are reimbursed for their expenses and also receive annual remuneration. This consists of a fixed component of EUR 5 thousand, plus variable remuneration at a rate of 0.275 % of the company's balance sheet profit, reduced by 4 % of contributions to share capital. The Chairperson receives one and a half times this remuneration. Supervisory Board members who have not held their position for a full financial year receive remuneration according to their term in office. The chairperson of the Supervisory Board receives additional remuneration under a consulting and brokerage agreement.

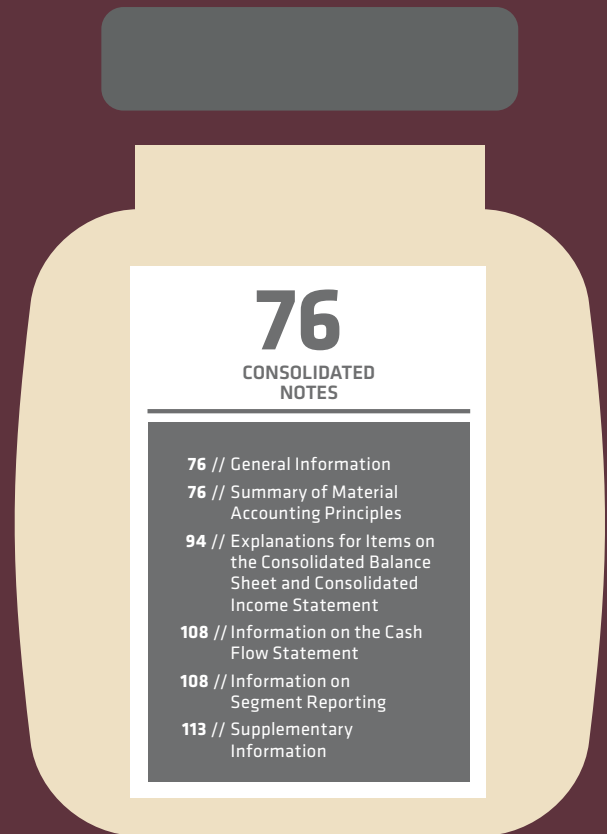
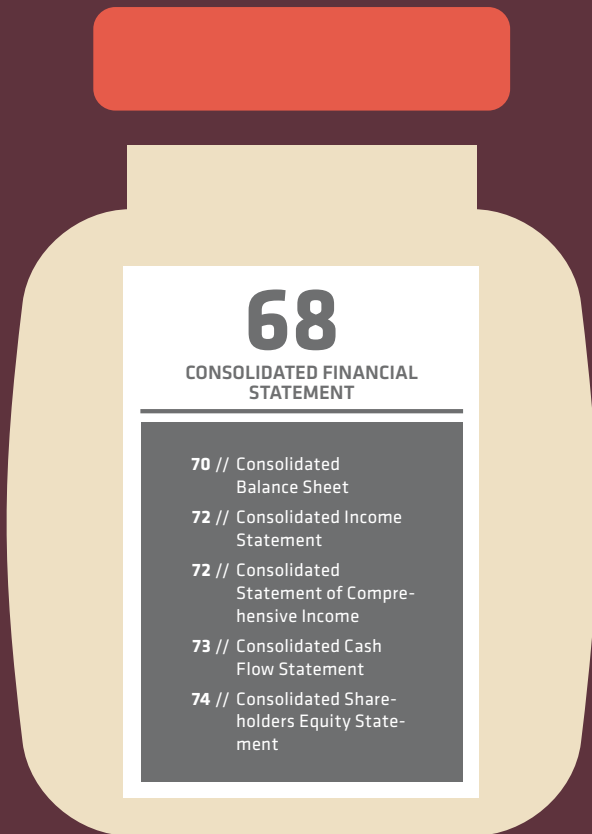
adesso AG has neither granted loans or advances to members of the Supervisory Board nor issued bonds or guarantees on their behalf. There are no family ties between members of the Supervisory Board, nor between members of the Supervisory Board and the Executive Board. There are no service agreements between the Supervisory Board members and adesso or its subsidiaries that call for remuneration upon termination.

For further information regarding Supervisory Board and Executive Board remuneration, including detailed tables regarding individual remuneration of Supervisory Board and Executive Board members, information pursuant to Section 314 (1) No. 6 HGB and further information pursuant to the German Corporate Governance Code, refer to the consolidated notes.

Remuneration Report



CONSOLIDATED FINANCIAL STATEMENT



CONSOLIDATED BALANCE SHEET

OF ADESSO GROUP AS OF 31 DECEMBER ACCORDING TO IFRS

ASSETS

<i>in EUR k</i>	<i>Notes</i>	<i>2016</i>	<i>2015</i>
CURRENT ASSETS			
Cash on hand and at bank	1.	43,144	28,162
Trade accounts receivable	2.	54,496	37,215
Receivables PoC	3.	15,527	9,515
Receivables from income taxes	10.	770	216
Financial assets	4.	299	257
Other assets	5.	3,712	3,291
		117,948	78,656
NON-CURRENT ASSETS			
Goodwill	6.	40,981	23,352
Intangible assets	6.	15,579	10,230
Property, plant and equipment	7.	6,667	5,293
Shareholdings recognized under the equity method	8.	760	535
Financial assets	9.	793	566
Receivables from income taxes	10.	0	13
Deferred taxes	10.	763	1,522
		65,543	41,511
TOTAL ASSETS		183,491	120,167

Consolidated Balance Sheet

EQUITY AND LIABILITIES

<i>in EUR k</i>	<i>Notes</i>	<i>2016</i>	<i>2015</i>
CURRENT LIABILITIES			
Financial liabilities	11.	13,530	4,212
Trade accounts payable	12.	11,257	9,411
Liabilities PoC	12.	11,814	6,968
Liabilities from income taxes	10.	2,219	1,327
Provisions	13.	4,539	4,083
Other current liabilities	14.	37,364	29,539
		80,723	55,540
NON-CURRENT LIABILITIES			
Financial liabilities	11.	33,831	17,534
Pensions and similar liabilities	15.	186	177
Provisions	13.	6,684	3,320
Other non-current liabilities	14.	105	97
Deferred tax liabilities	10.	2,218	1,024
		43,024	22,152
EQUITY			
	16.		
Subscribed capital		6,167	5,800
Capital reserve		18,290	10,619
Other retained earnings		21,909	18,915
Reserve for currency conversion		663	690
Consolidated earnings		12,696	5,312
Minority interest		19	1,139
		59,744	42,475
TOTAL EQUITY AND LIABILITIES		183,491	120,167

CONSOLIDATED INCOME STATEMENT

OF ADESSO GROUP FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

<i>in EUR k</i>	<i>Notes</i>	<i>2016</i>	<i>2015</i>
Sales revenues	18.	260,407	196,449
Other operating income	19.	3,309	1,862
Own work capitalised		0	165
TOTAL INCOME		263,716	198,476
Costs of material	20.	-28,078	-22,975
Personnel costs	21.	-168,288	-125,144
Other operating expenses	22.	-44,290	-36,074
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION (EBITDA)		23,060	14,283
Depreciation on property, plant and equipment	23.	-6,352	-4,877
EARNINGS BEFORE INTEREST AND TAXES (EBIT)		16,708	9,406
Income from investments	24.	416	309
Interest income and similar income	24.	43	51
Interest expenses and similar expenses	24.	-445	-291
INCOME FROM ORDINARY ACTIVITIES (EBT)		16,722	9,475
Income taxes	25.	-4,026	-4,163
CONSOLIDATED EARNINGS		12,696	5,312
of which attributable to minority interests		173	565
of which attributable to shareholders of adesso AG		12,523	4,747
Number of shares at the end of the financial year		6,167,423	5,799,720
DILUTED/UNDILUTED EARNINGS PER SHARE (IN EUR)	26.	2.14	0.82

CONS. STATEMENT OF COMPREHENSIVE INCOME

OF ADESSO GROUP FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

<i>in EUR k</i>	<i>2016</i>	<i>2015</i>
Consolidated earnings	12,696	5,312
ITEMS NOT SUBSEQUENTLY TRANSFERRED TO THE INCOME STATEMENT		
Actuarial gains and losses	-20	260
Deferred taxes on actuarial gains and losses	7	-84
ITEMS SUBSEQUENTLY TRANSFERRED TO THE INCOME STATEMENT		
Currency translation differences	-27	232
TOTAL OTHER COMPREHENSIVE INCOME	-40	408
TOTAL INCOME	12,656	5,720
of which attributable to shareholders of the parent company	12,488	5,135
of which attributable to other shareholders	168	585

Consolidated Income Statement
 Cons. Statement of Comprehensive Income
 Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT

OF ADESSO GROUP FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

<i>in EUR k</i>	2016	2015
EARNINGS BEFORE TAX	16,722	9,475
Income from financing activities	402	240
Depreciation and amortization on property, plant and equipment and intangible assets	6,352	4,877
Result from shareholdings recognized under the equity method	-416	-309
Non-cash income/expenses	-16	52
Change in pension provisions	-4	-325
Change in other provisions	3,617	2,431
Tax payments	-4,060	-2,267
Profits from the disposal of fixed assets	-10	0
Change to net operating assets	-7,122	2,703
CASH FLOW FROM OPERATING ACTIVITIES	15,465	16,877
Divestments from property, plant and equipment	159	0
Change in cash and cash equivalents from initial or deconsolidation	-25,095	-16,643
Payments for investments in property, plant and equipment	-2,308	-2,076
Payments for investments in intangible assets	-2,937	-7,933
Payments for investments in financial assets	0	-226
CASH FLOW FROM INVESTMENT ACTIVITIES	-30,181	-26,878
Dividend payments	-2,309	-2,070
Dividends from equity companies	270	28
Capital increase	12,749	40
Payments from minority interests	0	34
Payments for the acquisition of additional shares in subsidiaries	-5,831	0
New liabilities to banks	30,500	18,379
Repayment of financial liabilities	-5,243	-2,199
Interest paid	-430	-163
Interest received	10	32
CASH FLOW FROM FINANCING ACTIVITIES	29,716	14,081
Currency differences	-18	358
CHANGE IN CASH AND CASH EQUIVALENTS	14,982	4,438
Cash and cash equivalents at the beginning of the period	28,162	23,724
Cash and cash equivalents at the end of the period	43,144	28,162

CONSOLIDATED SHAREHOLDERS EQUITY STATEMENT

OF ADESSO GROUP AS OF 31 DECEMBER 2016 ACCORDING TO IFRS

<i>in T€</i>	<i>Share capital</i>	<i>Capital reserves</i>
01.01.2015	5,794	10,582
Share-based compensation	0	3
Effects from first-time consolidated subsidiaries	0	0
Increase in share capital by exercises of stock options	6	34
Other results at the end of the financial year	0	0
Consolidated result	0	0
Total	0	0
Dividend payment	0	0
31.12.2015	5,800	10,619
Share-based compensation	0	3
Acquisition of additional shareholdings in subsidiaries (including the issue of new shares)	42	-4,778
Capital increase	293	12,247
Increase in share capital by exercises of stock options	32	199
Other results at the end of the financial year	0	0
Consolidated result	0	0
Total	0	0
Dividend payment*	0	0
31.12.2016	6,167	18,290

* Dividend payment of EUR 1.740 thousand corresponds to EUR 0.30 per share with dividend rights

Cons. Shareholders Equity Statement

<i>Other comprehensive results of the financial period</i>	<i>Currency translation differences</i>	<i>Retained earnings / Balance Sheet Profit</i>	<i>Equity of adesso AG shareholders</i>	<i>Other shareholders</i>	<i>Total Equity</i>
	458	20,207	37,041	1,707	38,748
	0	0	3	0	3
	0	0	0	34	34
	0	0	40	0	40
	232	156	388	20	408
	0	4,747	4,747	565	5,312
	232	4,903	5,135	585	5,720
	0	-1,448	-1,448	-622	-2,070
	690	23,662	40,771	1,704	42,475
	0	0	3	0	3
	0	0	-4,736	-1,095	-5,831
	0	0	12,540	0	12,540
	0	0	231	0	231
	-27	-13	-40	0	-40
	0	12,523	12,523	173	12,696
	-27	12,510	12,483	173	12,656
	0	-1,740	-1,740	-590	-2,330
	663	34,432	59,552	192	59,744

CONSOLIDATED NOTES

FOR FINANCIAL YEAR 2016

I. General Information

The adesso Group (hereinafter referred to as adesso) is an IT service provider independent of manufacturers focusing on consulting and software development. On behalf of its customers, adesso provides optimised core business process design and support through the use of information technology.

adesso AG is a corporation under German law. Its registered office is in Dortmund in Germany. The address is: adesso AG, Stockholmer Allee 20, 44269 Dortmund, Germany. The commercial register is likewise located in Dortmund (HRB 20663).

II. Summary of Material Accounting Principles

The consolidated financial statements were prepared by adesso AG according to the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), applicable as at 31 December 2016 and adopted by the EU, as well as the supplementary regulations according to Section 315a (1) of the German Commercial Code (HGB). All requirements of the applied standards and interpretations were met by adesso.

The consolidated financial statements as at 31 December 2016 are denominated in euros. They were prepared according to the historical cost principle unless other valuation methods are required by IFRS. Uniform accounting methods based on IFRS were applied to the assets and liabilities of the companies included in the consolidated financial statements. The individual financial statements of the companies included in the consolidated financial statements are issued for the reporting date of the consolidated financial statements.

Assets and liabilities are classified in the consolidated balance sheet as current or non-current items according to their maturities. In principle, assets and liabilities are classified as current insofar as they are realised or mature within the normal business cycle or within twelve months after the end of the reporting period. The consolidated income statement is structured according to the total cost format. The accounting methods are used consistently for all periods unless otherwise specified.

All amounts are in EUR thousand (EUR k) unless otherwise specified. Some amounts may not add up to the disclosed sums as a result of rounding.

The declaration on the German Corporate Governance Code required, pursuant to Section 161 of the German Stock Corporation Act (AktG), has been issued and was made permanently available to the shareholders at www.adesso-group.de/corporate-governance/.

The consolidated financial statements and the Group Management Report were approved by the Supervisory Board on 18 April 2017 and released for publication by the Executive Board.

Financial Reporting Standards that were Approved but not yet Applied

The International Accounting Standards Board (IASB) has approved standards, amendments to standards and interpretations with mandatory application for financial years beginning after 1 January 2016. Application of the following regulations is not yet mandatory, and they have not been applied by adesso.

> In January 2016, the IASB approved IFRS 16 (Leases), which will have to be applied for financial years beginning on or after 1 January 2019; the standard establishes principles for the recognition, measurement, presentation and disclosure of leases. According to IFRS 16, all leases generally have to be included on the balance sheet of the lessee by recognising a right of use asset and the corresponding liability. Deviations are only permitted if the lease term is twelve months or less or the underlying asset has a low value, in which case the cost of the lease can generally be written off on a straight-line basis over the lease term. The lessor largely continues to classify leases as operating or finance leases. This standard has not yet been approved by the EU. adesso will apply the standard as at 1 January 2019 and will likely exercise the simplification measure to determine the leased assets and the leased liability as at 1 January 2019. adesso has significant leases with regard to the leasing of office space and vehicles.

Were IFRS 16 to be applied as at 1 January 2017, this would likely impact 2017 as follows:

<i>Consolidated balance sheet</i>	<i>Change in T€</i>
Property, plant and equipment	24,973
Liabilities	24,999
<hr/>	
<i>Consolidated income statement</i>	
Other operating expenses	-7,860
EBITDA	7,860
Depreciation and amortisation	7,528
EBIT	332
Interest expense	358
EBT	-26
Deferred tax expense	-7
CONSOLIDATED PROFIT/LOSS	-19

> In July 2014, the IASB approved the final version of IFRS 9 (Financial Instruments). The standard replaces the provisions of IAS 39 (Financial Instruments: Recognition and Measurement). According to IFRS 9, financial assets are allocated to categories “Amortised cost”, “Fair value through other comprehensive income”, or “Fair value through profit or loss”. Financial assets are allocated to category “Amortised cost” provided that these are being held to receive contractually agreed cash flows and the financial asset is not to be sold. Furthermore, financial assets can only be allocated to this category provided that the expected cash flows from the financial assets include repayment and interest payments. The financial assets allocated to this category are measured at amortised cost. The financial assets allocated to the other two categories are measured at fair value. Changes in value are to be recognised either in the consolidated income statement or in other comprehensive income. IFRS 9 also includes new provisions on the impairment of financial assets. According to IFRS 9, impairments are generally to be recognised for financial assets in the amount of the loss to be expected in the coming twelve months. If the default risk of a financial asset rises significantly, the impairment is to be recognised in the total default amount expected over the term of the financial asset. The latter is to be applied to trade receivables for reasons of simplification. According to IFRS 9, financial assets are generally to be measured at amortised cost, and only measured at fair value in exceptional cases. There is also an option to measure financial liabilities at fair value. IFRS 9 also includes principles for the recognition, measurement, presentation and disclosure of hedges. IFRS 9 applies to financial years beginning on or after 1 January 2018 and has been approved by the EU. The first-time adoption of the standard will have no material impact on adesso’s consolidated financial statements.

