2018

ANNUAL REPORT
CANCOM SE

CANCOM

Key figures

CANCOM GROUP

in € million	2018 AT A GLANCE 2018	2017	Δ
Revenues	1,378.9	1,161.2	+18.7%
Gross profit	384.8	321.8	+19.6%
EBITDA (adjusted)	114.8	92.6*	+24.0%
EBITDA margin (adjusted)	8.3%	8.0%*	+0.3Pp
EBITA (adjusted)	87.9	69.7	+26.1%
EBIT (adjusted)	75.0	60.5	+24.0%

	31/12/2018	31/12/2017	Δ
Balance sheet total	838.1	692.1	+21.1%
Equity	390.2	364.3	+7.1%
Equity ratio	46.6%	52.6%	-6,0Pp
Employees	3,403	2,913	+16,8%

SEGMENTS

in € million	CLOUD SOLUTIONS 2018	2017	Δ
Revenues	242.5	182.3	+33.0%
EBITDA (adjusted)	64.1	45.6*	+40.6%
EBITDA margin (adjusted)	26.4%	25.0%*	+1.4Pp
Annual Recurring Revenue	130.1	92.1	+41.3%

in € million	IT SOLUTIONS 2018	2017	Δ
Revenues	1,136.4	978.8	+16.1%
EBITDA (adjusted)	62.0	56.3*	+10.1 %
EBITDA margin (adjusted)	5.5 %	5.8 %*	-0.3 Pp

* Prior-year figure recalculated for the effect of the first-time application of IFRS 16. Unchanged prior-year figures are not or only insignificantly affected by IFRS 16 effect.


CANCOM

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Dear Shareholders,

The 2018 fiscal year was an outstanding year for CANCOM from many perspectives:

Our company has grown at double-digit rates and shows that CANCOM's success story continues very dynamically. We have thus achieved our self-imposed goals and fulfilled the expectations placed on us.

For the first time in the company's history, we also acquired two companies abroad in one year. In addition to expanding our expertise with the new colleagues, we now have a strong base in the UK. We are well prepared for a Brexit, in whatever form it may come, because we can now serve customers directly from the local market with the same quality as from Germany.

At the same time, we have never invested so heavily in the expansion of our high-margin managed services and software business as we did in 2018, and the associated restructuring of corporate structures, the recruitment of specialist staff for managed services and software, and the further development of our unique AHP Enterprise Cloud basically serve a single purpose: we are firmly convinced that the IT infrastructure of companies will be largely hybrid in the future. We want to offer our customers the best possible concepts, services and products for this situation from a single source in order to continue successful long-term customer relationships and build new ones. One of the most important indicators for these long-term customer relationships is the Annual Recurring Revenue, i.e. the volume of recurring revenues on the basis of multi-year contracts. The pleasingly high growth of this key figure shows that customers trust us for the long term and entrust us with the management of parts of their IT systems. At the same time, the sales secured for several years make CANCOM as a company less dependent on short-term macroeconomic fluctuations.

As the business development of recent years shows, CANCOM is already very well positioned in the market today to benefit from the major trends in the IT world. Progress in information and computer technology is not a short-term fad. The resulting hybrid IT environments and digitization in general are a great challenge for a large number of companies - but also a great opportunity. CANCOM supports customers in identifying and seizing this opportunities. We are convinced that nothing will change in the medium- and long-term growth driver of digitalization. We are therefore forecasting significant growth for the CANCOM Group in 2019 as well.

We would like to thank you, our shareholders, for your investment and your confidence in CANCOM. At the same time, we would like to thank our partners and customers for their cooperation and our employees for their hard work in fiscal 2018.

Your CANCOM SE Executive Board

Thomas Volk CEO	Rudolf Hotter COO	Thomas Stark CFO

Report of the Supervisory Board

Dear Shareholders,

CANCOM SE can look back on a successful 2018 financial year. As a representative of CANCOM's shareholders, the Supervisory Board congratulates the Executive Board and the employees of the CANCOM Group on achieving this outstanding performance. At the same time, the Supervisory Board would like to express its thanks for the good and open cooperation. In addition, our thanks also go to our shareholders for their confidence.

The CANCOM Group is well positioned for further growth and progress of the digital transformation. Last year, the Supervisory Board advised the Executive Board of CANCOM SE in the course of its duties. Based on the successful financial year, the administration decided to propose to the Annual General Meeting that a dividend be distributed again this year.

In the 2018 financial year, the Supervisory Board performed the duties and obligations incumbent upon it by law, the Articles of Association and the Rules of Procedure. It advised the Management Board on the management of the Company and, in doing so, accompanied and monitored the management and development of the Company. As part of its customary close cooperation, the Management Board reported to the Supervisory Board regularly, promptly and comprehensively in writing, by telephone and in personal discussions on the situation and prospects, the principles of business policy, the profitability of the Company and the key business transactions of the Company. Even outside the scheduled meetings, the Chairperson of the Management Board in particular was in personal contact with the members of the Supervisory Board and primarily with the Chairperson of the Supervisory Board. In addition, the entire Supervisory Board was continuously informed by the Management Board about relevant developments and transactions requiring its approval. The Supervisory Board was directly and timely involved in all decisions of fundamental importance to the Company or in which it was required to be involved by law, the Articles of Association or the Rules of Procedure. In urgent cases, the Supervisory Board also had the opportunity to adopt resolutions by written circular if required. Due to the regular, prompt and detailed information provided by the Executive Board, the Supervisory Board was able to fulfil its monitoring and advisory function at all times. The Supervisory Board is therefore of the opinion that the Management Board acted lawfully, properly and economically in every respect.

A. Meetings and main topics

The IT industry continues to face major challenges and far-reaching changes, among other things in view of the increasing digitalization and inter-connectedness of the economy and society. At the same time, this also offers the IT industry a wide range of opportunities. These far-reaching changes were therefore the subject of a regular and intensive exchange of views between the Executive Board and the Supervisory Board throughout the 2018 financial year on market developments and the development of business segments, for conversations and discussions on strategic orientation and on the appropriate organizational structure to meet CANCOM Group's ambitious growth requirements.

The Supervisory Board held six meetings in the year under review, on 10 March 2018, 16 March 2018, 14 June 2018, 28 August 2018, 11 September 2018 and 11 December 2018. The meetings on 10 March 2018 and 28 August 2018 were extraordinary meetings held by telephone. The meetings of the Supervisory Board in the 2018 financial year were attended by all members of the Supervisory Board in office at the time.

At its meetings, the Supervisory Board regularly received and discussed in detail the reports of the Executive Board pursuant to Section 90 (1) Sentence 1 No. 1-3 Stock Corporation Act (AktG) on the intended business policy, profitability and course of business, including the market and competitive situation. In addition, in accordance with § 90 (1) sentence 1 no. 4, the Management Board reported on transactions that could be of material importance for the profitability or liquidity of the Company and/or the Group, in particular on planned acquisitions and divestments.

The following key topics and resolutions arising from the activities of the Supervisory Board in the 2018 financial year are worth mentioning:

- At the telephone meeting of the Supervisory Board on March 10, 2018, the Supervisory Board, after detailed information and discussion, approved the indirect acquisition of the majority shareholding in Ocean Intelligent Communications Ltd including the two subsidiaries via holding companies.

- At the Supervisory Board meeting on 16 March 2018, the auditor‘s report on the 2017 annual financial statements of CANCOM SE and the CANCOM Group was received. After detailed discussion, the Supervisory Board approved the annual financial statements and consolidated financial statements of CANCOM SE and the Group, together with the combined management report. The annual financial statements were thus adopted. The Supervisory Board also dealt with the report of the Supervisory Board and the corporate governance report as part of the 2017 Annual Report. In addition, the Supervisory Board resolved to cancel the Conditional Capital 2013/I in accordance with Article 4 (5) of the Articles of Association without replacement after partial utilization.

- On 30 April 2018, the Supervisory Board approved by circular resolution the non-financial Group report for CANCOM SE prepared by the Executive Board.

- At the Supervisory Board meeting on 14 June 2018, the Supervisory Board approved the indirect acquisition of a majority interest in The Organised Group Ltd, OCSL Property LLP and all subsidiaries, via holding companies, after detailed information and discussion.

- In a circular resolution dated 17 August 2018, the Supervisory Board approved the partial issue of stock options to members of the Management Board (Group 1) approved by the 2018 Annual General Meeting and approved the Management Board‘s proposal to issue stock options to Groups 2 to 4.

- At the telephone meeting of the Supervisory Board on 28 August 2018, Mr. Weinmann‘s request for premature termination of his Management Board mandate was discussed, and the Supervisory Board complied with this request with effect from 30 September 2018. At the same meeting, a resolution was passed to succeed Mr. Volk as Chairperson of the Management Board.

- At the Supervisory Board meeting on 11 December 2018, the business plans for 2019 were presented by the Management Board and approved by the Supervisory Board. The Supervisory Board also received reports on internal auditing and CANCOM SE‘s risk and compliance management. The recommendations of the German Corporate Governance Code (GCGC) were discussed in detail with regard to their applicability to CANCOM SE.

  As a further item on the agenda, the Supervisory Board, in accordance with the recommendation of the German Corporate Governance Code (DCGK), has reviewed the efficiency of its work, found no objections and subsequently adopted the Declaration of Compliance with the GCGC. Also at the December meeting, the Supervisory Board approved the new schedule of responsibilities of the Executive Board, due to the termination of Mr. Weinmann‘s Executive Board mandate.

B. Composition of the Management Board and Supervisory Board

There was one personnel change on CANCOM SE‘s Executive Board in the year under review. At his own request, the Management Board contract of the Chairman of the Management Board, Klaus Weinmann, was prematurely terminated on 30 September 2018. Thomas Volk - until then ‚President and General Manager‘ of CANCOM SE - subsequently assumed the position of Chairperson of the Executive Board. Mr. Volk assumed responsibility for Corporate Strategy, Mergers & Acquisitions, International Operations, GoToMarket Strategy & Field Operations, IT Solutions incl. Consulting, Direct Sales & Central Services (Purchasing / Logistics), Managed Service Sales Customer Success Management, Marketing & PR and Human Capital. In addition, Rudolf Hotter and Thomas Stark (since 1 January 2018) were members of the Management Board in the year under review.

Members of the Supervisory Board of CANCOM SE in the year under review have been: Dr. Lothar Koniarski, Uwe Kemm, Regina Weinmann, Dominik Eberle (until 2 November 2018), Martin Wild and Marlies Terock. The Supervisory Board was chaired or vice chairperson by Dr. Lothar Koniarski (chairperson) and Uwe Kemm (deputy chairperson). CANCOM SE has members on the Supervisory Board with expertise in the areas of accounting or auditing in accordance with Section 100 (5) 1st half sentence of the German Stock Corporation Act (AktG).

On 5 October 2018, Mr. Eberle declared his resignation from office in compliance with the statutory deadline. At the end of 2 November 2018, the Supervisory Board therefore consisted of only 5 members. Mr. Stefan Kober filled the position after expiry of the statutory three-month period by court appointment on 11 February 2019.

C. Composition and work of the committees

The Supervisory Board has formed two committees to perform its duties. The members of the Audit Committee in the year under review were Supervisory Board members Dr. Lothar Koniarski, Uwe Kemm and Dominik Eberle (until 2 November 2018). The Audit Committee of the Supervisory Board was chaired or vice chairperson by Uwe Kemm (Chairperson) and Dr. Lothar Koniarski (Vice Chairperson). The Audit Committee as a whole had relevant industry knowledge at all times. The Audit Committee met in the past financial year on 16 March 2018 in the presence of all committee members. The subject of this meeting, which was held in the presence of the auditor and the Chief Financial Officer, among others, was the discussion of the financial statements and the combined management report. The Chairperson of the Audit Committee, in particular, was continuously involved in the process of selecting the auditor and closely coordinated this process with the Chief Financial Officer. In addition, it dealt with the focal points of the audit for the final audit.

The members of the Nomination Committee in the year under review were Supervisory Board members Dr. Lothar Koniarski, Regina Weinmann and Uwe Kemm. The Nomination Committee of the Supervisory Board was chaired or vice chairperson by Dr. Lothar Koniarski (Chairperson) and Uwe Kemm (Vice Chairperson).

The Nomination Committee dealt intensively with the composition of the Supervisory Board. In the past fiscal year, it held one meeting on 11 December 2018 in the presence of all committee members and discussed the further procedure for refilling the Supervisory Board. During this meeting it was discussed that Stefan Kober is an excellent candidate for the filling of the position of Dominik Eberle and that the nomination committee will therefore recommend his appointment in due time. Subsequently, a corresponding resolution of the Supervisory Board was passed in the telephone meeting of the Supervisory Board on 25 January 2019. Mr. Kobers was appointed by the register court as a member of the Supervisory Board on 11 February 2019. Mr. Kober has since assumed the vacant position on the Audit Committee of the Supervisory Board since the departure of Mr. Eberle.

D. Corporate Governance and Declaration of Compliance

The work of the Supervisory Board is based on the provisions of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code. At the Supervisory Board meeting on 11 December 2018, the Supervisory Board dealt with the Code's recommendations in the version dated 7 February 2017 and reviewed the extent to which they were complied with and will be complied with in the future. CANCOM complied with the Code's recommendations without exception in the past fiscal year. A detailed description of the Company's corporate governance can be found in the Corporate Governance Report of this Annual Report.

E. Annual and consolidated financial statements

The financial statements prepared by the Executive Board and the combined management report for CANCOM SE and the Group for the 2018 financial year were audited by S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, under the direction of Oliver Kanus, auditor and tax consultant and managing director of S&P GmbH Wirtschaftsprüfungsgesellschaft, who was appointed by the Annual General Meeting and is responsible for auditing the financial statements. S&P GmbH Wirtschaftsprüfungsgesellschaft has been auditing CANCOM's financial statements since 1999. In his first year, Mr. Kanus will act as lead auditor for CANCOM SE, while Joachim Mairock will also sign the audit opinion in the first year. The annual financial statements of CANCOM SE and the combined management report for CANCOM SE and the Group were prepared in accordance with German statutory accounting requirements. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and with the additional requirements of German law pursuant to Section 315a (1) of the Handelsgesetzbuch (HGB - German Commercial Code). The auditor conducted its audit in accordance with Section 317 of the German Commercial Code (HGB) and the EU Auditor Ordinance (Regulation (EU) No. 537/2014) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and issued an unqualified audit opinion in each case.

The annual financial statements, the consolidated financial statements, the combined management report, the auditor's report on his audit and the Executive Board's proposal for the appropriation of net retained profits were made available to all members of the Supervisory Board in good time prior to the resolution and approval by the Supervisory Board on 19 March 2019. The auditor reported to the Supervisory Board on the course and main results of its audits and was available to answer questions, discuss matters and provide supplementary information. It participated in the Supervisory Board's deliberations on the annual and consolidated financial statements and the meeting of the Audit Committee on 19 March 2019 as well as the Supervisory Board's meeting on the approval of the financial statements on 19 March 2019.

The Audit Committee of the Supervisory Board held one meeting on 19 March 2019. In this context, it dealt with the financial statements and the combined management report for CANCOM SE and the Group, focusing in particular on the key audit matters described in the respective auditor's report (key audit mattes). In addition, the Audit Committee examined the proposal of the Executive Board on the appropriation of net retained profits and the payment of a dividend of EUR 0.50 per share. Following the completion of a selection procedure in accordance with the EU Auditor Regulation and intensive discussion of the offers of two auditing companies for auditing services from calendar year 2019 onwards, the Audit Committee recommended to the Supervisory Board the Supervisory Board's proposal to the Annual General Meeting for the election of the auditor and announced its preference. A written declaration of independence was submitted by both possible auditors. The committee also dealt with the company's accounting process and risk management system, the effectiveness, equipment and findings of the internal audit department and compliance with the integrity of financial reporting.

After detailed discussion of the audit reports, the annual financial statements and the combined management report, the Supervisory Board concurs with the results of the audit. Based on the final result of the audit by the Audit Committee and its own examination, there are no objections to be raised. It therefore approved the annual financial statements of CANCOM SE prepared by the Executive Board, the consolidated financial statements and the combined management report of CANCOM SE and the Group for the 2018 financial year. The annual financial statements are thus adopted. The Executive Board's proposal for the appropriation of profits was approved. In addition, taking into account the recommendation and preference of the Audit Committee, the Supervisory Board decided to propose KPMG AG Wirtschaftsprüfungsgesellschaft to the 2019 Annual General Meeting for election as auditor for the 2019 financial year. This was based on the Audit Committee's statement that its recommendation was free from undue influence by third parties and that it had not been imposed with a clause restricting the choice of auditors within the meaning of Article 16(6) of the EU Statutory audit regulation.

Dear shareholders, the CANCOM Group is well positioned for the future. The Supervisory Board would like to thank the members of the Executive Board, the management and all employees for their great commitment, which has made a significant contribution to CANCOM's successful development and is expected to continue to be positive in the future.

Munich, March 2019

For the Supervisory Board

Dr. Lothar Koniarski
(Chairman of the Supervisory Board)

Corporate Governance Report

Corporate Governance Report

This report on corporate governance at CANCOM is written by the Executive Board and Supervisory Board in accordance with Subsection 3.10 of the current version of the German Corporate Governance Code published on February 7, 2017. The corporate governance report also includes the remuneration report as part of the management report.

I. CORPORATE GOVERNANCE OVERVIEW

1. Implementation of the German Corporate Governance Code and declaration of conformity

The purpose of effective and responsible corporate governance and control is to ensure the future of the company as a going concern as well as to achieve a sustainable development and increase in its value. In the reporting period the Executive Board and the Supervisory Board of CANCOM SE again devoted much attention to the applicable recommendations of the German Corporate Governance Code. At the Supervisory Board meeting on December 11, 2018, the Executive Board and Supervisory Board issued a joint declaration of conformity with the recommendations of the Code, in accordance with Section 161, paragraph 1 of the German Stock Corporation Act (Aktiengesetz, AktG), which was published immediately. The declaration is permanently available for public view on the company's website.

The declaration of conformity published on December 11, 2018, reads as follows:

The Executive and Supervisory Boards of CANCOM SE declare that, since its last declaration of conformity published on December 5, 2017, the company has been fully compliant with the recommendations of the German Corporate Governance Code issued on February 7, 2017, published in the Federal Gazette (Bundesanzeiger) on April 24, 2017 (rectified on May 19, 2017).

2. Basic principles of the corporate governance policy

2.1. Shareholders and general meeting

The general meeting of shareholders is the central decision-making body, at which CANCOM's shareholders can exercise their rights and cast their votes. For the past several years, large numbers of shareholders have attended this meeting. The annual general meeting in the financial year 2018 was held in Munich, Germany, on June 14, 2018.

The only shares of CANCOME SE in circulation are common bearer shares. All shares carry the same voting rights, and each no-par value share entitles its owner to one vote, in accordance with the corporate by-laws. The general meeting of stockholders passes resolutions on matters expressly defined by law and the corporate by-laws – in particular on appropriation of the net retained profit, discharge of Executive Board and Supervisory Board and appointment of Supervisory Board members – and chooses the auditing firm for the annual financial statements. In accordance with the German Stock Corporation Act, the general meeting of stockholders also determines the object of the company and any changes to the corporate by-laws, as well as authorizing the raising or reducing of capital or any purchases of the company's own shares.

At the annual general meeting, our shareholders can exercise their voting rights in person or appoint a proxy to vote on their behalf, for example a representative of the company, who is bound to act in accordance with their instructions. Shareholders will be able to take advantage of this opportunity at the next general meeting in Munich on June 26, 2019, as they have done in previous years. The agenda and the necessary reports and documents for the general meeting of stockholders will be made available to stockholders on the company's website in due course. There is no provision in the corporate by-laws of CANCOM SE for voting by mail.

2.2. Cooperation between the Executive Board and the Supervisory Board

Good corporate governance depends on open communication. The Executive Board and the Supervisory Board work closely together in the interests of the company. Intensive and continuous dialog between the two boards forms the basis for efficient corporate management at CANCOM SE. The Supervisory Board assists the Executive Board in an advisory capacity, and is involved in all major corporate decisions. The Executive Board gives regular, timely and comprehensive reports to the Supervisory Board on all matters relevant to the company concerning strategy, planning, business performance, on possible risks and opportunities connected with corporate development, and on risk management and compliance. The Executive Board's disclosure and reporting obligations are described in more detail in its rules of procedure. For instance, the Executive Board discusses interim financial reports with the Supervisory Board before they are published. Documents relevant to a decision are forwarded to the members of the Supervisory Board as early as possible before the meeting. The corporate by-laws and the rules of procedure for the Executive Board require the agreement of the Supervisory Board for certain important transactions.

2.2.1. Executive Board

In the reporting period there were changes in the composition of the Executive Board of CANCOM SE. The Executive Board currently consists of three members: Thomas Volk (Chairperson of the Executive Board, CEO since October 1, 2018), Rudolf Hotter (member of the Executive Board, COO), and Thomas Stark (member of the Executive Board, CFO, responsible for environment, social and governance (ESG) issues, since January 1, 2018). The term of Klaus Weinmann as Member of the Executive Board and CEO ended on September 30, 2018.

The current terms of office are as follows: Thomas Volk until September 30, 2023, Rudolf Hotter until March 31, 2020; Thomas Stark until December 31, 2022. There is an age limit of 65 years for members of the Executive Board.

The work of the Executive Board is geared towards achieving a sustainable increase in the company's going-concern value in the interests of the enterprise and its stakeholders. The members of the Executive Board bear joint responsibility for the management of the business as a whole. In addition to setting out the schedule of responsibilities, the rules of procedure for the Executive Board govern, inter alia, how the Executive Board members work together, the majority required for a resolution to be passed, and the Executive Board's work with the Supervisory Board. In line with Subsection 4.1.5 of the German Corporate Governance Code, the Executive Board aims to achieve a proportionate representation of women when filling management positions in CANCOM SE. In line with its obligations arising from Section 76, paragraph 4 of the German Stock Corporation Act, therefore, the Executive Board has set targets for the representation of women at the first and second level of management below the Executive Board.

Competence, qualifications and suitability are the main criteria for the appointment of Executive Board members. The diversity within the Executive Board is reflected most notably in the different professional careers and fields of operation of its members, as well as their different ranges of experience. The Supervisory Board has set targets for the representation of women on the Executive Board, in line with its obligations under Section 111, paragraph 5 of the German Stock Corporation Act.

2.2.2. Supervisory Board

The Supervisory Board of CANCOM SE appoints and discharges the members of the Executive Board. It oversees the work of the Executive Board and advises it on the management of the business.

In accordance with the corporate by-laws of CANCOM SE, it comprises six members. According to the by-laws and the targets set by the Supervisory Board for its composition, these members are appointed by the general meeting of stockholders for a maximum period of six years, up to an age limit of 70 years. The general meeting of stockholders can specify a shorter term of office for certain or all members when electing the Supervisory Board. In accordance with the agreement between the company and the special negotiating body on codetermination at CANCOM SE, there are no employee representatives on the Supervisory Board.

At the time of writing the Corporate Governance Report, the members of the Supervisory Board are: Dr. Lothar Koniarski (Chairperson), Uwe Kemm (Deputy Chairperson), Regina Weinmann, Martin Wild, Marlies Terock and Stefan Kober (since February 11, 2019), who all bring proven professional expertise into the enterprise. The Supervisory Board membership of Dominik Eberle ended as of November 2, 2018.

Supervisory Board members Dr. Lothar Koniarski, Uwe Kemm and Regina Weinmann were elected by the general meeting on June 25, 2014, for the period up to the end of the general meeting that resolves on the discharge of the Supervisory Board for the fiscal year 2018. Martin Wild and Marlies Terock were both elected to the Supervisory Board by the general meeting on June 20, 2017 for the period up to the end of the general meeting at which a resolution is passed on the discharge of the Supervisory Board for the fiscal year 2018. The member of the Supervisory Board Stefan Kober has been appointed by the registry court for the period up to the general meeting at which a resolution is passed on the discharge of the Supervisory Board for the fiscal year 2018.
With Dr. Lothar Koniarski, CANCOM SE has among others a Supervisory Board member, who has expertise in the areas of accounting or financial statement audits and as such fulfills the requirements under Section 100, paragraph 5 of the German Stock Corporation Act.

The Supervisory Board has rules of procedure that govern its work, particularly how its members work together as a team. The Supervisory Board aims to fulfil its role with the greatest care. For this purpose it carries out an evaluation of its own efficiency every year. The self-assessment conducted in 2017 found that the Supervisory Board works efficiently.

To help it to perform its function, the Supervisory Board has formed two Committees: the Audit Committee and the Nominating Committee. Their tasks, responsibilities and working processes are in line with the requirements of the German Stock Corporation Act and the German Corporate Governance Code. The Chairpersons of the Committees give regular reports to the Supervisory Board on the work of their Committees.

The Audit Committee, at the time this Corporate Governance Report was written, comprises Uwe Kemm (Chairperson), Dr. Lothar Koniarski (Deputy Chairperson), and Stefan Kober. The Chairperson, Uwe Kemm, has special knowledge and experience of applying accounting principles and internal control procedures as required by Subsection 5.3.2 of the German Corporate Governance Code. In particular, the Audit Committee oversees the accounting process and monitors the effectiveness of the internal control system and the in-house audit system. It is also concerned with audit of the annual financial statements – particularly the independence of the auditor, the additional services provided by the auditor, the commissioning of the auditor, the determination of the focal points of the audit and the agreement on the fee to be paid, as well as compliance matters.

At the time of preparation of this report, the Nominating Committee comprises Dr. Lothar Koniarski (Chairperson), Uwe Kemm (Deputy Chairperson) and Regina Weinmann. This Committee suggests to the Supervisory Board suitable candidates for nomination at the general meeting of stockholders. The nominations of candidates should continue to be based primarily on the interests of the company, while taking into account the targets set by the Supervisory Board for its composition. It must be ensured that men and women are proportionately represented in line with the legal requirements on the gender quota.

In line with Subsection 5.4.1, paragraph 2 of the German Corporate Governance Code, the Supervisory Board has set specific targets for its composition and drawn up a competency profile for the entire Supervisory Board.

While reflecting the specific situation of the enterprise, the targets for its composition are supposed to take into account its international activities, potential conflicts of interest, the number of independent members as defined by Subsection 5.4.2 of the German Corporate Governance Code, and diversity, as well as specifying an age limit and a limit to the length of membership of the Supervisory Board.

In accordance with the Code provision, the members of the Supervisory Board as a group must have the knowledge, skills and professional experience necessary to perform their function properly. The knowledge, skills and experience of the individual Supervisory Board members can and should complement each other so as to ensure that the Supervisory Board as a whole is qualified to oversee and advise the Executive Board properly.

When appointing new members, the Supervisory Board takes into account the following requirements:

The Supervisory Board as a group is supposed to have the competencies that are considered essential in view of the activities in which the CANCOM Group engages. In particular, these include experience and knowledge of:

- the management of a large or medium-sized enterprise engaging in international activities;
- marketing, sales and distribution, human resources, and digitization;
- the main markets in which CANCOM operates;
- accounting and controlling;
- governance, risk, and compliance.

Appropriate consideration should be given to the international activities of the enterprise. When nominating candidates for election by the general meeting, the Supervisory Board endeavors to consider candidates whose origin, education or professional career give them special international knowledge and experience in the company‘s sales area.

As a rule, no member of the Supervisory Board should perform an executive or advisory role for a major competitor of the company, unless, as an exception, this is in CANCOM‘s interest. The Supervisory Board endeavors to avoid potential conflicts of interest, including any that could arise from future nominations of candidates for election by the general meeting of stockholders. If any temporary or permanent conflicts of interest should nevertheless arise during the term of office of a Supervisory Board member, they will be dealt with in accordance with the recommendations of the German Corporate Governance Code.

In the view of the Supervisory Board, at least half of its members, as defined in the by-laws, should be independent within the meaning of Subsection 5.4.2 of the German Corporate Governance Code. A Supervisory Board member is no longer deemed to be independent within the meaning of the above provision if he/she has a personal or business relationship with the company, its governing bodies, a controlling stockholder, or a company connected with a controlling stockholder that could constitute a major, non-temporary conflict of interest. In the existing Supervisory Board, the members Dr. Lothar Koniarski, Regina Weinmann, Martin Wild, Marlies Terock and Stefan Kober are independent members of the Supervisory Board with regard to subsection 5.4.2 of the German Corporate Governance Code.

The setting of an age limit for members of the Supervisory Board of CANCOM SE means that candidates nominated for election may not be older than 70 years of age at the time of the election.

In principle, the Supervisory Board shares the view that the composition of the Supervisory Board should be as practical as possible, with a balanced mix of different areas of expertise. However, the Supervisory Board also feels that the competence and capabilities of Supervisory Board members should not in all cases be defined by the length of time that they have served on the Supervisory Board. It is felt that in exceptional cases the company should also be able to avail itself of the expertise of individuals who, due to the length of time they have served on the Supervisory Board, are experienced and, in particular, familiar with the circumstances in the sector and the company.

The Supervisory Board has nevertheless set a limit of 20 years for membership of the Supervisory Board.

Diversity in the composition of the Supervisory Board should be reflected most notably by the different professional careers and areas of operation of its members, as well as their different ranges of experience.

With regard to the representation of women on the Supervisory Board, we refer to the statutory targets.

The current composition of the Supervisory Board is in line with the above targets.

Nominations of candidates by the Supervisory Board for election to the Supervisory Board should continue to be in the interests of the company, while taking into consideration these targets. The Supervisory Board is of the view that this can be best achieved by placing the primary emphasis on the special expertise and qualifications of the candidates.

2.3. Conflicts of interest

The members of the Executive Board and the Supervisory Board are obliged to act in the best interests of the enterprise. When making decisions in connection with their work, they must not pursue their own personal interests or exploit any business opportunities intended for the enterprise for their own advantage.

In line with the recommendation of Subsection 4.3.3 sentence 4 of the German Corporate Governance Code, the Executive Board and the Supervisory Board agree that no significant transactions will be carried out with related parties of Executive Board members without the prior approval of the Supervisory Board.

In accordance with their rules of procedure, the members of the Supervisory Board must disclose without delay any conflicts of interest that arise. The Supervisory Board must mention in its report to the general meeting of stockholders any conflicts of interest that may have arisen, or that could arise, through a consulting, executive or supervisory function performed for clients, suppliers, creditors or other third parties, and how such conflicts of interest are handled.

No conflicts of interest involving either Supervisory Board or Executive Board members arose during the past fiscal year. Detailed information on positions currently held by members of the Supervisory Board or Executive Board on supervisory boards or similar controlling boards of other companies can be found in section G., subsection 8 of the Notes to the consolidated accounts.

2.4. Transparency

CANCOM SE publishes all information and company announcements relevant to the capital market regularly and promptly on the company's website. Ad hoc announcements and corporate news are disseminated simultaneously in German and English via a wide distribution network.

Each fiscal year, CANCOM SE keeps its stockholders informed by means of quarterly statements and financial reports on the Group's performance and on its financial, earnings, assets and cash position. CANCOM SE also provides comprehensive information on a regular basis at the annual general meeting of stockholders and at investor conferences and road shows.

Stockholders are given information on important publication dates and investor relations events in a financial calendar, which is published on the company's website.

2.5. Accounting and annual financial statements audit

The consolidated financial statements and the interim reports are drawn up according to International Financial Reporting Standards (IFRS) as adopted in the European Union, and the annual financial statements of CANCOM SE are drawn up according to the provisions of the German Commercial Code (Handelsgesetzbuch, HGB).

The general meeting on June 14, 2018 appointed the audit firm S&P GmbH Wirtschaftsprüfungsgesellschaft based in Augsburg, Germany, to audit the annual financial statements for the fiscal year 2018. The Supervisory Board of CANCOM SE and its Audit Committee work closely with the auditor. This encourages an exchange of information and improves the quality of the audit. Before submission of the nominations of candidates for election at the general meeting of stockholders, the Supervisory Board obtained a written independence declaration from the auditor.

The auditor reported to the Supervisory Board on the audit process and the main findings, and was available to answer questions, discuss the report and provide additional information. He took part in the Supervisory Board's discussion of the financial statements and the Audit Committee's meeting on March 19, 2019, as well as the meeting of the Supervisory Board to approve the balance sheet on the same day.

3. Compliance management

Compliance management is an important part of corporate governance. Its purpose is to ensure that the activities of the enterprise comply with legal regulations and voluntary arrangements. One of the central elements of compliance management is a well-functioning compliance management system (CMS). This covers all measures and processes aimed at pursuing the above objective. The key elements required of an adequate CMS are in place in the CANCOM Group and are practiced, and the system is developed continuously as needed. With regard to the amendments to the Corporate Governance Code resolved on February 7, 2017, in particular, CANCOM has implemented a whistleblower system in compliance with Subsection 4.1.3, sentence 3. This enables all staff in the CANCOM Group to contact the company anonymously and pass on information on potential compliance violations within the CANCOM Group.

Since December 2015, CANCOM has been a member of the United Nations Global Compact. The aim of this initiative is to foster sustainable and responsible corporate governance. It is based on ten universal principles. The Group's membership commits it to actively supporting these ten principles – which cover human rights, labor standards, environmental protection, and the combating of corruption – and to promoting them within its sphere of influence. Its membership also means that CANCOM consistently integrates these principles into its business strategy, its corporate culture and its daily business.

3.1. Business Code of Conduct

CANCOM is aware not only of its commercial responsibility but also its social responsibility. To underline this position, CANCOM has adopted a Code of Conduct that sets out how CANCOM deals with its various stakeholders. One of the outcomes of the establishment of CANCOM's compliance is that its Code of Conduct, Fairness First, is brought to the attention of all employees, and e-learning modules have been set up to train them to implement it. As stated in its introduction, the Code of Conduct reflects the Executive Board's aim of strengthening ethical standards throughout the enterprise and creating a working environment based on integrity, respect and fair dealing. In line with the motto Fairness First, employees at all levels are enjoined to abide by the statutory provisions and internal guidelines and live up to the company's high standards of ethics and quality. The employees are also regularly reminded of the compliance rules and audit processes as a kind of preventative measure.

There is a Compliance Officer who ensures that the Code of Conduct is complied with, as well as providing a point of contact for all compliance-related issues and questions. The Code of Conduct is freely accessible to all CANCOM employees via the company's intranet. In the event of an evident or suspected violation of the code, those affected should contact the Compliance Officer. CANCOM values and actively encourages open and objective feedback.

3.2. Risk management and the internal control system

CANCOM has a comprehensive system for recording and controlling business and financial risks, which is documented in a risk manual. The internal control and risk management systems are designed to recognize significant business risks in advance and to control them. However, they cannot fully eliminate risks and therefore do not offer absolute protection against losses or fraudulent acts.

3.3. In-house audit

The in-house audit of CANCOM SE is central to the internal corporate governance system. Its function is to assess the effectiveness of the risk management system, the internal controls and the compliance management system, and to help improve them continuously. The Executive Board of CANCOM defines the issues that need closer analysis in the interests of the company, and keeps the Supervisory Board informed of the issues and the findings.

II. REMUNERATION REPORT

The remuneration report presents the basic principles of the system for remuneration of Executive Board members, and explains the structure and level of the remuneration of the Executive Board members and the emoluments of the Supervisory Board members. The report is based on the recommendations of the German Corporate Governance Code and contains details in compliance with the requirements of the German Commercial Code as well as International Financial Reporting Standards (IFRS). The remuneration report forms a part of the combined management report and can be found on pages 30 to 34.

III. CORPORATE GOVERNANCE DECLARATION

The corporate governance declaration in accordance with Section 289a of the German Commercial Code is published on the company website. It outlines the principles of responsible corporate action and describes the working practices of the Executive Board and the Supervisory Board as well as details of the composition and working practices of its Committees, the declaration of conformity in line with Section 161 of the German Stock Corporation Act, relevant details of the principal corporate management practices, as well as the stipulations under Section 76, paragraph 4 and Section 111, paragraph 5 of the German Stock Corporation Act and a statement as to whether the targets set were met during the reference period.

Munich, Germany, March 2019

CANCOM SE

For the Executive Board
Thomas Volk

For the Supervisory Board
Dr. Lothar Koniarski

CANCOM on the capital market

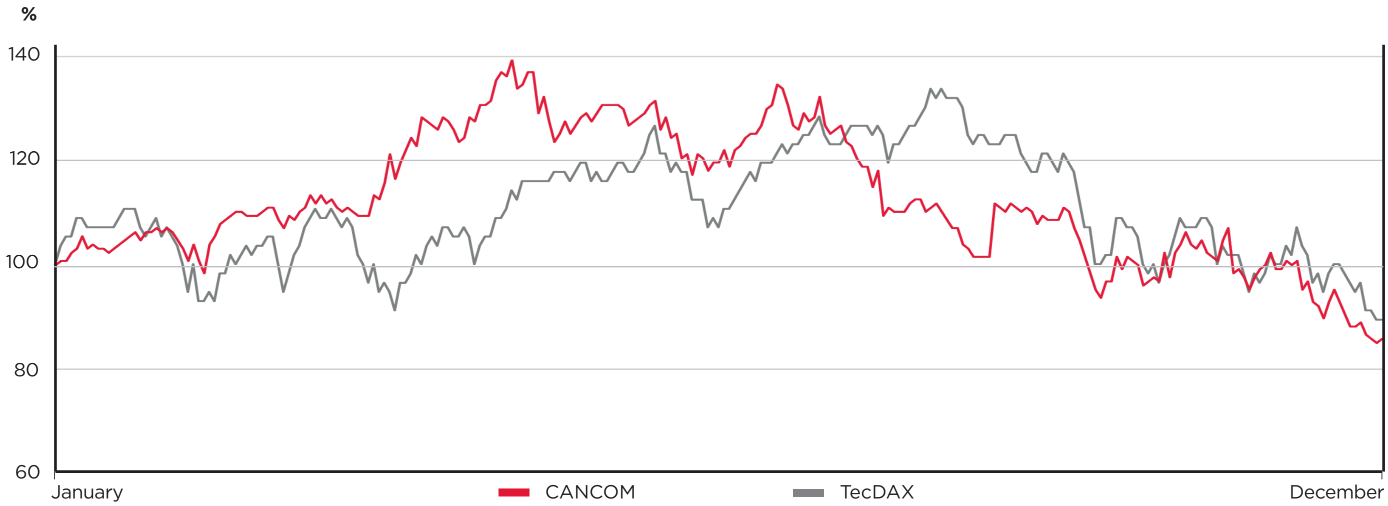
Development of the German stock market

The DAX, Germany's leading index, lost around 18 percent in 2018. In the course of the year, the index reached a new all-time high of around 13,560 points on a closing price basis in January 2018. This was followed by a significant downward trend, particularly in the second half of the year.
The TecDAX, in which the CANCOM SE share is listed, was somewhat more robust in 2018, falling by only 6 percent.

Development of the CANCOM share

The CANCOM share started the year 2018 with an XETRA opening price of EUR 35.00. After a significant price increase in the first half of the year, the CANCOM share reached a very high level in the summer in terms of the company's historic share prices with prices above EUR 50. In the course of the overall clearly negative mood on the stock market in the second half of the year, the CANCOM share also moved into a downward trend. It closed the 2018 trading year with a XETRA closing price of EUR 28.66. This corresponds to a decline of around 18 percent over the year as a whole.

