msg life ag

LEINFELDEN-ECHTERDINGEN

CONDENSED REPORT ON THE POSITION OF THE COMPANY AND THE GROUP FOR THE 2019 FINANCIAL YEAR

- Non-binding English Translation -

Condensed management report and Group management report

The following management report is the condensed management report and Group management report of msg life ag, Leinfelden-Echterdingen. It tracks the business performance of the msg life Group, including that of the individual Group company of the same name, msg life ag, including the operating results for the 2019 financial year from 1 January 2019 to 31 December 2019, as well as the situation of the Group and the individual company as at the reporting date, 31 December 2019.

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 has been listed 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 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. The holding company is responsible for central and staff functions such as sales, marketing, human resources, finance, business operations, planning and controlling, internal auditing, data protection, compliance management, risk management, IT services and law.

The holding company's commercial activities are restricted mainly to the settlement of services within the Group and to financing; it operates only rarely as a contracting partner in customer projects. Within the scope of services, it is mainly the above-mentioned central and 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 of the Group concerning the development of markets, the general economic environment and opportunities and risks also apply to the holding company.

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 2019 financial year. At the moment, msg life is in talks with potential partners with a view to gaining access to markets it has not previously cultivated. msg life Poland z.o.o. in Warsaw, Poland, has been in liquidation since the fourth quarter of 2018. The liquidation is set to conclude in 2020.

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, msg life employees develop state-of-the-art solutions to provide customers with comprehensive support. msg life invests in modern technology and methods that have been proven to work in practice. The software architecture is component-based and service-oriented and can therefore be used without restriction in digitisation projects. The combination of specialist knowledge, process skills and IT expertise available within the company 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), Almere (Netherlands), Bratislava, Košice and Žilina (Slovakia), Maribor (Slovenia), Oporto (Portugal), Madrid (Spain) and New York, Denver and Portland (USA). The site in Warsaw (Poland) was closed in August 2019; the national affiliate in Poland is currently in liquidation.

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 2019 were as follows:

Entity with reporting obligation	Type of interest	Number of shares
msg systems ag (Ismaning)	Direct	66.14 %
msg group GmbH (Ismaning)	Indirect	66.14 %

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 widely launched 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 2019, the Management Board of msg life ag consisted of Rolf Zielke (Chairman), Dr Aristid Neuburger (Deputy Chairman), Francesco Cargnel, Milenko Radic and Dr Wolf Wiedmann.

The Supervisory Board and the member of the Management Board Mr Bernhard Achter signed a dissolution agreement which came into effect at the end of business on 30 June 2019. Furthermore, the Supervisory Board appointed Mr Milenko Radic to the Management Board of the company with effect from 1 July 2019 until the end of business on 31 December 2023.

As at 31 December 2019, the Supervisory Board consisted of five members: Dr Christian Hofer (Chairman), Klaus Kuhnle (Deputy Chairman), Dr Thomas Noth, Dr Martin Strobel 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 range of core insurance systems is rounded off by the policy management system msg.Life and the all-sector system Unified Administration Platform, the latter being focused on smaller insurance companies, primarily in Europe.

The key specialist and across-the-board functions in the core line of business are covered in particular by the products msg.ZVK Factory (a system for managing 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 (a health insurance product platform, in particular in the US market), msg.Office (transaction control and document processing), msg.Tax Connect (legal tax notifications), msg.Sales (multichannel platform) with msg.Underwriting (risk assessment component) and msg.Ilis (insurance liability information system). There is also msg.Pension for managing time value accounts and company pensions, msg.Marsy-Pension (an administrative solution for the management of company pension commitments) and msg.Online Insure (a self-service portal for digital communication with end customers). msg life also offers a wide array of consulting and services, ranging from software implementation to policy migration, with the migration department also offering the two migration software solutions msg.Migration System and msg.Migration Archive.

msg.Life Factory and other key components are 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. msg life and the msg Group are collaborating closely in order to market msg.Insurance Suite. This collaboration and the full convergence of the components of msg.Insurance Suite are important elements of the product strategy.

Economic report

Macroeconomic and sector-specific conditions

At the time of writing of the condensed management report and Group management report, the impact of the coronavirus pandemic on the general economic and sector-specific conditions in the current 2020 financial year and beyond was not yet evident and has therefore not been taken into account in the following disclosures regarding both subject areas.

Following a weak 2019, the global economy is expected to recover slightly this and next year, as predicted by the International Monetary Fund (IMF) when it presented its World Economic Outlook to the Global Economic Forum in Davos in early 2020. According to the IMF, there are indeed signs that the economy is stabilising but the recovery is slow.

Based on the calculations of the IMF, the rate of global economic growth was 2.9 per cent in the previous year compared to 3.6 per cent in 2018. The economists expect growth of 3.3 and 3.4 per cent for 2020 and 2021 respectively. According to the IMF, the reasons for the cautiously optimistic outlook are the more casual monetary policies of central banks which are boosting consumer spending, the apparent avoidance of a no-deal Brexit and the looming de-escalation of the trade dispute between China and the USA. With regard to the Eurozone, the IMF expects the growth of 1.2 per cent in the previous year to increase to 1.3 per cent in the current year.

Nevertheless, the IMF fears that the trade dispute between China and the USA might escalate again despite its improvement in the meantime. Both countries have imposed punitive tariffs on one another in recent years. Both countries are feeling the consequences: in January 2020, China's National Bureau of Statistics reported that the Chinese economy grew by 6.1 per cent in 2019 compared to 6.6 per cent in 2018 due to the trade conflict and falling domestic demand. According to the IMF, the USA experienced growth of 2.4 per cent in 2019 compared to 2.9 per cent in the same period in the previous year.

The IMF sees other risks besides the trade conflicts: the tensions between Iran and the USA and anti-government protests in numerous countries could impede economic development worldwide. The IMF is also concerned by the dramatic effects of climate change which are casting shadows over global growth outlooks.