> In May 2014, the IASB approved IFRS 15 (Revenue from Contracts with Customers). IFRS 15 provides a uniform framework for all questions relating to revenue from contracts with customers. The provisions included in IFRS 15 are to be applied uniformly for various transactions and across all industries. This does not apply to contracts that fall within the scope of IAS 17 (Leases), IFRS 4 (Insurance Contracts) and IFRS 9 (Financial Instruments). The standard, which had been approved by the EU, is to be applied to financial years beginning on or after 1 January 2018. The first-time adoption of IFRS 9 will likely have no material impact on adesso's consolidated financial statements.

Company Acquisitions

On 4 May 2016, adesso acquired 100 % of the shares in Smarthouse Media GmbH, Karlsruhe, Germany. The acquisition of Smarthouse Media GmbH allowed adesso AG to swiftly expand its visibility and portfolio in banking, a core industry. The company's specialist expertise in the development and operation of bank portals for complex financial products is an ideal match for adesso's sector approach. Smarthouse Media GmbH was subsequently renamed smarthouse adesso financial solutions GmbH. The purchase price was paid in cash and amounted to EUR 23,943 thousand.

The fair value of the receivables resulting from supplies and services acquired was EUR 4,621 thousand. The contractual cash flows from receivables amount to EUR 4,640 thousand. Ancillary acquisition costs totalled EUR 88 thousand. They are recognised under "Other operating expenses" in the consolidated income statement.

Goodwill resulting from the merger mainly represents the workforce of Smarthouse Media GmbH, which cannot be capitalised under IFRS.

On 14 September 2016, adesso acquired 100 % of the shares in flitcon GmbH, Düren, Germany. By taking over a 100 % stake in the business intelligence specialist based in Düren, Germany, adesso has expanded its portfolio to include technologies and services that are of essential importance, particularly for banks and insurance companies. flitcon GmbH develops high-performance solutions for the business analytics and business intelligence software made by SAS. Flitcon's Managing Director and founder will become Head of Business Intelligence at adesso. The purchase price was paid in cash and amounted to EUR 1,500 thousand. EUR 700 thousand was also paid to the sellers of the shares. This amount is to be repaid in the event that the seller either sells, within a period of two years, the adesso AG shares that must be acquired as part of the purchase agreement, or if the seller, within a period of two years, is no longer in the same position as when the shares were sold. According to IFRS 3, this amount must be classified as remuneration for post-combination services. As a result, the EUR 700 thousand is to be recognised on a straight-line basis over a period of two years. The amount not yet recognised through profit and loss is to be deferred and recognised under other assets.

The fair value of the receivables resulting from supplies and services acquired was EUR 412 thousand. This corresponds to the contractual cash flows from receivables. Ancillary acquisition costs totalled EUR 17 thousand. They are recognised under "Other operating expenses" in the consolidated income statement.

Goodwill resulting from the merger mainly represents the workforce of flitcon GmbH, which cannot be capitalised under IFRS.

On 5 September 2016, 100 % of the shares in SP Integration GmbH, Sulzbach, Germany, were acquired by notarised purchase and transfer agreement. SP Integration sees IT projects through, from the mapping out of requirements to architecture consulting to implementation. This company maintains intensive partnerships with IBM and Microsoft and has highly qualified employees who are trained and certified for the use of state-of-the-art technologies. They bring comprehensive expertise to adesso, especially in the areas of business intelligence, groupware and portals, and will thus make a sustainable contribution to our contin-

ued growth. The purchase price was paid in cash and amounted to EUR 265 thousand. EUR 135 thousand must also be paid to the sellers of the shares in two years; this amount is conditional on the sellers' performance. According to IFRS 3, this amount must be classified as remuneration for post-combination services. As a result, the EUR 135 thousand is to be recognised on a straight-line basis over a period of two years. The amount not yet recognised through profit and loss is to be deferred and recognised under other assets.

The fair value of the acquired trade receivables was EUR 836 thousand. The contractual cash flows from receivables amount to EUR 850 thousand. Ancillary acquisition costs totalled EUR 14 thousand. They are reported under "Other operating expenses" in the consolidated income statement. The income from a bargain purchase resulting from the merger (EUR 97 thousand) is recognised under "Other operating income". This is due to the fact that, according to IFRS 3, the future payment of EUR 135 thousand to the former shareholders may not be paid at the cost of the merger.

The Group obtained the following assets and liabilities in the course of the merger:

<i>Amounts in EUR k</i>	<i>Smarthouse Media GmbH</i>	<i>flitcon GmbH</i>	<i>SP Integration GmbH</i>
Goodwill	16,794	741	
Customer lists	3,844	448	
Orders	1,010	159	
Software	1,470	207	
Other fixed assets	810	23	37
Trade receivables	4,621	412	836
Receivables from income taxes	80	139	
Other current receivables	106		58
Other assets	39	1	
Cash and cash equivalents	1	578	35
TOTAL ASSETS	28,776	2,708	966
Non-current provisions			
Other non-current liabilities		300	
Current provisions	95	6	5
Trade payables	448	98	128
Tax liabilities		214	
Other liabilities	2,338	332	471
Deferred tax liabilities	1,952	258	
TOTAL LIABILITIES	4,833	1,208	604
Net assets	23,943	1,500	362
Consideration	23,943	1,500	265
Income from bargain purchase			97
Cash and cash equivalents received	1	578	35
Actual cash outflow for acquisition	23,942	922	230

The sales revenues of Smarthouse Media GmbH included in adesso's consolidated financial statements are EUR 11,848 thousand. The profit for the period of Smarthouse Media GmbH included in the consolidated financial statements is EUR 269 thousand.

The sales revenues of flitcon GmbH included in adesso's consolidated financial statements are EUR 646 thousand. The profit for the period of flitcon GmbH included in the consolidated financial statements is EUR -12 thousand.

The sales revenues of SP Integration GmbH included in adesso's consolidated financial statements are EUR 760 thousand. The profit for the period of SP Integration included in the consolidated financial statements is EUR 88 thousand.

If the acquired subsidiaries had already been consolidated as at 1 January 2016, consolidated sales revenues would be EUR 270,647 thousand and net consolidated profit for the period would be EUR 12,746 thousand.

Consolidation

(a) Subsidiaries

Subsidiaries are companies controlled by adesso. adesso is deemed to have control over a company if adesso has power over this company, is exposed to variable returns and/or rights to the same and can use its power over the company to influence the returns. adesso has power over a company if existing rights mean that adesso has the ability to direct the relevant activities. Relevant activities are activities that significantly affect the company's returns. Potential voting rights from options or convertible bonds are to be taken into account in addition to current voting rights.

Subsidiaries are fully consolidated from the date on which adesso obtains controls. This means that assets, liabilities, income and expenses are to be allocated to the Group from this date. Subsidiaries are deconsolidated as soon as the company is no longer controlled by adesso.

Pursuant to IFRS 3, mergers are reported using the acquisition method. The consideration for the acquired shares is comprised of the fair values of the assets acquired, the liabilities assumed as well as the equity instruments issued. Any agreed conditional consideration is also to be taken into account at fair value. Pursuant to IAS 39, assets and liabilities from conditional consideration are measured at fair value; income and expenses are recognised either in the consolidated income statement or in other comprehensive income. Current changes in value are not recognised if conditional consideration is classified as equity. Differences are recognised in equity when paying the contingent consideration. Shares previously held by a subsidiary (successive share purchase) are measured at fair value. The resulting income and expenses are recognised in the consolidated income statement. The cost of business combinations is recognised directly in the consolidated income statement. Pre-existing relationships (such as from obligations) at the time of obtaining control have to be eliminated prior to consolidation. The resulting profit contributions are recognised directly in the consolidated income statement.

The acquired assets and liabilities have to be recognised insofar as they meet the definition of an asset or a liability. In general, the acquired assets and liabilities are recognised at fair value. Non-controlling interests can be valued according to the pro-rata net assets measured pursuant to IFRS 3 or at fair value. The latter option also includes the recognition of goodwill for the non-controlling interest. adesso values non-controlling interests according to the pro-rata net assets measured pursuant to IFRS 3. The goodwill allocated to the parent company's shareholders generally corresponds to the difference between the value of consideration given in exchange for control and the pro-rata assets acquired, measured according to IFRS 3.

Insofar as the identification and measurement of the acquired assets and liabilities and/or the determination of the consideration given has not been completed on the reporting date following the merger, preliminary

reporting of the merger in the consolidated financial statements is required. Reporting for the merger has to be concluded within twelve months from the merger date (measurement period).

Intra-group relationships between the consolidated companies are eliminated. As part of the consolidation of investments in subsidiaries, participations in subsidiaries are offset against the acquired pro-rata equity of the respective subsidiary allocated to adesso. Obligations between the companies included in the consolidated financial statements are eliminated in the course of debt consolidation. Intercompany profit and loss from intragroup transactions included in the assets and liabilities is eliminated as part of the elimination of unrealised profits; income and expenses are eliminated in the course of income and expense consolidation.

Changes in the participation percentage of a subsidiary that do not result in a loss of control are reported as equity transactions. Differences between the fair value of consideration and the pro-rata equity are reported in capital reserves.

A company is deconsolidated when adesso can no longer exercise control. The assets and liabilities as well as the income and expenses are no longer allocated to adesso from this date. Any share in the former subsidiary remaining with adesso is measured at fair value. The difference between the net assets attributable to the remaining share at the date of deconsolidation and the fair value of the share is reported in the consolidated income statement.

adesso holds the majority of the voting rights in all subsidiaries. This enables adesso to direct the relevant activities of the subsidiaries.

The number of fully consolidated subsidiaries decreased from 22 in the previous year to 19, mainly due to mergers.

For the listing of companies included in the consolidated financial statements, please refer to the list of shareholdings according to Section 313 (2) HGB under "Associates of the adesso Group" and "Investments of the adesso Group".

As at 1 January 2016, adesso increased its holding in ARITHNEA GmbH by 49 percentage points to 100%. Initially, the profits of ARITHNEA GmbH generated up to 31 December 2015 that have not been distributed yet were paid out to the non-controlling shareholders on a pro-rata basis in the amount of EUR 1,476 thousand. Subsequently, adesso acquired the remaining 49% of the shares for a purchase price of EUR 5,157 thousand. The purchase price breaks down into a fixed payment of EUR 4,059 thousand, a conditional purchase price obligation of EUR 212 thousand and new shares to be issued at a value of EUR 886 thousand. The conditional price obligation was conditional on ARITHNEA GmbH's EBIT in 2015. The difference between the carrying amount of the shares of minority shareholders (EUR 1,533 thousand) and the purchase price of the shares was reported in capital reserves (EUR -3,624 thousand).

Effective 1 January 2016, PSLife GmbH was merged with adesso insurance solutions GmbH by merger agreement dated 21 March 2016. The entry in the Commercial Register was made on 24 March 2016.

percision Schweiz AG was liquidated by liquidation resolution dated 21 June 2016 and subsequently deconsolidated. The entry in the Commercial Register was made on 28 July 2016. The deconsolidation had no material impact on the consolidated financial statements.

By purchase agreement dated 5 September 2016, 100% of the shares in SP Integration GmbH were acquired for a fixed purchase price of EUR 265 thousand. SP Integration GmbH was merged with adesso AG retroactively as at 1 October 2016 by merger agreement dated 19 December 2016.

By purchase agreement dated 14 September 2016, 100 % of the shares in flitcon GmbH were acquired for a purchase price of EUR 1,500 thousand. flitcon GmbH was merged with adesso AG retroactively as at 1 July 2016 by merger agreement dated 15 December 2016.

By purchase agreement dated 10 November 2016, adesso AG acquired the remaining 30 % of the shares in PSLife Consulting GmbH for a purchase price of EUR 1,350 thousand. Effective 1 October 2016, PSLife Consulting GmbH was merged with adesso insurance solutions GmbH by merger agreement dated 29 November 2016. The entry in the Commercial Register was made on 16 December 2016. The difference between the carrying amount of the shares of minority shareholders and the purchase price of the shares was reported in capital reserves.

adesso AG acquired Smarthouse Media GmbH, Karlsruhe, Germany, by notarised purchase and transfer agreement dated 4 May 2016. The cost for 100 % of the shares in Smarthouse Media GmbH, Karlsruhe, Germany, amounted to EUR 23,943 thousand. The acquisition of the shares took place with economic effect as at 1 January 2016. The company was renamed “smarthouse adesso financial solutions GmbH” by shareholder resolution dated 20 May 2016.

adesso’s consolidated financial statements do not include any material minority interests. In the previous year, non-controlling interests were primarily accounted for by ARITHNEA GmbH, Neubiberg, Germany. adesso held 51 % of the shares in the company; other shareholders held 49 % of the shares. Profits allocated to non-controlling shareholders totalled EUR 322 thousand for 2015. Overall, the non-controlling interests in ARITHNEA were valued at EUR 1,533 thousand in the consolidated financial statements as at 31 December 2015. Dividends of EUR 502 thousand were paid out to the non-controlling shareholders in financial year 2015.

The following table includes the financial information relevant to ARITHNEA GmbH as at 31 December 2015. The information is based on the financial statements adjusted for IFRS, including the hidden reserves before consolidation measures realised at the time of first-time consolidation:

ARITHNEA GmbH - amounts in EUR k	2015
Non-current assets	517
Current assets	5,075
Non-current liabilities	121
Current liabilities	2,341
Sales revenues	16,040
Profit/loss	827
Change in cash	-705

(b) Joint Arrangements and Associates

Pursuant to IFRS 11, joint arrangements are classified as joint operations or joint ventures. Joint operations are joint arrangements where the parties have rights to the assets and liabilities relating to the joint arrangements. In the case of joint ventures, the joint operations have rights to the net assets included in the arrangement. In the case of joint operations, the joint operator accounts for the assets and liabilities, including its share of those held jointly, its income and its share of the joint income of the arrangement, as well as its expenses, including its share of any expenses incurred jointly. On the other hand, pursuant to IFRS 11, interests in joint ventures are consolidated using the equity method described in IAS 28.

A company is considered to be an associate of adesso if adesso has significant influence over the company, does not control the company and does not control the company together with another. Significant influence is assumed when adesso holds 20 % to 50 % of the shares in a company. Like joint ventures, associates are consolidated using the equity method.

According to the equity method, the interests are recognised at cost when they are recognised. If, at the time that the company is consolidated using the equity method for the first time, the cost exceeds the pro-rata fair value of the net assets of the joint venture, the share must include fair value. An amount equal to the difference is to be recognised if the reverse is true. The results are therefore to be recognised pro rata by the companies involved.

The profits and losses of the joint venture are recognised pro-rata in the consolidated income statement, while other comprehensive income of the joint venture is to be recognised pro-rata in other comprehensive income; in both cases, an adjustment is to be made to the carrying amount of the shares. Dividend payments by the joint venture reduce the carrying amount of the shares without affecting profit or loss. The losses that exceed net investments will not be recognised so long as the pro-rata losses recognised exceed net investment in the joint venture (shares plus non-current receivables, for example). The negative equity value is amortised by means of a separate calculation, and included in the consolidated balance sheet once it is positive again.

If shares in the joint venture are sold and it continues to be consolidated using the equity method, the amounts recognised in other comprehensive income are reported pro-rata in the consolidated income statement, provided that this would also be the case with the disposal of the corresponding assets and/or liabilities.

Pursuant to IAS 39, adesso conducts a check on each balance sheet date to determine whether there is any objective evidence that the carrying amount of the net investments are impaired. The impairment test is then conducted pursuant to the provisions of IAS 36. An impairment loss is to be recognised in the amount of the difference between the recoverable amount of the net investment in the joint venture and the carrying amount of the net investment. As the impairment relates to the entire carrying amount and not the carrying amount of the individual assets included in the carrying amount, a reversal of impairment losses pursuant to IAS 36 may have to be recognised in the future.

Intercompany profit and loss from upstream and downstream transactions are eliminated on a pro-rata basis.

adesso does not hold any shares in joint ventures as at 31 December 2016. In financial year 2015, adesso acquired an additional 50 % of the shares in the former joint venture PSLife GmbH for EUR 5.3 million. Since no business operation was acquired with the purchase of the shares, the transaction is recognised as the purchase of assets and liabilities. The software of PSLife was the sole material asset acquired. It was recognised at the acquisition cost of EUR 5.1 million.

adesso holds shares in three immaterial associates in the following amounts:

- > Barmenia IT+ GmbH, Wuppertal, Germany; 24.0 % of the shares.
- > com2m GmbH, Dortmund, Germany; 24.9 % of the shares.
- > 1Buch GmbH, Gütersloh, Germany; 30.0 % of the shares.

The share in the earnings of Barmenia IT+ GmbH allocated to adesso is 90 %. As at 31 December 2016, the carrying amount of the shares in associates consolidated using the equity method amounted to EUR 760 thousand (previous year: EUR 613 thousand). The pro-rata annual profit of associates allocated to adesso for financial year 2016 totals EUR 416 thousand (previous year: EUR 309 thousand).

(c) Translation into a Foreign Currency

Each of the companies included in the consolidated financial statements prepares its separate financial statements in their respective functional currency. The functional currency of a company corresponds to the currency of the primary economic environment in which the company operates. This functional currency for the companies included in the adesso consolidated financial statements corresponds to the respective currency of the country where the company has its registered office. Transactions conducted in a currency other than the functional currency are translated into the functional currency using the spot and/or respective exchange rate. The expenses and income resulting from this and from the settlement of such transactions are recognised in the consolidated income statement, provided that the amounts are not recognised as respective profit amounts in other comprehensive income.

