

**msg life ag**

**LEINFELDEN-ECHTERDINGEN**

**ANNUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER**  
**2018 AND CONDENSED MANAGEMENT REPORT ON THE**  
**POSITION OF THE COMPANY AND THE GROUP IN THE**  
**2018 FINANCIAL YEAR**

**msg life ag, Leinfelden-Echterdingen**  
**Statement of financial position as at 31 December 2018**

<b>Assets</b>	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR	<b>Equity and Liabilities</b>	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR
<b>A. Fixed assets</b>				<b>A. Shareholders' equity</b>			
<b>I. Property, plant and equipment</b>				<b>I. Subscribed capital</b>			
1. Land, leasehold rights and buildings, including buildings on third-party land	243.783,00		378.288,00	Issued capital		42.802.453,00	42.802.453,00
2. Other fixtures and fittings, tools and equipment	<u>856.249,29</u>		<u>464.149,00</u>	<b>II. Capital reserves</b>		6.911.342,26	6.911.342,26
		1.100.032,29	842.437,00	<b>III. Revenue reserves</b>			
<b>II. Financial assets</b>				Other revenue reserves		4.876.955,92	4.876.955,92
1. Shares in affiliated companies	57.262.916,46		57.262.916,46	<b>IV. Net loss for the year</b>		<u>-12.977.915,50</u>	<u>-15.484.883,61</u>
2. Loans to affiliated companies	<u>0,00</u>		<u>1.000.000,00</u>			<u>41.612.835,68</u>	<u>39.105.867,57</u>
		57.262.916,46	58.262.916,46	<b>B. Provisions</b>			
		<u>58.362.948,75</u>	<u>59.105.353,46</u>	1. Provisions for pensions and similar obligations	420.750,20		353.209,20
<b>B. Current assets</b>				2. Tax provisions	0,00		658.121,70
<b>I. Inventories</b>				3. Other provisions	<u>2.646.878,84</u>	3.067.629,04	<u>2.249.279,00</u>
Advance payments on orders		9.626.456,00	0,00				3.260.609,90
<b>II. Accounts receivable and other assets</b>				<b>C. Liabilities</b>			
1. Trade receivables	2.160.272,49		966.877,37	1. Advance payments received on account of orders	12.571.527,83		0,00
2. Accounts due from affiliated companies	758.083,51		445.006,95	2. Trade payables	815.344,04		189.787,23
3. Other assets	<u>424.373,61</u>		<u>187.224,58</u>	3. Liabilities to affiliated companies	26.775.649,06		24.498.192,53
		3.342.729,61	1.599.108,90	4. Other liabilities	132.524,36		2.033.689,07
<b>III. Cash in hand and bank balances</b>				– of which from taxes EUR 128,958,22 (prev. year: EUR 2,033,689.07)			
		13.451.660,94	8.333.806,97			40.295.045,29	26.721.668,83
		<u>26.420.846,55</u>	<u>9.932.915,87</u>	<b>D. Deferred tax liabilities</b>		5.654,10	43.867,98
<b>C. Prepaid expenses and deferred income</b>							
		191.714,71	49.876,97				
<b>D. Deferred tax assets</b>							
		5.654,10	43.867,98				
		<u>84.981.164,11</u>	<u>69.132.014,28</u>			<u>84.981.164,11</u>	<u>69.132.014,28</u>

**msg life ag, Leinfelden-Echterdingen**  
**Income statement for the 2018 financial year**

	2018 EUR	2018 EUR	2017 EUR
1. Sales		20.858.936,42	17.868.607,19
2. Other operating income		400.367,57	800.368,52
– of which from currency conversion: EUR 10,405.14 (prev. year: EUR 345,679.76)			
3. Cost of materials			
a) Cost of purchased services	-7.089.606,12	-7.089.606,12	-6.977.106,79
4. Personnel expenses			
a) Wages and salaries	-6.559.866,03		-5.301.958,33
b) Social security and expenditure for pensions and other benefits	-569.671,47		-488.665,33
– of which for pensions: EUR 80,222.95 (prev. year: EUR 67,046.32)		-7.129.537,50	-5.790.623,66
5. Depreciation and amortisation costs and other write-offs on intangible assets and property, plant and equipment		-260.335,40	-248.898,79
6. Other operating expenses		-14.000.892,28	-12.384.864,73
– of which from currency conversion: EUR 86,465.32 (prev. year: EUR 4,720.57)			
7. Income from profit and loss absorption/transfer agreement		10.056.598,56	10.156.170,33
8. Other interest and similar income		5.093,06	18.593,18
– of which from discounting: EUR 0.00 (prev. year: EUR 4,772.84)			
– of which from affiliated companies: EUR 5,082.98 (prev. year: EUR 13,820.34)			
9. Loss transfer expenses		0,00	-210.065,67
10. Interest and similar expenses		-315.263,86	-383.611,46
– of which from discounting: EUR 108,170.00 (prev. year: EUR 93,109.00)			
– of which due to affiliated companies: EUR 184,296.82 (prev. year: EUR 270,100.39)			
11. Taxes on income		-14.178,34	-242.608,00
<b>12. Earnings after taxes</b>		<b>2.511.182,11</b>	<b>2.605.960,12</b>
13. Other taxes		-4.214,00	-3.516,00
<b>14. Net income</b>		<b>2.506.968,11</b>	<b>2.602.444,12</b>
<b>15. Loss carried forward</b>		<b>-15.484.883,61</b>	<b>-18.087.327,73</b>
<b>16. Net loss for the year</b>		<b>-12.977.915,50</b>	<b>-15.484.883,61</b>

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**msg life ag, Leinfelden-Echterdingen**

**Notes for the 2018 financial year**

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## **I. General information about the annual financial statements**

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

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

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

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

The company had been listed in the prime standard on the German stock exchange since 2000. On 17 March 2017, the Frankfurt Stock Exchange, at the request of msg life ag, revoked authorisation to trade msg life shares on the regulated market at the Frankfurt Stock Exchange at the close of 22 March 2017.

## **II. Accounting and valuation methods**

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

Fixed assets are recognised at original cost; assets with a limited useful life are recognised less scheduled depreciation. The useful lives are between three and ten years. Depreciable movable fixed assets that can be used independently and whose (net) costs per individual good are more than 250 euros but not more than 800 euros are immediately recognised as expenses in the year of acquisition. Assets with a cost of less than 250 euros are recognised as expenses.

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

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

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

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

Pension obligations are calculated using the projected unit credit method. Reinsured assets consist entirely of fixed deposits, which are recognised at fair value.

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

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

Liabilities are always recognised at settlement amount.

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

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

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

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

### III. Notes on the statement of financial position

#### 1. Fixed assets

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

Shareholdings as defined in Section 285 No. 11 HGB were as follows on 31 December 2018:

<b>Company name and registered office</b>	<b>Capital share</b>	<b>Shareholders' equity (as per national law)</b>	<b>Result (as per national law)</b>
	%	EUR'000	EUR'000
1. msg life central europe gmbh, Munich (Germany) <sup>1</sup>	100	38,009	0* <sup>1</sup>
with its subsidiary msg life Austria Ges.m.b.H., Vienna (Austria) <sup>2</sup>	100	195	185
with its subsidiary msg life Switzerland AG, Regensdorf (Switzerland) <sup>2</sup>	100	2,353	906
with its subsidiary msg life Slovakia s.r.o., Bratislava (Slovakia) <sup>2</sup>	100	1,965	910
with its subsidiary msg life Benelux B.V., Amsterdam (Netherlands) <sup>2</sup>	100	621	-5
with its subsidiary ARGE FJA KR BU-System, Munich (Germany) <sup>2</sup>	50	42	32
with its subsidiary speeos GmbH & Co. KG, Munich (Germany) <sup>2</sup>	100	-267	-43
with its subsidiary speeos Verwaltungs GmbH, Munich (Germany) <sup>2</sup>	100	7	0* <sup>2</sup>
2. msg life global gmbh, Munich (Germany) <sup>1</sup>	98.11 <sup>4</sup>	3,766	0* <sup>1</sup>
with its subsidiary FJA-US, Inc., New York (USA) <sup>3</sup>	100	17,778	2,395
with its subsidiary msg life Iberia, Unipessoal LDA, Porto (Portugal) <sup>3</sup>	100	939	348



<b>Company name and registered office</b>	<b>Capital share</b>	<b>Shareholders' equity (as per national law)</b>	<b>Result (as per national law)</b>
	%	<b>EUR'000</b>	<b>EUR'000</b>
with its subsidiary msg life odateam d.o.o., Maribor (Slovenia) <sup>3</sup>	100	986	-47
3. msg life Poland Sp. z o.o., Warsaw (Poland) i.L.	100	-373	-158

\*1 after transfer of profit/loss as per profit/loss transfer agreement

\*2 after assumption of loss as per commitment

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

<sup>2</sup> This is an indirect equity interest. The shares are held by msg life central europe gmbh, Munich.

<sup>3</sup> This is an indirect equity interest. The shares are held by msg life global gmbh, Munich.

<sup>4</sup> The remaining shares (1.89%) are held by msg life central europe gmbh, Munich.

An agreement governing a loan of 10,000,000 euros was signed with msg life central europe gmbh in 2008, whereby the amount of the loan was provided by converting the same amount of trade receivables. The loan agreement has a term of 10 years and bears interest at 1-month EURIBOR plus 100 basis points. The amounts receivable under the loan agreement were paid in full in 2018.

## **2. Advance payments on orders**

Advance payments on orders totalled 9,626,000 euros and related to advance payments to affiliated companies (msg systems ag, Ismaning) for purchased services. These payments made on account were offset by payments of 12,571,000 euros received on account.

## **3. Amounts receivable from and payable to affiliated companies / Liabilities to the shareholder**

Receivables from affiliated companies amounted to 758,000 euros as of the reporting date (previous year: 445,000 euros) and are current. Receivables from affiliated companies essentially relate to intra-Group services.

The individual valuation allowance on the amount receivable from msg life Poland Sp. z o.o., Warsaw, was increased by 266,000 euros in the year under review as the company was put into liquidation.

Liabilities to the shareholder – msg systems ag, Ismaning, Germany – amounted to 443,000 euros as at 31 December 2018 (previous year: 74,000 euros) and are recognised under liabilities to affiliated companies.

Liabilities to affiliated companies totalled 26,776,000 euros as of the reporting date and essentially relate to intra-Group deliveries and services.