Likewise, the Organisation for Economic Cooperation and Development (OECD) expects global growth of 2.9 per cent for 2019 based on the OECD Economic Outlook published in November 2019. However, the outlook is somewhat more pessimistic at around 3.0 per cent for 2020 and 2021 and would match the weakest growth rate since the global financial crisis.

In addition to climate change and digitisation which are leading to structural changes in national economies, the OECD criticises the shift away from the multilateral order of the 1990s in trade and geopolitics. According to the OECD, it is a political mistake to consider these changes as temporary factors which can be countered with fiscal and monetary policy changes. They are of a structural nature and as long as politicians fail to set a clear path, uncertainty will remain high and impede growth outlooks.

Last year, Germany's gross domestic product (GDP) grew by just 0.6 per cent as reported by the Federal Statistical Office on 15 January 2020. As such, Europe's largest national economy has grown for the tenth year in a row. According to the statisticians, this is the longest phase of growth since the reunification of Germany. Nevertheless, the growth of the German economy was the slowest it has been in six years. It grew by 1.5 per cent in 2018 and by 2.5 per cent in 2017.

The growth forecast for 2019 was due primarily to private and government spending, according to the Federal Statistical Office. Consumer spending was 1.6 per cent higher than in the previous year. The construction industry also made a significant contribution to the growth. 3.8 per cent more was invested here than in the previous year. The information and communication service industries also fared exceptionally well, as did the financial and insurance sector, with all reporting growth of 2.9 per cent.

In contrast, export-oriented industries had a difficult year. The trade disputes and the uncertainty surrounding Brexit made customers unsure and impeded investments. The economic output of the manufacturing industry (excluding construction) declined by 3.6 per cent. The weak performance of the automotive industry was a contributing factor in particular.

Although German exports did increase, their rate of growth was not as strong as in previous years. The German economy exported 0.9 per cent more goods and services than in 2018 and, with growth of 1.9 per cent, imports were a little stronger. The Association of German Chambers of Commerce and Industry (DIHK) expects exports to decline by 0.5 per cent this year. This would be the first negative growth since the financial crisis.

The general economic conditions for the German and European insurance industries remained complex last year. Low interest rates, increasing regulatory burdens, high cost pressure and digitisation all characterised 2019. The hopes that the new President of the ECB Christine Lagarde would usher in a revolution in monetary policy have been dashed. The persistently low interest rates have been a thorn in the side of insurers for a number of years now. In late 2019, the German actuarial association Deutsche Aktuarvereinigung (DAV) proposed lowering the projected interest rate in the life insurance sector from 0.9 per cent to 0.5 per cent from 1 January 2021. The Federal Ministry of Finance has not yet made a final decision.

The insurance industry is also dealing with regulatory matters such as Solvency II, the new international accounting standard IFRS 17, the EU IORP II Directive (Institutions for Occupational Retirement Provision) and the planned introduction of a cap on commission. Several years after its introduction, the complex regulatory framework of Solvency II will still be the greatest challenge over the next few years. The chief economist of the German Insurance Association (GDV) Klaus Wiener was critical of it in January 2020, saying that the scope and frequency of the reports are often completely unrelated to their benefit. The European Insurance and Occupational Pensions Authority (EIOPA) is preparing technical recommendations for an examination of Solvency II by mid 2020.

The debate regarding a cap on commission in the life insurance sector is causing great unrest. In April 2019, the Federal Ministry of Finance submitted a draft which provided capping commission to 2.5 per cent of the gross premium or to 4 per cent if there is evidence that high-quality advice has been given. The draft has been met with a lot of criticism. The parties in government have so far failed to unite behind it.

With regard to the German Act to Strengthen Occupational Pensions (BRSG) which came into force in 2018, the focus last year was mainly on the social partner model anchored within it. Unions and employers have so far seemed unwilling to negotiate a pure defined contribution plan for those covered by collective agreements in a collective bargaining agreement. However, there was movement in autumn 2019 when the insurer Talanx and the trade union Verdi agreed to introduce a social partner model. Those in the sector expect the agreement to send a clear message. The German arm of the Zurich Insurance Group also wants to provide its employees with the social partner model. However, according to a survey carried out by the consultancy firm Willis Towers Watson in October 2019, the majority of people in charge of occupational pensions do not expect to see such models on a large scale until 2021.

Digitisation continues to put the insurance industry under great pressure to act. For one, this is reflected by the rising level of expenditure on IT. According to the IT survey carried out by the German Insurance Association (GDV) in January 2020, German insurers invested a record amount of around 4.7 billion euros in hardware and software in 2018. That amount is 4.5 per cent higher than in 2017. Expenses on system development increased by one quarter between 2013 and 2018. Additionally, insurers are increasingly committed to server and cloud solutions: server running costs increased by 20 per cent within five years. With server and cloud solutions, IT capacities can be adapted to meet the level of demand in a flexible manner.

The insurance industry has already undergone a dramatic transformation in recent years due to digitisation. The German Insurance Association (GDV) reports that the replacement of legacy systems is progressing rapidly. This trend continues. In order to overcome the challenges of digitisation and changing customer expectations, insurers are increasingly focused on modern, uniform IT architectures into which new technology and platforms can be incorporated. A lot is in motion: the well-established insurance companies are renewing their policy administration systems, focusing on modern customer communication methods across all channels and developing personalised products which can be launched quickly.

In the financial year ended, numerous insurers used platforms and ecosystems to provide digital products and services beyond what had previously been their core business. This creates new potential ways to create value. The platform economy will continue to play a key role in the insurance industry this year. Artificial intelligence (AI) will also be a high priority. The use of AI (and machine learning at its heart) not only improves efficiency through automation, but also facilitates new technical approaches which in turn pave the way for new business models, services and products. In connection with AI, insurers are also concentrating on robo-advisers, advanced analytics and blockchain.

The insurance industry's concern about a major digital disruption from the innovative InsurTech scene in the financial year ended has given way to a rather pragmatic attitude. Whereas the start-ups were once seen as opponents and a risk to insurers' business models, they are now considered lucrative partners by major insurance companies in particular. Numerous insurers are now working with InsurTechs to make use of their innovative strengths.