ANNUAL CANCOM SHARE PERFORMANCE 2018



BASIC DATA CANCOM SHARE

ISIN / WKN	DE0005419105 / 541910
Exchange segment	Frankfurt Stock Exchange, Prime Standard
Index membership	TecDAX, SDAX
Designated Sponsor	Kepler Cheuvreux

RESEARCH COVERAGE

- Bankhaus Lampe
- Berenberg
- Commerzbank
- Hauck & Aufhäuser
- Kepler Cheuvreux
- Warburg
- MainFirst (since March 2019)

SHAREHOLDER STRUCTURE

PRIMEPULSE SE	10,6%
Allianz Global Investors	5,0%
BNP Paribas	3,1%
Streubesitz	81,3%

Disclosures in accordance with existing voting rights notifications as of 31 December 2018

KEY FIGURES AND TRADING STATISTICS CANCOM SHARE

		2018	2017*
First price of the year (XETRA)	€	35.00	22.25
Closing price at year end (XETRA)	€	28.66	34.70
Highest closing price (7 May 2018)	€	52.40	35.25
Lowest closing price (27 December 2018)	€	28.28	21.22
Yearly performance	%	-18.11	+55.96
Market capitalization (as of 31 December)	€ million	1,004.4	1,216.0
Average turnover per trading day (XETRA)	piece	169,211	65.843
Average turnover per trading day (XETRA)	€	6,963,112	3,713,217
Earnings per share from continuing operations (basic)	€	1.22	1.20
Issued shares as of 31 December	piece	35,043,638	35,043,638

*Previous year's figures aligned to share split in 2018

Dividend

CANCOM SE's dividend policy is intended to support the Group's growth strategy, which is the primary objective of the Executive Board. The Executive Board sees promising growth opportunities in the IT environment, partly due to the megatrend of digitalization, and therefore prefers to use future profits primarily to finance growth and the further development of the business. This should take place in the interest of a long-term increase in the value of the company and thus also in the interest of the shareholders. For the 2018 financial year, the Executive Board and Supervisory Board will propose a dividend of EUR 0.50 per share to the Annual General Meeting.

As of 31 December 2018, the number of shares entitled to dividends amounted to 35,043,638. This results in a total dividend payout for fiscal year 2018 of approximately EUR 17.5 million.

General meeting

At the Annual General Meeting of CANCOM SE on 14 June 2018, the Executive and Supervisory Boards welcomed numerous shareholders and their representatives to the Alte Kongresshalle in Munich, Germany. These represented 54.7 percent of the company's share capital. All proposed resolutions put to the vote were adopted by a large majority.

Communication with the capital market

CANCOM attaches great importance to active, open and transparent communication with its stakeholders. For example, the Internet presence is an important information platform for communication with shareholders and the capital market, which is used intensively. But analysts' views of the company also influence the way shareholders and investors form their opinions. CANCOM is in regular constructive dialogue with all analysts. In addition, in 2018 there were numerous contacts with existing and potential investors at roadshows in Germany and abroad, at investor conferences, in personal meetings and in telephone conferences.

Current information on the CANCOM share can be found on our website www.cancom.de in the Investors section.

Combined management report of CANCOM SE and the CANCOM Group

year from January 1 to December 31, 2018

Fundamental information about the Group

The CANCOM Group ('CANCOM') is one of the leading providers of IT infrastructure and IT-services in Germany and Austria. The Group has subsidiaries in Germany, Austria, Switzerland, the United Kingdom , Belgium and the U.S.A.

Structure of the CANCOM Group

The parent company of the CANCOM Group is CANCOM SE, based in Munich, Germany. It assumes central financing and management functions for the Group companies, i.e. the investments it holds. In addition to central management and financing activities, the operating units are also supported in their daily business operations by centralized areas for purchasing, warehousing/logistics, marketing/communication, product management and human resources. In addition, there is an in-house specialized sales department (competence center). This structure, consisting of client-oriented decentralized sales and service units in Germany and other countries, and centralized management and support functions, ensures a high level of efficiency in the management and control of the CANCOM Group and a high level of performance by the Group in its cooperation with clients and partners.

The CANCOM Group's financial reporting provides an overall view of the Group as a whole in addition to covering the operating performance of its two segments: Cloud Solutions and IT Solutions.

The Cloud Solutions segment of the Group includes the (shared) managed services business as well as product and service business that can be directly allocated to managed services contracts. In addition, it includes all business activities in connection with our own software product - the IT multicloud management software AHP Enterprise Cloud.

The IT Solutions segment comprises business relating to comprehensive strategic and technical consulting and services for projects in the areas of IT infrastructure, IT applications and system integration, as well as planning and turnkey implementation of those projects. The segment also covers activities in the areas of IT procurement and e-procurement services.

In addition to the operating segments, the CANCOM Group's segment reporting includes the Other Companies segment. This segment covers the staff and management functions for central Group management, including the parent company CANCOM SE. Internal Group investments and expenses for company acquisitions or divestments are also included in this area.

Further information, including the allocation of the individual Group companies to the reporting segments, can be found in the notes to the consolidated financial statements in the 'Segment information' section.

Business model and sales markets

CANCOM's range of products and services is designed to provide comprehensive consulting and support to corporate clients in adapting IT infrastructures and business processes to meet digital transformation requirements. CANCOM provides integrated solutions for its clients and regards itself as a leading digital transformation partner.

The range of services extends from strategic consulting for digital business processes to the partial or complete operation of clients' IT systems (managed services), system design and integration, IT support, delivery and turnkey implementation of hardware, software and e-procurement systems, to the sale of CANCOM's own AHP Enterprise Cloud software.

This broad range of products and services enables the CANCOM Group to generate revenue both from its own capabilities and services (services business) and from fees and commissions for the sale of third-party IT products (goods sales). The business model is supplemented by the distribution of CANCOM's in-house software, AHP Enterprise Cloud. CANCOM thus combines the corporate activities of a managed services provider, an integrated systems provider (value-added reseller) and a software manufacturer and can thus generate additional synergy effects between these complementary business areas.

Management is pursuing a medium-term course of strategic transformation for the CANCOM Group. The provision of IT services, especially shared managed services, makes up an increasing share of the Group's business activity. Since 2018, the company has increasingly also been investing in the further development of its own AHP Enterprise Cloud software and the establishment of a specialized sales organization – including through partners. This should enable marketing as a single product, in addition to the current distribution of the AHP Enterprise Cloud software as a solution within larger IT projects by CANCOM itself.

The clientele mainly includes commercial end users, ranging from small and medium-sized enterprises to large companies and groups, as well as public institutions. In geographical terms, the CANCOM Group is primarily active in Germany and Austria, but also in the United Kingdom, Belgium, Switzerland and the U.S.A.

Competitive position

According to the latest analysis available from the Federal Statistical Office and the German digital association bitkom, there are around 90,000 companies in Germany in the areas of IT hardware, software and IT services, although they differ greatly in terms of size and/or range of services. The total volume of the German IT market in 2018 is estimated by bitkom at EUR 89.9 billion. There are 35 large companies with annual sales revenues of more than EUR 250 million in the combined IT hardware/software and services business segment. CANCOM thus belongs to the small group of large companies in the German IT sector. However, with annual sales revenues within Germany of EUR 1,200.6 million, the CANCOM Group's share of the overall market is still only around one percent. Apart from the very few other large companies, the market is served by IT manufacturers and IT service providers – predominantly small and medium sized enterprises as well as companies operating regionally. These figures reflect the highly fragmented nature of the German IT market and show the large remaining market potential for CANCOM in its home market of Germany alone.

Based on the data from the latest ranking of integrated systems providers by the trade magazine ChannelPartner, there are 18 companies that generate more than EUR 250 million in sales revenues in the German market. Only four of these companies have domestic sales revenues in excess of EUR 1 billion. According to this ranking, CANCOM was the fourth-largest integrated systems provider in Germany in 2018 (in 2017 it was ranked fifth in size). CANCOM is considered by ChannelPartner to be part of this narrower competitive environment of integrated systems providers (value-added resellers), as CANCOM continues to cover the full range of products and services of an integrated systems provider despite the expansion of its business model.

Explanation of the control system used within the Group

To control and monitor the performance of the individual subsidiaries and the reporting segments, CANCOM SE analyzes their monthly figures for, among other things, sales revenues, gross profit, operating expenses and operating profit and compares the actual figures with the budgeted figures.

At the beginning of the 2018 fiscal year, the selection of financial key performance indicators (KPIs) used for Group management was changed. The financial KPIs are now gross profit[1], earnings before interest, tax, depreciation and amortization (EBITDA)[2] and earnings before interest, tax and amortization (EBITA)[3]. The latter offers a comprehensive view of the overall success of the company, because acquisition of companies is one of the significant activities under the corporate strategy, but it causes a reduction in earnings before interest and tax (EBIT[4]) purely in accounting terms, as a result of the consolidation of newly acquired companies. Earnings before interest, tax and amortization (EBITA) therefore more adequately reflect the business performance of the CANCOM Group and this figure replaces earnings before interest and tax (EBIT) as a performance indicator in management. In addition, a new key figure – annual recurring revenue (ARR[5]) – will be included in the management system at the beginning of the 2019 fiscal year. The ARR is the key indicator for the success of the strategic transformation of the CANCOM Group, as it directly maps the volume of managed services and the AHP Enterprise Cloud software.

Explanation of the alternative performance measures (APM) used in accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA):

1) Gross profit = gross revenue (sales revenues + other operating income + other own work capitalized) less cost of materials / cost of purchased services
2) EBITDA = profit for the period + taxes + at equity profit/loss + investment income + financial result + depreciation of property, plant and equipment (tangible assets) and amortization of intangible assets
3) EBITA = profit for the period + taxes + at equity profit/loss + investment income + financial result + amortization of intangible assets
4) EBIT = profit for the period + taxes + at equity profit/loss + investment income + financial result
5) ARR = revenues from multi-year service contracts with service level agreements and from AHP Enterprise Cloud in the base month (monthly recurring revenue) x 12 months

Any significant deviations identified in the key figures make it necessary to prepare a forecast. In addition, external indicators such as inflation rates, interest rates, the performance of and forecasts for the general economy and the IT sector as well as findings and signals from the Group-wide risk early warning system are regularly reviewed for corporate management purposes. Details can be found in the risks and opportunities report.

Research and development activities

Innovations are of great importance for economic momentum and growth. Since CANCOM is primarily involved in the service and trading business, no research activities are carried out. Its development work focuses on, for example, software solutions, applications or architectures in IT growth areas such as cloud computing, mobile solutions, Internet of Things and analytics, IT security, and shared managed services. In addition, there is some customization of company software used internally, mainly in relation to the SAP ERP system. Another focus of the development activities, also increased compared to 2017, is the in-house AHP Enterprise Cloud product. However, in comparison to the CANCOM Group's total revenues, development expenses are not of any significant magnitude, nor is the resulting own work capitalized.

Environmental report

As an IT services and trading company, CANCOM aims to offer services and products of excellent quality at an attractive price, but also to be as environmentally friendly as possible. CANCOM therefore attaches great importance to the careful use of the resources at its disposal. CANCOM provides innovative solutions across its entire portfolio of services and products in order to make a professional contribution to the environmentally friendly and resource-conserving use of IT throughout the entire life cycle of products. For example, CANCOM offers its clients the advantages of state-of-the-art, energy-efficient data centers, which not only provide benefits from an ecological point of view, but also lead to considerable savings in a company's energy and IT costs. Resources can also be conserved through the use of state-of-the-art and intelligent systems in the field of communication and collaboration, such as video or web conferencing solutions. The consequent reduction in employee travel leads not only to process optimization and huge cost savings, but also to lower CO_2 emissions.

CANCOM SE is a member of the UN Global Compact and thus supports the principles of the Global Compact, which cover human rights, labor standards and anti-corruption measures in addition to environmental protection.

Further information on environmental, labor and social issues, respect for human rights, and the fight against corruption and bribery, is summarized in the non-financial report of the CANCOM Group and CANCOM SE. The report is published annually on the company's website at https://www.cancom.com/reports/ no later than four months after the balance sheet date of the previous fiscal year.

Economic report

Performance of the IT market and the overall economy

According to Deutsche Bank Research, gross domestic product in Germany rose by 1.5 percent in 2018. Compared with growth of 2.3 percent in the previous year, this represented a slackening in the economic growth of the CANCOM Group's main sales market in the 2018 fiscal year.

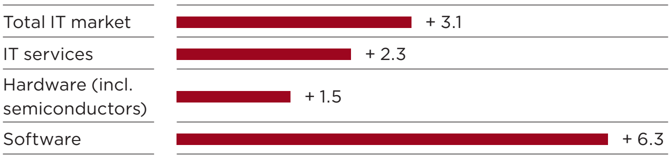
The following table shows the change in gross domestic product in CANCOM's main foreign markets.

	Gross domestic product 2018* (Change compared with 2017)
Germany	+ 1.5
United Kingdom	+ 1.3
Austria	+ 2.6
Switzerland	+ 2.6
Belgium	+ 1.5
U.S.A.	+ 2.9

* Source : Deutsche Bank Research, February 5, 2019

The German digital association Bitkom estimates the total volume of the IT market – the segment of the German market for information and communications technology (ICT) most relevant to CANCOM – at EUR 89.9 billion for 2018. This figure represents an increase of 3.1 percent compared with 2017. The IT services market segment, which is strategically important for CANCOM, grew by 2.3 percent year on year to EUR 39.9 billion in 2018.

Information technology (IT) market 2018, Germany*
(Change compared with 2017)



* Source: bitkom/EITO, January 2019

Business performance in 2018

The CANCOM Group's business performance was very positive throughout 2018. Sales revenues of around EUR 1.38 billion and earnings before interest, tax, depreciation and amortization (EBITDA) of EUR 114.8 million after adjustment to take account of special investments – an EBITDA margin (adjusted) of 8.3 percent – represent new record figures for the CANCOM Group. This corresponds to growth of 18.7 percent in sales revenues, an increase in adjusted EBITDA of 24.0 percent and an improvement in the adjusted EBITDA margin of 0.3 percentage points compared with the already high prior-year figures.

The pleasing growth rates reflect the further noticeable increase in client demand in 2018, which basically covered CANCOM's entire product and service portfolio.

Overall, CANCOM continued the strategic course it has embarked on, the objective of which is to boost the shared managed services business and the Group's in-house AHP Enterprise Cloud software in particular. For example, a new security operations center was put into operation to expand the range of services offered. In addition, special investments were made for internal structural changes and the establishment of a specialized organization for the sale of the AHP Enterprise Cloud software. In the 2018 fiscal year, these extraordinary expenses amounted to EUR 9.9 million.

The main individual events outside the daily operating business in the 2018 fiscal year were the two company acquisitions in the United Kingdom and the completion of the extension to the main logistics and services location in Jettingen-Scheppach, Germany. The acquisition of Ocean Intelligent Communications in March 2018 and The Organised Group (OCSL) in August 2018, as well as the aforementioned operational measures, reflect the Group's strategic transformation. The acquisitions broaden CANCOM's managed services portfolio and support the continuing international expansion of the CANCOM Group while providing an important base in the U.K. information technology market. The investments in Jettingen-Scheppach, on the other hand, will make it possible to centralize inventories and increase order processing capacity. The investment creates the basis for the future expansion of the business volume.

The forecasts published at the beginning of the year for the performance of the CANCOM Group and its two segments were achieved or even exceeded. Details of the related key figures can be found in the section headed 'Earnings position'.

Order position – Annual Recurring Revenue

CANCOM's managed services business is part of its Cloud Solutions segment. Managed services contracts lead to recurring monthly sales revenues over a fixed multi-year contract term. Recurring revenue allows a projection of expected future revenues over the next twelve months based on the last month of the current reporting period. This annual recurring revenue (ARR) amounted to EUR 130.1 million on the basis of December 2018, representing an increase of 41.3 percent over the previous year (December 2017: EUR 92.1 million).

In the other business segments, information on the order situation as of the balance sheet date is of little relevance. This is due to the fact that the common practice is for contracts to cover longer periods, with their volume subject to change within these periods (framework agreements). In addition, there may only be very short periods of time between order and revenue recognition, so that in this case order volume and revenue are approximately the same in the quarterly reporting period. For this reason, no information on the order situation, other than the annual recurring revenue, is published in the CANCOM Group's financial reports.

Staff

As of December 31, 2018, the CANCOM Group employed 3,403 people (December 31, 2017: 2,913). This represents an increase of 16.8 percent compared with the previous year. The main drivers of the staff expansion in 2018 were the significant increase in business volume and the acquisition of companies in the United Kingdom.

The Group's staff worked in the following areas:

CANCOM Group: Staff

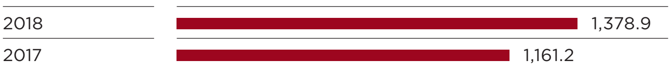
	2018	201
Professional Services	2,090	1,841
Sales and Distribution	725	600
Central Services	588	472
Total	**3,403**	**2,913**

Earnings, financial and asset position of the CANCOM Group

Note: *CANCOM applied the new accounting standard IFRS 16 for the first time in the fiscal year 2018. To improve comparability, prior-year comparative figures in this report have therefore been adjusted for the effects of IFRS 16 application where appropriate. Adjusted prior-year figures are referred to as 'prior-year comparative figures'.*

Earnings position

CANCOM Group: Sales revenues
(EUR million)



The CANCOM Group's consolidated sales revenues grew by 18.7 percent to EUR 1,378.9 million in the 2018 fiscal year (previous year: EUR 1,161.2 million). CANCOM's organic revenue growth included in this figure, i.e. excluding the effects of acquisitions, was 12.1 percent in the reporting period. This overall dynamic business performance was achieved in both Group segments, reflecting the fact that client demand extends across the full range of CANCOM Group products and services, as mentioned in the section headed 'Business performance'.

Geographically speaking, CANCOM's sales revenues in Germany rose by 14.6 percent to EUR 1,200.6 million in 2018 (previous year: EUR 1,047.9 million). In its international business, CANCOM's sales revenues amounted to EUR 178.3 million, representing growth of 57.2 percent (previous year: EUR 113.4 million). The significant growth in the international business is the direct result of the company's strategic transformation, the implementation of which includes increased international activity supported by company acquisitions.

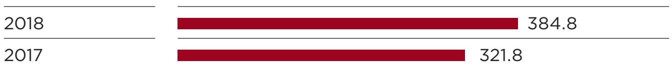
Sales revenues in the Cloud Solutions segment saw a year-on-year increase of 33.0 percent to EUR 242.5 million (previous year: EUR 182.3 million). The segment's organic sales grew by 17.2 percent, demonstrating the strong, unflagging growth momentum consistently promoted by management.

In the IT Solutions segment, sales revenues increased by 16.1 percent between January and December to EUR 1,136.4 million year on year (previous year: EUR 978.8 million). Organic growth in sales revenues in the same period was 11.2 percent. The figures illustrate the healthy basis and development potential of this core business of the CANCOM Group.

In the fourth quarter of 2018 alone, the CANCOM Group generated sales revenues of EUR 415.2 million (previous year: EUR 352.3 million). Sales revenues in the Cloud Solutions segment rose to EUR 67.8 million in the fourth quarter (previous year: EUR 57.5 million), while the figure for the IT Solutions segment increased to EUR 347.4 million (previous year: EUR 294.7 million).

At EUR 2.6 million, other operating income in the 2018 fiscal year was almost on a par with the previous year (previous year: EUR 2.5 million).

CANCOM Group: Gross profit
(EUR million)



The CANCOM Group's gross profit rose by 19.6 percent year on year to EUR 384.8 million (previous year: EUR 321.8 million). The gross profit margin was thus 27.9 percent (previous year: 27.7 percent). The slight increase in the gross profit margin was primarily caused by the cost of materials increasing roughly in line with sales, while the ratio of the cost of materials to gross revenue remained roughly the same as in 2017.

In the Cloud Solutions segment, gross profit rose by 32.7 percent to EUR 119.8 million in 2018 (previous year: EUR 90.3 million). In the IT Solutions segment, CANCOM recorded a 13.8 percent year-on-year increase in gross profit to EUR 257.7 million (previous year: EUR 226.4 million).

In the fourth quarter alone, CANCOM generated a gross profit of EUR 111.1 million (previous year: EUR 93.4 million). In the same period, the Cloud Solutions segment recorded an increase in gross profit to EUR 35.5 million (previous year: EUR 28.6 million), while the IT Solutions segment recorded an increase to EUR 75.8 million (previous year: EUR 64.9 million).

CANCOM Group: Staff expenses
(EUR '000)

	2018	2017
Wages and salaries	195,767	164,207
Share-based payment with settlement in equity instruments	473	0
Share-based payment with settlement in cash	254	0
Social security contributions	31,075	26,316
Pension expenses	589	458
Total	**228,156**	**190,981**

Staff expenses in the fiscal year 2018 amounted to EUR 228.2 million, 19.5 percent higher than the previous year (EUR 191.0 million). This increase was slightly out of proportion to the growth in sales revenues. The higher staff expenses were mainly caused by the increase in staff numbers, with a larger number of high-skill staff being hired particularly to meet the growing volume of business in more complex IT services.
The ratio of staff expenses to sales revenues nevertheless remained stable at 16.5 percent (previous year: 16.4 percent).

Other operating expenses amounted to EUR 51.7 million in 2018, higher than the previous year (EUR 46.3 million). The first-time application of IFRS 16 had a significant impact on other operating expenses, as it led to a sharp reduction in occupancy costs on the balance sheet. In return, however, various individual items such as hospitality and travel, external services, costs for the delivery of goods, and legal and consulting costs, rose with the general increase in business volume - but also, for example, due to company acquisitions.

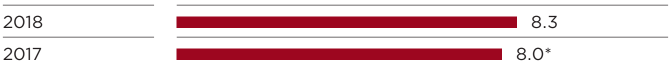
CANCOM Group: EBITDA (adjusted)
(EUR million)

*Previous year's figure adjusted for comparability to take account of the effect of first-time application of IFRS 16.

In the fiscal year 2018, the CANCOM Group's adjusted earnings before interest, tax, depreciation and amortization (EBITDA)[6] amounted to EUR 114.8 million, an improvement of 24.0 percent on the comparable figure for the previous year (prior-year comparative figure: EUR 92.6 million). The adjustment takes into account special investments in strategic growth projects and ancillary acquisition costs, which totaled EUR 9.9 million in the reporting period. The organic growth rate for adjusted EBITDA was 14.0 percent.

The adjusted EBITDA margin was therefore 8.3 percent in 2018 (prior-year comparative figure: 8.0 percent).

CANCOM Group: EBITDA margin (adjusted)



*Previous year's figure adjusted for comparability to take account of the effect of first-time application of IFRS 16.

The Cloud Solutions segment contributed to the increase in earnings in the reporting period with a year-on-year increase of 40.6 percent in adjusted earnings before interest, tax, depreciation and amortization (EBITDA) to EUR 64.1 million (prior-year comparative figure: EUR 45.6 million). The organic growth rate was 18.9 percent. The adjusted EBITDA margin in the Cloud Solutions segment thus increased to 26.4 percent (prior-year comparative figure: 25.0 percent), demonstrating the high profitability of the (shared) managed services and AHP Enterprise Cloud business.

CANCOM's adjusted EBITDA in the IT Solutions segment was EUR 62.0 million, up 10.1 percent compared to the same period of the previous year (prior-year comparative figure: EUR 56.3 million). The organic growth rate was 9.9 percent. The adjusted EBITDA margin was 5.5 percent (prior-year comparative figure: 5.8 percent).

Explanation of the alternative performance measures (APM) used in accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA):

6) Adjusted EBITDA = profit for the period + taxes + at equity profit/loss + investment income + financial result + depreciation of property, plant and equipment (tangible assets) and intangible assets + special investments in strategic growth projects and ancillary merger and acquisition costs

The CANCOM Group's adjusted EBITDA for the fourth quarter amounted to EUR 36.6 million (prior-year comparative figure: EUR 32.4 million). The Cloud Solutions segment accounted for EUR 20.1 million of the adjusted EBITDA (prior-year comparative figure: EUR 16.0 million), while IT Solutions contributed EUR 19.2 million (prior-year comparative figure: EUR 18.5 million).

The CANCOM Group's EBITDA according to IFRS, i.e. without the adjustment to take into account the special investments and ancillary acquisition costs referred to above, amounted to EUR 104.9 million in the 2018 fiscal year (prior-year comparative figure: EUR 92.6 million). This represents an increase of 13.4 percent.

EBITDA according to IFRS in the Cloud Solutions segment was EUR 60.0 million and thus 31.6 percent higher than in 2017 (prior-year comparative figure: EUR 45.6 million).
In the IT Solutions segment, EBITDA according to IFRS amounted to EUR 60.3 million, up 6.9 percent on the previous year's figure (prior-year comparative figure: EUR 56.3 million).

In the fourth quarter of 2018, the CANCOM Group's EBITDA according to IFRS amounted to EUR 33.9 million (prior-year comparative figure: EUR 32.4 million). The Cloud Solutions segment's EBITDA amounted to EUR 19.0 million (prior-year comparative figure: EUR 16.0 million) and the IT Solutions segment's EBITDA was EUR 18.8 million (prior-year comparative figure: EUR 18.5 million).

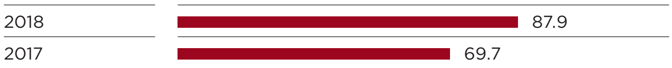
CANCOM Group: Depreciation and amortization
(EUR '000)

	2018	2017
Depreciation	26,866	14,815
therof on right of use	8,819	0
Amortization	12,980	9,171
Total	**39,846**	**23,986**

Depreciation of property, plant and equipment (tangible assets), amortization of intangible assets and depreciation of rights of use rose sharply to EUR 39.8 million in the fiscal year 2018, an increase of 65,8 percent (previous year: EUR 24.0 million). The trigger for this increase was the first-time application of IFRS 16, which made it necessary for the first time to write down right-of-use assets. This item, which was newly introduced, had a volume of EUR 8.8 million. The second important factor outside the operating business was the increase in amortization of client lists acquired as part of company acquisitions to EUR 13.0 million (previous year: EUR 9.2 million).

These two effects account for most of the increase in depreciation and amortization.

CANCOM Group: EBITA (adjusted)
(EUR million)



The adjusted earnings before interest, tax and amortization (EBITA)[7] of the CANCOM Group increased by 26.1 percent to EUR 87.9 million in the fiscal year 2018 (previous year: EUR 69.7 million).

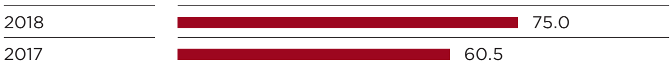
The adjusted EBITA for the fourth quarter amounted to EUR 28.5 million (previous year: EUR 25.0 million).

The unadjusted CANCOM Group EBITA according to IFRS amounted to EUR 78.0 million for 2018 as a whole (previous year: EUR 69.7 million) and EUR 25.8 million for the fourth quarter (previous year: EUR 25.0 million).

In the Cloud Solutions segment, EBITA amounted to EUR 50.7 million for the fiscal year 2018 (previous year: EUR 38.4 million) and EUR 16.2 million for the fourth quarter (previous year: EUR 13.5 million).

In the IT Solutions segment the EBITA for the fiscal year 2018 was EUR 43.0 million (previous year: EUR 40.7 million), while for the fourth quarter it was EUR 13.6 million (previous year: EUR 13.7 million).

CANCOM Group: EBIT (adjusted)
(EUR million)



The CANCOM Group's adjusted EBIT[8] amounted to EUR 75.0 million in 2018 (previous year: EUR 60.5 million) – an increase of 24.0 percent on the previous year.

In the fourth quarter of 2018, the CANCOM Group's adjusted EBIT amounted to EUR 25.6 million (previous year: EUR 21.7 million).

Explanation of the alternative performance measures (APM) used in accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA):

7) EBITA (adjusted) = profit for the period + taxes + at equity profit/loss + investment income + financial result + amortization of intangible assets +special investments in strategic growth projects and ancillary merger and acquisition costs

8) EBIT (adjusted) = profit for the period + taxes + at equity profit/loss + investment income + financial result + special investments in strategic growth projects and ancillary merger and acquisition costs

The CANCOM Group's unadjusted EBIT according to IFRS amounted to EUR 65.1 million in the fiscal year 2018 (previous year: EUR 60.5 million) and EUR 22.9 million in the fourth quarter (previous year: EUR 21.7 million). In the Cloud Solutions segment, EBIT according to IFRS amounted to EUR 40.9 million in 2018 (previous year: EUR 33.3 million) and EUR 14.1 million in the fourth quarter (previous year: EUR 11.3 million). In the IT Solutions segment it amounted to EUR 39.8 million (previous year: EUR 36.6 million) and in the fourth quarter EUR 12.8 million (previous year: EUR 12.6 million).

As a result of the good business performance, the CANCOM Group's net profit for the 2018 fiscal year amounted to EUR 42.6 million, an increase of 6.5 percent (previous year: EUR 40.0 million).

Financial and asset position

Principles and objectives of financial management

The core objective of CANCOM's financial management is to safeguard its liquidity at all times to ensure that day-to-day business operations can be continued. In addition, the aim is to optimize profitability and thus achieve the highest possible credit rating in order to secure favorable refinancing. The financing structure is primarily geared to long-term stability and maintaining the financial flexibility necessary to exploit business and investment opportunities.

Capital structure of the Group

The CANCOM Group's total assets amounted to EUR 838.1 million as of December 31, 2018 (December 31, 2017: EUR 692.1 million). Of this amount, EUR 390.2 million was attributable to equity and EUR 447.9 million to liabilities. The CANCOM Group's equity ratio thus amounted to 46.6 percent at the end of the fiscal year 2018, slightly lower than in the previous year (December 31, 2017: 52.6 percent). This resulted in a debt ratio of 53.4 percent (December 31, 2017: 47.4 percent). The main structural driver of this shift in the balance sheet structure towards a slightly higher debt ratio was the first-time application of the new accounting standard IFRS 16.

The volume of long-term and short-term interest-bearing financial liabilities is very small compared to total liabilities. The balance of free cash and cash equivalents as of December 31, 2018 exceeds the balance of interest-bearing financial liabilities. The Group therefore has no net financial debt, so this ratio is negative (or the Group has a positive net cash situation).

Liabilities and equity

Current liabilities, i.e. liabilities with a remaining term of less than one year, amounted to EUR 368.9 million at the end of the fiscal year (December 31, 2017: EUR 294.6 million). The increase was mainly due to a rise in other current financial liabilities and higher trade accounts payable. These are increasing primarily as a result of the overall increase in business volume, but also as a result of optimized payment terms with suppliers.

At EUR 79.0 million as of December 31, 2018, non-current liabilities showed a substantial increase compared with the end of the 2017 fiscal year (December 31, 2017: EUR 33.3 million). The main reason for this development is the recognition of leasing liabilities due to the first-time application of IFRS 16.

Equity rose to EUR 390.2 million in the course of the fiscal year (December 31, 2017: EUR 364.3 million). A significant structural change in the composition of equity resulted from the capital increase out of company funds carried out in 2018 with a simultaneous stock split. As a result, the subscribed capital was doubled – around EUR 17.5 million was added, bringing the total to around EUR 35.0 million – and the capital reserve reduced accordingly. The number of issued shares representing EUR 1.00 each of the capital stock accordingly also doubled, so that around 35.0 million CANCOM SE shares have now been issued.

Major financing measures

Current business and necessary replacement investments were financed from cash and cash equivalents and operating cash flow in 2018. The purchase price payments made in 2018 for the acquisitions made were financed entirely from cash and cash equivalents. The same applies to the financing of the investment in the expansion of the CANCOM Group's main logistics and administrative location in Jettingen-Scheppach, Germany.

Assets

On the assets side of the balance sheet, current assets amounted to EUR 470.6 million on December 31, 2018 (December 31, 2017: EUR 438.0 million). The increase compared with the end of 2017 is mainly due to the increase in trade accounts receivable and inventories. This was offset by a decline in cash and cash equivalents. However, at EUR 135.2 million at the end of the year, they were still well above the average level in previous years (December 31, 2017: EUR 157.6 million).

Non-current assets amounted to EUR 367.6 million as of December 31, 2018 (December 31, 2017: EUR 254.1 million). In addition to the 'right-of-use asset' item amounting to EUR 37.5 million, which was created for the first time as a result of the application of IFRS 16, the increase in non-current assets (including goodwill) was mainly due to higher carrying amounts for property, plant and equipment (tangible assets) and intangible assets in the 2018 fiscal year as a result of acquisitions. Another essential factor was the completion of the expanded logistics and service facilities at the Jettingen-Scheppach location, which particularly affected property, plant and equipment (tangible assets).

Cash flow and liquidity

Cash flow from operating activities for the period from January to December 2018 amounted to EUR 81.9 million (previous year: EUR 124.9 million). The overall decrease compared to the previous year is due to non-recurring items in the previous year (measures to optimize net current assets, or working capital, in 2017). Compared to all other fiscal years except 2017, this operating cash flow represents a historic high. The main factors influencing the operating cash flow in 2018 were an increase in inventories due to the general increase in business volume and the change in trade accounts payable compared with the high figure for the previous year, which was impacted, on a non-recurring basis, by working capital optimization measures implemented in 2017. Higher income taxes were also paid.

There was a negative cash flow from investing activities of EUR 71.9 million, representing a significant increase on the negative cash flow in the previous year (EUR 16.6 million). However, as a result of the closure of fixed-term deposits at banks, the figure for the previous year was reduced by a very high cash inflow from the disposal of available-for-sale financial assets. Without this effect, the previous year's figure would have been at a similar level and – like the current figure – would have been dominated by payments in connection with acquisitions amounting to EUR 59.2 million and the expansion of the Jettingen-Scheppach logistics location, which involved an investment volume of EUR 10.8 million in the 2018 fiscal year.

The negative cash flow from financing activities amounted to EUR 32.8 million, reflecting the doubling of the dividend compared with the previous year (negative cash flow of EUR 12.2 million). In addition, the first-time application of IFRS 16 had the effect of increasing payments under finance leases by EUR 9.0 million.

There was therefore a significant decline in cash and cash equivalents compared with the beginning of the fiscal year. At EUR 135.2 million on December 31, 2018 (December 31, 2017: EUR 157.6 million), the figure was nevertheless at a very high level compared with previous years, as here too the decline compared with the previous year is due solely to the extraordinary increase in liquidity in 2017 due to non-recurring items.

At the balance sheet date, the CANCOM Group had credit facilities (including guarantees) of EUR 40.5 million provided by banks. Of this total, EUR 33.8 million was readily available as of December 31, 2018.

Earnings, financial and asset position of CANCOM SE

CANCOM SE assumes the central financing and management function for the investments held by the CANCOM Group. CANCOM's opportunities and risks therefore arise from the opportunities and risks of its investments. These are explained in more detail in the risks and opportunities report.

In 2018, CANCOM SE generated sales revenues from allocated management expenses of EUR 8.7 million (previous year: EUR 7.7 million) and reported net income of EUR 48.1 million (previous year: EUR 38.0 million).

This mainly resulted from profits received under profit transfer agreements with subsidiaries and profit distributions that accrue to CANCOM SE in addition to the management expenses.

CANCOM SE's total assets rose to EUR 402.2 million as of December 31, 2018 (December 31, 2017: EUR 377.4 million). The reason for this growth was the increased equity, which amounted to EUR 393.4 million at the end of the reporting period (previous year: EUR 362.8 million). The increase resulted primarily from the net profit for the period and retained earnings. As a result, CANCOM SE's equity ratio went up slightly to 97.8 percent (previous year: 96.1 percent).

Liabilities amounted to EUR 1.9 million at the balance sheet date and were thus once again below the already low level of the previous year (EUR 2.5 million).

On the assets side of the balance sheet, non-current assets rose to EUR 326.5 million (previous year: EUR 265.5 million), driven by an increase in financial assets. Current assets, on the other hand, fell to EUR 75.5 million (previous year: EUR 111.7 million). The main trigger for this development was cash and cash equivalents, which dropped to EUR 13.3 million as of December 31, 2018 (previous year: EUR 56.8 million).

Overall, CANCOM SE's earnings, financial and asset position remained very robust in the fiscal year 2018.

Information concerning takeovers

The disclosures pursuant to Section 289a, paragraph 1 and Section 315a, paragraph 1 of the German Commercial Code (Handelsgesetzbuch, HGB) are listed below. Disclosures relevant to specific acquisitions can be found in the notes to the consolidated financial statements and the notes to the financial statements of CANCOM SE.

Capital stock: amount and division

In accordance with the corporate by-laws, as of December 31, 2018 the company's capital stock amounted to EUR 35,043,638.00 (previous year: EUR 17,521,819.00), divided into 35,043,638 no-par value shares (previous year: 17,521,819). The capital stock and the number of shares doubled as a result of a capital increase out of company funds in 2018 and a simultaneous stock split. The amount of the capital stock attributable to each share is EUR 1.00. The shares are bearer shares. They are evidenced by global certificates, and the shareholders have no claim to the issue of individual physical share certificates.

Each no-par value share entitles the holder to one vote at general meetings of shareholders. There are no different classes of shares. Each share carries the same rights and obligations. Holders of shares with special rights conferring controlling powers do not exist.

Direct or indirect equity interests of 10 percent or more

CANCOM SE became aware of the following direct equity interests exceeding 10 percent of the voting rights in the fiscal year 2018:

PRIMEPULSE SE (due to merger with PRIMEPULSE Beteiligungs GmbH): 10.631 percent

Appointment and dismissal of members of the Executive Board

The appointment and dismissal of members of the Executive Board is governed by Section 84 and Section 85 paragraph 3 of the German Stock Corporation Act (Aktiengesetz, AktG) in conjunction with Article 9, paragraph 1 letter c (ii) and Article 39 of Council Regulation (EC) No. 2157/2001 on the Statute for a European Company (SE). The Supervisory Board determines the number of members in the Executive Board.

When appointing members of the Executive Board, CANCOM follows the recommendations of the German Corporate Governance Code, taking into account the specific situation of the company.

Changes to the corporate by-laws

Changes to the corporate by-laws are governed by Sections 133 and 179 of the German Stock Corporation Act. Any resolution regarding a change to the corporate by-laws must be passed by at least a three-quarters majority vote of the capital stock represented at the general meeting of shareholders. The corporate by-laws may differ in this respect from the legal stipulations and impose a different majority vote. However, where there is a proposal to change the object of the company, the majority vote required to pass such a resolution may only be increased and further requirements may be laid down. Article 15 paragraph 3 of CANCOM SE's by-laws contains such a provision. According to this provision, resolutions to amend the corporate by-laws require a majority of two-thirds of the votes cast or, if at least half of the capital stock is represented, a simple majority of the votes cast. In cases in which the law additionally requires a majority of the capital stock represented at the time the resolution is adopted, a simple majority of the share capital represented in the vote on the resolution will suffice, unless stipulated otherwise by law. The general meeting of shareholders may delegate to the Supervisory Board the authority to make changes that only affect the wording. At CANCOM SE, this was done by means of Article 11 of the by-laws.