#### 4. Accounts receivable and other assets

Accounts receivable and other assets are all due within one year. In the previous year, an amount of 54,000 euros had a residual term of more than one year.

#### 5. Shareholders' equity

	Subscribed capital	Capital reserves	Revenue reserves	Net loss for the year	Total equity
	Euros	Euros	Euros	Euros	Euros
<b>As at 31/12/2017</b>	<b>42,802,453.00</b>	<b>6,911,342.26</b>	<b>4,876,955.92</b>	<b>-15,484,883.61</b>	<b>39,105,867.57</b>
Changes 2018				2,506,968.11	2,506,968.11
<b>As at 31/12/2018</b>	<b>42,802,453.00</b>	<b>6,911,342.26</b>	<b>4,876,955.92</b>	<b>-12,977,915.50</b>	<b>41,612,835.68</b>

The subscribed capital as at 31 December 2018 totalled 42,802,453 euros (previous year: 42,802,453 euros). It is divided into 42,802,453 no-par-value bearer shares (previous year: 42,802,453 shares) each representing a notional share of 1.00 euro in the share capital. Each share entitles its holder to one vote. No preference shares are issued. In the previous year, the nominal value of the treasury shares was written off openly from the subscribed capital in accordance with Section 272 (1a) HGB and the

difference between nominal amount and original cost of the treasury shares was offset against the capital reserve. After netting, the subscribed capital totalled 40,895,861 euros.

By resolution of the annual general meeting of 26 June 2014, the company was authorised to acquire treasury shares ('msg life shares') up to a total of 10 per cent of the share capital as of the date of the resolution. In this regard, at no point may more than 10 per cent of the share capital of the company be represented by the shares acquired under this authority combined with other shares in the company which the company had already acquired and still holds or which are attributable to it under Section 71 ff German Stock Corporation Act (AktG). The company may not use this authority in order to trade with its own shares.

The authority may be used in whole or in partial amounts to pursue one or more purposes, on one or more than one occasion, by the company, but also by its affiliated companies or through third parties for its or their account, within the limits of the above restrictions. The authorisation to acquire treasury shares applies until the end of 25 June 2019. The deadline applies to the date of acquisition of the shares, not to holding the shares beyond this date.

On 21 August 2008, the Management Board of msg life ag resolved, on the basis of the authorisation of the annual general meeting of 20 June 2008, to acquire up to 638,680 treasury shares, i.e. around 3 per cent of the nominal capital (21,289,353 euros), on the stock exchange from 25 August 2008 onwards. Ultimately, 518,279 treasury shares were acquired in the 2008 financial year.

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

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

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

As of the closing date of 31 December 2016, 1,906,592 treasury shares had been held. Their purchase price was 3,440,877.07 euros, equivalent to an average acquisition price of 1.80 euros per share. In the 2017 financial year, as part of the delisting acquisition offer of msg systems ag, Ismaning, all 1,906,592 previously held treasury shares were sold to msg systems ag, Ismaning, at a price of 2.38 euros per share. The difference between sales proceeds and carrying amount of the treasury shares (nominal value) totalled 2,631,096.96 euros and was added to the capital reserve in the 2017 financial year.

## **6. Authorised capital**

### Authorised capital 2015/1

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

## 7. Pension provisions

Unlike previous years, pension obligations were calculated (projected unit credit method) on the basis of the biometric principles of the 2018 G mortality tables of Professor Dr. Klaus Heubeck. The following parameters were also considered:

in %		31/12/2018	31/12/2017
Discount factor		3.29	3.74
Projected increase in salaries		n/a	n/a
Project increase in pensions		1.9	1.9

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

	31/12/2018 EUR'000	31/12/2017 EUR'000
Pension provisions as per expertise	1,464	1,396
less fixed deposit pledged to KSK München-Starnberg-Ebersberg	1,043	1,043
Pension provisions as per statement of financial position	421	353

The interest-related difference in 2018 was determined in accordance with Section 253

(6) sentence 1 HGB as follows:

	31/12/2018 EUR'000	31/12/2017 EUR'000
Obligation when interest is calculated at the average market interest rate for the past seven years	1,584	1,506
Obligation when interest is calculated at the average market interest rate for the past ten years	1,464	1,396
Difference	120	110

Pursuant to Section 246 (2) HGB in conjunction with Section 285 (25) HGB, the aforementioned netting of assets and liabilities produced netted expenditure (interest expense on pension provisions of 105,000 euros in 2018) and income (income from reinsurance of 0,000 euros in 2017) of 105,000 euros.

## 8. Other provisions

Other provisions are comprised as follows:

	31/12/2018 EUR'000	31/12/2017 EUR'000
Personnel	1,929	1,641
Supervisory Board remuneration	161	144
Financial statement preparation	151	98
Archiving provision	87	87
Outstanding invoices	43	77
Annual report, etc.	60	60
Sundry	216	142
	<b>2,647</b>	<b>2,249</b>

## 9. Liabilities

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

	<b>&lt;1 year EUR'000</b>	<b>1 to 5 years EUR'000</b>	<b>&gt;5 years EUR'000</b>	<b>Total EUR'000</b>
Advance payments received on account of orders	12,571 (0)	0 (0)	0 (0)	12,571 (0)
Trade payables	815 (190)	0 (0)	0 (0)	815 (190)
Liabilities to affiliated companies	26,776 (24,498)	0 (0)	0 (0)	26,776 (24,498)
Other liabilities	133 (2,034)	0 (0)	0 (0)	133 (2,034)
	<b>40,295</b> (26,722)	<b>0</b> (0)	<b>0</b> (0)	<b>40,295</b> (26,722)

Advanced payment receiving on orders relate to advance payments for work in progress.

The other liabilities with a residual term of less than one year of 133,000 euros (previous year; 2,034,000 euros) are essentially attributable to wage and church tax liabilities. The prior-year figure included sales tax liabilities of 1,915,000 euros.

#### 10. Deferred tax assets and deferred tax liabilities

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

	<b>31/12/2018</b>	
	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>
	<b>EUR'000</b>	<b>EUR'000</b>
Non-current and current assets	0	0
Pension provisions	6	0
Other provisions	0	6

<b>Total</b>	<b>6</b>	<b>6</b>
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Deferred taxes result particularly from temporary differences between tax-law measurement and the recognition of assets and liabilities in accordance with German commercial law.

Deferred tax assets from tax loss carry-forwards were not recognised at the end of the 2018 financial year.

**11. Contingent liabilities and other financial obligations**

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

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

Other financial obligations relating to rental and lease contracts (building, IT and car leases) total 17,100,000 euros (previous year: 18,400,000 euros). Of this amount, 1,700,000 euros are due within one year and a further 6,200,000 euros by the end of 2023. 9,200,000 euros have a residual term of more than 5 years.

**12. Financial instruments**

The company held no financial investments at the reporting date.



#### IV. Notes to the income statement

##### 1. Sales

	31/12/2018 EUR'000	31/12/2017 EUR'000
By area of activity		
• Services	4,621	5,162
• Licence revenues	506	511
• Intra-Group cost reimbursements	14,904	11,381
• Maintenance income	675	566
• Rental income	153	249
	<b>20,859</b>	<b>17,869</b>

Of the total sales, 18,235,000 euros (previous year: 15,645,000 euros) were generated in Germany, 1,894,000 euros (previous year: 1,550,000 euros) in Europe and 730,000 euros (previous year: 674,000 euros) in the US. Group allocations to subsidiaries amounted to 14,904,000 euros.

##### 2. Other operating income

Other operating income amounted to 400,000 euros (previous year: 800,000 euros) and includes earnings from offsetting non-monetary benefits to company employees of around 179,000 euros (previous year: 127,000 euros) and income from the reversal of individual valuation allowances of 153,000 euros (previous year: 70,000 euros). Exchange rate gains amounted to 10,000 euros in the year under review (previous year: 346,000 euros).

##### 3. Cost of materials

The cost of materials of 7,090,000 euros (previous year: 6,977,000 euros) was essentially attributable to intra-Group purchased services. Rental expenses of 153,000 euros for business premises were offset by rental income from sub-letting.

#### **4. Personnel expenses**

Personnel expenses include pension expenses of 80,000 euros (previous year: 67,000 euros).

#### **5. Depreciation of financial assets**

No depreciation was performed on financial assets.

#### **6. Income from profit and loss transfer agreements**

In 2018, msg life ag generated income of 9,369,000 euros from the profit and loss transfer agreement with msg life central europe gmbh (previous year: 10,156,000 euros). msg life global gmbh transferred earnings of 688,000 euros to the company.

#### **7. Loss transfer expenses**

In the previous year, msg life ag had incurred loss transfer expenses of 210,000 euros from the profit and loss transfer agreement with msg life global gmbh.

#### **8. Expenses and income relating to other periods**

As was also the case in the previous year, no expenses relating to other periods were incurred in the year under review. Income relating to other periods totalled 209,000 euros in 2018 (previous year: 123,000 euros).

### **V. Miscellaneous disclosures**

#### **1. Headcount**

On average, 36 (previous year: 32) employees worked for the company in the year under review. 20 of the employees were executives (previous year: 15) and 16 were permanent employees (previous year: 17).

#### **2. Auditor's fees and services**

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

#### **3. Members of the Management Board in the reporting period:**

**Rolf Zielke** (direct overall responsibility for Central Europe – Chairman of the Management Board), Munich

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

**Dr Aristid Neuburger** (direct overall responsibility for Central Europe – Deputy Chairman of the Management Board), graduate mathematician, Munich

**Francesco Cargnel** (direct overall responsibility for Central Europe), graduate computer scientist, Munich

**Dr Wolf Wiedmann** (direct overall responsibility for Central Europe), graduate physicist, Cologne

**4. Members of the Supervisory Board in the reporting period:**

**Dr Christian Hofer**, Chairman, graduate mathematician, Herrsching

**Klaus Kuhnle**, Deputy Chairman, management consultant, Grünwald

**Johann Zehetmaier**, ordinary member, CEO msg systems ag, Ismaning

**Dr Martin Strobel**, ordinary member, manager, Riehen, Switzerland (from 28 September 2018)

**Dr. Thomas Noth**, ordinary member, Managing Director of annocon Value GmbH, Hanover (from 28 September 2018)

**5. Remuneration paid to Board members**

The remuneration paid to active members of the Management Board in the financial year was 1,780,000 euros (previous year: 1,259,000 euros). The remuneration was allocated as follows:

	2018	2017
	EUR'000	EUR'000
Payable short-term remuneration	1,824	1,270
(Repayment) Advance on LTI	-44	-11

<b>Total</b>	<b>1,780</b>	<b>1,259</b>
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In the 2018 financial year, a total of 250,000 euros (previous year: 248,000 euros) were expensed for long-term variable remuneration (LTI) of the Management Board.