As reported by the GDV in January 2020, German insurers can look back on a decidedly satisfactory 2019 despite all of the challenges. According to its report, premium income grew exceptionally strongly, especially in the life segment. Life insurers and pension funds saw premium growth of more than 11 per cent. New products with modified guarantees now make up around 60 per cent of the total volume of new business. Premium income is also increasing from company pension plans, non-life and accident insurance and health insurance.

However, the GDV warns not to celebrate too much as the market environment remains challenging due to low interest rates and the weak performance of the economy. The GDV expects premium growth to normalise in the current year. In the process, the focus will be on climate change, a fundamental reform of private old-age pensions and the zero interest rate policy of the European Central Bank.

The insurance industry has made significant progress with regard to digitisation in recent years. Many companies are using new technology to automate processes, create digital sales channels, increase their innovativeness and/or optimise costs. However, this requires a modern, future-proof IT architecture. As such, demand is growing for external advice and IT support as well as the continuous adaptation and further development of msg life's standard software.

The development of the US insurance market was satisfactory in 2019, with all insurance segments experiencing growth, albeit at a slow rate. A trend of consolidation amongst providers and of concentrated competition has now also emerged in the US market.

Digitisation is also reflected in the business development of the German IT sector. According to the industry association BITKOM, the sector generated turnover growth of 2 per cent to around 170 billion euros in the financial year ended. The German ICT market (IT, telecommunications and entertainment electronics) is also expected to grow by 1.5 per cent this year. BITKOM emphasises that the stable growth is a reflection of the ongoing digitisation of the economy, state and society.

Development of business

In the German-speaking market, the msg life Group is the market leader with the services and products it offers for life insurers and pension fund institutions and more than half of all life insurers in these countries are its customers. The Group's research and development activities are aimed at continuously reinforcing its leading position. With the regulatory requirements still changing constantly and the increasingly dynamic variety of products, 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 are now a fixed part of the msg Group's portfolio for the insurance industry. And as an associated company in the msg Group, msg life is an even more significant strategic partner for its customers and an even more attractive employer for the employees.

In 2019, 84.6 per cent of turnover was generated in Germany (previous year: 80.5 per cent) and 15.4 per cent on foreign markets (previous year: 19.5 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. At the moment, msg life is in talks with potential partners with a view to gaining access to new markets abroad.

The volume of business with existing customers in 2019 was once again characterised by stable, successful projects and a continuous flow of new orders. The company expects these developments to continue in 2020.

msg life was able to achieve remarkable sales successes in almost every region in which the company operated in 2019,

The most noteworthy of which in the German-speaking countries is the migration contract from the Viridium Group concerning the migration of the former Generali run-off life insurance portfolio (now Proxalto Lebensversicherung as part of the Viridium Group) with over three million insurance policies. Additionally, two life insurers in Saarland Versicherungen (a subsidiary of Versicherungskammer Bayern) and Generali opted for msg. Zulagenverwaltung, a solution designed to manage the allowances of contracts subsidised under the Riester system. Furthermore, Canada Life engaged msg life to introduce the reinsurance solution msg.Reinsurance and VHV Versicherungen opted for the risk assessment component msg.Underwriting as a procedural expansion to the sales system msg.Sales.

msg life is also cultivating the Benelux market intensively from the German-speaking countries. msg life is generating interest there with its range of products, especially from insurance groups which operate nationally. After the end of the reporting period, msg life gained its largest new customer so far for msg.Life Factory including migration in the Benelux market: AEGON in the Netherlands.

The performance of the US business of msg life, primarily for health insurers, was also satisfactory. 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, Unified Product Platform and the web-based multichannel platform msg.Sales. 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.

On this basis, a leading US-based health insurer signed a declaration of intent to license the Unified Product Platform over the course of the 2020 financial year. Additionally, an existing US customer decided to introduce the Unified Product Platform on the basis of an SaaS model.

msg life serves the Spanish and Portuguese markets with an office in Spain and its own local office in Portugal which is now also being used as a product development unit at the same time. The development of msg life's business with existing customers in that market was also stable in 2019 and it achieved its greatest sales success in this region so far in its standard software business with Mutua Madrileña. The company expects to achieve similar sales successes in 2020.

Many insurance companies have established themselves in the Central, Eastern European and other niche markets or segments. 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. msg life is serving these markets from Slovenia in particular; as German-language insurers are particularly striving to access these highly competitive markets, they regularly offer interesting sales opportunities for msg life.

msg life is represented in many Eastern European countries with the leading policy management system Unified Administration Platform, the proven all-sector system for smaller insurance companies. As a result of the growing consulting business that is developing in connection with its local presences, msg life expects these markets to generate cross-selling effects. After the end of the reporting period, msg life was awarded a contract to introduce the Unified Administration Platform by another new customer in a niche segment.

The msg life company in Poland is in liquidation. The Polish market will now be served by the other msg life sites in Eastern Europe.

As previously reported, there were again numerous new orders for msg life during the reporting period and the company expects more new business in the 2020 financial year. Business with existing customers in connection with the software components provided by msg life was also strong. Additionally, most of the major projects set out in the corporate plan were executed in the reporting period. As in previous years, msg life focused on sales projects in well-established markets in particular in the 2019 financial year, although not all of the planned sales successes were realised.

Summarised evaluation of the company's business situation

The 2019 financial year did not live up to the expectations of the msg life Group. Its stable business with existing customers meant that the targets set at the start of the financial year with regard to gross Group revenue (German GAAP), a key financial performance indicator, were met in that segment; on the other hand, unrealised licensing income in the new business segment and additional costs – for more external employees (in particular) in order to support the ever-high number of simultaneous large-scale projects – meant that Group earnings targets (German GAAP), another key financial performance indicator, were not met as expected:

In the reporting period, the msg life Group recorded gross Group revenue under German GAAP of 145.6 million euros and Group earnings before interest, taxes, depreciation and amortisation (EBITDA) under German GAAP of 3.5 million euros.

