msg life

# Annual Report 2017

# Consolidated key ratios

| pursuant to IFRS | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| | in million euros | in million euros | in million euros | in million euros |
| Turnover | **129.5** | 121.3 | 108.1 | 104.3 |
| EBITDA* | **11.3** | 11.5 | 8.5 | 11.4 |
| EBIT | **9.6** | 10.0 | 6.7 | 6.4 |
| EBT | **9.4** | 9.8 | 6.6 | 6.0 |
| Annual net profit / loss | **7.7** | 6.5 | 4.7 | –0.9 |
| Earnings per share in euros | **0.18** | 0.16 | 0.12 | –0.02 |
| Balance sheet total | **103.6** | 88.7 | 81.6 | 79.3 |
| Equity | **61.8** | 52.2 | 45.5 | 40.2 |
| Liquid funds | **23.1** | 18.2 | 21.8 | 21.7 |
| Cash flow from operating activity | **1.8** | 1.0 | 2.5 | 12.0 |
| Cash flow from investment activity | **–2.2** | –5.2 | 0.5 | 8.9 |

* Earnings before interest, taxes, depreciation of property, plant and equipment and amortisation of intangible assets

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## Supervisory Board's report



## Condensed management report and Group management report



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# Supervisory Board's report

# Supervisory Board's report 2017

# Dear Shareholders,

**The Supervisory Board diligently performed the duties incumbent on it according to the law, articles of association and rules of procedure in the 2017 financial year, and monitored the activities of the Management Board in managing the company, guiding it in an advisory capacity. It compared the company's actual business performance against its targets at each meeting and scrutinised the operational and strategic performance of msg life ag in detail. The reasons behind any divergences and their possible knock-on effects on the company's short, medium and long-term plans were also discussed.**

In its meetings, the Supervisory Board discussed decisions requiring its consent as well as the current indicators of the earnings, financial and assets position of the msg life Group. Additionally, the Management Board reported to the Supervisory Board on other important projects including, for example, the current sales and project situations in each division, the general development of the national and international market climates, short and longer-term corporate policy and strategy as well as potential cooperative ventures and acquisitions.

## COOPERATION BETWEEN THE SUPERVISORY BOARD AND MANAGEMENT BOARD

The Management Board notified the Supervisory Board promptly and comprehensively regarding all significant matters of relevance to the company. The Management Board also informed the Supervisory Board of any events of particular note during the interim periods between meetings.

To prepare for the decisions, the members of the Supervisory Board were provided with detailed documents by the Management Board prior to the meetings. In these documents, the Management Board provided the Supervisory Board with monthly details of the main financial figures. Deviations from plans were explained to the Supervisory Board in detail by the Management Board. Information was also regularly exchanged between the individual meetings.

Additionally, the Chairman of the Supervisory Board was in frequent contact with the Management Board and especially the Spokesman for the Management Board, and inquired about current business developments and significant transactions.

## ACTIVITIES OF THE SUPERVISORY BOARD IN 2017

The Supervisory Board convened a total of five meetings during the 2017 financial year. Additionally, eight resolutions were passed by providing written consent in lieu of a meeting. All members of the Supervisory Board were present at every meeting and for every resolution. The Supervisory Board received written reports from the Management Board in preparation for each meeting. In performing its functions and duties, the Supervisory Board drew on the written and verbal information provided by the members of the Management Board, as well as the written and verbal information provided by the auditor with regard to the audit of the annual financial statements and consolidated financial statements.

In the meeting held on 10 February 2017, the Management Board and the Supervisory Board discussed the report of the Management Board on the course of business in the business segments. Additionally, the Management Board and Supervisory Board discussed recent developments with regard to the delisting acquisition offer of msg systems ag in depth. The annual report for 2016 of the internal auditing department was also discussed.

By providing written consent in lieu of a meeting on 21 March 2017, the Supervisory Board unanimously approved the decision of the Management Board to sell the treasury shares to msg systems ag. Dr Hofer and Mr Zehetmaier abstained from this vote.

On 5 April 2017, the Supervisory Board, providing written consent in lieu of a meeting, passed a resolution to reappoint Dr Aristid Neuburger to the Management Board of the company for the time period from 1 January 2018 until the end of 31 December 2022.

In its meeting on 20 April 2017, the Supervisory Board held an in-depth discussion on the annual financial statements and consolidated financial statements and on the condensed management report and Group management report for the 2016 financial year. After

consulting the auditor and the Management Board, the Supervisory Board adopted the annual financial statements for the 2016 financial year and approved the consolidated financial statements. The agenda for the 2017 annual general meeting was discussed and approved, and the general development of the business of the Group was discussed.

The constitutive meeting of the Supervisory Board took place after the annual general meeting on 29 June 2017. In that meeting, the Supervisory Board appointed Dr Hofer as Chairman of the Supervisory Board and Mr Kuhnle as Vice Chairman. Additionally, the Management Board reported to the Supervisory Board on the central Finance business unit's internal project in connection with the planned transition of consolidated accounting from IFRS to German GAAP (HGB), as well as on the status of the planned acquisition of edicos websolutions.

In its meeting on 20 September 2017, the Supervisory Board discussed the current economic development of the group, the status of central sales projects and the status of the acquisition of edicos websolutions. Additionally, the Management Board presented the development strategy for a msg life product.

By providing written consent in lieu of a meeting on 20 September 2017, the Supervisory Board appointed Mr Francesco Cargnel and Dr Wolf Wiedmann as additional members of the Management Board of the company, each for the time period from 1 January 2018 to the end of 31 December 2020.

In the meeting held on 1 December 2017, the Supervisory Board and the Management Board addressed issues including the current situation of the company. Moreover, the planned figures for 2018 and the long-term objectives of the Management Board were discussed and approved. The compliance officer and risk manager of msg life also presented their annual reports.

## AUDIT OF THE 2017 FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The annual general meeting held on 29 June 2017 appointed Baker Tilly AG Wirtschaftsprüfungsgesellschaft in Düsseldorf (now Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf) as auditor of the annual financial statements and consolidated annual financial statements for the 2017 financial year.

The 2017 financial statements and consolidated financial statements as well as the condensed management report and Group management report have been audited by the auditor and granted an unqualified audit certificate. These financial statements and reports and the auditor's audit reports were forwarded to every member of the Supervisory Board in advance of the Supervisory Board meeting on 26 April 2018. In this meeting, the Supervisory Board addressed the annual financial statements and consolidated financial statements as well as the condensed management report and Group management report for the 2017 financial year and discussed the drafts with the auditor and the Management Board. The auditor reported on the key outcomes of the audit.

The Supervisory Board examined the annual financial statements, consolidated financial statements, condensed management report and Group management report in depth. There were no objections. In its meeting on 26 April 2018, the Supervisory Board adopted the annual financial statements and consolidated financial statements prepared by the Management Board. Consequently, the annual financial statements were adopted in accordance with section 172 of the AktG.

With regard to the stake held by msg systems ag, Ismaning, in msg life ag, the Management Board submitted to the Supervisory Board the report on relationships with affiliated companies for the 2017 financial year in accordance with section 312 of the AktG and the audit report on this subject prepared by Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft (Düsseldorf) as the auditor in accordance with section 313 of the AktG. As no objections were raised in the course of the audit, the auditor issued this audit opinion:

'Following our mandatory audit and evaluation, we hereby confirm that

1. the actual information in the report is correct and

2. the company's payments in connection with the legal transactions mentioned in the report were not unreasonably high.'

In its meeting on 26 April 2018, the Supervisory Board thoroughly examined the report on relationships with affiliated companies and the accompanying audit report. In this meeting, the Supervisory Board discussed the report on relationships with affiliated companies in detail with the auditor. The auditor reported on the key outcomes of the audit. The Supervisory Board subjected the report on relationships with affiliated companies to an in-depth inspection in terms of its completeness and accuracy. The Supervisory Board accepted the results of the audit of the report on relationships with affiliated companies. Having concluded its final examination, the Supervisory Board had no objections regarding the Management Board's statement at the end of the report on relationships with affiliated companies.

## CHANGES TO THE SUPERVISORY BOARD AND MANAGEMENT BOARD

On 5 April 2017, the Supervisory Board – by providing written consent in lieu of a meeting – passed a resolution to reappoint Dr Aristid Neuburger to the Management Board of the company for the time period from 1 January 2018 until the end of 31 December 2022.

By providing written consent in lieu of a meeting on 20 September 2017, the Supervisory Board appointed Mr Francesco Cargnel and Dr Wolf Wiedmann as additional members of the Management Board of the company, each for the time period from 1 January 2018 to the end of 31 December 2020.

There were no changes to the composition of the Supervisory Board during the period under review.

The Supervisory Board would like to thank the members of the Management Board who served during the period under review and all of the staff employed by the msg life Group for their commitment and their outstanding work in the 2017 financial year.

Leinfelden-Echterdingen, 26 April 2018

For the Supervisory Board

**DR CHRISTIAN HOFER**
Chairman of the Supervisory Board

# Condensed management report and Group management report

**The following management report is the condensed management report and Group management report of msg life ag, Leinfelden-Echterdingen. It tracks the business performance of the msg life Group, including that of the individual Group company of the same name, msg life ag, including the operating results for the 2017 financial year from 1 January 2017 to 31 December 2017, as well as the situation of the Group and the individual Group company as at the reporting date, 31 December 2017.**

All statements apply to the msg life Group (in the following also 'msg life') as a whole. Should the individual Group company be meant or should something different apply to the individual Group company in the course of the report, this shall be explicitly mentioned or explained accordingly.

As of the reporting date, msg life ag (and its Group companies) is an indirect subsidiary of msg group GmbH, Ismaning. Hereafter the term msg Group is used for msg group GmbH and its Group companies.

The reporting currency is the euro, and the rounding is done to thousands or millions of euros. This can give rise to rounding differences of up to one arithmetical unit.

# The Group's foundations

## Business model

The msg life Group has been developing IT systems solutions and advising customers successfully on the implementation of their IT strategies since as early as 1980. Thanks to its continuous growth, the expansion of its product range and, in 2009, the merger of the former FJA AG and COR AG Financial Technologies into COR&FJA AG, msg life ag has developed into a leading provider of software, advice and cloud solutions for life insurance companies and pension fund institutions in Europe and, in particular, health insurance companies in the United States. msg life was listed on the German Stock Exchange from 2000 (as of the previous reporting date in the Prime Standard index). On 17 March 2017, the Frankfurt Stock Exchange, at the request of msg life ag, revoked authorisation to trade msg life shares on the regulated market at the Frankfurt Stock Exchange at the close of 22 March 2017.

As a holding company, the individual Group company is responsible for financing the Group companies as well as for their strategic and, to a limited extent, operational management. The holding company is primarily responsible for determining the target markets, defining the product range and making decisions concerning mergers and acquisitions. Furthermore, the holding company is responsible for staff functions such as sales, marketing, human resources, finance, business operations, financial controlling, IT services and law.

The holding company's commercial activities are restricted mainly to the settlement of services within the Group and to financing, and it operates only rarely as a contracting partner in customer projects. Within the scope of services, it is mainly the above-mentioned staff functions incumbent on the holding company that are settled. The purpose of the financing activity consists primarily of making interest-bearing loans to Group companies, making cash investments and distributing earnings from participating interests.

The primary income potential for the holding company lies in earnings from participating interests. For this reason, the disclosures for the Group concerning the development of markets, the general economic environment and opportunities and risks also apply to the holding company.

Under the purchase agreement of 15 November 2017, msg life central europe gmbh acquired all shares in edicos websolutions GmbH & Co. KG, Munich, Germany, as well as its complimentary company edicos websolutions Verwaltungs GmbH, Munich, Germany. After the conclusion of the reporting period, edicos websolutions Verwaltungs GmbH was renamed spheos Verwaltungs GmbH in the commercial register effective from 16 January 2018. Furthermore, also after the conclusion of the reporting period, edicos websolutions GmbH & Co. KG was renamed spheos GmbH & Co. KG in the commercial register effective from 18 January 2018. Both companies have been included in the consolidation group of the msg life Group as of 15 November 2017.

msg life is modifying its corporate structure in order to hone its market focus. To this end, starting at the beginning of the 2016 financial year, the Group companies responsible for the German-speaking markets are gradually being placed under the auspices of the intermediate holding company msg life central europe gmbh, while the Group companies responsible for the non-German-speaking markets are gradually being assigned to the Group company msg life global gmbh.

The following companies were already transferred in the 2016 financial year: msg life Slovakia s.r.o., Bratislava, Slovakia; msg life Switzerland AG, Regensdorf, Switzerland; and msg life Austria Ges.m.b.H., Vienna, Austria (to msg life central europe gmbh), as well as msg life Iberia, Unipessoal LDA, Porto, Portugal; msg life odateam d.o.o., Maribor, Slovenia; and FJA-US, Inc., New York, USA (to msg life global gmbh). In the reporting period, msg life Benelux B.V., Amsterdam, Netherlands, was also transferred to msg life central europe gmbh.

In the 2013 financial year, a decision was made to consolidate efforts on existing foreign markets rather than entering new ones and to continue expanding the shares in markets where the company already operated in Europe and the United States. The same approach was taken in the 2017 financial year.

On the reporting date, the customers of msg life primarily consisted of insurers focusing on life insurance and pension fund institutions in Europe and, in the United States, in particular health insurance providers. The services of msg life range from the development and implementation of standard software and the provision of consultancy services to the handling of full IT operations (cloud solutions). On the basis of their extensive market experience, highly qualified msg life staff develop state-of-the-art solutions to provide customers with comprehensive support. The company invests in modern technology and proven methods. The software architecture used is component-based and service-oriented and can be used in digitisation projects. The combination of specialist knowledge, process skills and IT expertise available at msg life makes it possible to deliver solutions to complicated problems from a single source.

The headquarters of msg life ag are located in Leinfelden-Echterdingen near Stuttgart, Germany. Other German branches are located in Munich, Düsseldorf, Hamburg and Cologne. msg life ag is also represented in Vienna (Austria), Regensdorf (Switzerland), Eindhoven (Netherlands, until 28 February 2017), Amersfoort (Netherlands, from 1 March 2017), Warsaw (Poland), Prague (Czech Republic, until 31 March 2018), Bratislava and Košice (Slovakia), Maribor (Slovenia), Oporto (Portugal) and Madrid (Spain), as well as New York, Denver and Portland (USA). This distribution of branches keeps msg life close to its customers and ensures that it can give them optimal support.

According to the published announcements and the information available to msg life ag, direct or indirect interests exceeding 25 per cent of the shares as at 31 December 2017 were as follows:

| Entity with reporting obligation | Type of interest | Proportion of shares |
|---|---|---|
| msg systems ag (Ismaning) | Direct | 54.07% |
| msg group GmbH (Ismaning) | Indirect | 54.07% |

## Organisational structure

As a leading sector-based service provider for life insurance companies and pension fund institutions in Europe and health insurance companies in, in particular, the United States on the reporting date, the msg life Group offers a full range of state-of-the-art solutions in the form of consultancy, services, software and cloud solutions. The range of services addresses the fields of systems of engagement (SoE) with portal solutions for self-service and sales support, systems of records (SoR) with policy management including actuarial mathematics, migration and across-the-board processes (e.g. collections/disbursements and commission) as well as systems of analytics (SoA) for reporting and data analyses. Consulting and services on the one hand and the product range on the other complement each other to make up the sector-based service provider's integrated range of solutions. The products are primarily standard software products which have been launched widely on the market.

Irrespective of its corporate structure, the msg life Group is divided up into business units assigned to market sectors or markets. This responsibility encompasses both the further development of the respective solution portfolio and the handling of customer projects, and is assumed at divisional level. The heads of these divisions and the managing directors comprise the next senior management level below the msg life ag Management Board.

## Management and monitoring

As at 31 December 2017, the Management Board of msg life ag consisted of Rolf Zielke (spokesperson), Bernhard Achter and Dr Aristid Neuburger.

Immediately following its meeting on 4 February 2016, the Supervisory Board – by circulation procedure – passed a resolution to reappoint Mr Bernhard Achter to the Management Board of the company for the time period from 1 January 2017 until the end of 31 December 2019.

In August 2016, the Supervisory Board – by circulation procedure – passed a resolution to reappoint Mr Rolf Zielke to the Management Board of the company and as spokesperson of the Management Board for the time period from 1 May 2017 until the end of 30 April 2022.

In April 2017, the Supervisory Board – by circulation procedure – passed a resolution to reappoint Dr Aristid Neuburger to the Management Board of the company for the time period from 1 January 2018 until the end of 31 December 2022.

By circulation procedure on 20 September 2017, the Supervisory Board appointed Mr Francesco Cargnel and Dr Wolf Wiedmann as additional members of the Management Board of the company, each for the time period from 1 January 2018 to the end of 31 December 2020.

As at 31 December 2017, the Supervisory Board consisted of three members who were elected by the shareholders at the annual general meeting held on 29 June 2017 for the period until the end of the 2021 annual general meeting: Dr Christian Hofer (Chairman), Klaus Kuhnle (Deputy Chairman) and Johann Zehetmaier.

# Important products and services

The company's core product is the policy management system msg.Life Factory, with which life insurance and pension products can be managed. The system is available in Java JEE architecture. msg.Life Factory has been included in a number of market surveys of European life insurance policy management systems conducted by leading research companies in the past and has achieved impressive results. The portfolio of core insurance systems offered by the company is rounded off by the policy management system msg.Life and the all-sector system Unified Administration Platform (formerly: msg.Symass), the latter being focused on small insurance companies in Eastern Europe.

The key specialist and across-the-board functions in the core line of business are covered in particular by the products msg.ZVK (a system for policy management for supplementary pension funds), msg.Zulagenverwaltung (a system designed to manage the allowances of contracts subsidised under the Riester system), msg. RAN (pension settlement and documentation system), Unified Product Platform (formerly: FJA.PM4 Product Machine, in particular in the US market), msg.Office (transaction control and document processing), msg.Tax Connect (legal tax notifications), msg.Sales (formerly: msg.Sales & Service; multichannel platform) and msg. Ilis (insurance liability information system). There is the service portal msg.Pension for time value accounts and company pensions as well as the new self-service portal for digital communication with end customers msg.Online Insure. msg life also offers a wide array of consulting and services, ranging from software implementation and portfolio migration to actuarial advice, with the migration department also offering the two migration software solutions msg.Migration System (formerly: msg. Mig Sys) and msg.Migration Archive (formerly: msg.Mig Archive). In the 2017 financial year, the two former business segments of Migration and Consulting were combined into the new business segment Migration Factory.

msg.Life Factory and other key components are also a part of msg.Insurance Suite, the common insurance platform of the msg Group. msg.Insurance Suite represents the first holistic industrial standard for all sectors of the insurance industry. The solution covers and integrates all necessary system components for an insurance company. In addition to its underlying component architecture, this platform features a high degree of end-to-end prefabrication, makes it easy to integrate existing solutions and features a wide variety of potential applications with high releasability and low maintenance costs. msg life and the msg Group are collaborating closely in order to market msg.Insurance Suite. The full convergence of the components of msg.Insurance Suite and the sales-related collaboration taking place in this context are key aspects of the product strategy.

# Economic report

## Macroeconomic and sector-specific conditions

The growth of the global economy accelerated tangibly in 2017, and for the 2017 financial year as a whole there was growth in global production of 3.8 per cent. At the same time, the data coming from nearly all large national economies developed positively. The significant recovery over the course of the year was primarily due to the clear expansion of foreign trade in Asia (in particular China) accompanied by investment around the world undergoing escalation. Although the economic outlook in emerging markets continued to be subdued, significant improvement was seen even there.

In the current financial year, the increase in global production is once again expected to rise slightly to 3.9 per cent, which will result in risks in particular in the financial sector: there could be sudden uncertainties in the capital markets as part of the upcoming normalisation of monetary policy, which would cause episodic corrections in asset prices, returns and exchange rates.

The economic recovery in the eurozone continued in 2017, and economic growth gained markedly in breadth and strength. Forecasts expect GDP in the eurozone to increase over the course of 2018 by 2.3 per cent, which is a similar increase compared to 2017 (2.4 per cent).

In Germany, the economic dynamic accelerated once again, with GDP growth of 2.3 per cent in the 2017 financial year. As a result, the growth in overall economic output was decidedly stronger than in 2016 (1.9 per

cent). In light of capacity utilisation, which is already significantly above normal levels, the German economy is steadily approaching an economic boom.

And the continued improvement is built upon a solid foundation: spending of private consumers should be given a boost by the high levels of wage increases. The construction boom will also continue against the backdrop of the favourable financing environment – despite ever-increasing construction costs due to bottlenecks in capacities. The powerful upswing of the global economy is likely to further stimulate exports, and there are increasing indications that corporate investment will become another boon to the upswing in consideration of the high degree of capacity utilisation and the excellent outlook for businesses. GDP is expected to increase by 2.5 per cent in 2018.

In 2017, the general economic conditions for insurance companies in Europe remained difficult. The situation in the capital markets with the continuation of low interest rates and ongoing fundamental changes to the regulatory framework – such as the German Life Insurance Reform Act (LVRG), reform of the Act on the Supervision of Insurance Undertakings (VAG) as part of Solvency II, the broker guidelines of the Insurance Distribution Directive (IDD), new financial reporting standards, the Act to Strengthen Occupational Pensions (*Betriebsrentenstärkungsgesetz* – BRSG), the investment tax reform act (*Investmentsteuerreformgesetz* – InvStRefG) and the EU General Data Protection Regulation (GDPR) – are underlying challenges for the insurance industry. Intensifying digital competition also presents a challenge. The insurance industry continues to respond to these developments with consolidation measures, product innovations including new price models, automation of business processes to reduce costs and increased digitisation measures.

In this context, the fierce competition on the German-speaking insurance markets is also generally being intensified by the increasing complexity and interconnection of the national insurance markets. As before, however, the direct insurance markets – as opposed to reinsurance and with the exception of individual market segments such as industrial insurance – are predominantly national markets due to their legal, social and cultural particularities and will remain so in the future. The global interdependence is most readily reflected in the cross-border business conducted through subsidiaries, in the establishment of cross-border regional or global insurance groups and in the increasing international division of labour within those groups.

The coherence between IT and business success is significant in the context of the intensive endeavours being undertaken to reduce costs and improve efficiency within insurance companies. As a rule, the performance of the organisation is optimised systematically and proactively while investments are simultaneously made in a targeted renovation of the system infrastructures and processes, but often not until a thorough cost–benefit assessment has been completed.

Many insurers are striving to enhance their existing product ranges and/or to develop new, innovative ones in order to tackle the imminent challenges. This applies to all existing product groups, all control layers and all legal forms. The starting situations for the companies in question are highly diverse and therefore bring about a variety of innovations in themselves, with the goal of developing products which unite the wishes of customers for safe, high-return products with the insurers' demand for increased efficiency and profitability under consideration of the regulatory provisions.

Among the conventional capital accumulation products, modifications of the guarantees are dominant, for example through the use of current calculation guidelines or by dispensing with the annual interest guarantee. With the biometric products, too, there is a great deal of action on the market. Hybrids, especially dynamic hybrid products, have become the standard now, and there is a continuous flow of innovative products in addition to them. One new development comprises products which allow investment in funds but also the purchasing of options on the basis of traditional basic cover. In addition, insurance companies at the larger end of the scale are exploring a different avenue by offering products for old-age provision with capital guarantees on the basis of unit-linked approaches with investment guarantees.

The accelerating digital transformation of our society and economy poses a number of challenges for insurers – the digitisation process is one of the most significant drivers of innovation in the sector. Fully automated processes lead to enormous gains with regard to efficiency as well as significantly lower costs. The subjects of customer centricity and individualisation, industrialisation and automation, analytics and data effectiveness, and standardisation and integration are at the heart of the digitisation trend.

All this is leading to an increasing need for external advice and IT support and consequently to the continuous adaptation and further development of msg life's standard software.

Overall, developments in the US insurance market were satisfactory in 2017. Developments in the health insurance sector have slowed down slightly because companies are increasingly paying attention to their costs. The life insurance market is stagnating in particular due to the low-interest period – with the exception of group life insurance, in which there has been a significant rise. Growth in the non-life insurance market remains steady, in line with general economic growth.

According to the Centre for European Economic Research (ZEW), the vast majority of German companies in the information sector (ICT) considered the business situation to be positive at the end of 2017 and are mostly optimistic about their business prospects in 2018.

## Development of business

In the German-speaking market for life insurers and pension fund institutions, msg life Group is the market leader with the services and products it offers. More than half of all life insurers in these countries are customers of the msg life Group. The Group's research and development activities are aimed at continuously reinforcing its leading position. With the regulatory requirements changing constantly and the variety of products offered developing dynamically, insurance companies are increasingly pursuing a strategy of replacing their previous in-house software solutions with standard software.

msg life's products and consulting services have now become a fixed part of the msg Group's portfolio for the insurance industry. And as the largest associated company in the successful msg Group, msg life ag is an even more significant strategic partner for its customers and an even more attractive employer for the staff.

In 2017, 79.0 per cent of turnover was generated in Germany (previous year: 78.0 per cent) and 21.0 per cent on foreign markets (previous year: 22.0 per cent). In view of the decision that was made in 2013 to consolidate efforts on existing foreign markets for the time being, rather than entering new ones, and to continue expanding the shares in markets where the company already operated in Europe and the United States, following on from previous years, msg life ag continues to refrain from setting a concrete quantitative target in association with a potential increase of the proportion of turnover which is generated in foreign markets.

The 2017 financial year of msg life also featured exceptionally stable business with existing customers that was characterised by successful projects, which continuously led to new orders. msg life sees the trust shown by its customers as a confirmation that it is on the right track and as an incentive to continuously improve and enhance its own services and solutions in collaboration with its customers. msg life expects its business with existing customers to remain steady in 2018.

The company once again recorded sales successes in 2017 for msg.Life Factory, Europe's leading policy management system: for example, another company from the AXA Group – AXA Versicherungen AG based in Switzerland – opted for the modern msg life core system. Additionally, long-time msg customer Schweizerische Mobiliar Lebensversicherungs-Gesellschaft AG decided to make the transition from their previous solution msg. Life to msg.Life Factory. With Wiener Städtische Versicherung AG, a renowned Austrian life insurance company has once again chosen msg.Life Factory.

With regard to msg.Insurance Suite, two substantial new orders were generated in 2017:

Frankfurter Lebensversicherung AG tasked msg life with the implementation of msg.Insurance Suite for the Life segment. This includes – in addition to msg.Life Factory – msg.Zulagenverwaltung, msg.RAN, msg.Tax Connect, msg.Office, msg.Billing (collections/disbursements), msg.Business Partner (customer and address management) and msg.Commission (brokers and commissions). Furthermore, VHV Versicherungen also opted for the entire msg.Insurance Suite for the Life segment, and the implementation project is already up and running.

In the context of the rapid and ongoing digitisation of the entire insurance industry and customers' growing demand for modern actuarial product design solutions and aiming to optimise costs in the long term, msg life has become the first provider of a complete self-service portal for life, health and non-life insurers that can serve as a component of msg.Life Factory as well as proprietary policy management systems. Under the name msg.Online Insure, the Web-based portal, similar to online banking, offers end customers as well as brokers and agents all transactions relating to an insurance policy on one easy-to-use interface – on all devices and around the clock. In 2017, msg life also generated customer orders for this standard solution, including Mobiliar in Switzerland.

In 2017, msg life expanded its activities associated with the development of new standard software products for the digital transformation as well as for the interaction and collaboration with end customers (systems of engagement – SoE). With this in mind, msg life acquired all shares in edicos websolutions and changed the company's name to spheos. In future, spheos will assume the role of a digital laboratory within the msg life Group, with the aim of making innovations for the insurance sector in the field of systems of engagement market-ready, and of significantly influencing the digital transformation of the insurance industry.

Compared to the German market, the markets in Austria and Switzerland pose very similar challenges and both are being cultivated with a local presence.

msg life is cultivating the Central and Eastern European markets in particular from its locations in Poland and Slovenia. Many life insurance companies have established themselves there. These companies are not only facing pressure to automate as a result of the continuous growth in the number of their contract portfolios, but they are also becoming increasingly exposed to the regulatory pressure that prevails in Western Europe due to their increasing closeness to that region. As German-language insurers in particular are expanding into these highly competitive markets, they currently offer interesting sales opportunities for msg life.

msg life is represented in many Eastern European countries with the policy management system Unified Administration Platform – the proven all-sector system for smaller insurance companies – which is the market leader in those countries. As a result of the growing consulting business that is developing in connection with the local presences that have been built up in recent years, msg life expects these selling markets to generate cross-selling effects for Unified Administration Platform and a generally promising sales pipeline.

msg life will continue to cultivate the market in the Benelux countries, where msg life generates a positive response with the product portfolio it offers – especially from insurance groups operating nationally – and where msg life pursued a concrete acquisition plan.

The Iberian peninsula is an equally interesting market. msg life continues to work the Portuguese and Spanish markets with its own local office in Portugal – which is now also being used successfully as a product development unit – and with an office in Spain. In 2017, msg life generated stable development of business with existing customers in the market there.

The US business of msg life is also still performing well. FJA-US, Inc. – the msg life Group company located in the United States – recorded continuous successful development with solutions such as the Unified Distribution Platform and Unified Product Platform. The range offered by msg life in the United States now encompasses not only software products, but also operator models and expert consulting on all aspects of product and tariff design – primarily for health insurance companies.

As reported, there were numerous new orders during the reporting period, and msg life expects more new business in the 2018 financial year. Business with existing customers in connection with the numerous software components provided by msg life was also exceedingly good in 2017 – not least in the regulatory environment. Additionally, most of the major projects set out in the corporate plan were executed as planned in the reporting period. As in previous years, the company's main focus in terms of sales lay on acquisitions in its established markets in the 2017 financial year.

## Summarised evaluation of the company's business situation

The 2017 financial year was a good year for the msg life Group: The stability of its business with existing customers and numerous sales successes allowed the company to surpass the turnover target it set at the start of the financial year and meet its profit target. Overall, the msg life Group recorded turnover of 129.5 million euros and earnings before interest, taxes, depreciation and amortisation (EBITDA) of 11.3 million euros.