Remuneration for former members of the Management Board amounted to 114,000 euros in 2018 (previous year: 119,000 euros).

Pension provisions for former members of the Management Board amounted to 421,000 euros on 31 December 2018 (previous year: 353,000 euros), comprised as follows in compliance with BilMoG requirements:

	<b>EUR'000</b>
Pension provisions as per expertise	1,464
less fixed deposit pledged to KSK München-Starnberg-Ebersberg	<u>1,043</u>
Pension provisions as per statement of financial position	421

The remuneration of the Supervisory Board amounted to 161,000 euros (previous year: 144,000 euros).

## **6. Transactions with related parties**

The following transactions were executed with other related parties:

	Subsidiary	Indirect subsidiary	Parent company
Sale of services (EUR'000)	1,377		
Purchase of services (EUR'000)	14,154	1,095	
Provision of management and IT services (EUR'000)	10,065	2,618	
Purchase of services (EUR'000)			334
Brokerage commission received			2,160
Interest (EUR'000)	180	4	
Rental (EUR'000)			123
Profit/loss transfer (EUR'000)	10,057		

msg life ag performs the cash pooling function for msg life central europe gmbh as well as paying the sales tax for msg life central europe gmbh and msg life global gmbh.

## 7. Consolidated financial statements

As the parent company, msg life ag prepares consolidated financial statements for the year ended 31 December 2018 for the smallest consolidation group as per Section 315e (3) HGB, which are published in the federal gazette and filed in the electronic register of companies under HRB 731887 at the district court of Stuttgart.

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

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**8. Events after the reporting period**

Events occurring after the balance sheet date and up to the date of release of the annual financial statements to the Supervisory Board by the Management Board, 29 March 2019, have been taken into account.

No transactions of particular significance took place following the end of the reporting period (31 December 2018).

Leinfelden-Echterdingen, 29 March 2019

msg life ag

Rolf Zielke

Chairman

Dr Aristid Neuburger

Deputy Chairman

Bernhard Achter

Member of the Management Board

Francesco Cargnel

Member of the Management Board

Dr Wolf Wiedmann

Member of the Management Board

msg life ag, Leinfelden-Echterdingen

**Statement of changes in fixed assets**

	Original cost/cost of production				Accumulated depreciation/amortisation				Carrying amounts		
	Value 01.01.2018 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	Value 31.12.2018 EUR	Value 01.01.2018 EUR	Additions EUR	Disposals EUR	Value 31.12.2018 EUR	Carrying amount 31.12.2018 EUR	Carrying amount 31.12.2017 EUR
<b>I. Intangible assets</b>											
Franchises, trademarks, patents, licences and similar rights	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>II. Property, plant and equipment</b>											
1. Land and leasehold rights	1.344.986,46	0,00	0,00	0,00	1.344.986,46	966.698,46	134.505,00	0,00	1.101.203,46	243.783,00	378.288,00
2. Other fixtures and fittings, tools and equipment	2.215.280,33	517.930,69	31.574,00	0,00	2.701.637,02	1.751.131,33	125.830,40	31.574,00	1.845.387,73	856.249,29	464.149,00
3. Advance payments and plant and machinery in process of construction	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	<b>3.560.266,79</b>	<b>517.930,69</b>	<b>31.574,00</b>	<b>0,00</b>	<b>4.046.623,48</b>	<b>2.717.829,79</b>	<b>260.335,40</b>	<b>31.574,00</b>	<b>2.946.591,19</b>	<b>1.100.032,29</b>	<b>842.437,00</b>
<b>III. Financial assets</b>											
1. Shares in affiliated companies	58.251.252,57	0,00	0,00	0,00	58.251.252,57	988.336,11	0,00	0,00	988.336,11	57.262.916,46	57.262.916,46
2. Loans to affiliated companies	1.000.000,00	0,00	1.000.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1.000.000,00
	<b>59.251.252,57</b>	<b>0,00</b>	<b>1.000.000,00</b>	<b>0,00</b>	<b>58.251.252,57</b>	<b>988.336,11</b>	<b>0,00</b>	<b>0,00</b>	<b>988.336,11</b>	<b>57.262.916,46</b>	<b>58.262.916,46</b>
<b>Total</b>	<b>62.811.519,36</b>	<b>517.930,69</b>	<b>1.031.574,00</b>	<b>0,00</b>	<b>62.297.876,05</b>	<b>3.706.165,90</b>	<b>260.335,40</b>	<b>31.574,00</b>	<b>3.934.927,30</b>	<b>58.362.948,75</b>	<b>59.105.353,46</b>

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 2018 financial year from 1 January 2018 to 31 December 2018, as well as the situation of the Group and the individual company as at the reporting date, 31 December 2018.

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. Furthermore, the holding company is responsible for staff functions such as sales, marketing, human resources, finance, business operations, planning and controlling, IT services and law.

The holding company's commercial activities are restricted mainly to the settlement of services within the Group and to financing; it operates only rarely as a contracting partner in customer projects. Within the scope of services, it is mainly the above-mentioned staff functions incumbent on the holding company that are

settled. The purpose of the financing activity consists primarily of making interest-bearing loans to Group companies, making cash investments and distributing earnings from participating interests.

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

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 2018 financial year. msg life Poland z.o.o. in Warsaw, Poland, has been in liquidation since the fourth quarter of 2018.

As at 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 (cloud solutions). On the basis of their extensive market experience, highly qualified msg life employees develop state-of-the-art solutions to provide customers with comprehensive support. msg life invests in modern technology and proven methods. The software architecture used is component-based and service-oriented and can be used in digitisation projects. The combination of specialist knowledge, process skills and IT expertise



available 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), Regensburg (Switzerland), Amersfoort (Netherlands), Warsaw (Poland), Prague (Czech Republic, until 31 March 2018), Bratislava and Košice (Slovakia), Maribor (Slovenia), Oporto (Portugal) and Madrid (Spain), as well as New York, Denver and Portland (USA).

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 2018 were as follows:

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

## Organisational structure

As a leading sector-based service provider for life insurance companies and pension fund institutions in Europe and health insurance companies in, in particular, the United States on the reporting date, the msg life Group offers a full range of state-of-the-art solutions in the form of consultancy, services, software and cloud solutions. The range of services addresses the fields of systems of engagement (SoE) with portal solutions for self-service and sales support, systems of records (SoR) with policy management including actuarial mathematics, migration and across-the-board processes (e.g. collections/disbursements and commission) as well as systems of analytics (SoA) for reporting and data analyses. Consulting and services on the one hand and the product range on the other complement each other to make up the sector-based service provider's integrated range of solutions. The products are primarily standard software products which have been 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 2018, the Management Board of msg life ag consisted of Rolf Zielke (Chairman), Dr Aristid Neuburger (Deputy Chairman), Bernhard Achter, Francesco Cargnel and Dr Wolf Wiedmann.

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

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

By resolution on 28 June 2018, the Supervisory Board appointed Rolf Zielke as Chairman of the Management Board and Dr Aristid Neuburger as Deputy Chairman of the Management Board.

As at 31 December 2018, the Supervisory Board consisted of five members who were elected by the shareholders at the annual general meetings held on 29 June 2017 and 28 June 2018 for the period until the end of the 2021 annual general meeting: 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 system is available in Java JEE architecture. msg.Life Factory has been included in a number of market surveys of European life insurance policy management systems conducted by leading research companies in the past and has achieved impressive results. The portfolio of core insurance systems offered by the company is rounded off by the policy management system msg.Life and the all-sector system Unified Administration Platform (formerly: msg.Symass), the latter being focused on small insurance companies in Eastern Europe.

The key specialist and across-the-board functions in the core line of business are covered in particular by the products msg.ZVK Factory (formerly msg.ZVK) (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) and msg.Illis (insurance liability information system). There is msg.Pension for manag-

ing time value accounts and company pensions as well as the self-service portal for digital communication with end customers msg.Online Insure. msg life also offers a wide array of consulting and services, ranging from software implementation 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 also a part of msg.Insurance Suite, the common insurance platform of the msg Group. msg.Insurance Suite represents the first holistic industrial standard for all sectors of the insurance industry. The solution covers and integrates all necessary system components for an insurance company. In addition to its underlying component architecture, this platform features a high degree of end-to-end prefabrication, makes it easy to integrate existing solutions and features a wide variety of potential applications with high releasability and low development and maintenance costs. msg life and the msg Group are collaborating closely in order to market msg.Insurance Suite. The full convergence of the components of msg.Insurance Suite and the sales-related collaboration taking place in this context are key aspects of the product strategy.

## Economic report

### Macroeconomic and sector-specific conditions

The OECD sums up the global economy as follows: global growth is strong yet has reached its peak. The global economic output increased by 3.7 per cent in 2018. However, the GDP growth will slow over the next couple of years. The intensifying trade wars, restrictive general financial conditions and high oil prices are just three of the reasons cited by the OECD for the slowdown.

Unlike in 2017, concludes the OECD, the rates of development in individual countries and sectors varied. In light of growing trade tensions, the growth in the volume of global trade already started to slow in 2018. The rate of development in the first six months of the year was particularly slow. Indicators such as export orders and container handling continue to point to restrained trade growth.

Various new tariffs and measures designed to restrict trade came into force this year alone. These developments are due primarily to the broadening trade war

between the USA and China: both countries introduced special tariffs over the course of the previous year. Almost half of Chinese exports to the USA are now affected by special tariffs which is affecting the Chinese economy. According to the Chinese National Bureau of Statistics, the Chinese economy grew by just 6.6 per cent in 2018 relative to the previous year, its slowest rate in almost three decades.

The OECD expects global GDP growth of 3.5 per cent in both 2019 and 2020. There is a risk that more restrictive measures will follow this year. The introduction of more trade barriers between the USA and China would not only impede the overall economic output of both economies, but would also negatively affect the development of global trade.