Conversion of the financial statements prepared in the national currency of companies whose functional currency is not the euro is performed according to the modified closing rate method (IAS 21.39). The equity of the companies with functional currencies other than the Euro included in the consolidated financial statements is translated using historical exchange rates. All assets and liabilities are translated using the spot rate. The income and expenses, as well as the annual profit recognised in the consolidated income statement, are translated using the transaction rate; for reasons of simplicity, the average rate pursuant to IAS 21.40 is used where permitted. The translation differences arising in the current year are recognised in other comprehensive income. Currency conversion is based on the following exchange rates:

EXCHANGE RATES IN RELATION TO THE EURO

in EUR	Closing rate		Average rate	
	2016	2015	2016	2015
Swiss franc (CHF)	0.93	0.92	0.91	0.94
British pound (GBP)	1.17	1.36	1.22	1.38
US dollar (USD)	0.95	0.92	0.90	0.90
Turkish Lira (TRY)	0.27	0.31	0.30	0.33

(d) Sales Revenues

adesso mainly generates sales revenues from sales of licences, consulting projects as well as maintenance, Smart Cloud and hosting contracts.

Sales revenues recognition principles

Sales revenues from sales of licences are generally recognised if a contract exists that transfers the risks and opportunities associated with ownership of the licence to the buyer, the sales revenues can be reliably measured and the sales price will likely flow to adesso.

Sales revenues for services are recognised from fixed-price projects and Time&Material projects (T&M). While T&M projects are charged on an hourly basis and on the basis of material consumption (always corresponds de facto to a percentage of completion of 100 %), sales revenues for fixed-price projects are to be recognised in line with the stage-of-completion method or the percentage-of-completion method. The percentage of completion generally corresponds to the costs incurred as at the reporting date as a proportion of the expected total costs for the project. Sales revenues cannot be recognised using the percentage-of-completion method if the expected total costs and/or the expected total income cannot be reliably estimated. In this case, sales revenues are to be recognised at a level no more than the expenses incurred. If the expected total expenses of a fixed-price project exceed the expected total income, meaning that there is a risk that the project will incur losses, the loss is to be immediately recognised in full irrespective of the percentage of completion.

Sales revenues for maintenance, Smart Cloud and hosting contracts are usually time-based, which is why the sales revenues are allocated to the periods in instalments on a pro-rata basis.

Multi-component contracts

In order to recognise sales revenues, contracts must be analysed to determine whether they comprise more than one performance-based component, or multiple contracts are to be analysed to determine whether they are to be accounted for as a contract. The performance-based components are to be identified and the resulting sales revenues are to be recognised in line with the provisions for the individual performance-based components. For example, if a contract sees a software licence being disposed of and the same contract also concludes a maintenance contract for the software licence, the sales revenues from the sale of the licence are to be recognised immediately – provided that the conditions are complied with. The income attributable to the maintenance contract is to be deferred and generally recognised on a pro-rata basis. For sales revenues recognition purposes, the purchase price agreed in the contract is to be allocated to the performance-based components included in the contract.

adesso generally negotiates the individual performance-based components separately. The negotiations usually cover prices, which are in the same league as the retail price. There is often a margin of discretion regarding the presentation of multi-component contracts as sales revenues from goods and licences sold are not recognised pursuant to the principles for the recognition of sales revenues from goods and licences provided that a subsequent installation or adjustment of the software is an essential element of the contract. The installation or adjustment of the software is seen as essential if a significant installation or adjustment need has been agreed and this service cannot be readily provided by third parties. No sales revenues are to be recognised directly from the sale of the software in the event that the installation or adjustment of the software is qualified as being essential. Instead, the sales revenues attributable to the software licence are to be taken into account when recognising the sales revenues for the service.

(e) Borrowing Costs

Borrowing costs are generally included as an expense in the consolidated income statement. Pursuant to IAS23, the borrowing costs of qualifying assets make up part of the cost. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. adesso did not identify any qualifying assets in the reporting period for which borrowing costs had to be capitalised.

(f) Goodwill

In case of a merger, goodwill is the positive difference between the consideration rendered in the business combination plus the fair value of the shares previously held as well as the non-controlling interests and the pro-rata equity of the acquired company at the time of the business combination measured according to IFRS 3. For impairment testing purposes, goodwill has to be assigned to the groups of cash-generating units that benefit from the merger. According to IAS 36.80, the highest allocation level in the company is the level on which goodwill is observed by management, and no higher than the level of operating segments pursuant to IFRS 8 before they are combined into reportable segments. For details on the impairment test, please refer to “(h) Impairment of Non-Financial Assets”.

(g) Intangible Assets and Property, Plant and Equipment

Intangible assets and property, plant and equipment are recognised at cost. If depreciable, they are subsequently valued at amortised cost. Assets are depreciated and amortised using the linear method over the course of their expected economic useful life. Residual values are taken into account in determining depreciation on property, plant and equipment. For intangible assets, residual values are only taken into account insofar as a third party is obligated to assume the intangible asset at the end of its useful life. Furthermore, residual values are taken into account when there is an active market for the intangible asset, the residual value can be established in reference to said market and the active market is expected to exist at the end of the useful life of the intangible asset.

The preparation of non-current intangible assets is to be split into a research and a development phase. Expenditure in the research phase must always be recognised as expenses. Expenditure in the development phase is to be capitalised from the date on which the following can be satisfied:

- > The technical feasibility of completing the intangible assets so that it is available for use or sale;
- > The intention to complete the intangible assets and use or sell it;
- > The ability to use or sell the intangible asset;
- > How the intangible asset will generate future economic benefits;
- > adesso has sufficient resources to complete the intangible asset; and
- > The cost of the intangible asset can be measured reliably.

Intangible assets are generally amortised on a linear basis over three years. Additions as a result of mergers, such as customer lists or order backlog, are exceptions. The carrying amount of the order backlog is written off as soon as the sales revenue on the respective order is realised. Customer lists have a useful life of three to six years. The PSLife software acquired in 2015 is being amortised over ten years. Internally generated software is amortised over four years.

Property, plant and equipment is classified as technical equipment and machinery, which is generally depreciated over three years, as well as office and other equipment, which is depreciated on a linear basis over five to 20 years.

Depreciation and amortisation is reported on the income statement under “Depreciation and amortisation”.

The carrying amount of intangible assets with an indefinite useful life is EUR 29 thousand.

Total development expenses for the financial year came to EUR 17 thousand (previous year: EUR 68 thousand), corresponding to the amortisation of the internally generated intangible assets.

Please refer to the next section for details on the impairment of intangible assets and property, plant and equipment.

(h) Impairment of Non-Financial Assets

Pursuant to IAS 36, goodwill, non-current intangible assets and property, plant and equipment all have to be tested for impairment. A review must be performed to determine at the balance sheet date if there are indications of an impairment. An impairment test is to be performed where such indications exist. In derogation of this, impairment tests are to be performed at least annually for goodwill, intangible assets with an indefinite useful life as well as intangible assets not yet available for use. The date on which the mandatory impairment tests are performed can be selected at will and must be applied consistently. Impairment tests must be performed during the course of the year for all assets which fall within the scope of IAS 36 where there are indications of impairment.

Impairment tests are performed for individual assets. The impairment test will be performed at the level of a cash-generating unit in the event that the recoverable amount cannot be calculated for an individual asset. Such a unit is the smallest group of assets that comprise the asset to be tested and for which cash flows that are largely independent from other assets can be identified. Goodwill is always to be tested for impairment on the basis of a single or a group of cash-generating units.

When testing for impairment, the carrying amount of an asset and/or a cash-generating unit including, where appropriate, the carrying amount of goodwill is compared to the recoverable amount of the cash-generating unit. The recoverable amount is the higher of the value in use and the fair value less disposal costs.

An impairment loss is to be recognised should the carrying amount be higher than the recoverable value. The carrying amount of an asset is to be reduced if an individual asset is tested for impairment. Should a cash-generating unit be tested for impairment, the goodwill first has to be written down to as low as EUR 0 where applicable. If an additional impairment loss has to be recorded, the carrying amounts of the assets of the cash-generating units covered by IAS 36 have to be reduced on a pro-rata basis according to the total carrying amounts. This may not be lower than the recoverable amount of the respective asset. The addition of goodwill is not allowed.

(i) Leases

Lease transactions are classified as financing leases or operating leases based on the economic nature of the transaction. The transaction is classified as a financing lease insofar as all material risks and opportunities are transferred to the lessee, and otherwise as an operating lease.

When a lease transaction is classified as a financing lease, the lease object is recognised by the lessee at the present value of the minimum lease payments or the lower fair value. A lease liability of the same amount is recognised. The lease object is depreciated over the shorter of the economic useful life and the lease term. Since the lease payments are allocated to interest and redemption, interest on the remaining lease liability remains constant.

Gains on sale and leaseback transactions are deferred as liabilities and allocated over the lease term insofar as the new lease transaction is classified as a financing lease.

When a lease transaction is classified as an operating lease, the lease payments are recorded over the lease term on a linear basis. The benefits of agreed rent-free periods are allocated over the term of the rent term.

(j) Financial Assets

Financial assets include loans issued, receivables, equity securities and debt instruments as well as cash and cash equivalents. They are recognised as soon as adesso becomes a contractual partner for a corresponding financial instrument. Financial assets are measured at fair value when they are recognised. Transaction costs are capitalised except for financial assets in the category “measured at fair value through profit or loss”. The subsequent valuation of financial assets depends on the category they are assigned to. adesso does not use the categories “available for sale,” “measured at fair value through profit or loss” and “financial assets held to maturity”.

“Loans and receivables” are primary financial assets with a payment or series of payments that is fixed or can be determined, and that are not traded in an active market. They mainly encompass cash on hand and bank balances, trade receivables and loans issued. Loans and receivables are valued at amortised cost using the effective interest method. According to the effective interest method, the effective interest rate applicable to the financial asset in the future is determined as at the date at which the financial asset is recognised. The effective interest rate is equal to the interest rate where the present value of the cash flows expected in the future from the financial assets corresponds to the initial carrying amount.

Where there is objective evidence of an impairment, the difference between the carrying amount and the present value of the expected future cash flows, discounted using the original effective interest rate, is to be reported in the consolidated income statement as an impairment loss. Impairments are initially recorded in the form of specific provisions. The adjusted loans and receivables for which no specific loan loss provisions are established are then divided into groups with a similar risk of default. On this basis, impairments are recorded in the form of flat-rate specific provisions for the individual groups. Impairments of loans and receivables are not recorded directly against the corresponding financial asset, but in an impairment account. The impairment loss is only recorded against the financial asset once default (in part) becomes final, for instance based on a new contractual agreement.

Financial assets are to be derecognised either when rights to future cash flows no longer exist or the asset is transferred to a third party. A financial asset is classed as having been transferred when adesso no longer has any rights to future cash flows or if adesso still has such rights but is at the same time obligated to pass these payments on to a third party.

(k) Other Assets and Other Liabilities

The accruals and other receivables and liabilities reported under this item are generally measured at nominal value.

(l) Receivables PoC/Liabilities PoC

Fixed-price projects in progress are recognised according to the percentage of completion (PoC) method pursuant to IAS 18. Progress is determined on the basis of project costs incurred by the reporting date as a proportion of the estimated total costs. The amount reported in the consolidated balance sheet is the sum of the cost, the pro-rata recognised profit and, where applicable, a contingent loss which is to be recognised in full, less partial settlements. Received down payments are reported under liabilities PoC.

(m) Cash on Hand and at Bank

This item includes cash on hand and bank balances as well as current, highly liquid assets with a residual term of no more than three months from the acquisition date. These assets can be converted into a specific amount of cash at any time and are subject to immaterial valuation risk only.

(n) Financial Liabilities

Financial liabilities are recognised as soon as the adesso Group becomes a contractual partner for a corresponding financial instrument. Current liabilities are measured at amortised cost, which largely corresponds to the repayment amount. Non-current liabilities are recognised at the fair value of the consideration received on the transaction date. Transaction costs are included in the carrying amount of liabilities when they are recognised. Non-current liabilities are valued at amortised cost using the effective interest method.

A financial liability is to be derecognised when the contractual obligation ends, is met or is lifted.

The option to classify financial liabilities as “measured at fair value through profit or loss” according to IAS 39.9 was not exercised.

(o) Provisions

Provisions are recognised for actual, legal or factual obligations arising from past events which are likely to result in an outflow of economic resources and the amount of which can be estimated reliably. For similar obligations, such as product guarantees, the probability of utilisation is considered on the basis of the overall group of obligations. Provisions for pending losses from pending transactions are valued on the basis of the excess obligation. If the compensation or fines resulting from non-fulfilment are less than the excess obligation, the provision is to be valued on the basis of the compensation or fine.

Provisions may be discounted when the discount amount is material. The interest rate to be applied is an interest rate before taxes, which reflects current market expectations with regard to the interest effect and the risks pertaining to the debt. Provisions are generally valued at the cash value of future expected cash flows required to settle the obligation. The determination of future cash flows must take into account cost increases.

When the amount of a provision is expected to be reimbursed, for example based on insurance coverage, a reimbursement is only recognised as a separate asset if it is as good as certain. The income of reimbursement is not offset against expenses.

(p) Provisions for Pensions

Provisions for pensions are measured at the present value of the defined benefit obligation. Plan assets were not endowed by adesso. Pursuant to IAS 19.120 (c), actuarial gains and losses are recorded in other comprehensive income in the course of the remeasurement of the net liability. The present value of provisions for pensions is determined using the projected unit credit method in accordance with IAS 19. The calculations are based on the biometric parameters of the Heubeck 2005G mortality tables. adesso commissioned external experts to value the pension obligation as at 31 December 2016. The applied discount rate corresponds to the interest rate on corporate bonds with the best credit rating and a term corresponding to the provisions for pensions.

(q) Share-based Payment

adesso has issued employee options for the acquisition of shares in adesso AG in the past. The vesting period pursuant to IFRS 2 is four years. Total personnel costs to be recognised are determined by multiplying the fair value of the option on the grant date by the number of options expected to be exercisable after the end of the vesting period. In general, the total personnel costs are recognised on a linear basis against the capital reserve over the vesting period. The number of options expected to be exercised after the end of the vesting period has to be adjusted to current estimates on each reporting date.

Debt from share-based payment issued in payment instruments is remeasured at present value on each reporting date. Changes in the amount of this debt flow to the consolidated income statement.

(r) Income Taxes

Income taxes include both actual income taxes and deferred taxes. The actual tax liabilities and taxes receivable encompass all obligations and claims for domestic and foreign income tax. They are calculated based on the applicable tax laws.

Deferred taxes are recognised on deductible or taxable temporary differences. These are positive or negative differences between the carrying amount according to IFRS and the tax value of an asset or liability with a future impact on taxable income. Deferred taxes are measured at the future tax rate expected to be applicable on the date when the difference reverses. Furthermore, deferred tax assets have to be recognised for the benefit associated with a tax loss carry-forward. Deferred tax assets on deductible temporary differences are recognised at least in the amount applicable to taxable temporary differences with the same tax authority and that reverse in the same period as the deductible temporary differences. Furthermore, deferred tax assets are recognised in the amount of the corresponding future economic benefit that is expected to be realised. The benefit of tax loss carry-forwards eligible for capitalisation is determined by adesso over a maximum period of five years.

(s) Government Grants

According to IAS 20, government grants have to be classified as investment grants or grants for expenses. Grants are only recognised according to IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) when it is sufficiently certain that the related conditions will be met and the grants issued. They are allocated through profit or loss in the periods in which the expenses compensated by the grants are incurred. Investment grants are deducted from the acquired assets. Grants for expenses are recorded through profit or loss in the period in which the corresponding expenses are recognised.

(t) Dividends

Dividends are recognised as liabilities as soon as a binding dividend proposal has been resolved.

(u) Fair Values

Numerous IASB regulations demand that financial and non-financial assets and liabilities be recognised at fair value or be included in the notes. According to IFRS 13, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants

on the measurement date. Determining fair values of financial assets and liabilities is based on observable parameters wherever possible. If none are available, non-observable parameters are to be applied. IFRS 13 defines a valuation hierarchy for determining fair value, which comprises three levels. Allocation to level depends on the valuation parameters.

The parameters are allocated to the following levels:

- > Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities which the company can access at the valuation date.
- > Level 2: Input parameters other than the quoted prices on level 1 which are either directly or indirectly observable for the asset or liability.
- > Level 3: Non-observable input parameters for the asset or liability.

If parameters of different levels are used for measurement, the fair value is to be assigned to the same level as the input parameter of the lowest level used for measurement.

Fair values are either determined by adesso or external specialists.

At the end of the financial year, adesso did not have any material assets or liabilities subject to the scope of IFRS 13 which are measured at fair value regularly or on the reporting date.