The business situation of the company in the 2017 reporting year can therefore be described as positive. The company has paved the way for further positive development in 2018 and beyond. Last year's prognosis in the separate financial statements forecast slightly positive net results for the year; as the holding company, the individual Group company finished the 2017 financial year with a net result of 2.6 million euros, which is slightly above previous expectations. This is primarily due to increased income from transferring the profits and losses of the subsidiaries.

## Non-financial performance indicators

The msg life Group's efficiency is reflected not only in its commercial indicators, but also in its non-financial performance indicators. The most important of these in the msg life Group are the issues that concern its employees. The relevant disclosures can be found in the 'Employees' chapter within this condensed management report and Group management report.

An additional important topic in this context is the code of conduct which was introduced in 2014. One of the main purposes of this code of conduct is to make all employees of the company reasonably aware of the applicable laws and corporate guidelines as well as the legal risks arising as part of their everyday work. Additionally, as a binding guideline for legal and ethically responsible conduct within the msg life Group, the code of conduct sets the standards for responsible conduct towards business partners and the public, as well as mutual behaviour within the company. For employees, it represents a clear orientation tool for their daily conduct – and for suppliers and customers, it represents a binding promise on which they can rely. Every person in the company – employees, executives, the management and the Management Board – is obliged to adhere to the principles contained therein. Employees are trained with regard to the code of conduct in the form of e-learning modules.

## Earnings, financial and assets position

### The Group's earnings position

#### DEVELOPMENT OF SALES

As at the balance sheet date, the following changes to the consolidation group described in the consolidated financial statements for the 2016 financial year as at 31 December 2016 took place:

msg life Benelux B.V., Amsterdam, Netherlands, was transferred from msg life ag to msg life central europe gmbh.

Additionally, spheos Verwaltungs GmbH (formerly: edicos websolutions Verwaltungs GmbH) and spheos GmbH & Co. KG (formerly: edicos websolutions GmbH & Co. KG) were newly added to the consolidation group in the fourth quarter of 2017.

This change in the consolidation group had no significant effect on internal reporting or the development of turnover. As a result, the Group's earnings, financial and assets position is comparable over time with the figures from the previous year.

The msg life Group's turnover in the financial year ended amounted to 129.5 million euros, which is 8.2 million euros higher than the figure for the 2016 financial year and corresponds to 6.7 per cent growth in turnover (previous year: 12.2 per cent increase in turnover).

During the financial year, services turnover registered a slight decrease from 87.7 million euros to 85.4 million euros, which is a drop of –2.3 million euros. However, product-based turnover overall was up by 10.5 million euros to 44.1 million euros (previous year: 33.6 million euros). Licensing income came to 24.8 million euros in the reporting period (previous year: 14.6 million euros), which represents 19.2 per cent of total turnover. In the 2017 financial year, maintenance turnover amounted to 16.9 million euros (previous year: 17.2 million euros) and thus makes up 13 per cent of Group turnover. Other turnover consists primarily of income from hardware deliveries and computing centre services, which also recorded slight growth in the amount of 0.5 million euros in the financial year ended to 2.3 million euros (previous year: 1.8 million euros).

As for the regional breakdown of turnover, the aggregate figure for Germany in the 2017 financial year totalled 102.2 million euros (previous year: 94.5 million euros) and 27.3 million euros in other countries (previous year: 26.8 million euros). The increase in Germany resulted in particular from increased demand for msg life solutions on the German-speaking markets. The msg life Group also reported a slight increase in turnover in its US business, where turnover climbed to 22.6 million euros (previous year: 20.4 million euros). Turnover in Austria was down to 0.2 million euros (previous year: 2.4 million euros), which is the result, on the one hand, of the internal takeover of the project at UNIQA Romania by the Slovenian msg life unit; on the other hand, the majority of Austrian employees are working on the msg.Life Factory implementation projects of German company msg life central europe gmbh. Slovakia is the third-strongest market in terms of turnover, with turnover in the 2017 financial year amounting to 2.3 million euros (previous year: 1.1 million euros). The above-mentioned internal project takeover is the primary reason for this positive development. In Switzerland, turnover in 2017 totalled 1.5 million euros, thereby decreasing by 0.7 million euros compared to the previous year. External turnover in the Benelux region was unchanged year-on-year in 2017 at 0.1 million euros. Positive news from Portugal was that external turnover once again went up by 0.1 million euros to 0.4 million euros.

The national affiliates in Poland and Slovakia generate turnover primarily for other Group companies, so that the external turnover they generate is correspondingly low.

## DEVELOPMENT OF EARNINGS

In the financial year just ended – just like in the previous year – no development work for new software was capitalised. The item other operating income came to 1.2 million euros (previous year: 1.7 million euros). Rental income from the subletting of office space amounted to 421,000 euros; the msg life Group generated income of 280,000 euros from company car use. The remaining portion was other income which, in part, resulted from the reversal of provisions.

In the 2017 financial year, aggregate costs amounted to 119.3 million euros (previous year: 111.6 million euros), an increase of 7.7 million euros or 6.9 per cent, which is below the rise in turnover. At 16.5 million euros (previous year: 15.2 million euros), procured services represented a large proportion of total costs. Personnel expenses amounted to 85.9 million euros (previous year: 79.3 million euros). External freelance staff are used to cover special requirements – such as capacity utilisation peaks due to new projects. These costs amounted to 8.2 million euros in the financial year (previous year: 6.1 million euros). This helps to make total costs more variable.

The largest proportion of total costs comprised personnel costs, with a 72.0 per cent share, relating to the average number of 970 employees (previous year: 885 employees).

Personnel costs and material expenses rose by a total of 8.0 million euros to 102.5 million euros (previous year: 94.5 million euros). The increase in personnel costs is due to the numerous new hires for new projects as well as the once again increased investment in the expansion of the wide range of products offered by the company. Other operating expenses accounted for 14.2 per cent of total costs in 2017, a slight fall compared with the previous year (15.2 per cent), and came to 16.9 million euros (previous year: 17.0 million euros). The main component of other operating expenses is rent for office space of 5.7 million euros (previous year: 6.0 million euros).

The second-largest cost pool comprised travel expenses associated with consulting services, which came to 3.1 million euros (previous year: 2.9 million euros) and so were 0.2 million euros higher than the previous year. Savings were realised in consulting, accounting and Supervisory Board expenses for the 2017 financial year; these expenses amounted to 1.3 million euros in the reporting period (previous year: 1.5 million euros).

As a result, the Group was able to generate an EBITDA of 11.3 million euros (previous year: 11.5 million euros).

The sum of all depreciation and amortisation increased by 0.2 million euros to 1.7 million euros (previous year: 1.5 million euros). Depreciation of property, plant and equipment amounted to 1.4 million euros. As in the previous year, a total of 0.4 million euros stemmed exclusively from scheduled amortisation of intangible assets (purchase price allocation, PPA). At the end of the year, acquired goodwill was evaluated as part of impairment testing. The impairment testing showed that none of the capitalised goodwill required an impairment.

Overall, the positive operating result totalled 9.6 million euros (previous year: 10.0 million euros).

The financial result amounted to –0.1 million euros (previous year: –0.2 million euros). The Group is completely equity-financed and is not dependent on borrowing.

The Group's earnings before taxes (EBT) decreased in 2017 by 0.4 million euros, bringing them to 9.4 million euros (previous year: 9.8 million euros). This resulted in income tax expenses of 1.8 million euros for the 2017 financial year (previous year: 3.3 million euros), which represents a reduction in tax expenses of 1.5 million euros.

Net income for the 2017 financial year amounted to 7.7 million euros (previous year: 6.5 million euros). Earnings per share for 2017 (diluted and undiluted) therefore came to 0.18 euros, following a figure of 0.16 euros for the 2016 financial year.

#### SEGMENT REPORTING

Pursuant to IFRS 8.2, only companies whose shares are traded on an official market or are being prepared for trade on an official market are subject to segment reporting requirements. Segment reporting is therefore carried out on a voluntary basis; all requirements of IFRS 8 have been observed.

The segment results reflect overall performance and success in the fields of business in which the company operates. They are based on the Group's internal international and cross-company profit centre earnings statement in accordance with which the msg life Group is managed. In this arrangement, the services exchanged between the segments are accounted for within total output as internal turnover and within the segment result as internal expenses.

IFRS 8 (Operating Segments) specifies that the identification of reportable operating segments be based on the management approach. According to this approach, segment reporting should be carried out on the basis of the in-house organisational and management structures and the company's financial reporting to the most senior management body. It is based on the company's geographical markets. In the Group headed by msg life ag, the msg life ag Management Board is responsible for measuring and controlling the business results of the segments and is the most senior management body as defined by IFRS 8.

The 'insurance central europe' segment comprises activities in connection with the Central European markets of msg life, and the 'insurance global' segment comprises activities in connection with all other markets of msg life.

The 'insurance central europe' segment generated 103.7 million euros, corresponding to a 80.3 per cent proportion of aggregate turnover, and reached an EBITDA of 15.2 million euros before the allocation of 7.7 million euros in administration costs. Its operating EBITDA return before allocation amounts to 14.6 per cent in relation to segment turnover.

The 'insurance global' segment generated 25.5 million euros, corresponding to a 19.7 per cent proportion of aggregate turnover, and reached an EBITDA of 5.5 million euros before the allocation of 0.8 million euros in administration costs. Its operating EBITDA return before allocation amounts to 21.2 per cent in relation to segment turnover.

The allocated sales and administrative overheads and in-house IT account for 7.2 per cent of the total costs.

## The Group's financial position

#### PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Financial management is designed to enable the msg life Group to have the necessary funds at its disposal at all times so that it is capable of taking action in its operating activities to deal with volatility of incoming orders, fluctuations in customers' payment behaviour and investment needs. In the process, all the significant risks to which the msg life Group is potentially exposed must be recognised at an early stage and the necessary scope for suitable protective measures provided for. Within the framework of liquidity management, care is taken that sufficient funds and appropriate liquidity reserves are freely available at all times. In the financial year ended, the msg life Group was able to meet all payment obligations in their entirety.

#### FINANCING ANALYSIS

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. In general, liquid funds are invested for short periods. Financial liabilities are short to medium term in nature.

With regard to the credit risk (default risk), there are no significant concentrations on individual customers in the Group. Receivables are not insured, primarily due to the high credit rating of the customers in the insurance sector.

Liquid funds increased by 4.9 million euros and amounted to 23.1 million euros on 31 December 2017 (as at 31 December 2016: 18.2 million euros). Cash pooling exists for the German companies within the msg life Group. The Group invested 3.4 million euros in cash in US treasury bonds, in order to generate a certain amount of interest income on a part of its existing cash holdings.

In the 2017 financial year, msg life generated operative cash flow in the amount of 1.8 million euros (previous year: 1.0 million euros), which documents and illustrates the fact that the company generates liquid funds under its own steam. Due to the consistently positive performance indicators, the msg life Group concluded the 2017 financial year with a positive EBT (earnings before taxes on income) figure of 9.5 million euros in total (previous year: 9.8 million euros).

Cash flow from investing activities amounted to –2.2 million euros (previous year: –5.2 million euros), whereby investments in property, plant and equipment, in the form of technical equipment, accounted for 1.9 million euros and the purchase of subsidiaries for 0.5 million euros.

After the cash flow from financing activities was balanced in 2016, for the 2017 financial year it recorded a significantly positive figure of 4.6 million euros. This was primarily due to the purchase of the company's own shares in the amount of 4.5 million euros.

## The Group's assets position

### ASSET STRUCTURE ANALYSIS

The Group's equity ratio as at 31 December 2017 has increased to 59.7 per cent (previous year: 58.8 per cent) and equity amounts to 61.8 million euros (previous year: 52.2 million euros). As at 31 December 2017, the Group's total assets are 103.5 million euros, which represents an increase of 14.8 million euros (compared to 88.7 million euros as at 31 December 2016).

In the reporting year, current assets increased from 58.3 million euros in the previous year to 72.2 million euros. This was due to the rise of 10.1 million euros in trade receivables to 43.9 million euros as of the reporting date. Some 31.2 million euros of the total related to invoiced receivables and 2.8 million euros to receivables calculated on a percentage-of-completion (PoC) basis. As of the reporting date, there was therefore virtually no change in the volume of PoC receivables.

Cash and cash equivalents increased by 4.9 million euros to 23.1 million euros (previous year: 18.2 million euros).

Non-current assets increased by 0.9 million euros to 31.3 million euros (previous year: 30.4 million euros). Intangible assets therefore increased by 0.3 million euros during the 2017 financial year – primarily due to the addition of goodwill as part of the acquisition of spheos GmbH & Co. KG (formerly edicos websolutions GmbH & Co. KG). Tangible assets increased by 0.6 million euros to 3.5 million euros, by contrast, since msg life Group invested more in its technical equipment. Deferred tax assets amounted to 3.2 million euros (previous year: 3.3 million euros).

Non-current liabilities increased by 0.5 million euros. This change is primarily the result of the increase in pension provisions of 0.3 million euros to 9.9 million euros, in deferred tax liabilities of 0.1 million euros to now 3.4 million euros as well as the increase in financial liabilities and other provisions of 0.1 million euros each.

All in all, non-current liabilities account for 15.0 per cent of the balance sheet total, compared with 16.8 per cent proportion in the previous year.

Current liabilities amounted to 26.3 million euros. The increase compared to the previous year totalling 4.8 million euros primarily results from the increase in other provisions (invoices outstanding due to the balance sheet date) of 1.6 million euros to 3.0 million euros, in other liabilities of 1.0 million euros to 4.3 million euros, in liabilities to affiliated companies of 0.7 million euros to 2.7 million euros and in current income tax liabilities of 0.5 million euros to 1.0 million euros.

The Group has no financial liabilities due to banks (neither current nor non-current). All in all, the ratio of current liabilities to total assets increased slightly from 24.4 per cent in the 2016 financial year to now 25.3 per cent.

The 2017 financial year proceeded as planned. The Management Board of msg life ag assumes that the earnings, financial and assets position developed positively during the financial year ended and/or that the positive development from the previous year was able to be repeated.

## Significant events influencing the earnings, financial and assets position of msg life ag in the annual financial statements pursuant to the German Commercial Code (HGB)

### EARNINGS POSITION

Compared to the previous year, turnover decreased from 19.9 million euros to 17.9 million euros. Turnover from third parties of 0.9 million euros and Group-internal turnover, i.e. turnover from companies within the Group, of 0.7 million euros contributed to this reduction. Other operating income amounted to 0.8 million euros (previous year: 0.5 million euros).

Expenses for the procurement of services within the Group increased compared to the previous year and amounted to 6.7 million euros in the financial year ended (previous year: 4.4 million euros).

Personnel expenses were slightly higher than the year before at 5.8 million euros (previous year: 5.5 million euros). In addition to wage and salary costs, these include aperiodic effects in the amount of 0.1 million euros.

The item of depreciation of property, plant and equipment from the HGB separate financial statements was essentially unchanged and in the financial year amounted to 0.2 million euros (previous year: 0.2 million euros).

Other operating expenses, essentially consisting of administrative costs with affiliated companies, rent and legal and consultancy costs, bookkeeping costs and Supervisory Board remuneration, decreased by 2.4 million euros to 12.4 million euros in the financial year ended. This was partly due to a refinement of the offsetting logic for administrative costs between the domestic companies.

In the 2017 financial year, the company received no investment income. On the basis of the existing profit and loss transfer agreements with msg life central europe gmbh and msg life global gmbh, the company received 10.1 million euros from msg life central europe gmbh and had to assume a loss of 0.2 million euros from msg life global gmbh.

msg life ag's net interest came to –0.4 million euros in the financial year 2017 (previous year: –0.8 million euros) and consists mainly of interest expenses for pension and anniversary provisions and interest on IC liabilities.

In the 2017 financial year, tax expenses amounted to 243,000 euros, which is attributable to a lower figure in earnings before income taxes (EBIT).

Overall for 2017, msg life ag generated a net profit under the German Commercial Code (HGB) in the amount of 2.6 million euros (previous year: 3.1 million euros).

FINANCIAL AND ASSETS POSITION

Non-current assets fell by 1.2 million euros to 59.1 million euros (previous year: 60.3 million euros), primarily because of capital repayments on loans extended to affiliated companies of 1.0 million euros. As at 31 December 2017, these loans totalled 1.0 million euros (previous year: 2.0 million euros). Property, plant and equipment came to 0.8 million euros (previous year: 1.0 million euros).

msg life ag's current assets decreased by 1.0 million euros to 9.9 million euros in the financial year ended (previous year: 10.9 million euros) – primarily due to trade receivables which came in 1.3 million euros lower than the previous year.

Receivables from affiliated companies decreased by 0.5 million euros to 0.4 million euros (previous year: 0.9 million euros). Liabilities towards affiliated companies also fell by 11.2 million euros to 24.5 million euros (previous year: 35.7 million euros).

During the financial year, cash and cash equivalents increased by 1.0 million euros and amounted to 8.3 million euros at the end of the year (previous year: 7.3 million euros). The company was completely equity-financed in the 2017 financial year (as was the case in 2016) and, as such, there were no deferred liabilities to banks.

There were scheduled repayments of loans to affiliated companies in the 2017 financial year amounting to 1.0 million euros.

As at the balance sheet date, deferred tax assets amounted to 44,000 euros (previous year: 39,000 euros) and deferred tax liabilities were recognised for the same amount of 44,000 euros (previous year: 39,000 euros).

Equity amounts to 39.1 million euros (previous year: 32.0 million euros), which represents an increase of 7.1 million euros. All treasury shares were sold in the 2017 financial year, which arithmetically increased the subscribed capital by 1.9 million euros and the capital reserve by 2.6 million euros. The net loss is reduced to 15.5 million euros (previous year: net loss of 18.1 million euros) due to the current annual result. The company is therefore again not in a position to distribute dividends.

Total assets as at 31 December 2017 amounted to 69.1 million euros (previous year: 71.4 million euros).

The costs of staff functions that have been incorporated into the holding company are still being passed on to the subsidiaries in full – with the exception of the costs of the IPO and the Supervisory Board – by absorbing dividends and transferring the subsidiaries' profits and losses.



# Research and development

## Focus of R & D activities

As a sector-specific service provider, research and development (R & D) are essential activities for msg life to ensure that it can assert its pioneering role in the market-driven analysis of trends and future requirements. The company's R & D activities serve not only to develop and expand standard software solutions, but also to extend its consulting expertise. Such expertise manifests itself in targeted employee knowledge and concepts, as well as in the further development of software tools that give efficient support to the consulting activities. Examples of important areas of business that focus on consulting services include migration and risk management and advising customers on the professional structuring of value chains. Needless to say, all R & D activities are subject to the imperative of sustainable cost-efficiency.

The msg life Group does not conduct open-ended research, but instead focuses on purely target-oriented research in the interests of its strategic corporate goals. Special importance is attached to close communication with the market and, more specifically, with the customers when planning the implementation of research findings into development output, as their assessment of the products' relevance to business success is crucial. The msg life Group therefore attaches a great deal of importance to its cooperation with customers in the user and operator groups as well as with partners (IBM or the msg Group, for example) in relation to its most important products. The approaches devised within the framework of research are presented, discussed and evaluated within the user and operator groups at an early stage and, if required, on a cross-product basis. The evaluation is conducted with particular regard to users' interest in acquiring the product enhancements to be implemented. In this way, new releases of standard software products are now generally partially financed

by advance orders from some of the customers. The msg life Group regards this willingness on the part of its customers as a high entrepreneurial countervalue for the expenses incurred by the preceding research work and the support given to the user and operator groups.

As there are no user groups that can be accessed for the placement of new products or the opening up of new markets, early customer models are used which reward a customer's early decision in favour of a new product with commercial benefits. By ensuring the early and economically binding involvement of customers in the enhancement or initial development of products, the msg life Group makes sure that development investments are not made without market orientation.

In addition to the traditionally very high level of acceptance for the quality of the msg life Group's specialist product range for its target sector, the new release generations have also succeeded in winning recognition for their high technological quality. The direct benefit from the sector's point of view lies in the option to use msg life's standard software products for a wide range of proven and innovative target technologies. Moreover, the strategic benefit for the msg life Group lies in the possibility of flexible integration for the individual products that were previously strictly separated.

## Purchasing R & D know-how

In its capacity as market leader in its core business, the msg life Group is usually unable to have recourse to ready-made external research findings. This particularly applies to specialist thematic areas in the customers' sectors. As a sector-specific service provider, the company prefers to rely on its own research, which builds upon its participation in trade conferences, association activities and joint projects with partner companies. Future trends, too, can usually be identified more reliably on the basis of the systematic reviewing of customer requirements from projects and canvassing situations than on the basis of external surveys. It goes without saying that the high qualification level of the Group's employees is updated continuously by means of selective (also external) ongoing training activities. In the technology sector, msg life makes use of rapidly developing standards and non-proprietary technologies right through to freely available open-source products. The company also safeguards the quality of its own technological orientation by maintaining close partnerships with IBM and with selected colleges and universities.

## R & D expenses, R & D investment and key R & D figures

### Product development

#### msg.Life Factory and msg.Insurance Suite

msg.Life Factory (LF) and other key components have been integrated into msg.Insurance Suite, the common insurance platform of the msg Group. msg.Insurance Suite represents the first holistic industrial standard for all sectors of the insurance industry. The platform covers and integrates all necessary system components for an insurance company. Its underlying component architecture is characterised by a high degree of end-to-end prefabrication, makes it easy to integrate existing solutions and features a wide variety of potential applications with high releasability and low maintenance costs. For case handlers, msg.Insurance Suite provides a holistic, integrated user interface across all components. msg life and the msg Group are collaborating closely in order to market msg.Insurance Suite.

The upgradable standard software msg.Life Factory features a modern service-oriented system architecture based on JEE technology. The same applies for the contract component msg.Life Contract and the mathematical component msg.Life Product. These two components are developed as part of the development of the msg.Life Factory release.

In the 2017 financial year, msg life introduced the strategic topic of continuous delivery. This further optimises the development process of msg life software, with the goal of assuring shorter release cycles, an even more efficient approach and a consistently high level of quality. In addition, the entire msg life process – from standard development through to customer projects – will undergo an increased level of automation. In this context, intensive work was done in 2017 on the embedding of msg.Life Factory in cloud architectures such as the Amazon Cloud (AWS). The plan is for msg.Life Factory, from the 18.1 release, to be able to be operated on corresponding container-as-a-service (CaaS) platforms in the development process. Support for going live is planned for the 18.2 release.

The new system for msg.Life Factory version numbers took effect in the 2017 financial year. From now on, the version number of an msg.Life Factory release will indicate the release year with the initial digits and the serial number of the release in that year with the second digit. This new system for release numbers will gradually be expanded to the other components of msg.Insurance Suite.

The future of msg.Life Factory release planning was discussed and agreed with the respective technical and specialist content within the two user groups in spring and autumn 2017 together with the existing customers.

The 17.1 msg.Life Factory release was delivered in March 2017. With regard to the contract component msg.Life Contract, the release will only be available in JEE technology. The 17.2 release was then made available for customer projects in September 2017. In the reporting period, the development of msg.Life Factory focused on making the product more flexible, further expanding biometric products (especially long-term care plans), optimising processes and making regulatory adjustments (e.g. in the context of Riester). Requirements set out in the German Act to Strengthen Occupational Pensions (BRSG) and the investment tax reform act (*Investmentsteuerreformgesetz* – InvStRefG) were added.

The comprehensive flexibilisation of LF will provide customers with numerous competitive advantages in light of the persistently difficult situation on the financial markets (the low-interest-rate challenge) and the stricter regulatory requirements. For example, the enhancements facilitating the universal handling of different calculation bases or the automated calculation of additional interest reserves and (optional) counter-financing are commercially important instruments for insurance companies.

On the basis of the standard, LF customers can map dynamic increases, additional payments or allowances with different calculation bases in the system. Additionally, the current accounting principles on commencement of the respective pension can be used. In addition, various alternative guarantee mechanisms are available, especially investment guarantees (on the basis of hedging, (i)CPPI individual Constant Proportion Portfolio Insurance or index participation) that supplement or replace conventional guarantees.

msg life is developing the important themes of process efficiency, automation and digitisation in the specialist working group 'Business processes' in coordination with LF customers. Such specialist working groups for highly specific groups of functional and technical topics consist of customer representatives and msg life employees and help to define the scope of standard products; they have proved their worth and are essential to continued plan and solution development for LF. In this context, an exceptionally positive and promising exchange of experience now also takes place within the user group.

The quickly advancing digitisation of the insurance industry has caused msg life to experience increased customer demand for new products and services. With a view to optimising costs in the long term, msg life was one of the first providers of a complete self-service portal for life, health and non-life insurers that can serve as a component of msg.Life Factory as well as proprietary policy management systems. Under the name msg. Online Insure, the Web-based portal, similar to online banking, offers end customers as well as brokers and agents all transactions relating to an insurance policy on one easy-to-use interface – on all devices and around the clock. Following the decision of several customers for this new standard solution, msg.Online Insure continues to encounter great interest among insurance companies.

## msg.Life and Unified Administration Platform

The development of the two policy management systems msg.Life and Unified Administration Platform went according to plan in the reporting period and the latest version of each release was made available to customer projects.

The user interface of the Unified Administration Platform (formerly: msg.Symass) was revised and the Web service functions were expanded significantly. Additionally, a greater number of operating systems and databases are now supported. The degree of automation as well as the flexibility of the business processes covered by the Unified Administration Platform were also significantly increased using a micro-service-based approach.

## msg.Zulagenverwaltung

Most customers went live with version 17.1 of msg.Zulagenverwaltung, a system designed to manage the allowances of contracts subsidised under the Riester system, in May 2017.

As part of the working group for msg.Zulagenverwaltung, the most important topics related to current planning of the German Central Allowance Authority for Pension Assets (ZfA) were discussed with customers in March 2017. In addition to plans for the 17.2 release, the topic of change of provider 2.0 was also subject of discussions. The issue once again poses major challenges, especially for insurers who still use their own solutions, and will increase demand for the standard solution msg. Zulagenverwaltung. The 17.2 release was then made available for customer projects in November 2017.

With the current version, msg life was therefore able to extend its lead over its competitors' solutions in terms of its functions and expects to attract even more new customers with this leading standard software solution. Further development of the product will be carried out in close collaboration with customers.

## msg.RAN

As part of the working group for the pension settlement and documentation system msg.RAN, the substantial technical and specialist aspects of the further development were discussed and agreed with the customers in March 2017. Moreover, the further development remained on schedule during the reporting period, and the current 17.1 release was made available for customer projects in November 2017.

## msg.Tax Connect

The working group for the standard software msg.Tax Connect regularly consists of a status report on the events of the previous year, discussion and evaluation of the specific requirements, further release planning and information relating to the operation of the software. In addition, in March 2017, the status quo of the implementation of the new CRS (Common Reporting Standard)/FATCA process was presented to this working group. The topics presented were received positively among customers and the suggested content planning for the subsequent release was approved. The 17.1 and 17.2 releases were delivered in March and November 2017, respectively.

msg.Tax Connect is standard software for the fully automated processing of contribution reporting and the KiStAM (church tax deduction characteristics) procedure; it covers all the workflows and reports required by law.

## msg.Ilis

msg.Ilis stands for 'Insurance Liability Information System' and is standard software designed to support financial reporting within insurance companies – especially in connection with the current challenges of Solvency II and the International Financial Reporting Standards (IFRS).

Even the 1.1 release was able to process traditional and simple fund products. The current 2.0 release branches out to include products such as dynamic hybrid products that are closely linked to capital markets, and in doing so covers the entire product range in the German-speaking insurance market.

## msg.Sales and Unified Product Platform

msg life's business in the United States remains stable and the company saw continued successful development there in 2017, among other things with the msg. Sales solution as well as the Unified Product Platform, which belongs to the Group company FJA-US, Inc. The range of services offered by msg life in the United States encompasses not only software products, but also operator models and functional consulting services on all aspects of product and tariff structuring – primarily for health insurance. msg.Sales has now been successfully tethered to several msg life solutions – including msg. Life Factory, Unified Product Platform and Unified Administration Platform.

In addition, with its decision in 2017, VHV Versicherungen became the first insurance company in German-speaking Europe to opt for the use of msg.Sales.

## msg.ZVK

The standard software product msg.ZVK, a system for policy management for supplementary pension funds, was finished in the reporting year and was successfully launched at the end of March 2017 with the Rheinische Zusatzversorgungskasse (RZVK) and at the end of November 2017 with the Kommunaler Versorgungsverband Brandenburg (KVBbg).

The some 20 regional supplementary pension funds in Germany offer a special form of company pension scheme for the public sector to cover risks. The two major Christian churches (including their charitable and social organisations) have also joined the system for the supplementary pension funds.

Supplementary pension funds can use msg.ZVK to manage and settle the corresponding pension entitlements and defined benefits. In doing so, the significant components are the automated processes for annual notifications as well as the transferring of policies between the supplementary pension funds. Standard processes such as the processing of pension rights adjustments, paying-agent registration procedures and pension entitlement and payment notifications are also included. The system is fully integrated in the SAP landscape of the supplementary pension funds, including collections/disbursements, partners, workflows, data warehousing and correspondence.

# Project business

## msg.Life Factory and msg.Insurance Suite

The migration of customer systems to the JEE-based msg.Life Factory continued, for example for Provinzial Rheinland and Öffentliche Versicherung Braunschweig in the 2017 financial year. This meant significant milestones for both customers, and msg.Life Factory was established as a modern JEE platform there as well.

At the beginning of 2017, long-standing customer HUK-COBURG Lebensversicherung successfully went live with msg.Life Factory, including the mathematical product component msg.Life Product and the contract component msg.Life Contract. Work on the introductory project was completed in just one year in line with the exceptionally challenging schedule.

At AXA Deutschland, the 4.14 release of msg.Life Factory went live in January 2017. At the same time, preparations began for the expansion phase, which successfully went live in September 2017, as well as the migration carried out in November 2017 of the first of several AXA source portfolios from the old system msg.Life to the new msg.Life Factory platform.