The business situation of the company in the 2019 reporting year can be described as average overall. The foundations still exist for positive development in 2020 and beyond. Last year's prognosis in the separate financial statements forecast slightly positive net income for the year; as the holding company, the individual Group company closed the 2019 financial year with a net loss of 4.4 million euros which was far below expectations. This development was due to a decrease in income from profit-pooling contracts (7.8 million euros lower than in 2018).

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.

Earnings, financial and assets position

The following disclosures regarding the earnings, financial and assets position of the Group by 31 December 2019 are based on the German Commercial Code (HGB).

The Group's earnings position

DEVELOPMENT OF TURNOVER

As at the balance sheet date, there were no changes to the consolidation group described in the consolidated financial statements for the 2018 financial year as at 31 December 2018.

The msg life Group's turnover in the financial year ended amounted to 156.6 million euros, which is 22.3 million euros higher than the figure for the 2018 financial year, corresponding to growth of 16.6 per cent.

During the financial year, services turnover registered an increase from 99.2 million euros to 118.8 million euros, which is an increase of 19.6 million euros. This is equivalent to 75.9 per cent of the total turnover (previous year: 73.9 per cent). Product-based turnover overall was up by 2.7 million euros to 37.8 million euros (previous year: 35.1 million euros). In terms of product-based turnover, licensing income came to 11.4 million euros in the reporting period (previous year: 9.8 million euros), which represents 7.3 per cent of total turnover (previous year: 7.3 per cent). Maintenance turnover came to 20.3 million euros in 2019 (previous year: 18.3 million euros) and therefore makes up 13.0 per cent of the total turnover (previous year: 13.6 per cent).

The other turnover largely comprised computing centre services in 2019. In the financial year ended, it decreased slightly by 1.0 million euros to 6.0 million euros (previous year: 7.0 million euros).

As for the regional breakdown of turnover, the aggregate figure for Germany in the 2019 financial year totalled 132.5 million euros (previous year: 108.2 million euros) and 24.1 million euros in other countries (previous year:

26.1 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 reported a fall in turnover in its US business where turnover declined to 20.6 million euros (previous year: 22.4 million euros). Turnover in Austria was down to 0.2 million euros (previous year: 0.4 million euros). Slovakia is the third-strongest market in terms of turnover, with turnover in the 2019 financial year amounting to 1.1 million euros (previous year: 1.6 million euros). At 1.4 million euros in 2019, turnover remained stable in Switzerland. In Portugal, the company experienced an increase in sales of 0.3 million euros to 0.5 million euros. Turnover in the Benelux region also developed positively, increasing by 0.2 million euros (previous year: 0.1 million euros).

As the national affiliates in Slovakia and Poland (until liquidation started in 2018) generate turnover primarily for other Group companies, the external turnover they generate is low.

The change in inventories decreased by 20.3 million euros from 9.3 million euros to –11.0 million euros in the financial year, causing the gross revenue of the company to increase by 2.0 million euros to 145.6 million euros, representing a 1.4 per cent increase.

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 2.2 million euros (previous year: 2.6 million euros). In the financial year ended, one key driver was the reversal of provisions totalling 1.0 million euros.

In the 2019 financial year, aggregate costs amounted to 144.4 million euros (previous year: 139.4 million euros); they have increased by 5.0 million euros which represents an increase of 3.6 per cent. The largest proportion of total costs comprised personnel costs at 95.1 million euros (previous year: 93.4 million euros), which represents a share of 65.9 per cent (previous year: 67.0 per cent) relative to the average number of 1,117 employees (previous year: 1,058 employees).

At 29.4 million euros (previous year: 26.3 million euros), procured services represented a large proportion of total costs. Procured services include external freelance staff whose costs amounted to 11.4 million euros in the 2019 financial year (previous year: 9.6 million euros). Procured services cover special requirements such as capacity utilisation peaks due to new projects and, as such, they are a variable element in the total costs.

Personnel costs and material expenses rose by a total of 4.8 million euros to 124.7 million euros (previous year: 119.9 million euros). The increase in personnel costs was due primarily to numerous recruitments in light of the new projects. Other operating expenses accounted for 13.7 per cent of total costs in 2019, a slight fall compared with the previous year (14.0 per cent), and came to 19.7 million euros (previous year: 19.5 million euros).

The main component of other operating expenses is rent for office space of 6.5 million euros (previous year: 6.1 million euros).

The second-largest cost pool comprised travel expenses associated with products which came to 3.2 million euros (previous year: 3.3 million euros) and so were 0.1 million euros lower than the previous year. Consulting, accounting and Supervisory Board expenses increased by 0.3 million euros to 2.0 million euros in the 2019 financial year (previous year: 1.7 million euros).

As a result, the Group was able to generate earnings before interest, taxes, depreciation and amortisation (EBITDA) of 3.5 million euros (previous year: 6.8 million euros).

The sum of all depreciation and amortisation increased by 0.5 million euros to 2.8 million euros (previous year: 2.3 million euros). Depreciation of property, plant and equipment amounted to 2.3 million euros (previous year: 1.8 million euros). As in the previous year, 0.5 million euros was attributable to the amortisation of intangible assets.

Overall, the positive operating result totalled 0.7 million euros (previous year: 4.5 million euros).

The financial result amounted to –0.7 million euros (previous year: –0.9 million euros). The Group is completely equity-financed and is not dependent on borrowing.

The Group's income from ordinary activities decreased in 2019 by 3.6 million euros, bringing it to 0.0 million euros (previous year: 3.6 million euros). This resulted in income tax expenses of 1.2 million euros for the 2019 financial year (previous year: 1.4 million euros), which represents a reduction in tax expenses of 0.2 million euros.

After taking into account other taxes, net income for the 2019 financial year was –1.4 million euros (previous year: 2.1 million euros).

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 decreased by 14.8 million euros and amounted to 13.5 million euros as at 31 December 2019 (by 31 December 2018: 28.2 million euros). Cash pooling exists for the German companies within the msg life Group. The Group invested 5.7 million euros in cash in US treasury bonds, in order to generate interest income on a part of its existing cash holdings.

