msg life ag

LEINFELDEN-ECHTERDINGEN

ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017 AND CONDENSED MANAGEMENT REPORT ON THE POSITION OF THE COMPANY AND THR GROUP IN THE 2017 FINANCIAL YEAR

msg life ag, Leinfelden-Echterdingen

Statement of financial position as at 31 December 2017

Assets	31.12.2017 EUR	31.12.2017 EUR	31.12.2016 EUR
A. Fixed assets			
I. Property, plant and equipment			
1. Land, leasehold rights and buildings, including buildings on third-party land	378.288,00		512.793,00
2. Other fixtures and fittings, tools and equipment	464.149,00		378.456,00
3. Advance payments and plant and machinery in process of construction	0,00		152.332,32
		842.437,00	1.043.581,32
II. Financial assets			
1. Shares in affiliated companies	57.262.916,46		57.262.417,46
2. Loans to affiliated companies	1.000.000,00		2.000.000,00
		58.262.916,46	59.262.417,46
		59.105.353,46	60.305.998,78
B. Current assets			
I. Inventories			
Work in progress		0,00	0,00
II. Accounts receivable and other assets			
1. Trade receivables	966.877,37		2.260.785,79
2. Accounts due from affiliated companies	445.006,95		920.519,85
3. Other assets	187.224,58		407.063,78
		1.599.108,90	3.588.369,42
III. Cash in hand and bank balances		8.333.806,97	7.322.967,84
		9.932.915,87	10.911.337,26
C. Prepaid expenses and deferred income		49.876,97	110.642,27
D. Deferred tax assets		43.867,98	39.345,80
		69.132.014,28	71.367.324,11

Equity and Liabilities	31.12.2017 EUR	31.12.2017 EUR	31.12.2016 EUR
A. Shareholders' equity			
I. Subscribed capital			
42,802,453 shares	42.802.453,00		42.802.453,00
less accounting value of treasury shares	0,00		-1.906.592,00
Issued capital		42.802.453,00	40.895.861,00
II. Capital reserves		6.911.342,26	4.280.245,30
III. Revenue reserves			
Other revenue reserves		4.876.955,92	4.876.955,92
IV. Net loss for the year		-15.484.883,61	-18.087.327,73
		39.105.867,57	31.965.734,49
B. Provisions			
1. Provisions for pensions and similar obligations	353.209,20		311.215,20
2. Tax provisions	658.121,70		415.513,70
2. Other provisions	2.249.279,00		2.013.665,49
		3.260.609,90	2.740.394,39
C. Liabilities			
1. Trade payables	189.787,23		170.770,91
2. Liabilities to affiliated companies	24.498.192,53		35.653.131,69
3. Other liabilities	2.033.689,07		797.946,83
– of which from taxes EUR 2,033,689.07 (prev. year: EUR 642,929.93)			
		26.721.668,83	36.621.849,43
D. Prepaid expenses and deferred income		0,00	0,00
E. Deferred tax liabilities		43.867,98	39.345,80
		69.132.014,28	71.367.324,11