The spring release of msg.Life Factory was successfully implemented at DEVK Versicherungen in April 2017. This mainly comprised the completion of all Riester-related business transactions in particular. In autumn of 2017, then came the successful migration to the current JEE version of msg.Life Factory including msg.Life Contract.

By mid 2017, long-time customer Würtembergische Lebensversicherung had successfully completed the migration to the JEE version of msg.Life Factory. Like the introductions of the previous releases, this launch went according to plan in regards to time, quality and budget.

## msg.Life

In April 2017, Schweizerische Mobiliar successfully went live with the 3.14.1.5 spring release of msg.Life. The focus here was on improvements in risk classification for coverage in the event of death as well as optimisation of correspondence. As part of the autumn release (V3.14.1.6), a new savings product with free choice of investor was successfully introduced. At the same time, intensive work was being done on the implementation project for msg.Life Factory, which will replace msg.Life.

Shortly before the end of 2017, R+V Luxembourg tasked msg life with the migration project for system line 4 for msg.Life – an additional milestone in the long-standing business relationship between the two companies. The crucial factor for the positive decision was the continuous technological further development of the system in particular.

## Unified Administration Platform

The implementation project designed to expand the Unified Administration Platform for the foreign business of the Austrian insurance company Merkur Versicherung is still proceeding according to plan. By mid February 2017, the fourth project contract had been signed and already largely processed. The agreement on the fifth project package was also signed, and the corresponding implementation is expected to be completed by the end of 2018. The solution will be used in all five of Merkur's Eastern European subsidiaries in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro.

The introduction project for the insurer APRIL Portugal also went according to plan and was completed successfully in early January 2017. APRIL Portugal renewed its mainly CPI (residual debt) policy management systems on the basis of the Unified Administration Platform. The migration of the policy portfolio to the new system also went smoothly.

Shortly after the end of the reporting period, in January 2018, Liechtenstein-based ONE Versicherung AG – Europe's first completely digital insurance company – began operations with the Unified Administration Platform as a back-office solution. This marked the successful conclusion of the first phase of the project, which lasted around a year. For a start, the company is offering private liability and household insurance in Germany. The further course of the project will bring with it life insurance products for Germany as well as property and casualty products for other European countries.

## msg.Sales and Unified Product Platform

Following a test phase in which functional requirements were combined with performance and stress tests, msg. Sales successfully went live in March 2017 at UNIQA Romania. UNIQA Romania uses the Unified Administration Platform as a policy management system together with msg.Sales as an integrated sales platform (Unified Distribution Platform). Having msg.Sales as its omnichannel sales solution enables UNIQA to quickly and flexibly bring products to market. In addition, further sales channels can also be integrated in the future.

In September 2017, after only eight months of project work, Spanish insurer Línea Directa became the first insurance company in the Iberian market to go live with the Unified Product Platform. Línea Directa uses the Unified Product Platform to manage its products as well as to design its bidding process in the new health insurance division of the company.

In the US market, the first phase of the Unified Product Platform was successfully implemented at health insurer Independence Blue Cross in May 2017. The second expansion phase was completed at the end of 2017. Simultaneous to the successful beginning for this new customer, the US Group company FJA-US, Inc. signed an agreement with long-standing New Jersey–based customer Horizon Blue Cross Blue Shield for the update of a component of the Unified Product Platform.

## Migration Factory

In connection with msg.Insurance Suite in particular, msg life is experiencing a substantially growing market demand with regard to migration. For this reason, the msg life expertise was combined with the Consulting business segment in the new Migration Factory division in 2017, with the aim of being able to react even more flexibly and more effectively in this strategic field from now on.

Overall, the volume of business in the Migration Factory segment was very positive in the reporting period. The numerous simultaneous projects show that the extensive expertise of msg life in migration is considered leading on the market. msg life is welcoming these good developments by continuing to strategically expand its own staff unabatedly. Additionally, msg life will continue to hone its own expertise with regard to the migration of entire platforms.

At Viridium at the beginning of 2017, approximately 270,000 policies were successfully migrated from Skandia-Versicherung Berlin to the Viridium platform.

At Signal Iduna in October 2017, the migration from the two source systems of Signal Iduna to msg.Life Factory was successfully completed. In the fourth and final tranche, 535,000 policies were transferred to msg.Life Factory from two very different previous systems. This means that the lofty goal was achieved of being able to carry out active policy processing exclusively in msg. Life Factory for the some 1.9 million policies from 2018. The productive migration of the last tranche went off without a hitch – just like the previous tranches.

Also in October 2017, Württembergische Lebensversicherung AG (W&W) – with significant support from msg life – successfully migrated a fourth tranche with a total of 95,000 policies from the existing portfolio systems of Karlsruher Lebensversicherung to the portfolio management system of Stuttgarter Lebensversicherung 'WAA'. In all four tranches together, some 350,000 policies were migrated using the migration tool msg.Migration System.

As part of the migration project at AXA Deutschland, the first of several AXA source portfolios with nearly 170,000 policies was successfully migrated to the current msg. Life Factory platform in November. At DEVK Versicherungen, also in November 2017, the last tranche of approximately 178,000 policies was migrated successfully from the old DEVK system to msg.Life Factory.

## msg.Zulagenverwaltung

All introduction projects for msg.Zulagenverwaltung progressed according to plan in the reporting period. msg.Zulagenverwaltung with the additional component RSBF is the clear market leader in terms of the splitting of Riester contracts for tax purposes: almost half the roughly 16 million contracts subsidised under the Riester system that are concluded in Germany are handled using msg life solutions. The resultant cost advantage for msg life customers, particularly in respect

of regulatory or statutory requirements in relation to Riester business, is already proving to be a crucial success factor.

### msg.RAN

Customer projects for the pension settlement and documentation system msg.RAN went according to plan in the reporting period. In addition, msg life is conducting promising talks with several interested potential customers. These developments emphasise the consistently high market potential of this standard software solution, not least in light of the ever-growing number of annuity policies on the books.

### msg.Tax Connect

msg.Tax Connect is proven standard software which electronically sends contribution-related data to the German Central Allowance Authority for Pension Assets (ZfA) and transfers church tax deduction criteria (for the KiStAM process). msg life has concluded software licence agreements with 21 customers.

msg life is currently in talks concerning the use of msg. Tax Connect with other prospective customers. For msg life, this is renewed confirmation of the insurance market trend towards fulfilling the increasing regulatory requirements with a single standard software product.

The msg life Group's R & D expenditure totalled 15.291 million euros in the 2017 financial year (previous year: 11.878 million euros). Once again, no development expenses were capitalised.

# Employees

On 31 December 2017, 1,032 permanently employed salaried personnel – including the managing directors – were employed within the msg life Group (compared with 925 on 31 December 2016).

In order to find new employees, the company offers recruitment opportunities in various job profiles and at various career levels. msg life also takes advantage of the networks and know-how of employees within the sector and has established a recommendation programme. In addition to its own networks, the Internet remains the most important medium for achieving the company's recruitment success. msg life thus places emphasis on using relevant online channels, far-reaching platforms as well as niche job markets, and successfully implements its modern strategies in the fields of search engine optimisation and search engine advertising. Of the more than 2,000 applications regularly submitted, only a small portion is attributed to other recruitment methods. As a result, the company has been able to register significantly more than 2,000 applications for the second time in a row in a recruitment market that is becoming increasingly difficult.

To process the growing number of applications swiftly and in a manner which is structured and takes data security into account, the company has been using a high-performance applicant management system since 2015 and exploits the entire spectrum of communication channels in order to identify interesting candidates. For a few years now, this has included the option of applying via video. Also in 2017, the application process was expanded by additional functions related to a successful candidate experience – such as the option of submitting a 'one-click' application. In addition, the Recruiting division of msg life produced its first recruiting video in 2017, which has been used online since the beginning of 2018 as part of the search for new talent and complements the company profiles and job advertisements of msg life with a glimpse behind the scenes.

University relations are another key aspect for the company in the field of long-term staff recruitment. In 2017, msg life was again able to proportionally expand its network at selected universities and thereby attract qualified, promising new recruits to the company or to establish msg life as an interesting employer for the future. Additionally, msg life awarded the msg life prize for an outstanding applied mathematics thesis in 2017.

In the interests of ongoing professional training for its employees, msg life is also continuing to support the extra-occupational training course for actuaries at the German actuarial association Deutsche Aktuarvereinigung (DAV).

msg life holds welcome and introductory events for all new employees. In the course of these onboarding sessions, the strategic orientation of the company is presented, as well as its targets in each field of business. In addition, the new employees can get to know one another in a friendly atmosphere, identify common ground and begin to build up contacts with new colleagues from other areas. The aim is to give the new colleagues a broad network within the entire company as quickly as possible.

This internally developed onboarding programme is now also actively discussed at universities, career fairs and in interviews with job applicants, where it is regularly met with great interest.

The remuneration model used by the company is continuously developed in a targeted fashion. It focuses on the roles and performance of employees, ensures that

remuneration continues to meet the market standards and serves as a key benchmark for structured, individual salary changes.

In 2017, msg life again systematically pursued its chosen path of greater digitisation in the area of HR development, further diversifying its learning formats and modularising existing courses. In particular, the rapid availability of training content for changing target groups is a crucial factor in the development of additional online learning formats. Other development opportunities are also available, including from internal speakers in certain subjects. These internal multipliers are particularly remarkable – they too are trained and undergo regular training for their roles and responsibilities. In collaboration with external providers, msg life also develops tailored contemporary training courses in a wide range of subjects.

Employees at msg life have a modern working environment at their disposal. For example, employees can independently access key processes such as travel time logs, working-hour logs and absences over the company's intranet and view important information on their payslips or personal data. Here too, the objective for msg life is to focus consistently on the requirements of a modern working environment for its employees.

# Other legal and economic factors

## Shareholders' rights and duties

Shareholders have property and administrative rights. The property rights include, in particular, the right to participate in profits (section 58, para. 4, of the AktG) and liquidation proceeds (section 271 of the AktG), as well as pre-emption rights to shares in the event of capital increases (section 186 of the AktG).

The administrative rights include the right to attend the annual general meeting and speak, ask questions, put forward motions and exercise voting rights. Shareholders can assert these rights by initiating, in particular, actions for information and rescission.

Each share guarantees one vote at the annual general meeting. The annual general meeting elects the members of the Supervisory Board and the auditor of the financial statements; it decides, in particular, on the formal approval of the actions of the members of the Management Board and the Supervisory Board, alterations to the articles of incorporation, corporate action, empowerment to acquire treasury shares and, if required, the conducting of a special audit, the premature dismissal of members of the Supervisory Board and a dissolution of the company.

The annual general meeting generally passes its resolutions by simple majority of the votes cast, provided that there is no statutory requirement for a greater majority or the fulfilment of other conditions.

## Composition of the Supervisory Board

On the reporting date, in accordance with the articles of incorporation, the Supervisory Board consisted of three members elected by the shareholders pursuant to the German Stock Corporation Act (AktG). The members of the Supervisory Board are elected for the period ending upon conclusion of the annual general meeting that decides on the formal approval of their actions in the third financial year since their service on the board began; the financial year in which the term of office began is not included in the calculation. The annual general meeting may, however, also resolve to give members a shorter period of office. With the exception of the adoption and amendment of the Supervisory Board's rules of procedure, which must be passed unanimously, resolutions of the Supervisory Board require a majority of the votes cast, if nothing to the contrary is provided for by law. If the vote is tied – also in elections – the Chairperson, or in their absence the Deputy Chairperson, shall have the casting vote.



# Opportunity and risk report

## General

All the following estimations regarding opportunities and risks were made on the reporting date, 31 December 2017.

In the type of business it conducts, the msg life Group is exposed to a large number of uncertainties which, if realised, could affect the Group's earnings, financial and assets position, and that of the AG, either positively or negatively, or result in msg life falling short of or exceeding the targets it has set itself for the future development of its business.

Engagement in commercial activities geared towards making profits necessitates the taking of risks. If these risks are to bring sustained commercial success, it is important to manage them. First, this means assessing and continually monitoring the risks with regard to their probability of occurrence and their possible impact on the company's earnings, financial and assets position. Second, it means identifying measures that can be used to limit or avert risks and, with regard to the company's core skills, determining the financial strength and the costs of the respective measures based on the question of what limiting or preventive measures are taken for what risks and to what extent.

Among the Management Board's most important tasks in the overall management of the Group are laying down general conditions and processes of risk management for the msg life Group, monitoring the degree of compliance with them and, in conjunction with the heads of the operating units and the administrative departments, regularly analysing the development of risks in the respective segments. The Supervisory Board is closely integrated into this process by the Management Board's regular reports.

The msg life Group's risk management system is documented in a risk manual. One employee in the holding company's Corporate Planning & Controlling division has been appointed risk manager of the Group and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. The risk manager also has the task, under instructions from the Management Board, of analysing each division by means of random sampling to determine the extent to which the measures adopted are being implemented for the limitation or prevention of risks.

It is the responsibility of the managers of the individual divisions to continuously monitor and deal with the risks to which their own divisions are exposed. If the probability of individual risks occurring and/or their potential scale increases significantly beyond a set threshold, the managers are obliged to inform the Management Board immediately. The foundation of good risk management is the reliable and prompt provision of the management with relevant information about the course of business. For this purpose, msg life has set up a controlling and reporting system with which reports are compiled at monthly intervals about the development of significant ratios relating to the business operations in the individual divisions and the financial results, as well as the likely commercial and financial development in each of the next 12 months.

In order to improve the early risk detection system at msg life ag, it was revised and restructured in 2015, taking into account all the Group companies. The adjustments proved successful in 2017 as well and it was not necessary to revisit them. The entire procedure is described in the risk manual and was approved by the Risk Board (risk manager and Management Board). The employees responsible for this field were trained accordingly.

In accordance with the current version of the guideline, monthly reports were prepared on the most significant risks and the operative and central divisional managers and employees with special positions in terms of risks were surveyed on a quarterly basis. The Risk Board convened twice in 2017 and subjected the risks identified to a qualitative and quantitative evaluation. At the same time, the company's internal auditing, IT security and compliance management were incorporated into the early risk detection system. The corresponding risk report was presented to the Supervisory Board in December 2017.

An equally important topic in this context is the code of conduct. More information on this can be found in the description of the non-financial performance indicators in the section of this condensed management report and Group management report entitled 'Economic report'.

In 2017, the msg life Group's profile did not change significantly with regard to the main types of opportunity and risk areas to which it is exposed. Below, individual types of risk that are identified as being important are explained in greater detail. The specification of these risks does not imply that other risks which have not been mentioned will not have a significant impact on msg life's earnings, financial and assets position.

## Strategic opportunities

msg life regards the continuation of regulation throughout the insurance sector as a direct consequence of the financial crisis. Like the ongoing low-interest phase, this regulation is necessitating a great deal of adaptation with regard to the solutions currently used in the insurance sector and is reinforcing the trend towards the use of standard software and cross-sector platform solutions. As a result, the use of flexible and favourably priced standard software, such as that offered by msg life as a leading supplier in this segment, is becoming increasingly attractive throughout the insurance industry. In the past, the Group company FJA-US, Inc. has increased its turnover and earnings considerably due to the Patient Protection and Affordable Care Act ('Obamacare') enacted in 2013, and this also improved earnings at the Group level. Although the overall economic indicators in the United States are generally positive for 2018, there are still uncertainties related to Obamacare due to the repeatedly stated intention of the Trump administration to repeal Obamacare. At the moment, the ultimate outcome of this situation is not apparent, so this could result in opportunities as well as risks for the company.

## Opportunities from regulatory developments

Regulatory adjustments as a result of legislative amendments are generating additional demand for consulting services and new or modified products among existing customers and, if integrated quickly into the products

on offer, can constitute a crucial competitive advantage. Consequently, as described in detail in the 'Research and development' chapter within this condensed management report and Group management report, the relevant R & D activities at msg life serve, firstly, the further development and enhancement of standard software solutions, and secondly, the expansion of available expertise on consulting topics.

## Product- and service-specific opportunities

In addition, msg life's employees are crucial to the company's innovative power and the customers' value added – and are therefore instrumental in the growth and profitability of the msg life Group as a whole. That is why msg life stages a variety of activities to strengthen the employees' commitment and teamwork and to foster innovative energy. If msg life is to be capable of maintaining its own innovative power and lasting commercial success in the future as well, the company will have to not only generate the greatest possible degree of loyalty from its staff, but also attract qualified new employees on a continuous basis. msg life would also like to open up new talent pools by making increasing use of mobile channels and by devising innovative talent management strategies. More information about the future opportunities being generated by msg life's employees can be found in the 'Employees' chapter within this condensed management report and Group management report.

## Risk assessment

The following risks are listed in descending order based on their estimated probability of occurrence and impacts. Additionally, unless indicated otherwise, the following disclosures concern all the business segments.

## Project and product risks

The main potential source of risk in the course of operating activity lies in the calculation of the complex projects and in their organisational, functional, technical and commercial handling. These risks are controlled and monitored by means of the valid Group-wide standards for project and project risk management. The risk nevertheless remains that projects cannot be realised profitably for the msg life Group because costs exceed the agreed budget, deadlines cannot be met or the services rendered fail to comply with the agreed functional specifications or the required quality, and the msg life Group will therefore have to grant a discount or pay compensation. The positive development of business from 2016 was affirmed in 2017 with a number of projects for new customers and the previously mentioned uncertainties surrounding the topic of Obamacare in the United States increase these risks; these additional risks are generally considered in the forecasts for 2018. The cumulative occurrence of the mentioned risks in multiple projects could, however, lead to undesirable effects.

Like all software products, the msg life Group's products can have defects whose elimination under guarantee increases costs and thereby influences the profit margin or even leads to compensation claims against the msg life Group. The msg life companies generally assume the warranty which is customary in the industry. As far as possible, liability obligations are limited contractually to the legal minimum and are secured with appropriate liability insurance policies. It can nevertheless not be ruled out that contractually agreed limitations on liability will be regarded as invalid and the existing insurance cover will be available to an insufficient extent or not at all – even if this is improbable.

The msg life Group also uses software from external suppliers in its own software products. This third-party software can contain defects that might have an adverse effect on the functional capability of the msg life Group's own products. Problems in the execution of projects and software defects that can occur in the operation of software produced by msg life can do lasting damage to the reputation of the msg life Group and thereby have a substantial impact on the future course of business.

## Personnel risks

msg life's success depends crucially on the skills, qualifications and motivation of its employees. Certain employees in key positions are particularly important in this respect. If msg life is unable to get these employees to commit themselves to the company or to recruit qualified and skilled staff and develop them further on a continuous basis, msg life's success can suffer significant adverse effects due to the resultant loss of expertise. In addition, an excessive burden on the company's own staff can necessitate the deployment of expensive external capacities if the risk of quality losses in project development is to be averted. This applies particularly when the likely demographic trends are taken into consideration. In connection with this, msg life will be affected particularly by the probable decline in graduate numbers, the resultant competition to recruit them and the increasing costs this will lead to.

msg life counters this risk with an extensive set of measures. A continuous exchange of views with the employees on all factors affecting their work environment at standardised employee interviews with a facility for qualified feedback, internal training to prevent monopolies of knowledge and skills, on-the-job graduate training and the recruitment of suitable people through all of the usual market channels are just a few examples of these. In addition, the leadership guidelines for managers are designed to strengthen the employees' identification with the company.

## Economic risks

The general economic trend affects the behaviour of potential customers as far as their investment in IT infrastructure and their expenditure on ongoing management consulting are concerned. An economic downturn could reduce the volume of the market on which msg life has trained its sights. Any capacity adjustment measures which are regarded as necessary to counter such developments might take effect only after a time lag and would lead to restructuring costs. With the volume-related remuneration models, a delay in portfolio growth caused by the general economic situation could result in a postponement of the planned diminution in fixed costs.

In the event of demand falling as a consequence of economic crises, msg life would assume that this would take effect rather more slowly among existing product customers because, in that segment, loyalty to the solution deployed ensures that any requisite adjustments will also be ordered. With regard to new customers, postponements of planned investments can lead to reductions in turnover, especially in product business.

In the past, the Group company FJA-US, Inc. has increased its turnover and earnings considerably due to the Patient Protection and Affordable Care Act ('Obamacare') enacted in 2013, and this also improved earnings at the Group level. Although the overall economic indicators in the United States are generally positive for 2018, there are still uncertainties related to Obamacare due to the repeatedly stated intention of the Trump administration to repeal Obamacare. In this regard, no final decision from the US government can be predicted at this time, so this could result in considerable risks for the Group.

The fundamental risk that, following economic crises, parts of msg life's potential customers' budgets might be put on hold is offset by the new potential opened up for a standard software supplier such as msg life by stricter regulatory demands and increasing cost pressure. Pressure on costs in the selling market caused by the general economic situation encourages consolidation and automation trends, which can lead to increasing demand for external system suppliers. At this time, the situation in the insurance market is proving to be an opportunity for the company, as demonstrated by the new contracts from the years 2016 and 2017.

## Competition risks

msg life has streamlined its range of services over the past few financial years. This has led to a concentration and therefore an increase in market development risks. At the same time, this increases the company's profitability. msg life will therefore attempt to persevere with its existing strategy, including in its remaining product segments and regional markets, and to cover entire value chains and product ranges with its solutions. In this way, it hopes to achieve a decisive competitive advantage on the market, particularly vis-à-vis new competitors with aggressive pricing policies. The embedding of the msg life product range into msg.Insurance Suite and the related collaboration taking place within the msg Group are important instruments in this context. For insurers, digital communication with end customers will play an increasing role – both in sales of insurance products and in customer service. msg life will therefore expand its activities with regard to the development of new standard software products for the digital transformation as well as for interacting and collaborating with end customers (systems of engagement – SoE). msg life has also combined this into its own business segment and supported it through the acquisition of spheos GmbH & Co. KG as well as spheos Verwaltungs GmbH.

## Technological risks

As with all comparable companies, the functional capacity of the business processes is also dependent on the availability and secure operational capacity of the IT infrastructure. External events such as fire, lengthy power or network failures, operational errors or acts of sabotage can, among other things, render the IT infrastructure inoperable. The msg life systems, and also those of its customers, can succumb to viruses which damage and incapacitate the systems or the network. Internal or external attacks can damage, distort or delete information and can result in confidential data and information being accessed. The probability and the extent of damage caused by viruses and hackers, by unauthorised persons accessing the IT system and by confidential information being accessed cannot be reliably estimated.

Recovery expenses, loss of production and recourse claims from customers and third parties as a result of system breakdowns or attacks could cause significant damage which, in turn, could influence earnings and endanger the future of the company.

Since IT security is strategically significant, extensive technical and organisational steps are, as far as possible, taken within the framework of the IT security concept. These steps include restrictive authorisation and access controls, regular backups and penetration tests and adequate contractual arrangements with service providers for outsourced systems and telephone and other communication links. In order to provide protection against penetration by viruses, the latest software available on the market is deployed as a matter of principle. Access restrictions prevent potentially infected software from being installed on the msg life computer network without authorisation. Defined security requirements limit access by unauthorised persons and ensure that data is protected. Financial loss is limited by appropriate insurance policies.

## Risks from takeovers

msg life is currently interested in expanding its market position in Germany as well as internationally, primarily through organic growth partially supported by targeted acquisitions (2017 takeover of spheos GmbH & Co. KG and spheos Verwaltungs GmbH). The success of an

acquisition is dependent upon whether the acquired company can be successfully integrated in the Group structure and the desired synergy effects can be generated. In the field of professional services, acquisitions bring with them the particular risk that, in general, the expertise, market knowledge and customer contacts acquired are only loosely tied to the acquired company.

## Liquidity risks

Managing liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments. Liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable deficits at standard market terms under normal market conditions. This means that losses from both borrowing capital at excessive interest rates as well as investing surplus funds at interest rates below the market level should be avoided.

Because of the company's large holdings of cash and cash equivalents, msg life ag considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

The financing strategy was further improved in the reporting period. In this context, as at the reporting date, the company had basic loan agreements with three banks totalling 7.5 million euros and one of the credit lines had been used in the amount of 1.177 million euros for security deposits.

## Risk reporting in respect of the use of financial instruments

### Objective and methods of financial risk management:

Financial risk management is designed to put the msg life Group in a position to recognise all the significant risks to which it is potentially exposed at an early stage and to take appropriate countermeasures.

The potential risks to the msg life Group associated with financial instruments consist notably of liquidity risks – which can result in a company being unable to raise the funds needed to settle its financial liabilities – currency risks resulting from its activities in various currency areas, default risks arising from the non-fulfilment of contractual obligations by contracting parties and interest rate risks caused by movements in the market interest rate leading to a change in the fair value of a financial instrument and interest-related cash flow risks, which lead to a change in the future cash flows of a financial instrument due to changes in market interest rates.

### Organisation:

The company has organised its risk management process along clear, functional lines. Specific tasks have been assigned to the individual organisational units involved in the risk management process.

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The msg life Group's risk management system is documented in a risk manual. One employee in the holding company's Corporate Planning & Controlling division has been appointed risk manager of the Group and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. The risk manager also has the task, under instructions from the Management Board, of analysing each division by means of random sampling to determine the extent to which the measures adopted are being implemented for the limitation or prevention of risks.

It is the responsibility of the managers of the individual divisions to continuously monitor and deal with the risks to which their own divisions are exposed. If the probability of individual risks occurring and/or their potential scale increases significantly beyond a set threshold, the managers are obliged to inform the Management Board immediately. The foundation of good risk management is the reliable and prompt provision of the management with relevant information about the course of business. For this purpose, msg life has set up a controlling and reporting system with which reports are compiled at monthly intervals about the development of significant ratios relating to the business operations in the individual divisions and the financial results, as well as the likely commercial and financial development in each of the next 12 months.

### Credit risks (default risks):

Credit risk arises from deteriorating economic circumstances of the company's debtors or counterparties. Firstly, this results in a risk of partial or complete default on contractually agreed payments and, secondly, in a reduction in the value of financial instruments due to a poorer credit rating.

Credit risk management is responsible for the operational measurement and management of credit risks. Its functions include, in particular, monitoring credit risk positions and exposure and analysis of credit ratings.

In terms of credit risk, the Group is only exposed to risk in relation to trade receivables. Adequate valuation allowances have been made to cover the estimated default risk. As the credit rating of clients in the insurance industry is generally good, the receivables are not insured. The maximum default risk is in principle equivalent to the nominal values less the valuation allowances. There is no other loan collateral and there are no other risk-mitigating agreements (such as guarantees, land charges or pledges) in place. Usage reservations exist until payment is complete. For invoiced receivables, the net balance of additions to and reversals of valuation allowances was 0 euros (previous year: 0 euros). On each effective date, trade receivables do not include any carrying amounts for which terms have been renegotiated and which would otherwise be overdue.

With regard to the analysis of trade receivables which are overdue but not impaired as at the end of the reporting period, we refer to section VII 'Notes on the statement of financial position', number 3 'Trade receivables' in the notes to the consolidated financial statements.

There are no default risks in relation to cash and cash equivalents. These are invested at banks with good ratings.

There are no significant default risks in relation to other financial assets.

## Liquidity risks:

Managing liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments. Liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable deficits at standard market terms under normal market conditions. This means that losses from both borrowing capital at excessive interest rates as well as investing surplus funds at interest rates below the market level should be avoided.

Because of the company's large holdings of cash and cash equivalents, the msg life Group considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

In addition, as at the reporting date, there are credit lines with banks amounting to 7.5 million euros, of which 1.177 million euros had been used at the reporting date for security deposits. See also section VII 'Notes to the balance sheet', number 12 'Financial liabilities' in the notes to the consolidated financial statements.

In the 2017 financial year and in the previous year, no income from debt waivers was realised.

## Market risks:

Market risks result from changes in market prices. These cause the fair values of financial instruments or future cash flows relating to them to fluctuate. Market risks encompass interest rate, currency and other price risks (such as commodity prices and share prices).

## Price risks:

The msg life Group is not exposed to any price risks.

## Interest rate risks:

Interest rate risks result from a fluctuation in the fair value or future cash flows of a financial instrument due to changes in market interest rates.

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. There are no significant interest rate risks in relation to its financial assets. The investment of cash and cash equivalents is done on a short-term basis and undergoes the normal market fluctuations. On the condition that all other parameters remained unchanged, the company assumes that interest rates were ten base points lower (higher) in the reporting period. In this case, the net result for 2017 would have been 10,000 euros lower (higher) (previous year: 22,000 euros lower (higher)) and the equity components would have been 10,000 euros lower (higher) (previous year: 22,000 euros lower (higher)).

In the reporting period as well as the previous year, there were no (interest-bearing) financial liabilities with variable interest rates.

## Currency risks:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates.

For the most part, the operating companies of the Group carry out their business activities in their respective countries. The Group is therefore not exposed to any significant currency risks in its operating business. A total of 78 per cent of its revenues are generated in eurozone countries (previous year: 81 per cent), and the remainder in Switzerland, the United States, England and Australia. The currency risk on the asset side

in relation to trade receivables comes from receivables not denominated in euros, accounting for 8 per cent (previous year: 16 per cent). In the case of trade payables, currency risks occur in relation to the 2 per cent of liabilities not denominated in euros (previous year: 3 per cent). Differences arising from currency conversion of financial statements from a foreign currency to the Group currency for the creation of consolidated financial statements do not affect currency risk because the respective changes in foreign currency are recognised under equity with no effect on income.

### Information on risk concentration (concentration risks):

The company does not have any dependencies on the procurement side. On the sales side, there tend to be concentrations of risk due to the geographic distribution of turnover. For example, Germany accounts for 79 per cent of turnover (previous year: 78 per cent).

Within trade receivables, there is no significant concentration on individual customers. In the year under review, the ten largest customers accounted for a 45 per cent share of turnover (previous year: 59 per cent) and a 20 per cent share of trade receivables (previous year: 44 per cent).

With regard to cash and cash equivalents, there is no concentration on individual institutions.