Additionally, increasing oil prices due to higher global demand, uncertainty surrounding Venezuelan oil production and the sanctions on oil production in Iran could slow global growth. Financial risks also have to be taken into consideration. There could be uncertainty in the capital markets as part of the upcoming normalisation of monetary policy, which would cause corrections in asset prices, returns and exchange rates.

According to a preliminary estimate by Eurostat, the GDP of the eurozone can be expected to have declined from 2.5 per cent in the previous year to 1.8 per cent in 2018. For example, the risks include political uncertainty such as a no-deal Brexit, the trade dispute between Brussels and Italy, the ongoing trade wars and increased volatility in the financial markets.

Growth in Germany was significantly slower in 2018: according to the preliminary calculations of the Federal Statistical Office, the German GDP grew by 1.5 per cent compared to 2.2 per cent in 2017. The strong level of domestic demand was the main driver of the growth. Investments also increased, especially in construction, plants and equipment. The IT sector, the construction sector and the retail, hospitality and transport sectors – which are closely linked to consumption – proved to be booming. In contrast, the export economy failed to drive growth. Although the average annual volume of exports did increase, the growth was not as strong as in previous years. This sector too is being affected by factors including the trade war between the USA and China, Brexit and the slowdown of the Chinese economy.

The general economic conditions for the European and German insurance industries remained complex last year. The persistently low interest rates, new regulatory requirements, high cost pressure and more intense competition are keeping businesses in suspense. Insurers were busy with political issues such as the additional interest reserve, the Insurance Distribution Directive (IDD), the German Life Insurance Reform Act II (LVRG II), the European General Data Protection Regulation (GDPR), new accounting standards and Solvency II in 2018 and the issues will continue to have an effect into 2019.

Digitisation is posing additional challenges for the sector. Insurers are responding by consolidating and by making extensive investments in the automation of business processes to cut costs, in the development of innovative products, in new cost models and in new IT systems. For a number of companies, the financial year ended was dominated by the challenging transition to a modern IT landscape into which new technology and platforms can be integrated in order to meet the requirements of digitisation and embrace modern methods of communicating with customers.

The large-scale digital disruption that is expected to be caused by InsurTech businesses did not occur in 2018. Rather, the signs are pointing towards collaboration. Numerous traditional insurers are now cooperating with these creative start-ups. The focus now is more heavily on enriching the value chain with supplementary services such as in connection with customer communication and claims handling. Even if InsurTechs are not currently threatening to cause any real disruption, the major Internet-based players still have the potential to change the insurance industry and its business models in the medium term due to their market strength, massive volumes of data and cutting-edge IT. One indicator is that more and more insurers are investing in digital ecosystems, artificial intelligence, the Internet of things, blockchain and big data.

In Germany, the Act to Strengthen Occupational Pensions (Betriebsrentenstärkungsgesetz – BRSg) which came into force in early 2018 has created a sense of optimism for company pension schemes. The insurance industry expects company pension schemes to become much more attractive following the occupational pension reforms. In 2018, numerous insurers banded together to develop and provide solutions for the social partner model together. In contrast, the news from the world of pension funds is not as good. Some companies no longer have the resources to maintain the guarantees of the past.

In the financial year ended, non-life insurance in Germany was largely spared from large-scale natural hazards on a more than regional level. As such, the sector can expect positive loss development with regard to vehicles and residential buildings and in turn solid earnings.

With regard to the German-speaking insurance markets, the intense competition is being stimulated by the increasing interdependence between the national insurance markets. Nevertheless, unlike in reinsurance, the direct insurance markets are largely national markets and this should not be expected to change. The global interdependence is most readily reflected in the cross-border business conducted through subsidiaries and in the establishment of cross-border regional or global insurance groups and in the increasing international division of labour within those groups.

Lowering costs and increasing efficiency were once again in focus in the financial year ended. With regard to the fact that a modern IT architecture is invaluable to successful business, insurance companies are working hard to update and optimise their IT structures, procedures and processes on the basis of careful cost-benefit analyses. Additionally, many companies are focused on developing innovative products or expanding their product ranges. This applies to all existing product groups, layers and legal forms. The objective is to design 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.

A powerful IT infrastructure is a key prerequisite for product innovations, digitisation or automating business processes in order to increase efficiency and optimise costs. This is leading to an increasing need for external advice and IT support and consequently to the continuous adaptation and further development of msg life's standard software.

Overall, developments in the US insurance market were satisfactory in 2018. Growth in the health insurance sector has been slightly weaker because companies are paying attention to their costs. Overall, the life insurance market experienced a slight upturn. Growth in the non-life insurance market remains steady, in line with general economic growth, albeit slow.

According to the Leibniz Centre for European Economic Research in January 2019, even though businesses in the information industry in Germany have had a somewhat stifled start to 2019, there is no great cause for concern. The majority of businesses in the information industry continue to rate the economic climate as positive.

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

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

In 2018, 80.5 per cent of turnover was generated in Germany (previous year: 78.0 per cent) and 19.5 per cent on foreign markets (previous year: 22.0 per cent). In view of the decision that was made in 2013 to consolidate efforts on existing foreign markets for the time being, rather than entering new ones, and to continue expanding the shares in markets where the company already operated in Europe and the United States, following on from previous years, msg life ag continues to refrain from setting a concrete quantitative target in association with a potential increase of the proportion of turnover which is generated in foreign markets.

Once again, the 2018 financial year of msg life featured exceptionally stable business with existing customers that was characterised by successful projects with a steady flow of new orders. msg life sees the trust shown by its customers as a confirmation that it is on the right track and as an incentive to continuously improve and enhance its own services and solutions in collaboration with its customers. The company expects these developments to continue in 2019.

The company recorded sales successes again in 2018 for msg.Life Factory, Europe's leading policy management system: Nürnberger Versicherung and the Swiss insurer AXA, based in Winterthur, are two more well-known life insurers to opt for the modern core system of msg life. Additionally, ERGO commissioned IBM which in turn commissioned msg life and the msg Group as subcontractors to build a 'run-off' platform for managing the roughly six million traditional life insurance contracts in its portfolio.

A contract was also signed in the reporting period with WWK Versicherungen, encompassing the licence for msg.Zulagenverwaltung as well as a licence for RSBF (Riester policy management) and the migration of data from the old system. In other news, Nürnberger Versicherung has become a new customer for msg.Zulagenverwaltung.

Other new contracts were awarded by ONE Insurance which decided to open up the Swiss market on the basis of the Unified Administration Platform, as well as from customers in the US market. The msg life Group company in the US market won BCBS Kansas City as a customer with msg.Unified Product Platform, software for defining, developing and marketing health insurance products.

In the context of the rapid and ongoing digitisation of the entire insurance industry and customers' growing demand for modern actuarial product design solutions, msg life has become the first provider of a complete self-service portal for life, health and non-life insurers that can serve as a component of msg.Life Factory, msg.P&C Factory, msg.Health Factory as well as proprietary policy management systems. Under the name msg.Online Insure, the web-based portal, similar to online banking, offers end customers as well as brokers and agents all transactions relating to an insurance policy on one easy-to-use interface – on all devices, around the clock and with a view to optimising costs in the long term.

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 this context, the Group company speeos has assumed the role of a digital laboratory with the aim of making innovations for the insurance sector in the field of systems of engagement market-ready, and of significantly influencing the digital transformation of the insurance industry.

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

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

msg life is represented in many Eastern European countries with the policy management system Unified Administration Platform – the proven all-sector system

for smaller insurance companies – which is the market leader in those countries. As a result of the growing consulting business that is developing in connection with its local presences, msg life expects these markets to generate cross-selling effects for the Unified Administration Platform.

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

The Iberian peninsula is an equally interesting market. msg life continues to work the Portuguese and Spanish markets with its own local office in Portugal – which is now also being used successfully as a product development unit – and with an office in Spain. In 2018, msg life generated stable development of business with existing customers in the market there.

The US business of msg life, primarily for health insurers, is also still performing well. FJA-US, Inc. – the msg life Group company located in the United States – recorded continuous successful development with solutions such as the Unified Distribution Platform, 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.

As previously reported, there were numerous new orders during the reporting period, and msg life expects more new business in the 2019 financial year. Its business with existing customers in connection with the software components provided by msg life fared positively in 2018. Additionally, most of the major projects set out in the corporate plan were executed as planned in the reporting period. As in previous years, the company's main focus in terms of sales lay on acquisitions in its established markets in the 2018 financial year.

## Summarised evaluation of the company's business situation

The 2018 financial year was a good year for the msg life Group: The stability of its business with existing customers, successful sales and project business that went largely to plan allowed the company to surpass the turnover target (IFRS) it set at the start of the financial year and meet its profit target (IFRS). Overall, the msg life Group recorded turnover of 148.1 million euros under IFRS and earnings before interest, taxes, depreciation and amortisation (EBITDA) of 11.7 million euros.

After the accounting of the Group was transitioned to German GAAP in the reporting period, the msg life Group generated turnover (GAAP) of 134.3 million euros and earnings before interest, taxes, depreciation and amortisation (EBITDA) (GAAP) of 6.8 million euros.

The business situation of the company in the 2018 reporting year can therefore be described as positive overall. The company has paved the way for further positive development in 2019 and beyond. Last year's prognosis in the separate financial statements forecast slightly positive net results for the year; as the holding company, the individual Group company finished the 2018 financial year with a net result of 2.5 million euros which was in line with expectations.

## 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

As the earnings, financial and assets position of the Group were presented in accordance with IFRS on the reporting date in the previous year (31 December 2017), the following disclosures regarding the earnings, financial and assets position of the Group as at 31 December 2018 are based on the German Commercial Code (HGB) due to the conversion of Group accounting in the reporting period. The values from the previous year have been converted.

### 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 2017 financial year as at 31 December 2017.

The msg life Group's turnover in the financial year ended amounted to 134.3 million euros, which is 19.8 million euros higher than the figure for the 2017 financial year, corresponding to growth of 17.3 per cent.

During the financial year, services turnover registered an increase from 66.2 million euros to 99.2 million euros, which is an increase of 33.1 million euros. This is equivalent to 73.9 per cent of the total turnover (previous year: 57.8 per cent). However, product-based turnover overall was down by 13.3 million euros to 35.1 million euros (previous year: 48.4 million euros). In terms of product-based turnover, licensing income came to 9.8 million euros in the reporting period (previous year: 27.1 million euros), which represents 7.3 per cent of total turnover (previous year: 23.7 per cent). In the 2018 financial year, maintenance turnover amounted to 18.3 million euros (previous year: 17.1 million euros) and thus makes up 13.6 per cent (previous year: 14.9 per cent) of the total turnover.