In the 2019 financial year, msg life generated an operative cash flow in the amount of –12.8 million euros (previous year: 9.0 million euros). The msg life Group closed the 2019 financial year with balanced earnings before taxes on income (EBT) of 0.0 million euros in total (previous year: 3.6 million euros).

The cash flow from investing activities amounted to –2.4 million euros (previous year: –4.9 million euros), with investments in property, plant and equipment in the form of technical equipment accounting for 2.8 million euros.

There were no particularities in the cash flow from financing activities in the financial year ended, and as such it was 0.1 million euros in the 2019 financial year (previous year: 0.4 million euros).

The Group's assets position

ASSET STRUCTURE ANALYSIS

At 49.9 per cent, the equity ratio of the Group as at 31 December 2019 was slightly worse than in the previous year (previous year: 50.6 per cent) and equity amounted to 37.2 million euros (previous year: 38.2 million euros). As at 31 December 2019, the Group's total assets are 74.6 million euros, which represents a decrease of 0.9 million euros (previous year: 75.5 million euros).

In the reporting year, current assets decreased from 67.6 million euros in the previous year to 66.6 million euros. Essentially, this development was due to the fact that trade receivables were 12.1 million euros higher as at the reporting date (having increased from 32.3 million euros in the previous year to 44.4 million euros as at the reporting date). On the other hand, liquid funds decreased by 14.8 million euros from 28.2 million euros to 13.5 million euros, which had the opposite effect.

The net total of the line item 'Inventories' has increased from zero to 1.6 million euros as payments received on account and work in progress exceeded the payments received on account of customer projects as at the reporting date. Due to the chosen method of open recognition, the net amount of 1.6 million euros has been recognised under inventories.

At 6.9 million euros, non-current assets remained almost identical (previous year: 6.9 million euros). Property, plant and equipment increased by 0.5 million euros in the 2019 financial year, due primarily to the addition of operating and office equipment. In contrast, intangible assets decreased by 0.5 million euros to 2.2 million euros due to amortisation. Before they were netted against deferred tax liabilities, the deferred tax assets totalled 0.6 million euros (previous year: 0.6 million euros).

Provisions decreased by a total of 2.0 million euros to 21.6 million euros. Essentially, this change was due to the decrease in other provisions by 3.0 million euros to 14.0 million euros and, with the opposite effect, an increase in (long-term) pension provisions of 0.5 million euros and an increase in tax provisions of 0.5 million euros as at the reporting date.

All in all, provisions account for 28.9 per cent of the balance sheet total, compared with 31.2 per cent in the previous year.

Liabilities amounted to 13.6 million euros. The increase of 1.2 million euros compared to the previous year is due primarily to the increase in liabilities to affiliated companies by 1.1 million euros to 6.4 million euros and the increase in other liabilities by 1.6 million euros to 4.4 million euros. On the other hand, payments received decreased by 1.4 million euros; however, this is in connection with the open recognition under 'Inventories'.

The Group has no financial liabilities due to banks (neither current nor non-current). All in all, the ratio of liabilities to total assets increased slightly from 16.4 per cent in the previous year to 18.3 per cent now.

The 2019 financial year was below expectations. This was due to factors including postponements of expected licence revenue and additional costs – especially for external employees – in order to secure project results. The Management Board of msg life ag expects the earnings, financial and assets position of the company in this year and the following years to remain at the same level as in previous years.

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 increased by 2.4 million euros from 20.9 million euros to 23.3 million euros. Turnover from third parties of 2.8 million euros and internal turnover (i.e. turnover from companies within the msg life Group) of –0.4 million euros contributed to this development. Other operating income amounted to 0.4 million euros (previous year: 0.4 million euros).

Expenses for the procurement of services within the Group were 1.4 million euros higher than in the previous year and amounted to 8.3 million euros in the financial year ended (previous year: 6.9 million euros).

At 6.8 million euros (previous year: 7.1 million euros), personnel expenses were 0.3 million euros lower than the previous year.

The item of depreciation of property, plant and equipment from the separate financial statements prepared in accordance with German GAAP (HGB) increased to 0.4 million euros in the financial year ended (previous year: 0.3 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, increased by 0.3 million euros from 14.0 million euros to 14.3 million euros in the financial year ended. Essentially, this development was driven by higher legal fees and consulting expenses (which increased by 0.3 million euros).

Under its profit transfer agreements, the company received 2.3 million euros from msg life central europe gmbh (previous year: 9.3 million euros) and had to assume a loss of 0.1 million euros from msg life global gmbh (previous year: 0.7 million euros).

msg life ag's net interest came to –0.4 million euros in the financial year 2019 (previous year: –0.3 million euros) and consists mainly of interest expenses for pension and anniversary provisions and interest on IC liabilities.

Tax expenses amounted to 82,000 euros in the 2019 financial year (previous year: 14,000 euros). The change of other taxes to 0.2 million euros was due primarily to the provision that was formed for subsequent tax payments in connection with an ongoing audit.

Overall for the 2019 financial year, msg life ag generated a net loss under the German Commercial Code (HGB) in the amount of 4.4 million euros (previous year: net profit for the year of 2.5 million euros).

FINANCIAL POSITION AND ASSETS

Non-current assets fell by 0.4 million euros to 58.0 million euros (previous year: 58.4 million euros) due to the depreciation of property, plant and equipment. Property, plant and equipment came to 0.7 million euros (previous year: 1.1 million euros).

msg life ag's current assets increased by 8.9 million euros to 35.4 million euros in the financial year ended (previous year: 26.4 million euros). Essentially, this development is due to payments of 25.4 million euros made on account in connection with the acquisition of a major project in cooperation with msg systems ag.

In addition, trade receivables have increased by 0.3 million euros to 2.5 million euros.

Receivables from affiliated companies increased by 0.3 million euros to 1.1 million euros (previous year: 0.8 million euros). Liabilities towards affiliated companies decreased by 1.9 million euros to 24.9 million euros (previous year: 26.8 million euros).