## Overall assessment of the opportunities and risks

msg life believes that, in light of the likelihood of their occurrence and their effects, the risks described above do not represent a threat to the company's continued existence either individually or as a whole. Senior management remains confident that the Group's earning power constitutes a solid basis for the future development of its business and will generate the resources that will be necessary for the Group to pursue the opportunities that present themselves. In view of its leading position on the market, its functional and technological innovative power, its committed employees and its processes for the early identification of risks, msg life is confident that, in 2018, it will again be able to deal successfully with the challenges that arise from the aforementioned risks.

# Forecast report

## Market and competition

With more than 1,000 employees at sites in Germany, the Netherlands, Austria, Switzerland, Slovakia, Slovenia, Poland, Portugal, Spain and the United States, msg life is now very well positioned in the field of software and consulting services for insurance companies and pension fund institutions. msg life's wide range of products and services for life insurance companies in Europe and, in particular, health insurance companies in the United States gives it good market opportunities and a promising competitive position.

In the medium term, msg life is striving to expand the proportion of its business accounted for by international activities but will refrain from setting any quantitative targets in this area for the time being. In addition to enjoying a leading market position in the German-speaking countries, msg life's software is deployed worldwide. Users in more than 30 countries, including the United States and Australia, are using the company's solutions today. In the strategic undertaking to press forward with internationalisation, msg life puts its faith in collaborations, partnerships and a local presence in the countries in question. Experience shows that the selective presence of msg life in the various foreign markets is an important success factor when it comes to attracting new customers. In addition, the company can discern a trend in which Group companies want to put the solutions implemented for one region at the disposal of other Group companies in other countries. This, too, can advance the ongoing internationalisation of msg life as a service provider for its customers. As in 2017, the objective in the current 2018 financial year is to press ahead with major sales projects, especially in the foreign markets that are already established.

The Benelux countries remain a relevant market in this context and msg life already provides support for renowned customers there including the Dutch company Cooperatie DELA and R+V Luxembourg.

The Austrian market is an important building block in the Group's international activities, and the placement and further development of the consulting portfolio for the German-language markets and the marketing of msg life products in the countries of Central and Eastern Europe is carried out from Vienna. On the Swiss market, too, msg life is represented with its own offices and by various well-known life insurers and sees good medium-term prospects for the further expansion of its business.

msg life has a direct presence in Central and Eastern Europe with its subsidiaries in Slovakia, Slovenia and Poland. The Iberian peninsula is also an interesting market and is cultivated by msg life's offices in Portugal and Spain. msg will also continue to use its office in Portugal as a successful product development unit.

In the US market, which continues to offer strong potential, msg life deploys a localised version of its portfolio of European life insurance products in a more targeted manner in connection with its specific US products as an integrated solution. Overall, msg life has enjoyed continued growth in the various insurance segments on the US market and intends to exploit the potential for business that this represents. In addition to the implementation and integration of specific software products, the range of services offered by msg life in the United States includes operator models and various consulting services on the topics of product and tariff modelling, for example. The target group still consists primarily of health and life insurance companies. The expansion of the company's own solution portfolio and partnerships with specialised service providers are being used to unlock new customer groups.

With the last financial year, 2017, having been very good, msg life is still registering consistently high levels of demand for its products in the current 2018 financial year – from insurance companies in Germany and other countries in equal measure. This is accompanied by the planned new requirements in relation to risk management, under the theme of solvency, and the necessity of their implementation as further arguments for strategic investments in the IT systems of msg life's customers. In this context, msg life also expects to see continuous further regulation throughout the financial services sector. Be it the German Life Insurance Reform Act (LVRG), the reform of the Act on the Supervision of Insurance Undertakings (VAG) as part of Solvency II, the broker guidelines of the Insurance Distribution Directive (IDD), new financial reporting standards, the Act to Strengthen Occupational Pensions (*Betriebsrentenstärkungsgesetz* – BRSG), the investment tax reform act (*Investmentsteuerreformgesetz* – InvStRefG) or the EU General Data Protection Regulation (GDPR): the implementation of regulatory requirements necessitates comprehensive changes to the solutions which are currently used – and this further underscores the trend towards using standard software. This means that the use of versatile, cost-effective standard software remains highly attractive throughout the insurance industry.

This year – and most probably in the years to come too – the German-speaking market will remain extremely challenging for all insurance companies as a result of numerous legal amendments, the condition of the financial markets and the concomitant product implementations. The trend towards internationalisation and consolidation continues and, given the efforts to reduce costs and increase efficiency that can be observed everywhere within insurance companies, the correlation between modern and flexible IT on the one hand and corporate success on the other is significant.

Despite these persistently difficult general conditions, private life insurance cover remains indispensable in Germany in view of the demographic trend and the necessity of covering against biometric risks. Many insurers are striving to enhance their existing product ranges and/or to develop new, innovative ones in order to tackle the imminent challenges. This now applies to all existing product groups, all control layers and all legal forms. The starting situations of and the pressure to innovate on the companies in question are highly diverse and therefore bring about a variety of innovations in themselves, with the goal of developing products which unite the wishes of customers for safe, high-return products with the insurers' demand for increased efficiency and profitability under consideration of the regulatory provisions.

In terms of the conventional capital accumulation products, modifications of the guarantees are dominant, for example through the use of current calculation guidelines or by dispensing with the annual interest guarantee. With the biometric products, too, there is a great deal of action on the market. Hybrids, especially dynamic hybrid products, have become the standard now, and there is a continuous flow of innovative products in addition to them – such as products which allow investment in funds, but also the purchasing of options on the basis of traditional basic cover. In addition, insurance companies at the larger end of the scale are exploring a different avenue by offering products for old-age provision with capital guarantees on the basis of unit-linked approaches with investment guarantees.

Given the current challenges, the establishment of service-oriented architectures (SOA) designed to quickly support modified business models and high system versatility for the rapid introduction of innovative products are factors crucial to the success of insurance companies. The developments in insurance products described above are typically not associated with particular product families.

Another trend at mainly large insurance companies is the selective acquisition of closed insurance contract portfolios that are no longer available for sale ('run-off' portfolios) from mainly smaller insurance companies. This enables the latter to get their guaranteed policies off their books, and buyers can generate significant economies of scale for themselves. Here, too, efficient asset management via modern and powerful IT systems plays a decisive role.

The accelerating digital transformation of our society and economy poses a number of challenges for insurers – the digitisation process is one of the most significant drivers of innovation in the sector. Fully automated processes lead to enormous gains with regard to efficiency as well as significantly lower costs. The subjects of customer centricity and individualisation, industrialisation and automation, analytics and data effectiveness, and standardisation and integration are at the heart of the digitisation trend.

However, the opportunities that digitisation offers – be they to make insurance products and services available via new channels or to integrate them into new sales and cooperation platforms – also require extensive changes to the IT landscapes of insurers. msg life will pay more attention to the digitisation trend than ever before when developing its products and services. msg life already has a wide range of SaaS and cloud-based solutions to help its customers overcome these challenges, thanks in no small part to its strategic collabo-

ration with IBM. With a view to optimising costs in the long term, msg life was one of the first providers of a complete self-service portal for life, health and non-life insurers that can serve as a component of msg.Life Factory as well as proprietary policy management systems. Under the name msg.Online Insure, the Web-based portal, similar to online banking, offers end customers as well as brokers and agents all transactions relating to an insurance policy on one easy-to-use interface – on all devices and around the clock. Following the decision of several customers for this new standard solution, msg.Online Insure continues to encounter great interest among insurance companies.

On the basis of these developments, msg life anticipates that insurance companies will show a general interest in the software and consulting solutions it will be offering in 2018.

## Further development of products and services

As well as cultivating existing customers and acquiring new ones, msg life is still pressing ahead with the technical and functional optimisation and completion of its wide range of life insurance and pension products. Having made major investments in the creation of new product offerings in other segments that could not be positioned successfully on the market in the past, msg life will be able to keep its investment expenditure at a relatively normal level for a software company in the current year. Due to the numerous projects for new customers, costs for freelance employees – just like in 2017 – were higher than in previous years.

The full convergence of the components of msg.Insurance Suite, the central, common insurance platform of the msg Group, and the sales-related collaboration taking place in this context are key aspects of the product strategy. msg.Insurance Suite represents the first holistic industrial standard for all sectors of the insurance industry and is therefore a unique overall solution on the market. With its underlying component architecture, this platform features a high degree of end-to-end prefabrication, makes it easy to integrate existing solutions and features a wide variety of potential applications with high releasability and low maintenance costs.

The continued development of the msg.Life Factory policy management system and its components on the basis of innovative, modern Java JEE architecture remains the core project in terms of products. In 2018, msg life will earmark approximately 12,200 person-days in development capacity for this and for the further convergence of the components of msg.Life Factory into msg. Insurance Suite (previous year: 7,900 person-days).

In connection with msg.Insurance Suite in particular, msg life is experiencing a substantially growing market demand with regard to migration. For this reason, the msg life expertise was combined with the Consulting business segment in the new Migration Factory division in 2017, with the aim of being able to react even more flexibly and more effectively in this strategic field from now on.

The numerous simultaneous migration projects show that the extensive expertise of msg life in migration is considered leading on the market. msg life is welcoming these good developments by continuing to strategically increase its own staff unabatedly. Additionally, msg life will strategically hone its own expertise with regard to the migration of entire platforms.

Furthermore, msg life is expanding its activities associated with the development of new standard software products for the digital transformation as well as for the interaction and collaboration with end customers (systems of engagement – SoE). With this in mind, msg life acquired all shares in edicos websolutions in 2017 and changed the company's name to spheos. In future, spheos will assume the role of a digital laboratory within the msg life Group, with the aim of making innovations for the insurance sector in the field of systems of engagement market-ready, and of significantly influencing the digital transformation of the insurance industry.

Since 2016, as part of a partnership agreement with Barclays Bank, msg life has been working towards the objective of providing a mutual platform for innovative new life insurance, pension and long-term savings products.

In parallel, product-independent consulting activities, an essential development component, will be continued in 2018. msg life is assuming that the positive trend in this area in the last few years can be continued and is putting its faith in the – compared with other consulting firms – unique selling point of being able to transform tried-and-tested solutions from the msg life product area into solutions for non-product customers more economically than its competitors.

The turnover forecast given in the previous year for 2017 was exceeded and the EBITDA forecast for 2017 was achieved.

In the 2018 financial year, msg life expects earnings before interest, taxes, depreciation on property, plant and equipment and amortisation on intangible assets (EBITDA) of between 10.0 and 14.0 million euros and aggregate turnover of between 135.0 and 145.0 million euros.

As the holding company, the individual Group company expects a slightly positive result under HGB in the 2018 financial year.

# Closing declaration on the dependency report in accordance with section 312 of the German Stock Corporation Act (AktG)

In the legal transactions with affiliated companies shown in the report, the company received appropriate compensation for each of these legal transactions according to the circumstances that were known at the time when such legal transactions were conducted. Discriminatory measures at the instigation or in the interests of the dominant party or a company affiliated to that party were effected neither by actions nor by failing to act. This assessment is based on the circumstances that were known at the time when the reportable transactions were carried out.

Leinfelden-Echterdingen, 12 April 2018
msg life ag

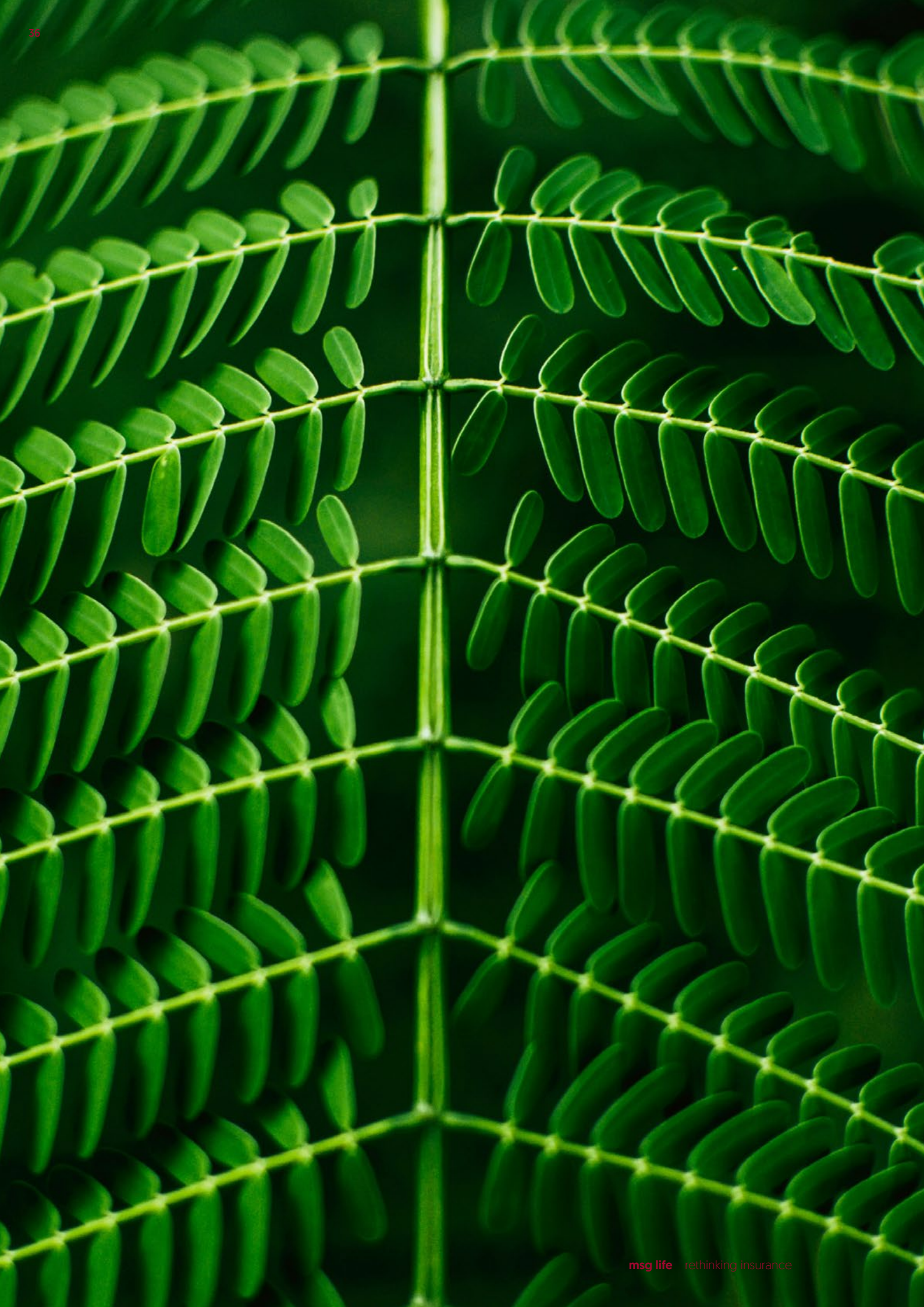
**ROLF ZIELKE**
Spokesperson of the Management Board

**BERNHARD ACHTER**
Member of the Management Board

**FRANCESCO CARGNEL**
Member of the Management Board

**DR ARISTID NEUBURGER**
Member of the Management Board

**DR WOLF WIEDMANN**
Member of the Management Board



# Consolidated financial statement

# Consolidated income statement

| | Marginal number | 1.1–31.12.2017 | 1.1–31.12.2016 |
|---|---|---|---|
| | | Euros | Euros |
| **Turnover** | VI.1. | **129,475,944** | **121,304,900** |
| Other operating income | VI.4. | 1,243,676 | 1,690,874 |
| Cost of purchased services | VI.2. | –16,571,999 | –15,171,928 |
| Personnel expenses | VI.3. | –85,924,378 | –79,322,120 |
| Other operating expenses | VI.5. | –16,914,656 | –17,039,805 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | | –1,750,561 | –1,510,530 |
| **Operating result** | | 9,558,026 | 9,951,391 |
| Interest income | VI.6. | 108,280 | 78,455 |
| Interest expenses | VI.6. | –228,741 | –272,136 |
| Investment income | | 5,000 | 5,000 |
| **Earnings before income taxes** | | 9,442,565 | 9,762,710 |
| Income taxes | VI.7. | –1,776,554 | –3,280,816 |
| **Net income for the period** | | 7,666,011 | 6,481,893 |
| of which attributable to | | | |
| shareholders of the parent company | | 7,666,011 | 6,481,893 |
| **Net income for the period** | | **7,666,011** | **6,481,893** |
| **Earnings per share (undiluted)** | IX. | **0.18** | **0.16** |
| **Earnings per share (diluted)** | IX. | **0.18** | **0.16** |
| | | Quantity | Quantity |
| **Shares in circulation on average (undiluted)** | | **42,802,453** | **40,895,861** |
| **Shares in circulation on average (diluted)** | | **42,802,453** | **40,895,861** |

# Consolidated statement of comprehensive income

| | 1.1–31.12.2017 | 1.1–31.12.2016 |
|---|---|---|
| | Euros | Euros |
| **Net income for the period** | **7,666,011** | **6,481,893** |
| Other comprehensive income | | |
| **Other comprehensive income to be moved to the income statement in subsequent periods** | | |
| Currency translation from foreign business operations | –2,213,369 | 607,613 |
| Income tax effect | 0 | 0 |
| | –2,213,369 | 607,613 |
| **Other comprehensive income to be moved to the income statement in subsequent periods** | **–2,213,369** | **607,613** |
| **Other comprehensive income not to be moved to the income statement in subsequent periods** | | |
| Actuarial gains and losses | –426,935 | –545,882 |
| Income tax effect | 128,081 | 166,089 |
| | –298,854 | –379,793 |
| **Other comprehensive income not to be moved to the income statement in subsequent periods** | **–298,854** | **–379,793** |
| **Total income after taxes** | **5,153,788** | **6,709,713** |

# Consolidated statement of financial position

| Assets | Marginal number | 31.12.2017 Euros | 31.12.2016 Euros |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | VII.1. | 23,137,878 | 18,236,257 |
| Marketable securities | VII.2. | 3,370,101 | 3,802,479 |
| Trade receivables | VII.3. | 43,949,592 | 33,978,957 |
| Invoiced receivables | | 32,662,790 | 31,189,467 |
| PoC receivables | | 11,286,802 | 2,789,490 |
| Receivables from affiliated companies | VII.4. | 17,729 | 303,190 |
| Current income tax claims | VII.5. | 40,075 | 458,666 |
| Other financial receivables | VII.6. | 157,604 | 153,095 |
| Other current assets | VII.7. | 1,561,420 | 1,375,811 |
| **Total current assets** | | **72,234,399** | **58,308,456** |
| **Non-current assets** | | | |
| Goodwill | VII.8. | 22,195,218 | 21,470,048 |
| Other intangible assets | VII.8. | 2,432,107 | 2,790,742 |
| Property, plant and equipment | VII.9. | 3,487,673 | 2,887,315 |
| Financial investments | VII.10. | 2,556 | 2,556 |
| Deferred tax assets | VII.11. | 3,226,578 | 3,258,775 |
| **Total non-current assets** | | **31,344,132** | **30,409,437** |
| **Total assets** | | **103,578,531** | **88,717,891** |

| Equity and liabilities | Marginal number | 31.12.2017 Euros | 31.12.2016 Euros |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | VII.13. | 1,913,345 | 1,583,146 |
| Liabilities to affiliated companies | VII.4. | 2,728,066 | 2,067,096 |
| Current income tax liabilities | VII.14. | 1,001,616 | 456,341 |
| Other provisions | VII.15. | 3,041,194 | 1,476,814 |
| Other current liabilities | VII.16. | 4,326,327 | 3,272,503 |
| Other financial liabilities | VII.17. | 13,282,073 | 12,765,663 |
| **Total current liabilities** | | **26,292,621** | **21,621,563** |
| **Non-current liabilities** | | | |
| Non-current financial liabilities | VII.12. | 97,850 | 0 |
| Other provisions | VII.15. | 2,127,827 | 2,019,715 |
| Deferred tax liabilities | VII.11. | 3,301,072 | 3,266,256 |
| Pension provisions | VII.18. | 9,939,818 | 9,650,728 |
| **Total non-current liabilities** | | **15,466,567** | **14,936,699** |
| **Total liabilities** | | **41,759,188** | **36,558,262** |
| **Shareholders' equity** | | | |
| Subscribed capital | VII.19. | 42,802,453 | 40,895,861 |
| Capital reserves | VII.20. | 11,759,863 | 9,160,530 |
| Group retained earnings | VII.21. | 7,257,027 | 2,103,239 |
| **Shares in parent company held by shareholders** | | **61,819,343** | **52,159,629** |
| Minority interests | | 0 | 0 |
| **Total equity** | | **61,819,343** | **52,159,629** |
| **Total equity and liabilities** | | **103,578,531** | **88,717,891** |

# Consolidated cash flow statement

| | 2017 | 2016 |
|---|---|---|
| | Euros | Euros |
| Net income for the period | 7,666,011 | 6,481,893 |
| Income taxes | 1,776,554 | 3,280,816 |
| **Net income for the period before taxes on income** | 9,442,565 | **9,762,709** |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 1,750,561 | 1,510,530 |
| Other expenses/income with no impact on earnings | –609,147 | 390,142 |
| Change in provisions for pensions recognised in profit or loss | –190,812 | 198,916 |
| Interest income | –108,280 | –78,455 |
| Interest expenses | 228,741 | 272,136 |
| Income taxes reimbursed | 137,753 | 2,735 |
| Income taxes paid | –879,860 | –2,674,520 |
| **Change in:** | | |
| Trade receivables | –9,728,598 | –8,734,815 |
| Other assets/other financial receivables | –888,491 | 347,272 |
| Other provisions | 1,633,792 | 540,855 |
| Trade payables | 228,233 | 1,037,275 |
| Other debts/financial liabilities | 801,750 | –1,532,008 |
| **Cash flow from operating activities** | **1,818,207** | **1,042,772** |
| Purchase of securities | 0 | –3,802,479 |
| Cash outflows for investments in property, plant and equipment | –1,982,038 | –1,449,673 |
| Cash outflow from the acquisition of consolidated companies | –484,727 | 0 |
| Cash inflow from the disposal of subsidiaries | 283,780 | 87,230 |
| **Cash flow from investment activity** | **–2,182,985** | **–5,164,922** |

| | 2017 | 2016 |
|---|---|---|
| | Euros | Euros |
| **Cash flow from financing activities** | | |
| Sale of treasury shares | 4,505,925 | 0 |
| Assumption of long-term financial liabilities | 97,850 | 0 |
| Interest received | 13,244 | 14,747 |
| Interest paid | –9,717 | –14,539 |
| **Cash flow from financing activities** | **4,607,302** | **208** |
| **Change in cash and cash equivalents:** | | |
| **Net change in cash funds** | **4,242,524** | **–4,121,942** |
| **Cash and cash equivalents at the start of the reporting period** | **18,236,257** | **21,785,280** |
| **Effect of exchange rate movements on cash funds** | **659,097** | **572,920** |
| **Cash and cash equivalents at the end of the reporting period** | **23,137,878** | **18,236,257** |

# Consolidated statement of changes in equity

| |
|---|
| **As at 1.1.2016** |
| Comprehensive income |
| Unrealised profit and loss |
| Actuarial gains/losses |
| Other changes |
| **Total comprehensive income for the year** |
| **As at 31.12.2016** |

| |
|---|
| **As at 1.1.2017** |
| Comprehensive income |
| Unrealised profit and loss |
| Actuarial gains/losses |
| Other changes |
| **Total comprehensive income for the year** |
| Sale of treasury shares |
| **As at 31.12.2017** |

| | Subscribed capital | Capital reserves | Group retained earnings | | | Total equity |
|---|---|---|---|---|---|---|
| | | | Currency compen-sation item | Net investment | Other | |
| | Euros | Euros | Euros | Euros | Euros | Euros |
| | **40,895,861** | **33,601,050** | **5,426,264** | **–2,336,578** | **–32,136,681** | **45,449,916** |
| | | | | | 6,481,893 | 6,481,893 |
| | | | 607,613 | | | 607,613 |
| | | | | | –379,793 | –379,793 |
| | | –24,440,520 | | | 24,440,520 | |
| | | **–24,440,520** | **607,613** | | **30,542,620** | **6,709,713** |
| | **40,895,861** | **9,160,530** | **6,033,877** | **–2,336,578** | **–1,594,061** | **52,159,629** |
| | | | | | **2,103,238** | |
| | **40,895,861** | **9,160,530** | **6,033,877** | **–2,336,578** | **–1,594,061** | **52,159,629** |
| | | | | | 7,666,011 | 7,666,011 |
| | | | –2,213,369 | | | –2,213,369 |
| | | | | | –298,854 | –298,854 |
| | | | | | | |
| | | | **–2,213,369** | | **7,367,157** | **5,153,788** |
| | 1,906,592 | 2,599,333 | | | | 4,505,925 |
| | **42,802,453** | **11,759,863** | **3,820,508** | **–2,336,578** | **5,773,097** | **61,819,343** |
| | | | | | **7,257,027** | |

# Notes

## I. General remarks

The msg life Group is a leading consulting and software company for the insurance and retirement savings market. Its software solutions primarily support life insurance companies and pension fund institutions in the conceptual planning, realisation and administration of their products.

The headquarters of the msg life Group are at Humboldtstrasse 35, 70771 Leinfelden-Echterdingen, Germany. msg life ag is a joint stock company in accordance with German law.

msg life ag was listed in the Prime Standard index of the Frankfurt Stock Exchange from 21 February 2000 (WKN 513010, ISIN DE000513010). On 17 March 2017, the Frankfurt Stock Exchange, at the request of msg life ag, revoked authorisation to trade msg life shares on the regulated market at the Frankfurt Stock Exchange at the close of 22 March 2017.

These consolidated financial statements of msg life ag, Leinfelden-Echterdingen, Germany, as at 31 December 2017, encompass the parent company and all of the subsidiaries (hereinafter referred to as the 'msg life Group'). The reporting year corresponds to the calendar year.

On 12 April 2018, the Management Board of msg life ag approved the consolidated financial statements for forwarding to the Supervisory Board, and therefore for publication. The Supervisory Board has the task of examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

Because it has not made use of the releasing effect of section 291, paragraph 1, of the German Commercial Code (HGB), the company is obliged to prepare consolidated financial statements pursuant to section 290 of the HGB. The company has prepared consolidated financial statements and a Group management report as at 31 December 2017 according to international accounting standards and provisions pursuant to section 315e, paragraph 3, of the HGB. The consolidated financial statements are published in the German Federal Gazette (Bundesanzeiger) and deposited with the electronic register of companies under HRB 731 887 at Stuttgart Local Court (Amtsgericht). As at the reporting date, msg life ag is an indirect subsidiary of msg group GmbH, which prepares the consolidated financial statements for the largest and smallest number of Group companies.

Events after the balance sheet date are taken into account until 12 April 2018, the day on which the financial statements were approved for publication by the Management Board.

## II. Accounting and valuation methods

The principal accounting and valuation methods applied in the preparation of these consolidated financial statements are described below. If nothing to the contrary is indicated, the methods described were applied consistently to the reporting periods in question.

### 1. The principles applied in preparing the financial statements

The consolidated financial statements of msg life ag as at 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC), whose applica-

tion is mandatory in the European Union, as well as the supplementary commercial regulations of section 315e, paragraph 1, in connection with section 315e, paragraph 3, of the HGB.

The consolidated financial statements are generally prepared on the basis of the historical cost principle. Derivative financial instruments and available-for-sale financial assets are exceptions to this principle.

In the balance sheet disclosures, a distinction is made between non-current and current assets and liabilities, which are generally shown in detail in accordance with their respective maturities in the notes to the consolidated financial statements.

The income statement was prepared according to the total-cost method. In order to improve its clarity of presentation, various items in the statement of financial position and the income statement have been aggregated. These items are reported and explained separately in the notes.

Items of other comprehensive income which are reclassified in the income statement in subsequent periods ('recycling') must be shown separately from the items for which there will be no reclassification.

The reporting currency is the euro, and the rounding is done to thousands or millions of euros. This can give rise to rounding differences of up to one arithmetical unit.

The consolidated financial statements contain comparative information from the previous reporting period. In addition, the Group shows a statement of financial position from the beginning of the earliest comparative period if it is applying an accounting method retroactively or adjusting or reclassifying positions in the financial statements retroactively.

The preparation of consolidated financial statements in accordance with IFRS makes estimates necessary. Furthermore, the application of the accounting and valuation methods throughout the company necessitates assessments by its managers. Areas with greater scope for assessment or a higher level of complexity, or areas in which assumptions and estimates are crucially important for the consolidated financial statements, are listed under section II 'Accounting and valuation methods', number 3 'General information about the accounting and valuation methods'.

## 2. Change in the accounting and valuation methods

### a. New and amended standards and interpretations that were applied for the first time in 2017:

The International Financial Reporting Standards, which must be applied to financial years beginning on or after 01 January 2017 in order to adhere to the International Financial Reporting Standards adopted by the EU, were used as a basis in the 2017 financial year. Compared with the consolidated financial statements as at 31 December 2016, the following standards and interpretations have been amended or were mandatory for the first time following adoption into EU law.

— Amendment to IAS 7 (Cash Flow Statement), mandatory application for financial years from 1 January 2017 (EU endorsement on 6 November 2017). Further disclosures on the cash flow statement are required to improve the quality of reporting and thus make the disclosures more useful for decision-making. The additional information concerns cash flow from financing activities and has to make clear how the change in financial liabilities comes about in a reporting period and how this is included in cash flow from financing activities. No comparative information for the previous period must be provided when the amendment is applied for the first time. These changes had no material impact on the financial statements.

— Amendment to IAS 12 (Income Taxes), mandatory application for financial years from 1 January 2017 (EU endorsement on 6 November 2017). It includes four clarifications on the recognition of deferred tax claims for unrealised losses. Firstly, temporary differences are also recognised if this is unlikely to affect the amount

of future tax payments when the difference is reversed, because the expected realisation of the asset is not expected to reach the carrying amount, which is below the tax base. Furthermore, when forecasting future income, it may be assumed that assets are disposed of at a value above their IFRS carrying amounts if this is probable. When measuring the value of deferred tax assets, taxable earnings before the reversal of deferred tax assets must be used to ensure that the deductible temporary differences are not recognised twice. Finally, the amendment makes clear that, when judging the probable reversal of temporary differences, only those tax effects may be offset which can also be used for reciprocal settlement. These changes had no material impact on the financial statements.