Estimates and Assumptions

Numerous estimates and assumptions have to be made by management in preparing the consolidated financial statements. These relate to the following in particular:

- > Mergers: In general, the identifiable assets and liabilities acquired in a merger are measured at fair value. Since there is no active market for many assets and liabilities, the fair values have to be determined on the basis of recognised measurement methods. For example, these include the relief from royalty method and the multi-period excess earnings method. Significant valuation parameters that have to be estimated for these methods are the future cash flows resulting from the assets and liabilities as well as the applicable discount rates. In the financial year, adesso acquired customer lists in the amount of EUR 4,292 thousand and order backlogs of EUR 1,169 thousand in the course of mergers. For the measurement of contingent payment obligations related to mergers, assumptions have to be made regarding the values of parameters underlying the valuation.
- > Non-current assets: The useful life of non-current assets subject to depreciation and amortisation has to be estimated. An estimate of the residual value, which has to be taken into account in calculating depreciation and amortisation, is also required.
- > Impairment test: According to IAS 36, numerous parameters have to be estimated for the impairment test to verify the recoverability of the assets held by adesso. These primarily include estimates of future cash flows, growth rates as well as the interest rate applicable for the future cash flows. Here, risks are primarily associated with goodwill (carrying amount: EUR 40,981 thousand; previous year: EUR 23,352 thousand).
- > Receivables: The recoverability of trade receivables (EUR 54,496 thousand; previous year: EUR 37,215 thousand) and receivables PoC (EUR 15,527 thousand; previous year: EUR 9,515 thousand) has to be assessed. This requires an estimate of the extent to which adesso customers meet their payment obligations.
- > Provisions and contingent liabilities: Recognising provisions often requires an assessment of whether the grounds for recognising a provision are met. For example, this applies to possible provisions for contingent losses on orders, warranty provisions, provisions for removal, shut-down or similar obligations, as

well as provisions for legal risks and other provisions. The measurement of provisions requires an estimate and assumptions regarding the future amount required to redeem or settle the debt. This also applies to employee benefits after the end of the employment relationship. If a reliable estimate for the amount of an obligation cannot be made, it needs to be disclosed in the notes as a contingent liability. Discount rates must also be estimated in connection with provisions.

- > Provisions for pensions and the related income /expenses are determined on the basis of actuarial calculations. The calculation of provisions for pensions (EUR 186 thousand; previous year: EUR 177 thousand) is based on actuarial assumptions (probability of death and disability, interest rate and other biometric assumptions).
- > Deferred taxes: The measurement and realisation of deferred tax assets on loss carry-forwards requires a management estimate of the extent to which the benefit associated with the tax loss carry-forward can be realised. The benefit of the tax loss carry-forwards can only be realised to the extent they are approved by the fiscal authorities. Deferred tax assets of EUR 552 thousand (previous year: EUR 1,572 thousand) have been recognised in the consolidated financial statements for the future benefit of tax loss carry-forwards. Of this, tax loss carry-forwards of adesso Austria GmbH account for EUR 251 thousand and tax loss carry-forwards of adesso AG for EUR 235 thousand. All companies in the adesso Group capitalise the benefit of tax loss carry-forwards that will be utilised over a maximum period of five years. Further benefits are not capitalised.
- > Current taxes: A Market Entry Compensation and Sales Promotion Agreement was concluded between e-Spirit Inc. and e-Spirit AG in financial year 2016. Taking into account the reversal of impairments in previous years, e-Spirit AG's expenses resulting from this agreement amount to EUR 5.1 million. This results in a reduction in the total tax burden of adesso AG (as the controlling entity of the group taxation relationship for income tax purposes with, among others, e-Spirit AG) as well as the adesso Group, as no deferred tax assets were recognised for the losses in the USA. The reported tax rate for adesso AG and the adesso Group would be too low in the event of no full or only partial recognition. adesso assumes that the specified e-spirit AG expenses are deductible for tax purposes.
- > Sales revenues: adesso provides services for its customers pursuant to IAS 18. According to IAS 18, sales revenues from services must be recognised using the percentage of completion method. This means sales revenues are realised according to the percentage of completion. Estimating the percentage of completion is of particular importance with this method. Furthermore, it is necessary to estimate the entire project costs that will be incurred up to completion, the entire project income, the risks associated with the project and other key parameters.
- > Share-based compensation expenses: To recognise personnel costs from share-based compensation, management has to estimate how many rights are expected to be exercisable after the end of the vesting period.

III. Explanations for Items on the Consolidated Balance Sheet and Consolidated Income Statement

Information on the Consolidated Balance Sheet

1. Cash on Hand and at Bank

Cash on hand and at bank is EUR 43,144 thousand (previous year: EUR 28,162 thousand).

2. Trade Receivables

Trade receivables are all due within one year. The impairment of trade receivables at risk of default developed as follows:

<i>in EUR k</i>	2016	2015
As at 1 January	239	237
Availment	10	108
Reversal	0	27
Addition	20	137
AS AT 31 DECEMBER	249	239

The table below shows the maturity structure of trade receivables not subject to impairment:

2016	Carrying amount	Neither impaired nor overdue	Not impaired and overdue as follows				
<i>in EUR k</i>			3 months or less	Over 3 months, up to 6 months	Over 6 months, up to 1 year	Over 1 year	Impaired
Trade receivables	54,496	43,983	8,468	1,555	377	113	0

2015	Carrying amount	Neither impaired nor overdue	Not impaired and overdue as follows				
<i>in EUR k</i>			3 months or less	Over 3 months, up to 6 months	Over 6 months, up to 1 year	Over 1 year	Impaired
Trade receivables	37,215	33,813	3,230	146	15	11	0

3. Receivables PoC

Receivables PoC are comprised of costs plus pro-rata profit less recognised order losses. Receivables PoC amount to EUR 15,527 thousand (previous year: EUR 9,515 thousand). Down payments received from customers in the amount of EUR 11,814 thousand (previous year: EUR 6,968 thousand) are reported under current liabilities.

4. Current Financial Assets

Current financial assets break down as follows:

<i>in EUR k</i>	2016	2015
Deposits	222	177
Secured liquid assets not at free disposal	74	53
Employee loans	3	27
TOTAL	299	257

The current financial assets are neither impaired nor overdue.

5. Other Current Assets

Other current assets comprise:

<i>in EUR k</i>	2016	2015
Accruals	2,138	3,035
Receivables from personnel	92	39
Receivables from input tax surpluses	227	20
Other	1,255	197
TOTAL	3,712	3,291

6. Intangible Assets and Goodwill

Intangible assets and goodwill developed as follows:

2016 / in EUR k	Goodwill	Customer lists	Order backlog	Internally generated intangible assets	Other intangible assets	Total
Gross value 1 January	25,747	10,934	1,615	438	11,643	50,377
Accumulated amortisation 1 January	2,395	8,610	1,572	73	4,145	16,795
Carrying amount 1 January	23,352	2,324	43	365	7,498	33,582
Currency translation differences	94	-47	0	0	0	47
Company acquisitions	17,535	4,292	1,169	0	1,834	24,830
Additions	0	0	0	30	2,912	2,942
Amortisation	0	1,112	1,074	17	2,638	4,841
Disposals	0	0	0	0	0	0
Gross value 31 December	43,376	15,179	2,784	468	16,384	78,191
Accumulated amortisation 31 December	2,395	9,722	2,646	90	6,778	21,631
CARRYING AMOUNT 31 DEC.	40,981	5,457	138	378	9,606	56,560

2015 / in EUR k	Goodwill	Customer lists	Order backlog	Internally generated intangible assets	Other intangible assets	Total
Gross value 1 January	15,387	8,397	0	273	3,776	27,833
Accumulated amortisation 1 January	2,395	8,123	0	6	3,249	13,773
Carrying amount 1 January	12,992	274	0	267	527	14,060
Currency translation differences	-479	-102	-65	0	0	-646
Company acquisitions	10,839	2,639	1,680	0	0	15,158
Additions	0	0	0	165	7,867	8,032
Amortisation	0	487	1,572	67	896	3,022
Impairment	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Gross value 31 December	25,747	10,934	1,615	438	11,643	50,377
Accumulated amortisation 31 December	2,395	8,610	1,572	73	4,145	16,795
CARRYING AMOUNT 31 DEC.	23,352	2,324	43	365	7,498	33,582

Intangible assets are mainly comprised of the PSLife software acquired in the previous year (EUR 4,379 thousand; previous year: EUR 4,825 thousand) and customer lists acquired in the course of mergers (EUR 5,457 thousand; previous year: EUR 2,324 thousand). The residual useful life of the customer lists is 5.5 years (previous year: 1 year).

For impairment testing purposes pursuant to IAS 36, goodwill has to be assigned to the (groups of) cash-generating units that benefit from the merger. According to IAS 36.80, the highest allocation level in the company is the level on which goodwill is observed by management, and no higher than the level of operating segments before they are combined into reportable segments. For the purpose of impairment testing, adesso allocates goodwill to the operating segments according to IFRS 8. Goodwill was allocated to the following operating segments at the end of 2016; these operating segments are all allocated to the IT Services segment:

<i>in EUR k</i>	<i>2016</i>	<i>2015</i>
adesso AG	7,371	6,630
adesso Austria GmbH	3,552	3,552
Arithnea GmbH	2,810	2,810
adesso Schweiz AG	10,454	10,360
smarthouse adesso financial solutions GmbH	16,794	-
TOTAL	40,981	23,352

The increase in goodwill at adesso AG is due to the acquisition and subsequent mergers of flitcon GmbH and SP Integration GmbH. The increase in goodwill at adesso Schweiz is due to the effects of exchange rates. The goodwill of smarthouse adesso financial solutions GmbH is the result of the acquisition in the financial year.

An impairment test for goodwill has to be performed on this basis at least once a year and whenever there are indications of impairment. The annual goodwill impairment test is performed by adesso at the end of the financial year.

The realisable value of the operating segments is the value in use determined using the discounted cash flow method. This is determined based on cash flows after taxes and interest. The management of adesso believes that the value in use of the cash-generating units mainly responds to changes in the estimated sales revenues growth, the estimated gross margin and the discount rate.

Estimating the value in use and therefore also estimating cash flow is based on management's most recent operational planning. Detailed planning covers one to two years. Sales revenues growth is calculated individually for each operating segment. If it is apparent with one year of planning and an expected increase of incoming cash flows that an impairment will not have to be recognised, further detailed planning is omitted. Thus, as a basis sales revenues growth of each segment was considered to be from 0 % to 6 %. Future sales revenues growth estimates are based on past sales revenues development, expected sales revenues growth in the operating segments and the future development of the market and the overall economy. Hence, adesso has calculated the long-term growth rate for cash flows to be 1 % – as in the previous year. This growth rate does not exceed the long-term expected growth rate for adesso's markets. The company bases its estimates for future cash flows, where possible, on estimates by external analysts. The gross margin (EBT/(sales revenues less cost of materials)) results from the planning for the individual segments. In addition to sales revenues, they also result from the expected expenses incurred by the segments. These are determined individually on the basis of historical performance and expected future developments. The underlying gross margin in the period was between 3.0 % and 14.4 %.

adesso conducts its impairment test based on an after tax assessment. The interest rate before taxes is then calculated as required by IFRS. This is the interest where the cash value of cash flows before taxes corresponds to the amount calculated according to an after tax assessment. The interest rate before taxes calcu-

lated according to this method is between 5.5 % and 7.4 % in IT Services (previous year: 5.7 % to 6.5 %). This interest rate after taxes corresponds to the weighted average cost of capital determined using the capital asset pricing model. Key parameters for this calculation are the risk-free interest rate (0.95 %, previous year: 1.42 %), a beta factor derived separately for the IT Services segment from a representative peer group (constituting systematic risk), a market risk premium (6.3 %; previous year: 6.0 %; the difference between the expected yield of a reference market and the risk-free interest rate), the tax rate and the borrowing cost rate. The parameters underlying the calculation of the weighted average cost of capital, except for the tax rate and the borrowing cost rate, are based on sources external to the company.

In the course of a sensitivity analysis, adesso examined the need for goodwill impairment in case of possible changes to key parameters for the impairment test. An increase in the weighted average cost of capital by 1 percentage point before taxes, 10 % lower cash flows and a 1 percentage point lower gross margin (sales revenues less cost of materials) were assumed as possible changes. Each and any of these changes would result in an impairment loss at cash-generating unit adesso Austria GmbH.

	<i>Amount by which the recoverable amount exceeds the carrying amount(EUR k)</i>	<i>Parameter, the possible change in which caused an impairment loss, plus the amount</i>	<i>Required change in the parameter to ensure that the recoverable amount equals the carrying amount</i>
adesso Austria GmbH	315	Interest rate before taxes; 6.3 %	+ 0.45 percentage points
		Cash flow	- 8.04 percentage points
		Gross margin (3.0 % to 4.6 %)	- 0.36 percentage points

7. Property, Plant and Equipment

Property, plant and equipment developed as follows:

<i>in EUR k</i>	2016	2015
Gross value 1 January	14,597	12,387
Accumulated depreciation 1 January	9,304	7,449
Carrying amount 1 January	5,293	4,938
Currency translation differences	0	0
Additions	2,308	2,082
Company acquisitions	726	134
Disposals	149	6
Depreciation	1,511	1,855
Gross value 31 December	17,099	14,597
Accumulated depreciation 31 December	10,432	9,304
CARRYING AMOUNT 31 DECEMBER	6,667	5,293

Property, plant and equipment mainly comprises factory and office equipment as well as IT hardware and leasehold improvements.

8. Companies Recognised At Equity

The companies recognised at equity developed as follows:

<i>in EUR k</i>	<i>2016</i>	<i>2015</i>
AS AT 1 JANUARY	535	222
Additions	77	150
Pro-rata result	416	309
Dividends	268	28
Disposals	0	118
AS AT 31 DECEMBER	760	535

The companies recognised at equity include the shares in Barmenia IT+ GmbH, com2m GmbH and 1Buch GmbH. The additions comprise the shares in 1Buch GmbH.

9. Non-current Financial Assets

Financial assets are comprised as follows:

<i>in EUR k</i>	<i>2016</i>	<i>2015</i>
Deposits	516	417
Loans	205	0
Down payment on shares in an associate	0	77
Employee loans	72	72
TOTAL	793	566

Non-current financial assets are neither impaired nor overdue.

In the previous year, adesso AG reported the purchase price of 30 % of the shares in 1Buch GmbH under down payment on shares in an associate. The shares were transferred to adesso effective on 1 January 2016.

10. Receivables and Liabilities from Income Taxes as well as Deferred Taxes

Deferred tax assets and liabilities were comprised as follows as at the balance sheet date:

<i>in EUR k</i>	2016	2015
DEFERRED TAX ASSETS		
Intangible assets and property, plant and equipment	123	214
Receivables and other assets	21	128
Provisions	478	373
Other liabilities	47	73
Loss carry-forwards	552	1,572
Offsetting	-458	-838
Total (of which current: EUR 612 thousand; previous year: EUR 1,445 thousand)	763	1,522
DEFERRED TAX LIABILITIES		
Intangible assets	1,600	504
Companies recognised at equity	7	4
Trade receivables	10	558
Receivables PoC	978	727
Provisions	82	69
Offsetting	-458	-838
Total (of which current: EUR 1,300 thousand; previous year: EUR 1,455 thousand)	2,219	1,024

Deferred taxes are measured based on the applicable future tax rates for the respective companies. The applicable overall tax rate is 32.80 % (previous year: 32.80 %). It is comprised of the corporate tax rate of 15.00 %, the solidarity surcharge of 5.50 % and the trade income tax rate of 16.98 %. A tax rate of 21.45 % was applied for the subsidiary in Switzerland, 25.00 % for the subsidiary in Austria, 25.63 % for ARITHNEA based in Neubiberg, Germany, 20 % for the subsidiary in Turkey and 23.25 % for the company in the USA. Deferred tax assets and liabilities are offset according to the provisions of IAS 12.74.

Deferred tax assets on tax loss carry-forwards are capitalised based on medium-term planning over a period of five years. The planning results are considered sustainable unless material reasons speak against that. Deferred tax assets on tax loss carry-forwards are recognised for the benefit that can most likely be realised within the next five years. The future benefits are not sufficiently certain for further capitalisation. Recognition of deferred tax assets on tax loss carry-forwards at adesso Austria in the amount of EUR 251 thousand (previous year: EUR 257 thousand) and adesso Turkey in the amount of EUR 50 thousand (previous year: EUR 158 thousand) is based on the development of the companies, which is considered sustainable.

The tax loss carry-forwards can be carried forward perpetually. This does not include loss carry-forwards from the Turkish subsidiary (EUR 1,356 thousand; previous year: EUR 907 thousand), which can be carried forward for five years. No deferred taxes were recognised on the tax loss carry-forwards of a company based in Germany in the amount of EUR 249 thousand (previous year: EUR 128 thousand) and the tax loss carry-forwards of companies based outside Germany of EUR 6,006 thousand (previous year: EUR 7,169 thousand).

In accordance with IAS 12.39, a deferred tax liability of EUR 124 thousand (previous year: EUR 122 thousand) for temporary differences of EUR 7,531 thousand (previous year: EUR 7,461 thousand) in connection with shares in subsidiaries was not recognised on 31 December 2016 (outside basis differences), as adesso can control their reversal, which is not planned in the foreseeable future.