As at the reporting date, cash and cash equivalents were 7.7 million euros lower than in the previous year, reaching a balance of 5.8 million euros at the end of the year (previous year: 13.5 million euros). The company was completely equity-financed in the 2019 financial year (as was the case in 2018) and, as such, there were no deferred liabilities to banks.

As at the balance sheet date, deferred tax assets and liabilities amounted to 0 euros (previous year: 6,000 euros).

Equity amounts to 37.2 million euros (previous year: 41.6 million euros) which represents a decrease of 4.4 million euros. The net loss increased to 17.4 million euros (previous year: net loss of 13.0 million euros) due to the current net result for the year. The company is therefore again not in a position to distribute dividends.

Total assets as at 31 December 2019 amounted to 93.5 million euros (previous year: 85.0 million euros).

- Non-binding English Translation -

Research and development

Focus of R & D activities

For msg life, research and development (R & D) serves not only to develop and expand standard software solutions, but also to extend its consulting expertise. Such expertise manifests itself in the strategic development of employee know-how, as well as in the further development of software tools that give efficient support to the consulting activities. 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. Special importance is attached to close communication with the market and customers 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. In this way, new releases of standard software products are generally partially financed by advance orders from some of the customers.

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.

Purchasing R & D expertise

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 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

Continuous delivery has gained great strategic significance to msg life and was therefore accelerated further in the reporting period. This optimises the development process of msg life software further with the goal of ensuring even shorter release cycles and an even more efficient approach without compromising the high level of quality. In this context, the msg life software development process – from standard development through to customer projects – will undergo an increased level of automation. In the reporting period, msg life achieved positive results in its first customer projects with a transition to continuous delivery. The large-scale roll-out is set to take place in 2020.

In 2019, the technical and specialist content of msg.Life Factory, msg.Zulagenverwaltung, msg.Tax Connect and msg.RAN was discussed and agreed in the user group and in the working groups in coordination with existing customers.

In the reporting period, msg life developed and enhanced the risk assessment component msg.Underwriting (a procedural expansion to the sales system msg.Sales) and msg.Marsy-Pension, an administrative solution for the management of defined benefit company pension plans. Both products are now being marketed actively.

For msg.Insurance Suite, the Group-wide general development plan was expanded for the insurance industry and the integration architecture was reworked for even greater interoperability with the other system segments in msg.Insurance Suite. Furthermore, features were added to the platform including msg.COC (Code of Conduct Monitor), msg.TaxData (for managing tax exemption orders) and msg.360View (aggregated overviews for individual customers). The process organisation has also been converted with regard to agile development methods.

The software architecture was expanded to incorporate continuous delivery as part of the development of msg. Life Factory. Likewise, the automated processing options in the system have been expanded (transactional services). A total of four main releases were made available to customer projects in 2019.

In msg.Online Insure, the option to map the VVG-compliant sales process (TOO) was integrated into the broker portal msg.Sales. The architectural conversion also began for SDA and additional interfaces have been created for the system to be incorporated into existing insurance portals.

With regard to msg.Zulagenverwaltung, the annual delivery has been upgraded from two to four releases and current requirements that apply to the pension benefits system (zusy) of the ZfA have been implemented at the same time. New features concern the merger of two supplementary policy databases, the merger of providers and the connection of the system to existing work flow systems.

In msg.Tax Connect, an HTML-based graphical user interface was introduced, the software was adapted to new database releases and various legitimation connections were introduced.

The pension payment notification reporting procedure has been implemented in various versions of msg.RAN. An HTML-based graphical user interface has also been introduced in this product.

With regard to the Migration Factory line of business, msg life's standard migration procedure has been augmented with various optimisations of migration tools in order to speed up migration processes further.

As part of the development of the US Unified Product Platform, a new medical risk assessment component was integrated. Additionally, the platform can now be operated on the basis of an SaaS model.

Project business

In its project business, msg life recorded more than 60 release launches in the reporting period, of which around ten were comprehensive releases in connection with msg.Insurance Suite. There were also 15 release switches and around ten live migrations.

The msg life Group's R & D expenditure totalled 9.397 million euros in the 2019 financial year (previous year: 9.804 million euros). Once again, no development expenses were capitalised.

Employees

On 31 December 2019, the msg life Group had 1,159 permanent employees including managing directors (31 December 2018: 1,098 permanent employees).

In order to find new employees, the company offers recruitment opportunities in various job profiles and at various career levels. msg life uses the networks and expertise of employees within the sector and has established an internal 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 implements its strategies in the fields of search engine optimisation and search engine advertising.

In the context of its growth strategy and the related strategic increase in personnel, msg life was able to increase the number of applications significantly again last year. Of the more than 3,500 applications submitted each year, only a small portion is attributed to other recruitment methods.

To process the growing number of applications, the company has been using an applicant management system for a number of years and exploits the entire spectrum of communication channels in order to identify interesting candidates.

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 provides welcome and introductory events for all new members of staff. 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. The aim is also to give the new colleagues a broad network within the entire company as quickly as possible.

The remuneration model used by the company is continuously developed in a targeted fashion. It focuses on the roles and performance of fairness and employees, ensures that remuneration continues to meet the market standards and serves as a key benchmark for structured, individual salary changes.

In 2019, msg life again systematically pursued its chosen path of greater digitisation in the area of HR development. In particular, the rapid availability of training content for changing target groups is a crucial factor in the development of additional online learning formats. Numerous advanced training opportunities are also available, including from internal speakers in certain subjects.

- Non-binding English Translation -

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, paragraph 4, of the German Stock Corporation Act – 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 five 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 2019.

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.

The early risk detection system of msg life ag proved successful in 2019 as well and it was not necessary to revisit it. 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 three times per year. The Risk Board convened three times in 2019 and subjected the risks identified to a qualitative and quantitative evaluation. At the same time, data protection, 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 2019.

