Catalis

Catalis SE

Adjustments of Annual Accounts

28 July 2008

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Adjustments background and overview

Background and Overview

Background

DPR (Deutsche Prüfungsstelle für Rechnungslegung) each year randomly picks a number of listed companies for a review of their accounts, especially checking the conformity of these accounts with IFRS / IAS regulations and guidelines. Earlier this year Catalis SE was picked by DPR for a review of Catalis' 2006 accounts.

While agreeing that managements judgment on most issues was correct, DPR insisted on certain adjustments relating to transaction accounting and cash flow allocation. Catalis management agreed on the changes concerning the allocation of cash flow items and follows DPR's request with regard to transaction accounting issues. Latter not necessarily based on acceptance of DPR's interpretation but on the background of avoiding further delays in the release of its 2007 accounts and 2008 quarterly statements. Any disagreement in full or part would have let to an additional independent review by BAFIN, stretching the time line in an unacceptable way.

The adjustments based on the review of the fiscal year 2006 will have an impact on the following years, since the same rules and evaluation methods retrospectively applied for 2006 will need to be applied also in 2007 going forward.

In addition to DPR's requests and in the light of possible further reviews in the future Catalis management proactively made changes to other accounting issues related to the acquisition of Kuju and stock option valuation for 2007 going forward.

For Catalis management it is **important to note** that despite of the magnitude of adjustments

- **None of the adjustments and changes in accounting methods has an impact on the real ability of Catalis group in terms of its operating performance potential and growth opportunities**

- **None of the adjustments have a cash impact or will change the liquidity position of the group**

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Overview on adjustments

While the following table gives you an overview on the impact on changes in 2006 to 2008 on Catalis EBIT, all of the adjustments are explained in detail regarding background and effects on Balance Sheet and P&L on the following pages.

T€	2006	2007 unaudited	2008 guidance	Remarks
EBIT before adjustments	**2,911.0**	**5,081.0**	**5,500.0**	
Transaction Accounting				
Capitalization of Client List				
- PMTC	13.7	13.7	13.7	Depreciation, ends in 2010
- Kuju		110.7	110.7	Depreciation, ends in 2011
Incentives to Kuju management		2,173.8	1,500.0 (ends in 2008)	Positive effects in 2008 and 2009 not included (arising from differences in year end quote and issuing price
Transactional Costs	205.0			Regrouped from capitalized costs to salary expense
Stock Options	38.0	203.0	137.0	Valuation based on binomial method for options granted in 2006 and 2007 under the employee stock option plan
Total adjustments	**256.7**	**2,501.2**	**1,761.4**	
EBIT adjusted	**2,654.3**	**2,579.8**	**3,738.6**	

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Comparison of performance indicators

The regrouping of transaction related payments in Catalis shares to the former management shareholders of Kuju plc. leads to an extraordinary effect in Catalis profit & loss accounts of 2007 and 2008. Following comparison reflects the performance of Catalis Group from 2005 to 2007 excluding this extraordinary item.

	2005	2006	2007	Growth rates 2006 - 2007
EBIT before extraordinary effect	**1,934**	**2,654**	**4,754**	**79.1%**
EBIT after all adjustments (actual) (1)	1,934	2,654	2,580	
Net profit before extraordinary effect	**1,896**	**2,193**	**3,840**	**75.1%**
Net profit after all adjustments (actual) (1)	1,896	2,193	1,666	
EPS before extraordinary effect (pro forma)	**0.08**	**0.10**	**0.14**	**49.5%**
EPS pro forma fully diluted (2)	**0.08**	**0.10**	**0.13**	**40.3%**
EPS after all adjustments (actual) (1)	0.08	0.10	0.06	
EPS fully diluted (2)	0.08	0.10	0.06	

(1) Performance Indicators reflecting all adjustments from transaction accounting and stock options as described on page 6
(2) Fully diluted by incorporating issue of new shares for incentive payments to Kuju management (to be issued in 2nf half of 2008)

Adjustments for transaction accounting

Introduction

The adjustments for transaction accounting are related to the issues of

1. Capitalization of client lists PMTC and Kuju
2. Incentives for Kuju management in the framework of the acquisition
3. Transactional Costs incurred by two board members of Catalis N.V.