The other turnover largely comprised hardware deliveries, computing centre services and sales commission in 2018. Likewise, it increased by 2.8 million euros in the financial year ended to 7.0 million euros (previous year: 4.2 million euros).

As for the regional breakdown of turnover, the aggregate figure for Germany in the 2018 financial year totalled 108.2 million euros (previous year: 89.3 million euros) and 26.1 million euros in other countries (previous year: 25.2 million euros). The increase in Germany resulted in particular from increased demand for msg life solutions on the German-speaking markets. The msg life Group also reported a slight increase in turnover in its US business, where turnover climbed to 22.4 million euros (previous year: 19.9 million euros). Turnover in Austria was down to 0.4 million euros (previous year: 0.8 million euros). Slovakia is the third-strongest market in terms of turnover, with turnover in the 2018 financial year amounting to 1.6 million euros (previous year: 2.3 million euros). In Switzerland, turnover totalled 1.4 million euros in 2018, thereby decreasing slightly by 0.1 million euros compared to the previous year. External turnover in the Benelux region and Poland was unchanged year-on-year in 2018 at 0.1 million euros. In Portugal, the company experienced a decline of 0.2 million euros to 0.2 million euros.

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

In contrast, the change in inventories decreased by 5.6 million euros from 14.9 million euros to 9.3 million euros in the financial year, causing the gross revenue of the company to increase by 14.1 million euros to 143.6 million euros, representing a 10.9 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 2.6 million euros (previous year: 1.6 million euros). In the financial year ended, one key driver was the reversal of provisions totalling 1.3 million euros (primarily pension provisions due to several deaths).

In the 2018 financial year, aggregate costs amounted to 139.4 million euros (previous year: 120.1 million euros); they increased by 19.3 million euros or 16.0 per cent, which is above average relative to the gross revenue. The largest proportion of total costs comprised personnel costs at 93.4 million euros (previous year: 85.9 million euros), which represents a share of 67.0 per cent (71.5 per cent) relative to the average number of 1,058 employees (previous year: 970 employees).

At 26.3 million euros (previous year: 16.3 million euros), procured services represented a large proportion of total costs. Procured services include external freelance staff whose costs amounted to 9.6 million euros in the 2018 financial year (previous year: 7.5 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 17.4 million euros to 119.9 million euros (previous year: 102.4 million euros). The increase in personnel costs was due primarily to numerous recruitments in light of the new projects. Other operating expenses accounted for 14.0 per cent of total costs in 2018, a slight fall compared with the previous year (14.7 per cent), and came to 19.5 million euros (previous year: 17.7 million euros). The main component of other operating expenses is rent for office space of 6.1 million euros (previous year: 5.5 million euros).

The second-largest cost pool comprised travel expenses associated with products which came to 3.3 million euros (previous year: 3.1 million euros) and so were 0.2 million euros higher than the previous year. Consulting, accounting and Supervisory Board expenses increased by 0.3 million euros to 1.7 million euros in the 2018 financial year (previous year: 1.4 million euros).

As a result, the Group was able to generate an EBITDA of 6.8 million euros (previous year: 11.0 million euros).

The sum of all depreciation and amortisation increased by 0.5 million euros to 2.3 million euros (previous year: 1.8 million euros). Depreciation of property, plant and equipment amounted to 1.8 million euros (previous year: 1.4 million euros). A total of 0.5 million euros stemmed from the amortisation of intangible assets (previous year: 0.4 million euros).

Overall, the positive operating result totalled 4.5 million euros (previous year: 9.2 million euros).

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

The Group's income from ordinary activities decreased in 2018 by 4.9 million euros, bringing it to 3.6 million euros (previous year: 8.5 million euros). This resulted in income tax expenses of 1.4 million euros for the 2018 financial year (previous year: 1.5 million euros), which represents a reduction in tax expenses of 0.1 million euros.

Net income for the 2018 financial year amounted to 2.1 million euros (previous year: 7.0 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 increased by 5.1 million euros and amounted to 28.2 million euros on 31 December 2018 (as at 31 December 2017: 23.1 million euros). Cash pooling exists for the German companies within the msg life Group. The Group invested 5.8 million euros in cash in US treasury bonds, in order to generate interest income on a part of its existing cash holdings.

In the 2018 financial year, msg life generated an operative cash flow in the amount of 9.0 million euros (previous year: 1.9 million euros), which documents and illustrates the fact that the company generates liquid funds under its own steam. Due to the consistently positive performance indicators, the msg life Group concluded the 2018 financial year with a positive EBT (earnings before taxes on income) figure of 3.6 million euros in total (previous year: 8.5 million euros).

The cash flow from investing activities amounted to -4.9 million euros (previous year: -2.4 million euros), whereby investments in property, plant and equipment, in the form of technical equipment, accounted for 2.5 million euros and the acquisition of securities in the USA for 2.3 million euros.

After having a significantly positive balance of 4.6 million euros in 2017, due essentially to the sale of treasury shares totalling 4.5 million euros, the cash flow from financing activities is, at 0.4 million euros, back at the level of the financial years prior to 2017.

## The Group's assets position

### ASSET STRUCTURE ANALYSIS

At 50.6 per cent, the equity ratio of the Group as at 31 December 2018 was slightly better than in the previous year (previous year: 50.2 per cent), and equity amounted to 38.2 million euros (previous year: 35.2 million euros). As at 31 December 2018, the Group's total assets are 75.5 million euros, which represents an increase of 5.4 million euros (compared to 70.1 million euros as at 31 December 2017).

In the reporting year, current assets increased from 62.5 million euros in the previous year to 67.6 million euros. The increase is due essentially to the fact that cash in hand was 5.1 million euros higher as at the reporting date (having increased from 23.1 million euros in the previous year to 28.2 million euros as at the reporting date) and that securities increased by 2.5 million euros to 5.8 million euros.

The work in progress in the item 'Inventories' has therefore decreased from 2.4 million euros to zero as the payments received on account of customer projects exceeded the work in progress as at the reporting date; as such, due to the open recognition of long-term projects, the net amount of 1.4 million euros has been recognised under liabilities as payments received on account.

Cash and cash equivalents increased by 5.3 million euros to 28.2 million euros (previous year: 23.1 million euros).

Non-current assets increased by 0.2 million euros to 6.9 million euros (previous year: 6.7 million euros). As such, property, plant and equipment increased by 0.6 million euros in the 2018 financial year, due primarily to the addition of operating and office equipment. Intangible assets decreased by 0.5 million euros to 2.7 million euros due to amortisation, by contrast, since msg life Group invested more in its technical equipment. Before they were netted against deferred tax liabilities, the deferred tax assets totalled 0.6 million euros (previous year: 0.7 million euros).

Provisions decreased by 0.5 million euros. This change is due primarily to the decrease in (long-term) pension provisions by 0.4 million euros to 6.1 million euros and the decrease in tax provisions by 0.5 million euros to 0.5 million euros. Other provisions increased by 0.4 million euros to 17.0 million euros.

All in all, provisions account for 31.2 per cent of the balance sheet total, compared with 34.3 per cent in the previous year.

Liabilities amounted to 12.4 million euros. The increase of 3.7 million euros compared to the previous year is due primarily to the increase in liabilities to affiliated companies of 2.7 million euros to 5.3 million euros and the increase in trade payables of 1.1 million euros to 3.0 million euros. In contrast, other liabilities decreased by 1.3 million euros to 2.7 million euros.

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 12.3 per cent in the previous year to 16.4 per cent now.

The 2018 financial year was slightly below expectations. Nevertheless, the Management Board of msg life ag assumes that the development of the earnings, financial and assets position was satisfactory in the financial year ended and that the positive development from previous years was able to be repeated.

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

### EARNINGS POSITION

Compared to the previous year, turnover increased by 3.0 million euros from 17.9 million euros to 20.9 million euros. Turnover from third parties of -1.0 million euros and internal turnover, i.e. turnover from companies within the msg life Group, of 4.0 million euros contributed to this development. The reason for this development was essentially the awarding of a major contract in cooperation with msg systems ag. Other operating income amounted to 0.4 million euros (previous year: 0.8 million euros).

Expenses for the procurement of services within the Group were 0.2 million euros higher than in the previous year and amounted to 6.9 million euros in the financial year ended (previous year: 6.7 million euros).

At 7.1 million euros, personnel expenses were 1.3 million euros higher than in the previous year (previous year: 5.8 million euros).

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

Other operating expenses, essentially consisting of administrative costs with affiliated companies, rent and legal and consultancy costs, bookkeeping costs and Supervisory Board remuneration, increased by 1.6 million euros from 12.4 million euros to 14.0 million euros in the financial year ended. Besides higher offsettable administrative costs (increase of 0.7 million euros), higher recruitment costs (increase of 0.3 million euros) and legal fees and consulting expenses (increase of 0.3 million euros) were factors in this development.

Under its profit transfer agreements, the company received 9.3 million euros from msg life central europe gmbh (previous year: 10.1 million euros) and 0.7 million euros from msg life global gmbh (previous year: -0.2 million euros from a loss transfer).

msg life ag's net interest came to -0.3 million euros in the financial year 2018 (previous year: -0.4 million euros) and consists mainly of interest expenses for pension and anniversary provisions and interest on IC liabilities.

In the 2018 financial year, tax expenses amounted to 14,000 euros (previous year: 243,000 euros), which is attributable to the lower amount of taxable income.

Overall for 2018, msg life ag generated a net profit under the German Commercial Code (HGB) in the amount of 2.5 million euros (previous year: 2.6 million euros).

### FINANCIAL AND ASSETS POSITION

Non-current assets fell by 0.7 million euros to 58.4 million euros (previous year: 59.1 million euros), primarily because of capital repayments on loans extended to affiliated companies of 1.0 million euros. As at 31 December 2018, these loans totalled 0.0 million euros (previous year: 1.0 million euros). Property, plant and equipment came to 1.1 million euros (previous year: 0.8 million euros).

msg life ag's current assets decreased by 16.5 million euros to 26.4 million euros in the financial year ended (previous year: 9.9 million euros). Essentially, this development is due to payments of 9.6 million euros made on account in connection with the acquisition of a major project in cooperation with msg systems ag.

In addition, trade receivables increased by 1.2 million euros.