msg life ag, Leinfelden-Echterdingen

Income statement for the 2017 financial year

		2017 EUR	2017 EUR	2016 EUR
1.	Sales		17.868.607,19	19.911.545,97
2.	Increase / decrease in finished goods and work in progress		0,00	-117.864,69
3.	Other operating income – of which from currency conversion: EUR 345,679.76 (prev. year: EUR 93,673.27)		800.368,52	544.981,61
4.	Cost of materials			
	a) Cost of purchased services	-6.977.106,79		-5.010.107,82
			-6.977.106,79	-5.010.107,82
5.	Personnel expenses			
	a) Wages and salaries	-5.301.958,33		-5.137.907,02
	b) Social security and expenditure for pensions and other benefits – of which for pensions: EUR 67,046.32 (prev. year: EUR 37,483.60)	-488.665,33		-401.462,12
			-5.790.623,66	-5.539.369,14
6.	Depreciation and amortisation costs and other write-offs on intangible assets and property, plant and equipment		-248.898,79	-242.231,23
7.	Other operating expenses – of which from currency conversion: EUR 4,720.57 (prev. year: EUR 94,567.18)		-12.384.864,73	-14.798.773,64
8.	Income from profit and loss absorption/transfer agreement		10.156.170,33	9.827.038,90
9.	Other interest and similar income – of which from discounting: EUR 4,772.84 (prev. year: EUR 10,845.69) – of which from affiliated companies: EUR 13,820.34 (prev. year: EUR 18,137.13)		18.593,18	28.987,99
10.	Write-downs of financial assets and marketable securities		0,00	0,00
11.	Loss transfer expenses		-210.065,67	-234.948,19
12.	Interest and similar expenses – of which from discounting: EUR 93,109.00 (prev. year: EUR 50,695.00) – of which due to affiliated companies: EUR 270,100.39 (prev. year: EUR 807,601.36)		-383.611,46	-874.081,73
13.	Taxes on income		-242.608,00	-415.513,70
14.	**Earnings after taxes**		**2.605.960,12**	**3.079.664,33**
15.	Other taxes		-3.516,00	-3.733,00
16.	**Net income/loss for the year**		**2.602.444,12**	**3.075.931,33**
17.	**Loss carried forward**		**-18.087.327,73**	**-45.603.779,16**
18.	**Transfers from capital reserves**		**0,00**	**24.440.520,10**
19.	**Net loss for the year**		**-15.484.883,61**	**-18.087.327,73**

msg life ag, Leinfelden-Echterdingen
Notes for the 2017 financial year

I. General information about the annual financial statements

msg life ag based in Leinfelden-Echterdingen - the 'company' - is listed in the commercial register of the district court of Stuttgart (HRB 731887).

The annual financial statements of msg life ag are prepared in accordance with the provisions of the German commercial code (HGB) for incorporated companies and the German stock corporation act (AktG), and with the provisions of the articles of incorporation.

The type of expenditure format was used to prepare the income statement.

As of the reporting date, the company was classified as a medium-sized corporation under the size criteria defined in Section 267 (2) in conjunction with (4) HGB.

The company had been listed in the prime standard on the German stock exchange since 2000. 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 of the prior reporting date (31 December 2016), the company was listed in the prime standard and therefore qualified as a large corporation as per Section 267 (3) sentence 2 HGB since the prime standard qualifies as an organised market under Section 2 (5) WpHG.

II. Accounting and valuation methods

Intangible assets acquired for valuable consideration are recognised at original cost and subject to scheduled amortisation over three to five years.

Fixed assets are recognised at original cost; assets with a limited useful life are recognised less scheduled depreciation. The useful lives are between three and ten years. Depreciable movable fixed assets that can be used independently and whose (net) costs per individual good are more than 150 euros but not more than 410 euros are immediately recognised as expenses in the year of acquisition. Assets with a cost of less than 150 euros are recognised as expenses. The collective item which, in past years, covered goods with original costs of between 150 euros and 1,000 euros is written off over the residual term.

Financial assets are always recognised at original cost including incidental acquisition costs and, if appropriate, after being written down to the lower fair value.

Accounts receivable and other assets are recognised at nominal or present value. Valuation allowances are made for identifiable individual risks.

Cash in hand and bank balances are recognised at their nominal amount.

The prepaid expenses item covers payments in the reporting year that result in expenses for a certain period following the reporting date.

Pension obligations are calculated using the projected unit credit method.

The actuarial interest rate used to discount the pension obligations is based on the average market interest rate over the past ten financial years for an assumed residual term of 15 years as calculated and published by Deutsche Bundesbank.

The amount of other provisions ensures that all identifiable risks are covered. Prudent commercial judgement is used to calculate provisions to cover the necessary settlement amounts. Provisions with residual terms exceeding one year are discounted at the average market interest rate of the past seven financial years that is appropriate for their residual term. The relevant rate is calculated and published monthly by Deutsche Bundesbank.

Liabilities are always recognised at settlement amount.

The deferred income item is used to state such income received during the year under review as represents income for a defined period after the reporting date.