11. Financial Liabilities

Financial liabilities break down as follows:

in EUR k	2016				2015			
	Total	Residual term up to 1 year	Residual term 1 to 5 years	Residual term more than 5 years	Total	Residual term up to 1 year	Residual term 1 to 5 years	Residual term more than 5 years
Loans	47,059	13,530	20,359	13,170	21,469	3,935	8,283	9,251
Other financial liabilities	302	0	302	0	277	277	0	0
TOTAL	47,361	13,530	20,661	13,170	21,746	4,212	8,283	9,251

Liabilities from loans result from the loans taken out to acquire subsidiaries. The effective interest rate depends on the type of agreement as well as the term, and was between 1.00 % and 2.31 %.

Loans totalling EUR 5,243 thousand were repaid as scheduled in the reporting year.

12. Trade Payable and Liabilities PoC

Trade payables are all due within twelve months. Liabilities PoC include down payments received from customers under service agreements and are therefore not generally refundable.

13. Provisions

Provisions are comprised as follows:

in EUR k	1 Jan. 2016	Additions	Company acquisitions/disposals	Availability	Reclassification	Currency differences	Reversal	31 Dec. 2016
Other provisions	3,028	2,328	106	-1,648	799	6	-1,359	3,260
Warranty	1,055	693	0	-480	0	11	0	1,279
TOTAL, CURRENT	4,083	3,021	106	-2,128	799	17	-1,359	4,539
Warranty	475	101	0	0	0	0	0	576
Other provisions	2,845	4,062	0	0	-799	0	0	6,108
TOTAL, NON-CURRENT	3,320	4,163	0	0	-799	0	0	6,684

Other current provisions mainly consist of provisions for annual shareholders' meeting costs (EUR 80 thousand; previous year: EUR 70 thousand), operational provisions (bonuses, quotas etc. (EUR 2,143 thousand; previous year: EUR 1,745 thousand) and outstanding obligations (Chamber of Industry and Commerce, Employer's Liability Insurance Association, insurance premiums and similar (EUR 703 thousand; previous year: EUR 812 thousand)). They also include EUR 799 thousand for payments from the phantom stock program that are due in 2017.

Other non-current provisions include provisions for the phantom share programme (EUR 5,629 thousand; previous year: EUR 2,736 thousand). The amount ultimately paid and therefore the change in provisions for the phantom share programme is closely related to the change in the price of adesso AG shares.

14. Current and Non-current Other Liabilities

Other current liabilities are due within twelve months. They mainly consist of amounts payable to personnel (under variable salary agreements, premiums and obligations for accumulated holiday time) in the amount of EUR 23,885 thousand (previous year: EUR 18,454 thousand), VAT payable of EUR 6,078 thousand (previous year: EUR 3,829 thousand), payroll taxes payable of EUR 4,763 thousand (previous year: EUR 2,985 thousand) and deferred maintenance and hosting income for the following financial year in the amount of EUR 2,285 thousand (previous year: EUR 2,410 thousand).

15. Provisions for Pensions

As at 31 December 2016, adesso has provisions for pensions for two former employees. They cover claims for (advanced) old age pension, disability pension and orphan's pension. Interest expense from compounding the obligation is included in the interest result. The pension obligations are recognised on the basis of an actuarial analysis prepared by an external expert.

In 2015, a former adesso employee exercised the contractually agreed option to have the claim from the provision for pensions paid out. The entire payment of EUR 316 thousand was covered by reinsurance. A compensation gain of EUR 262 thousand was recognised in other comprehensive income.

Provisions for pensions developed as follows:

<i>in EUR k</i>	
DBO AS AT 1 JANUARY 2015	761
Interest expense	4
Payments	-330
Actuarial gain	-258
DBO AS AT 31 DECEMBER 2015	177
Interest expense	3
Payments	-14
Actuarial gain	20
DBO AS AT 31 DECEMBER 2016	186

The calculation of provisions for pensions is based on the following parameters:

<i>in %</i>	2016	2015
Interest rate	0.8	2.00
Rate of pension progression	2.00	2.00

Future medical care is not part of the commitment.

The amount of provisions for pensions depends on the calculation of the underlying parameters. The following table shows the impact a change in the following parameters would have on provisions for pensions.

2016 (in EUR k)	Change	Increase in parameter	Decline in parameter
Interest rate	+/- 0.5 percentage points	-9	8
Rate of pension progression	+/- 0.25 percentage points	3	-4
Residual life expectancy	+/- 1 year	18	-19

2015 (in EUR k)	Change	Increase in parameter	Decline in parameter
Interest rate	+/- 0.5 percentage points	-7	8
Rate of pension progression	+/- 0.25 percentage points	3	-3
Residual life expectancy	+/- 1 year	15	-15

A sensitivity analysis shows the change in the provision according to a change in a specific parameter. The same method is used for calculating the carrying amount of provisions for pensions. It should be noted that a doubling in the change of a parameter for example, does not automatically result in a doubling of the effect of the carrying amount of the provisions for pensions. If several parameters change, this actual change in provisions for pensions does not automatically correspond to the total of the changes stated.

The expected payments from provisions for pensions are EUR 14 thousand in 2017, EUR 54 thousand in 2018 through 2021 and a total of EUR 26 thousand from 2022 forward. The weighted average residual term of the defined benefit obligations is 8.7 years.

16. Equity

Share capital

The share capital of adesso AG, Dortmund, Germany, is EUR 6,167,423 (previous year: EUR 5,799,720). It is divided into 6,167,423 (previous year: 5,799,720) bearer shares (no-par shares). The face amount per share is EUR 1.

The EUR 367,703 increase in share capital is due to the capital increase from authorised capital 2013 following the Executive Board resolution dated 15 December 2016 (EUR 293,687), from the capital increase in connection with the purchase of the remaining shares in ARITHNEA GmbH (EUR 41,715) and the issue of 32,301 shares from the employee share option program.

In the balance sheet, equity is divided on the basis of the provisions of the German Commercial Code (HGB). Restrictions and the dividend calculations are based on the provisions of the German Stock Corporation Act (AktG) applicable for the parent company.

Authorised capital

Authorised capital 2013 amounted to a total of EUR 2,538,456 as at 31 December 2016 and developed as follows:

The Executive Board is authorised to increase the share capital until 3 June 2018 with the consent of the Supervisory Board in the amount of up to EUR 2,873,858.00 by issuing 2,873,858 new no-par bearer shares, on one or more occasions, in exchange for cash contributions and/or contributions in kind (authorised capi-

tal 2013). Shareholders are generally entitled to subscription rights. The new shares may be assumed by one or more banks with the obligation to offer subscription rights to the shareholders.

The Executive Board – with the consent of the Supervisory Board – has the right to exclude shareholder subscription rights one or more times, a) as far as necessary in order to exclude fractional amounts from shareholder subscription rights, b) as far as the new shares are issued in exchange for contributions in kind, particularly in the form of companies, parts of companies and investments in companies, licence rights or other receivables, c) as far as new shares are issued in exchange for cash contributions and the total proportional amount of share capital corresponding to the new shares does not exceed the total amount of EUR 574,771.00, or if this amount is lower, 10 % of the share capital at the effective date and at the date this authorisation to exclude subscription rights is first exercised (maximum amount) and the issue price of the new shares is not significantly lower than the market price of equivalent shares already listed on the stock market.

Share capital allocated to each share is to be taken into account for the maximum amount, which has been or will be used to satisfy bonds with conversions or share options, which has been or will be issued after 4 June 2013 pursuant to Section 186 (3) Sentence 4 AktG under exclusion of subscriptions rights, or which will be sold after 4 June 2013 under application of Section 186 (3) Sentence 4 AktG. This is not taken into consideration as far as authorisations are newly issued by the Annual Shareholders' Meeting regarding the issue of bonds with conversions or share options according to Section 221 (4) Sentence 2, Section 186 (3) Sentence 4 AktG or the sale of treasury shares according to Section 71 (1) Number 8, Section 186 (3) Sentence 4 AktG after such authorisation is exercised.

The Executive Board also has the right to establish additional details of the capital increase and its realisation with the consent of the Supervisory Board. The Supervisory Board is authorised to amend Article 3 of the bylaws after the increase in share capital is realised in full or in part according to the respective utilisation of the authorised capital and, if the authorised capital is not or not fully utilised by 3 June 2018, after the end of the authorisation period.

The Executive Board resolved on 26 January 2016 to issue new shares against contributions in kind partially utilising authorised capital 2013. The company's share capital of EUR 5,799,720.00, which is divided into 5,799,720 shares, was increased by EUR 41,715 against contributions in kind to EUR 5,841,435 by issuing 41,715 bearer shares (no-par shares) with participation rights from 1 January 2016. The shareholders' statutory subscription rights were excluded. The new shares to be issued were equally subscribed to and purchased by the sellers of the outstanding shares in ARITHNEA GmbH against contribution of the shares in ARITHNEA GmbH, based in Neubiberg, Munich, Germany, entered in the Commercial Register of the district court of Munich, Germany, under HRB 149239. The shares in ARITHNEA GmbH to be contributed corresponded to 8.76 % of the share capital of ARITHNEA GmbH, which totals EUR 32,500.00. The shares were contributed effective midnight on 1 January 2016. The issue price of the new shares was EUR 21.23 per share.

The Executive Board resolved on 15 December 2016 to issue new shares against cash contributions partially utilising authorised capital 2013. The company's share capital of EUR 5,873,736.00, which is divided into 5,873,736 shares, was increased by up to EUR 293,687.00 against contributions in kind to EUR 6,167,423.00 by issuing up to 293,687 bearer shares (no-par shares) with participation rights from 1 January 2016. The shareholders' subscription rights were excluded. M.M. Warburg & Co. (AG & Co.) Kommanditgesellschaft auf Aktien (Warburg) was permitted to subscribe to the new shares. The issue price of the new shares was EUR 1.00 per share. Pursuant to the provisions of a purchase agreement, Warburg placed the new shares with selected institutional investors in Germany and Europe by way of a private placement in December 2016. The placement allowed interested institutional investors to make offers for the new shares, within the scope of an accelerated bookbuilding process, by proposing a purchase price; a

minimum placement price was specified. The placement price (issue price) realised by Warburg from the private placement for the new shares (less the issue price as well as commissions and costs as well as other refundable expenses – issue proceeds) was then subsequently to be paid by Warburg to the company. The minimum placement price was set in accordance with statutory provisions and the company's bylaws by discounting the market price. The placement price (issue price) may not be significantly lower than the market price. The Executive Board concluded a price-fixing agreement with Warburg with regard to the placement price (issue price), taking into account statutory provisions as well as the provisions of the bylaws. The Supervisory Board approved the Executive Board's resolution on 15 December 2016. All 293,687 new shares were successfully placed.

Conditional capital

The nominal value of the conditional capital as at 31 December 2016 is EUR 508,670 thousand and breaks down as follows:

The Annual Shareholders' Meeting resolved on 29 May 2009 to increase the company's share capital by EUR 428,572.00 by issuing up to 428,572 no-par bearer shares conditionally (conditional capital 2009/II). This conditional capital increase served exclusively to fulfil option obligations, which were granted by authorisation of the Annual Shareholders' Meeting of 29 May 2009 with the consent of the Supervisory Board until 15 December 2013. The conditional capital increase will only be conducted insofar as the holders of the issued options exercise their right to subscribe to the shares of the company and the company does not grant any of its own shares to fulfil the option obligations. The new shares participate, through the exercising of the options, in the profit from the beginning of the financial year.

In view of the capital decrease conducted by the company in 2009 at a ratio of 7:1, the conditional capital 2006/I and 2009/II were accordingly adjusted by resolution of the Annual Shareholders' Meeting.

The Annual Shareholders' Meeting on 2 June 2015 adjusted the existing conditional capital I and II to the options under the stock option programs that have not been exercised and need to be covered by this conditional capital:

Conditional capital I was cancelled, since no more options can be exercised under the stock option plan 2006-2009. Conditional capital II was decreased from EUR 387,957.00 to EUR 49,700.00 and renamed conditional capital 2009.

On the reporting date, 8,670 convertible stock options remain outstanding under the conditional capital 2009.

A total of 32,301 new shares were issued for stock options exercised under the employee participation plan in financial year 2016, resulting in share capital increasing by EUR 32,301. The entry in the Commercial Register was made on 19 December 2016.

The Annual Shareholders' Meeting on 2 June 2015 also resolved to create new conditional capital for granting options to employees, managers and members of adesso AG's Executive Board, as well as managers of affiliated companies under a 2015 stock option plan (conditional capital 2015):

Accordingly, the capital stock is conditionally increased by an additional EUR 500,000.00 (conditional capital 2015). The conditional capital increase is intended for exercising options granted on the basis of this authorisation until 15 December 2019 ("stock option plan 2015"). The Executive Board or – to the extent members of the Executive Board are involved – the Supervisory Board was authorised to issue up to 500,000 options for the company's own shares to the beneficiaries under this stock option plan 2015. The conditional capital increase will only be conducted insofar as subscription rights are issued within the scope

of stock option plan 2015 and the holders of these subscription rights exercise their right to subscribe and provided no treasury stocks are used for this purpose. The new shares participate, through the exercising of the subscription rights, in the profit from the beginning of the financial year.

A detailed overview of the composition and development of equity in the consolidated financial statements is provided in the consolidated statement of changes in equity.

17. Employee Participation Plan

No options were issued from “conditional capital 2009” in the financial year or the previous year. The exercise prices for all options issued and outstanding are between EUR 7.31 and EUR 8.20 (previous year: EUR 6.32 and EUR 8.20). The average weighted residual term of the outstanding options is 2.8 years (previous year: 3.0 years). The vesting period of the outstanding options is 48 months. The outstanding options have a total term of five and eight years, respectively. The number of outstanding options developed as follows:

	2016		2015	
	Number	Average exercise price per option in EUR	Number	Average exercise price per option in EUR
As at 1 January	40,971	7.25	49,621	7.17
Exercised	-32,301	7.15	-6,000	6.66
Expired	0	0	-2,650	7.17
As at 31 December	8,670	7.62	40,971	7.25
Exercisable as at 31 December	3,780	7.31	19,137	7.00

An expense of EUR 0 thousand (previous year: EUR 3 thousand) for the stock option programme was recognised in the financial year. The weighted average market price of the adesso share was EUR 25.82 when the options were exercised.

A phantom share programme was initiated in financial year 2009. The market value of the adesso AG shares on 31 December 2016 is used for measurement. Redemption of the virtual shares in exchange for payment of the fair value of the corresponding number of adesso shares is possible eight years after the start of the commitment at the earliest. The amount payable is accumulated during this period. The holder of the virtual phantom shares receives payments on said shares corresponding to the approved dividend per share. These payments are expensed. Expenses from the phantom share programme in the amount of EUR 3,692 thousand (previous year: EUR 1,681 thousand) were recognised in the financial year. The expense increase is mainly due to the higher stock market price of the adesso AG share. Total provisions of EUR 6,429 thousand (previous year: EUR 2,736) resulting from 202,206 phantom shares have been recognised. Payments of EUR 799 thousand are due under the phantom share programme in financial year 2017. EUR 4,479 thousand is payable in financial years 2021 through 2018 and an additional EUR 1,151 thousand subsequently.

An additional 3,885 virtual stock options were issued at the end of 2016. The corresponding provision is fully paid up at EUR 33 thousand. No further virtual stock options are being issued.

Information on the Consolidated Income Statement

The consolidated income statement is structured according to the total cost method. An overview of the earnings structures by segments is provided in segment reporting.

18. Sales Revenues

Sales revenues are comprised as follows:

<i>in EUR k</i>	2016	2015
Services	232,272	173,418
Licensing sales revenues	12,684	8,772
Maintenance/hosting sales revenues	15,451	14,259
TOTAL	260,407	196,449

19. Other Operating Income

Other operating income is comprised as follows:

<i>in EUR k</i>	2016	2015
Income from trade receivables written down	3	27
Grants for expenses	173	239
Income from the reversal of provisions	1,359	285
Income from translation differences	819	352
Other	955	959
TOTAL	3,309	1,862

The reversal of provisions results largely from a number of individual items in the course of ordinary business activities.

Income from the reversal of value adjustments on receivables is due primarily to the settlement of value-adjusted receivables.

20. Cost of Materials

Cost of Materials is comprised as follows:

<i>in EUR k</i>	2016	2015
Expenses for purchased merchandise	822	590
Expenses for purchased services	27,256	22,385
TOTAL	28,078	22,975

21. Personnel Costs

Personnel costs are comprised as follows:

<i>in EUR k</i>	2016	2015
Wages and salaries	144,993	107,721
Social security contributions	23,295	17,423
TOTAL	168,288	125,144

The adesso Group had an average of 1,956 FTE (full-time equivalent) employees in 2016 (previous year: 1,534 FTE).

22. Other Operating Expenses

An overview of the other operating expenses is provided in the following table:

<i>in EUR k</i>	2016	2015
Travel expenses	12,012	9,151
Room costs	6,392	5,207
Motor vehicle expenses	5,434	4,424
Marketing	3,266	3,444
Telephone/Internet costs	1,183	1,458
Personnel recruitment	2,496	1,728
Other	13,507	10,662
TOTAL	44,290	36,074

The “Other” expenses reported in the table include a number of various expenses and also include expenses for foreign currency differences of EUR 1,238 thousand (previous year: EUR 332 thousand).