Receivables from affiliated companies increased by 0.4 million euros to 0.8 million euros (previous year: 0.5 million euros). Liabilities towards affiliated companies also increased by 2.3 million euros to 26.8 million euros (previous year: 24.5 million euros).

As at the reporting date, cash and cash equivalents were 5.1 million euros higher than in the previous year, reaching a balance of 13.5 million euros at the end of the year (previous year: 8.3 million euros). The company was completely equity-financed in the 2018 financial year (as was the case in 2017) and, as such, there were no deferred liabilities to banks.

There were scheduled repayments of loans to affiliated companies in the 2018 financial year amounting to 1.0 million euros.

As at the reporting date, the deferred tax assets amounted to 6,000 euros (previous year: 44,000 euros) and deferred tax liabilities of 6,000 euros were also formed (previous year: 44,000 euros).

Equity amounts to 41.6 million euros (previous year: 39.1 million euros), which represents an increase of 2.5 million euros. The net loss fell to 13.0 million euros (previous year: net loss of 15.5 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 2018 amounted to 85.0 million euros (previous year: 69.1 million euros).



# Research and development

## Focus of R & D activities

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

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

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

In addition to the traditionally very high level of acceptance for the quality of the msg life Group's specialist product range for its target sector, the new release generations have also succeeded in winning recognition

for their high technological quality. The direct benefit from the sector's point of view lies in the option to use msg life's standard software products for a wide range of proven and innovative target technologies. Moreover, the strategic benefit for the msg life Group lies in the possibility of flexible integration for the individual products that were previously strictly separated.

## Purchasing R & D 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 high qualification level of the Group's employees is updated continuously by means of selective (also external) ongoing training activities. In the technology sector, msg life makes use of rapidly developing standards and non-proprietary technologies right through to freely available open-source products. The company also safeguards the quality of its own technological orientation by maintaining close partnerships with IBM and with selected colleges and universities.

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

### Product development

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

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

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

The company pressed on with the strategic topic of continuous delivery in the reporting period. This optimises the development process of msg life software, with the goal of assuring 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.

The technical and specialist content of the msg.Life Factory release planning was discussed and agreed within the two user groups in spring and autumn 2018 together with existing customers.

The 18.1 release of msg.Life Factory was made available to customer projects in the spring of 2018, followed by the 18.2 release in autumn 2018. The key aspects of the development of msg.Life Factory in the reporting period were the creation of the country layer for the Austrian and Swiss markets as well as the implementation of the European General Data Protection Regulation (GDPR). Additionally, intensive work has been carried out to embed msg.Life Factory in cloud architectures such as the Amazon Cloud (AWS): the 18.1 release made it possible to operate msg.Life Factory on containers-as-a-service (CaaS) platforms in the development process and the 18.2 release implemented support for live operations.

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

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

msg life continues to develop the important issues of process efficiency, automation and digitisation with LF customers in the specialist working group 'Business processes'. Other working groups are focusing on transparency and consumer protection, Riester and taxes, accounting and financial reporting. These working groups

consist of customer representatives and msg life employees and help to define the scope of standard products; they have proved their worth and are essential to continued plan and solution development for msg.Life Factory. In this context, an exchange of experience also takes place within the user groups.

In the context of the ongoing digitisation of the insurance industry, customers are increasingly demanding new products and services from msg life. msg life was the first provider of a complete self-service portal for life, health and non-life insurers that can serve as a component of msg.Life Factory, msg.P&C Factory, msg.Health Factory as well as proprietary policy management systems. Similar to online banking, the web-based portal msg.Online Insure offers end customers as well as brokers and agents all transactions relating to an insurance policy on one easy-to-use interface – on all devices, around the clock and with a view to optimising costs in the long term.

### msg.Life and Unified Administration Platform

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

The technological basis of the Unified Administration Platform has been modernised from the ground up and converted to Java. In particular, this technological modernisation greatly increased the degree of automation and the flexibility of the mapped business processes by augmenting them into a microservice-based architecture and also established a cutting-edge user interface.

The Unified Administration Platform is an administrative platform that has been established for over 25 years, maps all of the key roles of an insurance company and can be used extremely efficiently, including in the cloud. As it has been developed with a focus on microservices, the Unified Administration Platform makes it possible to combine the modules/services flexibly (e.g. partners, policies, products/quotations, claims management, commission, collections/disbursements, reinsurance and data retrieval). The solution is highly scalable and can be integrated into other solutions with ease by means of API.

### msg.Zulagenverwaltung

Most customers went live with version 18.1 of msg.Zulagenverwaltung, a system designed to manage the allowances of contracts subsidised under the Riester system, in mid 2018. Besides an HTML-based graphical user interface, elements of the European General Data Protection Regulation (GDPR) were implemented alongside change of provider 2.0.

As part of the working group for msg.Zulagenverwaltung, msg life discussed the most important topics relating to the current plans of the German central allowance authority for pension assets (Zentrale Zulagenstelle für Altersvermögen, ZfA) as well as matters relating to the

18.2 release with customers in March 2018. This release was then made available for customer projects in November 2018.

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

### msg.RAN

The working group for the pension settlement and documentation system msg.RAN discussed and adopted the key functional and technical aspects of development with customers in March 2018. Moreover, the further development remained on schedule during the reporting period, and the current 18.1.0 release was made available for customer projects in November 2018. The plans for 2019 were discussed by the working group in October 2018.

### msg.Tax Connect

The msg.Tax Connect working group in March 2018 comprised a status report on the events of the previous year, discussion and evaluation of the specific requirements, further release planning and information relating to the operation of the software. All topics presented were received positively among customers and the suggested content planning for the subsequent release was approved. The 18.1.0 and 18.2.0 releases were delivered to customers in April and November 2018 respectively.

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

### msg.Ilis

msg.Ilis stands for 'Insurance Liability Information System' and, as standard software, provides the framework for centralised data storage. It ensures the data required for all kinds of project calculations is of high quality, up to date and available for auditing. The most significant are the requirements of Solvency II, IFRS 17 and the principles of market-consistent embedded value (MCEV). The current release means that the full range of products in the German-speaking insurance markets is now covered.

On the one hand, implemented in modern JEE technology, msg.Ilis is a component of msg.Life Factory and is therefore fully integrated into msg.Insurance Suite. On the other, msg.Ilis can be operated with other policy management systems as an independent system.

### msg.Sales and Unified Product Platform

msg life's business in the United States remains stable and the company saw continued successful development there in 2018, among other things with the msg.Sales solution as well as the Unified Product Platform,

which belongs to the Group company FJA-US, Inc. The range of services offered by msg life in the United States encompasses not only software products, but also operator models and functional consulting services on all aspects of product and tariff structuring – primarily for health insurance. msg.Sales has now been successfully tethered to several msg life solutions – including msg.Life Factory, Unified Product Platform and Unified Administration Platform.

The transition of the Unified Product Platform to a web-based application began in the reporting period. Additionally, the topic of agile product development was raised and spurred on in connection with an important customer project. As such, the entire development process for the US product range is to be streamlined with a view to improving product planning and quality to an even greater extent.

### msg.ZVK Factory

The upgradeable standard software product msg.ZVK Factory (formerly msg.ZVK), a management system for supplementary pension funds, is now ready to be marketed after two customers have successfully gone live. Supplementary pension funds can use msg.ZVK Factory to manage and settle the corresponding pension entitlements and defined benefits.

In doing so, the significant components are the automated processes for annual notifications as well as the transferring of policies between the supplementary pension funds. Standard processes such as the processing of pension rights adjustments, paying-agent registration procedures and pension entitlement and payment notifications are also included. The system can be fully integrated into an SAP landscape or an internal msg Group landscape, including collections/disbursements, partners, workflows, data warehousing and correspondence. Its modern, service-oriented system architecture based on JEE technology supports various business models from back-office processing to a portal-based B2C approach.

## **Project business**

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

The large-scale msg.Insurance Suite introductory projects for UNIQA (June 2018), Frankfurter Lebensversicherung, VHV Versicherungen and Canada Life (all in November 2018) all went live successfully in the reporting period.

The transition of customer systems to the JEE-based msg.Life Factory continues; ERGO was just one customer to transition in the 2018 financial year. Another JEE project was completed successfully and all systems, with the exception of one customer, have now been transitioned.

The long-standing customer HUK-COBURG Lebensversicherung successfully went live with the 17.2.1 release of msg.Life Factory in autumn 2018. The next stages are

the migration of an initial series from an old system to the new system, the update to release 18.2.1 and the further expansion of transactions.

AXA Germany went live with the 4.14 release of the new generation of tariffs for 2018 in January 2018. Additionally, it implemented the requirements of the German Act to Strengthen Occupational Pensions (Betriebsrentenstärkungsgesetz – BRSG), made legally necessary adjustments in light of the investment tax reform act and change of provider 2.0 and implemented aspects relating to transparency. As part of the April release, changes were made to Riester pensions due to the requirements of the German Act to Strengthen Occupational Pensions (Betriebsrentenstärkungsgesetz – BRSG). AXA Germany then successfully transitioned to the 17.2.1 standard release in mid September.

In mid July 2018, the existing customer Signal Iduna successfully switched to version 4.14. In doing so, it has paved the way for a parallel change of architecture to the current JEE version of msg.Life Factory.

DEVK Versicherungen successfully went live with the mathematical JEE product component msg.Life Product in the reporting period. This means that five msg life customers are now using this JEE component in live operations.

The long-standing customer Württembergische Lebensversicherung went live with an extensive series of developments in early June 2018 on the basis of the LF 17.1 release. Like the introductions of the previous releases, this launch went according to plan in regards to time, quality and budget.

### msg.Life

In October 2018, Schweizerische Mobiliar successfully went live with the 3.14.1.7 October release of msg.Life. It was focused mainly on the MXS-Kindersparversicherung product variant. The main activities for this customer are focused on the parallel introductory project for msg.Life Factory which will replace msg.Life. Significant deliveries were made in the customer test in August and December 2018 and the launch is scheduled to take place in April 2019.

A range of functional expansions were made to the previous system line 3 for R+V Luxembourg in the reporting period. In December 2018, msg life successfully delivered the first phase of the new system line 4 to R+V Luxembourg – another successful project in the long-standing business relationship between these two companies.

### Unified Administration Platform

The web-based Unified Administration Platform was successfully implemented for AXA in the Czech Republic and Slovakia in the reporting period.