Receivables and payables denominated in foreign currencies are converted at the mean spot rate applicable at the time of the transaction. Pursuant to Section 256a HGB, the effects of changes in exchange rates are taken into account by remeasurement on the reporting date.

To determine the deferred taxes resulting from temporary or quasi-permanent differences between the commercial-law and tax-law valuation of assets, liabilities and deferred items, they are measured at the tax rates applicable specifically to the company when the differences cease to exist; the resulting tax asset or liability is not discounted. Deferred tax assets and liabilities are not netted. The company exercises its right to choose not to recognise any deferred tax surplus.

Assessing the recoverability of deferred tax claims is predominantly based on an estimation of how likely a reversal of the valuation differences is and whether the loss carry-forwards can be utilised. This is dependent on whether future taxable profits are made during periods in which tax valuation differences are reversed and tax loss carry-forwards can be claimed.

III. Notes on the statement of financial position

1. Fixed assets

The development of fixed assets in the financial year, including their breakdown, is presented separately in the statement of changes in fixed assets (see annex to the notes).

Shareholdings as defined in Section 285 No. 11 HGB were as follows on 31 December 2017:

Company name and registered office	**Capital share**	**Shareholders' equity (as per national law)**	**Result (as per national law)**
	%	**EUR'000**	**EUR'000**
1. msg life central europe gmbh, Munich (Germany) [1]	100	38,009	0*[1]
with its subsidiary msg life Austria Ges.m.b.H., Vienna (Austria) [2]	100	10	-3
with its subsidiary msg life Switzerland AG, Regensdorf (Switzerland) [2]	100	4,428	458
with its subsidiary msg life Slovakia s.r.o., Bratislava (Slovakia)[2]	100	1,055	956
with its subsidiary msg life Benelux B.V., Amsterdam (Netherlands) [2]	100	626	415
with its subsidiary ARGE FJA KR BU-System, Munich (Germany) [2]	50	25	16
with its subsidiary spheos GmbH & Co. KG, Munich (Germany) [2]	100	-162	11
with its subsidiary spheos Verwaltungs GmbH, Munich (Germany) [2]	100	7	-1
2. msg life global gmbh, Munich (Germany) [1]	98.11 [4]	3,766	0*[1]
with its subsidiary FJA-US, Inc., New York (USA) [3]	100	14,687	2,647
with its subsidiary msg life Iberia, Unipessoal LDA, Porto (Portugal) [3]	100	603	253

Company name and registered office	Capital share	Shareholders' equity (as per national law)	Result (as per national law)
	%	EUR'000	EUR'000
with its subsidiary msg life odateam d.o.o., Maribor (Slovenia) [3]	100	1,783	484
3. msg life Poland Sp. z o.o., Warsaw (Poland)	100	-221	-82

*[1] after transfer of profit/loss as per profit/loss transfer agreement

[1] Profit and loss transfer agreements are in place with msg life central europe gmbh, Munich, and msg life global gmbh, Munich, according to which the company takes over both profits and losses.

[2] This is an indirect equity interest. The shares are held by msg life central europe gmbh, Munich.

[3] This is an indirect equity interest. The shares are held by msg life global gmbh, Munich.

[4] The remaining shares (1.89%) are held by msg life central europe gmbh, Munich.

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 general partner 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.

As at the reporting date 2016, the following companies had 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 (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 2017 financial year, msg life ag assumed a loss of 210,000 euros on behalf of msg life global gmbh.

An agreement governing a loan of 10,000,000 euros was signed with msg life central europe gmbh in 2008, whereby the amount of the loan was provided by converting the same amount of trade receivables. The loan agreement has a term of 10 years and bears interest at 1-month EURIBOR plus 100 basis points. As of 31 December 2017, the receivables from this loan agreement amounted to 1,000,000 euros.

2. Amounts receivable from and payable to affiliated companies / Liabilities to the shareholder

Receivables from affiliated companies amounted to 445,000 euros as of the reporting date (previous year: 921,000 euros) and are current. Receivables from affiliated companies essentially relate to intra-Group services.

The individual valuation allowance relating to the amount receivable from msg life Benelux B.V. was reversed in 2017.