Significant agreements that are subject to alteration in the event of a change of control

There were no significant agreements subject to alteration in the event of a change of control in 2018.

Remuneration report

The remuneration report presents the basic principles of the remuneration system for the members of the Executive Board, and explains the structure and amount of the Executive Board members' remuneration and the emoluments of the Supervisory Board. The report is based on the recommendations of the German Corporate Governance Code and contains information in accordance with the requirements of the German Commercial Code as well as International Financial Reporting Standards (IFRS). The following remuneration report is part of the combined management report and the notes to the consolidated financial statements.

Remuneration of the Executive Board

The Supervisory Board as a whole is responsible for determining and reviewing the remuneration system and the level of remuneration of the Executive Board. The remuneration is based on factors such as the size of the company, its financial situation, its success, and its prospects, as well as the amount of compensation paid to members of the executive boards of comparable companies within and outside the IT industry. Other factors taken into account are the responsibilities and the personal performance of the relevant Executive Board member, as well as the level of remuneration that would be considered normal taking into account the remuneration structure that applies in the rest of the company. The Executive Board remuneration system used by CANCOM is geared towards the sustainable growth of the enterprise.

The remuneration system for the Executive Board, as described in the combined management report in the annual report of the CANCOM Group and CANCOM SE for the 2017 fiscal year, was last approved by the general meeting of shareholders on June 14, 2018.

On the same day, the general meeting of shareholders of CANCOM SE also resolved to grant authorization to issue subscription rights (stock options) to members of the management of CANCOM SE, among others. The Supervisory Board exercised this authorization on August 17, 2018 by issuing stock options to members of the Executive Board of CANCOM SE. The stock options are now part of the changed remuneration system for the Executive Board described below.

Components of Executive Board remuneration

The remuneration of the Executive Board is performance-related. In the fiscal year 2018, the remuneration of Klaus Weinmann and Rudolf Hotter consisted of a fixed payment (basic salary) and a variable bonus. For Thomas Volk and Thomas Stark, it consisted of a fixed payment (basic salary), a variable bonus and an equity-based remuneration component (stock options). Klaus Weinmann and Rudolf Hotter did not have any subscription rights or other equity-based payments relating to CANCOM SE shares in the 2018 reporting year. Thomas Volk and Thomas Stark had subscription rights and thus an equity-based compensation component from August 17, 2018, following the receipt of stock options. No pension benefits were granted.

The fixed remuneration is paid as a monthly salary. The variable bonus consists of a short-term bonus (for one fiscal year) and a long-term bonus (for three fiscal years), which depend on the degree to which the CANCOM Group achieves its targets.

The targets are quantified on the basis of the approved consolidated financial statements, and extraordinary items – especially acquisitions – are not taken into account. Of the total variable remuneration entitlement calculated in this way, 45 percent is a short-term bonus and the remaining 55 percent depends on the long-term profitable performance of the CANCOM Group.

This 55 percent is thus also subject to a bonus-malus system, in which the Executive Board members are obliged to pay back some or all of the bonus received if the actual figures achieved fall significantly short of the target figures over the past three fiscal years, beginning with the fiscal year in which the bonus scheme took effect. The repayment comprises a percentage of the total amount of the long-term bonus paid from the same three previous fiscal years, depending on the degree to which the targets have not been achieved.

The service contracts of the members of the Executive Board have maximum limits for both the total remuneration and the variable component.

Klaus Weinmann (until September 30, 2018)
Klaus Weinmann's short-term bonus amounted to 0.7 percent of the consolidated earnings before interest, tax, depreciation and amortization (EBITDA). The long-term bonus amounted to 0.8 percent of the consolidated EBITDA generated.
He ceased to be a member of the Executive Board on September 30, 2018.

Thomas Volk
Thomas Volk's total bonus for the 2017 fiscal year amounts to 0.33 percent of the consolidated EBITDA generated, if this exceeds 80 percent of the defined target, but is capped at 125 percent.
For the fiscal year 2018 the bonus will be 2.0 percent of the consolidated EBITDA generated; for 2019 it will be 1.9 percent and for 2020 it will be 1.8 percent.
In addition, 200,000 stock options were issued to him on August 17, 2018 on the basis of the resolution passed by the general meeting of shareholders on June 14, 2018 to establish a stock option program and subject to the conditions defined in this resolution.
Thomas Volk has been CEO of CANCOM SE since October 1, 2018, as a result of which a new Executive Board contract was agreed with the Supervisory Board.
However, the variable remuneration for the 2018 fiscal year is calculated entirely in line with the previous contract as described above.

Rudolf Hotter
Rudolf Hotter's short-term bonus amounts to 0.45 percent and his long-term bonus to 0.55 percent of the consolidated EBITDA generated.

Thomas Stark
Thomas Stark's total bonus for the fiscal years 2018, 2019 and 2020 amounts to 0.55 percent of the consolidated EBITDA generated, if this exceeds 80 percent of the defined target, but is capped at 125 percent. For the fiscal years 2021 and 2022, the bonus will be 0.52 percent of the consolidated EBITDA generated.
In addition, 60,000 stock options were issued to him on August 17, 2018 on the basis of the resolution passed by the general meeting of shareholders on June 14, 2018 to establish a stock option program and subject to the conditions defined in this resolution.

A severance payment provision is included in the Executive Board contracts for the event that their contract of service is terminated or expires. There is also a provision for the payment of compensation for observing the restraint on competition for a period of one year after the contract ends.

In the event of premature, mutually agreed termination of an Executive Board member's contract, the Executive Board contracts provide for a compensation payment limited to a maximum of two years' compensation (severance payment cap), unless there is good cause for termination. If the remaining term of the contract of service is less than two years, the severance payment is calculated pro rata temporis. The amount of the annual remuneration used to calculate the severance payment is the total remuneration for the last full fiscal year before the end of the contract.

There are no change of control clauses in the Executive Board contracts.

Overview of Executive Board remuneration

Based on the above system of remuneration determined by the Supervisory Board, the total remuneration of the Executive Board for the fiscal year 2018 amounted to EUR 3,783 thousand (previous year: EUR 2,749 thousand). The following disclosure of the remuneration granted for the 2018 fiscal year takes into account the recommendations of the German Corporate Governance Code, in addition to the applicable accounting principles. For this reason the table recommended by the Code is used to show the amounts allowed in the year under review.

The following table shows the remuneration paid to the individual members of the Executive Board in the 2018 fiscal year (broken down into individual components, with rounded figures):

Amounts allowed in €	**Klaus Weinmann** Chief Executive Officer			
	2017	**2018**	**2018** (Min)	**2018** (Max)
Fixed remuneration	595,391	355,000	355,000	355,000
Ancillary benefits[1]	2,867	1,785	1,785	1,785
Total fixed remuneration components	**598,258**	**356,785**	**356,785**	**356,785**
Variable annual remuneration	466,667	311,126	0	311,126
Multiannual variable remuneration (Total)[2]	533,333	355,524	0	355,524
Target achievement dependent on the degree to which the EBITDA target was met in the reporting period and in the past three fiscal year	533,333	355,524	0	355,524
Total fixed and variable remuneration components	**1,598,258**	**1,023,435**	**356,785**	**1,023,435**
Pension costs	0	0	0	0
Total remuneration	**1,598,258**	**1,023,435**	**356,785**	**1,023,435**
Total expenses for share-based remuneration in the reporting period	0	0	0	0

1) The fringe benefits include the cost or monetary value of fringe benefits, such as company cars and insurance premiums.

2) The bonus is dependent on the long-term profitable performance of the CANCOM Group. In the event of a significant deterioration in the company's earnings within the three-year period of calculation in comparison with the relevant target figures used as a reference figure, the Executive Board is obliged to repay in part or in full any bonus payments received.

Payments received

The following table shows the amounts received in/for the fiscal year 2018 in the form of fixed remuneration, fringe benefits, annual variable remuneration and multiannual variable remuneration, broken down into the relevant reference years, as well as the pension expenses. Unlike the above table, which shows the multiannual variable remuneration allowed for the fiscal year 2018, this table shows the actual value of multiannual variable remuneration allowed in previous years and received in 2018.

Payments received (in €)	**Klaus Weinmann** Chief Executive Officer		**Rudolf Hotter** Member of Executive Board		**Thomas Volk** Member of Executive Board		**Thomas Stark** Member of Executive Board	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
Fixed remuneration	595,391	355,000	445,568	463,391	100,000	637,500	0	250,000
Ancillary benefits[1]	2,867	1,785	2,943	2,943	5,000	30,000	0	16,421
Total fixed remuneration components	**598,258**	**356,785**	**448,511**	**466,334**	**105,000**	**667,500**	**0**	**266,421**
Variable annual remuneration	500,000	777,793	363,930	380,140	0	21,136	0	0
Multiannual variable remuneration (Total)[2]	500,000	888,857	363,930	464,615	0	25,833	0	0
Target achievement dependent on the degree to which the EBITDA target was met in the reporting period and in the past three fiscal year	500,000	888,857	315,349	464,615	0	25,103	0	0
Total fixed and variable remuneration components	**1,598,258**	**2,023,435**	**1,176,371**	**1,311,089**	**105,000**	**714,469**	**0**	**266,421**
Pension costs	0	0	0	0	0	0	0	0
Total remuneration	**1,598,258**	**2,023,435**	**1,176,371**	**1,311,089**	**105,000**	**714,469**	**0**	**266,421**
Total expenses for share-based remuneration in the reporting period	0	0	0	0	0	0	0	0

1) The fringe benefits include the cost or monetary value of fringe benefits, such as company cars and insurance premiums.

2) The bonus is dependent on the long-term profitable performance of the CANCOM Group. In the event of a significant deterioration in the company's earnings within the three-year period of calculation in comparison with the relevant target figures used as a reference figure, the Executive Board is obliged to repay in part or in full any bonus payments received.

Rudolf Hotter Executive Board member				**Thomas Volk** Executive Board member				**Thomas Stark** Executive Board member			
2017	**2018**	**2018** (Min)	**2018** (Max)	**2017**	**2018**	**2018** (Min)	**2018** (Max)	**2017**	**2018**	**2018** (Min)	**2018** (Max)
445,568	463,391	463,391	463,391	100,000	637,500	637,500	637,500		250,000	250,000	250,000
2,943	2,943	2,943	2,943	5,000	30,000	30,000	30,000		16,421	16,421	16,421
448,511	**466,334**	**466,334**	**466,334**	**105,000**	**667,500**	**667,500**	**667,500**	**0**	**266,421**	**266,421**	**266,421**
380,140	432,054	0	450,000	21,136	140,895	0	406,807		38,746	0	111,872
464,615	528,065	0	550,000	25,833	172,205	0	497,209		47,356	0	136,732
464,615	528,065	0	550,000	25,103	172,205	0	497,209		47,356	0	136,732
1,293,266	**1,426,453**	**466,334**	**1,466,334**	**151,969**	**980,600**	**667,500**	**1,571,516**	**0**	**352,523**	**266,421**	**515,025**
0	0	0	0	0	0	0	0	0	0	0	0
1,293,266	**1,426,453**	**466,334**	**1,466,334**	**151,969**	**980,600**	**667,500**	**1,571,516**	**0**	**352,523**	**266,421**	**515,025**
0	0	0	0	0	191,132	0	0	0	57,339	0	0

Remuneration of the Supervisory Board

The general meeting of shareholders held on June 14, 2018 adopted a resolution to change the level of remuneration of the Supervisory Board. The remuneration is set out in Article 13 of the currently applicable version of the corporate by-laws of CANCOM, and the amount of the remuneration is stipulated by resolution of the general meeting of shareholders on June 14, 2018. At the same meeting, amendments to the remuneration system for members of the Supervisory Board were passed, especially to take into account the extra work involved as a result of increased requirements, as well in relation to the attendance fee. The remuneration of the Supervisory Board consists of a fixed component only. The remuneration of the deputy chairperson and chairperson of the Supervisory Board, and the members of the Committees and their chairpersons, is higher than that of the other Supervisory Board members. The remuneration system also takes into account the number of meetings attended by the different Supervisory Board members, as they are paid an attendance fee for each meeting attended.

Components of Supervisory Board remuneration

Members of the Supervisory Board receive a fixed annual remuneration for the Supervisory Board activities, which is determined by the general meeting of shareholders and remains fixed until the general meeting of shareholders resolves to amend it. In accordance with the resolution passed by the general meeting of shareholders on June 14, 2018, each member receives a payment of EUR 30,000. The deputy chairperson receives double the fixed amount paid to the other members, and the chairperson receives four times the amount. In addition, an attendance fee of EUR 1,000 per Supervisory Board member is paid for personal attendance at meetings. For the chairperson of the Supervisory Board, the attendance fee for personal attendance at meetings is EUR 2,000. If a Supervisory Board member does not serve a whole year, this member receives the pro rata remuneration for the period served.

The company reimburses the members of the Supervisory Board for any expenses incurred directly in connection with the performance of their duties. Value added tax is reimbursed by the company if the relevant Supervisory Board member is entitled to invoice the company separately for value added tax and exercises this right.

In accordance with the resolution passed by the general meeting of shareholders on June 14, 2018, Committee members receive the following fixed annual remuneration for their work on a Committee: as members of the Nominating Committee or the Audit Committee, Supervisory Board members receive a single annual payment. Members of the Nominating Committee receive a remuneration of EUR 1,000, and the chairperson is paid EUR 2,000. Members of the Audit Committee are paid EUR 2,000 and the chairperson of the Committee receives EUR 4,000. If the Committee member does not serve a full year, the relevant member receives the pro-rata remuneration for the period served. The additional remuneration is only paid if the Committee has had at least one meeting in the fiscal year in question.

Overview of Supervisory Board remuneration

The members of the Supervisory Board received the following remuneration for the 2018 fiscal year (broken down into individual components, with rounded figures):

	Fixed remuneration in €	Attendance fee in €	Total 2018 in €	Total 2017 in €
Dr. Lothar Koniarski	124,000	8,000	132,000	97,000
Kemm, Uwe	65,000	4,000	69,000	48,000
Walter Krejci	0	0	0	10,000
Regina Weinmann	31,000	4,000	35,000	27,000
Eberle, Dominik	29,500	3,000	32,500	26,000
Wild, Martin	30,000	4,000	34,000	20,667
Terock, Marlies	30,000	4,000	34,000	15,667
Total	**309,500**	**27,000**	**336,500**	**244,334**

The members of the Supervisory Board did not receive any further remuneration or benefits in 2018 for services rendered personally, in particular consulting and agency services. They were not granted any loans or advances, nor were any contingent liabilities entered into in favor of Supervisory Board members.

D&O Insurance

The company has taken out directors' and officers' insurance covering legal liability in relation to the activities of the Executive Board, the Supervisory Board and managerial employees. A deductible has been agreed in the D&O insurance policy for the Executive Board and Supervisory Board.

Declaration on corporate governance in accordance with Section 315d and Section 289f of the German Commercial Code

CANCOM has published a corporate governance declaration that can be publicly accessed on the company's website, in accordance with Sections 315d and 289f of the German Commercial Code.

Non-financial declaration in accordance with Sections 315c and 289c of the German Commercial Code

CANCOM publishes a non-financial declaration inspected by the Supervisory Board in accordance with Sections 315c and 289c of the German Commercial Code as a separate, combined non-financial report for the CANCOM Group and CANCOM SE on the company's website at www.cancom.de/reports within four months of the balance sheet date.

Report on risks and opportunities

As an international operator in a fast-moving industry, CANCOM faces many risks and opportunities that can have a considerable impact on business performance and thus also its financial and asset position and results. There are always certain risks associated with business opportunities. The aim of the CANCOM Group is therefore to achieve a sustained increase in the value of the enterprise in the interests of its shareholders by means of an optimum balance between the risks and opportunities.

Risk and opportunity management

One of the basic principles of responsible business management based on the maximization of shareholder value is that management should exploit business opportunities while at the same time anticipating and controlling the associated risks.

CANCOM's management closely monitors and assesses market trends and the competitive situation, using the information it finds to identify potential opportunities for the relevant operating segments and to set appropriate targets and measures in annual planning meetings with the Executive Board and operational management.

Continuous risk management, on the other hand, ensures efficient monitoring and early detection of risks and is thus also an integral part of the CANCOM Group's strategic and business development as well as its internal monitoring and control systems. CANCOM's risk management system is aimed at the early identification of risks that pose a threat to the company as a going concern, as well as substantial business risks, and dealing with them in a responsible way.

Risk management system

Internal control and risk management system with regard to the (Group) accounting process

The internal control and risk management system in place at CANCOM with regard to the (Group) financial reporting process comprises guidelines, procedures and measures designed to ensure that the financial reporting system complies with the relevant laws and standards. The main features of the system are as follows:

- In addition to a schedule of responsibilities, CANCOM has a clear management and corporate structure. Cross-departmental key functions are controlled centrally by CANCOM SE.
- The functions of the areas with the greatest involvement in the financial reporting process are clearly separated. The areas of responsibility are clearly assigned.
- Integrity and accountability in relation to finance and financial reporting are ensured by a commitment to this effect in the company's internal code of conduct.
- CANCOM analyses new laws, accounting standards and other announcements, as failure to comply with them would pose a significant risk to the correctness of the Groups' accounting principles.
- Appropriate IT facilities are used to protect CANCOM's financial systems against unauthorized access. As far as possible, standard software is used for the financial systems.
- The consolidation is performed in the central consolidation department, using the same consolidation software for all companies in the Group.
- The annual financial statements included in the consolidated financial statements are prepared in accordance with accounting policies that apply throughout the Group.
- An integrated corporate governance approach is used, in which all elements – risk management, compliance management, internal audit and the internal control system (ICS) – influence each other. These elements are regularly reviewed to ensure their effectiveness.
- An adequate system of guidelines (for instance payment and travel expense guidelines, etc.) has been set up and is continuously updated. The material assets of all companies are regularly tested for impairment and there are guidelines for monitoring all accounting-related transactions.
- All payment-related processes are subject to cross-checking.
- Accounting-related processes are reviewed by the internal audit department (which is independent of these processes).
- Both the risk management system and the internal control system (ICS) contain adequate measures for controlling accounting-related processes.
- The departments and divisions involved in the accounting process are equipped with appropriate resources, in terms of both quantity and quality.
- Accounting data received or passed on is continuously checked to ensure it is complete and accurate. This is done by random sampling, among other methods. There is a three-stage system for checking that financial statements are correct. First, single-entity financial statements are prepared by the financial accounting department. In a second control stage Group accounts are prepared and consolidated figures produced, and in the third stage a review is carried out by managerial staff in the finance department.

The internal control and risk management system with regard to the (Group) accounting process is intended to ensure that business transactions are always correctly recorded, processed and recognized in accounting, and included in the financial statements.

A proper, consistent and continuous accounting process depends on suitable staffing, the use of appropriate software, and defined legal and corporate guidelines. Clear demarcation of responsibilities and various control and verification mechanisms, as described above (especially the authorization policy, sanity and plausibility checks and cross-checking principle), ensure correct and responsible accounting.

In particular, organizational support is provided in such a way that business transactions are recorded, processed and documented in accordance with the statutory provisions, the corporate by-laws and the internal guidelines, and entered promptly and correctly in the accounts. At the same time, this process ensures that assets and liabilities in the single-entity annual and consolidated financial statements are correctly recognized, reported and valued and that comprehensive, reliable and relevant information is made available quickly.

Risk identification, analysis and documentation

In order to define a risk control system and ensure that it is adequate, the Executive Board has formulated risk principles and appointed a central risk officer who monitors and assesses any risks on a regular basis. The primary objectives of risk management include the timely identification of material risks that could jeopardize the company's future as a going concern, and the initiation of appropriate measures as part of the risk management process in order to minimize or avert any loss caused to the enterprise if a risk materializes.

CANCOM has drawn up a risk manual to document organizational rules and measures for risk identification, analysis, evaluation, quantification, management and control. The manual describes the appropriate way of handling corporate risks at CANCOM.

CANCOM's risk assessment process begins by grouping the identified risks into thematic clusters, which are then evaluated to determine the probability that they will materialize, and the potential loss. All the risks identified in this way become the responsibility of a special appointee. Where the risks can be meaningfully controlled by means of quantifiable variables, they are measured with the aid of defined key figures. If there are no precisely definable measures available for risks, these are assessed by the special appointee.

There are three categories used in estimating the probability that a risk will materialize: low, medium and high. The potential loss is also assessed on the basis of these categories. A risk matrix is used to arrange the individual risks and assign them to different risk classes on the basis of the above dimensions. The following tables explain the individual dimensions and the resulting risk matrix.

PROBABILITY OF OCCURRENCE

Probability of occurrence	Definition
Low	Probability < 33%
Medium	Probability 34% to 66%
High	Probability > 66%

POTENTIAL LOSS

Potential loss	Definition
Low	Minor adverse impact on the earnings, asset and financial position (EUR 0 to EUR 1.0 million)
Medium	Significant adverse impact on the earnings, asset and financial position (EUR 1.0 to EUR 5.0 million)
High	Major adverse impact on the earnings, asset and financial position (over EUR 5.0 million)

RISK MATRIX

Probability of occurrence	Potential loss		
	Low	Medium	High
High	Moderate risk	High risk	High risk
Medium	Low risk	Moderate risk	High risk
Low	Low risk	Low risk	Moderate risk

As part of its risk management system, CANCOM has defined early warning indicators for risks that pose a threat to its future as a going concern. Changes or trends in these indicators are continuously monitored and discussed in risk management meetings. Regular risk management meetings between the Executive Board and risk officers ensure ongoing and timely control of existing and future risks. They also guarantee that the Executive Board and Supervisory Board are informed of any material risks at an early stage.

Risks of future development

The following paragraphs give an overview of the risks classified as material, and possible future developments or events that could have a negative impact on the CANCOM Group. It is not possible to rule out the existence of risks that are not yet known or that are currently considered to be insignificant, which could have a negative impact on future business activities. In principle, all of the risk factors listed below apply equally to both operating segments (Cloud Solutions and IT Solutions). If one of the two segments is particularly affected by one of the risks mentioned above, this will be indicated accordingly below.

Industry and market-related risks

The CANCOM Group's order situation is influenced by the economic and (geo)political situation.

As a provider of integrated information and communications technology (ICT) solutions, CANCOM is dependent on the demand for hardware, software and IT solutions. The size of clients' IT budgets depends on both the financial situation of the companies and the general economic conditions and increasingly the general (geo)political conditions. If budgets for IT expenditure are reduced or the funds are used for other purposes, this can result in companies becoming less willing to invest in IT and orders being postponed or cancelled. A significant deterioration in the economic situation could therefore have a serious impact on the CANCOM Group's business prospects. One of these (geo)political risks with a potentially significant impact on the economic situation, and consequently on the performance of the CANCOM Group (especially in the newly acquired subsidiaries in the United Kingdom) is the imminent withdrawal of the United Kingdom from the European Union (Brexit).

The IT market is characterized by intense competition. Increasing competition could lead to a reduction in sales revenues, lower margins and/or a loss of market share for the CANCOM Group.

The market in which the CANCOM Group operates is characterized by strong competition and rapid change. Insufficient knowledge of the market and the competition could result in wrong decisions – or a failure to make decisions – with regard to both the marketing mix and how to approach the market approach, and CANCOM's strategic and tactical product and pricing policy. This could have a negative impact on the Group's sales performance and result in perseverance in already saturated markets, as well as risky investments in new business areas where market success is not certain. This risk is averted by regular analysis of research information and meetings with clients, experts and IT analysts, as well as continuous reviews of market attractiveness, technological developments, the competitive situation and sales growth.

The CANCOM Group is in competition with both large and medium-sized providers of integrated systems. International integrated systems providers are increasingly trying to gain a market share in the business segments and client groups that the CANCOM Group caters for. In addition, the process of concentration in the market has accelerated in recent years as a result of takeovers and insolvencies of integrated systems providers of various sizes. If this process continues, the current pricing and competitive pressure could intensify further. It is also possible that new competitors will enter the market or that new alliances could be formed between competitors, which could quickly gain significant market shares. In the market for cloud computing in particular, hyperscale cloud providers such as Google and Amazon that offer public cloud services are experiencing rapid growth. This could lead to future business and related corporate expenditure and investments shifting to hyperscale cloud providers. Although only a few of CANCOM's current and potential competitors have better resources (in terms of finance, technology, marketing, purchasing, etc.) at their disposal, we cannot rule out the possibility that competitors may nevertheless be able to respond more quickly to new or evolving technologies or standards or changes in client requirements, or to supply competitive products at a lower retail price. Increased competition could lead to price reductions, lower margins and loss of market share. CANCOM sets itself apart from the competition by providing an integrated portfolio of products and services that is carefully tailored to its target groups.

In order to counter industry- and market-related risks, CANCOM continuously adapts its organizational structure, its processes and its portfolio of products and solutions to current market conditions and client requirements. One of the main focuses and a major challenge is the expansion of business areas with particularly high growth potential (cloud computing, shared managed services, etc.). Unlike projects that only involve the integrated systems business, contracts for projects in these new business segments generally run for several years, which reduces CANCOM's dependence on short-term economic trends. In addition, CANCOM frequently conducts detailed analyses of the market and technologies so that it can identify new trends at an early stage and thus ensure its long-term competitiveness.

We cannot rule out the possibility that one or more of the individual industry and market risks described could materialize. CANCOM estimates the probability of occurrence as high. Depending on the individual case, there could be a major adverse impact on business activities and on CANCOM's asset and earnings position. These risks are therefore classified as high. There is no change in this classification in comparison with 2017.

There are risks from direct sales by manufacturers.

The CANCOM Group is increasingly in direct competition with hardware and software manufacturers. Whereas in the past manufacturers have predominantly sold their products through intermediaries such as CANCOM, there is an increasing tendency for manufacturers in the industry to sell their services directly to end clients. This results in additional price and competitive pressure for the CANCOM Group. If manufacturers succeed in establishing their direct sales operations more firmly, this could have a major negative impact on the CANCOM Group's asset, financial and earnings position.
CANCOM feels its flexibility and service quality give it a distinct competitive advantage in its core target market - (high-end) medium-sized enterprises - and it is working to boost its competitive edge through appropriate measures.

We cannot rule out the possibility that this risk may materialize. CANCOM estimates the probability of occurrence of this risk to be medium. Depending on the individual case, it could have a moderate negative impact on CANCOM's business activities and its asset and earnings position. CANCOM therefore classifies this risk as moderate. There is no change in this classification in comparison with 2017.

Product and technology risks

There is a risk that the CANCOM Group's solutions and services may not meet the changing requirements of its clients or comply with the latest regulatory requirements, due to technological and digital changes and new trends.

The IT industry is subject to rapid technological change. In particular, the market is shaped by the rapid development of technologies, frequent introductions of improved or new technological solutions and services, and constantly changing client requirements and regulatory changes, for instance in data protection. In some cases, the CANCOM Group develops its own technology solutions as part of its business activities. Some of these solutions are based on standard systems which the CANCOM Group customizes for use with client applications, while others are developed fully in-house.

The CANCOM Group's success therefore depends crucially on anticipating well in advance any new trends and developments, such as in cloud computing or data protection. It has to constantly adapt and improve existing solutions and services and develop new solutions to keep pace with changing technologies, regulations and client requirements. Any delay in introducing improved or new solutions or services into the product range, or failure to take them into account, or any lack of acceptance or delayed acceptance of these solutions and services on the market, may have a major adverse effect on the CANCOM Group's competitive position and business prospects.

There is a risk that CANCOM's own digital transformation may progress too slowly or even fail. Digital transformation requires digital skills. These include new methods, processes and staff to take an active role in the transition, put it into practice, determine the correct actions to be taken and translate them into innovations. Disruptive technologies, products or services change the competitive landscape quickly and with lasting effect. However, they rarely occur overnight or with a big bang, but usually develop over a longer period of time in the shadow of existing products or services. CANCOM's success in this area also depends crucially on anticipating new trends and developments in good time, carefully observing the environment in which it operates and encouraging the development of innovative new solutions and services and the enhancement of existing ones in all business areas. To this end, CANCOM promotes a creative and open corporate culture, lean structures and agile processes.

Technological innovations might not be introduced onto the market in time.

Companies in the IT industry are under strong pressure to innovate, and development cycles are becoming ever shorter. At the same time, IT solutions and systems are becoming increasingly complex. The CANCOM Group's innovativeness and its ability to identify technological trends early and turn them into products and solutions are key factors differentiating it from other integrated systems providers. In addition to in-house developments, the CANCOM Group also draws on solutions from external providers.

If the CANCOM Group does not succeed in identifying technological trends at an early stage and introducing new products onto the market at the right time, this could have a major adverse effect on the CANCOM Group's competitive position and business prospects.

In order to minimize this risk, CANCOM maintains strong relationships with all major manufacturers and many well-known IT experts. This ensures that CANCOM is always up to date with the latest developments in the market at an early stage.

We cannot rule out the possibility that one or more of these individual product and technology risks might materialize. CANCOM estimates the probability of occurrence as medium. Depending on the individual case, there could be a major negative impact on business activities and on the asset and earnings position. CANCOM therefore classifies these risks as high. There is no change in this classification in comparison with 2017.

CANCOM Group companies are exposed to product liability and warranty risks.

The CANCOM Group procures its products, particularly hardware and software, from manufacturers or dealers and is dependent on the products being of high quality and meeting the relevant specifications and quality standards. In the event of defects arising during the warranty period, the CANCOM Group can generally be compensated by its suppliers. However, due to delays between purchasing the merchandise from suppliers and reselling it to clients, there may be warranty claims from clients against the CANCOM Group for which the CANCOM Group itself cannot claim compensation from its suppliers, so that it then bears the warranty risk.

The CANCOM Group provides IT solutions for complex installation, system integration, software, operational management and outsourcing projects. The complexity of the IT solutions and the level of integration into the client's systems may result in technical risks that could have a significant negative impact on the client's business processes. With the AHP Enterprise Cloud platform developed by CANCOM, there is a risk that the client may be unable to use the cloud, or unable to use it properly, due to malfunctions, faulty configurations or in connection with updates. In the hosting services business, outages or errors in data centers could also lead to restrictions or even interruptions in the client's operations. Since the CANCOM Group sometimes leases space in external computer centers, such a risk could also materialize without this being attributable to any fault on the part of the CANCOM Group. There is also a risk of business interruptions, both within the CANCOM Group and at suppliers or clients, as a result of environmental or natural disasters or similar events. Management risks may also arise from a failure to identify interruptions in time, or from monitoring errors or from breaches of obligations under service level agreements with clients, in which commitments are made to remedy faults without delay. This may result in CANCOM being exposed to warranty and damage claims, or even the loss of contracts.

CANCOM takes extensive precautions to minimize these risks, for instance by safeguarding the operation and provision of cloud services. This includes the use of redundant data centers that are protected against damage caused by natural disasters. The probability of being unable to provide business-critical applications is significantly reduced by, for instance, a modular procedure based on the on-demand principle. PIRONET's data centers also have an information security management system certified in accordance with the stringent international ISO 27001 standard, including comprehensive, tried and tested contingency plans. In addition, CANCOM is seeking to add limitation of liability clauses, as commonly used in the industry, to the contracts for the service and project business affected by this.

We cannot rule out the possibility that one or more of these risks might materialize. CANCOM estimates the probability of occurrence as high.

Depending on the individual case, the risks could have major negative impact on business activities and on the asset and earnings position. CANCOM therefore classifies these risks as high. There is no change in this classification in comparison with 2017.

Project and business risks

CANCOM Group projects may be delayed, terminated or for other reasons not be as successful as expected, leading to the full or partial loss of investments made.

The CANCOM Group carries out IT projects in which IT solutions tailored to a client's needs are planned and implemented. IT projects are frequently highly complex and involve considerable amounts of time and expenditure. This may give rise to both technical risks in connection with the implementation of the project and contract risks. We cannot rule out the possibility that the implementation of projects may be delayed, abandoned or for other reasons not be as successful as had been hoped.

It is often not possible to arrange down payments in such projects. The CANCOM Group's services can therefore generally only be invoiced after completion of certain project stages that have been agreed in advance, or when the entire project is complete. For this reason the CANCOM Group sometimes has to perform a considerable amount of work on the implementation of a project in advance of payment. Project delays or cancellations may result in the partial or total loss of investments already made, or services already rendered not being invoiced. If clients refuse to accept the results of a project, whether on justified or unjustified grounds, this may lead to expected payments being delayed or not received at all.

If IT projects are calculated on the basis of fixed prices, there is a risk that, due to incorrect assumptions or the occurrence of unforeseen events, the actual costs and time required may exceed the budget and that the client may not accept the adjusted price.

In the cloud computing area, there is also a significant risk that various agreed project services cannot be provided, resulting in various types of outage for the client. This might entail considerable costs in time and money, possibly resulting in contract penalties or the termination or impairment of client relationships.

Before projects are quoted for, CANCOM generally conducts a review of their technical and financial feasibility. The purpose of this is to ensure the best possible solution for the client, but also to take adequate account of project risks. An internal review of possible contract risks is also carried out. Wherever possible, standardized contracts are used. These are controlled by the project management during implementation of the project. Projects include a risk management procedure, which is integrated into CANCOM's project management system and serves to safeguard the implementation of the project by means of coordinated risk and quality management programs. CANCOM applies various measures and procedures, such as the use of redundant data centers, to ensure the agreed services can be provided.

We cannot rule out the possibility that one or more of the individually listed project risks may materialize. CANCOM estimates the probability of occurrence as high. Depending on the individual case, there may be a major negative impact on business activities and the asset and earnings position. CANCOM therefore classifies the project-related risks as high. There is no change in this classification in comparison with 2017.

There are risks associated with operating as a subcontractor.

CANCOM Group companies are frequently used as subcontractors in major projects.

These companies are commissioned by a general contractor to provide specific services as part of an overall IT project. The CANCOM Group is dependent on being awarded subcontracts by these general contractors, and there may be postponements and reductions in the volume of contracts. CANCOM tries to minimize this risk by steadily expanding its client base while cultivating strong relationships with existing clients.

We cannot rule out the possibility that this risk might materialize. CANCOM estimates the probability of occurrence as high. Depending on the individual case, the risks could have a major negative impact on business activities and on the asset and earnings position. CANCOM therefore classifies this risk as high. There is no change in this classification in comparison with 2017. This risk factor is particularly relevant for the IT Solutions segment.

There are risks from dependence on major clients.

Thanks to its good market position, CANCOM has an extremely broad client base. However, in principle there is a risk of dependence on individual major clients in some areas. A considerable reduction in orders from a major client, or the loss of a major client, could have a significant negative impact on the CANCOM Group's business prospects, unless the loss can be offset by the acquisition of a new client of comparable size or additional projects for existing clients.

To limit this risk, CANCOM is continuously working to expand and further diversify its client base. In addition, the activities of major clients in all areas - from incoming orders to receivables management - are continuously monitored.

We cannot rule out the possibility that this risk might materialize. CANCOM estimates the probability of occurrence as medium. Depending on the individual case, these risks could have a moderately adverse impact on business activities and on the asset and earnings position. CANCOM therefore classifies this risk as moderate. The classification of this risk has changed from high to moderate in comparison with the previous year.

Financial risks

There are financing, liquidity and credit risks.

The CANCOM Group uses both borrowed and equity capital to finance its business activities. A deterioration in a company's cash situation can entail significant risks and jeopardize its future as a going concern.

As of the balance sheet date, CANCOM had a liquidity position of EUR 135.3 million credit facilities with banks amounting to EUR 40.5 million (including guarantees), of which EUR 33.8 million was easily available as of December 31, 2018. CANCOM continuously monitors changes in the credit facilities and the extent to which they have been used up. In addition to the medium-term financial plan, the Group also prepares monthly cash flow plans. The planning systems cover all the companies in the Group. A good credit rating is necessary for obtaining borrowed capital, especially from banks, and thus also for the long-term existence of the company. A significant deterioration in the Group's credit rating therefore represents a significant risk for the continued existence of the company. Since the equity ratio (calculated by the method used by banks) is a key factor in the granting of loans by banks, changes in this figure are regularly monitored so that any necessary countermeasures can be initiated in good time.

The CANCOM Group's financial standing is sound, its equity base is good and its cash situation is comfortable. The company does not currently believe that there are any identifiable financing risks or other risks that could jeopardize the company's future as a going concern.

There are risks from exchange rate and interest rate fluctuations.

The international business activities of the CANCOM Group generate cash flows in different currencies. However, the majority of business is conducted in the euro zone, and the exchange rate risk is therefore limited. Nevertheless, a significant fall in the value of the euro against other currencies could lead to exchange rate losses. This foreign exchange risk increased as a result of the company acquisitions in the United Kingdom in the 2018 fiscal year, as the CANCOM Group now conducts a higher volume of business in the U.K. currency. The imminent withdrawal of the United Kingdom from the European Union (Brexit) could also lead to major changes in the exchange rate.

Financial derivative instruments are used to secure sound underlying transactions such as currency hedges. Any transactions conducted in different currencies are hedged on a daily basis; in principal there are underlying transactions that are secured by hedging. Hedge accounting was not applied to economic hedging activities in the year under review. Hedging transactions may only be carried out by specific individuals, and only within specific orders of magnitude subject to approval. Transactions exceeding this limit must be approved by the Chief Financial Officer or the Executive Board. Treasury activities aimed at optimizing purchasing conditions could have a negative impact and worsen purchasing conditions in the event of an unfavorable hedging transaction. CANCOM's cash pooling within the Group continues to reduce the volume of financing through borrowed capital and thus optimize the CANCOM Group's interest management, with a positive impact on net interest income. A system of intra-group investment and borrowing facilitates the use within the cash management system of any cash surpluses of individual Group companies to finance the cash requirements of other companies within the Group. Apart from overdraft facilities, CANCOM only has fixed-interest loans or loans subject to a quantifiable change in interest rates based on the company's results.

There are financial market and stock market price risks.

CANCOM SE's main objective is the acquisition, holding and disposal of equity investments in companies as well as activities related to raising capital. Trading in financial derivative instruments and structured products is not a core business of the company and is used - if at all - only as a way of safeguarding sound underlying transactions, such as currency hedging for merchandise and services transactions.

CANCOM holds international long-term equity investments that are accounted for in currencies other than the euro and/or financed by non-euro currency loans. Changes in exchange rates may have a negative impact on the value of investments and/or loans. The imminent Brexit could have a negative impact, particularly on long-term equity investments in the United Kingdom.

Fluctuations in the price of CANCOM SE's own shares could have a negative impact on the company's financial position, particularly with regard to raising capital on the capital market. CANCOM therefore regards active financial communication as one of its central management tasks and attaches great importance to openness and transparency. In addition to maintaining a comprehensive Internet presence, one of the key areas of CANCOM's investor relations work is in keeping in contact with shareholders, investors, analysts and the business and trade media in the interests of maintaining the stock price. However, external factors, such as uncertainty in the economy overall or on the capital market with consequent price fluctuations, cannot be ruled out.

We cannot rule out the possibility that one or more of these risks might materialize. CANCOM estimates the probability of occurrence as low.