**b. b. Standards, interpretations and amendments to published standards whose application was not yet mandatory in 2017 and which were not applied prematurely by the Group:**

There are a number of standards, as well as amendments to standards and interpretations, that must be applied for financial years beginning as of 01 January 2017 or later; these were not applied in the present financial statements. With the exception of the revisions specified below, we do not expect them to have any significant impact on the Group:

— IFRS 9 (Financial Instruments), mandatory application for financial years from 1 January 2018 (EU endorsement on 22 November 2016). This standard deals with the recognition, valuation and derecognition of financial assets and financial liabilities, as well as how to account for hedging relationships. It replaces the sections of IAS 39 ('Financial Instruments: Recognition and Measurement') that deal with the classification and measurement of financial instruments. Compared with IAS 39, the requirements of IFRS 9 in connection with applicability, recognition and derecognition are virtually unchanged, although the rules of IFRS 9 set out a new classification model for financial assets. In the future, the subsequent measurement of financial assets will be broken down into three categories with different value measures and different ways of reporting changes in value. This distinction is made when the asset in question is recognised for the first time. The classification depends not only on how the Group has managed its financial instruments, but also on what contractually agreed payment flows are associated with the financial instruments. With regard to financial liabilities, most of the rules in IAS 39 were retained. The most significant change lies in the fact that, if measurement is carried out at fair value, the changes in value that result from the Group's own credit risk are reported in other comprehensive income rather than in the income statement – unless this leads to an inaccurate representation. Because the Group will prepare consolidated financial statements under the HGB for the 2018 financial year, no detailed analysis was carried out for the 2017 financial year.

— IFRS 15 (Revenue from Contracts with Customers), mandatory application for financial years from 1 January 2018 (EU endorsement on 22 September 2016). This standard specifies how and when revenue is to be recognised in financial statements. Under a single principles-based five-step model to be applied to all contracts with customers, the contract with the customer must first be identified, followed by the performance obligations in the contract. Then the transaction price must be determined, the transaction price is to be allocated to the performance obligations in the contract and, finally, revenue is to be recognised when (or as) the entity satisfies a performance obligation. Under IFRS 15, upon conclusion of a contract, the parties must determine whether the revenue from the contract is to be recognised over time or at a certain point in time. The standard also provides users of financial statements with more informative and more relevant disclosures than in the past. The Group carried out a provisional review of IFRS 15 in the 2016 financial year. Part of the provisional analysis focused particularly on turnover recognition related to the sale of software licences. Turnover may be smoothed over time in such cases. Because the Group will prepare consolidated financial statements under the HGB for the 2018 financial year, no detailed analysis was carried out for the 2017 financial year.

— IFRS 16 (Leases), mandatory application for financial years from 1 January 2019 (EU endorsement on 31 October 2017). This standard deals with accounting for leases. For most leases, it requires the lessee to recognise a right to use the leased item and a corresponding leasing liability. For lessors, the new standard only makes minor changes compared with the classification and recognition of leases in accordance with IAS 17. Both sides do have to make additional disclosures in the notes, however. Analyses carried out in 2016 showed that application of the new standard may increase total assets and lead to a shift within the income statement (lower other operating expenses, higher depreciation and amortisation and interest expenses, improved EBITDA). Because the Group will prepare consolidated financial statements under the HGB for the 2018 financial year, no detailed analysis was carried out for the 2017 financial year.

— In December 2016, the IASB adopted the Annual Improvement project for 2014 to 2016. The project made minor amendments to IFRS 12, IFRS 1 and IAS 28, which are mandatory from 1 January 2018. A new interpretation of IFRIC 22 'Foreign Currency Transactions and Advance Consideration' was issued and amendments made to IAS 40 'Investment Properties', both of which are mandatory from 1 January 2017. However, they may also be applied prematurely. EU endorsement is still pending. These changes will have no material impact on the consolidated financial statements.

## 3. General information about the accounting and valuation methods

The msg life Group did not apply any amendments to the accounting and valuation methods that it applied in the 2017 financial year.

**Income from the sale of goods, the rendering of services and the use of assets** belonging to the Group by third parties in return for **interest, licence fees** and **dividends** are generally reported only if the inflow of commercial benefits is sufficiently probable, the amount can be determined reliably and the specific criteria for every type of activity specified below have been fulfilled. Measurement is carried out at the fair value of the consideration received or owed. Revenue is shown less value added tax, returns and sales deductions (discounts, cash discounts, customer bonuses and allowances). The Group makes estimates on the basis of past experience – taking account of customer-specific, transaction-specific and contract-specific characteristics. More specifically, the following applies for the reporting of turnover and income:

The **sales of products, services and software contracts** can contain a number of delivery and performance components. In such cases, the company establishes whether there is more than one settlement unit. A transaction is separated if the components supplied have an independent benefit for the customer, the fair value of the still-outstanding components can be determined reliably and, if a general right to return unsatisfactory products is applicable for the components delivered, the rendering of delivery or performance for the still-outstanding components is probable and largely controllable by the company. Insofar as all three criteria are fulfilled, the Group applies the applicable turnover recognition rule that is appropriate for the respective separate settlement unit. In general, the agreed aggregate remuneration is apportioned to the separate settlement units individually in accordance with their relative fair values. The hierarchy of proof for the fair values is as follows: 1. Sale prices of the components if they are regularly sold individually, 2. Third-party prices for comparable components and 3. Costs plus a reasonable profit margin usual on the market in relation to the component. Insofar as the three separation criteria are not fulfilled, the turnover is deferred until these criteria have been fulfilled or until the period in which the last outstanding component is delivered. The turnover attributable to delivered components is limited to the amount that is not dependent on still-outstanding components and/or the fulfilment of other specific performance obligations.

With some of the customer projects (especially fixed-price projects), turnover is recognised in accordance with the progress of the project (percentage-of-completion method) insofar as the degree of completion, the costs incurred in the project and the costs that can be expected up until its final completion can be determined reliably.

The basis for calculating the progress of a project is the ratio of costs already incurred to the estimated total cost volume of the contract (cost to cost), which is determined on the basis of project valuations. Any losses expected from these orders are accounted for in the period in which the aggregate costs that are currently estimated exceed the turnover anticipated from the respective contract. The services rendered in line with this method are shown as **PoC receivables or advance payments received**. If required, the lower attainable value as at the reporting date is shown.

Service contracts settled on the basis of the disbursements which have been made and are eligible for reimbursement (management projects) are realised subject to the services rendered by the msg life companies.

Turnover from **maintenance services** is recognised pro rata using the straight-line method over the contractually agreed service period. For **licence revenues** (including the reference system and the specialist concept) to be recognised, the following conditions must generally be fulfilled cumulatively:

1. A contract has come into being with legal effect or there is a sufficient degree of probability that the company will benefit economically from the transaction.
2. The software/reference system/specialist concept has been delivered.
3. The licensing charge has been fixed.
4. The receipt of payment is probable.

If the sale of the licence is unconnected with other services from a commercial point of view, the turnover is recognised in relation to the customer in the month in which the software (or reference system or specialist concept) is delivered and/or accepted.

If the sale of the licence is connected with other services rendered by msg life, distinctions are basically made between the following cases:

If the service comprises customised standard software which is adapted (max. around three months) at msg life and then delivered to the customer, the turnover is generally recognised in the month of delivery to and/or receipt by the customer if such a service is agreed in the contract.

For longer-term projects in which the process of adapting the standard software takes more than three months before its first-time implementation on the customer's premises, turnover is recognised using the percentage-of-completion method.

When a time-limited licence for an msg life standard software product is issued, the revenues are treated as an accrued item using the straight-line method over the agreed period.

**Interest income** and **interest expenses** are recognised in net profit or loss on an accrual basis.

**Financial assets** encompass cash and cash equivalents, securities, trade receivables, other financial receivables and financial investments.

Financial assets are divided into the following categories: 'measured at fair value through profit or loss', 'held to maturity', 'available for sale' and 'loans and receivables'. How financial assets are classified depends on the purpose for which each was acquired. The management determines how such assets are to be classified when they are reported for the first time. A financial asset is only shown in the statement of financial position if the msg life Group is a contracting party in the regulations for the financial asset in question. All financial assets that have been bought and sold in the customary manner are included in the statement of financial position as at the settlement date.

Financial assets that do not belong to the 'measured at fair value through profit or loss' category are shown at fair value plus transaction costs when first reported. Financial assets that do belong to this category are initially recognised at fair value. Any associated transaction costs are posted through profit and loss. The fair values

stated in the statement of financial position usually correspond to the market prices of financial assets. If these are not available immediately, they are calculated using acknowledged valuation methods and with recourse to current market parameters.

Financial assets are derecognised either when the right to cash flows from a financial asset lapses or when the rights are transferred to a third party. In the event of a transfer, the criteria of IAS 39 regarding the transfer of opportunities and risks associated with the ownership of the financial asset must be given special consideration. Available-for-sale financial assets and assets in the 'measured at fair value through profit or loss' category are measured at fair value after being recognised for the first time. Loans and receivables and held-to-maturity assets are accounted for at amortised cost using the effective-interest method.

As at every reporting date, the carrying amounts of those financial assets which are not to be measured at fair value through profit or loss are examined for the existence of any objective, substantial indications (such as substantial financial difficulties faced by the debtor, high probability of insolvency proceedings being instituted against the debtor, the lapsing of an active market for the financial asset, a lasting decrease in the financial asset's fair value on the basis of amortised cost) of **impairment**. Any impairment costs resulting from a fair value which is lower than the carrying amount is recorded through profit and loss. If it emerges at subsequent valuation dates that the fair value has objectively increased as a consequence of events which took place after the impairment was recorded, the impairments are reversed through profit and loss in the appropriate amounts. Impairments in the fair values of available-for-sale financial assets are recorded in equity with no effect on income until their realisation. Impairments which affect non-listed equity instruments which are available for sale and are accounted for at acquisition cost may not be reversed. The fair values of held-to-maturity securities which must be tested for impairment, as well as the fair values of the loans and receivables measured at amortised cost, correspond to the net present value of the estimated future cash flows discounted at the original effective interest rate. The fair value of non-listed equity instruments measured at cost is calculated as the net present value of the expected future cash flow, discounted at the current interest rate which corresponds to the specific risk position of the investment.

**Cash and cash equivalents** encompass cash in hand and bank balances which have a residual term of three months or less at the time of their acquisition or investment. The liquid funds are measured at fair value. Credit balances in foreign currencies are measured at the exchange rate prevailing on the reporting date.

**Securities** are, in accordance with IAS 39, categorised as either 'available for sale', held to maturity' or 'held for trading'. The securities categorised as 'available for sale' are measured at fair value when being valued for the first time and subsequently as at the reporting date. Any change in the fair value taking account of deferred taxes is shown under equity in earnings reserves with no effect on income until its realisation at the time of sale. If there are any objective, substantial indications that a permanent impairment has taken place, the impairment costs are recorded in profit and loss. Amounts already recorded in equity are removed from equity with effect on income. Securities categorised as 'held to maturity' are measured at fair value upon acquisition and at amortised cost in subsequent valuations. Financial assets categorised as 'held for trading' are measured at fair value. Any gain or loss resulting from the subsequent valuation is posted through profit or loss in the income statement.

The reported **trade receivables, other financial assets** and **other current assets** mainly comprise receivables and loans originated by the company. They are categorised accordingly as 'loans and receivables' and are measured at fair value upon acquisition and at amortised cost in subsequent valuations. If the net present value of the expected future cash flows from the receivables or the other assets, discounted using the financial asset's original effective interest rate, is lower than the amortised cost as at the reporting date, a valuation allowance is carried out with effect on income. Receivables bearing low or zero interest with terms of more than one year are discounted.

When they are first recognised, **financial investments** are accounted for at fair value and categorised as 'available for sale'. In their subsequent valuation, these must therefore be recognised at fair value, with unrealised gains and losses being recorded separately under equity, taking account of deferred taxes, with no effect on income until their realisation. If the financial investments are in equity instruments for which no prices are listed on an active market and no fair value can be determined reliably, they are measured at acquisition cost. If there are any objective indications that the net present value of the estimated cash flows is lower than the carrying amount, valuation allowances are carried out with effect on income.

The msg life Group does not utilise the opportunity to designate **financial assets as measured at fair value through profit or loss when they are recognised for the first time**.

**Goodwill** arises when subsidiaries, associated companies and jointly controlled entities are acquired and comprises the surplus of the transferred consideration from the corporate acquisition over the fair value of the Group's shares in the acquired identifiable assets, the liabilities assumed, the contingent liabilities and all non-controlling interests in the acquired entity at the time of acquisition.

The goodwill is subdivided for the purpose of the impairment tests carried out for cash-generating units (CGUs). It is divided up among those CGUs or groups of CGUs in accordance with the identified business segments that are expected to derive benefits from the merger that gave rise to the goodwill. Every unit or group of units to which goodwill is allocated in this way constitutes the lowest level within the company at which the goodwill is monitored for internal management purposes. The goodwill is monitored at the level of the business segment.

The goodwill is subjected to an annual impairment test in accordance with IAS 36. If there are any indications of potential impairment, the tests are carried out more frequently.

The carrying amount of the goodwill is compared with the recoverable amount, in other words with the higher of its fair value less selling costs and its value in use. An impairment loss is immediately recognised in profit or loss to reduce the asset to its lower recoverable amount and is not reversed in the subsequent periods.

**Other intangible assets** are shown at acquisition cost upon their acquisition if it is probable that a future economic benefit will accrue to the msg life Group from the intangible assets and the acquisition costs can be determined reliably. In the subsequent periods, the assets are measured at amortised cost, with scheduled amortisation being carried out using the straight-line method over the assets' estimated useful lives in addition to any other necessary write-downs. The Group has no intangible assets acquired in return for payment with indefinite useful lives.

**Development costs** for new products are capitalised at production cost if a clear expense allocation is possible and both the technical feasibility and the ability and intention to market such products are ensured. It must be sufficiently probable that the development activity will bring the company a future economic benefit. In addition, adequate technical, financial and other resources must be available in order to complete the development and be in a position to use and sell the software product. The capitalised production costs encompass those costs that are directly attributable to the development process. Capitalised development expenses are amortised regularly using the straight-line method from the time the software becomes usable over a useful life that corresponds to the planned product life cycle. Development projects which are not yet completed and activated are subjected to an annual impairment test. Research costs, as well as development costs not eligible for capitalisation, are posted to expenses within personnel and other operational expenses when they arise.

**Property, plant and equipment** are capitalised at acquisition or production cost, plus the ancillary costs which are necessary to make the asset ready for operation. The scheduled depreciation is carried out using the straight-line method according to the probable useful life. No use is made of the option to apply the revaluation method. Costs of ongoing maintenance and repairs are posted to expenses. Expenses which fulfil the conditions of IAS 16.13 and the reporting criteria of IAS 16.7 are capitalised

at the carrying amount of the property, plant and equipment in question and depreciated over the assets' probable useful lives. The replaced items are removed from the accounts. Borrowing costs are not included in the acquisition or production costs.

**Lease agreements** are classified as **finance leases** if substantially all the risks and potential rewards associated with ownership are transferred to the lessee under the terms of lease. All other leases are classified as **operating leases**. If the lessee bears the major risks and potential rewards associated with ownership of the leased object, the leased object is reported in the statement of financial position of the lessee. The leased object is measured at the lower of the fair value or present value of the future minimum lease payments and is written down over its estimated useful life or the term of the lease, if that is shorter; the depreciation is recognised in net profit and loss. Upon gaining access to the leased object, the lessee simultaneously recognises the lease liability, the amount of which corresponds to the carrying amount of the leased object. The lease amount owed is amortised and extrapolated using the effective-interest method in subsequent periods. The ongoing lease instalments are divided into an interest component and a repayment component. The repayment component reduces the lease amount owed. With operating leases, the payable lease instalments are recorded as expenses at the time when they come into being. Contractually defined future changes to the lease instalments during the term of lease are recognised in equal instalments under expenses over the entire contractual term, which is defined when the rental agreement is concluded. If extension options are available, only the extension options which are sufficiently likely to be taken are accounted for on the date of the conclusion of the rental agreement. During the lease, the estimated likelihood of extension options being taken must be updated accordingly if circumstances become known which might cause it to increase or decrease.

The scheduled **amortisation** of intangible assets and **depreciation** of property, plant and equipment are based on the following uniform useful lives in the Group:

| | Useful life in years |
|---|---|
| **Other intangible assets:** | |
| Software | 15 |
| Other | 2 to 5 |
| **Property, plant and equipment:** | |
| Buildings on third-party land | 10 |
| Hardware and software | 3 to 4 |
| Operating and office equipment | 4 to 15 |

### Impairment of non-current assets

Intangible assets and goodwill which have indeterminate useful lives are not amortised according to a schedule; instead, they are tested annually to establish whether impairment is required.

Assets which are subject to scheduled depreciation or amortisation are tested for impairment if relevant events or changes in circumstances indicate that the carrying amount might no longer be realisable. An impairment loss is recorded for the amount by which the carrying amount exceeds the realisable amount. The realisable amount is the higher of the asset's fair value less selling costs and its value in use. For the impairment test, assets are combined at the lowest level for which the cash flows can be identified separately (CGU).

The depreciation, amortisation and impairment of property, plant and equipment and intangible assets are recorded in the income statement under 'depreciation of property, plant and equipment and amortisation of intangible assets'. An assessment regarding non-monetary assets – with the exception of goodwill – is conducted as at each reporting date to ascertain whether or not a reversal should be carried out. In 2017, there were no indications that impairment had occurred (triggering event) and no reversals were recognised on the reporting date.

**Government grants** are not recognised until a certain degree of certainty is achieved that the Group will meet the corresponding requirements associated with the grants and that the grants will be awarded.

Government grants must be recognised as scheduled in the consolidated income statement in the course of the periods in which the Group recognises the corresponding expenses to compensate for the government grants as expenses. Government grants paid as compensation for expenses of losses already incurred or for immediate financial support without future related expenses are recognised in the consolidated income statement in the period in which the corresponding claim arises.

The advantage of a public loan at an interest rate below the market interest rate is treated as a government grant and measured at the difference between the payments received and the fair value of a loan at the market interest rate.

The income taxes for the period consist of **current** and **deferred taxes**. Taxes are reported in the income statement unless they relate to items that are reported directly in equity or in other comprehensive income. In this case, the taxes are likewise reported in equity or in other comprehensive income.

Current tax expenses are calculated using the tax regulations, valid as at the reporting date, of the countries in which the company and its subsidiaries operate and generate taxable income. The management regularly examines tax declarations, especially in relation to subject matter that leaves scope for interpretation, and, where appropriate, it recognises current income tax liabilities based on the amounts expected to be payable to the tax authorities.

The **deferred tax assets** and **deferred tax liabilities** are determined in accordance with the balance sheet liability method. Deferred taxes are generally recorded in the financial statements for all temporary value differences between the carrying amount of an asset or a debt and the fair value for tax purposes.

Deferred tax assets on loss carry-forwards must be set up to the extent that the tax loss carry-forwards are likely to be usable in the future. Certain deferred tax assets were therefore recognised for tax losses as of 31 December 2017, taking their realisability into account.

The deferred taxes are determined on the basis of the tax rates which apply or are expected as per the current legal position in the individual countries at the time of realisation. The impact of changes in tax rates on deferred taxes will be posted through profit and loss when the change in the law comes into force.

Deferred taxes, which come about as a result of temporary differences associated with investments in subsidiaries, associated companies and joint ventures, are recognised unless the timing of reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future as a result of this influence. As a rule, the Group has no influence on the timing of reversal in the case of associated companies. The temporary differences are not recognised only in cases which are contractually structured in such a way that the Group can influence the timing of reversal.

**Financial liabilities** encompass the financial debts, trade payables and other financial liabilities. A financial liability is only recognised in the statement of financial position if the msg life Group is party to the contractual arrangements for the financial liability. A financial liability is removed from the accounts if it has been extinguished; in other words, when the obligations specified in the contract have been settled or cancelled or have expired.

The methods and material assumptions for determining the fair value of financial liabilities are as follows: the financial liabilities are accounted for at the fair value on the acquisition date, which corresponds to the sum of money received.

When recognised for the first time, **financial liabilities** are shown at fair value less transaction costs. In subsequent years, they are measured at amortised cost using the effective-interest method. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is posted to the income statement over the term of the loan using the effective-interest method.

Fees incurred in setting up credit lines are reported as transaction costs for the credit in the amount for which it is probable that the credit line will be utilised. In such cases, the fee is capitalised until utilisation takes place. For the amount in which it is not probable that the credit line will be utilised, the fee is capitalised as an advance payment for credit services and amortised over the term of the respective commitment to lend.

**Trade payables** and **other financial liabilities** are accounted for at fair value when included in the statement of financial position for the first time. In subsequent years, all liabilities, with the exception of derivative financial instruments, are measured at amortised cost using the effective-interest method. Liabilities are classified as current liabilities if the payment obligation has to be fulfilled within one year or less than one year. Otherwise they are classified as non-current liabilities.

In respect of financial liabilities, the Group has not yet made use of the option to designate them as financial liabilities **at fair value through profit or loss when they are recognised in the statement of financial position for the first time**.

**Other provisions** are formed if the Group has a current legal or de facto obligation resulting from a past event and it is more likely than not that settling this obligation will lead to an outflow of resources and the amount of the provision can be estimated reliably. The amounts stated constitute the best possible estimations of expenses which are necessary to fulfil the current obligation as at the reporting date. Non-current provisions are discounted if the interest rate effect is significant. Any increases in provisions resulting exclusively from the compounding of interest are recorded in the income statement as interest expenses with the corresponding impact on income.

**Pension provisions** are calculated using the projected-unit-credit method in accordance with IAS 19. In this procedure, not only the pensions and accrued entitlements known on the reporting date are taken into account, but also the expected future increases in pensions, wages and salaries, with prudent estimates of the relevant influencing factors. The calculation is carried out on the basis of actuarial methods and reflecting biometric assumptions. Actuarial gains and losses arising from experience-based adjustments and alterations of actuarial assumptions are recognised immediately under equity with no effect on income in the period when they arise. The previous recognition of the anticipated returns on the plan assets and the calculation of the interest expenses on the performance-oriented defined benefit obligation will be replaced in future by entering the net interest costs.

### Offsetting financial instruments

Financial assets and liabilities are offset and shown in the statement of financial position as a net amount only if there is a legal entitlement to this and an intention to either bring about such a settlement on a net basis or to settle the associated liability simultaneously with the realisation of the asset.

### Dividend distribution

Claims of shareholders to dividend payments are reported as liabilities in the period in which the corresponding resolution is passed.

### Consolidation principles

IFRS prescribes that the purchase method be applied for all business combinations. The purchase price of an acquired subsidiary is distributed across the acquired assets, liabilities and contingent liabilities. Measurement is based on the values applicable on the date on which the Group gained control over the subsidiary concerned. The recognised assets and the acquired liabilities and contingent liabilities are measured

in full at their fair value, in proportion to the amount of the investment. Any remaining capitalised difference is recognised as goodwill. Any remaining negative difference is recognised in profit or loss.

Costs associated with acquisitions are expensed when they are incurred.

In a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date. The resulting gain or loss is recognised in the income statement.

Any contingent considerations are measured at fair value as at the time of acquisition. Subsequent changes in the fair value of a contingent consideration classified as an asset or liability are measured within the framework of IAS 39 and any resultant gain or loss is reported either in the income statement or in other comprehensive income. Any contingent consideration that is classified as equity is not remeasured and its subsequent payment is shown under equity.

Income and expenses of a subsidiary are included in the consolidated financial statements from the date of acquisition. Income and expenses of a subsidiary remain in the consolidated financial statements until the parent company ceases to control the subsidiary. Expenses and income, receivables and liabilities and earnings between companies included in the consolidated financial statements are eliminated. The accounting and valuation methods of subsidiaries have been adjusted where necessary to guarantee standardised reporting methods throughout the Group.

Transactions with non-controlling interests not involving any loss of control are treated as transactions with shareholders of the Group. Any difference between the amount paid and the relevant proportion of the carrying amount of the subsidiary's net assets that arises from the acquisition of a non-controlling interest is reported under equity. Any gains and losses which arise during the sale of non-controlling interests are likewise reported under equity.

The preparation of the consolidated financial statements in compliance with the IASB regulations necessitates the application of **estimates** and forward-looking **assumptions** which influence the amounts and the reporting of the assets and liabilities recorded in the statement of financial position, the contingent liabilities disclosed as at the reporting date and the income and expenses accounted for during the reporting period. The forward-looking assumptions and estimates relate primarily to the recognition of turnover on the basis of performance progress (percentage-of-completion method), the uniform setting of useful economic lives throughout the Group, the accounting and valuation of provisions and the planning and valuation premises that form the basis of the impairment tests. Although these estimates are based on ongoing transactions to the best of the company's knowledge, the actual values can ultimately diverge from these assumptions and estimates. Changes are made with effect on income as at the time when knowledge improves, or in the period when knowledge improves, and in the future periods if the changes cover several periods.

The most important forward-looking assumptions and other significant sources of estimation uncertainty as at the reporting date, which could give rise to an appreciable risk necessitating a major adjustment of the recorded assets and liabilities during the next financial year, are presented in section X 'Assumptions and estimates'.

# III. Consolidation group

## 1. Subsidiaries

Subsidiaries are companies that are directly or indirectly controlled by msg life ag. An entity acquires control when it can exercise power of disposal over the associated company, is exposed to fluctuating returns from its shareholding and is able to influence the level of the returns by using its power of disposal. An entity must re-evaluate whether or not it controls an associated company when facts or circumstances indicate that one or more of the three control criteria have changed.

Inclusion in the consolidated financial statements begins at the point in time from which the possibility of control exists and ends when the possibility of control ceases to exist.

As at 31 December 2017, the following companies were fully consolidated in the Group headed by msg life ag as parent company:

| Company | Shareholding (%) | Abbreviations |
|---|---|---|
| msg life central europe gmbh [1] | 100 | (msg life central europe) |
| with the subsidiary msg life Slovakia s.r.o., Bratislava (Slovakia) [3] | 100 | (msg life Slovakia) |
| with the subsidiary msg life Switzerland AG, Regensdorf (Switzerland) [3] | 100 | (msg life Switzerland) |
| with the subsidiary msg life Austria Ges.m.b.H., Vienna (Austria) [3] | 100 | (msg life Austria) |
| with the subsidiary msg life Benelux B.V., Amsterdam (Netherlands) [3] | 100 | (msg life Netherlands) |
| with the subsidiary spheos GmbH & Co. KG, Munich (Germany) [3 5] | 100 | (spheos) |
| with the subsidiary spheos Verwaltungs GmbH, Munich (Germany) [3 5] | 100 | (spheos Verwaltung) |
| msg life global gmbh [1 2] | 100 | (msg life global) |
| with the subsidiary FJA-US, Inc., New York (USA) [4] | 100 | (FJA-US) |
| with the subsidiary msg life odateam d.o.o., Maribor (Slovenia) [4] | 100 | (msg life OdaTeam) |
| with the subsidiary msg life Iberia, Unipessoal LDA, Porto (Portugal) [4] | 100 | (msg life Portugal) |
| msg life Poland Sp. z o.o., Warsaw (Poland) | 100 | (msg life Poland) |

[1] There are profit and loss transfer agreements with msg life central europe gmbh, Munich, and msg life global gmbh, Munich.
[2] 98.11% of the shares in msg life global gmbh, Munich, are held by msg life ag, Leinfelden-Echterdingen, and 1.89% are held by msg life central europe gmbh, Munich.
[3] This is an indirect equity interest. The shares are held by msg life central europe gmbh, Munich.
[4] This is an indirect equity interest. The shares are held by msg life global gmbh, Munich.
[5] spheos Verwaltungs GmbH, Munich, is the sole personally liable partner of spheos GmbH & Co. KG, Munich.

More information on the subsidiaries as at the balance sheet date is available below:

| Main business | Legal domicile | Number of 100% subsidiaries | |
|---|---|---|---|
| | | 31.12.2017 | 31.12.2016 |
| The performance of actuarial and financial calculations; the design, creation and sale of software to both commercial and technical clients | Germany | 1 | 1 |
| | USA | 1 | 1 |
| | Switzerland | 1 | 1 |
| | Slovenia | 1 | 1 |
| | Slovakia | 1 | 1 |
| | Portugal | 1 | 1 |
| | Netherlands | 1 | 1 |
| The provision of consultancy services – primarily relating to insurance – to the financial services industry | Germany | 1 | 1 |
| | Poland | 1 | 1 |
| The performance of actuarial and financial calculations; the design, creation and sale of software to both commercial and technical clients and the provision of consultancy services – primarily relating to insurance – to the financial services industry | Austria | 1 | 1 |
| Development of new standard software products for the digital transformation as well as for interacting and collaborating with end customers (systems of engagement, SoE) | Germany | 1 | 0 |
| Acquisition and management of interests as well as the assumption of personal liability and management of commercial companies | Germany | 1 | 0 |

There are no limitations on the means of accessing or utilising the assets of the Group or settling its liabilities.