Liabilities to the shareholder – msg systems ag, Ismaning, Germany – amounted to 74,000 euros as at 31 December 2017 (previous year: receivables of 162,000 euros) and are recognised under liabilities to affiliated companies.

Liabilities to affiliated companies essentially relate to intra-Group deliveries and services.

3. Accounts receivable and other assets

Of the accounts receivable and other assets, 54,000 euros of the outstanding sale price for the plenum AG shares have a residual term of more than one year. All other amounts are payable within one year. In the previous year, an amount of 134,000 euros had a residual term of more than one year.

4. Shareholders' equity

	Subscribed capital	Capital reserves	Revenue reserves	Net loss for the year	Total equity
	Euros	**Euros**	**Euros**	**Euros**	**Euros**
As at 31/12/2016	**40,895,861.00**	**4,280,245.30**	**4,876,955.92**	**-18,087,327.73**	**31,965,734.49**
Changes 2017	1,906,592.00	2,631,096.96		2,602,444.12	7,140,133.08
As at 31/12/2017	**42,802,453.00**	**6,911,342.26**	**4,876,955.92**	**-15,484,883.61**	**39,105,867.57**

The subscribed capital as at 31 December 2017 totalled 42,802,453 euros (previous year: 42,802,453 euros). It is divided into 42,802,453 no-par-value bearer shares (previous year: 42,802,453 shares) each representing a notional share of 1.00 euro in the share capital. Each share entitles its holder to one vote. No preference shares are issued. In the previous year, the nominal value of the treasury shares was written off openly from the subscribed capital in accordance with Section 272 (1a) HGB and the difference between nominal amount and original cost of the treasury shares was offset against the capital reserve. After netting, the subscribed capital totalled 40,895,861 euros.

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 Section 71 ff 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.

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 treasury shares, i.e. around 3 per cent of the nominal capital (21,289,353 euros), on the stock exchange from 25 August 2008 onwards. Ultimately, 518,279 treasury shares were acquired in the 2008 financial year.

In the 2009 financial year, msg life ag repurchased a further 1,312,036 shares, in addition to the 518,279 shares acquired in 2008. The addition of 2,435,885.52 euros equates to an average purchase price of 1.86 euros.

As a result of the merger with former COR AG, the number of treasury shares increased retrospectively by 624,900 shares as of 1 January 2009. The addition of 1,327,918.47 euros equates to an average purchase price of 2.13 euros.

The sale of 548,623 shares in September 2009 generated a book profit of 255,886.47 euros. The profit was utilised for company purposes. In the 2009 financial year, 28,499.47 euros were written up on the lower stock exchange price of 3,453,719.92 euros as of the closing date (previous year. valuation allowance of 68,442.62 euros).

As of the previous closing date of 31 December 2016, 1,906,592 treasury shares had been held. Their purchase price was 3,440,877.07 euros, equivalent to an average acquisition price of 1.80 euros per share. 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 sales proceeds and carrying amount of the treasury shares (nominal value) totalled 2,631,096.96 euros and was added to the capital reserve.

5. Authorised capital

Authorised capital 2015/1

The annual general meeting on 25 June 2015 authorised the Management Board to increase the company's share capital 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 before 25 June 2020, 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 (1) sentence 1 or Section 53b (1) sentence 1 or (7) German Banking Act (KWG) under the obligation that the shares are offered to the shareholders for subscription. The Management Board is authorised to exclude the shareholders' pre-emptive 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.

6. Pension provisions

As in previous years, pension obligations are calculated (projected unit credit method) on the basis of the biometric principles of the 2005 G mortality tables of Professor Dr. Klaus Heubeck. The following parameters were also considered:

in %		**31/12/2017**	**31/12/2016**
Discount factor		3.74	4.06
Projected in-crease in sala-		n/a	n/a
Project increase in pensions		1.9	1.9

In the year under review, pension provisions were comprised of the following:

	EUR'000
Pension provisions as per expertise	1,396
less fixed deposit pledged to KSK München-Starnberg-Ebersberg	1,043
Pension provisions as per statement of financial position	353

The interest-related difference in 2017 was determined in accordance with Section 253 (6) sentence 1 HGB as follows:

	EUR'000
Obligation when interest is calculated at the average market interest rate for the past seven years	1,506
Obligation when interest is calculated at the average market interest rate for the past ten years	1,396
Difference	110

Pursuant to Section 246 (2) HGB in conjunction with Section 285 (25) HGB, the aforementioned netting of assets and liabilities produced netted expenditure (interest expense on pension provisions of 90,000 euros in 2017) and income (income from reinsurance of 0,000 euros in 2017) of 90,000 euros.