Depending on the individual case, there may be minor negative effects on business activities and on the asset and earnings position. CANCOM therefore classifies these risks as low. The classification of these risks has changed compared to the previous year.

There are default risks.

Default on payment by clients can constitute a risk. In order to counter this risk, CANCOM operates a rigorous receivables management system. There are internal guidelines for the granting of credit limits, with regard to both the absolute limit amounts and the persons entitled to approve them. As a rule, deliveries are not made to clients until a credit check has been carried out. There is also the risk of default on long-term loans or financial receivables.

We cannot rule out the possibility that one or more of these individual risks might materialize. CANCOM estimates the probability of occurrence as low. Depending on the individual case, there may be a minor negative impact on business activities and on the asset and earnings position. CANCOM therefore classifies these risks as low. The classification of these risks has changed compared to the previous year.

Human resources risks

The CANCOM Group's success depends on its ability to develop, recruit and retain sufficiently qualified key staff, and to retain know-how within the company.

Larger projects in the service segment give rise to an increase in risks from the deployment of staff. The loss of large projects can lead to increased staff costs, since often staff cannot be usefully deployed in other projects or there is a delay in adjusting staffing. CANCOM counters the risk of staff turnover and stagnating staff development within the Group by promoting a culture of open communication and free access to information. There are also appropriate measures for staff motivation and development. The latter are an important cornerstone of corporate and human resources policy, aimed at reinforcing staff loyalty and specifically increasing technical expertise and know-how within the company.

The loss of key staff in the company, whose knowledge and experience are crucial to CANCOM's success, at least in the short term, constitutes a further risk. The CANCOM Group's development staff are among those with expert knowledge. If these employees leave the company and possibly switch to competitors, there is a risk of losing not only their expertise, but the rights to software developed by the CANCOM Group.

Continuous monitoring of the performance of the individual employees makes it possible to identify at any time the top performers and pay particular attention to them. CANCOM also uses a wide variety of measures to retain its employees in the long term. In addition, there are appropriate rules on deputizing, particularly in sensitive and knowledge-intensive areas, to compensate as far as possible for the unexpected loss of a staff member, at least in the short term. Irrespective of this, there is a risk that the shortage of skilled staff will make recruitment more difficult in the future or that staff might not have the skills required for CANCOM's own digital transformation.

One of the ways in which CANCOM counteracts this is by taking appropriate measures to boost its image as an employer and by offering various training and further education schemes for employees. CANCOM also offers employees a high degree of flexibility by providing them with a digital workplace, enabling easy and secure access to company data and applications at any time, in any place and on any terminal, thus promoting its image as an attractive employer for the digital generation. Despite the risks described above, CANCOM believes its current market position and the measures it has put in place will enable it to continue hiring and retaining qualified specialist staff with the potential to increase CANCOM's business success.

Since CANCOM is a service provider, its employees are major assets, but they are also the largest expense item. In the event of a possible decline in business volume, there would be a time lag before the company could respond by adjusting its human resources structures to the reduced demand. In addition, CANCOM - and thus also the company's core staff - is moving further towards the provision of higher-value services and more added value for clients. If existing or new clients cannot be convinced of the added value of these services, there is a risk that they will be less willing to pay for them than expected by CANCOM.

We cannot rule out the possibility that one or more of these risks may materialize. CANCOM estimates the probability of occurrence as medium. Depending on the individual case, there may be major negative effects on CANCOM's business activities and its asset and earnings position. CANCOM therefore classifies these risks as high. There is no change in this classification in comparison with the previous year.

There are risks due to legal changes in relation to the German Temporary Employment Act (Arbeitnehmerüberlassungsgesetz, AÜG) and in connection with the conclusion of works contracts for the provision of services.

The CANCOM Group has a license to provide temporary staff and uses it to hire out employees to clients as part of IT projects, if required. In the event of significant changes to the current regulatory framework, especially the laws on temporary employment, this could have a negative impact on the CANCOM Group's asset, financial and earnings position.

In addition, risks may arise in connection with the use of contracts for work and services for clients and subcontractors if the services to be rendered are based on the requirements of specific clients and are listed in a schedule of services. In the event of a labor court dispute, the court could take the view that the person providing the service should be designated as an a member of staff, and is part of the client's operations. If a contract is designated as a (temporary) employment contract, there is a risk that, in addition to being required to make payments in arrears for differences in remuneration and social security contributions, fines may be imposed on the company.

We cannot rule out the possibility that one or both of these risks might materialize. CANCOM currently considers the probability of occurrence to be low. Depending on the individual case, these risks could have a moderate negative impact on business activities and on the asset and earnings position. CANCOM therefore classifies this risk as low. There is no change in this classification in comparison with the previous year.

Information risks

The CANCOM Group may not be in a position to protect its developments and expertise or maintain their secrecy.

In CANCOM's opinion, the expertise built up within the scope of the CANCOM Group's business activities, particularly in the in-house development of innovative solutions, represents a significant competitive advantage. The competitiveness of the CANCOM Group depends particularly on the safeguarding of its technological innovations and related expertise. Any partial or full disclosure of this expertise to third parties could lead to the erosion of CANCOM's competitive edge and thus a reduction in CANCOM's sales and earnings potential.

CANCOM has taken various organizational precautions to protect confidential information. These range from implementing technical security measures for internal and external communication, to raising staff awareness of the issue through internal trainings.

We cannot rule out the possibility that this risk might materialize. CANCOM estimates the probability of occurrence as medium. Depending on the individual case, this risk could have a moderate negative impact on business activities and on the asset and earnings position. CANCOM therefore classifies this risk as moderate. There is no change in this classification in comparison with the previous year. This risk factor relates primarily to the Cloud Solutions segment.

Operational risks

The CANCOM Group is dependent on suppliers.

CANCOM relies on manufacturers and distributors for its supply of hardware and software. Unexpected supply bottlenecks or price increases, for example as a result of market bottlenecks or reduced supplier bonuses, can have a negative impact on sales and earnings, as the inventories in the logistics centers are geared towards the short term for optimization reasons. CANCOM attempts to reduce these risks by maintaining close contacts with key manufacturers and distributors and through long-term supply contracts. In particular, our wide range of manufacturers and distributors allows us to opt for alternative manufacturers or sources of supply relatively quickly.

There are warehousing risks.

The CANCOM Group's stocks of merchandise are based on sales forecasts as well as the expected quantities required for promotions and to fill call-off orders. The risk of break-in, theft, and loss is relatively high, especially for computer and PC merchandise and small electronic products. There is therefore a risk that uninsured damage or losses may occur. In addition, due to sometimes sudden, sharp fluctuations in the prices of products, there is the risk that merchandise can only be sold at a lower price, if at all, or that the quantities requested for call-off orders are lower than agreed. This would result in inventories having to be written down, with possible negative consequences for the CANCOM Group's asset, financial and earnings position.

CANCOM works continuously to optimize the procurement process in order to reduce the warehousing risk. By working closely with manufacturers and distributors, CANCOM always endeavors both to keep inventories and warehousing costs as low as possible and to avoid short-term supply bottlenecks.

We cannot rule out the possibility that one or more of the individual operating risks could materialize. CANCOM estimates the probability of occurrence as low. Depending on the individual case, these risks could have a moderately negative impact on business activities and on CANCOM's asset and earnings position. CANCOM therefore classifies these risks as low. There is no change in this classification in comparison with the previous year.

Internal risks

The CANCOM Group's value chain covers all steps in its business activities, from marketing, consulting, sales and logistics to training and maintenance. Disruptions within or between these areas could lead to problems or even bring work processes in one or more areas to a temporary standstill.

In addition, there is a risk of problems with quality, particularly in the IT and Cloud Solutions segments, where consulting is a major element of the services offered. In addition, the rapid growth of the enterprise entails the risk that it will not be possible to adapt its administrative structures, as well as its organizational and operational processes, at the same pace and that the control of the Group as a whole will suffer as a result.

In addition, tax audits can lead to differing legal opinions on tax-relevant data, potentially entailing subsequent tax claims and levies.

We cannot rule out the possibility that one or more of these risks might materialize. CANCOM estimates the probability of occurrence as medium. Depending on the individual case, these risks could result in a moderate negative impact on business activities and on the asset and earnings position. CANCOM therefore classifies this risk as moderate. There is no change in this classification in comparison with the previous year.

Risks in connection with the introduction of the SAP enterprise resource planning (ERP) system

The CANCOM Group is planning to implement the SAP ERP system throughout the Group . The introduction could be delayed if any of the various project tasks are not fulfilled or deadlines are not met. This could have a lasting and, in some cases, major negative impact on the CANCOM Group's business activities and competitiveness. If the implementation is delayed, the CANCOM Group could incur additional expenses, for example for external consulting.

However, a delayed introduction is not the only risk for the Group. In addition, if the introduction of the ERP system is unsuccessful or there are errors in its implementation, culminating in a complete failure of the system, this could impair, for instance, the availability of the web shop or client connections and the entire e-commerce process chain. Operational activities could also be hampered or not possible at all. This could have a detrimental impact on the handling of client projects and orders, such as deliveries and invoicing. Technology downtimes could also have a serious impact on internal processes such as the recording of time worked, invoicing and accounting, with severe consequences.

To minimize this risk, CANCOM uses various measures such as experienced staff, project managers for the successful implementation of internal projects, and tried-and-tested administration and controlling systems to ensure the highest possible degree of control. Project owners are responsible for the projects, and project goals and sub-goals are clearly defined in the form of milestones. The project owner supervises the individual steps and drives the rapid implementation of the SAP system.

A training concept is developed, and there is a test phase to reduce additional risks. Regardless what measures are taken, it must be noted that switching to a new ERP system is a significant step for any company, the effects an consequences of which cannot be conclusively assessed. For this reason, all those responsible are made fully aware of the implications and potential risk of introducing the new system. Despite all these measures, operational disruptions could follow the changeover. CANCOM will deal with any such incidents in the best possible way.

We cannot rule out the possibility that one or more of these risks might materialize. CANCOM estimates the probability of occurrence as high. Depending on the individual case, the risks could have a moderate negative impact on CANCOM's business activities and its asset and earnings position. CANCOM therefore classifies this risk as high. Due to the complexity and scale of the changeover to SAP, we cannot rule out the possibility of increased expenses, with a resulting impact on the Group's profitability.

The CANCOM Group's business activities could be affected by operational malfunctions, including IT system failures, which could be detrimental to its information technology.

Nowadays, the success and functioning capacity of companies depend to a large extent on their information technology equipment.

There are fundamental IT risks from the operation of computer-aided databases and from the use of systems for merchandise management, e-commerce, controlling and financial accounting. This also applies to the CANCOM Group and its internal IT systems. The temperamental nature of these IT systems means they are susceptible to partial or total failure. This or a delay in recovering the normal operation of the systems could, in extreme cases, bring processes to a standstill, thus jeopardizing the continued existence of the company. For instance, a malfunction of the IT systems that facilitate the processing of orders could pose a risk with regard to the availability of merchandise.

In particular, there has been a significant increase in cyber attacks in recent years. It cannot be guaranteed that the security measures taken will provide adequate protection; there is therefore a risk that the CANCOM Group may also become a victim of a cyber attack. This could result in damage to, or a complete failure of, CANCOM's internal IT systems. The monitoring of clients' systems could be impaired due to management tools not functioning properly, which in turn could lead to disruptions for clients, or even total failure of clients' systems.

The CANCOM Group offers its clients data center services, both at its own data centers and at leased data centers. There is a danger that it may no longer be in a position to provide the data center services or any related services. In addition, the possibility that a cyberattack could lead to client information and sensitive, protected data becoming public cannot be ruled out. In the event of the failure of one of the data centers, the stand-by systems in the second data center could ensure the continuation of operations. However, if both data centers were to fail at the same time, the CANCOM Group would not only suffer a considerable financial loss, but also a great deal of damage to its reputation.

CANCOM is aware of this risk. The company therefore makes strenuous efforts to minimize risk in order to ensure the availability of IT systems and data centers in the best possible way. For example, the data centers are equipped with advanced data center technology. In addition, failure scenarios are simulated as a precautionary measure, and protective mechanisms are checked and tested to ensure they are functioning. However, disruptions or failures of IT systems and computer centers could have a negative impact on business processes and on supplier and client relationships.

We cannot rule out the possibility that one or more of these risks could materialize. CANCOM estimates the probability of occurrence as medium. Depending on the individual case, the risks could have a major negative impact on the Group's business activities and its asset and earnings position. CANCOM therefore classifies these risks as high. There is no change in this classification in comparison with the previous year.

Legal risks

There is a risk that CANCOM might be accused of infringing third-party property rights.

The CANCOM Group is not aware of infringing any industrial property rights of third parties in connection with the products, solutions and services it offers. However, it cannot be ruled out that the CANCOM Group could infringe third-party industrial property rights in the course of its business operations, or that third parties may make claims against the CANCOM Group for infringement of industrial property rights, or that the CANCOM Group may be involved in legal disputes. This could result in the Group having to pay licensing fees. There is also a risk that it might not be possible for the Group to use its inventions commercially, or that there could be a delay in their commercial use. Successful claims arising from infringements of patents could mean that the CANCOM Group would be obliged to pay substantial damages.

Such legal disputes can also involve considerable costs in terms of time, staff and money. At the time this management report was prepared, there were no contingent liabilities from major legal disputes or relevant litigation risks. Even a claim by a third party that the CANCOM Group is infringing industrial property rights could lead to financial loss due to the crucial role of industrial property rights in the industry in which the CANCOM Group operates.

We cannot rule out the possibility that this risk might materialize. CANCOM estimates the probability of occurrence as medium. Depending on the individual case, the risk could have a moderately negative impact on CANCOM's business activities and its asset and earnings position. CANCOM therefore classifies this risk as moderate. There is no change in this classification in comparison with the previous year.

There are risks connected with the violation of national and international data protection regulations.

The use of data by the CANCOM Group, especially data concerning its clients, suppliers and staff, is subject to the provisions of the German Federal Data Protection Act (Bundesdatenschutzgesetz, BDSG) and similar international regulations such as the European Union's General Data Protection Regulation (GDPR). If third parties gain unauthorized access to the data processed by the CANCOM Group or kept by it as part of its storage solutions, or if the CANCOM Group itself violates data protection regulations, this could lead to claims for compensation and damage to the reputation of the CANCOM Group.

We cannot rule out the possibility that this risk might materialize. CANCOM estimates the probability of its occurrence as medium. Depending on the individual case, these risks could have a major adverse impact on CANCOM's business activities and its asset and earnings position. CANCOM therefore considers this risk to be high. There is no change in this classification in comparison with the previous year.

Merger and acquisition (M&A) risks

There is a risk of misjudgments with regard to both acquisitions already made and potential acquisitions of companies in the future, as well as the integration of these companies into the CANCOM Group.

Both in its long-term equity investments and in its acquisition of companies or parts of companies, CANCOM occasionally ventures into business fields that are new to it. The acquisition of companies and long-term equity investments presents a considerable risk. We cannot rule out the risk that these acquisitions and business fields might not perform as well as anticipated, or that risks might materialize that were not identified or that were wrongly assessed in the due diligence process. Additionally, key employees from the acquired companies could leave the relevant company as a result of the acquisition by the CANCOM Group. Consequently, owing to the loss of these key employees, it may not be possible to meet the targets expected to be met by the acquisition.

There is also a risk that clients of the acquired company might not place any orders or enter into any related contracts with the CANCOM Group and might switch to competitors. In addition, the organizational integration of further companies into the CANCOM Group can involve considerable expenditure in terms of both time and money. There is also a possibility that there may be difficulties in implementing the strategy on which the acquisition was based, and that the targets and anticipated synergy effects cannot be realized to the extent planned. If one or more of these risks materialize, this could result in the partial or entire loss of any money invested and, in certain circumstances, the necessity for assets to be written down in the balance sheet due to impairment.

From its experience of previous acquisitions and the expertise it has built up in the integration of companies into the Group, CANCOM can actively manage the potential risks associated with merger and acquisition processes. Its thorough knowledge of the market situation, built up over many years, is a great advantage in this respect. Also, the integration process is implemented by experienced integration managers, and there are checklists and documentation that allow the processes and risks to be properly recorded. We attempt to reduce the risk arising from acquisitions in new business fields by focusing on our core business.

We cannot rule out the possibility that one or more of the individual M&A risks described above might materialize. CANCOM estimates the probability of their occurrence as high. Depending on the individual case, these risks could have a moderately adverse impact on CANCOM's business activities and its asset and earnings position. CANCOM therefore considers this risk to be high. The classification of this risk has changed in comparison with the previous year.

The acquisition or disposal of companies or stakes in businesses could expose the CANCOM Group to various risks.

In the past few years, the CANCOM Group has acquired and disposed of some companies or stakes in companies. In M&A processes there is a risk connected with contract negotiations and contractual arrangements. There is also the risk that it could emerge later that certain guarantees and/or warranties and/or obligations entered into by the seller/buyer have not been met. If this only occurs after they have lapsed, and/or the seller/buyer cannot settle any claims for compensation that may arise, there could be resulting financial losses for the relevant CANCOM Group company. Any determination of purchase prices based on current or future profits could also prove unfavorable for CANCOM.

We cannot rule out the possibility that one or more of the individual M&A risks described above might materialize. CANCOM estimates the probability of their occurrence as high. Depending on the individual case, these risks could have a minor adverse impact on CANCOM's business activities and its asset and earnings position. CANCOM therefore considers this risk to be moderate. The classification of this risk has changed in comparison with the previous year.

Review of overall risk

There were some changes in the evaluation of the individual risks described in comparison with the previous year. However, on aggregate these changes do not represent any significant change in the overall risk situation of the CANCOM Group. Against the background of the overall risk situation, CANCOM SE's management does not currently consider the company's future as a going concern to be in any danger.

In view of CANCOM's position in the market, its committed staff, the flexible Group structure and its structured processes for early identification of risks, the Executive Board of CANCOM is confident that in 2019 we can continue to successfully meet the challenges arising from the risks described.

In addition to CANCOM's own bullish self-assessment, external assessments of its future performance are also positive. The LBBW rating for the fiscal year 2018 was unchanged at 1 (A-). UniCredit also continues to consider CANCOM to be 'sound investment grade' and gives it a rating of M9, equivalent to a rating of BBB.

Opportunities of future development

CANCOM's international business activities in various fields of the IT sector and in IT-related areas offer many opportunities. To identify them, the Group examines the market and competitive environment closely on a regular basis, naturally focusing on the latest trends in the sector, in technology, and in the economy as a whole.

Below is an overview of opportunities and potential future developments and events that could have a positive impact on the sales revenue and profit trend of the CANCOM Group.

General market trends

The transformation to a digital future is well underway. There are four common threads in all forecasts that will dominate company agendas in the coming years: speed, client proximity, innovation and agility. The focus is therefore no longer on optimization and cost reduction. According to IT analysts, budgets could also shift increasingly towards areas such as big data and analytics, the Internet of Things and client experience over the next few years.

There is increasing pressure to take action. Companies have to focus attention on technological changes in order to continue fulfilling the requirements of their clients and business partners, thus ensuring their future competitiveness. In the enterprise itself, the focus is on employees' changed needs with regard to their working environment and the internal organizational structures, processes and services. Information technology is spurring the industrialization of services in all sectors. In many areas, it is the most important driver of innovation. Given the great strategic importance of IT, it can be assumed that enterprises could implement planned digitalization projects even if the economic situation were to deteriorate.

At the same time, with the huge increase in the use of smartphones, tablets and mobile applications, people's work and personal lives have become more mobile. These developments have led to an increase in data volumes and user traffic, and have influenced IT to such an extent that IT organizations have to undergo a fundamental process of change. Traditional IT infrastructure now struggles to cope with the demand for the retention and particularly the use of increasing amounts of data, and also the challenges in terms of efficiency and scalability. Indeed, new technologies and platforms being implemented in established enterprises have to be integrated into existing IT landscapes, structures and processes that are shaped by tradition. Experts are of the opinion that, in the next few years, enterprises will increasingly be looking for service support for their digital transformation.

What is referred to as ‘the third platform’ – based on cloud, mobile, big data/analytics, and social media technologies – is now gaining momentum through other catalysts for innovation, such as the Internet of Things (IoT) and augmented and virtual reality (AR and VR). It has already entered its second phase, with its development beginning to accelerate again. An exponential increase in innovativeness is being fueled by platforms, open innovation ecosystems, massive data sharing and modernization, hyperagile deployment technologies for applications, and the growing number of people working on developing digital solutions. The development is also being driven by the improved confidence in the digital environment brought about by blockchain technology, the growing number of artificial intelligence (AI) services and solutions, the increasing complexity of human-machine interfaces, and the more diverse range of cloud services.

Trends

The subject of the digital transformation of German businesses and the associated technologies will continue to dominate the IT market in 2019. The success of companies’ digital transformation will depend on agile, flexible and scalable IT infrastructure.

Software-defined data center: IT as a Service (ITaaS)

Software-defined data centers, also known as ‘virtual data centers’, consist of fully virtualized IT infrastructure, which can be decoupled from specific physical hardware and managed automatically by software in a simple way. This IT infrastructure, consisting of servers, storage and networking equipment, can also be put together as desired (composable infrastructure). The abstraction of the different infrastructure components allows flexible resource pools to be allocated to workloads easily and automatically as required. This makes IT systems highly flexible and scalable, and considerably simplifies all processes. With this approach, it is possible to achieve a level of flexibility and speed in the local data center that is otherwise only possible with cloud computing (cloud-like speed). Software-defined data centers are a prerequisite for the provision of IT as a service (ITaaS) and on a pay-per-use basis. CANCOM has many years of experience and expertise in data centers, in relation to both IT infrastructure and IT services. This growth area could therefore present promising business opportunities for CANCOM.

Hybrid and multi-cloud environments: adoption/operation via managed services

Cloud computing will continue to be one of the strategic elements in companies’ digital transformation, and the technological basis for new high-tech trends. Even though the attitude of German companies towards cloud computing and its use has recently become significantly more positive, companies still plan to increase further their use of cloud solutions. A survey by the German digital association Bitkom in partnership with KPMG found that around two-thirds of companies use at least one such application. IT research and consulting company Crisp Research has also found that around 80 percent of small and medium sized German enterprises are working on this subject. The functional benefits and cost advantages of cloud services are so great that presumably both corporations and small and medium sized enterprises will quickly set aside their reservations about them. There is a growing demand for flexible cloud solutions in this area that allow companies to respond by making adjustments where necessary. Cloud introduction will also be driven by the need for IT mobility, in other words mobile access to a company’s internal IT resources, and the hot topics of the future - the Internet of Things (IoT) and big data and analytics.

Single-cloud architecture will be the exception in the companies of the future. International Data Corporation (IDC) forecasts that expenditure on cloud services and infrastructure will exceed USD 530 billion by 2021. More than 90 percent of enterprises worldwide will use multiple cloud services and platforms. Crisp Research also expects the majority of small and medium sized German enterprises to implement hybrid and multi-cloud architectures. In a hybrid cloud model, data and applications are provided by internal and external clouds (private and public clouds) as well as by on-premise services. They may be availed of by several providers, thus becoming increasingly complex. A high degree of integration expertise and experience is needed to create an efficient system out of the two environments. This presents opportunities for providers such as CANCOM in areas ranging from strategic planning, architecture and design, to the implementation and subsequent operation of the systems.

The use of services from a public cloud continues to increase rapidly. The way to the public cloud in enterprises is usually through hybrid or multi-cloud scenarios. This should benefit both private and hosted private cloud environments and the providers of these services, such as CANCOM.

Based on the potential for enterprises to have billions of clients around the world, digital applications are increasingly pushing into the traditional IT landscape and are growing at an accelerating rate. Access to innovations driven by the public cloud is created by managed service providers for public clouds, with the automated and intelligent orchestration of heterogeneous systems becoming a success factor. With its cloud services and hosting portfolio and its managed public cloud services, CANCOM could benefit from this.

With increasing complexity – and pressure to reduce costs and increase performance – agile, flexible IT supply models are popular. However, the wealth of opportunities and cloud services is overwhelming the user and driving the development of 'shadow' IT solutions. These are good reasons for enterprises to use a managed service provider such as CANCOM, which, with its certified staff, helps clients with onboarding and operation. But cloud-based solutions alone are not enough to make IT operations more agile and to meet business requirements more fully. Enterprises need a strategy for an IT as a Service (ITaaS) model that goes beyond the technical aspects. IT as a Service is a conceptual approach involving the provision of customized IT services. These can be supplied by company data centers or by service providers; they can be purchased from a cloud service provider or elsewhere.

CANCOM responds proactively to the developments of the market and is planning to expand its range of hybrid and multi-cloud environments. The demand for flexible, agile cloud solutions in all areas of companies could have a positive impact on CANCOM's solutions and services business overall. With CANCOM's knowledge of the complex connections that exist between IT structures, which in many companies have evolved over time, along with its many years of project experience, the wide range of IT solutions it provides in its own competence centers, and its extensive cloud solution portfolio, CANCOM is well placed to offer support for both the transition to and the operation of state-of-the-art IT environments.

Research company ISG (formerly Experton Group) has on several occasions awarded CANCOM the title of Cloud Leader in many categories, clearly demonstrating that CANCOM is in a good position to provide complete, integrated solutions to meet the wide-ranging needs of small, medium and large enterprises setting up cloud structures.

Companies are focusing more attention on the use of mobile devices and terminals and the impact on business processes. Without efficient integration into company IT systems, mobile devices such as smartphones and tablets, running on different operating systems and using diverse mobile applications, represent a cost driver without any real added value, and may even present a security risk. On the one hand, mobile access to company data increases flexibility and mobility as well as the productivity of staff and processes and thus of the company as a whole. On the other hand it also increases the demands on company IT departments in terms of implementation, management and security.

Digital workplace

Another IT concept of central importance for enterprises, in addition to cloud computing, mobility, big data and analytics, and security, is that of the digital workplace. Digital transformation is changing the working world. Work-life balance and the option of working in flat, interdisciplinary hierarchies are becoming increasingly important. Conventional office workplaces, on the other hand, are becoming less significant, as digital workplaces also include warehouses and forklift trucks. Modern enterprises also enable their staff to adopt flexible working models such as working from home.

In addition, modern working styles, as exemplified by many creative agencies, startups and even major corporations such as Google – with quiet areas, flexible individual workplaces, casual meeting areas for informal discussions and dedicated rooms for more formal meetings, along with IT-based communications solutions for phone/video conferences, informal discussions and collaboration solutions – mean that these facilities have to be incorporated into the overall digital workplace concept.

It is therefore becoming increasingly important for staff to have access to company data and applications at any time, anywhere and on any terminal or device. The reason for this is that the success of a company is more and more dependent on its staff being able to access data and documents quickly and flexibly from their laptops, smartphones or tablets when they are on the move or based at different locations. Users and the user experience have to become the focus of greater attention. With the increasing demands being placed on enterprises in terms of individual digital workplaces, there is greater potential for companies to increase productivity, reduce costs, contain the use of 'shadow'

IT and enhance their attractiveness as employers by means of a trendsetting workplace strategy. According to a study by IDC, workplace modernization will be one of the most important demands on IT in the next two years. The study also reveals that in relation to IT workplaces, companies have delayed investment over the past few years due to other pressing issues, and are now stepping up their investment plans.

In its independent ISG Provider Lens Germany 2019 study, entitled 'Digital Workplace of the Future,' the research company examined the capabilities of the providers of digital workplace solutions currently operating in Germany. CANCOM was categorized as a Leader in five of the eight categories in which the company was assessed, and in the other categories it was rated as a Product Challenger. The central element is the CANCOM AHP Enterprise Cloud, which provides a state-of-the-art, mobile and flexible IT workplace environment from the cloud. The CANCOM AHP Enterprise Cloud is a turnkey enterprise workplace architecture for all workplace scenarios. Further standard mobility, security and governance architectures developed in-house complete the integrated portfolio of the CANCOM Group, thus supporting our clients' individual digital workspace strategies. This could present business development opportunities for CANCOM.

Big data / analytics: artificial intelligence (AI) and automation

We are already able to receive information other than in text form, or audio and video format. Sensor and context-based data will become increasingly important in the future, resulting in an extensive supply of data and information from every direction and making the data environment ever more complex. For instance, big data can provide new social, economic and scientific knowledge, thus contributing to an improvement in living conditions in an increasingly complex world. Personalized cancer treatments based on swift systematic analysis of various medical data, and the use of superior, automated analytical methods to fight crime are just two examples.

Companies should be developing suitable strategies and technologies to enable them both to compile and process information from a whole variety of extensive data pools and complex data flows, and to gain valuable insights and ultimately a return for companies and clients from the data.

Rapid analysis of large quantities of structured and unstructured data from different sources is giving rise to new data-based business models and strategies. Business and IT drivers, particularly digitization and the Internet of Things, are advancing the use of big data and analytics, as all IoT and digitalization projects are based on data, or data analysis. This mainly involves identifying recurring patterns from an analysis of large quantities of data in order to be able to make predictions and even generate (automated) instructions (smart services). This enables the monitoring of, for example, machines, plant and production processes in order to proactively prevent production downtime. If, as is often said, data is the raw material – the 'oil' of digital transformation –, then analytical methods are the 'refinery', artificial intelligence is the 'gas' or the 'electricity' for the e-operations, and smart services are the 'automobile'. A highly developed ecosystem is therefore developing around big data and analytics, consisting of providers of cloud platforms, analytics applications and algorithms, i.e. providers of basic technologies. However, in order for end-user enterprises to be able to push-start new client services, product developments and business models with the aid of big data and analytics, they need IT partners that can offer a combination of technology, industry and process expertise in addition to a strong innovative capacity. With its many years of expertise in IT infrastructure and its IoT and analytics portfolio, CANCOM has a lot to offer its clients in this area.

By 2019, forty percent of all digital transformation initiatives will use one form or another of artificial intelligence, according to IDC research. By 2021, AI will be used in 75 percent of commercial corporate applications. Artificial intelligence will therefore definitely be one of the drivers of growth. The German digital association Bitkom anticipates that many products and services will have artificial intelligence, or be shaped by it, within a few years already. Application scenarios for self-learning systems, artificial intelligence, augmented and virtual reality (AR and VR) and automation can be found in almost all sectors and all IoT-related applications. Industrial enterprises are experimenting with the use of augmented reality glasses in manufacturing and maintenance; driver-assist systems complement the connected car; and in the health sector physicians are assisted by data-based diagnostic solutions.

The increasing intelligence of our machines is demonstrated by the relentless trend toward robotic automation which, in the transition phase, is producing intelligent assistants in many areas. However, machines, digital assistants or 'bots' (i.e. highly automated computer programs) cannot display anything approaching human empathy or sensitivity. On the other hand, in mass and serial production, with very repetitive and highly automated processes, AI systems could help deal with cost pressure, reduce error rates and revolutionize the working world. Artificial intelligence is also already being used in many areas of our daily lives, for example digital voice assistants such as Siri and Cortana.

Internet of Things (IoT) and Industry 4.0

For some time now, the mobile Web has been about more than just smartphones and tablets. Wearables, connected cars, smart-home and other IoT devices: the number of devices through which we access information or communicate with each other is increasing steadily, just as networking, cooperation and communication between the various devices is becoming more common. Ultimately, IoT solutions are bringing providers closer to their clients. By connecting several products they can provide valuable insights into consumer behavior.

The Internet of Things plays an important role in the practical implementation of digitization. An essential feature of the IoT is its pronounced sector variation or, more precisely, application-related variation: often, issues such as Industry 4.0, connected cars, smart energy and smart health go beyond the limits of individual sectors of industry. Industry 4.0 means far more than new, efficient production methods. It is changing people's everyday lives massively. The Internet of Things is shaking up the ecosystems and competitive situation in almost all sectors, although it is not yet obvious where the innovations are leading.

There are examples from companies where, in a fully networked manufacturing plant, people are now no longer controlling the machines but the product that is to be made. Chips and digital helpers built into the raw materials ensure that only the predefined components are used. If a staff member makes a mistake, the system stops immediately. This is all possible only with a continuous flow of data, and realtime analysis of that data. Big data and analytics have for a long time been central to the controlling of such complex systems.

Traditional industrial groups, such as Bosch and Siemens, are developing their own future solutions and platforms, so that they do not lose contact with their clients. Whereas during the past few years much has been said and written about the infrastructure and application sides of cloud computing – Infrastructure as a Service (IaaS) and Software as a Service (SaaS) – user companies are now becoming much more interested in the platform concept. Platform as a Service (PaaS) is becoming a central part of the realization of innovation projects in enterprises. PaaS offers them access to standardized infrastructure services and development platforms, combined with the option of individual enhancements that enable them to stand out from the competition in the rapidly developing market for digital business models, smart services and services related to the Internet of Things. It is conceivable that platforms will be offered which will allow collaborations between different companies within a sector, for instance to gain better insights into the sector or improve capacities – like a kind of meeting place for the industry.

With its business solutions customizable to individual sectors, CANCOM could also profit from this.

IT security

Since we depend on our IT systems functioning reliably and securely, the subject of IT security is becoming more and more important globally. There is evidence that the number of cyber attacks on company networks is increasing, though many even remain unnoticed. The age of mobile working, the cloud and the Internet of Things calls for a controlled IT security strategy with global reach. The objective must be to detect cyber attacks as early as possible.

Big data offers many opportunities, but at the same time involves great risks, because large quantities of data are generated in applications such as industry 4.0 and the Internet of Things, and in the processing or analysis of sensor data – for instance in the area of smart energy, smart health or modern traffic management. This data could be a worthwhile target for attackers. An IoT attack could have dire consequences, for example, if attackers succeeded in seizing control of networked cars, machinery or perhaps even power stations. The subject of IoT security will be a focus of much attention in enterprises, not only in 2018 , but also in the coming years. There is a high level of pent-up demand in the area of IT security. This is evident from the level of investments in IT security, which is growing globally, according to the German business newspaper 'Handelsblatt'. Analyst firm techconsult also expects increasing investments in security products, due to a growing awareness of the impact of security gaps, the steady rise in the number of devastating cyber attacks, and the European Union General Data Protection Regulation (GDPR), which came into force in May 2018. techconsult believes expenditure on IT security products and services by German enterprises will amount to around EUR 5.9 billion in 2018.

The progressive globalization and digitization of the economy and society means that larger and larger quantities of data must be reliably managed and protected. This must be therefore accompanied at all levels by simultaneously evolved IT security measures. Some of the IT security services will therefore have to come from the cloud.

For many enterprises, the fundamental question is how secure their data can be if they outsource their corporate IT systems. Cloud computing can only work if the client has confidence in the cloud provider and its information security processes and measures. However, absolute security is not attainable, either within the company's own IT systems or in the cloud. But the security mechanisms used by cloud providers are often more highly standardized, the processes better integrated and the authorization concepts for the data more consistently implemented.

Additionally, cloud service providers regularly undergo security audits for various certifications. CANCOM has Group-wide DIN ISO 27001 Information Security Certification. For clients, this means operational excellence in all process sequences, and compliance with high technical and security-related standards.

Location remains the main criterion for selecting a cloud provider. Companies are often more disposed to trust cloud providers with data centers and headquarters in Germany than providers or data center locations in other countries. This means that a cloud provider such as CANCOM, with headquarters in Germany, data centers and servers operated in Germany, and subject to German data protection laws, may have a competitive advantage over international competitors.

Security is the basis for all current and future digital business models. This presents business opportunities for the CANCOM Group, with its broad portfolio of IT security solutions ranging from advice to planning and from implementation to managed security services. CANCOM also offers professional solutions for centralization, consolidation and virtualization to satisfy the increasing requirements for integrated system landscapes, as well as safeguarding the business continuity of its clients and increasing their IT efficiency. CANCOM has developed security architecture for cloud transformation and digital workspaces to meet the needs of (high-end) medium sized enterprises, as well as enterprise clients.

Blockchain technology

Many experts see blockchain technologies as a big trend. The more transactions take place online, the more secure the technologies used by companies will need to be, in order to protect their clients' data. Users need more security, especially in view of the growth potential of the Internet of Things. Blockchain in business will therefore be the next big trend in the coming year, according to a study by the telecommunications provider NTT Group. Experts believe blockchain has the potential to fully restructure cybersecurity. IDC also expects that by 2021 at least 25 percent of Forbes Global 2000 companies will be using blockchain services as a foundation for their strategies to improve consumer confidence in the digital environment.

Overall view of trends

Efficient means of handling information and data, along with greater business agility and concentration on core competencies, will be more crucial than ever to the innovative capability and competitiveness of enterprises in the future. New concepts will be required for organizing work processes, as well as for data security and the shaping of the working environment. Enterprises will need service providers that can preferably offer adequate IT components under one roof and complement these with managed information services and scalable cloud solutions. Both segments of the CANCOM Group, and the Group as a whole, could benefit from this trend due to the multitude of specific tasks involved in designing and updating IT systems in companies.

Organization and staff

CANCOM has more than two decades of experience in IT consulting and integration combined with innovative services. It provides independent advice, and creates economical and technically optimized systems infrastructures. Nowadays, enterprises have to constantly question their approach, essentially adopting a trial and error mentality and developing their responsiveness in the same way as a startup company. Otherwise they run the risk of losing more and more of their regular clients to new competitors, some of which may even be from outside the sector.

The Group faces changes in the market by being flexible and constantly optimizing and efficiently adapting the portfolio, structures and processes within the Group. Competence centers facilitate the focus on particular IT segments by providing dedicated technical know-how. The expertise of the specialist sales staff is available to the sales and services units of all CANCOM Group companies. With a comprehensive range of ICT services and over 1,800 highly skilled employees in its professional services division, CANCOM offers IT solutions and managed services tailored to individual needs, so creating added value for clients. CANCOM employees have many years of project experience and have been certified by major manufacturers for the latest technologies. On top of this, CANCOM has established various measures to attract, develop and retain high-potential employees – excellently qualified skilled staff and managers.

Organic growth and selective takeovers

CANCOM's business policy is based on continuing its path of growth. For this purpose it plans to bundle and strengthen its existing business activities, moving further towards high-end integrated ICT solutions through both organic and acquisition-based growth.

This will create an opportunity for a further increase in sales revenues. Taking advantage of synergy effects and economies of scale – for example improved purchase terms, centralized administrative tasks and better access to large projects – can contribute to accelerated growth in profits. Additionally, the planned expansion of the services business could lessen the Group's dependence on hardware price trends.

The German market for integrated IT systems providers has for some years been in a phase of strong consolidation, and CANCOM wishes to continue taking advantage of this trend. Against this background, and in view of the Group's solid asset position and strong financial resources, there will continue to be opportunities for the Group to consolidate its market position further through appropriate acquisitions.

The CANCOM Executive Board remains confident that the Group's profitability provides a solid basis for its future performance and makes available the necessary resources for the Group to pursue the opportunities presented.