Under the purchase agreement of 15 November 2017, msg life central europe gmbh acquired all shares in edicos websolutions GmbH & Co. KG, Munich, Germany, as well as its complimentary company edicos websolutions Verwaltungs GmbH, Munich, Germany. After the conclusion of the reporting period, edicos websolutions Verwaltungs GmbH was renamed spheos Verwaltungs GmbH in the commercial register effective from 16 January 2018. Furthermore, also after the conclusion of the reporting period, edicos websolutions GmbH & Co. KG was renamed spheos GmbH & Co. KG in the commercial register effective from 18 January 2018. Both companies have been included in the consolidation group of the msg life Group as of 15 November 2017.

| Subsidiaries acquired in 2017 | Primary activity | Date of acquisition | Shares acquired (%) | Acquisition costs in thousands of euros |
|---|---|---|---|---|
| spheos | Development of new standard software products for the digital transformation as well as for interacting and collaborating with end customers (systems of engagement, SoE) | 15.11.2017 | 100 | 485 |
| spheos Verwaltung | Interest as personally liable managing partner of spheos | 15.11.2017 | 100 | 13 |

spheos and spheos Verwaltung were acquired with the goal of introducing the development of user-centred online portals and websites to the insurance industry to a greater extent. Control of the companies was achieved upon the signing of the purchase agreement on 15 November 2017.

| Transferred consideration in 2017 | spheos | spheos Verwaltung | Total |
|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros |
| **Cash** | 485 | 13 | 498 |

| Acquired assets and liabilities at the time of acquisition | spheos | spheos Verwaltung | Total |
|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros |
| **Current assets** | **291** | **10** | **301** |
| Cash and cash equivalents | 13 | 0 | 13 |
| Trade receivables and other receivables | 242 | 10 | 252 |
| Other current assets | 36 | 0 | 36 |
| **Non-current assets** | **28** | **0** | **28** |
| Intangible assets | 6 | 0 | 6 |
| Property, plant and equipment | 22 | 0 | 22 |
| **Total assets** | **319** | **10** | **329** |
| **Current liabilities** | **552** | **2** | **554** |
| Trade payables and other liabilities | 335 | 0 | 335 |
| Other financial liabilities | 181 | 1 | 182 |
| Other provisions | 36 | 1 | 37 |
| **Non-current liabilities** | **2** | **0** | **2** |
| Other provisions | 2 | 0 | 2 |
| **Total liabilities** | **554** | **2** | **556** |
| **Fair value of identified net assets acquired** | **–235** | **8** | **–227** |

The first-time recognition of the acquisition of spheos had only been carried out on a preliminary basis as at the end of the reporting period, because the acquisition took place shortly before the reporting date, which – due to time constraints – made it impossible to more closely examine whether and to what extent a customer base and portfolio of orders were to be capitalised.

The receivables acquired as part of the acquisition of spheos, which primarily consist of trade receivables, have a fair value of 242,000 euros and the gross contract value amounts to 287,000 euros. As at the date of acquisition, the best estimate of the contractual cash flows – whose collectability is not expected – totalled 45,000 euros.

| Goodwill from the acquisition in 2017 | spheos | spheos Verwaltung | Total |
|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros |
| Transferred consideration | 485 | 13 | 498 |
| Less: Fair value of identified net assets acquired | –235 | 8 | –227 |
| **Goodwill from the acquisition** | **720** | **5** | **725** |

Goodwill from the acquisition of spheos and spheos Verwaltung primarily results from the expertise of the employees acquired in the field of systems of engagement (SoE). This expertise of the employees is not applied separately from the goodwill because it does not meet the application requirements for intangible assets. No tax deductibility is expected for any goodwill resulting from this acquisition.

| | 2017 |
|---|---|
| | Thousand euros |
| Consideration paid in cash | 498 |
| Less: Acquired cash and cash equivalents | 13 |
| **Net outflow of cash for the acquisition in 2017** | **485** |

Since the date of acquisition, the acquisitions have had an effect in the amount of 156,000 euros on Group turnover and –7,000 euros on earnings for the msg life Group.

If the business combinations had taken place as at 1 January 2017, this would have had an effect in the amount of 1.617 million euros on Group turnover and –279,000 euros on earnings for the msg life Group.

In addition, during the reporting period, msg life Benelux B.V., Amsterdam, Netherlands, was transferred from msg life ag to msg life central europe gmbh.

As at the previous year's reporting date, the following companies were fully consolidated in the Group headed by msg life ag as the parent company:

| **Company** | **Shareholding (%)** | **Abbreviations** |
|---|---|---|
| msg life central europe gmbh [1] | 100 | (msg life central europe) |
| with the subsidiary msg life Slovakia s.r.o., Bratislava (Slovakia) [3] | 100 | (msg life Slovakia) |
| with the subsidiary msg life Switzerland AG, Regensdorf (Switzerland) [3] | 100 | (msg life Switzerland) |
| with the subsidiary msg life Austria Ges.m.b.H., Vienna (Austria) [3] | 100 | (msg life Austria) |
| msg life global gmbh [1] [2] | 100 | (msg life global) |
| with the subsidiary FJA-US, Inc., New York (USA) [4] | 100 | (FJA-US) |
| with the subsidiary msg life odateam d.o.o., Maribor (Slovenia) [4] | 100 | (msg life OdaTeam) |
| with the subsidiary msg life Iberia, Unipessoal LDA, Porto (Portugal) [4] | 100 | (msg life Portugal) |
| msg life Benelux B.V., Amsterdam (Netherlands) | 100 | (msg life Netherlands) |
| msg life Poland Sp. z o.o., Warsaw (Poland) | 100 | (msg life Poland) |

[1] There are profit and loss transfer agreements with msg life central europe gmbh, Munich, and msg life global gmbh, Munich.
[2] 98.11% of the shares in msg life global gmbh, Munich, are held by msg life ag, Leinfelden-Echterdingen, and 1.89% are held by msg life central europe gmbh, Munich.
[3] This is an indirect equity interest. The shares are held by msg life central europe gmbh, Munich.
[4] This is an indirect equity interest. The shares are held by msg life global gmbh, Munich.

More information on the subsidiaries as at the previous year's balance sheet date is available below:

| Main business | Legal domicile | Number of 100% subsidiaries | |
|---|---|---|---|
| | | 31.12.2016 | 31.12.2015 |
| The performance of actuarial and financial calculations; the design, creation and sale of software to both commercial and technical clients | Germany | 1 | 1 |
| | USA | 1 | 1 |
| | Switzerland | 1 | 1 |
| | Slovenia | 1 | 1 |
| | Slovakia | 1 | 1 |
| | Portugal | 1 | 1 |
| | Netherlands | 1 | 1 |
| The provision of consultancy services – primarily relating to insurance – to the financial services industry | Germany | 1 | 1 |
| | Poland | 1 | 1 |
| The performance of actuarial and financial calculations; the design, creation and sale of software to both commercial and technical clients and the provision of consultancy services – primarily relating to insurance – to the financial services industry | Austria | 1 | 1 |

There are no limitations on the means of accessing or utilising the assets of the Group or settling its liabilities.

msg life global gmbh, Munich, was founded on 18 December 2015 and entered into the relevant commercial register on 21 January 2016. It started business operations on 1 January 2016 and was consolidated for the first time on that date.

Under the merger agreement from 2 March 2016 and the resolutions of the shareholders' meetings held on the same date, msg life consulting gmbh, Aachen, was merged with msg life central europe gmbh, Munich, with retroactive effect from 1 January 2016, by entry into the commercial register on 14 March 2016. As such, msg life consulting gmbh ceased to exist.

msg life is modifying its corporate structure in order to hone its market focus. To this end, starting at the beginning of the 2016 financial year, the Group companies responsible for the German-speaking markets are gradually being placed under the auspices of the new intermediate holding company msg life central europe gmbh, while the Group companies responsible for the non-German-speaking markets are being gradually assigned to msg life global gmbh, the Group company newly founded in the 2016 financial year.

As at the reporting date (31 December 2016), the following companies have already been transferred: msg life Slovakia s.r.o., Bratislava, Slovakia, msg life Switzerland AG, Regensdorf, Switzerland, and msg life Austria Ges.m.b.H., Vienna, Austria (under the auspices of msg life central europe), as well as msg life Iberia, Unipessoal LDA, Porto, Portugal, msg life odateam d.o.o., Maribor, Slovenia, and FJA-US, Inc., New York, USA (under the auspices of msg life global gmbh).

At all of the subsidiaries, the reporting date corresponds to the Group's reporting date.

msg life central europe gmbh, Munich, and msg life global gmbh, Munich, have made full use of the exemption in section 264, paragraph 3, of the German Commercial Code (HGB) for the 2017 financial year.

## IV. Currency translation

The foreign currency translation is carried out in accordance with IAS 21. The functional currency is the currency of a business enterprise's primary commercial environment. It is always the currency which influences performance and costs most strongly. The functional currency is determined for each business enterprise within the Group. As the Group companies run their business operations autonomously, the functional currency is generally identical to that of the respective company's national currency.

Foreign currency translation is basically carried out in two stages. Transactions in foreign currencies, or assets and liabilities in foreign currencies resulting from those, are translated into the functional currency of the business operations in question. The exchange rates at the time of the transaction or valuation are authoritative; they are therefore translated at historical exchange rates (temporal method). Currency differences are recognised in profit or loss. If the functional currency of the business operations diverges from the reporting currency (EUR), all of the assets (including goodwill resulting from consolidation) and debts are translated at the average rates on the reporting date and the items in the income statement are translated at the average rates for the year (modified current-rate method). All translation differences are reported under equity as items in their own right within other reserves (31 December 2017: 3.821 million euros; 31 December 2016: 6.034 million euros; change in 2017: –2.213 million euros).

The exchange rates on which the currency translation is based have changed as follows in relation to one euro:

| | Average rate on the date of the statement of financial position | | Average rate for the year | |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2016 | 2017 | 2016 |
| | Euros | Euros | Euros | Euros |
| USD 1 | 0.8338 | 0.9486 | 0.8852 | 0.9034 |
| CHF 1 | 0.8546 | 0.9312 | 0.8995 | 0.9173 |
| CZK 1 | 0.0392 | 0.0370 | 0.0380 | 0.0370 |
| PLN 1 | 0.2394 | 0.2267 | 0.2349 | 0.2292 |

The msg life Group has no business operations in a hyperinflationary country. IAS 29 is therefore not applicable.

## V. Disclosure of business segments

Pursuant to IFRS 8.2, only companies whose shares are traded on an official market or are being prepared for trade on an official market are subject to segment reporting requirements. Segment reporting is therefore carried out on a voluntary basis; all requirements of IFRS 8 have been observed.

The segment results reflect overall performance and success in the fields of business in which the company operates. They are based on the Group's internal international and cross-company profit centre earnings statement in accordance with which the msg life Group is managed. In this arrangement, the services exchanged between the segments are accounted for within total output as internal turnover and within the segment result as internal expenses.

IFRS 8 (Operating Segments) specifies that the identification of reportable operating segments be based on the management approach. According to this approach, segment reporting should be carried out on the basis of the in-house organisational and management structures and the company's financial reporting to the most senior management body. It is based on the company's geographical markets. In the Group

headed by msg life ag, the msg life ag Management Board is responsible for measuring and controlling the business results of the segments and is the most senior management body as defined by IFRS 8.

Reporting is carried out in line with IFRS 8 Operating Segments for the segments 'insurance central europe' and 'insurance global'. This method segment reporting also reflects the methods of submitting reports to the Management and Supervisory Boards of the company.

For that reason, disclosures about the segments, products and services, geographical areas and important customers have to be made below in the reporting year.

## 1. Disclosures about segments

Not subject to mandatory reporting requirements, the msg life Group gears its 'insurance central europe' and 'insurance global' segments to the targeted geographical markets. This reflects both the Group's internal reporting system and its internal decision-making processes.

The 'insurance central europe' segment comprises the development, integration and maintenance of policy management systems and peripheral systems for life insurance companies as well as the related migration services and product-oriented and specialist consulting in Central European markets. This mainly comprises the products related to the core msg.Life Factory, which are combined in the msg.Insurance Suite, as well as other products such as msg.Life.

The 'insurance global' segment comprises the development, integration and maintenance of other software solutions and peripheral systems for life, health, non-life and reinsurance companies as well as related product-oriented and specialist consulting in all other msg life markets. Most notably, these include the products Unified Administration Platform (formerly: msg.Symass), Unified Product Platform (formerly: FJA. PM4) and msg.Sales (formerly: msg.Sales & Service).

Despite a high level of specialisation, the segments support each other in development and customer projects. This internal exchange of services is shown under inter-segment revenue. The turnover between the segments is generated at internal prices which are based on the cost of production plus a markup. The turnover from external customers, which is reported to the Management Board, is calculated according to the same principles as in the income statement. The reconciliation of external turnover comprises turnover of 0.4 million euros resulting from key services rendered under agency agreements with third parties.

Expenses for central functions (management, sales, central services) are charged to the operating segments via allocations based on their origins and cause. The segment earnings represent the earnings before interest, taxes, depreciation on property, plant and equipment and amortisation on intangible assets (EBITDA).

The valuation methods used in the segment reporting are in accordance with those applied for in the consolidated financial statements as at 31 December 2016.

| 2017 | External turnover | Intersegment turnover | Total turnover | EBITDA | Number of employees |
|---|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | |
| insurance central europe | 103,668 | 395 | 104,063 | 7,457 | 844 |
| insurance global | 25,455 | 1,663 | 27,118 | 4,670 | 188 |
| **Total** | **129,123** | **2,058** | **131,181** | **12,127** | **1,032** |
| Reconciliation | 353 | –2,058 | –1,705 | –818 | |
| **Overall Group** | **129,476** | **0** | **129,476** | **11,309** | **1,032** |

| 2016 | External turnover | Intersegment turnover | Total turnover | EBITDA | Number of employees |
|---|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | |
| insurance central europe | 99,155 | 353 | 99,508 | 8,887 | 762 |
| insurance global | 22,098 | 1,107 | 23,205 | 4,243 | 166 |
| **Total** | **121,253** | **1,460** | **122,713** | **13,130** | **928** |
| Reconciliation | 52 | –1,460 | –1,408 | –1,668 | |
| **Overall Group** | **121,305** | **0** | **121,305** | **11,462** | **928** |

In accordance with IFRS 8, which has been amended in the context of improvements to IFRS 2009, notes on assets by segment are no longer required. This key capital ratio is not part of in-house reporting in the msg life Group. In addition, interest income and interest expenses, regular amortisation, main earnings and expense items, and main non-cash items, as well as the Group's share in the net profit or loss for the period of associated companies and joint ventures accounted for using the equity method, are not part of the Group's in-house reporting and are therefore not separately listed in segmental reporting.

## 2. Disclosures about products and services

Turnover from external customers is classified according to products and services as follows:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Services | 85,413 | 87,743 |
| Licences | 24,822 | 14,577 |
| Maintenance | 16,895 | 17,231 |
| Other income | 2,346 | 1,754 |
| **Group turnover** | **129,476** | **121,305** |

## 3. Disclosures about geographical areas

Turnover from external customers by country is recorded on the basis of the respective msg life Group company that managed the transaction and is classified as follows:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Germany | 102,235 | 94,529 |
| United States | 22,578 | 20,373 |
| Slovenia | 2,273 | 1,077 |
| Switzerland | 1,510 | 2,219 |
| Portugal | 414 | 341 |
| Austria | 181 | 2,440 |
| Poland | 145 | 134 |
| Benelux | 123 | 122 |
| Slovakia | 17 | 70 |
| **Total** | **129,476** | **121,305** |

## 4. Disclosures about non-current assets

Non-current assets, consisting of goodwill, other intangible assets, and property, plant and equipment, are comprised as follows:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Germany | 27,698 | 26,725 |
| United States | 143 | 184 |
| Austria | 112 | 77 |
| Slovakia | 61 | 69 |
| Portugal | 36 | 39 |
| Slovenia | 65 | 52 |
| Switzerland | 0 | 2 |
| **Total** | **28,115** | **27,148** |

## 5. Disclosures about important customers

In the year under review and in the previous year, the msg life Group did not have any customers whose turnover accounted for at least 10 per cent of aggregate turnover.

# VI. Notes on the income statement

## 1. Turnover

Turnover includes revenue for licences, services, maintenance services, cost reimbursements and reductions in earnings. It also includes contract revenue from contract work, recognised using the percentage-of-completion (PoC) method.

Projects measured using the PoC method had the following income and expenses components as at the reporting date:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Turnover realisation (PoC) in the financial year | 24,028 | 18,923 |
| Recognised expenses in the financial year | 21,178 | 15,905 |
| Reported profit in the financial year | 2,850 | 3,018 |

## 2. Cost of purchased services

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Freelance employees | 6,986 | 6,061 |
| Other services | 6,572 | 5,315 |
| Goods purchased for resale | 1,805 | 3,220 |
| Other | 1,209 | 576 |
| **Total** | **16,572** | **15,172** |

The costs of purchased services essentially comprise expenses for freelance employees and other services.

## 3. Personnel expenses

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Wages and salaries | 73,948 | 68,702 |
| Social security contributions | 11,605 | 10,286 |
| **Personnel expenses excluding pensions** | **85,553** | **78,988** |
| Pension expenses | 371 | 334 |
| **Total** | **85,924** | **79,322** |

Social security contributions comprise, in particular, the employer's contribution to social insurance and contributions to the employer's liability insurance association.

Pension expenses primarily comprise the allocations to pension provisions.

In 2017, the average number of employees was 970, of whom 16 were executives and 954 were permanent employees (885 in the previous year, of whom 13 were executives and 872 were permanent employees).

## 4. Other operating income

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Rental income | 421 | 661 |
| Company car use | 280 | 286 |
| Income from the reversal of other provisions | 54 | 116 |
| Other | 489 | 628 |
| **Total** | **1,244** | **1,691** |

## 5. Other operating expenses

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Costs of business premises | 5,725 | 5,983 |
| Travel expenses | 3,104 | 2,887 |
| IT expenses | 1,595 | 1,314 |
| Advertising expenses | 1,426 | 1,046 |
| Consulting, accounting, Supervisory Board | 1,331 | 1,500 |
| Communication expenses | 783 | 689 |
| Motor vehicle costs | 656 | 629 |
| Staff recruitment | 624 | 457 |
| Professional training | 273 | 211 |
| Compensation for damages | 0 | 750 |
| Other | 1,398 | 1,574 |
| **Total** | **16,915** | **17,040** |

In 2017, the item 'Other' largely comprised voluntary social welfare expenses, insurance premiums and fees and contributions.

The fees incurred for auditing services in the reporting year and the previous year amounted to:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Audits of financial statements (including expenses) | 266 | 274 |
| Other certification and valuation services | 0 | 0 |
| Tax consulting services | 52 | 0 |
| Other services | 0 | 35 |
| **Total** | **318** | **309** |

Of the 266,000 euros in auditing expenses shown in the financial year, 58,000 euros concern the 2016 financial year.

Of the 274,000 euros in auditing expenses shown in the previous year, 94,000 euros concern the 2015 financial year.

## 6. Interest result

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Interest income | 108 | 78 |
| Interest expenses | –228 | –272 |
| **Interest result** | **–120** | **–194** |
| **Of which from financial instruments in the valuation categories:** | | |
| Loans and receivables (including cash and bank balances) | 9 | 19 |
| Financial assets held for trading | 30 | 7 |

The net interest income relates to the interest on cash and cash equivalents, income from the accrual of additional interest on current income tax claims, refund interest vis-à-vis the tax authorities and income from interest on reinsured assets.

The interest expenses essentially comprise items for pension provisions.

There are no net interest income and expenses in the valuation categories 'Held-to-maturity investments' and 'Liabilities measured at fair value directly through profit and loss'.

## 7. Income taxes

The tax expenses arise from the components listed below:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| **Current income tax expenses** | | |
| Germany | –276 | –929 |
| Other countries | –1,263 | –1,969 |
| **Total current income taxes** | **–1,539** | **–2,898** |
| Deferred taxes from temporary differences | –214 | 1,654 |
| Deferred taxes on tax loss carry-forwards | –24 | –2,037 |
| **Total deferred income taxes** | **–238** | **–383** |
| **Total** | **–1,777** | **–3,281** |

The ongoing losses in Germany as from 2009 can be carried forward without restriction.

As at 31 December 2017, the msg life Group had unused domestic tax loss carry-forwards of 84.818 million euros for corporate income tax and 77.619 million euros for trade tax. Deferred tax assets (838,000 euros) were recognised for these tax loss carry-forwards as at 31 December 2017.

As at 31 December 2016, the msg life Group had unused domestic tax loss carry-forwards of 86.882 million euros for corporate income tax and 79.875 million euros for trade tax. Deferred tax assets (862,000 euros) were recognised for these tax loss carry-forwards as at 31 December 2016.

Current income tax expenses include 480,000 euros in income tax expenditures relating to other periods (previous year: income tax expenditures of 26,000 euros), which primarily relate to FJA-US.

In 2017 and 2016, deferred tax assets were only formed for IFRS valuation differences to match the deferred tax liabilities of 3.3 million euros (previous year: 3.3 million euros).

In the following reconciliation statement for the Group, the individual company-specific reconciliation statements are condensed taking account of consolidation measures. In the process, the expected tax expenses are reconciled with the effectively reported tax expenses.

The tax rate of 30 per cent applied in the reconciliation statement reflects the domestic tax rate of 15.83 per cent for corporate income tax and solidarity surcharge and of 14.17 per cent for trade tax that have applied since 2008.

| | 2017<br>Thousand euros | 2016<br>Thousand euros |
|---|---|---|
| Earnings before income taxes | 9,443 | 9,763 |
| Tax rate | 30% | 30% |
| **Expected income taxes** | **–2,833** | **–2,929** |
| **Tax effects with regard to:** | | |
| Difference in tax rates | 303 | –323 |
| Tax-free income and tax additions and deductions | –178 | 80 |
| Effect of tax losses | –46 | –94 |
| Taxes for previous years | 480 | –26 |
| Utilisation of tax loss carry-forwards for which no deferred tax assets have been created | 627 | 0 |
| Other | –130 | 11 |
| **Effective income taxes** | **–1,777** | **–3,281** |

## VII. Notes on the statement of financial position

### 1. Cash and cash equivalents

| | 31.12.2017<br>Thousand euros | 31.12.2016<br>Thousand euros |
|---|---|---|
| Other collateralised current accounts | 0 | 2,500 |
| Uncollateralised current accounts | 23,138 | 15,736 |
| **Total** | **23,138** | **18,236** |

Cash and cash equivalents comprised collateralised and uncollateralised cash in hand and bank balances. The cash and cash equivalents correspond to the total funds shown in the cash flow statement.

Fixed-term deposits amounting to 2.5 million euros in the previous year served as collateral for various sureties and financial liabilities. As at 31 December 2017, the uncollateralised cash and cash equivalents amount to 23.138 million euros (previous year: 15.736 million euros).

## 2. Marketable securities

The US treasury bonds held in current assets at 3.370 million euros (previous year: 3.802 million euros) are classified as held for trading and measured at fair value through profit or loss. Interest income of 24,000 euros (previous year: 5,000 euros) and 6,000 euros (previous year: 2,000 euros) of measurement income was recognised in profit or loss in 2017.

## 3. Trade receivables

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Trade receivables | 32,662 | 31,190 |
| PoC receivables | 11,287 | 2,789 |
| **Total** | **43,949** | **33,979** |

The trade receivables are due within one year.

| **Trade receivables (without PoC receivables)** | **As at 31.12.2017** | **As at 31.12.2016** |
|---|---|---|
| | Thousand euros | Thousand euros |
| **Gross value** | **32,662** | **31,190** |
| **Of which:** | | |
| impaired | 0 | 0 |
| **Carrying amount** | **32,662** | **31,190** |
| **Of which:** | | |
| neither impaired nor overdue as at the reporting date | 29,097 | 29,559 |
| **Of which:** | | |
| not impaired and overdue in the following time bands as on the reporting date | | |
| ‹ 30 days | 2,279 | 1,278 |
| 31 to 60 days | 459 | 240 |
| 61 to 90 days | 54 | 113 |
| 91 to 120 days | 417 | 0 |
| 121 to 360 days | 356 | 0 |

Concerning the portfolio of trade receivables that have been invoiced for, which was neither impaired nor in default, as on the reporting date, there were no indications that the debtors would not meet their payment obligations.

No impairment losses were recognised for invoiced receivables in 2017 or 2016.

In the current year and in the previous year, there were no expenses for the complete derecognition of trade receivables or income from the receipt of derecognised receivables.

In connection with the projects valued according to the percentage-of-completion method (PoC), the msg life Group offsets the total amount of the costs incurred and the profits posted against the amount of the advance payments that have been offset. If this results in a positive balance, the latter will be reported under trade receivables, and, if it results in a negative balance, under other current liabilities.

Overall, for all orders, the following balances result under assets and liabilities respectively:

| 2017 | Orders under assets | Orders under liabilities | Total |
|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros |
| Total amount of costs incurred and profits posted | 36,373 | 3,383 | 39,756 |
| Offset advance payments | –25,086 | –5,732 | –30,818 |
| **Total** | **11,287** | **–2,349** | **8,938** |

| 2016 | Orders under assets | Orders under liabilities | Total |
|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros |
| Total amount of costs incurred and profits posted | 20,463 | 622 | 21,085 |
| Offset advance payments | –17,674 | –1,103 | –18,777 |
| **Total** | **2,789** | **–481** | **2,308** |

In order to provide security for credit lines, no receivables (previous year: 31.190 million euros) were assigned to financial institutions in the reporting year. The assigned receivables provided security for the financing principal bank in the previous year.

## 4. Receivables and liabilities vis-à-vis affiliated companies

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Receivables from affiliated companies | 18 | 303 |
| Of which from shareholders | 8 | 170 |
| Liabilities to affiliated companies | –2,728 | –2,067 |
| Of which to shareholders | –575 | –398 |

With regard to the composition of the receivables from and liabilities to affiliated companies, please see section XI ‘Related parties’, number 3 ‘Other transactions with related parties’.

The receivables of 18,000 euros (previous year: 303,000 euros) are due in up to one year (previous year: 303,000 euros).

The liabilities of 2.728 million euros (previous year: 2.067 million euros) are all due in up to one year.

| As at 31.12.2017 | Total | Cash flows 2018 | | Cash flows 2019 | | Cash flows 2020 – 2022 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Capital repayment | Interest | Capital repayment | Interest | Capital repayment |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| From trade | 2,728 | 0 | 2,728 | 0 | 0 | 0 | 0 |
| **Liabilities to affiliated companies** | **2,728** | **0** | **2,728** | **0** | **0** | **0** | **0** |

| As at 31.12.2016 | Total | Cash flows 2017 | | Cash flows 2018 | | Cash flows 2019 – 2021 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Capital repayment | Interest | Capital repayment | Interest | Capital repayment |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| From trade | 2,067 | 0 | 2,067 | 0 | 0 | 0 | 0 |
| **Liabilities to affiliated companies** | **2,067** | **0** | **2,067** | **0** | **0** | **0** | **0** |

## 5. Current income tax claims

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Current | 40 | 459 |
| **Total** | **40** | **459** |

Current income tax claims consist primarily of claims for the refund of corporation taxes in Austria.

In the previous year, they primarily consisted of current income tax claims for the refund of corporation and trade taxes in Germany.

## 6. Other financial receivables (current)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Security deposits | 158 | 153 |
| **Total** | **158** | **153** |

The other financial receivables (current) are due within one year.

## 7. Other current assets

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Accruals and deferred income | 909 | 1,014 |
| Other | 439 | 357 |
| Value added tax | 213 | 5 |
| **Total** | **1,561** | **1,376** |

In particular, the part payments of the insurance and rent for IT equipment and tax payments in the United States (333,000 euros) paid in the reporting year that do not give rise to expenditure until the following year are reported under prepaid expenses.

As at 31 December 2017, the other current assets essentially comprised the outstanding purchase price instalments from the sale of the shares in plenum AG in 2014, which were written down by 172,000 euros in 2016 (carrying amount as at 31 December 2017: 137,000 euros).

## 8. Goodwill and other intangible assets

| 2017 | Goodwill | Other intangible assets | | Total |
|---|---|---|---|---|
| | | Development costs | Other | |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| **Acquisition costs** | | | | |
| As at 01.01.2017 | 31,683 | 2,642 | 8,329 | 42,654 |
| Additions | 0 | 0 | 0 | 0 |
| Additions to the consolidation group | 725 | 0 | 8 | 733 |
| Disposals | 0 | 0 | 0 | 0 |
| **As at 31.12.2017** | **32,408** | **2,642** | **8,337** | **43,387** |
| **Depreciation, amortisation and write-downs** | | | | |
| As at 01.01.2017 | 10,213 | 2,642 | 5,538 | 18,393 |
| Additions | 0 | 0 | 365 | 365 |
| Additions to the consolidation group | 0 | 0 | 2 | 2 |
| Disposals | 0 | 0 | 0 | 0 |
| **As at 31.12.2017** | **10,213** | **2,642** | **5,905** | **18,760** |
| **Carrying amount on 31.12.2017** | **22,195** | **0** | **2,432** | **24,627** |

| 2016 | Goodwill | Other intangible assets | | Total |
|---|---|---|---|---|
| | | Development costs | Other | |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| **Acquisition costs** | | | | |
| As at 01.01.2016 | 31,683 | 2,642 | 8,329 | 42,654 |
| Additions | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| **As at 31.12.2016** | **31,683** | **2,642** | **8,329** | **42,654** |
| **Depreciation, amortisation and write-downs** | | | | |
| As at 01.01.2016 | 10,213 | 2,642 | 5,118 | 17,973 |
| Additions | 0 | 0 | 420 | 420 |
| Disposals | 0 | 0 | 0 | 0 |
| **As at 31.12.2016** | **10,213** | **2,642** | **5,538** | **18,393** |
| **Carrying amount on 31.12.2016** | **21,470** | **0** | **2,791** | **24,261** |

The research and development costs (personnel expenses and other operating expenses) that were recognised under expenses in 2017 amounted to 15.291 million euros (previous year: 11.878 million euros). Once again, no development expenses were capitalised.

In the reporting year, the valuation tests for goodwill and individual intangible assets that must be conducted every year were carried out where there were indications that an impairment existed.

No depreciation took place.

### Information on the other intangible assets

The other intangible assets amounting to 2.432 million euros (previous year: 2.791 million euros) consist of capitalised acquired software.