7. Other provisions

Other provisions are comprised as follows:

	31/12/2017 EUR'000	31/12/2016 EUR'000
Personnel	1,641	1,478
Supervisory Board remunera-tion	144	144
Financial statement preparation	98	110
Archiving provision	87	119
Outstanding invoices	77	8
Annual report, etc.	60	60
Sundry	142	95
	2,249	**2,014**

8. Liabilities

The remaining terms of the liabilities (previous year are in brackets) developed as follows:

	<1 year EUR'000	1 to 5 years EUR'000	>5 years EUR'000	Total EUR'000
Trade payables	190 (171)	0 (0)	0 (0)	190 (171)
Liabilities to affiliated companies	24,498 (35,653)	0 (0)	0 (0)	24,498 (35,653)
Other liabilities	2,034 (798)	0 (0)	0 (0)	2,034 (798)
	26,722 (36,622)	**0** (0)	**0** (0)	**26,722** (36,622)

General credit facilities continued to exist unchanged in 2017 of 2,500,000 euros each with Kreissparkasse Böblingen, UniCredit Bank AG and Baden-Württembergische Bank.

As of the closing date, one of the lines had been utilised to the extent of 1,177,000 euros for security deposits. As of the prior-year closing date, all trade receivables (current and future) had been pledged as collateral as part of a blanket assignment.

As was also the case in the previous year, the other liabilities with a residual term of less than one year of 2,034,000 euros (previous year; 798,000 euros) are essentially attributable to sales tax liabilities of 1,915,000 euros (previous year: 558,000 euros).

9. Deferred tax assets and deferred tax liabilities

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

	31/12/2017	
	Deferred tax assets	**Deferred tax liabilities**
	EUR'000	**EUR'000**
Non-current and current assets	0	44
Pension provisions	44	0
Other provisions	0	0
Total	**44**	**44**

Deferred taxes result particularly from temporary differences between tax-law measurement and the recognition of assets and liabilities in accordance with German commercial law.

Deferred tax assets from tax loss carry-forwards were not recognised at the end of the 2017 financial year.

10. Contingent liabilities and other financial obligations

Profit and loss transfer agreements were in place with both msg life central europe gmbh and msg life global gmbh as of the closing date. Under these agreements, the company agrees to absorb any losses.

The pension claims of Professor Feilmeier and Mr Junker are secured by a fixed deposit of 1,043,000 euros pledged to Kreissparkasse München-Starnberg-Ebersberg.

Other financial obligations relating to rental and lease contracts (building, IT and car leases) total 18,400,000 euros (previous year: 23,700,000 euros). Of this amount, 1,600,000 euros are due within one year and a further 6,100,000 euros by the end of 2022. 10,700,000 euros have a residual term of more than 5 years.

11. Financial instruments

The company held no financial investments at the reporting date.

IV. Notes to the income statement

1. Sales

	31/12/2017 EUR'000	31/12/2016 EUR'000
By area of activity		
• Services	5,162	5,931
• Licence revenues	511	819
• Intra-Group cost reimbursements	11,381	12,239
• Maintenance income	566	495
• Rental income	249	427
	17,869	**19,911**

Of the total sales, 15,645,000 euros (previous year: 17,294,000 euros) were generated in Germany, 1,550,000 euros (previous year: 1,917,000 euros) in Europe and 674,000 euros (previous year: 700,000 euros) in the US. Group allocations to subsidiaries amounted to 11,381,000 euros.

In accordance with BilRUG requirements, rental income from sub-leases has been recognised as sales since 2016.