Events after the reporting period

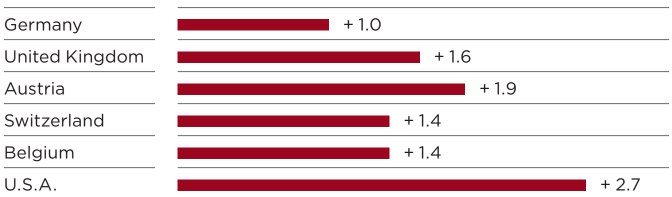
After the reporting period the general meeting of shareholders of CANCOM's subsidiary Pironet AG passed a resolution to transfer all the shares of the minority shareholders to the majority shareholder, CANCOM SE, in exchange for a cash settlement of EUR 9.64 per Pironet share. The cash settlement to be paid to the minority shareholders thus amounts to around EUR 6.9 million.

Forecast

Situation in the IT market and the general economy

Germany is by far the most important sales market for the CANCOM Group, as it accounts for more than 80 percent of its sales revenues. Other important sales markets, measured by the volume of sales revenues, are Austria, Belgium, Switzerland, the United Kingdom and the United States . The general economic situation in these countries, as well as in the overall information and communications technology market – especially in Germany – is an important factor in CANCOM's performance and provides an essential benchmark against which it can be measured.

Outlook: gross domestic product 2019*
(change in comparison with 2018)



* Source: Deutsche Bank Research, December 12, 2018 and February 5, 2019

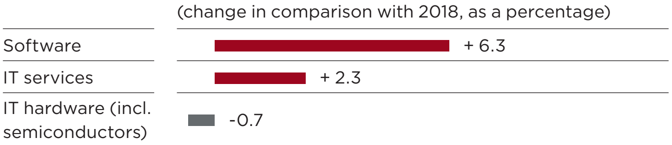
Germany
In view of the falling economic indicators, at the time this report was written Deutsche Bank Research was forecasting growth of around one percent in Germany's gross domestic product in 2019. However, at that time there were already indications that this forecast could be lowered later in the spring. In addition, Deutsche Bank Research interprets some key economic indicators as signs that the German economy could be heading into a recession.

Austria, Belgium, Switzerland and the United Kingdom
Deutsche Bank Research expects the growth of the Austrian economy to be significantly weaker, with growth in GDP of 1.9 percent compared with 2.6 percent in 2018.
According to the analysts, Belgium should see steady growth of 1.4 percent in its gross domestic product in 2019, compared with 1.5 percent in 2018.
The Swiss economy is heading for a considerable slowdown. For 2019, it is expected to grow by 1.4 percent, compared with 2.6 percent in 2018.
For the United Kingdom, Deutsche Bank Research expects growth of 1.6 percent in 2019, up from 1.3 percent in 2018.

The United States
Deutsche Bank Research anticipates that the U.S. economy will grow by 2.7 percent in 2019. This would be slightly lower than the 2.9 percent growth forecast for 2018.

The ITC market
According to the German digital association Bitkom, the volume of the information and communications technology (ITC) market in Germany will grow by 1.9 percent to EUR 159.5 billion in 2019. The current outlook suggests a slight slowing in growth, as the association's growth forecast for 2018 was 2.5 percent. Information technology, the largest sub-sector by volume and the one most important to CANCOM, is the main driver of the growth. Bitkom expects this sub-sector to grow by 2.5 percent, broken down into the following market segments:

Outlook: market for information technology 2019, Germany*
(change in comparison with 2018, as a percentage)



* Source: Bitkom/EITO, January 2019

In the annual survey by Capgemini of the IT budgets for 2019 of companies in Germany, Austria and Switzerland, 44 percent of the companies surveyed stated that they would be increasing their IT budgets by more than 10 percent in 2019 (previous year: 49 percent). Only 2.5 percent of the companies plan to reduce their budget by more than 10 percent, significantly fewer than in the previous year (previous year: 15 percent)

Basis for forecasts

The forecasts for the CANCOM Group and CANCOM SE take into account all the information that was available to the Executive Board at the time that this report was prepared and which could have an impact on the CANCOM Group's performance. The outlook is based on the expectations described above in relation to the situation in the IT market and in the economy as a whole, and only refers to organic growth.

Unexpected events could have an impact on the growth currently forecast for the Group or for the IT Solutions or Cloud Solutions reporting segments. These events might include, for instance, the repercussions of a sudden change in legal or regulatory requirements. Such events are not taken into consideration in the forecast.

Forecast for the CANCOM Group

The Executive Board of CANCOM SE expects a generally positive performance from the CANCOM Group in the fiscal year 2019 and a continuation of the steady growth seen for the past several years. This opinion is based on three factors in particular:

- CANCOM's current favorable position in IT markets of relevance to the enterprise, based on its extensive and steadily developing portfolio of products and services and the expertise of its staff.
- The continuous development of the CANCOM Group's cloud managed services and its range of software products.
- The growth in recurring revenue based on multi-year contracts that the Group has already seen and will endeavor to continue.

Given the general environment described and under the assumptions specified, the Executive Board forecasts significant growth in the Group's sales revenues for the fiscal year 2019. The consolidated gross profit, Group EBITDA and Group EBITA are also expected to increase significantly in comparison with the previous year.

For the IT Solutions segment, the Executive Board forecasts a significant increase in sales revenues, gross profit, EBITDA and EBITA.

For the Cloud Solutions segment, the Executive Board also expects significant growth in sales revenues, gross profit, EBITDA and EBITA, with the increase being greater than forecast in the IT Solutions segment. Additionally, the annual recurring revenue (ARR) is expected to be very significantly higher than in December 2018.

Forecast for CANCOM SE

The Group's parent company mainly generates income from profit transfer agreements with subsidiaries and from fees for management services and financing provided to Group companies. The company's performance is therefore to a large extent directly dependent on the performance of the Group. The Executive Board therefore expects CANCOM SE's sales revenues and net income for the year to increase in line with the growth rate of the Group as a whole.

Munich, Germany, March 2019

Thomas Volk	Rudolf Hotter	Thomas Stark

Executive Board of CANCOM SE

Disclaimer regarding forward-looking statements

This document contains statements relating to the future business and financial performance and to future events or developments affecting CANCOM that may constitute forward-looking statements. These statements are based on the current expectations, assumptions and estimates of the Executive Board and other information currently available to the management, of which many are beyond CANCOM's control. These statements can be identified by phrases and words such as 'expect', 'want', 'assume', 'believe', 'endeavor', 'estimate', 'presume', 'calculate', 'intend', 'could', 'plan', 'should', 'will', 'forecast' or similar words.

All statements with the exception of facts regarding the past are forward-looking statements. Such statements include expectations regarding the availability of products and services, the financial and earnings position, the business strategy and the Executive Board's plans for future operating activities, economic performance and all statements regarding assumptions. Although the greatest of care is taken when making these statements, CANCOM, represented by the Executive Board, cannot guarantee their correctness, especially in our forecast. Various known and unknown risks, uncertainties and other factors may lead to the actual events deviating significantly from those contained in the forward-looking statements. The following influencing factors are, among others, relevant in this respect: external political influences, changes in the general economic and business situation; changes in the competitive position and situation, for instance by the emergence of new competitors, new products and services or new technologies; changes in the investment behavior of target client Groups etc. and changes to the business strategy. If one or more of these risks or uncertainties should materialize, or if the underlying expectations are not fulfilled or assumptions prove incorrect, the actual results, performance or achievements of CANCOM may (either negatively or positively) deviate substantially from those described either explicitly or implicitly in the relevant forward-looking statement. CANCOM cannot guarantee the pertinence, accuracy, completeness or correctness of the information or opinions in this document.

CANCOM does not make any commitment to update its forward-looking statements, nor does it intend to update them or correct them if developments differ from those anticipated.

Consolidated balance sheet as at December 31, 2018

ASSETS

(in € '000)	Notes	Balance sheet date Dec. 31, 2018	Balance sheet date Dec. 31, 2017
Current assets			
Cash and cash equivalents	C.1.	135,247	157,619
Assets held for sale	C.2.	0	360
Trade accounts receivable	C.3.	274,410	223,672
Other current financial assets	C.4.	16,295	25,294
Inventories	C.5.	32,142	22,923
Contractual assets	C.6.	5,874	0
Contracts in progress	C.7.	0	981
Prepaid expenses and other current assets	C.8.	6,607	7,139
Total current assets		**470,575**	**437,988**
Non-current assets			
Property, plant and equipment (tangible assets)	C.9.1	79,196	60,853
Intangible assets	C.9.2	74,046	56,471
Assets from right of use	C.9.3	37,460	0
Goodwill	C.9.4	157,442	115,219
Long-term financial assets	C.9.5	4,000	5,321
Loans	C.9.6	1,206	1,315
Capitalized contract expenses	C.10.	1,039	0
Other non-current financial assets	C.11.	7,745	8,312
Contractual assets	C.6.	1,699	0
Deferred taxes arising from temporary differences	C.12.	3,189	5,023
Deferred taxes arising from tax loss carryforward	C.12.	298	362
Other assets		246	1,266
Total non-current assets		**367,566**	**254,142**
Total assets		**838,141**	**692,130**

EQUITY AND LIABILITIES

(in € '000)	Notes	Balance sheet date Dec. 31, 2018	Balance sheet date Dec. 31, 2017
Current liabilties			
Short-term loans and current portion of long-term loans	C.13.	904	3,804
Subordinated loans - short-term portion	C.21.	1,753	1,953
Trade accounts payable		271,478	220,956
Prepayments received		0	6,684
Other current financial liabilities	C.14.	21,018	7,979
Provisions	C.15.	3,234	3,575
Deferred income	C.16.	310	5,143
Contractual liabilites	C.17.	22,922	0
Income tax liabilities	C.18.	6,394	11,101
Other current liabilities	C.19.	40,884	32,619
Liabilities in connection with assets held for sale		0	770
Total current liabilties		**368,897**	**294,584**
Non-current liabilities			
Long-term loans	C.20.	2,050	1,315
Subordinated loans	C.21.	1,338	3,092
Deferred income	C.16.	115	2,678
Contractual liabilities	C.17.	1,964	0
Deferred taxes arising from temporary differences	C.22.	15,602	15,911
Pension provisions	C.23.	1,872	2,041
Other non-current financial liabilities	C.24.	52,831	5,230
Other non-current liabilities	C.15.	3,266	3,029
Total non-current liabilities		**79,038**	**33,296**
Equity			
Capital stock	C.25.	35,044	17,522
Capital reserves		204,742	221,943
Net retained profit/net accumulated loss (incl. revenue reserves)	C.25.	148,057	122,935
Equity capital difference due to currency translation and exchange rate differences		233	-236
Non-controlling interests	C.26	2,130	2,086
Total equity		**390,206**	**364,250**
Total equity and liabilities		**838,141**	**692,130**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € '000)	Notes	Jan. 1, 2018 - Dec. 31, 2018	Jan. 1, 2017 - Dec. 31, 2017
Sales revenues	E.1.	1,378,904	1,161,240
Other operating income	E.2.	2,625	2,471
Other own work capitalized	E.3.	4,652	3,219
Capitalized contractual expenses	E.4.	1,039	0
Total revenue		**1,387,220**	**1,166,930**
Cost of purchased materials and services		-1,002,421	-845,127
Gross profit		**384,799**	**321,803**
Human resources expenses	E.5.	-228,156	-190,980
Amortization and write-downs of intangible assets, and depreciation and write-downs of tangible assets		-39,846	-23,986
Impairment expenses on financial assets including reversals of impairments		-146	0
Other operating expenses	E.6.	-51,603	-46,347
Operating result		**65,048**	**60,490**
Interest and similar income	E.7.	957	693
Interest and other expenses	E.7.	-2,176	-2,480
Other financial result: income	E.8.	596	381
Other financial result: expenses	E.8.	-194	-373
Income from investments		27	0
Write-downs of financial assets	E.9.	-210	0
Share of profit/loss from associated companies accounted for using the equity method	E.10.	0	98
Currency translation gains/losses		122	-77
Earnings before taxes		**64,170**	**58,732**
Income taxes	E.11.	-21,412	-18,452
Earnings after taxes from continuing operations		**42,758**	**40,280**
Earnings from discontinued operations	E.12.	-114	-259
Net income/(loss) for the period		**42,644**	**40,021**
thereof attributable to the stockholders of the parent		42,516	39,831
thereof attributable to non-controlling interests	E.13.	128	190
Average number of shares outstanding (basic)		35,043,638	33,423,129
Average number of shares outstanding (diluted)		35,251,953	34,967,456
Earnings per share from continuing operations (basic) in €		**1.22**	**1.20**
Earnings per share from continuing operations (diluted) in €		**1.21**	**1.17**
Earnings per share from discontinued operations (basic) in €		**-0.00**	**-0.01**
Earnings per share from discontinued operations (diluted) in €		**-0.00**	**-0.01**
Earnings per share attributable to stockholders of the parent from net income/loss for the period (basic) in €		**1.21**	**1.19**
Earnings per share attributable to stockholders of the parent from net income/loss for the period (diluted) in €		**1.21**	**1.16**

STATEMENT OF COMPREHENSIVE INCOME

(in € '000)	Jan. 1, 2018 - Dec. 31, 2018	Jan. 1, 2017 - Dec. 31, 2017
Net income/loss for the period	**42,644**	**40,021**
Other comprehensive income		
Items possibly to be reclassified in profit or loss in subsequent periods		
Currency translation difference	684	-2,628
Exchange price differences - securities	0	-2
Income taxes	-215	823
Items not to be reclassified in profit or loss		
Change in actuarial gains/losses from pensions	-17	64
Deferred taxes from change in actuarial gains/losses from pensions	5	-20
Other comprehensive income for the period (after taxes)	**457**	**-1,763**
Comprehensive income for the period	**43,101**	**38,258**
thereof attributable to stockholders of the parent	42,973	38,068
thereof attributable to non-controlling interests	128	190

CONSOLIDATED STATEMENT OF CASH FLOWS (IN ACCORDANCE WITH IAS 7)

(in € '000)	Notes	Jan. 1, 2018 - Dec. 31, 2018	Jan. 1, 2017 - Dec. 31, 2017
Cash flow from ordinary activities			
Profit for the period before taxes and non-controlling interests		64,170	58,732
Adjustments			
+ Amortization and write-downs of intangible assets, and depreciation and write-downs of tangible assets		39,846	23,986
+ Write-downs of financial assets		210	0
+ Interest result and other financial result		790	1,779
+/- Changes in long-term provisions		-92	481
+/- Changes in short-term provisions		370	118
+/- Result from the sale of intangible assets, tangible assets and financial assets		-690	-756
+/- Changes in inventories		-7,934	3,088
+/- Changes in accounts receivable from purchases and services, as well as other receivables		-36,286	-35,952
+/- Changes in accounts payable for purchases and services, as well as other payables		51,307	93,735
- Interest paid		-491	-277
+/- Income tax paid and refunded		-29,627	-19,510
+/- Non-cash expenses and income		0	-98
+ Share-based remuneration with share settlement		473	0
+/- Cash inflow/outflow from discontinued operations		-114	-379
Net cash from operating activities	F.	**81,932**	**124,947**
Cash flow from investing activities			
- Acquisition of subsidiaries and equity instruments of other companies		-59,187	-55,736
+ Cash from acquisitions		5,503	5,160
+/- Cash inflow from disposal of formerly consolidated subsidiaries		300	200
+ Cash inflow from disposal of „at Equity" consolidated investments		0	1,104
- Acquisition of long-term financial assets		-10	-4,525
- Acquisition of financial assets held-for-sale		0	-10,000
- Payments for additions to intangible assets and tangible assets		-33,075	-40,969
+ Income from disposal of intangible assets, tangible assets and financial assets		2,445	2,132
+ Outflow of financial asstes held-for-sale		12,000	86,000
+ Interest and dividends received		91	70
+ Dividends of companies consolidated by „at Equity" method		0	10
Net cash used in investing activities		**-71,933**	**-16,554**
Cash flow from financing activities			
+/- Capital increase costs		-6	-53
- Repayment of bonds		0	-4,000
- Repayment of long-term debt (incl. short-term portion)		-3,598	-1,228
+/- Changes in short-term financial liabilities		-2,748	1,646
- Interest paid		-284	-740
- Dividends paid		-17,551	-8,213
+/- Receipts and payments for finance lease		-8,473	376
- Outflow for acquisition of non-controlling interests in controlling situation		-146	-36
Net cash used in financing activities		**-32,806**	**-12,248**
Net increase/decrease in cash and cash equivalents		**-22,807**	**96,145**
+/- Changes in value resulting from foreign currency exchange		435	-2,116
+/- Cash and cash equivalents at the beginning of the period		157,619	63,590
Cash and cash equivalents at the end of the period	F.	**135,247**	**157,619**
Structure :			
Cash		135,247	157,619
Cash from discontinued operations		0	0
		135,247	157,619

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Shares	Capital stock	Capital reserves	Other revenue reserves	Currency translation reserves	Exchange rate price difference reserves	Reserves for changes in actuarial gains/losses from pesnsions	Revaluation reserves (revenue reserves)	Net retained profit	Total investors of parent company	Non-controlling interests	Total equity
	units'000	**in €'000**	**in €'000**	**in €'000**	**in €'000**	**in €'000**	**in €'000**	**in €'000**	**in €'000**	**in €'000**	**in €'000**	**in €'000**
January 1, 2017	**16,368**	**16,368**	**173,935**	**54,199**	**1,569**	**2**	**-346**	**-153**	**37,563**	**283,137**	**1,942**	**285,079**
Net income/(loss) for the period									39,831	39,831	190	40,021
Other comprehensive income					-1,805	-2	44			-1,763	0	-1,763
Comprehensive income					-1,805	-2	44		39,831	38,068	190	38,258
Capital increase	1,154	1,154	48,045							49,199		49,199
Changes in reserves: Capital increase costs			-37							-37		-37
Transfer of net retained profit/net accumulated loss/revenue reserves				19,060					-19,060	0		0
Distribution in fiscal year									-8,184	-8,184	-30	-8,214
Changes due to acquisition of non-controlling interests				-19						-19	-16	-35
December 31, 2017	**17,522**	**17,522**	**221,943**	**73,240**	**-236**	**0**	**-302**	**-153**	**50,150**	**362,164**	**2,086**	**364,250**
Initial application IFRS 9				232						232		232
January 1, 2018	**17,522**	**17,522**	**221,943**	**73,472**	**-236**	**0**	**-302**	**-153**	**50,150**	**362,396**	**2,086**	**364,482**
Net income/(loss) for the period									42,516	42,516	128	42,644
Other comprehensive income					469	0	-12			457	0	457
Comprehensive income					469	0	-12		42,516	42,973	128	43,101
Capital increase	17,522	17,522	-17,522							0		
Changes in reserves: Capital increase costs			-4							-4		-4
Transfer of net retained profit/net accumulated loss/revenue reserves				20,512					-20,512	0		0
Recognition of share-based remuneration			325							325		325
Distribution in fiscal year									-17,522	-17,522	-29	-17,551
Changes due to acquisition of non-controlling interests				-92						-92	-55	-147
December 31, 2018	**35,044**	**35,044**	**204,742**	**93,892**	**233**	**0**	**-314**	**-153**	**54,632**	**388,076**	**2,130**	**390,206**

Segment information – IFRS

Segment information	Cloud solutions		IT solutions	
	Jan. 1, 2018- Dec. 31, 2018 € '000	Jan. 1, 2017- Dec. 31, 2017 € '000	Jan. 1, 2018- Dec. 31, 2018 € '000	Jan. 1, 2017- Dec. 31, 2017 € '000
Sales revenues				
- External sales	242,485	182,347	1,136,419	978,835
- Intersegment sales	8,919	3,826	7,043	5,477
- Total sales revenues	251,404	186,173	1,143,462	984,312
- Cost of purchased materials and services	-131,645	-95,860	-885,733	-757,917
- Human resources costs	-49,832	-37,500	-168,948	-146,436
- Other income and expenses	-9,969	-9,611	-28,514	-29,423
EBITDA	59,958	43,202	60,267	50,536
- Depreciation	-9,288	-4,778	-17,220	-9,807
- Amortization	-9,757	-5,082	-3,223	-4,089
Operating result (EBIT)	40,913	33,342	39,824	36,640
- Interest income	456	328	485	313
- Interest expenses	-852	-44	-2,832	-2,785
- Other financial income	495	0	101	381
- Other financial expenses	0	0	-194	0
- Income from investments	0	0	27	0
- Write-downs of long-term financial assets	0	0	-5	0
- Share in profit or loss of associated companies accounted for by using the equity method	0	98	0	0
Result from ordinary activities	41,012	33,724	37,406	34,549
- Foreign currency exchange differences				
Earnings before taxes	41,012	33,724	37,406	34,549
- Income taxes				
- Discontinued operations	-108	-259	-6	0
Consolidated net income for the year				
thereof attributable to stockholders of the parent				
thereof attributable to non-controlling interests				

Total business segments		**Other companies**		**Reconciliation**		**Consolidated**	
Jan. 1, 2018-Dec. 31, 2018 € '000	**Jan. 1, 2017-Dec. 31, 2017 € '000**	**Jan. 1, 2018-Dec. 31, 2018 € '000**	**Jan. 1, 2017-Dec. 31, 2017 € '000**	**Jan. 1, 2018-Dec. 31, 2018 € '000**	**Jan. 1, 2017-Dec. 31, 2017 € '000**	**Jan. 1, 2018-Dec. 31, 2018 € '000**	**Jan. 1, 2017-Dec. 31, 2017 € '000**
1,378,904	1,161,182	0	58				
15,962	9,303	105	136	-16,067	-9,439		
1,394,866	1,170,485	105	194	-16,067	-9,439	1,378,904	1,161,240
-1,017,378	-853,777	0	-121	14,957	8,771	-1,002,421	-845,127
-218,780	-183,936	-9,376	-7,044	0	0	-228,156	-190,980
-38,483	-39,034	-6,060	-2,291	1,110	668	-44,326	-40,657
120,225	93,738	-15,331	-9,262	0	0	104,894	84,476
-26,508	-14,585	-358	-230	0	0	-26,866	-14,815
-12,980	-9,171	0	0	0	0	-12,980	-9,171
80,737	69,982	-15,689	-9,492	0	0	65,048	60,490
941	641	2,656	1,938	-2,640	-1,886	957	693
-3,684	-2,829	-1,132	-1,537	2,640	1,886	-2,176	-2,480
596	381	0	0	0	0	596	381
-194	0	0	-373	0	0	-194	-373
27	0	0	0	0	0	27	0
-5	0	-205	0	0	0	-210	0
0	98	0	0	0	0	0	98
78,418	68,273	-14,370	-9,464	0	0	64,048	58,809
				122	-77	122	-77
78,418	68,273	-14,370	-9,464	122	-77	64,170	58,732
				-21,412	-18,452	-21,412	-18,452
-114	-259	0	0	0	0	-114	-259
						42,644	**40,021**
						42,516	39,831
						128	190

Statement of changes in non-current assets

	ACQUISITION/PRODUCTION COST						
	As at Jan. 1, 2018 € '000	Currency translation differences 2018 € '000	Additions from first-time consolidation 2018 € '000	Additions 2018 € '000	Disposals 2018 € '000	Transfers 2018 € '000	As at Dec. 31. 2018 € '000
Property, plant and equipment (tangible assets)							
Motor vehicles	29,788	0	199	6,968	3,642	0	33,314
Land and buildings	23,099	-68	6,234	3,671	34	-1,435	31,467
IT computer center	20,093	-75	5,430	5,803	1,074	1,123	31,300
UCC communication system	828	0	0	0	0	0	828
Rental assets	883	0	0	748	0	0	1,631
Operating equipment for the logistics center	221	0	0	0	0	0	221
Other operating and office equipment	24,955	33	1,533	7,034	58	312	33,809
Intangible assets							
Software and other	35,254	-10	1,244	8,851	110	0	45,229
Client lists	75,606	157	24,506	0	7,242	0	93,027
Right-of-use asset	0	23	46,263	0	715	0	45,571
Goodwill	134,790	130	42,093	0	0	0	177,013
Long-term financial assets	5,576	0	0	0	1,375	0	4,201
Investments accounted for using the equity method	0	0	0	0	0	0	0
Loans	1,315	0	0	15	124	0	1,206
Total	**352,408**	**190**	**127,502**	**33,090**	**14,374**	**0**	**498,817**

AMORTIZATION, DEPRECIATION AND WRITE-DOWNS							CARRYING AMOUNTS	
As at Jan. 1, 2018 € '000	**Currency translation differences 2018 € '000**	**Additions from first-time consolidation 2018 € '000**	**Additions 2018 € '000**	**Disposals 2018 € '000**	**Transfers 2018 € '000**	**As at Dec. 31, 2018 € '000**	**As at Dec. 31., 2018 € '000**	**As at Dec. 31, 2017 € '000**
11,879	0	122	5,124	0	2,896	14,229	19,085	17,909
1,496	-16	1,395	782	0	34	3,623	27,844	21,603
10,193	-18	772	4,050	10	1,040	13,967	17,333	9,946
124	0	0	0	124	0	248	580	704
381	0	0	540	0	0	921	710	502
54	0	0	0	33	0	87	134	167
14,888	11	1,327	4,154	-167	-86	20,299	13,510	10,021
13,691	-4	398	3,398	0	102	17,381	27,848	21,563
40,698	394	0	12,980	0	7,242	46,830	46,197	34,908
0	7	0	8,819	0	715	8,111	37,460	0
19,571	0	0	0	0	0	19,571	157,442	115,219
254	0	0	200	0	254	200	4,001	5,322
0	0	0	0	0	0	0	0	0
0	0	0	10	0	10	0	1,206	1,315
113,229	**374**	**4,014**	**40,057**	**0**	**12,207**	**145,467**	**353,350**	**239,179**

Statement of changes in non-current assets

2017 fiscal year

	ACQUISITION/PRODUCTION COST						
	As at Jan. 1, 2017 € '000	**Currency translation differences 2017 € '000**	**Additions from first-time consolidation 2017 € '000**	**Additions 2017 € '000**	**Disposals 2017 € '000**	**Transfers 2017 € '000**	**As at Dec. 31. 2017 € '000**
Property, plant and equipment (tangible assets)							
Motor vehicles	27,653	-5	106	6,285	4,251	0	29,788
Land and buildings	12,316	0	0	11,949	0	-1,166	23,099
IT computer center	11,954	0	0	4,434	886	4,591	20,093
UCC communication system	0	0	0	0	0	828	828
Rental assets	813	0	0	485	415	0	883
Operating equipment for the logistics center	1,067	0	0	0	0	-846	221
Other operating and office equipment	24,555	-139	3,238	5,542	4,774	-3,467	24,955
Intangible assets							
Software and other	22,780	-11	419	12,274	268	60	35,254
Client lists	48,501	-1,381	28,486	0	0	0	75,606
Goodwill	92,801	-1,715	43,704	0	0	0	134,790
Long-term financial assets	805	0	327	4,518	74	0	5,576
Investments accounted for using the equity method	1,001	0	0	88	1,089	0	0
Loans	1,912	0	0	10	607	0	1,315
Total	**246,158**	**-3,251**	**76,280**	**45,585**	**12,364**	**0**	**352,408**

AMORTIZATION, DEPRECIATION AND WRITE-DOWNS							CARRYING AMOUNTS	
As at Jan. 1, 2017 € '000	Currency translation differences 2017 € '000	Additions from first-time consolidation 2017 € '000	Additions 2017 € '000	Disposals 2017 € '000	Transfers 2017 € '000	As at Dec. 31, 2017 € '000	As at Dec. 31., 2017 € '000	As at Dec. 31, 2016 € '000
10,362	-3	92	4,765	0	3,337	11,879	17,909	17,291
1,158	0	0	338	0	0	1,496	21,603	11,158
7,086	0	0	2,135	1,858	886	10,193	9,946	4,868
0	0	0	0	124	0	124	704	0
250	0	0	546	0	415	381	502	563
846	0	0	0	-792	0	54	167	221
14,508	-55	2,397	3,697	-1,190	4,469	14,888	10,021	10,047
10,247	-4	382	3,334	0	267	13,691	21,563	12,533
32,727	-1,200	0	9,171	0	0	40,698	34,908	15,774
19,571	0	0	0	0	0	19,571	115,219	73,230
10	0	254	0	0	10	254	5,322	795
500	0	0	0	0	500	0	0	501
0	0	0	0	0	0	0	1,315	1,912
97,265	**-1,262**	**3,125**	**23,986**	**0**	**9,884**	**113,229**	**239,179**	**148,893**

Notes to the consolidated financial statements for the fiscal year

From January 1 to December 31, 2018

A. The principles adopted for the consolidated financial statements

1. General information

The consolidated financial statements of CANCOM SE and its subsidiaries ('the CANCOM Group' or 'the Group') for the fiscal year 2018 were drawn up according to the International Financial Reporting Standards (IFRS) or the International Accounting Standards (IAS) applicable in the European Union.

The corporate objective of CANCOM SE and its consolidated subsidiaries is IT architecture design, system integration and the provision of a range of managed services. As a provider of integrated solutions, CANCOM's main focus is on the provision of IT services, in addition to the distribution of hardware and software of renowned manufacturers. Its IT services range includes the design of IT architectures and IT landscapes, design and integration of IT systems, and systems operation.

The consolidated financial statements were drawn up in euro. All amounts are shown in thousand euro (EUR thousand or EUR '000) unless otherwise stated. Rounding of figures may result in apparent inconsistencies between totals and sums of constituent parts. For the same reason, percentage indications may not exactly match the aggregate values shown or total 100 percent.

The fiscal year covers the period from January 1 to December 31, 2018. The address of the company's registered office is Erika-Mann-Strasse 69, 80636 München, Germany. CANCOM SE is registered at the local court (Amtsgericht) in Munich, Germany, under the commercial register number (HRB) 203845.

The shares of the corporation are traded on the Regulated Market of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse, FWB) and are admitted to the Prime Standard under ISIN DE0005419105.

2. Adoption of new accounting standards

CANCOM SE has adopted all standards (IFRS and IAS) published by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) that were effective in the EU as at December 31, 2018. The relevant transitional provisions were observed. The necessary explanations required by the German Commercial Code (Handelsgesetzbuch, HGB) or the German Stock Corporation Act (Aktiengesetz, AktG) were added to the consolidated financial statements.

New accounting standards – implemented –

CANCOM SE adopted IFRS 9, IFRS 15 and IFRS 16 on January 1, 2018. A number of other new standards and interpretations came into force on January 1, 2018, but these have no major impact on the consolidated financial statements.

Owing to the transition methods chosen for the initial adoption of these standards IFRS 9, IFRS 15 and IFRS 16, the comparative information in the current financial statements has not been adjusted in line with the requirements of the new standards.

IFRS 9

In July 2014, the IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement with the publication of the final version of IFRS 9 Financial Instruments. IFRS 9 introduces a consistent approach for the classification and measurement of financial assets and financial liabilities. As a basis, the standard refers to the cash flow characteristics and the business model according to which they are controlled. It also provides for a new expected impairment model. IFRS 9 also contains new rules for the use of hedge accounting to reflect an entity's risk management activities, especially with regard to the control of non-financial risks. The following subject areas covered by IFRS 9 are considered to be of relevance to the company:

- classification and measurement under IFRS 9;
- expected loss impairment model under IFRS 9.

Classification and measurement of financial assets and liabilities

IFRS 9 has three basic measurement categories for the classification of financial assets: amortized cost; fair value through other comprehensive income (FVOCI); fair value through profit or loss (FVTPL). Under IFRS 9, financial assets are classified on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics. IFRS 9 thus eliminates the following categories previously defined by IAS 39: held to maturity, loans and receivables, and available for sale. Under IFRS 9, embedded derivatives in a contract with a host that is a financial asset within the scope of the standard are never accounted for separately. Instead, the hybrid financial instrument is classified as a whole.

With regard to the classification of financial liabilities, IFRS 9 retains largely the same requirements as IAS 39. Applying the rules for classification and measurement contained in IFRS 9 for the first time has not had any major impact on the Group.

ROCONCILIATION OF IAS 39 CATEGORY TO IFRS 9 CATEGORIES

	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 Dec. 31, 2017 € '000	Impact of reclassification	Impact of remeasurement € '000	New carrying amount under IFRS 9 Jan. 1, 2018 € '000
Financial assets						
Cash and cash equivalents	Loans and receivables	Amortized cost	157,619	-	-	157,619
Fixed-term deposits (short-term)	Loans and receivables	Amortized cost	12,000	-	-	12,000
Long-term securities (debt instruments)	Available for sale	At fair value through profit or loss (FVTOCI)	5,321	-	-	5,321
Trade accounts receivable	Loans and receivables	Amortized cost	223,672	-	336	224,008
Lease receivables	Loans and receivables	Amortized cost	13,118	-	-	13,118
Contract assets	n/a	Amortized cost	-	-	-	4,105
Other financial assets	Loans and receivables	Amortized cost	10,912	-	-	10,912
Derivatives assets	At fair value through profit or loss	Mandatorily measured at fair value through profit or loss	194	-	-	194
Total financial assets			**422,836**	-	**336**	**427,277**
Financial liabilities						
Short-term loans and current portion of long-term loans	Amortized cost	Amortized cost	3,804	-	-	3,804
Subordinated loans (current portion)	Amortized cost	Amortized cost	1,953	-	-	1,953
Trade accounts payable	Amortized cost	Amortized cost	220,956	-	-	220,956
Long-term loans	Amortized cost	Amortized cost	1,315	-	-	1,315
Subordinated loans	Amortized cost	Amortized cost	3,092	-	-	3,092
Lease liabilities	Amortized cost	Amortized cost	949	-	-	949
Contract liabilites	n/a	Amortized cost	-	-	-	13,553
Contingent purchase price liability	At fair value through profit or loss	At fair value through profit or loss	6,492	-	-	6,492
Other financial liabilities	Financial liabilities at acquisition cost	Amortized cost	5,982	-	-	5,982
Total financial liabilities			**244,543**	-	**-**	**258,096**

The table (page 71) explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of financial asset and liability reported by the Group.

Under IFRS, long-term securities classified as debt instruments, which were categorized under IAS 39 as available for sale, are allocated to the measurement category of items recognized directly in equity at fair value with recycling. The Group intends to hold these instruments both to collect contractual cash flows and to sell.

Impairment of financial assets

In IFRS 9, the incurred loss model used in IAS 39 is replaced with the expected credit losses (ECL) model. The new impairment model is applicable to financial assets valued at amortized cost, to contractual assets, and to debt instruments measured at FVOCI,. In the CANCOM Group, the following classes of financial instruments fall within the impairment model according to IFRS 9:

- Cash and cash equivalents
- Fixed-term deposits
- Long-term securities (debt instruments)
- Trade accounts receivable
- Contract assets
- Lease receivables
- Other financial assets

The expected loss impairment model contained in IFRS 9 results in impairments being recorded earlier and the possibility of possibly increased volatility in comparison to the application of the incurred loss model under IAS 39. For lease receivables and trade accounts receivable with a financing element, the Group uses the option to assign financial instruments to stage 2 of the impairment model on recognition, which gives it the option of recognizing only the lifetime expected credit loss. For trade accounts receivable, contractual assets and other receivables (each without a financing element), the default risk is calculated with the aid of a provision matrix that takes into account adjusted historical loss rates.

The application of the IFRS 9 impairment model with effect from January 1, 2018 resulted in a decline in the impairment expense in comparison with the previous impairment model (see section A.4. Adjustment of opening balance sheets).

Further information on the calculation of impairments under IFRS 9 can be found in section B (Default risk).

Accounting for hedging transactions

As the Group does not account for any hedge relationships, the IFRS 9 hedge accounting requirements have no impact on the Group.

Transitional arrangements

The changes to accounting methods due to the adoption of IFRS 9 were applied as follows:

- The Group availed of the exemption from the requirement for prior period adjustments in relation to changes in classification and measurement (including impairment). Accordingly, differences between the carrying amount of the financial assets and financial liabilities due to the adoption of IFRS 9 are recognized in the revenue reserves as at January 1, 2018. In view of this fact, the information displayed for 2017 is in line with the requirements of IAS 39 rather than IFRS 9.

- The following assessments are based on the facts and circumstances existing when IFRS 9 was first adopted:
  - designation of the business model within which a financial asset is held;
  - designation in relation to certain financial assets and financial liabilities measured as FVTPL;
  - designation of certain debt instruments held as financial assets but not held for trading, as FVOCI.

- If an investment in a debt instrument, cash and cash equivalents, or fixed-term deposits had a low credit risk at the time of adoption of IFRS 9, the Group has assumed that the default risk of the asset will not have increased considerably since it was first recognized.

IFRS 15

In May 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. IFRS 15 specifies when revenue is to be recognized and in what amount. IFRS preparers are also required to provide users of financial statements with more informative and relevant disclosures than they have hitherto provided. Application of IFRS 15 is mandatory for all IFRS preparers and applies to almost all contracts with clients. However, the main exceptions are leases, financial instruments and insurance contracts. Hence IFRS 15 replaces the standards hitherto applicable (IAS 18, IAS 11 and IFRIC 13) on revenue recognition and relevant interpretations. Additionally, amendments to IFRS 15 were published in April 2016 to clarify and ease the transition to IFRS 15.

In contrast to the current rules, the new standard provides a single, principles-based five-step model to be applied to all contracts with clients. According to this five-step model, the contract must first be identified with the client (step 1). In step 2, the separate performance obligations in the contract must be identified. Then (step 3) the transaction price must be determined; explicit rules are provided to deal with variable consideration, financing components, payments to the client and exchanges. After the transaction price is determined, it must be allocated to the individual performance obligations by reference to their relative standalone selling prices (step 4). Finally, the revenue can be recognized (step 5) when the entity has satisfied the performance obligation. Revenue is recognized as control of the goods or services is passed to the client.

When a contract is signed, according to IFRS 15, it must be ascertained whether the revenue resulting from the contract is to be recognized at a point in time or over time. It must first be clarified according to specific criteria whether control of the good or service is transferred over time. If this is not the case, the revenue is recognized when control is passed to the client at a certain point in time. However, if control is passed over time, the revenue may only be recognized over time if progress can be measured reliably by means of input or output based methods.

Sales revenues fall within one of these two categories:

a Sale of hardware and software
b Provision of services such as IT strategy consulting, IT services and support

a. Sale of hardware and software

The Group’s assessment is that the sale of hardware and software and, where applicable, related services, represent separate performance obligations. This is in line with the current identification of individual revenue components under IAS 18. Although IFRS 15 requires the transaction price to be allocated to the separate performance obligations on the basis of their standalone selling prices, the Group came to the conclusion that this allocation deviates significantly from the previous allocation, as standard market prices were also used for the allocation of the transaction price under IAS 18.

Sales revenues from the sale of hardware and software should be recognized when control of the goods concerned is transferred to the client. This is generally when the hardware/software is handed over to the client. For the sale of hardware and software, there are generally performance obligations that must be met at a specific point in time. There are no major changes in comparison with the previous method of accounting according to IAS 18 in respect of these either. The consideration to be paid is usually fixed, with no variable components. Generally no significant financing components exist in the contracts. The client is billed at the time of revenue recognition. Invoices are generally payable within 30 days .

In relation to the sale of software, CANCOM has adjusted to the requirements of the capital goods market and is increasingly operating as a solutions provider rather than purely as a licensing agent. Discretion in establishing prices is one of the key indicators that the company is the principal.