The implementation project designed to expand the Unified Administration Platform for the Austrian insurance company Merkur Versicherung was successfully

completed in late 2018. The solution is being used in four of Merkur's Eastern European subsidiaries in Slovenia, Croatia, Serbia and the Czech Republic.

In January 2018, the Liechtenstein-based ONE Versicherung AG – Europe's first completely digital insurance company – began operations with the Unified Administration Platform as a back-office solution. This marked the successful conclusion of the first project phase, which lasted around a year. For a start, the company is offering private liability and household insurance in Germany. The next stages of the project will see property and casualty products for other European countries; the Swiss business unit will go live at the start of the second quarter of 2019.

### msg.Sales and Unified Product Platform

As part of the msg.Insurance Suite introductory project for VHV Versicherungen, the multichannel platform msg.Sales also went live successfully in November 2018, making VHV Versicherungen the first customer in the German-speaking countries to go live with msg.Sales.

In the US market, the Group company FJA-US, Inc. attracted its first customer, Voya, in the field of medical underwriting in late 2018. The partnership with Companion Data Services (CDS) has been expanded as a platform for attracting more new customers.

In February 2018, the long-standing customer Blue Cross Blue Shield in New Jersey successfully completed the first phase of updating a component of the Unified Product Platform. And in May, Providence Health Plan successfully went live with several Medicare products.

msg life continues to expect stable business with existing customers in the US market in 2019 and sees opportunities for significant business with new customers in connection with its diversification to include services such as underwriting.

### Migration Factory

As msg life has successfully completed over 40 migration projects involving over 25 million contracts over the past 15 years, the volume of business in this field is still set to be highly positive. In connection with msg.Insurance Suite in particular, msg life is experiencing strong market demand with regard to migration. The numerous simultaneous projects show that the extensive expertise of msg life in migration is considered leading on the market. msg life is welcoming these good developments by continuing to strategically expand its own staff unabatedly. Additionally, msg life will continue to hone its own expertise with regard to the migration of entire platforms.

In October 2018, almost 400,000 policies were successfully migrated to the Viridium platform on the basis of msg.Life Factory. The live migration did not suffer any disruptions and operations are stable. As such, Viridium now manages one million policies on the platform with msg.Life Factory.

Also in the fourth quarter of 2018, Württembergische Lebensversicherung AG (W&W) – with significant support from msg life – successfully migrated the fifth and final tranche with a total of 200,000 policies from the existing portfolio systems of Karlsruher Lebensversicherung. In all five tranches together, some 530,000 policies were migrated using the migration tool msg.Migration System.

As part of the migration project at AXA Deutschland, the first of several AXA source portfolios with nearly 170,000 policies was successfully migrated to the current msg.Life Factory platform in April. Additionally, intense preparatory work was carried out for the upcoming migrations in the reporting period.

### msg.Zulagenverwaltung

The introduction projects for msg.Zulagenverwaltung progressed according to plan in the 2018 financial year. msg.Zulagenverwaltung with the additional component RSBF is the clear market leader in terms of the splitting of Riester contracts for tax purposes: over half the roughly 16 million contracts subsidised under the Riester system that are concluded in Germany, including the resulting allowance processes, are handled using msg life solutions. The resultant cost advantage for msg life customers, particularly in respect of regulatory or statutory requirements in relation to Riester business, is already proving to be a crucial success factor.

### msg.RAN

In January 2018, the building society Schwäbisch Hall successfully went live with the 17.1.0 release of the pension calculation and verification system msg.RAN following an extremely short project duration. Additionally, the customer projects in connection with msg.RAN went to plan in the reporting period. In light of the ever-growing number of annuity policies on the books, msg life continues to see great potential for this successful standard software solution in the market.

### msg.Tax Connect

msg.Tax Connect is proven standard software which electronically sends contribution-related data to the German Central Allowance Authority for Pension Assets (ZfA) and transfers church tax deduction criteria (for the KiStAM process). msg life has concluded software licence agreements with around 25 customers.

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

The msg life Group's R & D expenditure totalled 9.804 million euros in the 2018 financial year (previous year: 15.291 million euros). Once again, no development expenses were capitalised.

## Employees

On 31 December 2018, the msg life Group had 1,098 permanent employees including managing directors (31 December 2017: 1,032 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 successfully implements its modern strategies in the fields of search engine optimisation and search engine advertising. Of the considerably more than 2,500 applications submitted each year, only a small portion is attributed to other recruitment methods. As a result, the company has been able to register significantly more than 2,000 applications for the third time in a row in a recruitment market that is becoming increasingly difficult.

To process the growing number of applications swiftly and in a manner which is structured and takes data security into account, the company has been using a

high-performance applicant management system for a number of years and exploits the entire spectrum of communication channels in order to identify interesting candidates. This also includes the option of applying via video. Two years ago, the application process was expanded by additional features designed to support a successful candidate experience such as the option of submitting a 'one-click' application in combination with the applicant's social media profiles and uploading the applicant's CV documents. Additionally, the recruitment video, which has been available online since early 2018, is being used actively in the search for new talent and generated in excess of 2,000 views – and excellent click numbers – on the YouTube channel of the company within the first ten months of being released. The company has also presented itself successfully at various events. Such events include graduate events at universities as well as career events for well-known recruitment service providers. The company even attended its first virtual job fair in 2018.

In order to attract employees and tie them to the company in the long term, the company continues to invest in its relationships with universities. In the 2018 financial year, msg life was again able to proportionally expand its network at selected universities and thereby attract



qualified, promising new recruits to the company and establish msg life as an interesting employer for the future. In particular, the company attended events at universities whose past graduates have successfully started their professional careers at msg life. Additionally, msg life awarded the msg life prize for an outstanding applied mathematics thesis in 2018.

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

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

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

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

In 2018, msg life again systematically pursued its chosen path of greater digitisation in the area of HR development, further diversifying its learning formats and modularising existing courses. In particular, the rapid availability of training content for changing target groups is a crucial factor in the development of additional online learning formats. Other development opportunities are also available, including from internal speakers in certain subjects. These internal multipliers are particularly remarkable – they too are trained and undergo regular training for their roles and responsibilities. In collaboration with external providers, msg life also develops tailored contemporary training courses in a wide range of subjects.

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

## Other legal and economic factors

### Shareholders' rights and duties

Shareholders have property and administrative rights. The property rights include, in particular, the right to participate in profits (section 58, 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 re-

quired, 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 2018.

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

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

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

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

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

In order to improve the early risk detection system at msg life ag, it was revised and restructured in 2015, taking into account all the Group companies. The adjustments proved successful in 2018 as well and it was not necessary to revisit them. The entire procedure is described in the risk manual and was approved by the Risk Board (risk manager and Management Board). The employees responsible for this field were trained accordingly.

In accordance with the current version of the guideline, monthly reports were prepared on the most significant risks and the operative and central divisional managers and employees with special positions in terms of risks were surveyed on a quarterly basis. The Risk Board convened three times in 2018 and subjected the risks identified to a qualitative and quantitative evaluation. At the same time, the company's internal auditing, IT security and compliance management were incorporated into the early risk detection system. The corresponding risk report was presented to the Supervisory Board in December 2018.

In 2018, 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. has increased its turnover and earnings considerably due to the Patient Protection and Affordable Care Act (Obamacare) enacted in 2013, and this also improved earnings at the Group level. Although the overall economic indicators in the United States are generally positive for 2019, there are still uncertainties related to Obamacare due to the repeatedly stated intention of the Trump administration to repeal Obamacare. At the moment, the ultimate outcome of this situation is not apparent, so this could result in opportunities as well as risks for the company. 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. The once again positive development of business in 2018 with a number of projects for new customers and the previously mentioned uncertainties surrounding the topic of Obamacare in the United States increase these risks; these additional risks are generally considered in the forecasts for 2019. The cumulative occurrence of the mentioned risks in multiple projects could, however, lead to negative effects.

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

The msg life Group also uses software from external suppliers in its own software products. This third-party software can contain defects that might have an



adverse effect on the functional capability of the msg life Group's own products. Problems in the execution of projects and software defects that can occur in the operation of software produced by msg life can do lasting damage to the reputation of the msg life Group and thereby have a substantial impact on the future course of business.

### Personnel risks

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

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

### Economic risks

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

In the event of demand falling as a consequence of economic crises, msg life would assume that this would take effect rather more slowly among existing product customers because, in that segment, loyalty to the solution deployed ensures that any requisite adjustments

will also be ordered. With regard to new customers, postponements of planned investments can lead to reductions in turnover, especially in product business.

In the past, the Group company FJA-US, Inc. has increased its turnover and earnings considerably due to the Patient Protection and Affordable Care Act (Obamacare) enacted in 2013, and this also improved earnings at the Group level. Although the overall economic indicators in the United States are generally positive for 2019, there are still uncertainties related to Obamacare due to the repeatedly stated intention of the Trump administration to repeal Obamacare. In this regard, no final decision from the US government can be predicted at this time, so this could result in considerable risks for the Group. 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.

### Competition risks

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

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

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

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 1.450 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 1,000 euros (previous year: 0 euros). On each effective date, trade receivables do not include any carrying amounts for which terms have been renegotiated and which would otherwise be overdue.

With regard to the analysis of trade receivables which are overdue but not impaired as at the end of the reporting period, we refer to section 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 1.450 million euros had been used at the reporting date for security deposits.

In the 2018 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 2018 would have been 10,000 euros lower (higher) (previous year: 10,000 euros lower (higher)) and the equity components would have been 10,000 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 78 per cent of its revenues are generated in Eurozone countries (previous year: 77 per cent), and the remainder in Switzerland, the United States, England and Australia. The currency risk on the asset side in relation to trade receivables comes from receivables not denominated in euros, accounting for 9 per cent (previous year: 10 per cent). In the case of trade payables, currency risks occur in relation to the 4 per cent of liabilities not denominated in euros (previous year: 2 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.

## Forecast

### Market and competition

With almost 1,100 employees at sites in Germany, the Netherlands, Austria, Switzerland, Slovakia, Slovenia, Portugal, Spain and the United States, msg life is now 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

### 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 80.5 per cent of turnover (previous year: 78.0 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 70.7 per cent share of turnover (previous year: 50.5 per cent) and a 39.6 per cent share of trade receivables (previous year: 28.5 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 2019, it will again be able to deal successfully with the challenges that arise from the aforementioned risks.