23. Depreciation and Amortisation

The depreciation on and amortisation of non-current assets is EUR 6,352 thousand for the financial year (previous year: EUR 4,877 thousand). Of this amount, EUR 2,336 thousand is accounted for by the amortisation of intangible assets capitalised in the course of mergers. Amortisation of internally generated intangible assets accounts for EUR 17 thousand for the financial year, which corresponds to the development costs affecting earnings recognised in the reporting year.

24. Income from Financing and Investment Activities

Total interest income for the reporting year is EUR 43 thousand (previous year: EUR 51 thousand) with EUR 10 thousand affecting payment; total interest expenses are EUR 445 thousand (previous year: EUR 291 thousand) with EUR 431 thousand affecting payment. The pro-rata profits of interests recognised at equity are recognised under income from investment activities.

25. Income Taxes

Income taxes are comprised as follows:

<i>in EUR k</i>	2016	2015
Current tax expense	4,022	2,392
Deferred tax expense	4	1,771
TOTAL	4,026	4,163

Current taxes do not include tax expense from adjustments in previous years (previous year: EUR 130 thousand). The benefit from utilising the tax loss carry-forwards, for which deferred taxes were not recognised at the end of the previous financial year, is EUR 803 thousand (previous year: EUR 38 thousand). Deferred tax assets on tax loss carry-forwards changed by a total of EUR 1,020 thousand (previous year: EUR 1,881 thousand) mainly due to the following changes: utilisation (EUR -1,124 thousand; previous year: EUR -1,975 thousand), the capitalisation of additional deferred taxes on loss carry-forwards for which deferred taxes were not recognised in the previous financial year (EUR 235 thousand; previous year: EUR 95 thousand), the capitalisation of deferred taxes on current losses (EUR 0 thousand; previous year: EUR 102 thousand) and depreciation and amortisation (EUR 117 thousand; previous year: EUR -104 thousand). The

deferred tax revenue from the change in the temporary difference amounts to EUR 1,016 thousand (previous year: EUR 111 thousand).

The table below shows the reconciliation of the theoretically expected tax expense to actual reported income tax expense pursuant to IAS 12.81 (c):

<i>in EUR k</i>	2016	2015
Consolidated earnings before income taxes	16,723	9,475
Expected tax expense	5,485	3,108
Effect of different tax rates	-786	89
Capitalisation of additional deferred taxes on loss carry-forwards	-235	-96
Utilisation of loss carry-forwards for which deferred taxes were not recognised	-803	-38
Impairment and non-capitalised deferred taxes on loss carry-forwards	439	548
Non-deductible expenses and only taxable income	256	475
Effect of tax-free income	-56	-87
Effect of foreign currency expense recognised in equity	14	101
Tax expense from other periods	-166	130
Other	-122	-67
Tax expense reported	4,026	4,163

The tax rate of the parent company at 32.8 % was used to determine the expected tax expense.

Deferred tax revenue of EUR 7 thousand (previous year: tax expense of EUR 84 thousand) was included in other comprehensive income in the financial year.

26. Earnings per Share

According to IAS 33, two different values have to be reported for earnings per share: undiluted and diluted earnings per share. Undiluted earnings per share are calculated by dividing the consolidated net income for the year allocated to adesso AG shareholders by the average number of shares outstanding in the financial year.

At the end of the financial year, 6,468 (previous year: 24,045) outstanding options under the employee participation plan had to be taken into account in calculating the diluted earnings per share. A maximum of 8,670 options can exercise a diluting effect on earnings per share in the future.

Undiluted and diluted earnings are calculated as follows:

	2016	2015
Proportion of consolidated earnings allocated to adesso AG shareholders (in EUR k)	12,524	4,747
Average number of shares outstanding in the financial year	5,859,394	5,796,720
Undiluted earnings per share (in EUR)	2.14	0.82
Average number of shares outstanding, including the dilution effect of outstanding options	5,865,862	5,820,765
Diluted earnings per share (in EUR)	2.14	0.82

IV. Information on the Consolidated Cash Flow Statement

In accordance with IAS 7, the cash flow statement shows the change in cash and cash equivalents of the Group during the reporting year as a result of inflows and outflows. Cash and cash equivalents are comprised of cash on hand and at bank. According to IAS 7 (Statement of Cash Flows), the cash flows are classified into operating, investment and financing activities.

In financial year 2016, cash inflows from operating activities decreased by EUR 1,412 thousand year on year to EUR 15,465 thousand, mainly due to the increase in receivables. In financial year 2016, earnings before taxes rose by EUR 7,247 thousand to EUR 16,722 thousand. Depreciation on property, plant and equipment and the amortisation of intangible assets totals EUR 6,352 thousand, up EUR 1,475 thousand year on year. This increase is mainly due to the amortisation of the order backlog and customer lists from the company acquisitions in Switzerland in 2015 as well as acquisitions of Smarthouse Media GmbH and flitcon GmbH in 2016. Taxes were paid in the amount of EUR 4,060 thousand (previous year: EUR 2,267 thousand).

Cash outflows for investment activities rose by EUR 3,303 thousand year on year, and mainly include the change in cash resulting from the acquisitions of Smarthouse Media GmbH and flitcon GmbH.

Cash outflows from financing activities mainly include payments from taking out new loans as well as capital increases.

According to IAS 7, non-cash investment and financing transactions have to be reported separately. Shares worth EUR 885 thousand were issued for the additional stake in ARITHNEA GmbH. This transaction is not included in the consolidated cash flow statement.

V. Information on Segment Reporting

adesso's consolidated balance sheet and consolidated income statement present data in aggregate form. In order to better identify the risks and opportunities of the adesso business activities, information on the basis of reportable segments has to be disclosed in segment reporting. The first step is to establish the operating segments: According to IFRS 8, a business area is an operating segment if it is engaged in business activities that generate income and expenses, the operating earnings are monitored regularly by a person in charge and separate financial information is available.

These criteria are met by adesso AG and its subsidiaries. Accordingly, each company is an operating segment pursuant to IFRS 8. For the purpose of segment reporting, similar operating segments are combined into a single segment in a second step. This summary results in the IT Services and IT Solutions segments.

The IT Services segment focuses on industry-specific, individual IT consulting as well as software development. Consulting develops concepts for the optimum and efficient support of business processes through IT systems.

The IT Solutions segment distributes standard software products and industry-specific or industry-neutral solutions.

The individual companies are assigned to these segments as follows:

<i>IT-Services</i>	<i>IT-Solutions</i>
adesso AG	adesso insurance solutions GmbH
adesso Austria GmbH	adesso mobile solutions GmbH
adesso hosting services GmbH	e-Spirit AG
adesso Schweiz AG	e-Spirit Inc.
adesso Transformer GmbH	e-Spirit UK Ltd.
adesso Turkey Bilgi Teknolojileri Ltd. Şti.	e-Spirit Schweiz AG
alleato assekuranzmakler GmbH	gativ GmbH
Arithnea GmbH	PSLife GmbH ¹
A3A Strategy Consulting GmbH	PSLife Consulting GmbH ¹
nhs Informatik GmbH	smarthouse adesso financial solutions GmbH
percision services GmbH	
phb services GmbH	

¹ These companies were merged with adesso insurance solutions GmbH during the financial year.

In the previous year, percision Schweiz AG had been allocated to the IT Services segment; the company is currently being liquidated and has been deconsolidated.

IFRS 8 consistently implements the so-called management approach for segment reporting. That means that the same information reported for internal purposes is disclosed externally. As the company reports its figures internally on the basis of the German Commercial Code (HGB), figures are generally also reported in segment reporting on the basis of HGB. Exceptions include information on sales revenues from external customers based on the customer's registered office and information on non-current assets based on the location of the assets. These disclosures must be based on the IFRS figures.

The published segment reporting shows the data presented to the leading decision makers in the course of internal reporting. These figures were determined according to HGB. The amortisation of goodwill from mergers according to HGB is eliminated for the purpose of internal reporting. Accordingly, this is the same in segment reporting.

Non-consolidated figures are reported for each operating segment. This means, for example, that sales revenues between the individual companies are not eliminated in segment reporting. HGB accounting differs from IFRS accounting in significant points. Material differences for the purpose of segment reporting are discussed below:

- > Sales revenues for services are generally recognised according to the completed contract method under HGB. This means the sales revenues are only recognised when the contract is 100 % completed. According to IFRS, sales revenues for services and the corresponding expenses are recognised based on the percentage of completion on the reporting date. This results in a deviation in the allocation of earnings from service agreements. For clarification, this does not mean that sales revenues reported according to IFRS are generally higher than sales revenues reported according to HGB.
- > Production costs according to IFRS encompass the full production-related costs. Other expenses, such as general administrative costs, can be included in production costs according to HGB but not according to IFRS.

- > According to IFRS, liabilities are not measured at the redemption amount but at the fair value of the consideration received less incidental costs. They are subsequently valued using the effective interest method.
- > According to IFRS 2, expenses from share-based remuneration are recognised through profit or loss against the capital reserve over the vesting period.

The “Reconciliation” column in segment reporting contains the differences between the sum of the amounts reported in the segments and the amount reported for the respective item in the consolidated financial statements. These differences mainly consist of amounts for transactions between the operating segments, accounting differences between IFRS and HGB and amounts that cannot be assigned to the segments. adesso is unable to separate the amounts reported in the “Reconciliation” column.

Transactions between the operating segments are settled at market prices.

SEGMENT REPORTING 2016

<i>in EUR k</i>	<i>IT Services</i>	<i>IT Solutions</i>	<i>Reconciliation</i>	<i>Consolidated</i>
Sales revenues	251,858	47,033	-38,484	260,407
Changes in inventories	2,559	331	-2,890	0
Other operating income	9,559	9,112	-15,362	3,309
Cost of materials	-58,842	-10,893	41,657	-28,078
Personnel costs	-150,636	-24,697	7,045	-168,288
Other operating expenses	-39,754	-14,399	9,863	-44,290
EBITDA	14,744	6,487	1,829	23,060
Depreciation and amortisation	-3,708	-558	-2,086	-6,352
Amortisation of goodwill	-3,105	-265	3,370	0
EBIT	7,931	5,664	3,113	16,708
Income from investments	5,267	0	-4,851	416
Financial result	-378	1,493	-1,517	-402
Other taxes	-8	-2	10	0
EARNINGS BEFORE TAXES (EBT)	12,812	7,155	-3,245	16,722
Amortisation of goodwill	3,105	265	-3,370	0
EBT before amortisation of goodwill	15,917	7,420	-6,615	16,722

SEGMENTBERICHTERSTATTUNG 2015

<i>in EUR k</i>	<i>IT Services</i>	<i>IT Solutions</i>	<i>Reconciliation</i>	<i>Consolidated</i>
Sales revenues	184,298	39,043	-26,891	196,449
Changes in inventories	3,123	-25	-3,097	0
Own work capitalised	0	0	165	165
Other operating income	7,195	1,572	-6,905	1,862
Cost of materials	-42,603	-10,928	30,556	-22,975
Personnel costs	-110,223	-19,317	4,396	-125,144
Other operating expenses	-30,418	-8,126	2,470	-36,074
Extraordinary result for the period	5	-2	-3	0
Other taxes	-4	-1	5	0
EBITDA	11,371	2,215	698	14,284
Depreciation and amortisation	-2,151	-449	-2,277	-4,878
Amortisation of goodwill	-2,662	-265	2,928	0
EBIT	6,558	1,500	1,348	9,406
Income from investments	1,082	-449	-324	309
Financial result	-207	-1,601	1,567	-240
EARNINGS BEFORE TAXES (EBT)	7,433	-550	2,592	9,475
Amortisation of goodwill	2,662	265	-2,928	0
EBT before amortisation of goodwill	10,096	-284	-336	9,475

The following table shows the allocation of sales revenues with external clients by the client's place of business and non-current assets by the location of the assets to geographical segments as required by IFRS 8.

	<i>Sales revenues with external clients by client's place of business</i>		<i>Non-current assets</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Germany	205,335	152,736	43,112	22,196
thereof goodwill			24,165	9,441
Austria	5,332	5,693	3,606	3,615
thereof goodwill			3,552	3,552
Switzerland	42,273	29,877	16,125	13,020
thereof goodwill			10,454	10,360
Other	7,467	8,144	113	44

More than 10 % of the sales revenues generated by adesso were not applicable to any one customer in financial years 2016 and 2015.

VI. Supplementary Information

Other Financial Obligations

Other financial obligations are comprised as follows:

2016 / in EUR k	Total	Thereof due in year 1	In 2 to 5 years	After 5 years
Space and equipment rental	32,669	6,181	17,934	8,554
Other leases	3,952	1,997	1,954	1
Other long-term contracts	1,278	694	584	0
Insurance	742	655	87	0
TOTAL	38,641	9,527	20,559	8,555

2015 / in EUR k	Total	Thereof due in year 1	In 2 to 5 years	After 5 years
Space and equipment rental	23,267	4,065	11,482	7,720
Other leases	3,390	1,599	1,791	0
Other long-term contracts	583	280	303	0
Insurance	645	541	97	7
TOTAL	27,885	6,465	13,673	7,727

Other financial obligations from the leasing of space and equipment primarily stem from a signed, long-term leasing agreement for adesso AG. adesso has leased the building for 15 years. The company has an option right to extend the lease by two additional terms of five years at the respective current market conditions.

There are no significant further financial obligations such as order commitments on the reporting date.

There were no contingent liabilities at the end of financial year 2016.

Financial Instrument Disclosures According to IFRS 7

The total financial assets held by adesso on the reporting date and in the previous year are assigned to the category "Loans and receivables", and the financial liabilities to the category "Financial liabilities measured at amortised cost".

The table below shows the carrying amounts measured at (amortised) cost as well as the fair value of the financial assets and liabilities. Determining fair values of financial assets and liabilities is based on the market rates of similar financial instruments.

Consolidated Notes

in EUR k	Valuation category	2016			2015		
		Carrying amount	Fair value	Fair value level*	Carrying amount	Fair value	Fair value level*
ASSETS							
Cash and cash equivalents	KuF	43,144	43,144		28,162	28,162	
Trade receivables	KuF	54,496	54,496		37,215	37,215	
Other assets	KuF	1,092	1,092		1,467	1,467	
TOTAL		98,732	98,732		66,844	66,844	
EQUITY AND LIABILITIES							
Trade payables	FV	11,257	11,257		9,411	9,411	
Loans	FV	47,059	47,440	3	21,469	21,857	3
Other financial liabilities	BKV	302	302		277	277	3
Other liabilities	FV	37,469	37,496		27,812	27,812	
TOTAL		96,087	96,495		58,969	59,357	

* See "General Information – Fair Value" for additional notes

LaR: Loans and receivables

FL: Financial liabilities, measured at (amortised) cost

CPPO: Conditional purchase price obligation measured at fair value; FL in the previous year.

The fair value of the loans is calculated by discounting future cash flows from the loans by adesso's current borrowing rate.

The net results required pursuant to IFRS 7.20 are comprised as follows:

2016 / in EUR k	From interest	Impairment	Write-up/ derecognition	Total
Loans and receivables	43	-20	0	23
Financial liabilities measured at amortised cost	-445	0	0	-445
2015 / in EUR k				
Loans and receivables	51	-186	27	-108
Financial liabilities measured at amortised cost	-291	0	0	-291

Net results in the "Loans and receivables" category are due to compounding non-current financial assets and interest-bearing investments in financial assets, as well as the impairment of financial assets at risk of default and the write-up of financial assets previously impaired. Net results in the category "Financial liabilities measured at amortised cost" are due to interest expenses.

The Group is exposed to a variety of risks due to its business activities. These include default risk, liquidity risk and market risk.

Default Risk

The Group is exposed to default risk on the recognised trade receivables and receivables PoC. Existing and major customers continue to dominate the customer portfolio in the financial year. A number of the new customers added in 2016 are also major customers.

Any applicable risks are covered by specific provisions. No flat-rate specific provisions for groups of receivables were required. The maximum default risk corresponds to the carrying amount of the receivables.

Liquidity Risk

adesso is exposed to liquidity risk due to the possibility that future financial obligations may not be met. Medium- and long-term liquidity management is centralised in Dortmund, Germany, under the responsibility of the CFO. All Group companies independently plan and monitor their liquidity. Central cash management has not been implemented. Liquidity is mainly assured by cash flow from operating activities as well as a high level of cash and cash equivalents. The Group companies periodically report their short-, medium- and long-term liquidity to adesso AG based on various time horizons.

The tables below show the carrying amounts and cash flows (interest and repayments) of the financial liabilities. The difference between the carrying amount and the total of future cash flows corresponds to the interest due in future:

2016 (in T€)	Carrying amount	Maturity up to 1 year	> 1 and up to 5 years	> 5 years
Trade payables	11,257	11,257	0	0
Loans	47,059	14,084	22,057	13,703
of which interest	0	554	1,698	534
Other financial liabilities	302	302	0	0
Other liabilities	37,469	37,469	0	0
TOTAL	96,087	62,558	20,359	13,170
2015 (in T€)	Carrying amount	Maturity up to 1 year	> 1 and up to 5 years	> 5 years
Trade payables	9,411	9,411	0	0
Loans	21,469	4,316	9,340	10,203
of which interest	0	381	1,103	906
Other financial liabilities	277	277	0	0
Other liabilities	27,812	27,715	97	0
TOTAL	59,243	41,338	8,247	9,384

Market Risk

Sales revenues are largely realised in the national currencies of the respective companies. The exchange rate risk can therefore continue to be considered low. To finance the company acquisition in Switzerland, adesso AG took out nearly two-thirds of the loans in Swiss francs. There is a valuation unit at the level of adesso AG whose income and expenses arising from translation into euro are neutralised; these also do not impact the consolidated income statement. The impact of adesso Schweiz AG's liabilities in Swiss francs is recognised under other comprehensive income. The remainder not included in adesso AG's valuation unit is subject to currency risk depending on the development of the Swiss franc versus the euro. All loans bear interest at fixed rates.