The sales revenues concerned are therefore be presented as gross amounts. There was no major impact from the transition to applying IFRS 15 in comparison with the previous method for revenue recognition in relation to the sale of licenses.

b. Provision of services such as IT strategy consulting, IT services and support

In relation to the IT project and services business, the Group paid special attention to the guidance in IFRS 15 on the identification of performance obligations, the allocation of the transaction price and the timing of revenue recognition. As already outlined, sales of hardware and software and related services generally represent separate performance obligations, and the allocation of the transaction price is based on the standalone selling prices of the service components. Sales revenues from service contracts should be recognized over time, as the units rendered cannot be used by the Group for any other purpose and the Group has an enforceable right to be paid for the performance completed to date. The sales revenues are recognized by the input-based method for measuring progress, according to which the sales revenues are recognized on the basis of the costs incurred / resources used as a proportion of the overall input expected to satisfy this performance obligation. The client is usually billed at the time of revenue recognition. Invoices are generally payable within 30 days.

The Group is expanding its managed services to provide cloud-based electronic services and is designing client-specific hardware and software environments for the provision of individual operational services over a period of several years. Before the adoption of IFRS 15 Revenue from Contracts with Customers, costs in relation to the setting up of IT platforms under long-term IT contracts were recognized as an expense, as they did not meet any of the IFRS criteria for recognition of an asset. However, the costs relate directly to the contract; they generate resources used to fulfill the contracts; and the costs are expected to be recovered. The startup costs according to the client's operational concept are accounted for under the new item of capitalized costs to fulfill a contract. In-house and third-party services (devising and designing, installation and service provision costs and legal advice costs) amounting to EUR 1 million were capitalized for the first time as at December 31, 2018. The expenditure is distributed over the term of the contract as the client contract is fulfilled, and recognized as materials costs.

The asset is distributed on a linear basis in line with the pattern of recognition for the related revenues over the term of the contracts concerned and presented as materials costs. See more detailed information on contracts in section C.10. and the composition in section E.4.

The adoption of IFRS 15, using the practical expedients for contracts that have been fulfilled, has not had any major financial impact. For the contract assets and liabilities existing as at January 1, 2018, please see the opening balance sheets presented in section A.4.

The table below summarizes the impact of the adoption of IFRS on the consolidated balance sheet items affected as at December 31, 2018, and on the consolidated statement of comprehensive income for the fiscal year 2018.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2018

ASSETS	As reported € '000	Adjustment amount € '000	Amount before application of IFRS 15 € '000
Current assets			
Contract assets	5,874	-5,874	0
Contracts in progress	0	1,320	1,320
Prepaid expenses and other current assets	6,607	4,554	11,161
Non-current assets			
Capitalized contract costs	1,039	-1,039	0
Contract assets	1,699	-1,699	0
Other assets	246	1,699	1,945
Other assets	822,676		822,676
Total assets	**838,141**	**-1,039**	**837,102**

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2018

LIABILITIES	As reported € '000	Adjustment amount € '000	Amount before application of IFRS 15 € '000
Current liabilities			
Receipt of advance consideration	0	9,024	9,024
Deferred income	310	13,898	14,208
Contract liabilities	22,922	-22,922	0
Non-current liabilities			
Deferred income	115	1,964	2,079
Contract liabilities	1,964	-1,964	0
Deferred taxes arising from temporary differences	15,602	-314	15,288
Other liabilities	407,022		407,022
Total liabilities	**447,935**	**-314**	**447,621**
Equity			
Net retained profit/net accumulated loss (incl. revenue reserves)	93,892	-725	93,167
Other liabilities	296,314		296,314
Total equity	390,206	-725	389,481
Total equity and liabilities	**838,141**	**-1,039**	**837,102**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

	As reported € '000	Adjustment amount € '000	Amount before application of IFRS15 € '000
Capitalized contract costs	1,039	-1,039	0
Other revenues	1,386,181		1,386,181
Total revenue	**1,387,220**	**-1,039**	**1,386,181**
Cost of purchased materials and services	-1,002,421		-1,002,421
Gross profit	**384,799**	**-1,039**	**383,760**
Other expenses	-319,751		-319,751
Operating result	**65,048**	**-1,039**	**64,009**
Financial result	**-878**	**0**	**-878**
Earnings before taxes	**64,170**	**-1,039**	**63,131**
Income taxes	-21,412	314	-21,098
- Deferred taxes	2,572	314	2,886
- Income taxes	-23,984		-23,984
Earnings after taxes from continuing operations	**42,758**	**-725**	**42,033**
Earnings from discontinued operations	-114		-114
Net income/(loss) for the period	**42,644**	**-725**	**41,919**
Other earnings	**457**	**-1,763**	
Comprehensive income	**43,101**	**-2,488**	**41,919**

IFRS 16

In January 2016, the IASB published IFRS 16 Leases. This standard provides a comprehensive model for identifying a lease and for accounting for lessors and lessees. The central idea of the new standard is to include basically all leases and the contractual rights and obligations arising under them in the balance sheet of lessees, eliminating the distinction between finance and operating leases so far required by IAS 17. Instead, IFRS 16 introduces a standard accounting model according to which lessees are obliged to recognize right-of-use assets and lease liabilities for lease agreements with a term of more than 12 months. However, the rules for lessor accounting under the new standard are similar to those formerly required by IAS 17, with the leases continuing to be classified as either finance or operating leases.

Instead of the minimum lease payments under operating leases hitherto shown under other financial obligations, there is an increase in non-current assets as a result of the recognition of right-of-use assets. There is also an increase in current and non-current financial liabilities due to the presentation of the corresponding lease liabilities. Instead of the operating lease contract expenses previously shown, the statement of comprehensive income now shows the depreciation of the right-of-use assets and the interest expense for the liabilities. In the cash flow statement, the operating cash flow is improved due to a reduction in payments made, while the principal component of the lease payments and the interest expense are shown as a component of the cash flow from financing activities.

With the aid of a newly implemented application of the existing consolidation software to display lease agreements in accordance with IFRS 16, the contracts identified for all Group companies have been recorded and measured.

The initial measurement of the right-of-use asset is based on the present value of the lease payments, plus any initial direct costs incurred, less any incentives received. The right-of-use asset is depreciated over the term of the lease or over the life of the underlying asset, if this is shorter. The right-of-use asset is tested for impairment if there are indications that it may be impaired. The incremental borrowing rate used is determined on a quarterly basis starting on January 1, 2018 and is based on the asset categories of real estate (property) and motor vehicles / operating and office equipment.

Lease payments usually consist of fixed and variable payments, which may be linked to an index. If the lease includes an option to extend the term or purchase the asset, which is reasonably certain to be exercised, the costs of the option are included in the lease payments. A lease term longer than 10 years for property is considered not to be sufficiently certain. The options provided in IFRS 16 regarding the treatment of leases with a term not longer than 12 months and low-value asset leases were not exercised.

IFRS 16 Leases is applied early and with retrospective effect from January 1, 2018, with the cumulative effect of the initial application as IFRS 16 being recognized as an adjustment to the opening balance sheets of revenue reserves as at January 1, 2018, and without any adjustment of prior-year comparative amounts (modified retrospective method). The impact of the initial application of the standard, based on the weighted average incremental borrowing rate of 0.7 percent, is presented in section A.4. Adjustment of opening balance sheets.

When adopting IFRS 16 the Group took advantage of the practical expedient provided by IFRS 16.C3 and therefore did not reassess agreements classified as leases under IAS 17 and IFRIC 4 to determine whether they are leases within the meaning of IFRS 16.

Other accounting standards

In December 2016, the IASB issued Annual Improvements to IFRS Standards 2014-2016 Cycle. The IASB's annual improvements process involves amendments to individual IFRSs to eliminate inconsistencies between standards and clarify wording. The standards concerned are IFRS 1, IAS 28, IFRS 12, and IFRS 7. The changes have not had any major impact on the consolidated financial statements.

In December 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation addresses an issue concerning the application of IAS 21. It clarifies the date of transaction for the purpose of determining the exchange rate on transactions involving payment or receipt of advance consideration. There has been no major impact on the CANCOM Group.

Also in December 2016, the IASB published Transfers of Investment Property (Amendments to IAS 40). The amendments clarify when transfers should be made to and from investment property classification if the property is under construction or development.

Until now the classification of incomplete construction properties was unclear due to the exhaustive list provided by IAS 40.57There is no major impact on the consolidated financial statements.

Accounting standards published but not yet implemented

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee have published the following standards, which were not mandatory for the fiscal year 2018. CANCOM generally only applies these accounting standards from their respective mandatory effective dates. The following paragraphs only detail new standards that are expected to apply to the consolidated financial statements of CANCOM SE.

In October 2017 the IASB published Long-term Interests in Associates and Joint Ventures (amendments to IAS 28 Investments in Associates and Joint Ventures). The amendments clarify that an entity is obliged to apply IFRS 9 Financial Instruments, including its rules on impairment, to long-term interests in associates or joint ventures that essentially form part of the net investment in the associate or joint venture but to which the equity method is not applied. The application of IFRS 9 thus takes precedence over the application of IAS 28. The amendment to IAS 28 is mandatorily effective for annual periods beginning on or after January 1, 2019 and has not yet been adopted under European Union law. The impact on the presentation of the asset, financial and earnings position is still being examined.

In December 2017, the IASB published Annual Improvements to IFRS Standards 2015-2017 Cycle. These amendments concern IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, and IAS 23 Borrowing Costs, and mainly contain clarifications. The amendments are effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. The amendment has not yet been adopted under European Union law. The impact on the presentation of the asset, financial and earnings position is still being examined.

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The interpretation explains that the tax treatment of certain circumstances and transactions can depend on future recognition by the taxation authorities or fiscal jurisdiction. While IAS 12 Income Taxes prescribes the accounting treatment of actual and deferred taxes, IFRIC 23 amends IAS 12 by considering uncertainties regarding the income tax treatment of circumstances and transactions. The amendments are effective for annual periods beginning on or after January 1, 2019. The possible impact on the CANCOM Group is currently being examined.

In February 2018, the IASB published amendments to IAS 19 Employee Benefits. The amendments concern the accounting treatment of defined benefit obligations from the time of a plan amendment, curtailment or settlement.

From this time, the current service cost and net interest expense for the reporting period after the remeasurement must in future be determined on the basis of the current actuarial assumptions used to remeasure the benefit obligation at this point in time. In addition, amendments have been included to clarify the impact this will have on the calculation of the asset ceiling. The amendments are effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. The amendment has not yet been adopted under European Union law. The impact on the presentation of the asset, financial and earnings position is still being examined.

In October 2017, the IASB published Prepayment Features with Negative Compensation (Amendments to IFRS 9) to address concerns in relation to how specific prepayable financial instruments are classified under IFRS 9 Financial Instruments. The IASB also clarifies an aspect of the accounting for financial liabilities following a modification. The amendments are effective for annual periods beginning on or after January 1, 2019. The impact on the CANCOM Group is currently being investigated.

In October 2018, the IASB published Definition of a Business (Amendments to IFRS 3). The amendments are intended to help entities determine whether an acquired set of activities and assets is a business or not. The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual reporting period starting on or after January 1, 2020.

In March 2018, the IASB published its revised Conceptual Framework for Financial Reporting (Conceptual Framework). This sets out revised definitions of assets and liabilities and new guidance for measurement and derecognition, presentation and disclosure. The amendments, where they are actually updates, are effective for annual periods beginning on or after January 1, 2020. They are not currently expected to have any major impact on the CANCOM Group.

3. Reporting entity

The consolidated financial statements include CANCOM SE and all subsidiaries in which CANCOM SE has either a direct or an indirect majority stockholding, or in which it holds the majority of the voting rights. These subsidiaries are fully consolidated.

Acquisitions in the fiscal year 2018

CANCOM SE has acquired 82.07 percent of the capital stock (9,490 shares) of CANCOM OCEAN LTD, based in the United Kingdom, through its subsidiary CANCOM LTD. CANCOM OCEAN LTD has in turn acquired all the shares of Ocean Intelligent Communications Ltd , also based in the U.K. The acquisitions are documented in a contract of sale dated March 12, 2018. The purchase price consists of a fixed purchase price of EUR 27.8 million (GBP 24.6 million) paid in cash, and a variable component (earn out) of around EUR 553 thousand (GBP 489 thousand).

The variable purchase price is equal to 10 percent of the planned annual sales revenues from new contracts with a major client expected by June 30, 2019. Ancillary acquisition costs of EUR 472 thousand were incurred in the fiscal year 2018; these are shown in the statement of income under other operating expenses. Daneben wurde eine Put-Call-Vereinbarung getroffen. In addition, a put-cal-option was introduced. It has been recognized with a purchase price of EUR 12.5 million (GBP 11.0 million).

Ocean Intelligent Communications Ltd. and its subsidiaries (the Ocean Group) and the CANCOM Group will in future operate in partnership in the international IT market. Ocean is a fast-growing provider of cloud and managed services for unified communications and collaboration (UCC), and network infrastructure. The Ocean Group employed 54 people as at the date of its first inclusion in the consolidation, and generated sales revenues of around GBP 12 million in its fiscal year 2016/2017.

The date on which it was first included in the consolidated accounts was March 1, 2018.

Changes in the reporting entity in 2018:

Name and registered office of company	Date from which first included in the consolidated financial statements	Stockholding (in percent)	Voting rights (in percent)
CANCOM OCEAN LTD Guildford / United Kingdom	March 1, 2018	82.07	82.07
and its subsidiaries			
Ocean Intelligent Communications Ltd Thames Ditton / United Kingdom	March 1, 2018	82.07	82.07
and its subsidiaries			
Ocean Unified Communications Ltd Thames Ditton / United Kingdom	March 1, 2018	82.07	82.07
Ocean Network Services Ltd Thames Ditton / United Kingdom	March 1, 2018	82.07	82.07

The preliminary figures in the table below show the impact on the consolidated financial statements of the change in the reporting entity as at March 1, 2018, the date of the Ocean Group's first inclusion in the consolidation:

	Fair value € '000	Carrying amount € '000
Cash and cash equivalents	2,750	2,750
Trade accounts receivable	2,428	2,428
Contract assets	905	905
Prepaid expenses and other current assets	267	267
Current assets	**6,350**	**6,350**
Property, plant and equipment (tangible assets)	473	473
Intangible assets	10,310	815
Right-of-use asset	351	351
Contract assets	276	276
Deferred taxes arising from temporary differences	202	202
Deferred taxes arising from tax loss carryovers	196	196
Other assets	5	5
Non-current assets	**11,813**	**2,318**
Total assets	**18,163**	**8,668**
Trade accounts payable	1,398	1,398
Other current financial liabilities	307	307
Contract assets	2,998	2,998
Income tax liabilities	223	223
Other current liabilities	820	820
Current liabilities	**5,746**	**5,746**
Contract assets	398	398
Deferred taxes arising from temporary differences	1,753	139
Other non-current financial liabilities	145	145
Other non-current liabilities	202	202
Non-current liabilities	**2,498**	**884**
Total liabilities	**8,244**	**6,630**
Net assets acquired	**9,919**	**2,038**

The acquisition of the company resulted in goodwill of around EUR 30.9 million, which is not tax-deductible. This goodwill was calculated using a purchase price allocation based on a 100 percent acquisition, as, at the date from which the company was first included in the consolidation, a put/call agreement was already in place for the acquisition of the remaining 17.93 percent by the fiscal year 2025 at the latest. It was assumed that the options would be exercised by the date from which the company was included in the consolidation for the first time. The main reason for the acquisition itself, and for recognizing goodwill, was to boost CANCOM's international business and its range of managed services solutions. The translation of the figures of the U.K. operation into the presentation currency in line with IAS 21 resulted in a decrease of approximately EUR 0.4 million in the value of the goodwill. The goodwill therefore amounted to EUR 30.5 million as at December 31, 2018.

The sales revenues of the Ocean Group included in the consolidated sales revenues since the date of acquisition amount to EUR 13,344 thousand, and the profit included in the consolidated statement of income is EUR 364 thousand.

On May 14, 2018 a capital increase was implemented at CANCOM OCEAN LTD. The 297 newly created shares were all bought by two employees of Ocean Unified Communications Ltd. This resulted in a change in CANCOM LTD's share of the capital of CANCOM OCEAN LTD.

Changes in the reporting entity in 2018:

Name and registered office of company	Date of capital increase	Stockholding (in percent)	Voting rights (in percent)
CANCOM OCEAN LTD Guildford / United Kingdom	May 14, 2018	80.02	80.02
and its subsidiaries			
Ocean Intelligent Communications Ltd Thames Ditton / United Kingdom	May 14, 2018	80.02	80.02
and its subsidiaries			
Ocean Unified Communications Ltd Thames Ditton / United Kingdom	May 14, 2018	80.02	80.02
Ocean Network Services Ltd Thames Ditton / United Kingdom	May 14, 2018	80.02	80.02

CANCOM SE has acquired 87.5 percent of the capital stock (87,500 shares) of CANCOM UK LTD, based in the United Kingdom, via its subsidiary CANCOM LTD, also based in the U.K. CANCOM UK LTD has in turned acquired all the shares of The Organised Group Ltd , based in the U.K. The acquisition is documented in a contract of sale dated August 9, 2018. The purchase price of EUR 29.1 million (GBP 25.9 million) was paid in cash. Ancillary acquisition costs of EUR 635 thousand were incurred in the fiscal year 2018. These are shown in the statement of income under 'other operating expenses'. In addition, a put-call-option was introduced. It has been recognized with a purchase price of EUR 8.6 million (GBP 7.7 million).

The Organised Group Ltd and its subsidiaries (OCSL Group) will in future operate in partnership with the CANCOM Group in the international IT market. The OCSL Group is one of the leading managed services providers and systems integrators in the U.K. The OCSL Group employed 211 people as at the date of its first inclusion in the consolidation, and generated sales revenues of around GBP 72 million in its fiscal year 2017/2018.

The date on which it was first included in the consolidated accounts was August 1, 2018.

Changes in the reporting entity in 2018:

Name and registered office of company	Date from which first included in the consolidated financial statements	Stockholding (in percent)	Voting rights (in percent)
CANCOM UK LTD London / United Kingdom	August 9, 2018	87.5	87.5
and its subsidiaries			
The Organised Group Ltd Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5
and its subsidiaries			
Organised Computer Systems Ltd Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5
OCSL Managed Services Ltd Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5
OCSL Project Services Ltd Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5
and its subsidiaries			
M.H.C. Consulting Services Ltd Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5
OCSL Employee Services LLP Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5
OCSL ITO Ltd Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5
OCSL Property LLP Wisborough Green / United Kingdom	August 9, 2018	87.5	87.5

The table below shows the impact on the consolidated financial statements of the change in the reporting entity as at August 1, 2018, the date from which the OCSL group was first included in the consolidated financial statements.

	Fair value € '000	Carrying amount € '000
Cash and cash equivalents	2,733	2,733
Trade accounts receivable	16,070	16,070
Other current financial assets	37	37
Inventories	1,273	1,273
Contract assets	671	671
Prepaid expenses and other current assets	482	482
Current assets	**21,266**	**21,266**
Property, plant and equipment (tangible assets)	9,230	9,230
Intangible assets	14,923	30
Right-of-use contract assets	847	847
Deferred taxes arising from temporary differences	93	93
Deferred taxes arising from tax loss carryovers	53	53
Non-current assets	**25,146**	**10,253**
Total assets	**46,412**	**31,519**
Short-term loans and current portion of long-term loans	142	142
Trade accounts payable	10,143	10,143
Other current financial liabilities	1,003	1,003
Provisions	55	55
Contract liability	1,527	1,527
Income tax liabilities	18	18
Other current liabilities	1,854	1,854
Current liabilities	**14,742**	**14,742**
Long-term loans	1,573	1,573
Deferred taxes arising from temporary differences	2,591	59
Other non-current financial liabilities	981	981
Non-current liabilities	**5,145**	**2,613**
Total liabilities	**19,887**	**17,355**
Net assets acquired	**26,525**	**14,164**

The acquisition resulted in goodwill of around EUR 11.1 million, which is not tax-deductible. This goodwill was calculated using a purchase price allocation based on a 100 percent acquisition, as, at the date from which the company was first included in the consolidation, a put/call agreement was already in place for the acquisition of the remaining 12.5 percent by the fiscal year 2025 at the latest. It was assumed that the options would be exercised by the date from which the company was first included in the consolidation. The main reason for the acquisition itself, and for the recognition of goodwill, was to boost CANCOM's international business and its range of managed services. The translation of the figures of the U.K. operation into the presentation currency in line with IAS 21 did not result in any change in the value of the goodwill. The goodwill as at December 31, 2018 therefore amounted to EUR 11.1 million.

The sales revenues of the OCSL Group included in the consolidated sales revenues since the date of acquisition amount to EUR 32,196 thousand, and the profit included in the consolidated result is EUR 732 thousand.

If the acquisition date for all the business combinations had been January 1, 2018, the sales revenues of the combined entity would have been approximately EUR 1,433,781 thousand and the net income for the fiscal year roughly EUR 44,389 thousand.

Company acquisitions in prior years:

The change during fiscal 2017 in the variable purchase price liability arising from the acquisition of CANCOM synaix GmbH in 2017 is shown in the table below.

	€ '000
As at January 1, 2018	5,992
Purchase price payments in 2018	-1,626
Discounting	8
As at December 31, 2018	**4,374**

The final payment of the contingent consideration will be made by the end of 2019, instead of in 2019 and 2020, as originally agreed. This has had an impact on discounting.

Mergers in the fiscal year 2018

c.a.r.u.s. Information Technology GmbH was merged into CANCOM GmbH. The merger is documented in a merger contract dated March 23, 2018 and was entered in the commercial register of CANCOM GmbH on April 19, 2018.

synaix Service GmbH was merged into synaix Gesellschaft für angewandte Informations-Technologien mbH. The merger is documented in a merger contract dated July 10, 2018 and was entered in the commercial register of synaix Gesellschaft für angewandte Informations-Technologien mbH on July 17, 2018.

CANCOM ICP GmbH was merged into CANCOM ICT Service GmbH. The merger is documented in a merger contract dated August 2, 2018 and was entered in the commercial register of CANCOM ICT Service GmbH on August 7, 2018.

CANCOM SCS GmbH was merged into CANCOM ICT Service GmbH. The merger is documented in a merger contract dated August 2, 2018 and was entered in the commercial register of CANCOM ICT Service GmbH on August 14, 2018.

4. Adjustment of opening balance sheets

The adoption of IFRS 9, IFRS 15 and IFRS 16 from January 1, 2018 resulted in the following adjustments to the opening balance sheet. Prior-year figures were not adjusted when the transition was made. The effect of the transition was recognized directly in revenue reserves.

	December 31, 2017	Adjustment according to			Total	January 1, 2018
		IFRS 9	IFRS 15	IFRS 16		
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
ASSETS						
Current assets						
Trade accounts receivable Contract assets	223,672	336			336	224,008
Contract assets	0		3,121		3,121	3,121
Contracts in progress	981		-981		-981	0
Prepaid expenses and other current assets	7,139		-2,140		-2,140	4,999
Other	206,196					206,196
Non-current assets						
Right-of-use assets	0			38,862	38,862	38,862
Contract assets	0		984		984	984
Other assets	1,266		-984		-984	282
Other	252,876					252,876
	692,130	**336**	**0**	**38,862**	**39,198**	**731,328**
LIABILITIES						
Current liabilities						
Advance consideration received	6,684		-6,684		-6,684	0
Other current financial liabilities	7,979			7,644	7,644	15,623
Provisions	3,575			-299	-299	3,276
Deferred income	5,143		-4,615	-100	-4,715	428
Contract liabilities	0		11,299		11,299	11,299
Other	271,203					271,203
Non-current liabilities						
Deferred income	2,678		-2,253	-747	-3,000	-322
Contract liabilities	0		2,253		2,253	2,253
Deferred taxes from temporary differences	15,911	104			104	16,015
Other non-current financial liabilities	5,230			32,364	32,364	37,594
Other	9.477					9.477
Equity						
Revenue reserves	122,935	232	0	0	232	123,167
Other equity	241,315					241,315
	692,130	**336**	**0**	**38,862**	**39,198**	**731,328**

5. Accounting and valuation policies

The basic accounting and valuation policies used to prepare the consolidated financial statements are explained below. The methods described were used consistently for the reporting periods shown, unless declared otherwise.

Standards and interpretations with an effective date after the balance sheet date were not adopted early, with the exception of IFRS 16 Leases, which was adopted concurrently with IFRS 15 Revenue from Contracts with Customers. The impact of early adoption on the asset, financial and earnings position of the Group is shown in note A.2.

Preparation of the single-entity financial statements included in the consolidated statements

The financial statements of the German and non-German companies included in the consolidated financial statements were prepared as at the balance sheet date of CANCOM SE.

Principles of consolidation

The consolidated financial statements are based on the single-entity financial statements of the companies included in the financial statements of CANCOM SE.

The single-entity financial statements of the subsidiaries were included in the consolidated statements according to the acquisition method. Assets, liabilities and contingent liabilities identifiable within the scope of a business combination are valued at their acquisition-date fair value when they are first included in the consolidated accounts. The excess of the acquisition cost over the Group's share in the fair value of the net assets is recognized as goodwill. In line with IFRS 3 Business Combinations, IAS 36 Impairment of Assets and IAS 38 Intangible Assets, goodwill is no longer subject to an amortization plan. Instead, an impairment test must be carried out at least once a year to establish whether downward revaluation is necessary. The reviews of goodwill based on market values are to be carried out at business unit (cash generating unit) level. For the purposes of this rule, a business unit is an operating segment or one level below.

Profits, losses, revenues, expenses and income within the Group, and accounts payable and receivable between the Group companies, are eliminated. Interests held by other stockholders are shown as a separate adjusting item under equity.

Estimates and assumptions

Discretionary decisions must be made when applying the accounting and valuation policies. The points below describe the most significant assumptions made about the future, and other major sources of uncertainty existing at the reporting date with regard to estimates. On account of these, there is a risk that an adjustment in the carrying amounts of assets and liabilities will be necessary within the next fiscal year:

- The fair values of assets and liabilities and the useful life of assets are calculated on the basis of assessment and forecasting by the management, as is the impairment of property, plant and equipment, intangible assets and financial assets.
- There are bad debt provisions in order to make allowances for doubtful accounts arising from clients' inability or unwillingness to pay.
- Assumptions must also be made when calculating actual and deferred taxes. The possibility of generating corresponding taxable income plays a particularly important role in assessing whether deferred tax assets can be used.
- The estimation of realizable profits plays an important role in the reporting and measurement of other provisions, especially in connection with variable purchase price components.
- In addition, the main estimated values in reporting and measuring pension provisions are discount factors, expected salary and pension trends, staff turnover and expected mortality.

- Assessment of the recoverable amount is based on assumptions made when impairment tests are being carried out (see Section C. 9.4.).
- The stock options granted to staff as share-based payment agreements are measured mainly on the basis of estimated market-related performance conditions such as expected volatility and risk-free interest, in addition to fluctuation and expected mortality.

Where the above uncertainties regarding valuations exist, the best available knowledge given the circumstances at the balance sheet date is used. The actual amounts may differ from the estimates. The carrying amounts that are included in the financial statements and that are subject to these uncertainties can be found in the balance sheet and/or the corresponding explanations in the notes.

At the time of compilation of the consolidated financial statements, no material changes in the assumptions forming the basis of the reporting and valuation are to be expected. In this respect no noteworthy adjustments to the assumptions and estimates or the carrying amounts of the affected assets and liabilities in the fiscal year 2018 are currently expected.

Currency conversion principles

Foreign currency business transactions in the single-entity financial statements of the companies are recognized at the exchange rate applicable at the time of the initial entry. Gains and losses from exchange rate fluctuations are recognized in net profit or loss. Conversion of the financial statements of international subsidiaries is carried out according to the concept of functional currency. Within the CANCOM Group, all international subsidiaries are financially independent, and therefore the relevant national currency of the subsidiary is the functional currency. The assets, liabilities and equity are accordingly converted at the rate of exchange applicable on the reporting date, while income and expenditure are converted at the average rate for the year. Differences from the conversion rate on the reporting date in the previous year and between the net income/(loss) for the year shown in the balance sheet and in the statement of income are recognized directly in equity and shown separately under other comprehensive income.

Currency	2018	2017	2016
U.S. dollars			
Reporting date exchange rate	EUR 1 = USD 1.1450	EUR 1 = USD 1.1993	EUR 1 = USD 1.0541
Average rate	EUR 1 = USD 1.1815	EUR 1 = USD 1.1293	EUR 1 = USD 1.1066
Swiss francs			
Reporting date exchange rate	EUR 1 = SFR 1.1269	EUR 1 = SFR 1.1702	EUR 1 = SFR 1.0739
Average rate	EUR 1 = SFR 1.1549	EUR 1 = SFR 1.1116	EUR 1 = SFR 1.0902
British pounds			
Reporting date exchange rate	EUR 1 = GBP 0.8945	EUR 1 = GBP 0.8872	EUR 1 = GBP 0.8562
Average rate	EUR 1 = GBP 0.8848	EUR 1 = GBP 0.8765	EUR 1 = GBP 0.8189

Income of EUR 121 thousand was recognized in the statement of income for currency translation differences. The currency translation differences shown in the financial statements for the fiscal year as a separate item under equity amount to EUR 469 thousand (2017: minus EUR 1,805 thousand). As at December 31, 2018, the reserve for currency translation amounts to EUR 233 thousand (2017: minus EUR 236 thousand).

Realization of income/sales revenues

Sale of hardware and software and provision of IT services

Accounting and valuation policies applicable up to January 1, 2018:

Revenues from sales of hardware and software are realized when ownership and risk passes to the client, if payment is pre-arranged or determinable by contract and it is probable that the receivables relating to the sale will be recovered.

Sales revenues relating to the professional services segment are realized only after acceptance by the client, or installation, if this is an essential condition for the initial operation of the product. Sales revenues are shown less discounts, price reductions, client bonuses or rebates.

Service contracts in progress are recognized using the percentage of completion (POC) method. The stage of completion is calculated from the ratio between the costs of the contract at the balance sheet date and the estimated total costs of the contract, unless this would distort the representation of the stage of completion. If the outcome of a contract can be estimated reliably, revenues and costs are recognized at the balance sheet date in proportion to this stage of completion. If the outcome of a contract cannot be reliably estimated, revenue is recognized only to the extent of the contract costs incurred that are likely to be recoverable.

Section A.2. describes the accounting and valuation policy applicable from January 1, 2018 for revenue from contracts with clients.

Recognition of income and expenses from leases

The Group leases various buildings, operating and office equipment, and motor vehicles. Tenancy agreements are generally entered into for fixed periods of up to 10 years, and some have an option to extend. The rental terms and conditions are individually negotiated and include a large number of different conditions.

As explained in section A.2., the Group has changed its method of accounting for leases. Following the adoption of IFRS 16, lease liabilities are recognized for leases previously classified as operating leases under IAS 17. These liabilities are measured at the present value of the remaining lease payments.

Leases are accounted for as a right-of-use asset and a corresponding liability on the date on which the leased asset is available to the Group.

Up to and including the fiscal year 2017, payments on an operating lease were recorded as expenses in the statement of income using the straight-line method over the term of the lease contract, unless another systematic fundamental corresponded more closely to the changes in the benefit to the company over the term. An operating lease was one in which not all major risks and opportunities were assigned to the lessee by the lease contract. The company reviewed all lease contracts at regular intervals to establish whether operating or finance lease terms applied.

In finance leases in which the company is the lessee, the leases are recognized in the balance sheet at the beginning of the term of the lease as assets and liabilities of equal value. They are measured at the fair value of the leased asset at the beginning of the term of the lease or at the present value of the minimum lease payments, if this is lower. Sale-and-Lease-back transactions, in which the company acted as vendor first and afterwards as lessee resulted in profits of EUR 116 thousand in the financial year.

In finance leases in which the company is the lessor, the asset values of the lease are recognized in the balance sheet and presented as an account payable at the net investment value of the lease.

As at December 31, 2018:

Leases in which the company is the lessor	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Financial income not yet realized (total term)**	**Total minimum lease payments**
	< 1 year	< 1 year	> 1 < 5 years	> 1 < 5 years	> 5 years	> 5 years		
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
	7,102	6,723	7,723	7,533	0	0	569	14,825

Leases in which the company is the lessee	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Financial income not yet realized (total term)**	**Total minimum lease payments**
	< 1 year	< 1 year	> 1 < 5 years	> 1 < 5 years	> 5 years	> 5 years		
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
	9,798	9,550	21,303	20,613	12,135	11,858	1,216	43,237

As at December 31, 2017:

Leases in which the company is the lessor	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Financial income not yet realized**	**Total minimum lease payments**
	< 1 year	< 1 year	> 1 < 5 years	> 1 < 5 years	> 5 years	> 5 years		
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Operating lease	0	0	0	0	0	0	0	0
Finance lease	5,631	5,234	8,205	7,883	0	0	719	13,836

Leases in which the company is lessee	**Net carrying amount at Dec. 31., 2017**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**	**Total subleases**	**Recogni-zed lease payments in 2017***
		< 1 year	< 1 year	> 1 < 5 years	> 1 < 5 Jahre	> 5 years	> 5 years		
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Operating lease (operating segment)	0	10,303	0	19,624	0	6,702	0	0	9,515
Finance lease	949	451	431	522	518	0	0	973	0

*minimum lease payments only

In the financial year gains from disposal out of financial leasing transactions amounted to EUR 1,063 thousand.

Recognition of interest and dividends received

Interest income is accrued under the relevant period, taking into account the outstanding loan amount and the applicable interest rate. The applicable interest rate is the interest rate that discounts the anticipated future cash inflows over the life of the financial asset with regard to the carrying amount of the asset. Dividend income from financial investments is recognized as soon as a shareholder becomes entitled to a dividend payment.

Earnings per share

Earnings per share are measured in accordance with IAS 33 Earnings per Share. The basic earnings per share are calculated by dividing consolidated income/(loss) less non-controlling interests by the weighted average number of common shares outstanding in the fiscal year. For details on how the earnings per share are calculated, please see under 'statement of income'.

Share-based payment agreements

The fair value of share-based payment agreements on the day they are granted to the staff member is recognized as an expense, with a corresponding increase in the equity capital, over the period in which the staff member acquires an unrestricted claim to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the corresponding service conditions and non-market related performance conditions are met in accordance with expectations, so that the amount ultimately recognized as an expense is based on the number of awards that fulfil the relevant service conditions and non-market related performance conditions at the end of the vesting period.

In the case of cash-settled share-based payment agreements, the liability is remeasured on each balance sheet date and on the settlement date on the basis of the fair value of the stock appreciation rights. All changes in the liability are recognized in profit or loss.

Current assets

Inventories are valued at the lower of cost and net realizable value in accordance with IAS 2.9. Cost includes direct materials costs and, where applicable, direct production costs as well as any overheads incurred in bringing the inventories to their current location and condition. It is calculated according to the weighted average method and measured item-by-item according to the lower of cost or market principle. The net realizable value is the estimated selling price less all estimated costs up to completion and the cost of marketing, sales and distribution. Items with reduced marketability are valued at the lower net realizable value.

Where necessary, write-downs are made for excess inventory, obsolescence or reduced marketability.

Any borrowed capital costs associated with manufacturing are capitalized.

The contracts in progress recognized in the fiscal year 2017 are valued by the percentage of completion method, in which revenue and costs are recognized in proportion to the stage of completion of contract activity, in accordance with IAS 18 and IAS 11.

Accounts receivable are shown at their net sales proceeds value, including possible wirte-downs. Where the agreed interest rate for long-term receivables is less than the market rate, the nominal amount of the receivable is discounted. Trade receivables are not discounted.

Other assets are shown at their nominal values, less specific allowances for bad debts, if necessary.

Cash and cash equivalents include cash in banks and cash on hand, and cash deposits that are not subject to any considerable value fluctuation and can be turned into cash within a period of maximum three months.

Prepaid expenses are accrued to charge expenses to their relevant accounting period, and are measured at their nominal value.

Property, plant and equipment (tangible assets)

Property, plant and equipment are carried at cost less depreciation in accordance with IAS 16. They are depreciated over their useful lives using the straight-line method and valued on the basis of the following useful lives:

Buildings on third-party land	50 years
Properties	30 to 33 years
Operating and office equipment	3 to 14 years

Cost includes expenditure directly attributable to acquisition. Subsequent costs are only recorded as part of the asset costs or – where relevant – as separate assets if it is probable that the Group will obtain economic benefit from them in the future and the asset costs can be reliably determined. All other repair and maintenance costs are recorded as expense in the fiscal year in which they occur. The carrying amounts and useful lives are reviewed at every balance sheet date and adjusted where necessary. Low-value assets with costs of EUR 250 or less are written off in full as operating expenses in the year of their acquisition.

Asset values are written down when there is expected to be permanent impairment as a consequence of changed circumstances. Assets are reviewed to look for any indication of impairment at each balance sheet date. If such indications are present, the company makes an estimate of the recoverable amount for the relevant asset. The recoverable amount is the higher of the value in use of the asset and the fair value less costs to sell.

To calculate the value in use, the estimated future cash flows are discounted to their present value, taking as a basis a discount rate before tax which reflects the current market expectations in terms of the interest effect and the specific risks of the asset. If the fair value cannot be calculated reliably, the value in use of the asset is taken as the recoverable amount. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and written down to its recoverable amount. If necessary, the impairment charges are included in a separate expense item.

The need for partial or complete write-up is reviewed as soon as there are indications that the reasons for the depreciation carried out in the preceding fiscal years because of impairment no longer exist. A previously determined impairment charge must be derecognized if there has since been a change in the estimates used as a basis for calculating the recoverable amount. If this is the case, the carrying amount of the asset must be increased to its recoverable amount. This increased carrying amount must not exceed the carrying amount that would result after taking into consideration the depreciation if no impairment charge had been recorded in the earlier years. Such a write-up is immediately included in the result of the fiscal year. Once a write-up has been carried out, the provision for depreciation in future reporting periods is adjusted in order to distribute the adjusted carrying amount of the asset, less any residual carrying amount, systematically over its remaining useful life. There were no impairments in the year under review.

Intangible assets

In line with IAS 38, intangible assets acquired are recognized at cost and the estimated residual carrying amount is written down using the straight-line method over the expected useful life of the assets. Assets are written down uniformly throughout the Group using the straight-line method over the period in which the relevant company expects to benefit from the asset (generally over a useful life of 3 to 12 years). Client lists and orders in hand are written down over the respectively assumed contract term. Goodwill from acquisitions is not amortized according to plan. Instead, it is subject to an impairment test at least once a year (in line with IFRS 3 and IAS 36). IAS 38 distinguishes between intangible assets with finite lives and those with indefinite lives. Only intangible assets with finite lives are amortized according to plan, in contrast to intangible assets with indefinite lives. These are assessed for impairment at least once a year in accordance with IAS 36. With the exception of goodwill, all intangible assets have finite lives.

The costs of development activities are capitalized if the development costs can be calculated reliably, the product or the process is technically and economically realizable and future economic benefit is probable. The company must also have the intention and sufficient resources to conclude the development and to use or sell the asset.