2. Other operating income

Other operating income amounted to 800,000 euros (previous year: 545,000 euros) and includes earnings from offsetting non-monetary benefits to company employees of around 127,000 euros (previous year: 123,000 euros) and exchange rate gains of 346,000 euros (previous year: 94,000 euros).

3. Cost of materials

The cost of materials of 6,977,000 euros (previous year: 5,010,000 euros) was essentially attributable to intra-Group purchased services. Rental expenses of 225,000 euros for business premises were offset by rental income from sub-letting.

4. Personnel expenses

Personnel expenses include pension expenses of 67,000 euros (previous year: 37,000 euros).

5. Depreciation of financial assets

No depreciation was performed on financial assets.

6. Income from profit and loss transfer agreements

In 2017, msg life ag generated income of 10,156,000 euros from the profit and loss transfer agreement with msg life central europe gmbh (previous year: 9,827,000 euros).

7. Loss transfer expenses

In the financial year just ended, msg life ag incurred loss transfer expenses of 210,000 euros from the profit and loss transfer agreement with msg life global gmbh (previous year: 235,000 euros).

8. Expenses and income relating to other periods

No expenses relating to other periods were incurred in the year under review (previous year: 2,000 euros). Income relating to other periods totalled 53,000 euros in 2017 (previous year: 86,000 euros).

V. Miscellaneous disclosures

1. Headcount

As of year-end 2017, msg life ag employed 35 people (previous year: 33). On average, 32 (previous year: 33) employees worked for the company in the year under review. 18 of the employees were executives (previous year: 11) and 17 were permanent employees (previous year: 22).

2. Auditor's fees and services

In accordance with Section 285 (17) HGB, please refer to the notes in the consolidated financial statements for a discussion of the fees charged by the auditor for services rendered.

3. 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)

4. 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, ordinary member, CEO msg systems ag, Ismaning

5. Remuneration paid to Board members

The remuneration paid to active members of the Management Board in the financial year was 1,259,000 euros (previous year: 1,210,000 euros). The remuneration was allocated as follows:

	2017	2016
	EUR'000	**EUR'000**
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 expensed for long-term variable remuneration (LTI) of the Management Board.

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

Pension provisions for former members of the Management Board amounted to 353,000 euros on 31 December 2017 (previous year: 311,000 euros), comprised as follows in compliance with BilMoG requirements:

	EUR'000
Pension provisions as per expertise	1,396
less fixed deposit pledged to KSK München-Starnberg-Ebersberg	1,043
Pension provisions as per statement of financial position	353

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

6. Transactions with related parties

The following transactions were executed with related parties:

	Subsidiary	Indirect subsidiary	Parent company
Sale of services (EUR'000)	922	8	
Purchase of services (EUR'000)	13,595	1,124	
Provision of management and IT services (EUR'000)	9,128	2,889	
Purchase of services (EUR'000)			639
Interest (EUR'000)	254	2	
Rental (EUR'000)			121
Profit/loss transfer (EUR'000)	9,946		

msg life ag performs the cash pooling function for msg life central europe gmbh as well as paying the sales tax for msg life central europe gmbh and msg life global gmbh. Treasury shares were sold to the parent company msg systems ag in the year under review (please refer to the discussion of equity for more information).

7. Consolidated financial statements

As the parent company, msg life ag prepares consolidated financial statements for the year ended 31 December 2017 for the smallest consolidation group as per Section 315e (3) HGB, which are published in the federal gazette and filed in the electronic register of companies under HRB 731887 at the district court of Stuttgart.

As at the reporting date, msg life ag is an indirect subsidiary of msg group GmbH, Ismaning, which prepares the consolidated financial statements for the largest number of Group companies. The consolidated financial statements of msg group GmbH, Ismaning, are filed in the electronic register of companies under HRB 178867 at the district court of Munich.