Capital Management

The equity ratio of adesso is 33 % (previous year: 35 %). Active capital management is not performed. The Executive Board manages the company using earnings, yield and liquidity indicators. No capital measures other than the authorised and conditional capital disclosed in section 16 have currently been approved.

Executive Board

The following persons were members of the adesso AG Executive Board in the reporting year:

- > Michael Kenfenheuer, Frechen, Germany, Chairperson of the Executive Board
(Banking, Health and Insurance business areas)
- > Dipl.-Wirtschaftsingenieur (industrial engineer) Christoph Junge,
Münster, Germany, member of the Executive Board
(Finance, Personnel, Administration and Law, as well as Mergers & Acquisitions)
- > Dipl.-Stat. Andreas Prenneis (statistics graduate), Dortmund, Germany, member of the Executive Board
(Automotive & Transportation, Cross Industries, Energy Industry, Public Administration,
Microsoft business areas as well as IT Management-Consulting)

All Executive Board members were granted the power of sole representation. They are exempt from the restrictions of Section 181 of the German Civil Code (BGB).

Executive Board Remuneration

Remuneration for members of the Executive Board is mainly determined according to business performance and accepted industry standards. It is based on contractual provisions established with the Supervisory Board, and includes basic remuneration as well as additional, performance-based remuneration.

The remuneration principles are presented in the Remuneration Report contained in the Management Report.

In market and corporate standards, the Company grants further benefits to all members of the Board from their contracts that are partly viewed as non-cash benefits and taxed accordingly. Especially the provision of a company car and payments to social insurance are to be named.

2016, the total amount of payments (accrual) of all members of the Board during this period was EUR 984 thousand (previous year: EUR 982 thousand). This includes dividends from the phantom stock program amounting to EUR 46 thousand (previous year: EUR 39 thousand).

The tables below provide an overview of benefits paid and granted to the members of the Executive Board:

BENEFITS PAID

in T€	Michael Kenfenheuer Chairperson of the Executive Board				Christoph Junge Member of the Executive Board				Andreas Prenneis Member of the Executive Board			
	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)
PERFORMANCE-INDEPENDENT REMUNERATION												
Fixed remuneration	206	208	208	208	190	192	192	192	135	182	182	182
Fringe benefit	19	19	19	19	13	13	13	13	10	14	14	14
<i>Total</i>	225	227	227	227	203	205	205	205	145	196	196	196
PERFORMANCE-BASED VARIABLE REMUNERATION												
Short-term variable remuneration	112	167	-	167	112	162	-	162	84	150	-	150
Long-term variable remuneration	516	1,139	57	1,139	180	425	40	425	-	-	-	-
<i>Total</i>	628	1,306	57	1,306	292	587	40	587	84	150	-	150
Benefit expense	8	8	8	8	8	9	9	9	5	7	7	7
TOTAL REMUNERATION	861	1,541	292	1,541	503	801	254	801	234	353	203	353

ACCRUAL

in EUR k	Michael Kenfenheuer Chairperson of the Executive Board		Christoph Junge Member of the Executive Board		Andreas Prenneis Member of the Executive Board	
	2016	2015	2016	2015	2016	2015
PERFORMANCE-INDEPENDENT REMUNERATION						
Fixed remuneration	208	206	192	190	182	135
Fringe benefit	19	19	13	13	14	10
<i>Total</i>	227	225	205	203	196	145
PERFORMANCE-BASED VARIABLE REMUNERATION						
Short-term variable remuneration	112	79	112	80	84	-
Long-term variable remuneration	17	14	12	10	-	-
<i>Total</i>	129	93	124	90	84	-
Benefit expense	8	8	9	8	7	5
TOTAL REMUNERATION	364	326	338	301	287	150

Liabilities for Executive Board remuneration amounted to EUR 479 thousand as at the reporting date (previous year: EUR 372 thousand); this amount will be paid in the subsequent financial year. The members of the Executive Board of adesso AG held the following adesso AG shares as at 31 December 2016:

	<i>Number of no-par bearer shares</i>
Michael Kenfenheuer, Frechen, Germany	58,348
Christoph Junge, Münster, Germany	17,014
Andreas Prenneis, Dortmund, Germany	0
TOTAL	75,362

The Executive Board of adesso AG held 3,780 stock options on the reporting date, with a fair value of EUR 5 thousand on the date they were granted. Due to an individual commitment, one member of the Board holds 3,885 virtual stock options.

Former members of the Executive Board do not receive any remuneration, nor were any pension commitments made. A former member of the Executive Board continues to work in the company holding a different position and receives market pay rates. No loans or advances were granted to members of the Executive Board.

Executive Board member Michael Kenfenheuer was granted 57,145 phantom shares as at 1 September 2010. Former Executive Board member Dr. Rüdiger Striemer was granted 57,145 phantom shares as at 1 September 2009. Executive Board member Christoph Junge was granted 40,000 phantom shares as at 1 May 2014.

The members of the adesso AG Executive Board also hold the following positions in supervisory boards and other governing bodies according to Section 125 (1) Sentence 3 in conjunction with Section 125 (2) AktG:

- > Michael Kenfenheuer, Frechen, Germany
Chairperson of the Supervisory Board of e-Spirit AG, Dortmund, Germany

Supervisory Board

The members of the Supervisory Board in 2016 were as follows:

- > Prof. Dr. Volker Gruhn, Dortmund, Germany, Chairperson of the Supervisory Board
Head of the Software Engineering Department at University of Duisburg-Essen, Germany
- > Dr. Friedrich Wöbking, Pullach, Germany, Deputy Chairperson of the Supervisory Board
Management consultant
- > Prof. Dr. Gottfried Koch, Stein, Switzerland
Professor of Insurance Information Technology
- > Dipl.-Kfm. Hermann Kögler (business management graduate), Bonn, Germany
Member of the Supervisory Board of Cognos AG, Cologne, Germany
(until 30 June 2016: Member of the Executive Board of Cognos AG)
- > Dipl.-Math. Heinz-Werner Richter (mathematics graduate), Dortmund, Germany
Actuarial trustee, management consultant

Dipl.-Inform. Rainer Rudolf (IT graduate), Dortmund, Germany
Member of the Executive Board of W3L AG, Dortmund, Germany

The members of the adesso AG Supervisory Board also hold the following positions in supervisory boards and other governing bodies according to Section 125 (1) Sentence 3 in conjunction with Section 125 (2) AktG:

> Prof. Dr. Volker Gruhn

Member of the Supervisory Board of e-Spirit AG, Dortmund, Germany

> Dipl.-Kfm. Hermann Kögler (business management graduate), Bonn, Germany

Member of the Supervisory Board of HHL gemeinnützige GmbH,
Leipzig, Germany, Graduate School of Management

Member of the Supervisory Board of Cognos AG, Cologne, Germany

> Dipl.-Inform. Rainer Rudolf (IT graduate), Dortmund, Germany

Member of the Supervisory Board of jCatalog Software AG, Dortmund, Germany (until 26 April 2016)

> Dr. Friedrich Wöbking, Pullach, Germany

Member of the Supervisory Board of Erste Financial Service GmbH (EFS), Düsseldorf, Germany (since 5 April 2016)

The other members of the adesso AG Supervisory Board also hold no additional positions in supervisory boards and other governing bodies according to Section 125 (1) Sentence 3 AktG.

Supervisory Board Remuneration

Total remuneration in calendar year 2016 for all members of the adesso AG Supervisory Board appointed in this period was EUR 46 thousand (previous year: EUR 42 thousand) for Supervisory Board activities.

Supervisory Board remuneration paid in the financial year

<i>Amounts in EUR k</i>	<i>Basic remuneration</i>	<i>Variable share</i>	<i>Reimbursement of expenses</i>	<i>Total</i>
Prof. Dr. Volker Gruhn	9	0	0	9
Prof. Dr. Gottfried Koch	6	2	1	9
Hermann Kögler	3	2	0	5
Heinz Werner Richter	6	0	2	8
Rainer Rudolf	6	0	0	6
Dr. Friedrich Wöbking	6	2	1	9
TOTAL	36	6	4	46

All transactions with related parties are concluded at market terms and conditions. Liabilities to members of the Supervisory Board on the reporting date were EUR 65 thousand (previous year: EUR 22 thousand). Liabilities for Supervisory Board remuneration of EUR 33 thousand were created in the current financial year. Expenses of EUR 414 thousand (previous year: EUR 258 thousand) for commissions, fees and allowances were recognised.

The Group has neither granted loans to members of the Supervisory Board nor issued bonds or guarantees on their behalf. There are no family ties between members of the Supervisory Board, nor between members of the Supervisory Board and the Executive Board. There are no service agreements between the Supervisory Board members and adesso or its subsidiaries that call for remuneration upon termination. Former members of the Supervisory Board do not receive any remuneration, nor were any pension commitments made.

The members of the Supervisory Board of adesso AG held the following adesso AG shares as at 31 December 2016:

	<i>Number of no-par bearer shares</i>
Prof. Dr. Volker Gruhn, Dortmund, Germany, directly and indirectly	1,719,767
Rainer Rudolf, Dortmund, Germany	1,088,195
Prof. Dr. Gottfried Koch, Stein, Switzerland	15,921
Dr. Friedrich Wöbking, Germany	6,800
Herrmann Kögler, Bonn, Germany	0
Heinz-Werner Richter, Dortmund, Germany	0
	2,830,683

Related Party Disclosures

In addition to the members of the Executive Board and Supervisory Board, the following companies are considered to be related parties of adesso:

Associates:

- > Barmenia IT+ GmbH, Wuppertal, Germany
- > com2m GmbH, Dortmund, Germany
- > 1Buch GmbH, Gütersloh, Germany

Other:

- > Setanta GmbH, Dortmund, Germany
- > ForenService Holding, Leipzig, Germany
- > Versicherungsforen Leipzig GmbH, Leipzig, Germany
- > IT Factum GmbH, Munich, Germany
- > CampusLab GmbH, Essen, Germany

Receivables from and liabilities to related parties were as follows as at 31 December:

<i>in EUR k</i>	2016		2015	
	<i>Receivables</i>	<i>Liabilities</i>	<i>Receivables</i>	<i>Liabilities</i>
Associates	17	0	0	0
Other	0	68	0.4	59

The following income (primarily from service agreements) and expenses with related parties were recognised in the financial year:

in EUR k	2016		2015	
	Income	Expenses	Income	Expenses
Joint ventures	0	0	1,124	22
Associates	68	1	0	4
Other	12	139	7	213

All transactions were settled on an arm's length basis.

Audit Fee

According to German law, the auditor is nominated by the Supervisory Board and chosen by the Annual Shareholders' Meeting. Once the auditor has been chosen, the Supervisory Board issues the mandate, approves the conditions and scope of the audit as well as all audit fees under its own responsibility, and monitors the independence of the auditor.

The Annual Shareholders' Meeting chose the company DOSU AG Wirtschaftsprüfungsgesellschaft, Dortmund, Germany, nominated by the Supervisory Board, as the auditor for 2016.

The activities of the auditing firm are reportable and disclosed in the table below. Fees for the audit of the consolidated financial statements and annual financial statements of adesso AG and its subsidiaries are shown under (1). Compensation for consulting activities are shown under (2).

in EUR k	DOSU 2016	DOSU 2015
(1) Year-end audit	231	214*
(2) Other consulting services	15	13
TOTAL	246	227

* Thereof EUR 9 thousand from 2014

Events after the Reporting Date

By purchase agreement dated 10 February 2017, adesso AG acquired 100 % of the shares in UnitCon GmbH, Darmstadt, Germany, for a purchase price of EUR 5,500 thousand. UnitCon is an IT consultancy and development company in the field of SAP customer engagement, business analytics and HANA. The profitable and debt-free company generated EBIT of approximately EUR 1,000 thousand and an EBIT margin of more than 20 % in the past financial year. The acquired company will be fully integrated into the adesso subsidiary ARITHNEA GmbH in the near future.

On 24 March 2017, adesso AG concluded a notarised participation agreement with soccerwatch.tv GmbH, Essen, Germany. Within the scope of a capital increase, adesso AG will receive a participation percentage of 30 % of the share capital of soccerwatch.tv GmbH. In return, adesso AG has agreed to make an additional payment of EUR 1,500 thousand to the company's capital reserves pursuant to Section 272 (2) No. 4 HGB. The additional payment is tied to attaining various milestone achievements.

Appropriation of Net Income

The Executive Board and Supervisory Board shall propose the distribution of EUR 2,220,272.28 or EUR 0.36 per share to the Annual Shareholders' Meeting. The distribution of dividends has no income tax consequences for adesso.

Declaration on the Corporate Governance Code according to Section 161 AktG

The Executive Board and Supervisory Board of adesso AG declare in accordance with Section 161 AktG that the recommendations of the "Government Commission on the German Corporate Governance Code" in the current version published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger) have and will be complied with. Possible deviations from the recommendations are listed and commented on in the compliance statement.

The Executive Board and Supervisory Board of adesso AG report on corporate governance for the company annually, and publish this information as part of the management report. The report and declaration, including the compliance statement, are permanently available online at www.adesso-group.de (Investor Relations > Group > Corporate Governance).

Reporting Obligations

adesso AG received the following reports pursuant to Article 19 (1) MAR (until 2 July 2016: pursuant to Section 15a of the German Securities Trading Act (WpHG)) for financial year 2016.

<i>Transaction</i>	<i>Name</i>	<i>Description</i>	<i>Shares</i>	<i>Price</i>
2 June 2016	Dr. Friedrich Wöbking	Purchase	200	27.10 €
20 June 2016	Christoph Junge	Exercise of stock options (purchase)	7,527	7.37 €
22 June 2016	Michael Kenfenheuer	Exercise of stock options (purchase)	7,527	7.37 €
29 June 2016	Michael Kenfenheuer	Exercise of stock options (purchase)	5,720	6.32 €
8 July 2016	Michael Kenfenheuer	Disposition	8,000	24.70 €
8 July 2016	Christoph Junge	Disposition	7,000	24.70 €
11 October 2016	Dr. Friedrich Wöbking	Purchase	600	37.66 €

Shareholder Structure

The shareholder structure was as follows as at the balance sheet date:

<i>Shareholder</i>	<i>Date the threshold was exceeded or undercut</i>	<i>Share in %</i>
Prof. Dr. Volker Gruhn (Setanta GmbH)	13 August 2007	27.9
Rainer Rudolf	2 October 2007	17.6
Ludwig Fresenius	7 May 2012	10.0
Michael Hochgürtel (MIH Hochgürtel UG & Co. KG)	19 December 2016	4.8

The following notifications were submitted to the company in financial year 2016 pursuant to Section 21 WpHG or Section 25 WpHG:

- > On 30 June 2016, Jörn Bodemann, Germany, informed us that his share of the voting rights in adesso AG, Dortmund, Germany, had fallen below the 3 % threshold of the voting rights on 30 June 2016 and on that day amounted to 2.98 % (corresponding to 175,293 voting rights).

- > On 30 June 2016, Stefan Walgenbach, Germany, informed us that his share of the voting rights in adesso AG, Dortmund, Germany, had fallen below the 3 % threshold of the voting rights on 30 June 2016 and on that day amounted to 2.98 % (corresponding to 175,293 voting rights).
- > On 19 September 2016, MIH Hochgürtel UG & Co. KG, Bad Münstereifel, Germany, informed us that its share of the voting rights in adesso AG, Dortmund, Germany, had exceeded the 5 % threshold of the voting rights on 2 August 2016 and on that day amounted to 5.01 % (corresponding to 294,445 voting rights).
- > On 23 December 2016, MIH Hochgürtel UG & Co. KG, Bad Münstereifel, Germany, informed us that its share of the voting rights in adesso AG, Dortmund, Germany, had fallen below the 5 % threshold of the voting rights on 19 December 2016 and on that day amounted to 4.77 % (corresponding to 294,445 voting rights).