In 2019, 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, will continue to remain attractive throughout the insurance industry. Furthermore, large insurance companies in particular are selectively acquiring closed insurance contract portfolios that are no longer available for sale ('run-off' portfolios) from mainly smaller insurance companies. This enables the latter to generate positive effects for their books, and buyers can generate significant economies of scale for themselves. Here, too, efficient contract management with modern and powerful IT systems plays a decisive role.

In the past, the Group company FJA-US, Inc. profited from the Patient Protection and Affordable Care Act (Obamacare) which was enacted in 2013 in terms of both turnover and earnings. Although the overall economic indicators in the United States are generally positive for 2020, there are still uncertainties related to Obamacare due to the repeatedly stated intention of the Trump administration to repeal Obamacare. The ultimate outcome of this situation is still not apparent, so this could result in opportunities as well as risks for the company. Therefore, the US-based subsidiary of msg life has recently diversified in favour of subject areas such as underwriting.

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 employees, 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 fields of business.

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. Some of these risks were reduced slightly in 2019 due to the successful completion of individual projects. The remaining risks are generally covered by the plans for 2020. The cumulative occurrence of the mentioned risks in multiple projects could, however, lead to negative effects.

msg life might be exposed to new project risks due to the current coronavirus pandemic. That being said, the company was quick to take comprehensive action in order to remain operational including, in particular, providing all employees with the necessary hardware and software to work in home offices and moving almost all work to cyberspace both quickly and consistently. Nevertheless, there is a risk that msg life employees fall ill and are unable to work on customer projects or that customers are unable to perform the necessary supporting services. In turn, it might not be possible to reach agreed project milestones on time or at all, resulting in a negative impact on the economic development of the company. However, in light of the steps taken by msg life and the development of its project business in the financial year so far, the company currently does not believe that the coronavirus pandemic poses a significant risk to the operational or economic development of the company at the time of writing of these annual financial statements.

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 employees 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 employees could 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.

Due to the current coronavirus pandemic, there is a risk that employees fall ill; this could have a negative effect on the ongoing product development, project business and internal services of the company and therefore also its economic and operational development. Therefore, msg life was quick to take comprehensive action in response to these new risks by providing its employees with the necessary hardware and software to work in home offices and moving almost all work to cyberspace. Where possible, this should minimise potential transmission paths and ensure that any employees who might find themselves in quarantine are still able to work. However, at the time of writing of these annual financial statements, msg life currently does not believe that the coronavirus pandemic will have any significant negative effect on the ability of its employees to work.

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. profited from the Patient Protection and Affordable Care Act (Obamacare) which was enacted in 2013 in terms of both turnover and earnings. Although the overall economic indicators in the United States are generally positive for 2020, 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 yet be predicted, so this could result in considerable risks for the Group. Therefore, the US-based subsidiary of msg life has recently diversified in favour of subject areas such as underwriting.

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 over the past few years.

All of the economic risks described above also apply to the current coronavirus pandemic, yet it is not currently possible to judge the specific impact it will have. In light of the development of its business with new and existing customers and its project business in the financial year so far, the company currently does not foresee any significant impact on its economic or operational development at the time of writing of these annual financial statements.

Competition risks

With its solutions, msg life is a leading sector-based service provider for life insurers and pension funds in Europe and in particular for health insurers in the USA. 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 current 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) and has combined all related activities into their own business segment.

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 estimated to the fullest extent.

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 German-speaking countries and internationally, primarily through organic growth This is being supported in parallel by strategic acquisitions. 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.

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 current 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.

As at the reporting date, the company had loan agreements with three banks totalling 7.5 million euros. The credit lines had been used in the amount of 1.6 million euros for security deposits as at the reporting date.

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 12,000 euros (previous year: 1,000 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 IV '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 1.6 million euros had been used at the reporting date for security deposits.

In the 2019 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 2019 would have been 7,000 euros lower (higher) (previous year: 10,000 euros lower (higher)) and the equity components would have been 7,000 euros lower (higher) (previous year: 10,000 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 83 per cent of its revenues are generated in Eurozone countries (previous year: 78 per cent), and the remainder in Switzerland, the United States and Australia. The currency risk on the asset side in relation to trade receivables comes from receivables not denominated in euros, accounting for 9 per cent (previous year: 9 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: 4 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 84.6 per cent of turnover (previous year: 80.5 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 61.5 per cent share of turnover (previous year: 70.7 per cent) and a 32.9 per cent share of trade receivables (previous year: 39.6 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 2020, it will again be able to deal successfully with the challenges that arise from the aforementioned risks.

Forecast

Market and competition

With around 1,200 employees at sites in Germany, the Netherlands, Austria, Switzerland, Slovakia, Slovenia, Portugal, Spain and the United States, msg life is 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 increase 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. The solutions of the company are being used in over 30 countries.

In the strategic undertaking to press forward with internationalisation, msg life puts its faith in partnerships and a local presence in the countries in question. The company is also currently in talks with potential partners with a view to gaining access to markets it has not previously cultivated.

In the past, the strategic presence of msg life in each foreign market was an important success factor when it came to attracting new customers. In addition, it is becoming more and more apparent that 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 the 2019 financial year, the objective in the 2020 financial year is to press ahead with major sales projects, especially in the established foreign markets.

The Benelux countries remain a relevant market in this context and msg life was able to attract the Dutch AEGON as its largest new customer so far after the end of the reporting period.

The Austrian market is a cornerstone of msg life's international activities: it has enjoyed highly significant successes in recent years with contracts from Helvetia Österreich, UNIQA Insurance Group, Wiener Städtische Versicherung and Donau Versicherung. 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 are 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 prospects for the further expansion of its business after AXA Winterthur and Mobiliar opted for the core product msg.Life Factory in the two previous years.

msg life has a direct presence in the dynamic markets of Central and Eastern Europe with its subsidiaries in Slovakia and Slovenia. Likewise, the Iberian peninsula in which msg life is operating through its branches in Portugal and Spain is an interesting market. msg life also uses its office in Portugal as a product development unit.