8. Events after the reporting period

Events occurring after the balance sheet date and up to the date of release of the annual 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
Spokesman for the Management Board

Bernhard Achter
Member of the Management Board

Dr Aristid Neuburger
Member of the Management Board

Francesco Cargnel
Member of the Management Board

Dr Wolf Wiedmann
Member of the Management Board

msg life ag, Leinfelden-Echterdingen

Statement of changes in fixed assets

	Original cost/cost of production					Accumulated depreciation/amortisation				Carrying amounts	
	Value 01.01.2017 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	Value 31.12.2017 EUR	Value 01.01.2017 EUR	Additions EUR	Disposals EUR	Value 31.12.2017 EUR	Carrying amount 31.12.2017 EUR	Carrying amount 31.12.2016 EUR
I. Intangible assets											
Franchises, trademarks, patents, licences and similar rights	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**
II. Property, plant and equipment											
1. Land and leasehold rights	1.344.986,46	0,00	0,00	0,00	1.344.986,46	832.193,46	134.505,00	0,00	966.698,46	378.288,00	512.793,00
2. Other fixtures and fittings, tools and equipment	2.042.879,54	47.754,47	27.686,00	152.332,32	2.215.280,33	1.664.423,54	114.393,79	27.686,00	1.751.131,33	464.149,00	378.456,00
3. Advance payments and plant and machinery in process of construction	152.332,32	0,00	0,00	-152.332,32	0,00	0,00	0,00	0,00	0,00	0,00	152.332,32
	3.540.198,32	**47.754,47**	**27.686,00**	**0,00**	**3.560.266,79**	**2.496.617,00**	**248.898,79**	**27.686,00**	**2.717.829,79**	**842.437,00**	**1.043.581,32**
III. Financial assets											
1. Shares in affiliated companies	58.250.753,57	500,00	1,00	0,00	58.251.252,57	988.336,11	0,00	0,00	988.336,11	57.262.916,46	57.262.417,46
2. Loans to affiliated companies	2.000.000,00	0,00	1.000.000,00	0,00	1.000.000,00	0,00	0,00	0,00	0,00	1.000.000,00	2.000.000,00
	60.250.753,57	**500,00**	**1.000.001,00**	**0,00**	**59.251.252,57**	**988.336,11**	**0,00**	**0,00**	**988.336,11**	**58.262.916,46**	**59.262.417,46**
Total	**63.790.951,89**	**48.254,47**	**1.027.687,00**	**0,00**	**62.811.519,36**	**3.484.953,11**	**248.898,79**	**27.686,00**	**3.706.165,90**	**59.105.353,46**	**60.305.998,78**

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.

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, 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 collaboration 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

Auditor’s report

We have audited the annual financial statements – comprising the statement of financial position, income statement and notes – and including the bookkeeping, condensed management report and Group management report of msg life ag, Leinfelden-Echterdingen, for the financial year from 1 January to 31 December 2017. The statutory representatives of the company assume responsibility for bookkeeping and for the preparation of the annual financial statements, condensed management report and Group management report in accordance with the requirements of commercial law in Germany and with the supplementary provisions specified in the articles of incorporation. It is our duty to submit an assessment of the annual financial statements, including bookkeeping, and of the condensed management report and Group management report on the basis of the audit that we conducted.

We audited the annual financial statements in accordance with Section 317 HGB, while observing the generally accepted German auditing standards as established by the Institute of Public Auditors in Germany (IDW). According to these standards, an audit must be planned and carried out in such a way as to enable with an adequate degree of certainty the identification of irregularities and infringements that could significantly affect the portrayal of assets, financial and earnings positions given in the annual financial statements, while complying with the principles of adequate and orderly accounting, and communicated by the condensed management report and the Group management report. Knowledge of the business activities and the economic and legal environment of the company 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, annual financial statements, condensed management report and 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 applied accounting principles and essential appraisals made by the statutory representatives of the company, as well as an appreciation of the overall presentation of the annual financial statements, condensed management report and 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.

Based on the knowledge acquired in the course of the audit, we believe that the annual financial statements are in accordance with the statutory requirements and the supplementary provisions specified in the articles of incorporation, and that they reflect the actual state of affairs with respect to the company’s assets, financial and earnings position. The condensed management report and Group management report are consistent with the annual financial statements, comply with statutory requirements and communicate an accurate overall picture of the company’s position 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 -