1. Capitalization of client lists PMTC and Kuju

Given that both acquired companies are active in the service industry and by definition do not comprise of a substantial amount of fixed assets, most of the purchase price was allocated to goodwill in the transaction accounting. While accepting this method in general, DPR insists on allocating parts of the purchase price to the client lists acquired.

Catalis management took the position that, in absence of reliable valuation processes and given the fact that in experts comments - on the related IFRS regulations and interpretations - there is a significant number of opinions that clearly doubt the valuation and capitalization of non-contractual client relationships, the separation of client lists as assets do not contribute anything to the quality of data and transparency of transaction accounting.

In opposite to goodwill, which is frequently checked by impairment tests, the amounts allocated to the asset “client list” need to be depreciated over time. In order to provide a consistent valuation method we chose to apply a discounting method combined with the discounting factors (WACC) as used in the impairment tests.

As an effect, on the balance sheets 2006 going forward there will be a reallocation between goodwill and client list and on the P&L we see the depreciation of the client lists over five years as shown in the overview table.

2. Incentives for Kuju management in the framework of the acquisition (non-cash incentives)

In order to safeguard the value of the Kuju acquisition for Catalis and as a condition for the former management shareholders to agree on the terms of the stock purchase agreement, Catalis agreed on an incentive plan for the Kuju managers. This incentive plan, covering the year 2007 and 2008, only exits in the framework of the acquisition and therefore at the time of the transaction, was being regarded as part of the transaction and part of the transaction price.

The **incentive plan** consists of certain payments to be made to the former Kuju management shareholders (and current managing directors of Kuju) **in Catalis shares**, to the extend that predefined EBT target are reached or even exceeded. **There is no negative cash effect for Catalis**. Shares to Kuju management for 2007 will be provided by a capital increase later in 2008. Shares provide to Kuju management are subject to **lock up periods** ranging from 2008 to 2011.

Despite the intention of being part of the transaction and therefore treated as part of the purchase price (virtual earn out character) documents and opinion letters were created that qualify the virtual earn out as bonus and incentive payments. Latter was seen as a necessity to underline that non-management shareholders of Kuju are not entitled to any earn out payments. All of the aforementioned was duly published in the public offering memorandum and supported by an opinion letter.

Due to the interpretation of the virtual earn out as incentive payments, the qualification as part of the purchase price now is under considerable doubt. For that reason, instead of capitalizing the amounts as part of the goodwill accounting, Catalis has to account for the incentive payments as bonus / salary payments going through our P&L in the years 2007 and 2008 as shown in the overview.

Due to differences arising from the stock price at year end (for balance sheet purposes) and issuing price there might be positive P&L effects in 2008 and 2009.

3. Transaction costs

Since two of three board members, Mr. Hasenstab and Mr. Käß, who during the acquisitions of Kuju and PMTC almost exclusively contributed their time to these transactions, both waived their right to salaries for general board member activities in 2006 and accounted the same amount for as advisory costs related to the acquisitions. As an effect these advisory costs were capitalized in 2006.

DPR did not agree on the treatment as advisory costs and requests a restatement of our 2006 accounts. This results into a decrease in goodwill of T€ 205 and an increase in personnel expenses to the same amount.

Adjustments for stock options

Adjustments for stock options

Background

Starting in 2006 stock options were granted to key employees of Catalis Group. While these were not accounted for in 2006 due to an assumed very low volatility, in 2007 we need to apply valuations standards under IFRS that rather focus on historical volatility developments than future expectations.

For that reason all options granted were evaluated by using a binomial model accepted under IFRS regulations. The values that Catalis has to reflect in its P&L reflect assumptions on exercising patterns and historical volatilities as well.