The valuation of the goodwill acquired within the scope of business combinations was assessed in accordance with IAS 36 and on the basis of cash-generating units. The goodwill is made up of the following:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| msg life central europe | 20,437 | 20,437 |
| msg life OdaTeam | 952 | 952 |
| spheos | 720 | 0 |
| FJA-US | 81 | 81 |
| spheos Verwaltung | 5 | 0 |
| **Total** | **22,195** | **21,470** |

As part of the assessment of goodwill impairment, the carrying amounts of the goodwill are allocated to individual cash-generating units. In line with the definition of a cash-generating unit, the business units msg life OdaTeam and FJA-US have been

allocated to the 'insurance global' segment and the business unit msg life central europe has been allocated to the 'insurance central europe' segment as cash-generating units.

In accordance with its definition, the carrying amounts (net assets) of the individual cash-generating units are subsequently checked at least once a year to establish whether any requirement for impairment exists. The achievable amount corresponding to the value in use that has been ascertained according to the discounted cash flow method is thus compared with the carrying amounts. In addition, the msg life Group also takes the relationship between market capitalisation and the carrying amount into account when assessing whether there are indications that an asset might be impaired.

### Impairment tests of goodwill and intangible assets with indeterminate useful lives

There are estimation uncertainties in the following assumptions used to calculate the value in use of the two cash-generating units 'insurance central europe segment' and 'insurance global segment':

- Gross profit margin
- Discount rates
- Market shares in the detailed planning period
- Growth rates based on the extrapolated cash flow forecasts outside of the detailed planning period

Gross profit margins are determined using the average values of between 10.7 per cent and 18.1 per cent generated prior to the detailed planning period in previous financial years. The gross profit margins are increased by expected improvements in efficiency over the course of the budget period.

The valuation of other goodwill was verified on the basis of cash flows estimated for the future, which were derived from the current plans prepared by the management. The basis used to establish future cash flows was the data emanating from the corporate plans for the financial years to 2022, with subsequent transition to perpetuity. These plans use a planning horizon of five years. For the period of time thereafter ('perpetuity'), a growth rate of roughly 1.0 per cent was applied to the cash flows in the valuation tests. These assumptions are based on past experience, the current operating results and the best possible estimates of future developments made by the management as at the reporting date.

The discount rates represent the current market estimates with regard to the specific risks attributable to each cash-generating unit; the interest effects and specific risks of the assets for which the estimated future cash flows have not been adjusted are taken into account here. The discount rate calculation factors in the specific circumstances of the Group and its business segments and is based on its weighted average cost of capital (WACC). The WACC factors in both borrowed capital and equity. The cost of capital is derived from the expected return on capital of the investors in the Group. Borrowing costs are based on the interest-bearing debt that the Group has to service. The segment-specific risk is taken into account by applying individual beta factors. The beta factors are determined on an annual basis using publicly accessible market data. The free cash flows were discounted with a capital cost rate (WACC) of 7.69 per cent p.a. (previous year: 7.5 per cent p.a.) before tax.

The assumptions regarding the market share are important in so far as the management, in the same way that it makes assumptions on growth rates, evaluates how the position of the cash-generating unit compared to its competitors might change during the detailed planning period.

The extrapolation of the budget for the cash-generating units is based on assumptions made in the past.

The speed of technological development and potential new competitors can significantly influence the assumption regarding growth rates. No negative impacts are expected from the entry of new competitors into the market; however, this might lead to a different, reasonably possible long-term growth rate of around 1 per cent for the cash-generating units:

Even with a long-term growth rate of 0 per cent for the cash-generating unit 'insurance central europe' segment, there would be no impairment.

Even with a long-term growth rate of 0 per cent for the cash-generating unit 'insurance global' segment, there would be no impairment.

A decrease in the long-term growth rate for the cash-generating unit 'insurance central europe' would not cause any impairment, as this segment does not contain any assets whose value can be written down.

A decline in demand could impair the gross profit margin:

Even a fall of five percentage points in the gross profit margin of the cash-generating unit 'insurance global' would not result in an impairment charge.

A decrease in the gross profit margin for the cash-generating unit 'insurance central europe' would not cause any impairment, as this segment does not contain any assets whose value can be written down.

Sensitivity analyses have indicated that even a 0.5 per cent increase in the costs of capital would not require a valuation allowance for goodwill.

### Information on the goodwill in the previous year

No impairments on goodwill were carried out in the previous year as a result of the valuation tests.

## 9. Property, plant and equipment

| 2017 | Buildings on third-party land | Hardware and software | Operating and office equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| **Acquisition costs** | | | | | |
| **As at 01.01.2017** | **4,384** | **3,465** | **4,072** | **348** | **12,269** |
| Additions | 14 | 1,811 | 117 | 40 | 1,982 |
| Additions to the consolidation group | 0 | 11 | 11 | 0 | 22 |
| Reclassifications | 222 | 191 | –65 | –348 | 0 |
| Disposals | 0 | 18 | 29 | 0 | 47 |
| Foreign currency differences | –25 | –10 | –65 | 0 | –100 |
| **As at 31.12.2017** | **4,595** | **5,450** | **4,041** | **40** | **14,126** |
| **Depreciation, amortisation and write-downs** | | | | | |
| **As at 01.01.2017** | **3,786** | **1,953** | **3,643** | **0** | **9,382** |
| Additions | 171 | 1,127 | 87 | 0 | 1,385 |
| Reclassifications | 4 | –5 | 1 | 0 | 0 |
| Disposals | 0 | 18 | 29 | 0 | 47 |
| Foreign currency differences | –21 | –7 | –54 | 0 | –82 |

| 2017 | Buildings on third-party land | Hardware and software | Operating and office equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| **As at 31.12.2017** | **3,940** | **3,050** | **3,648** | **0** | **10,638** |
| **Carrying amount on 31.12.2017** | **655** | **2,400** | **393** | **40** | **3,488** |

| 2016 | Buildings on third-party land | Hardware and software | Operating and office equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| **Acquisition costs** | | | | | |
| **As at 01.01.2016** | **4,381** | **2,548** | **3,951** | **0** | **10,880** |
| Additions | 3 | 928 | 173 | 348 | 1,452 |
| Disposals | 4 | 12 | 66 | 0 | 82 |
| Foreign currency differences | 4 | 1 | 14 | 0 | 19 |
| **As at 31.12.2016** | **4,384** | **3,465** | **4,072** | **348** | **12,269** |
| **Depreciation, amortisation and write-downs** | | | | | |
| **As at 01.01.2016** | **3,614** | **1,149** | **3,589** | **0** | **8,352** |
| Additions | 170 | 814 | 106 | 0 | 1,090 |
| Disposals | 2 | 12 | 63 | 0 | 77 |
| Foreign currency differences | 4 | 2 | 11 | 0 | 17 |
| **As at 31.12.2016** | **3,786** | **1,953** | **3,643** | **0** | **9,382** |
| **Carrying amount on 31.12.2016** | **598** | **1,512** | **429** | **348** | **2,887** |

No new finance lease agreements were made in the 2017 financial year or in the previous year. The finance lease agreements concluded in previous years did not result in any further rental payments in the following financial year.

## 10. Financial investments

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Shareholding, ARGE FJA KR BU-System | 3 | 3 |
| **Total** | **3** | **3** |

The shareholding in ARGE FJA KR BU-System, Munich, has not been consolidated. The msg life Group does not have a decisive influence over ARGE FJA KR BU-System, as it does not have many opportunities to collaborate in the financial and business decision-making processes of the partly owned subsidiary. The msg life Group owns 50 per cent of the shares. ARGE's shareholders' equity amounts to 25,000 euros as at 31 December 2017 (previous year: 19,000 euros). Total assets come to 36,000 euros (previous year: 24,000 euros), and total liabilities are 11,000 euros (previous year: 5,000 euros). In the 2017 financial year, ARGE generated revenue of 59,000 euros (previous year: 65,000 euros) and earnings of 16,000 euros (previous year: 23,000 euros). The shares were measured at amortised cost.

## 11. Deferred tax assets and deferred tax liabilities

The deferred taxes were determined using the relevant country-specific tax rates that were between 19 per cent and 40 per cent (previous year: between 19 per cent and 41.1 per cent). Changes in tax rates that had already been decided upon as of the balance sheet date were taken into account when the deferred taxes were determined.

The deferred taxes of the domestic companies have been evaluated according to the applicable trade tax collection rate using an aggregate tax rate, including the solidarity surcharge, of 29.13 per cent (previous year: 29.13 per cent).

The deferred taxation is allocated to the following items of the statement of financial position:

| | 31.12.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| PoC receivables | 0 | 2,493 | 0 | 2,348 |
| Receivables and other current assets | 0 | 74 | 0 | 73 |
| Intangible assets | 681 | 728 | 749 | 837 |
| Financial assets | 74 | 0 | 74 | 0 |
| Property, plant and equipment | 1 | 6 | 0 | 8 |
| Other provisions | 62 | 0 | 57 | 0 |
| Pension provisions | 1,784 | 0 | 1,735 | 0 |
| Other financial liabilities | 2 | 0 | 2 | 0 |
| Valuation allowance on temporary differences | –215 | 0 | –220 | 0 |
| Deferred tax assets on loss carry-forwards | 838 | 0 | 862 | 0 |
| **Total** | **3,227** | **3,301** | **3,259** | **3,266** |

The deferred taxes that were recognised in equity amount to 128,000 euros (previous year: 166,000 euros).

## 12. Financial liabilities

Interest-bearing credit liabilities based on a contractual obligation to a third party are posted under financial liabilities. There is presently a general credit line with a principal bank amounting to 2.500 million euros which, as at the balance sheet date, was utilised to the extent of 1.177 million euros for security deposits. This general credit is available for an indefinite period. A total credit line of 2.500 million euros was granted by a second principal bank (previous year: 7.500 million euros). This credit line had not been utilised as at the reporting date. No collateral was pledged to this principal bank in the current year after a deposit of 2.500 million euros was pledged to it in order to secure its claims in the previous year. A total credit line of 2.500 million euros with no time limit was granted by a third bank; this had not been utilised as of the reporting date. After all present and future trade receivables of msg life ag and msg life central europe gmbh were pledged to all three banks as collateral by way of a blanket assignment in the previous year, no additional collateral has been pledged.

On 27 March 2017, or 7 April 2017, a funding agreement was concluded between msg life Austria and the Austrian Research Promotion Agency (FFG). Accordingly, msg life Austria is granted a loan in the amount totalling 196,000 euros at an interest rate of 0.75 per cent p.a. on current accounts, which is to be repaid on 30 June 2022 in the same amount. The interest is to be paid subsequently either in half-yearly intervals or at the time the loan comes due.

Payment of the first instalment in the amount of 50 per cent of the approved funds (98,000 euros) took place in 2017 after conclusion of the funding agreement. At the same time, 50 per cent of the approved grant totalling 120,000 euros (60,000 euros) were paid out, which was recognised in other operating income.

Payment of the second instalment amounting to 30 per cent will take place following approval of an interim report; payment of the final instalment amounting to 20 per cent of the total approved funding will not be carried out until all conditions and requirements have been met.

As at the reporting date, the financial liabilities had the following maturity pattern:

| 31.12.2017 | Total | Residual term of up to one year | Residual term of between one year and five years | Residual term of more than five years |
|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Funding loans | 98 | 0 | 98 | 0 |
| **Financial liabilities** | **98** | **0** | **98** | **0** |

| 31.12.2016 | Total | Residual term of up to one year | Residual term of between one year and five years | Residual term of more than five years |
|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Funding loans | 0 | 0 | 0 | 0 |
| **Financial liabilities** | **0** | **0** | **0** | **0** |

The table below shows the contractually agreed (non-discounted) interest and redemption payments relating to the financial liabilities:

| As at 31.12.2017 | Total | Cash flows 2018 | | Cash flows 2019 | | Cash flows 2020 – 2022 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Capital repayment | Interest | Capital repayment | Interest | Capital repayment |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Funding loans | 98 | 1 | 0 | 1 | 0 | 2 | 98 |
| **Financial liabilities** | **98** | **0** | **0** | **0** | **0** | **0** | **98** |

| As at 31.12.2016 | Total | Cash flows 2017 | | Cash flows 2018 | | Cash flows 2019 – 2021 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Capital repayment | Interest | Capital repayment | Interest | Capital repayment |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Funding loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Financial liabilities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

All the financial instruments that were in the portfolio as at the reporting date in question, and for which payments have already been contractually agreed, have been included. No budgeted figures have been considered for liabilities that might come about in the future.

In the 2017 financial year and in the previous year, no bad debt losses or breaches of contract were sustained by the company.

## 13. Trade payables

Trade payables have, as in the previous year, a residual term of up to one year.

## 14. Current income tax liabilities

The current income tax liabilities of 1.002 million euros (previous year: 456,000 euros) are all due in the short term and are essentially corporation and trade taxes in Germany (609,000 euros) and Slovakia (199,000 euros) as well as federal, state and municipal taxes in Switzerland (135,000 euros).

## 15. Other provisions

| | 31.12.16 | Currency differences | Utilisations | Reversals | Transfer | Additions Consolidation group | 31.12.17 |
|---|---|---|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Provision for project costs | 10 | 0 | 9 | 0 | 9 | 0 | 10 |
| Outstanding incoming invoices | 1,107 | –1 | 216 | 9 | 1,830 | 10 | 2,721 |
| Personnel-related provisions | 1,622 | 0 | 0 | 0 | 101 | 0 | 1,723 |
| Other | 757 | 0 | 356 | 45 | 330 | 29 | 715 |
| **Other provisions** | **3,496** | **–1** | **581** | **54** | **2,270** | **39** | **5,169** |

The reversals of provisions are reported in the income statement under other operating income (VI.4).

The additions to provisions take into account interest (without changes in interest rates) of 32,000 euros (previous year: 23,000 euros) and the effect of changes in interest rates amounting to 22,000 euros (previous year: 14,000 euros) (the accumulation effect).

The valuation as at the reporting date takes into account the financial charges the company is expected to have to bear.

The provision for project costs includes the cost of services not yet rendered.

The provision for anticipated incoming invoices relates to other operating expenses and the costs of purchased services and of the annual financial statements.

The personnel-related provisions contain the provisions for anniversaries and settlements. These represent non-current provisions.

The other provisions essentially included the provisions formed for archiving and renovation, the costs of the annual report and the remuneration for the Supervisory Board.

As at the reporting date, the other provisions had the following maturity pattern:

| | Long term in 2017 | Long term in 2016 | Short term in 2017 | Short term in 2016 | Total for 2017 | Total for 2016 |
|---|---|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Provision for project costs | 0 | 0 | 10 | 10 | 10 | 10 |
| Outstanding incoming invoices | 0 | 0 | 2,721 | 1,107 | 2,721 | 1,107 |
| Personnel-related provisions | 1,723 | 1,622 | 0 | 0 | 1,723 | 1,622 |
| Other | 405 | 397 | 310 | 360 | 715 | 757 |
| **Other provisions** | **2,128** | **2,019** | **3,041** | **1,477** | **5,169** | **3,496** |

The sums accounted for under the provisions for project costs, outstanding incoming invoices, personnel-related provisions and other provisions totalling 5.169 million euros (previous year: 3.496 million euros) must be paid out in the short term within the scope of operating activity, with the exception of a sum amounting to 2.128 million euros (previous year: 2.019 million euros).

The msg life Group has sufficient liquid funds to make the payments concerned using the provisions.

## 16. Other debts

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Tax liabilities | 1,987 | 474 |
| Payments received on account for customer orders | 215 | 862 |
| Accruals and deferred income | 2,124 | 1,936 |
| **Total** | **4,326** | **3,272** |

As at the reporting date, the other liabilities had the following maturity pattern:

| 31.12.2017 | Total | Residual term of up to one year | Residual term of between one year and five years | Residual term of more than five years |
|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Tax liabilities | 1,987 | 1,987 | 0 | 0 |
| Payments received on account for customer orders | 215 | 215 | 0 | 0 |
| Accruals and deferred income | 2,124 | 2,124 | 0 | 0 |
| **Other debts** | **4,326** | **4,326** | **0** | **0** |

| 31.12.2016 | Total | Residual term of up to one year | Residual term of between one year and five years | Residual term of more than five years |
|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Tax liabilities | 474 | 474 | 0 | 0 |
| Payments received on account for customer orders | 862 | 862 | 0 | 0 |
| Deferred ¬items | 1,936 | 1,936 | 0 | 0 |
| **Other debts** | **3,272** | **3,272** | **0** | **0** |

## 17. Other financial liabilities

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Liabilities arising from personnel and welfare | 12,110 | 11,634 |
| Other | 1,172 | 1,132 |
| **Total** | **13,282** | **12,766** |

The liabilities from personnel and welfare relate principally to liabilities from holiday, overtime and entitlements to variable remuneration.

The 'Other' item essentially includes the wage and church tax liabilities.

As at the reporting date, the other financial liabilities had the following maturity pattern:

| 31.12.2017 | Total | Residual term of up to one year | Residual term of between one year and five years | Residual term of more than five years |
|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Liabilities arising from personnel and welfare | 12,110 | 12,110 | 0 | 0 |
| Other | 1,172 | 1,172 | 0 | 0 |
| **Other financial liabilities** | **13,282** | **13,282** | **0** | **0** |

| 31.12.2016 | Total | Residual term of up to one year | Residual term of between one year and five years | Residual term of more than five years |
|---|---|---|---|---|
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Liabilities arising from personnel and welfare | 11,634 | 11,634 | 0 | 0 |
| Other | 1,132 | 977 | 155 | 0 |
| **Other financial liabilities** | **12,766** | **12,611** | **155** | **0** |

The tables below show the contractually agreed (non-discounted) interest and redemption payments relating to the other financial liabilities:

| As at 31.12.2016 | Total | Cash flows 2018 | | Cash flows 2019 | | Cash flows 2020 – 2022 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Capital repayment | Interest | Capital repayment | Interest | Capital repayment |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Liabilities arising from personnel and welfare | 12,110 | 0 | 12,110 | 0 | 0 | 0 | 0 |
| Other | 1,172 | 0 | 1,172 | 0 | 0 | 0 | 0 |
| **Other financial liabilities** | **13,282** | **0** | **13,282** | **0** | **0** | **0** | **0** |

| As at 31.12.2016 | Total | Cash flows 2017 | | Cash flows 2018 | | Cash flows 2019 – 2021 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Capital repayment | Interest | Capital repayment | Interest | Capital repayment |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Liabilities arising from personnel and welfare | 11,634 | 0 | 11,634 | 0 | 0 | 0 | 0 |
| Other | 1,132 | 0 | 977 | 0 | 155 | 0 | 0 |
| **Other financial liabilities** | **12,766** | **0** | **12,611** | **0** | **155** | **0** | **0** |

All the financial instruments that were in the portfolio as at the reporting date in question, and for which payments have already been contractually agreed, have been included. No budgeted figures have been considered for liabilities that might come about in the future. Financial liabilities that can be met at any time are always allocated to the earliest possible time period.

In the 2017 financial year and in the previous year, no bad debt losses or breaches of contract were sustained by the company.

## 18. Pension provisions

Pension agreements exist for the parent company and for one domestic and one foreign subsidiary within the msg life Group in the form of direct defined-benefit obligations. In defined-benefit plans, the employer undertakes to make the promised pension payments and to finance them by forming pension provisions or separate plan assets for pension purposes.

Provisions for pension obligations are formed on the basis of plans for retirement, incapacity and survivors' benefit. Group pension obligations to employees are based on direct and indirect pension commitments. Benefits from direct pension obligations are fundamentally determined as a function of monthly salary and length of service with the company.

The amount of the pension obligation is calculated by actuarial methods using the internationally accepted projected-unit-credit method in accordance with IAS 19 (Employee Benefits), with future obligations being calculated on the basis of the proportional entitlements acquired on the reporting date. Evaluation takes account of assumed trends for the relevant variables which affect the amount of benefit. Actuarial calculations are required for all benefit systems.

Not only assumptions about life expectancy and incapacity, but also premises using the biometric principles of the Heubeck mortality table 2005G play a role.

The calculations are based on the following actuarial assumptions for the respective reference dates:

| 2017 | msg life ag | msg life central europe | msg life Switzerland |
|---|---|---|---|
| | % per year | % per year | % per year |
| Actuarial interest rates | 1.50 | 1.50 | 0.75 |
| Projected increase in salaries | 2.50 | 2.50 | 1.50 |
| Rate of pension progression (civil service adjustment) | 1.90 | 1.90 | 0.00 |
| Inflation rate | n/a | n/a | 1.25 |

Die maßgeblichen versicherungsmathematischen Annahmen, die zur Ermittlung der leistungsorientierten Verpflichtung genutzt werden, sind der Rechnungszins, die angenommene Inflationsrate sowie die zugrunde gelegte Gehaltssteigerungsrate.

| 2016 | msg life ag | msg life central europe | msg life Switzerland |
|---|---|---|---|
| | % per year | % per year | % per year |
| Actuarial interest rates | 1.80 | 1.80 | 0.75 |
| Projected increase in salaries | 2.50 | 2.50 | 1.00 |
| Rate of pension progression (civil service adjustment) | 1.90 | 1.90 | 0.00 |
| Inflation rate | n/a | n/a | 1.0 |

Allowances were made for the probability of fluctuation.

The outlay for defined-benefit pension plans consists of the following:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Service cost | 158 | 159 |
| Net interest costs | 158 | 181 |
| **Total expenses** | **316** | 340 |

Service cost is posted as part of personnel expenses. The net interest costs are shown in the financial result.

The portfolio of actuarial gains and losses posted in equity with no impact on profit and loss are as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| **Actuarial gains (+) and losses (–)** | **–5,153** | –4,726 |

The asset is invested using counter-guarantee insurance; 100 per cent of the assets are direct claims against the insurance company. The anticipated long-term returns are based upon past experience of insurance contracts and on anticipated future returns. No change in the composition of the plan assets is intended in the 2018 financial year. Potential deficits in the pension obligations are to be balanced out through ongoing operations.

The actual returns on the plan assets are as follows:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| **Actual returns on plan assets** | **61** | 45 |

Besides counter-guarantee insurance, fixed-term deposits amounting to 1.043 million euros are used to safeguard claims arising from commitments for pension and similar obligations.

Reconciliation calculations of the cash values of defined-benefit obligations, the plan asset values to be reconciled and the figures derived from them for pension provisions are shown below:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Cash value of the benefit obligation as at 01.01 | 14,226 | 14,083 |
| Service cost | 158 | 159 |
| Interest charges on the project unit credit | 205 | 249 |
| Pension payments rendered by the employer directly | –336 | –332 |
| Payments made under the plan | –690 | –604 |
| Actuarial gain (–)/loss (+) resulting from adjustments made from past experience | –30 | –62 |
| Actuarial gain (–)/loss (+) resulting from changes to financial assumptions | 471 | 585 |
| Employee contributions | 93 | 109 |
| Foreign currency differences | –349 | 39 |
| **Cash value of the benefit obligation as at 31.12** | **13,748** | **14,226** |
| | | |
| Plan assets as at 01.01 | 4,575 | 5,366 |
| Income from plan assets calculated using the actuarial interest rate | 47 | 68 |
| Amounts by which the actual income of the plan assets exceeds (+)/falls under (–) the income calculated using the actuarial interest rate in the current financial year | 14 | –23 |
| Benefits paid | –690 | –604 |
| Exchange rate effects | –260 | 31 |
| Employee contributions | 93 | 109 |
| Employer contributions | 29 | –372 |
| **Plan assets as at 31.12** | **3,808** | **4,575** |
| | | |
| **Net obligation** | **9,940** | **9,651** |

The present value of the pension obligations of 13.748 million euros as at 31 December 2017 is broken down over the groups of participants as follows: obligations of 3.571 million euros are attributable to active employees, obligations of 2.421 million euros are attributable to vested former employees and obligations of 7.756 million euros are attributable to pensioners.

The reconciliation calculation of the cash value of the defined-benefit obligation and the fair value of the plan assets with the assets and liabilities posted on the statement of financial position is shown below:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| **Net obligation at the beginning of the year** | **9,651** | **8,717** |
| Net cost recognised | 316 | 339 |
| Actuarial gain (–)/loss (+) shown directly under equity | 427 | 545 |
| Pension payments rendered by the employer directly | –365 | 40 |
| Exchange rate effects | –89 | 10 |
| **Provisions as at 31.12** | **9,940** | **9,651** |

Payments totalling 539,000 euros are planned for the 2018 financial year, 562,000 euros in 2019, 567,000 euros in 2020, 586,000 euros in 2021, 571,000 euros in 2022 and 3.201 million euros in 2023 to 2027. No plan asset contributions are expected for the reporting period ending on 31 December 2018.

On the basis of the pension scheme, the Group is not exposed to risks of changing interest rates, changes in the life expectancy of the beneficiaries or changes in salary. The plan assets are invested in counter-guarantee insurance policies and fixed deposits. There is therefore a general investment risk arising from the insurance policies and fixed deposits.

Sensitivity analyses have indicated that an increase (reduction) in the costs of capital of +0.5 percentage points (–0.5 percentage points) would require an adjustment of –867,000 euros (+975,000 euros).

## 19. Subscribed capital

The subscribed capital as at 31 December 2017 totals 42,802,453.00 euros and is fully paid in.

The subscribed capital as at 31 December 2016 after treasury shares had been taken into account totalled 40,895,861.00 euros and is fully paid in.

Overall, the subscribed capital is still divided into 42,802,453 no-par-value bearer shares, each representing a computational equity stake of 1 euro. Each share entitles its holder to one vote. No preference shares are issued.

### Repurchase and sale of treasury shares

On 21 August 2008, the Management Board of msg life ag resolved, on the basis of the authorisation of the annual general meeting of 20 June 2008, to acquire up to 638,680 of its treasury shares, i.e. around 1.5 per cent of the nominal capital, on the stock exchange from 25 August 2008 onwards. By 31 December 2009, msg life ag had acquired 638,680 shares for a purchase price of 1,193,549.57 euros. This corresponds to an average acquisition price of 1.87 euros per share. The purchase price of 1,193,549.57 euros is shown directly as nominal capital under subscribed capital (638,680.00 euros) and the capital reserve (554,869.57 euros) as at 31 December 2016. Furthermore, 1,267,912 treasury shares from the portfolio of the former COR AG accrued as a result of the merger with the former COR AG in 2009. The additions of 2,662,615.00 euros is shown directly as nominal capital under subscribed capital (1,267,912.00 euros) and the capital reserve (1,394,703.00 euros) as at 31 December 2016. All in all, as at 31 December 2016, treasury shares amounting to 1,906,592 euros were openly removed from the subscribed capital and the capital reserve was reduced by 1,949,572.57 euros.

In the reporting period, as part of the delisting acquisition offer of msg systems AG, Ismaning, all 1,906,592 previously held treasury shares were sold to msg systems AG, Ismaning, at a price of 2.38 euros per share. The difference between the sales proceeds (4,537,688.96 euros) less transaction costs (31,763.82 euros) and the carrying amount of the treasury shares (1,906,592.00 euros) was added to the capital reserves (2,599,333.14 euros).

At the annual general meeting held on 17 August 2010, it was decided to empower the company to acquire and use treasury shares in the company by 16 August 2015, under partial exclusion of the shareholders' subscription rights, for a proportional amount of up to 10 per cent of nominal capital. The shares can be purchased on the stock exchange or by means of a public purchase offer addressed to all the company's shareholders. As well as by purchase on the stock exchange, the company can also purchase treasury shares by means of a public purchase offer. The company can use the treasury shares as follows: with the approval of the Supervisory Board, as a consideration in a business combination or as a consideration in the purchase of companies or interests, to dispense to employees of the company or companies affiliated to the Group, to service convertible bonds or warrants issued by the company, or to fulfil obligations from employee profit-sharing programmes, disposal of a different type other than on the stock exchange or by means of an offer to all shareholders, for example to an institutional investor or to develop new circles of investors.

The Management Board has not made use of this empowerment. This authorisation granted to the company by resolution of the annual general meeting of 17 August 2010 to acquire treasury shares up to 16 August 2015 was replaced by the following authorisation resolution adopted by the annual general meeting on 26 June 2014.

By resolution of the annual general meeting of 26 June 2014, the company was authorised to acquire treasury shares ('msg life shares') up to a total of 10 per cent of the share capital as of the date of the resolution. In this regard, at no point may more than 10 per cent of the share capital of the company be represented by the shares acquired under this authority combined with other shares in the company which the company had already acquired and still holds or which are attributable to it under sections 71 et seq. of the German Stock Corporation Act (AktG). The company may not use this authority in order to trade with its own shares. The authority may be used in whole or in partial amounts to pursue one or more purposes, on one or more than one occasion, by the company, but also by its affiliated companies or through third parties for its or their account, within the limits of the above restrictions. The authorisation to acquire treasury shares applies until the end of 25 June 2019. The deadline applies to the date of acquisition of the shares, not to holding the shares beyond this date.

The Management Board has not yet made use of this empowerment.

The following authorised capital was available in the period under review:

### Authorised capital 2015/1

The annual general meeting on 25 June 2015 authorised the Management Board to increase the company's share capital by 25 June 2020 with the approval of the Supervisory Board by issuing new no-par-value bearer shares against cash contributions or contributions in kind on one or more occasions, albeit by no more than 21,401,226 euros in total (authorised capital 2015/1). The new shares must be offered to the shareholders for subscription; they may also be taken on by banks or by a company which operates in accordance with section 53, paragraph 1, sentence 1, or section 53b, paragraph 1, sentence 1, or paragraph 7, of the German Banking Act (KWG) under the obligation that the shares are offered to the shareholders for subscription. The Management Board is authorised to disapply the shareholders' pre-emption rights with the approval of the Supervisory Board and in compliance with the precise regulations and, subject to the approval of the Supervisory Board, to determine the remaining conditions of share issuance, including the issue price and the further details of the share rights. A shareholder's entitlement to dividends may apply from the beginning of a financial year which has already passed insofar as no decision has yet been made regarding the appropriation of earnings for said financial year.

## 20. Capital reserves

Capital reserves include the amount received in excess of the nominal price when shares are issued. As per 31 December 2017, the capital reserve amounted to 11,759,862.80 euros (31 December 2016: 9,160,529.66 euros) since, in 2017, 2,599,333.14 euros were added as a result of the sale of treasury shares.