Right-of-use assets

Information on the early adoption of IFRS 16 Leases can be found in section A.2.

First inclusion of acquired companies in the Group financial statements and goodwill

Group companies are included in the consolidated financial statements by the acquisition method. Under this method the acquired company's assets, liabilities and contingent liabilities identified according to IFRS 3 are valued at their acquisition-date fair value, and the costs of the acquirer are balanced against these (purchase price allocation). The interests in the fair values of assets and liabilities not acquired are shown as non-controlling interests.

Any excess of the acquisition costs over the value of the acquired equity is capitalized as goodwill and subsequently subjected to a regular annual impairment test at the end of each fiscal year. In line with IAS 36, goodwill is tested for impairment at reporting unit (cash generating unit) level, following segment reporting. In this process, the carrying amounts of cash generating units are compared with the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the unit's value in use.

Financial assets accounted for by the equity method

Companies on whose business and financial policies CANCOM can exercise a significant but non-controlling influence (associates) are included in the consolidated financial statements using the equity method, and initially valued at their acquisition cost. The acquisition costs in excess of CANCOM's share of the net assets of the associate are adjusted in line with the fair value, and the remaining amount is recognized as goodwill. The goodwill resulting from the acquisition of an associated company is included in the carrying amount of the associate and is not amortized according to plan, but is tested for impairment as a component of the overall investment in the associate. CANCOM's share in the profit or loss of the associate after acquisition is recognized in the consolidated statement of income; its share in changes in equity that has not been included in profit or loss is recognized directly in the consolidated equity. The cumulative changes after the acquisition date increase or reduce the carrying amount of the long-term equity investment in the associate. If CANCOM's share in the losses of an associate equals or exceeds the value of its interest in this company, its share of further losses is not recognized, unless liabilities have been incurred or payments have been made for the associate. The interest in the associate is the carrying amount of the investment along with all long-term interests that, in substance, form part of the investor's net investment in the associate. Profits or losses from business transactions between CANCOM and its associates are eliminated according to CANCOM's interest in the associate. On each reporting date, CANCOM tests whether there are objective indications of impairment of its interest in the associate. If there are such indications, CANCOM calculates the necessary write-down from the difference between the realizable amount and the carrying amount of the associate.

Financial assets

The Group's financial assets mainly comprise long-term securities, cash and cash equivalents, trade accounts receivable, contractual assets, receivables relating to finance leases, derivative assets, and other financial assets.

Classification and valuation

Balancing and valuation methods valid until January 1, 2018:

Financial assets (all contracts that lead to the recognition of a financial asset by one company and to the recognition of a financial liability or an equity instrument by another company) are classified in the following categories in accordance with IAS 39:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets on initial recognition, and reviews the classification at each reporting date.

1. Financial assets at fair value through profit or loss

This category has two subcategories:

- financial assets classified from the start as held for trading;
- any financial asset designated on initial recognition as one to be measured at fair value through profit or loss.

A financial asset is allocated to this category if it was acquired principally with a view to selling it in the short term, or it has been designated as such by management. Assets in this category are disclosed as current assets if they are either held for trading or are expected to be realized within the 12 months following the reporting date.

Derivative financial assets are measured at fair value. Changes in the value of derivative instruments not designated as hedging instruments are measured at fair value through profit or loss. If the derivatives are included in a cash flow hedge, the fair value adjustments are recognized directly in equity inclusive of deferred taxes. Where derivative financial instruments are included in fair value hedges, the carrying amount of the hedged underlying item is adjusted for the gain or loss from the derivative corresponding to the hedged risk.

2. Loans and receivables

The loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than those held for trading in the near term, and those that management has designated as at fair value through profit or loss. Loans and receivables arise if the Group provides money, goods or services directly to a debtor without the intention of selling on the receivables. They are allocated to current assets if the maturity date of the loans and receivables is not more than 12 months after the reporting date. Loans and receivables with longer maturities are presented as non-current assets. Loans and receivables are included in the balance sheet under accounts receivable and other assets.

3. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed life, which management has the intention and the ability to hold to maturity. They do not include investments that are designated for accounting at fair value, held for trading or classified as loans and receivables.

4. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are classified as available for sale and that are not included in any of the other categories. They are allocated to non-current assets provided that management does not intend to sell them within 12 months after the reporting date.

On initial recognition, financial assets are measured at fair value including transaction costs. A financial asset is derecognized when the rights to payments from the investment have expired or been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets designated as financial assets at fair value through profit or loss are measured at fair value subsequent to initial recognition. Loans and receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Realized and unrealized gains and losses from a change in the fair value of assets designated as financial assets at fair value through profit or loss are recognized in the statement of income in the period in which they arise. Unrealized gains and losses from changes in the fair value of non-monetary securities classified as available-for-sale financial assets are recognized in other comprehensive income. When securities categorized as available-for-sale financial assets are sold or impaired, the changes in fair value combined in the other comprehensive income are recognized in the statement of income as profits or losses from financial assets.

The fair values of financial assets quoted on an active market are measured at the current bid price. If there is no active market for the financial assets, or they are unquoted securities, the fair value is calculated by means of an appropriate valuation method. The methods include reference to recent transactions between knowledgeable business partners, the use of current market prices for other comparable assets, discounted cash flow analysis and, if applicable, special option pricing models.

Details of the accounting and valuation policy effective from January 1, 2018 can be found in section A.2.

Impairment of financial assets

Balancing and valuation methods valid until January 1, 2018:

Financial assets, with the exception of those measured at fair value through profit or loss, are examined at each reporting date for possible impairment. Financial assets are considered to be impaired if, as a result of one or more events occurring since the initial recognition of the asset, there is objective evidence that the expected future cash flows from the financial instrument have decreased.

In the case of equity instruments classified as available-for-sale financial assets, any significant or permanent decline in the fair value below acquisition costs is taken into consideration in determining the extent to which the equity instruments are impaired.

For all other financial assets, objective evidence of impairment includes the following:

- significant financial difficulty of the counterparty;
- payment defaults or delays extending beyond the average loan term of the borrower;
- a default or delinquency in interest or principal payments;
- increased probability that the borrower will enter bankruptcy or other financial reorganization.

For financial assets valued at amortized cost, the impairment loss is the difference between the carrying amount of the asset and the present value of expected future cash flows discounted at the financial asset's original effective interest rate.

An impairment results in a direct reduction in the carrying amount of the financial asset concerned, with the exception of trade accounts receivable, whose carrying amounts are reduced by an allowance for doubtful accounts. If an impaired trade account receivable is deemed to be uncollectible, it is written off by debiting the allowance for doubtful accounts. Subsequent recoveries of amounts recognized as impairments are also posted to the allowance for doubtful accounts.

If a financial asset designated as available for sale is considered impaired, the gains and losses previously recognized in other comprehensive income are reclassified to the consolidated statement of income in the period.

If the amount of the impairment loss relating to a financial asset valued at amortized cost decreases in a subsequent fiscal year and the decrease can objectively be attributed to an event occurring after the impairment was recognized, the impairment loss previously recognized is reversed through profit or loss. However, such a reversal must not exceed what the amortized cost would have been if the impairment had not been recognized.

In the case of available-for-sale equity instruments, impairments recognized in the statement of income in the past are not reversed through profit or loss. Each increase in the fair value is recognized in other comprehensive income after an impairment loss is recognized and accumulated in the revaluation reserve.

Reversals of impairment losses for available-for-sale debt instruments are recognized in the statement of income if an increase in the fair value of the instrument is due to an event that occurred after the impairment loss was recognized.

Details of the accounting and valuation policy effective from January 1, 2018 can be found in section A.2.

Derecognition of financial assets

The Group derecognizes a financial asset only if the contractual rights to receive the cash flows from the financial asset expire or the asset is transferred to a third party along with substantially all the risks and rewards of ownership of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership, but continues to have the right of control of the transferred asset, it continues to recognize the asset to the extent to which it has a continuing involvement in the asset, along with a liability of the amount that may have to be paid. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and a financial liability.

If a financial asset is derecognized in full, the difference between the carrying amount and the sum of the price received or due to be received and all the accumulated gains or losses that have been recognized in other comprehensive income and accrued in equity is recognized in the consolidated statement of income.

If a financial asset is not derecognized in full – for instance, if the Group retains an option to buy back a portion of the transferred asset – the Group splits the former carrying amount of the financial asset between the portion that the Group continues to recognize to the extent of its continuing involvement in the asset and the portion that it no longer recognizes, on the basis of the relative fair values of these portions on the date on which the asset was transferred.

The difference between the carrying amount allocated to the portion no longer recognized and the sum of the remuneration received for the portion no longer recognized and all accumulated gains or losses allocated to it that have been recognized in other comprehensive income, is recognized in the consolidated statement of income. Any accumulated gain or loss that has been recognized in other comprehensive income is divided up between the portion that continues to be recognized and the portion no longer recognized on the basis of the relative fair values.

Financial derivatives

The Group uses financial derivatives as a means of controlling its foreign exchange risk. The derivatives used are mainly currency futures.

Derivatives are initially recognized at their fair value at the time the contract was entered into and subsequently measured at fair value at each reporting date. The gain or loss resulting from the measurement is recognized immediately in the statement of income unless the derivative is designated as a hedging instrument in an effective hedging relationship.

Fair value measurement

The Group measures certain financial instruments (e.g. derivatives) at fair value at each reporting date. The fair value is the price that would be received or paid for the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date. In measuring the fair value it is assumed that the transaction to sell the asset or transfer the liability takes place either

- in the principal market for the asset or the liability; or
- in the absence of a principal market, in the most advantageous market for the asset or the liability.

The Group must have access to the principal market or the most advantageous market.

The fair value of an asset or a liability is measured according to the assumptions on which the market participants would base the pricing of the asset or the liability. It is assumed that the market participants are acting in their own economic best interests.

The measurement of the fair value of a non-financial asset takes into account the ability of the market participant to generate economic benefit from the highest and best use of the asset or by selling it to another market participant, who finds the highest and best use for the asset.

The Group uses measurement techniques that are appropriate under the relevant circumstances and for which sufficient data is available for measurement of the fair value. Both observable and unobservable inputs are used.

All assets or liabilities that are measured at fair value or whose fair value is stated in the financial statements, are classified in the following fair value hierarchy on the basis of the lowest-level input parameter that is significant to the entire fair value measurement:

level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities;

level 2 – method of measurement in which the input of the lowest level that is significant to the entire fair value measurement is observable in the market, either directly or indirectly;

level 3 – method of measurement in which the input of the lowest level that is significant to the entire fair value measurement is not observable in the market.

For assets and liabilities recorded in the financial statements on a recurring basis, the Group decides whether any changes in the groupings between the levels of the hierarchy have taken place by reviewing the classification at the end of each reporting period (based on the input of the lowest level that is significant to the entire fair value measurement).

The staff responsible for the Group accounting process and the Executive Board together set guidelines and procedures for recurring and non-recurring fair value measurement.

To fulfill the disclosure requirements with regard to fair values, the Group has defined groups of assets and liabilities on the basis of their nature, characteristics and risks, and the levels of the fair value hierarchy explained above.

Further information on the assumptions used in determining the fair value of share-based payment agreements can be found in section E.15.

Financial liabilities

The financial liabilities comprise loans, trade accounts payable, subordinated loans, finance lease liabilities, contractual assets, purchase price liabilities from company acquisitions and other financial liabilities. Financial liabilities are initially recognized at fair value; financial liabilities not measured at fair value through profit or loss also include transaction costs directly attributable to the liability. In subsequent periods, financial liabilities are measured at amortized cost, with the exception of purchase price liabilities arising from company acquisitions, which are measured at fair value.

Current financial liabilities (i.e. liabilities expected to be paid off within 12 months after the reporting date) are recognized at the repayment amount. Subsequent to initial recognition, non-current liabilities and financial liabilities are accounted for at amortized cost by the effective interest rate method. Finance lease liabilities are disclosed at the present value of the minimum lease payments.

The fair values of financial assets quoted on an active market are measured at the current bid price. If there is no active market for the financial assets, or there are unquoted securities, the fair value is calculated by means of an appropriate valuation method. The methods include reference to recent transactions between knowledgeable business partners, the use of current market prices for other comparable liabilities, discounted cash flow analysis and, if applicable, special option pricing models.

According to the definition of equity in IAS 32, from the point of view of the Group a financial instrument is an equity instrument only if it includes no contractual obligation to repay the capital or deliver other financial assets. Repayment obligations from the corporate assets can exist if (non-controlling) stockholders have a termination right and at the same time the exercising of this right is a basis for a claim for compensation against the company. Such capital provided by non-controlling stockholders is also disclosed as a liability if, according to the principles of German commercial law, it is classed as equity. The claims for compensation are accounted for at fair value.

Government grants

Government grants are recognized in the balance sheet as deferrals and recognized in profit or loss on a systematic and rational basis over the term of the grant.

Grants paid as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no related future costs are recognized in the consolidated statement of income in the period in which they become receivable.

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

Deferred taxes

Deferred taxes are included for the differences between the carrying amount of the assets and liabilities in the consolidated financial statements and the corresponding tax recognition in the calculation of taxable income, and are added to the balance sheet according to the asset and liability method.

Deferred tax liabilities are included in the balance sheet for all assessable temporary differences. Deferred tax assets are included if it is likely that assessable profits are available for which the deductible temporary differences can be used. Deferred taxes are not recognized if the temporary differences are the result of goodwill.

The carrying amount of the deferred tax assets is checked each year at the reporting date and lowered if it is no longer likely that there is sufficient taxable income available to realize the claim.

Deferred taxes are calculated on the basis of the tax rates expected to apply at the time of the fulfilment of the liability or the realization of the asset. The valuation of deferred tax claims and tax liabilities reflects the tax consequences that would arise from the way in which the Group expects to fulfil the liability or realize the asset at the balance sheet date.

Deferred tax claims and tax liabilities are balanced when there is an enforceable right to set off current tax claims with current tax liabilities, and when they are associated with income taxes which are levied by the same tax authority.

Provisions and liabilities

Provisions for staff benefits mainly include performance-based pension obligations, which are determined on the basis of actuarial reports using the projected unit credit method and taking into account future increases in salary and pensions. Under defined contribution pension schemes, provisions are only made for the value of contributions still outstanding at the reporting date. In the event of any unforeseen changes in pension obligations or plan assets, there may be actuarial gains or losses which are not recognized in the statement of income. These are recognized in other comprehensive income (OCI).

Under IFRS, the cost components are service cost, net interest and remeasurements. Service cost and net interest are recognized as expenses in profit or loss. These represent the pension expense. Remeasurements are recognized directly in equity.

Other provisions are made where there is an uncertain current obligation arising from an event that occurred in the past with a legal or factual cause, which is expected to be claimed and which can be reliably quantified. The obligation is valued on the basis of best estimate, taking into account unit costs and overheads. General administrative, distribution and development costs are not taken into account.

Liabilities are recognized at their repayment value, which is equivalent to the current market value.

Utilized overdraft facilities are shown in the balance sheet as short-term loans under non-current financial liabilities.

B. Details of financial instruments

Classification of financial instruments

Financial assets and financial liabilities are grouped into different classes of financial instruments. The categories are also presented in aggregated form.

	Measurement category under IFRS 9	Carrying amount December 31, 2018 € '000	Fair value December 31, 2018 € '000
Assets			
Cash and cash equivalents	Amortized cost	135,247	135,247
Long-term securities	Fair value through other comprehensive income (FVTOCI)	4,000	4,000
Trade accounts receivable	Amortized cost	274,411	274,411
Lease receivables	Amortized cost	14,256	14,634
Contract assets	Amortized cost	7,573	7,573
Other financial assets	Amortized cost	11,889	11,889
Derivatives	Mandatorily measured at fair value through profit or loss (FVTPL)	40	40
LIABILITIES			
Short-term loans and current portion of long-term loans	Amortized cost	904	904
Subordinated loans (current portion)	Amortized cost	1,753	1,753
Trade accounts payable	Amortized cost	271,478	271,478
Long-term loans	Amortized cost	2,050	2,126
Subordinated loans	Amortized cost	1,339	1,414
Lease liabilities	Amortized cost	42,021	42,021
Contract liabilities	Amortized cost	24,886	24,886
Contingent purchase price liability	Fair value through profit or loss	25,618	25,618
Other financial liabilities	Amortized cost	5,811	5,811
Of which aggregated by measurement categories in line with IAS 9:			
Financial assets at amortized cost		443,376	443,754
Financial assets at fair value through other comprehensive income (FVTOCI)		4,000	4,000
Financial assets mandatorily measured at fair value through profit or loss (FVTPL)		40	40
Financial assets at amortized cost		350,242	350,393
Financial assets at fair value through profit or loss		25,618	25,618

The disclosures for the previous year under IAS 39 are as follows:

	Measurement category under IAS 39 and IFRS 7	Carrying amount December 31, 2018 € '000	Fair value December 31, 2018 € '000
Assets			
Cash and cash equivalents	LaR	157,619	157,619
Fixed-term deposits (short-term)	LaR	12,000	12,000
Long-term securities	AfS	5,321	5,321
Trade accounts receivable	LaR	223,672	223,672
Lease receivables	LaR	13,118	13,399
Other financial assets	LaR	10,912	10,912
Derivatives	FVTPL	194	194
LIABILITIES			
Short-term loans and current portion of long-term loans	FLAC	3,804	3,804
Subordinated loans (current portion)	FLAC	1,953	1,953
Trade accounts payable	FLAC	220,956	220,956
Long-term loans	FLAC	1,315	1,470
Subordinated loans	FLAC	3,092	4,323
Lease liabilities	FLAC	949	949
Contingent purchase price liability	FVTPL	6,492	6,492
Other financial liabilities	FLAC	5,982	5,982
Of which aggregated by measurement categories in line with IAS 39:			
Financial Assets at fair value through profit or loss (FApl)		194	194
Loans and Receivables (LaR)		417,321	417,602
Held-to-Maturity Investments (HtM)		0	0
Available-for-Sale Financial Assets (AfS)		5,321	5,321
Financial Assets Held for Trading (FAHfT)		0	0
Financial Liabilities Measured at Amortised Cost (FLAC)		238,051	239,437
Financial Liabilities Held for Trading (FLHfT)		0	0
Financial Liabilities at fair value through profit or loss (FLpl)		6,492	6,492

Cash and cash equivalents, trade accounts receivable, contractual assets and other financial assets mainly have short remaining terms. Their carrying amounts at the balance sheet date are therefore roughly equivalent to their fair value.

Similarly, trade accounts payable, short-term loans and other financial liabilities frequently have short remaining terms. The amounts accounted for are approximately equal to the fair values.

Financial assets and liabilities measured at amortized cost and loans and receivables with a remaining term of more than one year are measured using the effective interest rate method.

The effective interest rate is the interest rate that discounts the estimated future payments (including all fees and charges that are part of the effective interest rate, transaction costs, and other premiums and discounts) over the expected life of the debt instrument, or a shorter period where applicable, to their net carrying amounts at the time of their first inclusion in the financial statements.

Long-term securities at fair value through other comprehensive income (classified as available for sale in 2017) are not payable at term, are not held for trading, and are available for sale at any time.

Financial derivatives for which there is no hedge relationship are recognized in income at fair value through profit or loss. The net gains and losses of this category are calculated by comparing the fair values.

The net gains/losses are as follows :

	2018 € ’000
Financial assets and liabilities, mandatorily measured at fair value through profit or loss (FVTPL)	322
of which: held for trading	*40*
Financial assets measured at amortized cost	515
Financial liabilities measured at amortized cost	-872
Debt instruments measured at fair value through other comprehensive income (FVTOCI) (with recycling)	-150
of which: recognized in other comprehensive income	*0*

The disclosures for the previous year under IAS 39 are as follows:

	2017 € ’000
Loans and receivables (LaR)	455
Financial assets and liabilities at fair value through profit or loss	360
of which: held for trading	*194*
Available-for-sale financial assets	16
of which: recognized in other comprehensive income	*-2*
Financial liabilities measured at amortized cost	-1,879

The net gains/losses comprise interest expenses, interest income, write-downs and reversals of write-downs, and measurement gains or losses on financial instruments accounted for at fair value through profit and loss.

The use of the effective interest rate method for the valuation of financial liabilities measured at amortized cost gives rise to an interest expense of EUR 872 thousand (2017: EUR 1,197 thousand), which is recognized in the statement of income. Of those, EUR 561 thousand derive from the interest accrued on leasing liabilities.

Interest income of EUR 887 thousand was produced by the interest accrued on financial assets (leasing liabilities) according to the effective interest rate method (2017: EUR 605 thousand).

The following table shows by hierarchical levels the fair values of financial assets and financial liabilities that are either measured at fair value or for which a fair value is stated because it deviates from the carrying amount:

December 31, 2018 Class of financial instrument	Prices at which listed on active markets (level 1) € '000	Main observable input parameters (level 2) € '000	Main unobservable input parameters (level 3) € '000	Total € '000
Financial assets				
Long-term securities	4,000	-	-	4,000
Leases receivables	-	14,256	-	14,256
Currency futures	-	40	-	40
Financial liabilities				
Long-term loans - fixed interest rate	-	2,050	-	2,050
Convertible bonds - liability component	-	-	-	0
Subordinated loans	-	1,339	-	1,339
Lease payables	-	42,021	-	42,021
Contingent purchase price liabilities	-	-	25,618	25,618

December 31, 2017 Class of financial instrument	Prices at which listed on active markets (level 1) € '000	Main observable input parameters (level 2) € '000	Main unobservable input parameters (level 3) € '000	Total € '000
Financial assets				
Long-term securities	5,321	-	-	5,321
Leases receivables		13,399		13,399
Currency futures	-	194	-	194
Financial liabilities				
Long-term loans - fixed interest rate	-	1,470	-	1,470
Convertible bonds - liability component	-	-	-	0
Subordinated loans	-	4,323	-	4,323
Lease payables	-	949	-	949
Contingent purchase price liabilities	-	-	6,492	6,492

The fair values of the securities are equal to the quantities multiplied by the price quotes on the reporting date.

The fair value of currency futures is determined using the discounted cash flow method. Future cash flows are estimated on the basis of forward exchange rates (observable rates on the reporting date) and the contracted forward rate, discounted at an interest rate that takes into account the different counterparty risks.

The fair values of lease receivables and payables, long-term loans and subordinated loans are measured as the present values of the expected cash flows from the assets and liabilities and on the basis of the market interest rates of comparable financial instruments.

The contingent purchase price liability includes a contingent purchase price from the acquisition of the shares in Ocean Intelligent Communications Ltd (the Ocean Group), in addition to purchase prices in relation to a put/call option connected with the acquisition of the shares in the Ocean Group and in The Organised Group Ltd (the OCSL Group), and a contingent purchase price from the acquisition of the shares in CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Informations-Technologien mbH) in the previous year. Different measurement models were used to calculate the various contingent purchase prices. All contingent prices take into account the present value of the expected payment, discounted at a risk-adjusted discount rate. The expected payment of the contingent purchase price from the acquisition of the shares in the Ocean Group is determined on the basis of the forecast sales revenues from a specific business. The payment will be made in the fiscal year 2019; no discounting was therefore carried out as at December 31, 2018. The estimated fair value would increase (fall) if:

- the forecast sales revenues failed to materialize or were higher than expected

The expected payments under the put/call options are calculated on the basis of the forecast EBITDA values in the period from 2019 to 2024. The calculation was based on an assumed average EBITDA margin of 26 percent in the case of the Ocean Group and 10 percent for the OCSL Group. The discount rates are 1.94 percent and 2.15 percent respectively. The estimated fair value would increase (fall) if:

- the sellers sold their shares earlier (later) than expected (the put option is exercised);
- the EBITDA margin were higher (lower); or
- the risk-adjusted discount rate were lower (higher).

The expected payment from the acquisition of the shares in CANCOM synaix GmbH in 2017 was calculated on the basis of the forecast sales revenues and EBITDA. This was based on the assumption of an average increase in the sales revenues of 12.1 percent, and an average EBITDA margin of 57.6 percent. There was no discounting as at December 31, 2018, as the final installment is due in the fiscal year 2019. The amount of the final installment has already been fixed in a supplementary agreement with the sellers.

The changes in the fair value of the Level 3 contingent purchase price liability in 2017 are shown below:

	Contingent purchase prices € '000
As at January 1, 2018	6,492
Net change in fair value	-490
Additions	21,922
Disposals/settlements	-2,306
As at December 31, 2018	**25,618**

The net change in fair value is reported in the statement of income as part of the other financial result – income.

Risk management

CANCOM's risk policy is geared towards the early identification of severe or serious corporate risks that could endanger the future of the company as a going concern, and aims to handle them in a responsible manner. To define an adequate system of risk controlling and ensure it can be applied, the Executive Board has drawn up a risk policy and appointed a central risk officer who regularly monitors, measures and controls any risks that may emerge.

As part of CANCOM's risk analysis procedure, risks are regularly classified and valued according to the probability of their occurrence and their severity, and the information is then arranged in a risk matrix. All these risks become the responsibility of a special appointee. If the risks are quantifiable, they are measured with the aid of appropriately defined key figures. If no precisely defined ratios are available, the risks are assessed by the special appointee.

For risks to the company as a going concern, the system for early identification of risks includes the definition of early warning indicators. Changes or trends in these are continually monitored and discussed in risk management meetings. The regular risk management meetings between the Executive Board and the risk officer ensure the sustained and timely control of present and future risks.

Liquidity risk

CANCOM's exposure to liquidity risks is limited due to its strong equity position and the long-term nature of borrowed funds.

For a number of years CANCOM has been using a liquidity management system with daily monitoring of the changes in liquidity and assessment of the liquidity risks, with both short-term and long-term liquidity planning.

CANCOM has maintained a sufficient level of net liquidity through retention of profits and capital increases. In addition, short-term liquidity is guaranteed at all times by credit facilities and factoring agreements. Long-term liquidity is safeguarded through long-term bank loans and ample equity. Loans have been significantly reduced and they are almost all long-term at the balance sheet date.

Early refinancing of financial debts minimizes the liquidity risk. The table below was derived from the balance sheet and the contractual bases in addition to other lease contract records, and shows the maturities:

	2019 € '000	2020 € '000	2021-2023 € '000	2024 and thereafter € '000
Trade accounts payable	271,878	0	0	0
Liabilities to banks	925	2,057	0	0
Subordinated loans	2,043	1,446	0	0
Lease payables	9,799	6,725	14,578	12,135
Contingent purchase price liabilities	5,257	101	983	21,925
Other financial liabilities	6,211	0	0	0
Other financial obligations	3,138	2,314	3,233	2,156
Interest expense	167	77	0	0

The Group has access to credit facilities with banks. As at December 31, 2018, the Group had credit and guarantee facilities of EUR 40,470 thousand (2017: EUR 87,421 thousand). The full amount not yet utilized as at the balance sheet date is EUR 33,778 thousand (2017: EUR 82,786 thousand). There were no delays in the payment of interest or capital on loans during the fiscal year 2018.

Currency risk

As CANCOM concentrates its activities in the euro area, the Group's exposure to currency risk is low. The units whose accounts are kept in other currencies than the euro account for less than 10 percent in total of the Group's equity and the net income for the period.

CANCOM does not engage in currency speculation and has an ongoing currency management policy. This involves hedging against any foreign exchange risks that may arise from orders. The operating units are not allowed to take out loans or make investments in foreign currencies for speculative purposes. For funding or investments within the Group, preference is given to use of the functional currency or currency-hedged transactions. Carrying out hedging transactions is permitted only to specific individuals and within specific orders of magnitude subject to authorization. Transactions exceeding the relevant limits must be authorized by the Executive Board.

At December 31, 2018, the carrying amount of the Group's monetary assets and liabilities in foreign currencies was as follows:

€ '000	Dec. 31, 2018	Dec. 31, 2017
Assets in USD	31,019	31,710
Liabilities in USD	9,343	9,518
	21,676	**22,192**
Assets in CHF	0	0
Liabilities in CHF	0	0
	0	**0**
Assets in GBP	101,041	6
Liabilities in GBP	49,344	0
	51,697	**6**

Currency risks did not result in any significant concentration of risks arising from financial instruments in the fiscal year 2018.

Currency risks arise particularly when there are, or will be, receivables, liabilities, cash and cash equivalents, and planned transactions in a currency other than the domestic currency of the company.

In an analysis of the foreign exchange risk, the scenario technique was used to find out to what extent significant fluctuations in the value (increases or decreases of 5 percent in the exchange rate) of the relevant currencies have an impact on CANCOM's business performance. The finding was that the net income for the period would decrease by EUR 31 thousand and the equity would decline by approximately EUR 2 million.

Interest risk

Due to the mainly long-term nature of its funding, CANCOM is not exposed to any serious interest rate risks. In the past, fluctuations in interest rates have had only minimal effects on the net income for the year, as existing loan agreements are predominantly at fixed rates. CANCOM's strong equity position ensures that the Group can obtain favorable loan conditions.

There is a risk management system in place to optimize interest risks. This involves continually observing market interest rates and the rates paid by the Group, and also maintaining constant contact with banks. Master loan agreements provide for interest rates to be adjusted. Concrete plans for interest hedges only exist in the case of heavy fluctuation.

Default risk

There is a credit risk for CANCOM in that the value of the assets could be impaired if transaction partners do not comply with their obligations. To minimize the credit risks, deals are concluded only subject to predetermined risk limits. Before taking on a new client, the Group uses a system of internal and external credit scoring to assess the credit rating of potential clients and to set their credit limits. The credit ratings of clients and their credit limits are reviewed at least annually.

When assessing the impairment of trade accounts receivable, every change in credit rating is taken into account, from the time the credit was granted up to the balance sheet date. There is no significant concentration of credit risk because the client base is broad and there is little correlation. The management therefore believes that no provision for risks is necessary beyond the impairments already included.

The Group's principal default risk is from trade accounts receivable. An appropriate risk provision has been made for these financial assets.

The Group uses an impairment matrix to measure the expected credit loss on trade accounts receivable, contract assets and other receivables. The accounts receivable are written down uniformly throughout the Group, depending on their age structure.

January 1, 2018	**Verlustrate** (gewichteter Durchschnitt)	**Brutto-buchwert T€**	**Wertbe-richtigung T€**	**Beein-trächtigte Bonität**
Not yet due	0.01%	130,658	11	no
Overdue by 1 to 120 days	0.02%	43,367	7	no
Overdue by 121 to 365 days	0.03%	2,618	0	no
Overdue by 366 to 730 days	0.04%	0	0	no
Overdue by more than 2 years	0.05%	0	0	no
		176,643	**18**	
December 31, 2018				
Not yet due	0.01%	173,871	18	no
Overdue by 1 to 120 days	0.02%	47,420	6	no
Overdue by 121 to 365 days	0.03%	1,642	0	no
Overdue by 366 to 730 days	0.04%	255	0	no
Overdue by more than 2 years	0.05%	0	0	no
		223,188	**24**	

The loss rates are based on historical figures adjusted to current expectations.

In addition, when insolvencies come to the attention of the Group, the accounts receivable on which the expectation of payment is low are written down by 50 percent and those expected not to be paid are written off in full. As of the balance sheet date, additional expenses from impairments amounting to EUR 99 thousand occurred from this (January 1, 2018: EUR 199 thousand). Included are impairments amounting to EUR 51 thousand (2017: EUR 9 thousand) in which insolvency proceedings had been instituted against the debtors. The impairment included was the difference between the carrying amount of the receivable and the present value of the anticipated liquidation proceeds. The Group has no security for these balances.

No impairment calculation is made for cash and cash equivalents or for fixed-term deposits, as in the view of the reporting entity no impairment is expected. Cash in currencies other than the euro is measured in accordance with IAS 21. The default risk in respect of credit balances from cash investments in banks is eliminated by risk spreading (by investing in a large number of banks) and by choosing banks with strong credit ratings. There has not been any change in the risk in comparison with the date of addition. There are no indications of any deterioration in the ratings of the borrowers. The risk at the date of addition was considered to be negligible.

A risk provision for lease receivables was also classified as negligible. The assessment is based on historical default risks and the credit ratings awarded by CANCOM's business partners.

The maximum theoretical default risk of the above categories is equal to the carrying amounts presented. With the exception of measures mentioned above, the Group has no other securities that would reduce the default risk.

Financial market risk

Potential financial market risks are continuously analyzed by CANCOM SE as part of its risk management activities.

Dealing in financial instruments and structured products is not a core business of the company, and is only used – if at all – as a means of safeguarding sound underlying transactions that are exposed to currency risks. Currency exposures of USD 19.5 million and CHF 1.1 million were hedged as at the reporting date. The financial market risk is confined to the price risk of the currency futures concluded by the company as at the reporting date (EUR 40 thousand).

Only the Executive Board (Chief Executive Officer and Chief Financial Officer) are authorized to purchase or sell structured products through banks. This is intended to avert the possibility of any inexperienced person carrying out transactions of this kind.

C. Notes to the consolidated balance sheet

1. Cash and cash equivalents

Cash and cash equivalents consist exclusively of cash in banks payable on demand and cash on hand.

2. Assets held for sale

The hereditary building right for the undeveloped property was sold on September 21, 2018.

3. Trade accounts receivable

The trade accounts receivable are as follows:

	Dec. 31, 2018 € '000	Dec. 31, 2017 € '000
Accounts receivable before write-downs	274,534	224,226
Write-downs	123	554
Carrying amount of accounts receivable	**274,411**	**223,672**

The accounts receivable are written down uniformly throughout the Group, depending on their age structure.

Group receivables are written down on the basis of their age structure, the likely necessity of legal proceedings, or the most positive outcome to be expected regarding defaults.

Impairment charges for financial assets recognized in the statement of income are shown below:

	2018 € '000
Impairment charge for trade accounts receivable from contracts with clients	146
Total impairment charge	**146**

In the previous years, additions to the provisions were presented under other operating expenditure, and reversals under other operating income. The net impairment expenses on trade accounts receivable amounted to EUR 197 thousand. In the fiscal year 2018 the net impairment charge on financial assets is presented as a separate item in the statement of income.

The changes in the impairment charge for trade accounts receivable in 2018 are shown below:

	2018 € '000	2017 € '000
As at January 1	218	513
Changes in the reporting entity	107	16
Losses due to derecognition	-348	-223
Net remeasurement of impairments	146	248
As at December 31	**123**	**554**

Further notes on the assessment of impairments can be found in section B.

The fair value of the trade accounts receivable is equal to the carrying amount.

The trade accounts receivable are due within a year.

4. Other current financial assets

This item includes receivables in the form of bonuses due from suppliers (EUR 7,003 thousand; 2017: EUR 5,912 thousand), claims to the payment of a purchase price relating to lease projects (EUR 6,721 thousand; 2017: EUR 5,235 thousand), marketing revenue (EUR 1,321 thousand; 2017: EUR 1,054 thousand), creditors with a debit balance (EUR 1,072 thousand; 2017: EUR 526 thousand), receivables from staff (EUR 137 thousand; 2017: EUR 172 thousand), and assets relating to financial derivatives (EUR 40 thousand; 2017: EUR 194 thousand). In 2017, this item also included receivables from banks (EUR 12,000 thousand), claims to the payment of a purchase price from the disposal of companies (EUR 200 thousand) and claims in respect of loans (EUR 1 thousand).

5. Inventories

Inventories consist almost exclusively of merchandise, particularly hardware components and software.

Inventories consist of the following (company-specific breakdown):

	December 31, 2018 € '000	December 31, 2017 € '000
Finished products and goods	32,140	22,686
Advance consideration paid	2	237
	32,142	**22,923**

The cost of goods, raw materials and supplies in the fiscal year 2018 was EUR 922,953 thousand (2017: EUR 788,926 thousand).

Inventories were written down by EUR 223 thousand (2017: EUR 590 thousand) owing to excess inventory, obsolescence, reduced marketability or follow-up costs for finished products.

Inventories will be essentially converted into cash within the next 12 months.

No inventories were pledged as security.

6. Contract assets

The table below provides information on assets from contracts with clients and suppliers.

	December 31, 2018 € '000	December 31, 2017 € '000
Current contract assets	5,874	3,121
Non-current contract assets	1,699	984
	7,573	**4,105**

The contract assets mainly relate to fixed-term contracts for which the supplier has been paid in advance, and contracts in progress in relation to IT projects.

7. Contracts in progress

The contracts in progress are partially completed orders accounted for by the percentage of completion method, amounting to EUR 1,320 thousand (2017: EUR 981 thousand). From January 1, 2018, these are presented in line with IFRS 15 under contract assets (see above). The costs accumulated for current projects as at the balance sheet date amounted to EUR 964 thousand (2017: EUR 672 thousand). Profits resulting from current projects as at the reporting date totaled EUR 356 thousand (2017: EUR 309 thousand).

8. Prepaid expenses and other current assets

This item mainly consists of other current assets such as tax refunds (EUR 4,353thousand; 2017: EUR 2,780 thousand), commission income (EUR 432 thousand; 2017: EUR 583 thousand), insurance refunds (EUR 218 thousand; 2017: EUR 206 thousand) and receivables from social insurance institutions (EUR 1 thousand; 2017: EUR 161 thousand).

The prepaid expenses (EUR 1,560 thousand; 2017: EUR 1,199 thousand) include deferred insurance premiums and expenses paid in advance. From January 1, 2018, the prepaid fixed-term contracts related to IT client projects (EUR 4,554 thousand; 2017: EUR 2,140 thousand) are presented under contract assets in line with IFRS 15 (see section C.6. Contract assets).

9. Non-current assets

Changes in, and the composition of, non-current assets in fiscal 2018 are shown in the consolidated statement of changes in non-current assets (Appendix 5, Page 93).

9.1 Property, plant and equipment (tangible assets)

Property, plant and equipment (tangible assets) comprises land and buildings (EUR 27,844 thousand; 2017: EUR 21,603 thousand, of which logistics center in Jettingen-Scheppach under construction EUR 10,798 thousand), motor vehicles (EUR 19,085 thousand; 2017: EUR 17,909 thousand), IT data centers (EUR 17,333 thousand; 2017: EUR 9,946 thousand, of which advance consideration paid of EUR 1,105 thousand), assets held for rental (EUR 710 thousand; 2017: EUR 502 thousand), unified communications and collaboration (UCC) system (EUR 580 thousand; 2017: EUR 704 thousand), operating equipment for the logistics center (EUR 134 thousand; 2017: EUR 167 thousand) and other operating and office equipment, such as computer equipment, tenant's fittings and office equipment (EUR 13,510 thousand; 2017: EUR 10,021 thousand).

9.2 Intangible assets

The intangible assets include client lists (EUR 39,712 thousand; 2017: EUR 29,157 thousand), purchased software (EUR 22,626 thousand; 2017: EUR 19,162 thousand), orders in hand (EUR 5,462 thousand; 2017: EUR 4,304 thousand, capitalized development costs (EUR 5,223 thousand; 2017: EUR 2,402 thousand) and brand name (EUR 1,023 thousand; 2017: EUR 1,125 thousand). In 2017 intangible assets from the restraint on competition (EUR 321 thousand) were also included.

Client lists, orders in hand and brand name are mainly based on acquisitions made in prior years and in 2018. They are written down over their expected useful lives.