With regard to the US market, msg life is currently examining whether it would be possible to deploy a localised version of its portfolio of European life insurance products in connection with its specific US products as an integrated solution. Overall, msg life continues to enjoy steady growth in the various insurance sectors in 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 includes operator models and various consulting services on the topics of product and tariff modelling, for example. The target group is predominantly health insurers and in future will also include life insurers on the basis of the US product portfolio. Additionally, msg life is increasingly focused on the subject of group insurance for health and life insurance. The expansion and diversification of the company's own solution portfolio, such as in terms of underwriting, and partnerships with specialised service providers are being used to unlock new customer groups. In the US market, msg life is also considering a sales partnership model.

Following an average 2019 financial year, msg life is again registering a growing level of demand for solutions in the current 2020 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 continued further regulation throughout the financial services sector. Be it Solvency II, the new international accounting standard IFRS 17, the EU IORP II Directive (Institutions for Occupational Retirement Provision), the German Act to Strengthen Occupational Pensions (BRSG) or the planned introduction of a cap on commission, the ongoing 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 probably in the years to come, 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 within insurance companies, the correlation between modern and flexible IT on the one hand and corporate success on the other is significant.

Despite 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. Almost all insurers are striving to enhance their existing product ranges and/or to develop new, innovative ones in order to tackle the imminent challenges. This goes for all existing product groups, control layers and legal forms. The companies' starting situations and the pressure on them to innovate vary greatly and are consequently bringing about a variety of innovations. The focus is on products that tick more than one box at the same time: products that satisfy the desire of the policyholder for security, returns and flexibility, meet the needs of the insurer in terms of more efficiency and profitability and comply with the regulatory requirements.

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. 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. 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. The platform economy will also play a key role in the insurance industry this year: numerous insurers are now using platforms and ecosystems to provide digital products and services beyond what had previously been their core business – this in turn is opening up new ways to create value.

Artificial intelligence (AI) will also be a high priority. The use of AI (and machine learning at its heart) not only improves efficiency through automation, but also facilitates new technical approaches which in turn pave the way for entirely new business models, services and products. In connection with AI, insurers are also concentrating on robo-advisers, advanced analytics and blockchain.

The selective acquisition of closed insurance contract portfolios that are no longer available for sale ('run-off' portfolios) from mainly smaller insurance companies remains an important factor, especially for large insurance companies. This enables the latter to generate positive effects for their books, and buyers can generate significant economies of scale for themselves and in turn cost synergies. Here, too, modern asset management with modern and powerful IT systems plays a decisive role in the more efficient management of contracts.

The digital transformation of society and economy continues to put insurers under pressure to act as 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. Insurers are also increasingly committed to server and cloud solutions with which IT capacities can be adapted to meet the level of demand in a flexible manner.

With digitisation, modern insurance products and services can be made available on new channels or integrated into new sales and cooperation platforms; however, all of this requires extensive changes to the IT landscapes of insurers in order for the new technology and platforms to be integrated. msg life takes the digitisation trend into consideration when it develops its products and services. The company 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. msg life was the first provider of a complete self-service portal that can serve as a component of msg.Life Factory, msg.P&C Factory, msg.Health Factory as well as proprietary policy management systems. Like online banking, msg.Online Insure bundles all transactions relating to an insurance policy into one easy-to-use interface for end customers as well as brokers and agents – web-based, on all devices, around the clock and with a view to optimising costs in the long term.

In light 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 2020.

Further development of products and services

msg life is pressing ahead with the further technical and functional optimisation and completion of its product range in the fields of life insurance and pensions. The investment expenditure will stay at a relatively normal level for a software company in the current year. Due to the numerous projects for new customers between 2016 and 2018, the costs for freelance employees – as in previous years – were still higher than in previous financial years. The expenses in this context are expected to decrease significantly in the current year.

Continuous delivery, an important strategic element, will continue to be implemented in 2020 in order to further optimise the development process for msg life software.

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 remain key aspects of the product strategy. msg.Insurance Suite is a holistic industrial standard for all sectors of the insurance industry and is therefore a unique overall solution on the market.

The development of the policy management system msg.Life Factory and its components on the basis of innovative, modern Java JEE architecture remains a core project in terms of products. In 2020, msg life will earmark approximately 8,000 person-days in development capacity for this and for the further convergence of the components of msg.Life Factory into msg.Insurance Suite.

msg life is experiencing very strong market demand for migration in connection with msg.Insurance Suite in particular. For this reason, the company is strategically expanding its own human resources in this area. At the same time, msg life will hone its own expertise with regard to the migration of entire platforms.

Over the past few years, msg life has 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). 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.

In its consulting business, msg life also relies on its unique selling point of being able to transfer tried-and-tested solutions from the msg life product area even to non-product customers more cost-effectively than any of its competitors.

In the 2020 financial year, msg life expects Group earnings before interest, taxes, depreciation of property, plant and equipment and amortisation of intangible assets (EBITDA) of between 7.0 and 11.0 million euros and gross Group revenue from its own business of between 150.0 and 165.0 million euros in accordance with German GAAP.

As the holding company, the individual Group company expects a slightly positive result under the provisions of the German Commercial Code (HGB) in the 2020 financial year.

The targets above are based on the situation prior to the outbreak of the current coronavirus pandemic. At the moment, it is not yet possible to judge the effects of this global crisis on the course of business of the msg life Group in 2020; more details are available in the opportunity and risk report in this condensed management report and Group management report for the 2019 financial year. In light of the action taken by msg life and the development of its business with new and existing customers and its project business in the financial year so far, the company does not foresee any significant changes to its economic or operational development as a result of the coronavirus pandemic at the time of writing of these annual financial statements; msg life is therefore currently not deviating from the above targets for 2020.

- Non-binding English Translation -

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, 31 March 2020
msg life ag

ROLF ZIELKE
Chairman of the Management Board

DR ARISTID NEUBURGER
Deputy Chairman of the Management Board

FRANCESCO CARGNEL
Member of the Management Board

MILENKO RADIC
Member of the Management Board

DR WOLF WIEDMANN
Member of the Management Board