Only the restrictions of section 150 of the German Stock Corporation Act (AktG) on the payment of dividends or repayment of capital apply to the capital reserve.

## 21. Group retained earnings

Retained earnings include the profits of the companies within the scope of the consolidated financial statements, unless they have been paid out as dividends. Differences arising from currency conversion, with no impact on earnings, from the financial statements of foreign subsidiaries, actuarial gains and losses from pension provisions and other transactions posted as nominal capital continue to be included.

A detailed schedule of changes in Group retained earnings emerges from the development of equity.

Under German Stock Corporation Act, dividends available for distribution depend on the net profit which msg life ag declares in its financial statements, drawn up in accordance with the provisions of the German Commercial Code.

No dividend is anticipated for the 2017 financial year.

## 22. Other financial obligations

The following liabilities arise from long-term leases, tenancy agreements and service contracts **(operating leases)**:

| | 31.12.2017 | | | | 31.12.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Of which with a residual term | | | | Of which with a residual term | | |
| | | Up to one year | One to five years | More than five years | | Up to one year | One to five years | More than five years |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| **Total** | **39,429** | **6,393** | **18,542** | **14,494** | **44,909** | **6,287** | **20,573** | **18,049** |

Liabilities from operating leases are shown as the cash value of the minimum lease payments.

The continuous cost of leases, tenancy agreements and service contracts in the financial year entered with an impact on results was 6.660 million euros (previous year: 6.735 million euros).

Operating leases include leased fixtures and fittings and liabilities arising from office tenancy agreements. The service contracts involve liabilities arising from the maintenance of the hardware and software used in the company.

The sum of future minimum payments, receipt of which was anticipated by 31 December 2017 under non-cancellable sub-tenancy agreements, is 964,000 euros (previous year: 1.039 million euros).

The minimum lease payments and their cash value on the reporting date are as follows, broken down by due date:

| | 31.12.2017 | | | | 31.12.2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Of which with a residual term | | | | Of which with a residual term | | |
| | | Up to one year | One to five years | More than five years | | Up to one year | One to five years | More than five years |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Minimum lease payments | 781 | 285 | 496 | 0 | 657 | 301 | 356 | 0 |
| Cash value of minimum lease payments | 754 | 285 | 469 | 0 | 642 | 301 | 341 | 0 |

Reconciliation of the sum of minimum leasing payments in the amount of 781,000 euros (previous year: 657,000 euros) with the cash value of 754,000 euros (previous year: 642,000 euros) took place by deducting the costs of finance or the interest element of 27,000 euros (previous year: 15,000 euros).

## 23. Contingencies and contingent liabilities

Like all software products, the msg life Group's products can have defects whose elimination under guarantee increases costs and thereby influences the profit margin or even leads to compensation claims against the msg life Group. The msg life companies generally assume the warranty which is customary in the industry. As far as possible, liability obligations are limited contractually to the legal minimum and are secured with appropriate liability insurance policies. It can nevertheless not be ruled out that contractually agreed limitations on liability will be regarded as invalid and the existing insurance cover will be available to an insufficient extent or not at all – even if this is improbable. This applies in particular to the US market. Warranty obligations were formed based on past experience and are included in other provisions. Please refer to section VII 'Notes on the statement of financial position', number 15 'Other provisions'. It is not possible to estimate the financial impact.

## 24. Additional disclosures relating to financial instruments

### Objective and methods of financial risk management

Financial risk management is designed to put the msg life Group in a position to recognise all the significant risks to which it is potentially exposed at an early stage and to take appropriate countermeasures.

The potential risks to the msg life Group associated with financial instruments consist notably of liquidity risks – which can result in a company being unable to raise the funds needed to settle its financial liabilities – currency risks resulting from its activities in various currency areas, default risks arising from the non-fulfilment of contractual obligations by contracting parties and interest rate risks caused by movements in the market interest rate leading to a change in the fair value of a financial instrument and interest-related cash flow risks, which lead to a change in the future cash flows of a financial instrument due to changes in market interest rates.

### Organisation

The company has organised its risk management process along clear, functional lines. Specific tasks have been assigned to the individual organisational units involved in the risk management process.

Among the Management Board's most important tasks in the overall management of the Group are laying down general conditions and processes of risk management for the msg life Group, monitoring the degree of compliance with them and, in conjunction with the heads of the operating units and the administrative departments, regularly analysing the development of risks in the respective segments. The Supervisory Board is closely integrated into this process by the Management Board's regular reports.

The msg life Group's risk management system is documented in a risk manual. One employee in the holding company's Corporate Planning & Controlling division has been appointed risk manager of the Group and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. The risk manager also has the task, under instructions from the Management Board, of analysing each division by means of random sampling to determine the extent to which the measures adopted are being implemented for the limitation or prevention of risks.

It is the responsibility of the managers of the individual divisions to continuously monitor and deal with the risks to which their own divisions are exposed. If the probability of individual risks occurring and/or their potential scale increases significantly beyond a set threshold, the managers are obliged to inform the Management Board immediately. The foundation of good risk management is the reliable and prompt provision of the management with relevant information about the course of business. For this purpose, msg life has set up a controlling and reporting system with which reports are compiled at monthly intervals about the development of significant ratios relating to the business operations in the individual divisions and the financial results, as well as the likely commercial and financial development in each of the next 12 months.

### Credit risks (default risks)

Credit risk arises from deteriorating economic circumstances of the company's debtors or counterparties. Firstly, this results in a risk of partial or complete default on contractually agreed payments and, secondly, in a reduction in the value of financial instruments due to a poorer credit rating.

Credit risk management is responsible for the operational measurement and management of credit risks. Its functions include, in particular, monitoring credit risk positions and exposure and analysis of credit ratings.

In terms of credit risk, the Group is only exposed to risk in relation to trade receivables. Adequate valuation allowances have been made to cover the estimated default risk. As the credit rating of clients in the insurance industry is generally good, the receivables are not insured. The maximum default risk is in principle equivalent to the nominal values less the valuation allowances. There is no other loan collateral and there are no other risk-mitigating agreements (such as guarantees, land charges or pledges) in place. Usage reservations exist until payment is complete. For invoiced receivables, the net balance of additions to and reversals of valuation allowances was 0 euros (previous year: 0 euros). On each effective date, trade receivables do not include any carrying amounts for which terms have been renegotiated and which would otherwise be overdue.

With regard to the analysis of trade receivables which are overdue but not impaired as at the end of the reporting period, the reader is referred to section VII 'Notes on the statement of financial position', number 3 'Trade receivables'.

There are no default risks in relation to cash and cash equivalents. These are invested at banks with good ratings.

There are no significant default risks in relation to other financial assets.

### Liquidity risks

Managing liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments. Liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable

deficits at standard market terms under normal market conditions. This means that losses from both borrowing capital at excessive interest rates as well as investing surplus funds at interest rates below the market level should be avoided.

Because of the company's large holdings of cash and cash equivalents, the msg life Group considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

In addition, as at the reporting date, there are credit lines with banks amounting to 7.500 million euros, of which 1.177 million euros had been used at the reporting date for security deposits. See also section VII 'Notes to the balance sheet', number 12 'Financial liabilities'.

In the 2017 financial year and in the previous year, no income from debt waivers was realised.

### Market risks

Market risks result from changes in market prices. These cause the fair values of financial instruments or future cash flows relating to them to fluctuate. Market risks encompass interest rate, currency and other price risks (such as commodity prices and share prices).

### Price risks

The msg life Group is not exposed to any price risks.

### Interest rate risks

Interest rate risks result from a fluctuation in the fair value or future cash flows of a financial instrument due to changes in market interest rates.

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. There are no significant interest rate risks in relation to its financial assets. The investment of cash and cash equivalents is done on a short-term basis and undergoes the normal market fluctuations. On the condition that all other parameters remained unchanged, the company assumes that interest rates were ten base points lower (higher) in the reporting period. In this case, the net result for 2017 would have been 10,000 euros lower (higher) (previous year: 22,000 euros lower (higher)) and the equity components would have been 10,000 euros lower (higher) (previous year: 22,000 euros lower (higher)).

In the reporting period as well as the previous year, there were no (interest-bearing) financial liabilities with variable interest rates.

### Currency risks

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates.

For the most part, the operating companies of the Group carry out their business activities in their respective countries. The Group is therefore not exposed to any significant currency risks in its operating business. A total of 78 per cent of its revenues are generated in eurozone countries (previous year: 81 per cent), and the remainder in Switzerland, the United States, England and Australia. The currency risk on the asset side in relation to trade receivables comes from receivables not denominated in euros, accounting for 8 per cent (previous year: 16 per cent). In the case of trade payables, currency risks occur in relation to the 2 per cent of liabilities not denominated in euros (previous year: 3 per cent). Differences arising from currency conversion of financial statements from a foreign currency to the Group currency for the creation of consolidated financial statements do not affect currency risk because the respective changes in foreign currency are recognised under equity with no effect on income.

### Information on risk concentration ('cluster risks')

The company does not have any dependencies on the procurement side. On the sales side, there tend to be concentrations of risk due to the geographic distribution of turnover. For example, Germany accounts for 79 per cent of turnover (previous year: 78 per cent).

Within trade receivables, there is no significant concentration on individual customers. In the year under review, the ten largest customers accounted for a 45 per cent share of turnover (previous year: 59 per cent) and a 20 per cent share of trade receivables (previous year: 44 per cent).

With regard to cash and cash equivalents, there is no concentration on individual institutions.

### Carrying amounts, valuations and fair values

The fair values of the financial assets and liabilities as compared with the carrying amounts are as follows:

| | Valuation category | Carrying amount 31.12.2017 | Valuation in the statement of financial position under IAS 39 | | | Valuation in the statement of financial position under IAS 17 | Fair value |
|---|---|---|---|---|---|---|---|
| | | | Amortised cost | Fair value with no impact on earnings | Fair value in profit or loss | | |
| | | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Cash and cash equivalents | LAR | 23,138 | 23,138 | 0 | 0 | 0 | 23,138 |
| Marketable securities | FAHFT | 3,370 | 0 | 0 | 3,370 | 0 | 3,370 |
| Trade receivables | LAR | 43,949 | 43,949 | 0 | 0 | 0 | 43,949 |
| Receivables from affiliated companies | LAR | 18 | 18 | 0 | 0 | 0 | 18 |
| Other financial receivables | LAR | 158 | 158 | 0 | 0 | 0 | 158 |
| Financial liabilities | FLAC | 98 | 98 | 0 | 0 | 0 | 98 |
| Liabilities to affiliated companies | FLAC | 2,728 | 2,728 | 0 | 0 | 0 | 2,728 |
| Trade payables | FLAC | 1,913 | 1,913 | 0 | 0 | 0 | 1,913 |
| Other financial liabilities | FLAC | 13,282 | 13,282 | 0 | 0 | 0 | 13,282 |
| **Including, on an aggregate basis, by valuation category** | | | | | | | |
| Loans and receivables | LAR | 67,263 | 67,263 | 0 | 0 | 0 | 67,263 |
| Financial assets held for trading | FAHFT | 3,370 | 0 | 0 | 3,370 | 0 | 3,370 |
| Liabilities measured at amortised cost | FLAC | 18,021 | 18,021 | 0 | 0 | 0 | 18,021 |

| | Valuation category | Carrying amount 31.12.2016 | Valuation in the statement of financial position under IAS 39 | | | Valuation in the statement of financial position under IAS 17 | Fair value |
|---|---|---|---|---|---|---|---|
| | | | Amortised cost | Fair value with no impact on earnings | Fair value in profit or loss | | |
| | | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Cash and cash equivalents | LAR | 18,236 | 18,236 | 0 | 0 | 0 | 18,236 |
| Marketable securities | FAHFT | 3,802 | 0 | 0 | 3,802 | 0 | 3,802 |
| Trade receivables | LAR | 33,979 | 33,979 | 0 | 0 | 0 | 33,979 |
| Receivables from affiliated companies | LAR | 303 | 303 | 0 | 0 | 0 | 303 |
| Other financial receivables | LAR | 153 | 153 | 0 | 0 | 0 | 153 |
| Liabilities to affiliated companies | FLAC | 2,067 | 2,067 | 0 | 0 | 0 | 2,067 |
| Trade payables | FLAC | 1,583 | 1,583 | 0 | 0 | 0 | 1,583 |
| Other financial liabilities | FLAC | 12,766 | 12,766 | 0 | 0 | | 12,766 |
| **Including, on an aggregate basis, by valuation category** | | | | | | | |
| Loans and receivables | LAR | 52,671 | 52,671 | 0 | 0 | 0 | 52,671 |
| Financial assets held for trading | FAHFT | 3,802 | 0 | 0 | 3,802 | 0 | 3,802 |
| Liabilities measured at amortised cost | FLAC | 16,416 | 16,416 | 0 | 0 | 0 | 16,416 |

LAR: Loans and receivables
FAHFT: Financial assets held for trading
FLAC: Financial liabilities measured at amortised cost

## Valuation categories under IFRS 7.27

The information on the methods used to calculate fair values is presented in tabular form for each category of financial instruments using a three-level fair value hierarchy. There are three different valuation categories:

— **Level 1:** On the first level, fair values are determined on the basis of publicly quoted market prices, as the best possible objective indication of the fair value of a financial asset or financial liability is observable in an active market.

— **Level 2:** If there is no active market in a financial instrument, companies use valuation models to determine its fair value. Valuation models include the use of the most recent business transactions between expert, contract-seeking, independent business partners, comparison with the current fair value of another virtually identical financial instrument, the use of the discounted cash flow method, or of option pricing models. The fair value is estimated based on the results of a valuation method which uses as much market data as possible and hence is based as little as possible on company-specific data.

— **Level 3:** The valuation methods used at this level are also based on parameters that cannot be observed on the market.

There are no assets in the valuation category for assets held to maturity.

There are no liabilities in the valuation category for liabilities at fair value with direct effect on income.

Cash and cash equivalents, trade receivables, receivables from affiliated companies and other current financial receivables have short remaining terms. Therefore, their carrying amounts on the reporting date are approximately equivalent to their fair value.

The values accounted for in financial investments correspond partially to the acquisition costs. In the event that the price is not quoted on an active market and their fair value cannot be reliably determined, they are valued at their acquisition cost when recognised for the first time.

The fair values of the securities correspond to the quoted market prices on an active market.

The fair values of the financial liabilities are determined on the basis of the expected payment flows, discounted at an appropriate market interest rate. As these are primarily current financial liabilities, their carrying amounts can be used as an approximate fair value.

Trade payables, liabilities to affiliated companies and other financial liabilities on which interest is not payable routinely have short life spans; the values reported in the statement of financial position are an approximate representation of their fair values.

### Net income by valuation category

| 2017 | Valuation category | From net interest/ investment income | From revaluation | | | From disposals | Net result |
|---|---|---|---|---|---|---|---|
| | | | At fair value | Currency translation | Valuation allowance | | |
| | | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Loans and receivables | LAR | 4 | 0 | 0 | 0 | 0 | 0 |
| Financial assets held for trading | FAHFT | 24 | 6 | 0 | 0 | 0 | 0 |
| **Total** | | **28** | **6** | **0** | **0** | **0** | **0** |

| 2016 | Valuation category | From net interest/ investment income | From revaluation | | | From disposals | Net result |
|---|---|---|---|---|---|---|---|
| | | | At fair value | Currency translation | Valuation allowance | | |
| | | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| Loans and receivables | LAR | 15 | 0 | 0 | 0 | 0 | 0 |
| Financial assets held for trading | FAHFT | 5 | 2 | 0 | 0 | 0 | 0 |
| **Total** | | **20** | **2** | **0** | **0** | **0** | **0** |

Interest earned on and fair values of financial instruments are reported in interest income (see section VI 'Notes on the income statement', number 6 'Interest income').

The msg life Group includes the remaining components of the net income under other operating expenses and other operating income.

### Information on furnished and received collateral:

In the previous year, under a collateral pooling agreement, all present and future trade receivables of msg life ag and msg life central europe gmbh – as a third-party issuer of collateral – were transferred to the principal banks. This collateral pooling agreement was cancelled in the 2017 financial year. Additionally, in the previous year, a fixed deposit of 2.5 million euros was pledged to a principal bank in order to secure its claims. This agreement was also cancelled in the 2017 financial year.

The carrying amount of the financial assets pledged as collateral where the collateralised party is entitled to sell or re-pledge the assets was 0 euros in the 2016 financial year, as no line of credit was utilised.

## 25. Information on capital

IAS 1 provides information on equity and the management thereof, in order to facilitate the assessment of the risk profile and potential reactions to unexpected negative developments.

The objective of the company with regard to capital management is:

— To guarantee the company as a going concern, so that the company can continue to generate dividends for shareholders and benefits for other interest groups.

— To generate reasonable yields for shareholders via a risk-commensurate pricing policy for products and services.

The msg life Group defines the scope of capital in relationship to risk. The management and, if necessary, the adjustment of the capital structure are carried out on the basis of changes in the economic environment and changes to the risk characteristics of the underlying assets. In order to maintain and/or adjust the capital structure, dividend payments, capital repayments to shareholders, the issuing of new shares, the assumption or redemption of financial liabilities and the sale of assets for debt reduction are taken into consideration.

As at 31 December 2017 and 2016, respectively, no amendments were made to the objectives, guidelines and procedures for capital management.

The msg life Group monitors its capital on the basis of the equity ratio. This quotient is calculated as equity to balance sheet total.

The equity ratios on 31 December 2017 and 31 December 2016 amounted to:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| | Euro | Euro |
| Shareholders' equity | 61,819,343 | 52,159,629 |
| Total assets | 103,578,531 | 88,717,891 |
| **Equity ratio** | **60%** | **59%** |

## VIII. Notes on the cash flow statement

The cash flow statement displays the origin and use of payment flows in the 2017 and 2016 financial years. Here, a differentiation is made between payment flows from operating activities and from investing and financing activities. Cash and cash equivalents cover all cash in hand and bank balances available within three months and other liquid investments that can be exchanged for known sums of money at any time and are not subject to any significant risks to changes in value. Cash and cash equivalents correspond to cash and cash equivalents reported in the statement of financial position.

Changes in cash and cash equivalents from operating activities are adjusted for effects from currency translation.

Changes in cash and cash equivalents from investment and financial activities are calculated in terms of sums paid.

Changes in cash and cash equivalents from continuing activities are, in contrast, indirectly derived from earnings before taxes.

The main non-cash effects in the cash flow from operating activities, based on earnings before taxes, were depreciation on property, plant and equipment and amortisation on intangible assets amounting to 1.751 million euros (previous year: 1.511 million euros).

For the current 2017 financial year, receipt of the third – and final – instalment of the purchase price for the purchase of the shares in msg life metris gmbh, which took place in 2015, in the amount of 200,000 euros is recognised in cash flow from investment activity and not – as was the case for the second purchase price instalment (300,000 euros) in the 2016 financial year – in cash flow from operating activity.

With regard to the additions due to changes in the consolidation group in 2017, please see the notes in section III 'Consolidation group'.

## IX. Earnings per share

Pursuant to IAS 33.2, the calculation and publication of earnings per share is only required of companies whose equity instruments are already traded on a public market or who are currently in the process of an initial public offering (IPO). This information is therefore provided on a voluntary basis; all requirements of IAS 33 have been observed.

The **undiluted earnings** per share for the 2017 financial year amount to 0.18 euros (previous year: 0.16 euros).

Undiluted earnings per share are calculated by dividing the consolidated profit by the weighted number of shares issued. The weighted number of shares issued for the 2017 financial year amounted to 42,802,453 (2016: 40,895,861 shares).

| | 2017 | 2016 |
|---|---|---|
| | Euro | Euro |
| Consolidated earnings attributed to the parent company | 7,666,011 | 6,481,893 |
| Weighted number of shares issued | 42,802,453 | 40,895,861 |
| **Total** | **0.18** | **0.16** |

The **diluted earnings** per share for the 2017 financial year amount to 0.18 euros (previous year: 0.16 euros).

## X. Assumptions and estimates

In the section III 'Consolidation group', number 1 'Subsidiaries' and section VII 'Notes on the statement of financial position', number 8 'Goodwill and other intangible assets' of the Notes, the main assumptions are presented that were used as the basis for the impairment test for goodwill carried out on the fixed date.

Key assumptions in connection with the pension provisions are described in section II 'Accounting and valuation methods', number 3 'General information about the accounting and valuation methods'.

For some of the customer projects (especially fixed-price projects), evaluation is carried out in accordance with the progress of the project (percentage-of-completion method). Using this method, the likely turnover, total cost of completing the project and the degree of completion must be estimated. Suppositions, estimations and uncertainties that are associated with the determination of the degree of completion have effects on the amount and temporal distribution of the achieved turnover and the expenses reported.The main assumptions are set out in the section II 'Accounting and valuation methods', section VI 'Notes on the income statement', number 1 'Turnover' as well as section VII 'Notes on the statement of financial position', number 3 'Trade receivables'.

Other important assumptions relevant for the future and major sources of estimation uncertainties available on the fixed date, which could constitute a considerable risk, with the result that, within the next financial year, a major adjustment of the recorded assets and debts could be necessary, do not exist. Further estimates and assumptions relevant to the future are explained in the individual items of the statement of financial position and in the income statement.

## XI. Related parties

Related parties are the Management Board and the Supervisory Board of msg life ag and msg group GmbH, Ismaning, which has been the highest-level parent company of msg life ag since 16 March 2009, including its subsidiaries, joint ventures and associated companies.

### 1. Total remuneration of the Management Board and the Supervisory Board

#### Management Board remuneration

The remuneration of the Management Board active in the financial year was 1.259 million euros (previous year: 1.210 million euros). The remuneration was allocated as follows:

| | 2017 | 2016 |
|---|---|---|
| | Thousand euros | Thousand euros |
| Payable short-term remuneration | 1,270 | 1,166 |
| (Repayment) Advance on LTI | –11 | 44 |
| **Total** | **1,259** | **1,210** |

In the 2017 financial year, a total of 248,000 euros (previous year: 218,000 euros) were entered against costs for the Management Board's long-term variable remuneration (LTI).

Remuneration for former members of the Management Board in 2017 amounted to 119,000 euros (previous year: 117,000 euros).

Pension provisions for former members of the Management Board offset against plan assets amounted to 672,000 euros on 31 December 2017 (previous year: 628,000 euros).

### Supervisory Board remuneration

The remuneration of the Supervisory Board amounted to 144,000 euros (previous year: 144,000 euros).

## 2. Share ownership of the Management Board and the Supervisory Board

As at 31 December 2017, the Management Board did not hold any shares in msg life ag. Simultaneously, the member of the Supervisory Board Mr Johann Zehetmaier, Ismaning, indirectly held shares in msg life ag through msg systems AG, Ismaning, as a co-partner in msg group GmbH, Ismaning.

## 3. Other transactions with related parties

### Other related companies and parties

There are no transactions with the members of the Management Board and the Supervisory Board concerning the aforementioned matters in the financial year.

The following table contains the total amounts from transactions between related companies for the reporting year:

| | Income from transactions with related parties and companies | | Expenses from transactions with related parties and companies | | Amounts due from related parties and companies | | Amounts payable to related parties and companies | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| **Related companies** | | | | | | | | |
| a) msg systems ag, Ismaning (parent company) | 1,368 | 1,416 | 2,760 | 3,405 | 8 | 170 | 575 | 398 |
| b) innovas GmbH, Hamburg | 21 | 161 | 2,412 | 2,417 | 0 | 0 | 1,569 | 1,047 |
| c) msg global solutions ag, Regensdorf | 0 | 558 | 0 | 0 | 10 | 62 | 0 | 0 |
| d) msg global solution Benelux B.V., Utrecht | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| e) msg global solutions Inc., Princeton | 0 | 0 | 198 | 0 | 0 | 0 | 0 | 0 |
| f) msg global solutions asia Pte.Ltd., Singapore | 0 | 0 | 73 | 0 | 0 | 0 | 19 | 0 |
| g) inex24 AG, Ismaning | 0 | 0 | 30 | 0 | 0 | 0 | 35 | 0 |
| h) msg services AG, Ismaning | 0 | 0 | 342 | 204 | 0 | 0 | 106 | 57 |
| i) consulo GmbH, Hamburg | 170 | 200 | 51 | 67 | 0 | 11 | 0 | 0 |
| j) BELTIOS GmbH, Munich | 179 | 214 | 1,633 | 1,500 | 0 | 50 | 224 | 547 |
| k) msg systems ag, Regensdorf (Switzerland) | 0 | 62 | 108 | 27 | 0 | 0 | 76 | 0 |
| l) msg life metris GmbH, St. Georgen | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 |

| | Income from transactions with related parties and companies | | Expenses from transactions with related parties and companies | | Amounts due from related parties and companies | | Amounts payable to related parties and companies | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros | Thousand euros |
| m) msg systems GmbH, Vienna | 0 | 1 | 435 | 49 | 0 | 0 | 124 | 15 |
| n) Plaut Deutschland GmbH, Ismaning | 0 | 0 | 15 | 39 | 0 | 0 | 0 | 3 |

Aside from msg systems AG, all other companies specified are other related companies and parties.

The income and expenses shown as well as amounts owed to and from related parties and companies are mainly comprised of services either rendered or received.

In the reporting period, msg life ag sold all 1,906,592 previously held shares to msg systems ag, Ismaning. In this regard, please see the notes in section VII 'Subscribed capital'.

## XII. Information on the management bodies

### 1. Members of the Supervisory Board in the reporting period:

**Dr Christian Hofer, Chairman**
Graduate Mathematician, Herrsching

**Klaus Kuhnle, Deputy Chairman**
Management Consultant, Grünwald

**Johann Zehetmaier, Member of the Supervisory Board**
Chairman of the Board of msg systems AG, Ismaning

### 2. Members of the Management Board in the reporting period:

**Rolf Zielke**
(direct overall responsibility for Central Europe – Spokesperson), Munich

**Bernhard Achter**
(direct overall responsibility for Global), Banker, Leinfelden-Echterdingen

**Dr Aristid Neuburger**
(direct overall responsibility for Central Europe), Graduate Mathematician, Munich

**Francesco Cargnel**
(direct overall responsibility for Central Europe), Graduate Computer Scientist, Munich (from 1 January 2018)

**Dr Wolf Wiedmann**
(direct overall responsibility for Central Europe), Graduate Physicist, Cologne (from 1 January 2018)

## XIII. Events after the reporting period

Events occurring after the balance sheet date and up to the date of release of the consolidated financial statements to the Supervisory Board by the Management Board, 12 April 2018, have been taken into account.

No transactions of particular significance took place following the end of the reporting period (31 December 2017).

Leinfelden-Echterdingen, 12 April 2018
msg life ag

**ROLF ZIELKE**
Spokesperson of the Management Board

**BERNHARD ACHTER**
Member of the Management Board

**FRANCESCO CARGNEL**
Member of the Management Board

**DR ARISTID NEUBURGER**
Member of the Management Board

**DR WOLF WIEDMANN**
Member of the Management Board

# Audit certificate

We have carried out an audit of the consolidated financial statements – consisting of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and consolidated notes – as well as the condensed management report and the Group management report for the financial year from 1 January to 31 December 2017 drawn up by msg life ag, Leinfelden-Echterdingen. The drawing up of the consolidated financial statements, the condensed management report and the Group management report pursuant to IFRS, as applicable in the European Union, and the regulations under German commercial law as per section 315a, paragraph 1, of the HGB (German Commercial Code) and the provisions of the articles of incorporation that apply supplementary to these, is the responsibility of the company's legal representatives. It is our duty to submit an assessment of the consolidated financial statements, condensed management report and the Group management report on the basis of the audit that we conducted.

We audited the consolidated financial statements in accordance with section 317 of the German Commercial Code (HGB), while observing the generally accepted German auditing standards as established by the Institute of Public Auditors in Germany (IDW). These stipulate that the audit must be planned and conducted in such a way that irregularities and infringements that could materially affect the picture of the assets, financial and earnings position of the Group communicated by the consolidated financial statements in compliance with the applicable account rules and by the condensed management report and the Group management report can be established with a sufficient degree of certainty. Knowledge of the business activities and the economic and legal environment of the Group are taken into account when defining the audit procedures, as well as the expectations of potential errors. The efficacy of the internal accounting control system and records substantiating the data provided in the accounts in the consolidated financial statements, the condensed management report and the Group management report are predominantly assessed on the basis of random sampling inspections within the framework of the audit. The audit includes an assessment of the financial statements of the companies included in the consolidated financial statements, the delimitation of the consolidation group, the accounting and consolidation principles applied and the significant estimates made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements, the condensed management report and the Group management report. We are of the opinion that our audit provides a sufficiently sound basis for our appraisal.

Our audit did not give rise to any objections.

In our estimation, based on the information gathered during the course of the audit, the consolidated financial statements comply with IFRS, as applicable in the European Union, and the regulations under German commercial law as per section 315a, paragraph 1, of the HGB that apply supplementary to these, and the supplementary regulations in the articles of association, and, in compliance with these regulations, communicate a true and accurate picture of the assets, financial and earnings position of the Group. The condensed management report and Group management report are consistent with the consolidated financial statements, communicate an accurate overall picture of the Group's situation and accurately describe the opportunities and risks of future development.

Frankfurt am Main, 12 April 2018

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft (Düsseldorf)
(Formerly Baker Tilly GmbH Wirtschaftsprüfungsgesellschaft)

**CHRISTIAN ROOS**
– Auditor –

**RENÉ WITZEL**
– Auditor –

# Imprint

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msg life ag

**Kontakt**
msg life ag
Humboldtstrasse 35
70771 Leinfelden-Echterdingen
Germany
Telefon: +49 (0) 711 94958 - 0
Telefax: +49 (0) 711 94958 - 49
E-Mail: info@msg-life.com

**Edited by**
msg life ag
Frank Fahrner, Dorothea Kurtz,
Dr Markus Scheffler, Monika Schumacher

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**Please note**
We have refrained from printing the separate financial statements of msg life ag. You can view these on our website or request them by telephone.

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