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 collaborations, partnerships and a local presence in the countries in question. Experience shows that the selective presence of msg life in the various foreign markets is an important success factor when it comes to attracting new customers. In addition, 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 2018 financial year, the objective in the 2019 financial year is to press ahead with major sales projects, especially in the foreign markets that are already established.

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

The Austrian market in which msg life has enjoyed significant successes in recent years with contracts from Helvetia Österreich, UNIQA Insurance Group and Wiener Städtische Versicherung is a key pillar of its international activities. The placement and further development of the consulting portfolio for the German-language markets and the marketing of msg life products in the countries of Central and Eastern Europe is carried out from Vienna. On the Swiss market, too, msg life is represented with its own offices and by various well-known life insurers and sees good medium-term prospects for the further expansion of its business.

msg life has a direct presence in the 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 extremely interesting in the market. msg will also continue to use its office in Portugal as a successful product development unit.

In the US market, msg life plans to deploy a localised version of its portfolio of European life insurance products in a more targeted manner in the medium term in connection with its specific US products as an integrated solution. Overall, msg life has enjoyed continued growth in the various insurance sectors on the US market and intends to exploit the potential for business that this represents. In addition to the implementation and integration of specific software products, the range of services offered by msg life in the United States includes operator models and various consulting services on the topics of product and tariff modelling, for example. The target group still consists primarily of health insurance companies but also life insurance companies in future. 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.

Following a positive 2018 financial year, msg life is still registering consistently high levels of demand for its products in the current 2019 financial year – from insurance companies in Germany and other countries in

equal measure. This is accompanied by the planned new requirements in relation to risk management, under the theme of solvency, and the necessity of their implementation as further arguments for strategic investments in the IT systems of msg life's customers. In this context, msg life also expects to see continuous further regulation throughout the financial services sector. Be it the German Life Insurance Reform Act (Lebensversicherungsreformgesetz – LVRG), the reform of the German Act on the Supervision of Insurance Undertakings (Versicherungsaufsichtsgesetz – VAG) as part of Solvency II, the broker guidelines of the Insurance Distribution Directive (IDD), new financial reporting standards, the German Act to Strengthen Occupational Pensions (Betriebsrentenstärkungsgesetz – BRSG), the investment tax reform act (Investmentsteuerreformgesetz – InvStRefG), the EU General Data Protection Regulation (GDPR) or the additional interest reserve reform, 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 that can be observed everywhere within insurance companies, the correlation between modern and flexible IT on the one hand and corporate success on the other is significant.

Despite persistently difficult general conditions, private life insurance cover remains indispensable in Germany in view of the demographic trend and the necessity of covering against biometric risks. Many insurers are striving to enhance their existing product ranges and/or to develop new, innovative ones in order to tackle the imminent challenges. This applies to all existing product groups, 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 objective is to design 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. Hybrids, especially dynamic hybrid products, have become the standard now, and there is a continuous flow of innovative products in addition to them – such as products which allow investment in funds, but also the purchasing of options on the



basis of traditional basic cover. In addition, insurance companies at the larger end of the scale are exploring a different avenue by offering products for old-age provision with capital guarantees on the basis of unit-linked approaches with investment guarantees.

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

Another trend at mainly large insurance companies is the selective acquisition of closed insurance contract portfolios that are no longer available for sale ('run-off' portfolios) from mainly smaller insurance companies. This enables the latter to generate positive effects for their books, and buyers can generate significant economies of scale for themselves and in turn cost synergies. Here, too, better 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 poses a number of challenges for insurers – the digitisation process is a significant driver of innovation in the sector. Fully automated processes lead to enormous gains with regard to efficiency as well as significantly lower costs. The subjects of customer centricity and individualisation, industrialisation and automation, analytics and data effectiveness, and standardisation and integration are at the heart of the digitisation trend.

However, the opportunities that digitisation offers – be they to make insurance products and services available via new channels or to integrate them into new sales and cooperation platforms – also require extensive changes to the IT landscapes of insurers. msg life 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 for life, health and non-life insurers that can serve as a component of msg.Life Factory, msg.P&C Factory, msg. Health Factory as well as proprietary policy management systems. Under the name msg.Online Insure, the web-based portal, similar to online banking, bundles all transactions relating to an insurance policy into one easy-to-use interface for end customers as well as brokers and agents – on all devices, around the clock and with a view to optimising costs in the long term.

On the basis of these developments, msg life anticipates that insurance companies will show a general interest in the software and consulting solutions it will be offering in 2019.

## Further development of products and services

As well as cultivating existing customers and winning new ones, msg life is pressing ahead with the further technical and functional optimisation and completion of its broad product range in the fields of life insurance and pensions. msg life is keeping its investment expenditure at a relatively normal level for a software company in the current year. Due to the numerous projects for new customers, costs for freelance employees – just like in 2017 and 2018 – were still higher than in previous years.

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

The continued development of the msg.Life Factory policy management system and its components on the basis of innovative, modern Java JEE architecture remains the core project in terms of products. In 2019, msg life will earmark approximately 8,300 person-days in development capacity for this and for the further convergence of the components of msg.Life Factory into msg.Insurance Suite.

In connection with msg.Insurance Suite in particular, msg life is experiencing strong market demand with regard to migration. The numerous simultaneous migration projects show that the extensive expertise of msg life in migration is considered leading on the market. msg life is welcoming these good developments by continuing to strategically increase its own staff unabatedly. Additionally, msg life will 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, spehos 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 2019 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 10.0 million euros and gross Group revenue of between 145.0 and 155.0 million euros in accordance with the German Commercial Code (HGB).

As the holding company, the individual Group company expects a slightly positive result under the provisions of the German Commercial Code (HGB) in the 2019 financial year.

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

In the legal transactions with affiliated companies shown in the report, the company received appropriate compensation for each of these legal transactions according to the circumstances that were known at the time when such legal transactions were conducted. Discriminatory measures at the instigation or in the interests of the dominant party or a company affiliated to

that party were effected neither by actions nor by failing to act. This assessment is based on the circumstances that were known at the time when the reportable transactions were carried out.

Leinfelden-Echterdingen, 29 March 2019  
msg life ag

**ROLF ZIELKE**

Chairman of the Management Board

**DR. ARISTID NEUBURGER**

Deputy Chairman of the Management Board

**BERNHARD ACHTER**

Member of the Management Board

**FRANCESCO CARGNEL**

Member of the Management Board

**DR. WOLF WIEDMANN**

Member of the Management Board

## **INDEPENDENT AUDITOR'S REPORT**

msg life ag, Leinfelden-Echterdingen

### **Audit opinions**

We have audited the annual financial statements of msg life ag, consisting of the statement of financial position as at 31 December 2018, the income statement for the financial year from 1 January to 31 December 2018, and the notes, including the presentation of accounting and valuation methods. Additionally, we have audited the condensed management report and Group management report of msg life ag for the financial year from 1 January to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the annual financial statements comply, in all material respects, with German commercial-law requirements for incorporated companies and with German GAAP, and give a true and fair view of the assets and financial position the company at 31 December 2018 and of its earnings position for the financial year from 1 January to 31 December 2018, and
- the accompanying condensed management report and Group management report as a whole provide an appropriate view of the company's position. In all material respects, the condensed management report and Group management report are consistent with the annual financial statements, comply with the German legal requirements and appropriately present the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements, the condensed management report or the Group management report.



## **Basis for the opinions**

We audited the annual financial statements, condensed management report and Group management report in accordance with Section 317 HGB, while observing the generally accepted German auditing standards as established by the Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are further described in the section entitled 'Responsibility of the auditor for the audit of the annual financial statements, condensed management report and Group management report' in our auditor's report. We are independent of the company in accordance with the requirements of German commercial and professional law and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the condensed management report and Group management report.

Our opinions on the annual financial statements, condensed management report and Group management report do not cover the other information, and consequently we do not express an opinion or any other form of conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, condensed management report and Group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## **Responsibility of the legal representatives and Supervisory Board for the annual financial statements, condensed management report and Group management report**

The legal representatives are responsible for the preparation of annual financial statements that comply, in all material respects, with German commercial-law requirements for incorporated companies and with German GAAP, and for ensuring that the annual financial statements give a true and fair view of the assets, financial and earnings position of

the company. In addition, the legal representatives are responsible for such internal controls as they have deemed necessary in line with German GAAP to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless such an approach is contrary to actual or legal circumstances.

Furthermore, the legal representatives are responsible for the preparation of the condensed management report and Group management report that, as a whole, provide an appropriate view of the company's position and are, in all material respects, consistent with the annual financial statements, comply with German legal requirements, and appropriately present the opportunities and risks of future development. In addition, the legal representatives are responsible for such precautions and measures (systems) as they deem necessary to enable the preparation of a condensed management report and Group management report that are consistent with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the condensed management report and Group management report.

The Supervisory Board is responsible for monitoring the accounting process adopted by the company to prepare the annual financial statements, the condensed management report and the Group management report.

## **Responsibility of the auditor for the audit of the annual financial statements, condensed management report and Group management report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the condensed management report and Group management report as a whole provide an appropriate view of the company's position and, in all material respects, are consistent with the annual financial statements and the knowledge obtained in the audit, comply with the German legal requirements and appropriately present the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the condensed management report and Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and with consideration for the German Generally Accepted Standards on Auditing as promulgated by the IDW will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and the condensed management report and Group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the annual financial statements, condensed management report and Group management report, whether due to fraud or error, plan and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- Obtain an understanding of internal controls relevant to the audit of the annual financial statements and of precautions and measures relevant to the audit of the condensed management report and Group management report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems

- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements, condensed management report and Group management report or, if such disclosures are inadequate, to modify our opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may hinder the company from being able to continue as a going concern
- Evaluate the overall presentation, structure and content of annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in such a manner as to give a true and fair view of the assets, financial and earnings position of the company in compliance with German GAAP
- Evaluate the consistency of the condensed management report and Group management report with the annual financial statements, their conformity with the law and the view they provide of the company's position
- Perform audit procedures on the prospective disclosures presented by the legal representatives in the condensed management report and Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information

We discuss with the persons in charge of oversight the planned scope and timing of the audit and significant audit findings, among other things, including any significant deficiencies in the internal control system that we identify during our audit.'

Frankfurt am Main, 29 March 2019

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft  
Düsseldorf

Christian Roos  
- Auditor -

René Witzel  
- Auditor -