Affiliated Companies of the adesso Group

Company	Headquarters	Equity	Annual profit	Capital share
adesso Austria GmbH	Wien, Österreich	-3,141 T€	-586 T€	100 %
adesso hosting services GmbH	Dortmund, Deutschland	407 T€	307 T€	51 %
adesso insurance solutions GmbH	Dortmund, Deutschland	1,522 T€	925 T€	100 %
adesso mobile solutions GmbH	Dortmund, Deutschland	343 T€	0 T€*	100 %
adesso Schweiz AG	Zürich, Schweiz	3,849 TCHF	1,605 TCHF	100 %
adesso Transformer GmbH	Wien, Österreich	-212 T€	-266 T€	51 %
adesso Turkey Bilgi Teknolojileri Ltd. Şti.	Istanbul, Türkei	-2,186 TTRY	-1,664 TTRY	100 %
alleato assekuranzmakler GmbH	Dortmund, Deutschland	-150 T€	-142 T€	74 %
ARITHNEA GmbH	Neubiberg, Deutschland	1,997 T€	1,785 T€	100 %
A3A Strategy Consulting GmbH (vormals: areal drei advisory GmbH)	Köln, Deutschland	-23 TEUR	0 T€	100 %
e-Spirit AG	Dortmund, Deutschland	4,563 T€	0 T€*	100 %
e-Spirit Inc.	Delaware, USA	470 TUSD	5,259 TUSD	100 %
e-Spirit Schweiz AG	Zürich, Schweiz	-208 TCHF	40 TCHF	100 %
e-Spirit UK Ltd.	London, Großbritannien	-1,284 TGBP	-191 TGBP	100 %
gativ GmbH	Much, Deutschland	274 T€	196 T€	60.91 %
nhs Informatik GmbH	Bern, Schweiz	253 TCHF	2 TCHF	100 %
percision Schweiz AG, in Liquidation ¹⁾	Zürich, Schweiz	-133 TCHF	-2 TCHF	100 %
percision services GmbH	Dortmund, Deutschland	-2,910 T€	799 T€	100 %
phb services GmbH	Dortmund, Deutschland	43 T€	5 T€	100 %
smarthouse adesso financial solutions GmbH	Karlsruhe, Deutschland	401 T€	1,651 T€	100 %

* Annual profit EUR 0 thousand due to the profit transfer agreement with adesso AG.

1) Deconsolidated in the financial year.

Investments of the adesso Group

<i>Company</i>	<i>Headquarters</i>	<i>Pro-rata equity</i>	<i>Pro-rata annual profit</i>	<i>Capital share</i>
Barmenia IT+ GmbH*	Wuppertal, Deutschland	928 T€	478 T€	24.0 %
com2m GmbH*	Dortmund, Deutschland	-27 T€	-66 T€	24.9 %
1Buch GmbH*	Gütersloh, Deutschland	88 T€	18 T€	30.0 %

* Included in the consolidated financial statements at equity.

STATEMENT OF THE LEGAL REPRESENTATIVES

We confirm that the consolidated financial statements, in accordance with the applicable accounting principles and to the best of our knowledge, present a true and fair view of the group's net assets, financial position and results of operations, and that the consolidated management report presents a true and fair view of the group's results of operations and position in addition to describing the material opportunities and risks for the expected development of the group.

Dortmund, Germany, 14 April 2017

adesso AG



Michael Kenfenheuer



Christoph Junge



Andreas Prenneis

AUDIT OPINION

We have audited the consolidated financial statements prepared by adesso AG, Dortmund – consisting of the balance sheet, income statement, statement of changes in equity, consolidated statement of comprehensive income, cash flow statement and notes – as well as the consolidated management report for the financial year from 1 January 2016 to 31 December 2016. Preparing the consolidated financial statements and consolidated management report according to IFRS as applicable in the EU, and the supplementary. Applicable regulations under commercial law according to Section 315a (1) of the German Commercial Code (HGB), is the responsibility of the company's Executive Board. Our responsibility is to issue an opinion on the consolidated financial statements and consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements according to Section 317 of the German Commercial Code (HGB) and the audit principles established by the Institut der Wirtschaftsprüfer (IDW) (Institute of Auditors in Germany). Under these regulations and audit principles, an audit must be planned and conducted so that inaccuracies and irregularities that would have a material impact on the information contained in the consolidated financial statements under consideration of the applicable accounting standards, or on the net assets, financial position and results of operations communicated by the consolidated management report, are detected with sufficient certainty. Audit procedures are established based on our knowledge of the company's business activities, the economic and legal environment in which the group operates, and expectations regarding possible errors.

The effectiveness of internal controls related to accounting and the documentation of information contained in the consolidated financial statements and consolidated management report are verified during the course of the audit; this is mainly done by way of sampling. Our audit encompassed an examination of the annual financial statements for the companies included in the consolidated financial statements, the basis of consolidation, the applied accounting and consolidation principles, and the material estimates made by the Executive Board as well as the overall presentation of the consolidated financial statements and the consolidated management report. In our opinion, our audit provides a sufficiently secure basis to issue an opinion.

Our audit did not lead to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS applicable in the EU and the supplementary applicable regulations under commercial law according to Section 315a (1) of the German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with these regulations. The consolidated management report agrees with the consolidated financial statements, complies with the legal requirements, imparts an overall accurate impression of the group's position and gives a true and fair view of the opportunities and risks associated with future developments.

Dortmund, 16 April 2017

DOSU AG
Wirtschaftsprüfungsgesellschaft

Dirk Schulte-Uebbing	Jens Landfeld
German public auditor	German public auditor

MANAGEMENT AND DIRECTORS

Executive Board



Michael Kenfenheuer

CEO

Michael Kenfenheuer (born in 1958) is a member of the Executive Board and responsible for the departments Banking, Health and Insurance. In the Executive Board of adesso he is furthermore in charge of the adesso shareholdings adesso insurance solutions GmbH, ARITHNEA GmbH, A3A Strategy Consulting GmbH, e-Spirit AG, gadiv GmbH, phb services GmbH and smart-house adesso financial solutions GmbH. He was appointed as a member of the adesso AG Executive Board for these responsibilities in 2000. With his many years of business management and project management experience, Michael Kenfenheuer is having a major impact on the development and expansion of the company's network of technical and industry experts. From 2011 to mid- 2015 Michael Kenfenheuer was the Co-Chairman of adesso AG. Since 1 July 2015 he assumes the Chairmanship.



Christoph Junge

Mitglied des Vorstands

Christoph Junge (born in 1970) is a member of the Executive Board and responsible for Finance, Human Resources, Administration and Legal Affairs also Mergers & Acquisition. He is furthermore in charge of the adesso shareholdings alleato assekuranzmakler GmbH and percision services GmbH and CFO of e-Spirit AG. Before he was appointed as a member of the BOV AG (now adesso AG as the result of a merger) Executive Board in May 2005, he helped shape the company's business operations as Director of Finance and Company Development.



Andreas Prenneis

Mitglied des Vorstands

Andreas Prenneis (born in 1965) is a member of the Executive Board and responsible for adesso's automotive & transportation, cross industries, energy sector business, public administration, Microsoft and IT management consulting and is furthermore in charge of the adesso shareholdings adesso as a service GmbH und adesso mobile solutions GmbH. He was appointed as a member of the adesso AG Executive Board for these responsibilities in 2015. Andreas Prenneis joins adesso from Compu-Group Medical Germany, where he managed a number of business areas in his role as Area Vice President Telematik & AddOn.

Supervisory Board

Prof. Dr. Volker Gruhn

Chairperson of the Supervisory Board



Prof. Dr. Volker Gruhn (born in 1963) was a co-founder of adesso AG in 1997 and is now the Chairperson of the Supervisory Board. He is Head of the Software Engineering Department at University of Duisburg-Essen. His main researches focus on mobile applications and the examination of the effects of digital transformation, especially the development and operation of cyber physical systems. Prof. Dr. Gruhn is the author and co-author of more than 300 national and international publications and conference contributions. The BIPRO initiative is an association of finance companies that aim to optimize cross-company processes by developing functional and technical standards.

Further mandates in Supervisory Boards:

Besides being the chairperson of the Supervisory Board of adesso AG, Prof. Dr. Gruhn is a member of the Supervisory Board of e-Spirit AG, Dortmund.

Dr. Friedrich Wöbking

Member of the Supervisory Board



Dr. Friedrich Wöbking (born in 1950) is a declared expert on information technology and the banks and insurance industries. He was member of the Executive Board at Dresdner Bank AG between 2003 and 2009 and took responsibility for the IT Services and Operations department. Previously, during the 1990s, he was member of the Executive Board at Allianz Versicherungs-AG/Allianz Lebensversicherungs-AG and Deutsche Versicherungs-AG where he was head of the Private Customer Business department as well as head of the departments IT and e-Business. Wöbking owns a doctor's degree in Information Technology and Mathematics and currently runs FW ADVISORY Management Beratung.

Further mandates in Supervisory Boards:

Besides being a member of the Supervisory Board of adesso AG, Dr. Wöbking is a member of the Supervisory Board of Erste Financial Services GmbH, Düsseldorf.

Prof. Dr. Gottfried Koch

Member of the Supervisory Board



Prof. Dr. Gottfried Koch (born in 1951) is a professor of insurance IT and member of the management board of the IT institute at Leipzig University. Before he took up the professorship in 1998, he worked at Helvetia insurance group in St. Gallen and Frankfurt, and was also active as a freelance consultant. In addition, he was managing director of FJA AG in Austria and Switzerland until 2000. He studied at the German Insurance Academy in Cologne, at Goethe University in Frankfurt, and at the University of St. Gallen, where he also received his doctorate. Having initially trained as an insurance clerk, he started his career at Frankfurter-Allianz Versicherungs AG.

Hermann Kögler

Member of the Supervisory Board



Hermann Kögler (Born 1955) was for over 12 years Director of Finance/Controlling and Spokesman of the Board at COGNOS AG, one of the biggest privately-owned, independent education groups in Germany. After his departure from the Board of Executive Directors at his own request, he was elected Member of the Supervisory Board at COGNOS AG in 2016. After studying Business Administration at the University of Cologne, he began his career as a self-employed wholesaler. He later held a number of senior management positions, including those at the Otto Wolff Group and Rhenus AG. In early 1996 he moved to the international steel distributor Klöckner & Co., where he was an executive until 2001, most recently as Director of Finance/Controlling. Before he joined COGNOS AG in 2004 the graduate business administrator worked as a consultant and interim manager.

Further mandates in Supervisory Boards:

Besides being a member of the Supervisory Board of adesso AG, Hermann Kögler is a member of the Supervisory Board of COGNOS AG and of HHL gemeinnützige GmbH, Leipzig, Graduate School of Management.

Heinz-Werner Richter

Member of the Supervisory Board



Heinz-Werner Richter (born in 1951) has been a member of the management board of Barmeria Versicherungen from 1996 to 2013 and was responsible for the IT and mathematics divisions in the health and life insurance sectors. Additionally, he was a member of the management board of the German actuarial association for many years as well as a member of numerous bodies within the German Insurance Association, and the association of private health insurers. Today, Mr. Richter works as an actuarial trustee for private health insurers and performs an advisory function in IT projects. Before starting his career at Barmeria in 1977, Heinz-Werner Richter studied mathematics and informatics at the University of Bonn where he graduated with a degree in mathematics.

Rainer Rudolf

Member of the Supervisory Board



Rainer Rudolf (born in 1962) is member of the board of the software technology company W3L AG. The graduated computer scientist co-founded adesso AG in 1997 and led the company as CEO until the end of 2010. In this capacity, he was responsible for the management of the entire company until 2007, which comprised all business and administrative activities in addition to the company's HR and legal teams. His contribution played a major role in shaping adesso AG's solid economic growth and progress. From September 30, 2011, after stepping down from the Management Board, to October 2016, Rainer Rudolf was managing director of Stock Informatik GmbH & Co. KG, a leading software company in the field of occupational medicine and safety. The company was taken over in 2015 by CompuGroup Medical Deutschland AG and prepared for the complete integration under his direction.

GLOSSARY

Commercial terminology

Account clearing

The accumulation of the balances of various bank accounts in a target account, taking account of defined minimum levels. This produces a balance of available liquidity in the target account, which is used for various forms of investment.

Benchmark

Benchmarking describes comparative analysis on the basis of set reference values (benchmarks).

Cash flow

Cash flow is an economic measure that represents the net flow of liquidity resulting from sales and other continuing activities in a certain period.

Cash management

Cash management and liquidity management are terms used in commercial finance management. Cash management includes all measures relating to the current financial planning of a company

Cost of materials ratio

The cost of materials ratio represents the relationship between expenditure on materials and services and turnover. It is expressed as a percentage.

The DACH region

DACH is an acronym comprised of abbreviations of the German names of the countries in the region: Germany (D), Austria (A), and Switzerland (CH). The term is usually used to refer to the German speaking economic area.

Discounted cash flow method

The DCF method is used to determine the value of companies. Future cash flow is discounted by taking into account the cost of capital on a reporting date.

EBITDA

Earnings before interest, taxes, depreciation and amortisation.

EBITDA margin

The ratio of EBITDA to sales. The EBITDA margin is a measure of a company's productivity and is independent of its income from financial assets, extraordinary items, and taxes.

Factoring

Factoring is a financial service used to finance current sales. The factor purchases the accounts receivable of its factoring client vis-à-vis a debtor. In exchange for the accounts receivable the factor pays the factoring client the value of the receivable immediately.

Forecast

A forecast is a projection used in budget planning. During the progress of a period, forecasts are used to update expectations for the period compared the original budget.

Free float definition (of Deutsche Börse)

Deutsche Börse's definition for the classification of free floating and fixed share holdings. An example can be found in the "Guide to the Equity Indices of Deutsche Börse".

FTE

Abbreviation of Full Time Equivalent. The FTE value is used to compare the relative staffing levels of a company and as a basis for calculations; the FTE value is used to convert figures regarding absolute staffing levels to their equivalent in terms of full-time positions. For example, two 50 % contracts would be counted as one employee, even if two different individuals are employed.

German Corporate Governance Code

The German Corporate Governance Code (often shortened to DCGK) is a system of regulations established by a commission of the German Federal Government. It is primarily composed of guidelines regarding good corporate governance, including ethical employee behaviour and the leadership of companies and organisations.

Goodwill

Goodwill is the amount a purchaser is prepared to pay for a business or company with regard to its expected future earnings (= earnings value) above the value of individual assets after the deduction of debts (= net asset value).

Gross domestic product (GDP)

The value of all goods and services produced by an economy, as defined by its territorial border, within a given year. GDP includes the services of foreigners working in a country, whereas the services of natives working abroad are not included.

Gross profit

Gross profit is the difference between a company's revenue and its expenditure on goods and services.

IAS International Accounting Standards

See IFRS

IASB

The International Accounting Standards Board (IASB) is an independent international committee of legal experts which is responsible for the development, and where required, the revision of the International Financial Reporting Standards (IFRS).

IFRS

The International Financial Reporting Standards (IFRS) is a set of international standards used by organisations when reporting their financial results. They include the standards of the International Accounting Standards Board (IASB), International Accounting Standards (IAS), the International Accounting Standards Committee (IASC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Impairment Test

An impairment test is a mandatory test used to evaluate fixed assets. The accounting regulations US-GAAP and IFRS call for the periodic evaluation of possible indicators of sustained loss of value.

Percentage of completion method (PoC)

A method for estimating the progress of an assignment. This method allows the costs incurred during an assignment to be allocated to the revenue from the assignment according to the progress made. This produces a picture of expenses, revenue and results as regards the progress made.

Second-tier subsidiaries

Subsidiaries of subsidiaries are described as second-tier subsidiaries from the perspective of the group.

Working capital

Working capital refers to the difference between current realisable assets (those that can be liquidated within a year) held by a company and its current liabilities. It is the portion of current assets which are not tied up in covering current liabilities, and can therefore be "put to work" in purchasing, production, and working processes.

Xetra trading

Xetra is an electronic trading system operated by Deutsche Börse AG for the spot market. Its central servers are located in Frankfurt.

IT terminology

BITKOM

The Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (the German Federal Association for Information Technology, Telecommunications and New Media) is Germany's digital association. Founded in 1999 as a merger of individual industry associations in Berlin, it represents more than 2,400 companies in the digital economy.

Content solutions

In the context of its expansion strategy, adesso is developing a portfolio of solutions. The focus is on functions that are of interest to a large number of clients in the same or similar form, and can therefore be marketed as a solution. adesso's Content Solutions include solutions for the generation and management of content.

Enterprise Content Management

Enterprise Content Management (ECM) includes the methods and technologies and tools used to collect, manage, save, protect, and provide content and documentation for the support of organisational processes in a company.

FirstSpirit

The name of content management system produced by the adesso subsidiary e-Spirit AG.

Internet of Things

The term Internet of Things or in brief IoT describes that conventional personal computers (PC) are increasingly disappearing as a device and replaced with "smart objects". The "Internet of things" is meant to support people unnoticeably in their everyday activities. For this purpose, computers/sensors become smaller and smaller to be embedded in objects. Hence, they neither distract the users nor being noticed at all. They serve to collect and to process data, can be networked to communicate or initiate useful processes.

Mobile solutions

In the context of its expansion strategy, adesso is developing a portfolio of solutions. The focus is on functions that are of interest to a large number of clients in the same or similar form, and can therefore be marketed as a solution. adesso classes all solutions that help make information, content and applications remotely accessible as mobile solutions.

FINANCE CALENDAR

<i>Date</i>	<i>Event</i>
2017-01-05-06	20. ODDO Forum, Lyon
2017-02-16	11th German Conference der ODDO SEYDLER BANK AG, Frankfurt/Main
2017-04-21	Financial press / analyst conference, Dortmund
2017-04-21	Publication of the 2016 annual report, financial press / analyst conference, Dortmund
2017-05-09	8th DVFA Spring Conference, Frankfurt/Main
2017-05-18	Warburg Highlights 2017, Hamburg
2017-05-30	Regular ASM, Dortmund
2017-09-15	Publication of the 2017 half-year figures
2017-11-27-29	Deutsches Eigenkapitalforum/One-on-Ones, Frankfurt/Main

IMPRINT

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