9.3 Right-of-use assets

With the transition to IFRS 16, right-of-use assets were recognized for leased assets as at January 1, 2018. These amounted to EUR 38,862 thousand. The change in the different categories of asset is shown below:

	Adjustment of opening balances € '000	Additions € '000	Acquisitions € '000	Currency effects € '000	Write-downs € '000	December 31, 2018 € '000
Rights of use						
Land and buildings	37,012	6,025	1,205	15	7,802	36,455
Operating and office equipment	978	21	0	0	479	520
Cars	872	151	0	0	538	485
Total	**38,862**	**6,197**	**1,205**	**15**	**8,819**	**37,460**

9.4 Goodwill

Goodwill totaling EUR 157,442 thousand (2017: EUR 115,219 thousand) as at the reporting date is attributable to CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Informations-Technologien mbH) (EUR 38,185 thousand; 2017: EUR 38,185 thousand), CANCOM GmbH (EUR 33,326 thousand; 2017: EUR 31,825 thousand), the Ocean group (EUR 30,525 thousand; 2017: EUR 0), Pironet AG group (EUR 19,974 thousand; 2017: EUR 19,974 thousand), HPM Incorporated (EUR 13,036 thousand; 2017: EUR 12,446 thousand), the OCSL group (EUR 11,108 thousand; 2017: EUR 0), CANCOM on line GmbH (EUR 7,049 thousand; 2017: EUR 7,049 thousand), CANCOM ICT Service GmbH (EUR 2,522 thousand; 2017: EUR 2,522 thousand) and CANCOM a+d IT solutions GmbH (EUR 1,717 thousand; 2017: EUR 1,717 thousand).

The goodwill for CANCOM GmbH comprises CGU IT Solutions (EUR 28,169 thousand; 2017: EUR 26,668 thousand) and CGU Cloud Solutions (EUR 5,157 thousand; 2017: EUR 5,157 thousand). The increase in the goodwill recognized for CGU IT Solutions in the fiscal year 2018 is a result of the merger of c.a.r.u.s. Information Technology GmbH into CANCOM GmbH.

Translation of the financial statements of HPM Incorporated into the presentation currency in line with IAS 21 and IFRS 3 resulted in an increase in the value of the goodwill by EUR 590 thousand.

The Group checks these figures once a year by testing for impairments in accordance with IAS 36. The recoverable amount is calculated on the basis of the value in use.

The value in use is calculated by means of valuation methods based on discounted cash flows.

These discounted cash flows are based on five-year forecasts which are drawn up in accordance with finance plans approved by the management. The cash flow forecasts take into consideration the experiences of the past and are based on the management's best estimate of future developments. External market studies (Bitkom) were also taken into account. The cash flow forecasts are prepared on the basis of sales forecasts of the individual companies. The sales growth forecasts for the major companies in the CANCOM Group for the fiscal year 2019, not taking into account non-recurring items, were calculated at between 7.0 percent (CANCOM GmbH) and 17.8 percent (Pironet). For the years 2020 to 2023 sustainable income growth of between 2.0 percent and 6.3 percent is assumed. The figures for the CANCOM Group are therefore basically in line with the forecast of the German digital association Bitkom for the sector and the market in 2019: 1.9 percent for hardware, 6.3 percent for software, and 2.3 percent for IT services (figures from Bitkom for the German IT market in 2019).

Cash flows outside the planning period are extrapolated without growth rates. The most important assumptions on which the calculation of value in use is based are as follows:

	2018	2017
Risk-free interest	0.94 % bis 3.05 %	1.33%
Market risk premium	7.00%	7.00%
Beta coefficient	1.11 bis 1.19	0.82
Capitalization rate (weighted average cost of capital - WAAC)	8.54 % bis 10.64 %	6.98%
Input tax - WAAC	11.34 % bis 14.48 %	10.05%

The impairment tests carried out in the fiscal year 2018 did not result in any write-downs. There was therefore no accumulated impairment charge at the end of the reporting period (nor was there an accumulated impairment charge at the start of the reporting period).

These premises and the underlying methodology may have a considerable effect on the respective values and ultimately on the amount of a possible impairment of the goodwill.

Sensitivity analyses are carried out on the key assumptions used in the impairment tests conducted for the cash generating units. These confirm that, as in the previous year, no write-down is necessary.

9.5 Financial assets

The financial assets are investments in medium-term notes amounting to EUR 4,000 thousand (2017: EUR 4,000 thousand). In 2017 this item also included investments in non-consolidated companies amounting to EUR 1,321 thousand.

9.6 Loans

The loans consist of loans to former subsidiaries (EUR 1,206 thousand; 2017: EUR 1,202 thousand) In 2017 the item also included the asset value from reinsurance policies, amounting to EUR 113 thousand.

10. Capitalized contract costs

The costs of obtaining a contract from a client are capitalized under a new item in line with IFRS 15 Revenue from Contracts with Customers and distributed over the contract period on a straight-line basis. Individual contracts are signed with retail clients on the basis of a framework agreement signed with a European Union agency for the provision of cloud-based electronic operating services. The framework agreement, which runs until September 2023 with an additional phase-out period of six months, is for a maximum volume of EUR 65 million. In 2018 there are four projects with capitalized startup costs of EUR 1,039 thousand. These are also recognized as a separate item in the statement of income. For an explanation of their composition please see section E.4.

11. Other non-current financial assets

This item mainly includes long-term claims to the payment of purchase prices relating to lease projects (EUR 7,535 thousand; 2017: EUR 7,883 thousand) and staff benefits (EUR 209 thousand). In 2017 claims to the payment of a purchase price from the disposal of companies (EUR 400 thousand) were also included.

12. Deferred tax assets

The deferred tax assets are as follows:

Deferred tax from	temporary differences € '000	tax loss carryovers € '000
As at January 1, 2018	5,023	362
Addition owing to recognition of assets directly in equity because of first-time inclusion in consolidated financial statements	296	248
Disposal owing to recognition of acturial loss from pension provisions, directly in equity*	-1	0
Tax expenses/income from statement of income	-2,225	-319
Currency exchange gains/losses *	96	7
As at December 31, 2018	**3,189**	**298**
As at January 1, 2017	2,665	1,605
Addition owing to recognition of assets directly in equity because of first-time inclusion in consolidated financial statements	1,945	91
Addition owing to recognition of acturial loss from pension provisions, directly in equity*	-19	0
Tax expenses/income from statement of income	442	-1,334
Currency exchange gains/losses *	-10	0
As at December 31, 2017	**5,023**	**362**

* directly recognized in equity

As at December 31, 2018 the CANCOM Group had corporate tax loss carryovers of EUR 3.7 million (2017: EUR 0.4 million) and trade tax loss carryovers of EUR 0. (2017: EUR 1.8 million). The losses not yet utilized, for which no deferred tax claims have been reported in the balance sheet, amount to EUR 2.5 million (2017: EUR 0). On the basis of the planned tax results, it is expected that the capitalized deferred tax benefits from loss carryovers will be realized.

The deferred taxes from temporary differences are mainly the result of differences in property, plant and equipment (EUR 1,132 thousand; 2017: EUR 806 thousand), intangible assets (EUR 681 thousand; 2017: EUR 594 thousand), pension provisions (EUR 425 thousand; 2017: EUR 582 thousand), other financial liabilities (EUR 326 thousand; 2017: EUR 386 thousand), other provisions (EUR 151 thousand; 2017: EUR 302 thousand), other liabilities (EUR 102 thousand; 2017: EUR 115 thousand), and loans (EUR 88 thousand; 2017: EUR 80 thousand).

13. Short-term loans and current portion of long-term loans

This item shows liabilities to banks. These comprise the utilization of credit facilities provided by banks, and those parts of the long-term loans that are due for repayment within one year.

14. Other current financial liabilities

Other current financial liabilities includes leasing purchase price liabilities (EUR 9,550 thousand; 2017: EUR 431 thousand), purchase price liabilities for the shares in CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Informations-Technologien mbH) (EUR 4,374 thousand; 2017: EUR 1,660 thousand), liabilities to former affiliated companies (EUR 2,776 thousand; 2017: EUR 2,776 thousand), debtors with a credit balance (EUR 2,505 thousand; 2017: EUR 2,174 thousand), purchase price liabilities for the shares in the Ocean group (EUR 559 thousand; 2017: EUR 0), outstanding bills of charge (EUR 530 thousand; 2017: EUR 559 thousand), Supervisory Board remuneration (EUR 400 thousand; 2017: EUR 286 thousand), purchase price liabilities for the shares in the OCSL group (EUR 324 thousand; 2017: EUR 0) and rent obligations (EUR 0; 2017: EUR 93 thousand).

15. Other provisions

The changes in provisions during 2018 are detailed below:

	Jan. 1, 2018 € '000	First-time consolidation (addition) € '000	Used € '000	Reversal and transfer € '000	Addition € '000	Currency € '000	Dec. 31, 2018 € '000
Guarantees and warranties	2,242	0	946	99	1,412	0	2,609
Copyright fees	1,073	0	60	0	1	0	1,014
Interest expenses	904	0	0	0	0	0	904
Termination payments, salaries	558	0	59	122	710	-3	1,084
Financial statement costs	187	55	207	14	319	-1	339
Archiving costs	103	0	2	3	51	0	149
Contingent risks	567	0	272	344	136	0	87
Decommisioning and restoration liability	130	0	0	90	0	0	40
Purchase price of shares in affiliated entities	500	0	507	0	0	7	0
Other provisions	333	0	39	30	10	0	274
	6,597	**55**	**2,092**	**702**	**2,639**	**3**	**6,500**

The total provisions include long-term provisions of EUR 3,266 thousand (2017: EUR 3,022 thousand), which are recognized under other non-current liabilities. They are for guarantees and warranties (EUR 1,277 thousand; 2017: EUR 1,153 thousand), copyright fee provisions (EUR 859 thousand; 2017: EUR 1,013 thousand), anniversaries (EUR 648 thousand; 2017: EUR 299 thousand), staff expenses (EUR 252 thousand; 2017: EUR 0), archiving costs (EUR 122 thousand; 2017: EUR 80 thousand), termination payments, for which a provision is legally mandatory in Austria (EUR 93 thousand; 2017: EUR 150 thousand) and tax audits (EUR 15 thousand; EUR 33 thousand). In 2017 there was also a provision for contingent risks (EUR 164 thousand) and a decommissioning and restoration liability (EUR 130 thousand).

The allocation to long-term liabilities is based on their expected due dates, as shown below.

	Expected due date
Provisions for guarantees and warranties	By law and/or contract
Provisions for copyright fees	2 to 4 years
Provisions for anniversary payments	Together with salary payments
Provisions for staff expenses	7 years
Archiving costs	2 to 6 years
Provisions for termination payments	Date of termination of the employment of relevant staff member
Provisions for tax audits	2 to 3 years

16. Deferred income

This item includes deferrals for government grants. The latter are based on discounted interest rate differences (differences between the market rates and the contractually agreed interest rates over the entire remaining term), and amount to a total of EUR 310 thousand (see information under E.2. Other operating income).

From January 1, 2018, deferred sales revenues are presented under the new item of contract liabilities (see following section), in accordance with IFRS 15.

17. Contract liabilities

The table below shows the liabilities from contracts with clients.

	Dec. 31, 2018 € '000	Jan. 1, 2018 € '000
Current contract assets	22,922	11,299
Non-current contract assets	1,964	2,253
	24,886	**13,552**

The contract liabilities mainly relate to advance consideration received from clients and prepaid fixed-term contracts connected with IT projects. Most of the amount presented at the beginning of the period was recognized as sales revenues in the fiscal year 2018.

18. Income tax liabilities

Income tax liabilities mainly consist of obligations for 2017 and 2018.

19. Other current liabilities

Other current liabilities mainly include sales tax (EUR 16,333 thousand; 2017: EUR 12,271 thousand), staff bonus payments (EUR 13,057 thousand; 2017: EUR 11,606 thousand), tax on salaries and church tax (EUR 4,472 thousand; 2017: EUR 2,877 thousand), holiday and overtime entitlements (EUR 2,935 thousand; 2017: EUR 3,242 thousand), capital gains tax (EUR 2,290 thousand; 2017: EUR 791 thousand), employers' liability insurance association (EUR 808 thousand; 2017: EUR 763 thousand), wages and salaries (EUR 246 thousand; 2017: EUR 289 thousand), compensation levy for non-employment of the severely handicapped (EUR 215 thousand; 2017: EUR 293 thousand), social security contributions (EUR 206 thousand; 2017: EUR 158 thousand) and traveling expenses (EUR 77 thousand; 2017: EUR 140 thousand).

20. Long-term loans

Long-term loans consist purely of liabilities due to banks with a remaining term of at least one year. The part of these loans that is due for repayment within the next twelve months is shown under 'short-term loans and current portion of long-term loans'.

All loans are valued by the effective interest rate method. Interest subsidies from Germany's publicly-owned development bank, Kreditanstalt für Wiederaufbau (KfW), for the loans are distributed over the term. The market interest rate when the loans were taken out was between 4.5 percent and 5.53 percent.

21. Subordinated loans

Capital from subordinated loans includes two subordinated loans from Sparkasse Günzburg-Krumbach of EUR 525,302.77 (loan proceeds EUR 1,000,000.00, minus repayment of EUR 128,800.00 in 2012) and EUR 601,767.47 (loan proceeds EUR 1,000,000.00); and four subordinated loans from Stadtsparkasse Augsburg of EUR 473,335.52 (loan proceeds EUR 1,995,600.00), EUR 93,212.26 (loan proceeds EUR 392,500.00), EUR 918,755.31 (loan proceeds EUR 1,621,000.00) and EUR 479,724.43 (loan proceeds EUR 846,000.00). The subordinated loans from Sparkasse Günzburg-Krumbach and the subordinated loans from Stadtsparkasse Augsburg are valued by the effective interest rate method. By this method, the interest advantages granted from Germany's publicly-owned development bank, Kreditanstalt für Wiederaufbau (KfW), for the loans from Sparkasse Günzburg-Krumbach and Stadtsparkasse Augsburg are distributed over the terms. The market interest rate was between 10 percent and 10.5 percent when the loans were concluded.

Two loans of EUR 1,000,000.00 each (loan proceeds) were granted by Sparkasse Günzburg-Krumbach on December 21, 2010. Interest of 5.1 percent per annum is payable on the loan. These are specific-purpose loans out of funds from Germany's publicly-owned development bank, Kreditanstalt für Wiederaufbau (KfW). The scheduled start of repayment is March 30, 2018, with 11 quarterly instalments of EUR 83,334.00 on each loan, followed by a final instalment of EUR 83,326.00 on each loan. An unscheduled repayment of EUR 128,800 was made on one of the loans on April 10, 2012. The scheduled repayments for this loan have been reduced to EUR 72,600.00 per quarter as from March 30, 2018.

A loan of EUR 1,995,600.00 (loan proceeds) from Stadtsparkasse Augsburg was granted in tranches of EUR 1,500,000.00 on September 23, 2009 and EUR 495,600.00 on December 8, 2009. Interest of 4.25 percent per annum is payable on the loan. This is another specific-purpose loan out of funds from Kreditanstalt für Wiederaufbau (KfW). Repayment, in 12 quarterly instalments of EUR 166,300.00, has started on December 30, 2016.

A further loan of EUR 392,500.00 (loan proceeds) from Stadtsparkasse Augsburg was granted on December 8, 2009. Again, this is a specific-purpose loan from Kreditanstalt für Wiederaufbau (KfW), on which the annual rate of interest is 4 percent. Repayment has started on December 30, 2016, with payment of 11 quarterly instalments of EUR 32,709.00 followed by a final instalment of EUR 32,701.00.

A further loan of EUR 1,621,000.00 (loan proceeds) was granted by Stadtsparkasse Augsburg on November 26, 2010, at an interest rate of 2.9 percent per annum. This is a further specific-purpose loan out of funds from Kreditanstalt für Wiederaufbau (KfW). Repayment has started on March 30, 2018, with 11 quarterly instalments of EUR 135,084.00 each, followed by a final instalment of EUR 135,076.00.

A further loan of EUR 846,000.00 (loan proceeds) from Stadtsparkasse Augsburg was granted on December 2, 2010, at an interest rate of 2.9 percent per annum. Again, this is a specific-purpose loan out of funds from Kreditanstalt für Wiederaufbau (KfW). Repayment has started on March 30, 2018 in 12 quarterly instalments of EUR 70,500.00.

22. Deferred tax liabilities

The deferred tax liabilities are as follows:

	€ '000
As at January 1, 2018	15,911
Addition owing to recognition of liabilities directly in equity because of first-time inclusion in consolidated financial statements"	4,448
Disposal owing to recognition of acturial loss from pension provisions, directly in equity*	-11
Tax income from statement of income	-4,969
Currency gains/losses *	223
As at December 31, 2018	**15,602**
As at January 1, 2017	7,550
Addition owing to recognition of liabilities directly in equity because of first-time inclusion in consolidated financial statements	11,161
Tax income from statement of income	-1,976
Tax expenses from statement of income relating to discontinued operations	-120
Currency gains/losses *	-704
As at December 31, 2017	**15,911**

* directly recognized in equity

The deferred tax liabilities arise from deviations from the tax balance sheets. They are the result of the recognition and remeasurement of intangible assets (EUR 11,051 thousand; 2017: EUR 10,628 thousand), software development costs (EUR 1,452 thousand; 2017: EUR 751 thousand), other financial assets (EUR 1,339 thousand; 2017: EUR 1,114 thousand), property, plant and equipment (EUR 360 thousand; 2017: EUR 405 thousand), goodwill (EUR 585 thousand; 2017: EUR 320 thousand), capitalized contract costs (EUR 314 thousand; 2017: EUR 0), loans to affiliated companies (EUR 288 thousand; 2017: EUR 80 thousand), contracts in progress (EUR 107 thousand; 2017: EUR 93 thousand), prepaid expenses (EUR 40 thousand; 2017: EUR 21 thousand), trade accounts receivable (EUR 26 thousand; 2017: EUR 0), other provisions (EUR 22 thousand; 2017: EUR 22 thousand) and other liabilities (EUR 18 thousand; 2017: EUR 22 thousand). In the 2017 fiscal year this item also included deferred income (EUR 2,399 thousand), other financial liabilities (EUR 45 thousand) and pension provisions (EUR 11 thousand).

An explanation of the differences arising from first-time inclusion in the consolidated financial statements can be found in section A.3.
In line with IAS 12.39, deferred tax liabilities are not recognized for temporary differences connected with shareholdings in subsidiaries, which amount to EUR 31,097 thousand (2017: EUR 21,063 thousand).

Recognition is based on an individual tax rate of between 17 percent (UK subsidiaries) and 32.46 percent (German subsidiaries, based in Aachen and Cologne).

23. Pension provisions

The pension obligations recognized consist of obligations in relation to the pensions of active and former staff (EUR 1,783 thousand; 2017: EUR 2,042 thousand) based on defined benefit obligations assumed as a result of acquisitions. The net liability for pension plans is EUR 1,872 thousand (2017: EUR 2,042 thousand) and the net asset value of the pension plans is EUR 89 thousand (2017: EUR 0).

The pension obligations for pension schemes in Germany are measured according to the number of years of service and the remuneration of the staff member in question, or by firm commitments.

No significant risks associated with the defined benefit obligations are expected.

The projected unit credit method is used as an actuarial valuation method, in line with IAS 19.67-68.

The changes in the benefit obligation and the value of plan assets for the defined benefit schemes are shown below:

	2018 € '000	**2017 € '000**
Changes in pension obligation		
Projected benefit obligation (DBO) as at January 1	3,474	2,462
Service cost: present value of claims accrued in the fiscal year	103	66
Reassessment: acturial gains/losses arising from		
- demographic assumptions	58	0
- financial assumptions	33	-63
- experience adjustments	-114	0
Interest expenses	67	49
Pension payments	-16	-16
Business combinations	0	976
Projected benefit obligation (DBO) as at December 31	**3,605**	**3,474**
Changes in plan assets		
Fair value of plan assets as at January 1	1,432	520
Reassessment: gains /losses without interest income	-45	0
Actual return on plan assets	58	0
Income/expenses on plan assets	23	11
Employer's contribution	357	89
Pension payments	-3	-3
Business combinations	0	815
Fair value of plan assets as at December 31	**1,822**	**1,432**
Composition:		
Present value of pension obligations	3,605	3,474
Fair value of plan assets	-1,822	-1,432
Pension obligations reported on the balance sheet	**1,783**	**2,042**
Thereof		
Net asset value of pension plans	**-89**	**0**
Net pension plan liability	**1,872**	**2,042**

The plan assets consist of pension plan assets independently managed by various providers, and reinsurance policies. In the fiscal year 2018 a reinsured direct pension commitment was outsourced to a pension fund as an indirect pension commitment. Income of EUR 58 thousand was generated by the payout on the reinsurance policies.

Computation of the actuarial pension scheme obligations was based on the following assumptions:

	2018 in percent	2017 in percent
Interest rate	1.85	1.90
Salary trend*)	2.00	2.00
Pension trend	0.0 - 1.5	1.0 - 1.5

*) for pension commitments dependant on remuneration

The total cost of the pension schemes according to IAS 19 is broken down as follows:

	2018 € '000	2017 € '000
Current service costs	103	66
Acturial gain/loss	22	-63
Net interest cost/income	-14	38
	111	**41**

Sensitivity analyses:

A change in the assumptions on which the above figures are based would increase or reduce the DBO as follows:

	2017	2018	Sensitivity	Total increase		Total decrease	
				%	€ '000	%	€ '000
Assumed actuarial interest rate	1.90%	1.85%	+/-1.00%	0.85%	765	2.85%	-593
Salary trend	2.00%	2.00%	+/-0.50%	2.50%	24	1.50%	-23
Pension trend	1.50%	1.50%	+/-0.25%	1.75%	96	1.25%	-91

The above sensitivity analyses were carried out using a method of actuarial computation that shows the impact on the defined benefit obligation at the end of the reporting period resulting from realistic changes in the most important assumptions.

The pension payment expense in the fiscal year 2019 is expected to be EUR 99 thousand (2017: EUR 171 thousand), and the contributions to plan assets EUR 88 thousand (2017: EUR 406 thousand). Benefit payments in the fiscal year 2019 are expected to amount to EUR 20 thousand. The average term of the pension liabilities is 18.9 years (2017: 19.6 years).

24. Other non-current financial liabilities

Other non-current financial liabilities includes leasing purchase price liabilities of EUR 32,471 thousand (2017: EUR 518 thousand), and purchase price liabilities for the shares in CANCOM OCEAN LTD (EUR 12,533 thousand; 2017: EUR 0) and CANCOM UK LTD (EUR 7,827 thousand; 2017: EUR 0). In the previous year this item also included purchase price liabilities amounting to EUR 4,332 thousand for the shares in CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Informations-Technologien mbH), and rent obligations amounting to EUR 380 thousand.

25. Equity

Changes in equity are shown in Appendix 4.

Capital stock

In accordance with the by-laws, the company's capital stock at December 31, 2018 was EUR 35,043,638 (2017: EUR 16,553,245), divided into 35,043,638 (2017: 16,553,245) notional no-par value shares. In the previous year the conversion of CANCOM SE's convertible bonds into shares in the company increased the capital stock to EUR 17,521,819. However, the change in the corporate by-laws associated with this conversion was not recorded in the commercial register until after the reporting date.

At the general meeting of shareholders in 2018, the subscribed capital was increased by EUR 17,521,819 out of company funds, with a simultaneous 1:2 stock split (two new shares were granted for one old share). The capital reserves were accordingly reduced by this amount.

Authorized and conditional capital

The general meeting of shareholders on June 14, 2017 cancelled the existing authorized capital I/2015 and passed a resolution to create new authorized capital. In conformity with the corporate by-laws, the company's authorized capital stock (authorized capital I/2018) totaled EUR 10,513,091 as at December 31, 2018. The details of the authorized capital are as follows:

A resolution passed at the general meeting of stockholders on June 14, 2018 authorizes the Executive Board to increase the capital stock once or in several steps by up to a total of EUR 10,513,091 by issuing up to 10,513,091 new notional no-par value bearer shares for a cash or non-cash consideration (authorized capital I/2018). The shares must be issued by June 13, 2023 and any issue of shares is subject to the approval of the Supervisory Board. In general, stockholders will be granted subscription rights, but the Executive Board is authorized to exclude the stockholders' statutory subscription rights in the following cases with the approval of the Supervisory Board:

- for fractional amounts;

- if a capital increase for a cash consideration does not exceed 10 percent of the capital stock and the issue price of the new shares is not significantly lower than the stock market price (Section 186, paragraph 3, sentence 4 of the German Stock Corporation Act). If this authorization is used and stockholders' subscription rights are excluded in accordance with the above Act, the exclusion of subscription rights on the basis of other authorizations in accordance with the same Act must be taken into account;

- for capital increases for a non-cash consideration to grant new shares for the purpose of acquiring companies or equity interests in companies or parts of companies, or for a debt-for-equity swap.

The total number of shares issued with excluded subscription rights on the basis of the above authorization in the context of capital increases against cash or non-cash contributions, is not allowed to exceed the amount representing a portion of 20 percent of the capital stock either at the date of the resolution or at the time the authorization is used. This upper limit of 20 percent of the capital stock must include the portion of the capital stock represented by company shares issued by the Executive Board during the term of the authorized capital with excluded subscription rights in line with Section 186, paragraph 3, clause 4 of the German Stock Corporation Act, or against non-cash contributions, or sold as treasury shares. Additionally, it must include the portion of the amount of the capital stock represented by company shares issued, or required to be issued, from conditional capital during the term of the authorized capital to satisfy warrant bonds or convertible bonds, which in turn are issued by the Executive Board during the term of the authorized capital with excluded subscription rights in line with the above Act, or against non-cash contributions.

The Executive Board will determine the nature of the relevant rights conferred by the shares and the conditions for carrying out capital increases, subject to the approval of the Supervisory Board.

The Executive Board used the above authorization as follows in 2018:

In accordance with the corporate by-laws, the conditional capital at December 31, 2018 amounted to EUR 1,5000,000. The details of the conditional capital are as follows:

The capital stock has been increased conditionally by up to EUR 1,500,000 by the issue of up to 1,500,000 new notional no-par value shares (conditional capital I/2018). The conditional increase in capital will only be implemented to the extent that holders of stock options issued by the company in the period up to June 13, 2023 on the basis of the authorization granted by resolution of the general meeting of shareholders on June 14, 2018 exercise their subscription rights for shares in the company and the company does not satisfy these subscription rights by granting treasury shares or paying a cash settlement. The new shares in the company issued in connection with the exercising of these subscription rights carry dividend rights from the start of the fiscal year in which they are issued.

The Executive Board is authorized to determine the other details for the implementation of the conditional capital increase with the approval of the Supervisory Board.

No new shares were issued in the fiscal year 2018 using conditional capital I/2018.

The Executive Board is not aware of any restrictions on voting rights or on the transfer of shares.

Net retained profit

In accordance with the resolution of the general meeting of stockholders, a dividend of EUR 1.00 per share (equivalent to a total amount of EUR 17,522 thousand) was paid in 2018 from the net retained profit generated in the previous year.

26. Non-controlling interests

Non-controlling interests relate to the share of the equity held by the minority stockholders of Pironet AG.

Summarized financial information on the Pironet AG subgroup, compiled in accordance with IFRS:

PIRONET AG SUBGROUP	2018 € '000	2017 € '000
Sales revenue	56,586	48,749
Net income/loss for the period	2,576	3,742
Net income/loss for the period attributable to non-controlling interests	128	190
Other comprehensive income	0	0
Total comprehensive income **	**2,576**	**3,742**
Total comprehensive income attributable to non-controlling interests	128	190
Current assets	41,187	37,455
Non-current assets	19,298	17,088
Current liabilities	-14,788	-11,922
Non-current liabilities	-2,320	-1,235
Net assets	**43,377**	**41,386**
Net assets attributable to non-controlling interests	2,130	2,086
Cash flow from operating activities	9,462	9,724
Cash flow from investing activities	6,804	254
Cash flow from financing activities	-1,709	-583
Net increase in cash and cash equivalents	**14,557**	**9,395**
Dividend paid to non-controlling interests during the year *	29	30

* Included in the cash flow from financing activities

** Total comprehensive income includes the earnings from discontinued operations.

27. Capital risk management

The Group manages its capital with the aim of maximizing the return to stakeholders through the optimization of the debt and equity balance. It is ensured that all entities in the Group can operate under the going concern premise. The capital structure of the Group consists of debt, cash and the equity attributable to equity holders of the parent. This comprises issued shares, retained earnings, other reserves, equity differences due to currency translation and non-controlling interests.

The objectives of the capital management system are to ensure that the Group will be able to continue as a going concern and to obtain an adequate interest rate for the equity. For implementation, the Group balances its capital and the overall capital structure.

The capital is monitored on the basis of the economic equity. The economic equity is the balance sheet equity. The borrowed capital is defined as current and non-current financial liabilities, provisions, other liabilities, liabilities connected with disposals, and deferred income.

The equity in the balance sheet and the total assets are as follows:

		Dec. 31, 2018	Dec. 31, 2017
Equity	€ million	390.2	364.2
Equity as a percentage of the total capital	in percent	46.6	52.6
Borrowed capital	€ million	447.9	327.9
Borrowed capital as a percentage of the total capital	in percent	53.4	47.4
Total capital (equity and borrowed capital)	€ million	838.1	692.1

Some of the company's loan contracts contain minimum capital requirements (covenants), which are calculated by the banks using various calculation methods. The relevant covenants are monitored on an ongoing basis to ensure that they are complied with in line with the company's capital risk management policy. All covenants were complied with during the fiscal year 2018.

The Group's capital structure is reviewed at regular intervals as part of the risk management process.

D. Segment information

Segment information is disclosed according to IFRS 8 Operating Segments. The segment information is based on the segmentation used for internal control purposes (management approach).

The Group reports on two segments: Cloud Solutions and IT Solutions.

Description of the segments subject to mandatory reporting

The Cloud Solutions segment comprises CANCOM Pironet AG & Co. KG, PIRONET Enterprise Solutions GmbH, Pironet AG, PIRONET NDH Beteiligungs GmbH, CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Technologien mbH), Ocean Intelligent Communications Ltd, Ocean Unified Communications Ltd, Ocean Network Services Ltd and the divisions of CANCOM GmbH, CANCOM on line GmbH and the OCSL group allocated to the Cloud Solutions segment. This segment comprises the CANCOM Group's cloud and shared managed services business, including project-related cloud hardware, software and services business. The product and service portfolio comprises analysis, consulting, delivery, implementation and services, thus providing clients with the necessary orientation and support for transformation of their corporate IT systems to cloud computing. As part of its range of services, the CANCOM Group is able to run parts of, or entire, IT departments for its clients, using scalable cloud and managed services – especially shared managed services. Distribution costs allocated to cloud distribution are included in the segment. The cloud business also benefits from synergies with CANCOM's general sales and marketing service, the costs of which are allocated to the IT Solutions reportable segment.

The IT Solutions segment comprises CANCOM GmbH, CANCOM Computersysteme GmbH, CANCOM a+d IT solutions GmbH, CANCOM (Switzerland) AG, CANCOM ICT Service GmbH, CANCOM on line GmbH, Cancom on line B.V.B.A., CANCOM physical infrastructure GmbH, CANCOM Inc., HPM Incorporated, and the OCSL group (The Organised Group Ltd, Organised Computer Systems Ltd, OCSL Managed Services Ltd, OCSL Project Services Ltd, M.H.C. Consulting Services Ltd, OCSL Employee Services LLP, OCSL ITO Ltd, OCSL Property LLP), with the exception of the divisions of CANCOM GmbH, CANCOM on line GmbH and the OCSL group allocated to the Cloud Solutions and 'other companies' segment. This segment of the CANCOM Group offers comprehensive support for IT infrastructure and applications. The range of services offered includes IT strategy consulting, project planning and implementation, system integration, IT procurement via e-procurement services or as part of a project, in addition to professional IT services and support.

The 'other companies' are CANCOM SE, CANCOM Managed Services GmbH (formerly CANCOM VVM GmbH), CANCOM Financial Services GmbH and the divisions of CANCOM GmbH allocated to the 'other companies' segment. CANCOM SE and the divisions of CANCOM GmbH allocated to this segment perform the staff and/or management functions for the Group.
As such, they provide a range of services for the subsidiaries. The costs of central management of the Group and its investments in internal Group projects also fall within this segment.

Basis of valuation of the profit of the segments

The accounting methods used for internal segment reporting are in line with the accounting policies described in section A. 4. The only differences arise from the translation of foreign currency, and these give rise to slight deviations between the data for internal reporting and the relevant disclosures for the external presentations of financial statements.

Internal sales are recorded on the basis of either their cost or their current market prices, depending on the type of service or product sold.

The segment assets, liabilities and investments are not presented, as the internal reporting system is only based on earnings figures, broken down into segments for the purpose of Group management.

Reconciliation

Reconciliation shows items not directly connected with the operating segments and the other companies. They include sales within the segments, and the income tax expense.

The income tax expense is not a component of the earnings of the operating segments. Since the tax expense is allocated to the parent company where the parent company is the taxable entity, the allocation of the income tax does not exactly correspond to the structure of the segments.

Information on geographical regions

	Sales revenue according to client location		Sales revenue according to company location	
	2018 € '000	2017 € '000	2018 € '000	2017 € '000
Germany	1,137,538	982,107	1,200,583	1,047,864
Outside Germany	241,366	179,133	178,321	113,376
Group	1,378,904	1,161,240	1,378,904	1,161,240

	Non-current assets	
	Dec. 31, 2018 € '000	Dec. 31, 2017 € '000
Germany	265,600	227,335
Outside Germany	94,478	15,989
Group	360,078	243,324

Non-current assets include property, plant and equipment (tangible assets), intangible assets, goodwill, and other non-current assets. Financial instruments and deferred tax claims are not included.

E. Notes to the consolidated statement of income

1. Sales revenues

The sales revenues are broken down as follows:

	2018 € '000	2017 € '000
From the sale of goods	1,067,955	904,285
From the provision of services	310,949	256,955
Total	**1,378,904**	**1,161,240**

	2018 € '000
Revenue from contracts with clients	1,371,575
Revenue from leasing	7,329
Total consolidated revenue	**1,378,904**

Breakdown of revenue from contracts with clients regarding the time of recognition as income as well as regarding the segments:

	2018 € '000
Date of revenue recognition	
Products transferred at a point in time	1,060,626
Products and services transferred over time	310,949
Revenue from contracts with clients	**1,371,575**
Cloud Solutions	238,391
IT Solutions	1,133,184
Revenue from contracts with clients	**1,371,575**

The sales revenues include order revenue of EUR 3,340 thousand calculated using the POC method.

2. Other operating income

Other operating income consists of the following items:

	2018 € '000	2017 € '000
Rental income	14	0
Income not related to the period	1,583	1,081
Income from the disposal of associated companies	0	515
Government grants	544	622
Compensation for damages	424	200
Other operating income	60	53
Total	**2,625**	**2,471**

Income not relating to the period mainly includes the proceeds from the sale of non-current assets (EUR 979 thousand) and income from the derecognition of debtors with a credit balance (EUR 539 thousand).

Government grants include the benefit allocated to the fiscal year 2018 from availing of loans at a favorable interest rate.

For more information see details on loans in sections C. 20 and C. 21.

3. Other own work capitalized

This item includes in-house services connected with the purchase and manufacture of non-current assets, as well as capitalized development costs in the intangible assets.

Other own work capitalized comprises the following:

	2018 € '000	2017 € '000
Capitalized development costs	2,120	1,141
Own work capitalized for acquired intangible assets	2,492	1,939
Own work capitalized for acquired property, plant and equipment (tangible assets)	40	139
Total	**4,652**	**3,219**

Research and development costs were not capitalized if they did not meet the criteria for recognition under IAS 38. They amounted to less than EUR 0.1 million (2017: EUR 0.1 million).

4. Capitalized contract costs

The capitalized contract costs consist of startup costs for multi-year contracts with clients. They amount to EUR 1,039 thousand and include staff expenses for Group staff (EUR 821 thousand), subcontracted services procured externally (EUR 132 thousand), line costs (EUR 53 thousand), costs of legal advice (EUR 19 thousand), and other costs (EUR 14 thousand).

5. Staff expenses

The staff expenses consist of the following:

	2018 € '000	2017 € '000
Wages and salaries	195,767	164,207
Equity-settled share-based payments	473	0
Cash-settled share-based payments	254	0
Social security contributions	31,073	26,316
Pension expenses	589	458
Total	**228,156**	**190,981**

6. Other operating expenses

The other operating expenses consist of the following items:

	2018 € '000	2017 € '000
Premises costs	6,484	11,114
Insurance and other charges	1,679	1,239
Motor vehicle costs	3,276	3,475
Advertising costs	2,217	2,587
Stock exchange and entertainment costs	379	282
Hospitality and travelling expenses	8,404	6,774
Delivery costs	4,286	3,641
Third-party services	5,423	3,696
Repairs, maintenance, leasing	4,412	3,861
Communication and office expenses	3,148	2,746
Professional development and training costs	2,680	1,553
Legal and consultancy fees	4,699	2,338
Fees, costs of money transactions	780	247
Adjustments of accounts receivable	0	197
Other operating expenses	3,736	2,597
Total	**51,603**	**46,347**

7. Interest income and expenses

Interest income mainly consists of interest on cash in banks and interest income from clients. Interest expenses include mostly interest on bank loans as well as interest expenses for leasing liabilities (see also details in section B.)

8. Other financial result – income and expenses

The other financial result mainly includes income from the reversal of a purchase price liability for the put/call options, income and expenditure in relation to currency futures and income from the payout on reinsurance policies.

9. Write-downs of financial assets

The write-downs of financial assets, which amount to EUR 200 thousand, relate to the write-down of an equity interest in a non-consolidated company and the impairment of a long-term financial receivable from a subsidiary that has been sold.

10. Share in profit or loss of equity-accounted associated companies

The CANCOM Group held a 19.88 percent interest in prudsys AG, Chemnitz, Germany, through its subsidiary Pironet AG. As members of staff of the CANCOM Group are members of the supervisory board of prudsys AG, the Group had a controlling interest in the associate.

The shares were sold with effect from October 23, 2017 following an acceptance offer on August 23, 2017 and receipt of payment of the purchase price of EUR 1,104 thousand. After deduction of the carrying amount of EUR 589 thousand, the proceeds from the disposal amount to EUR 515 thousand.

The company's pro rata net income for the fiscal year ended September 30, 2017 was EUR 566 thousand. The related profit from the equity-accounted investment was therefore EUR 112 thousand in 2017.

Summarized financial information on the associate prudsys AG on the basis of the preliminary IFRS quarterly financial statements as at September 30, 2017:

	2018 € '000	2017 € '000
Sales revenues	0	3,256
Earnings after taxes from continuing operations	0	566
Comprehensive income	**0**	**566**
Comprehensive income attributable to the group	**0**	**112**
Group's share of the long-term equity investment's net assets at the start of the year	0	501
Comprehensive income attributable to the Group	0	112
Adjustments to the previous year's final earnings figure	0	-14
Dividends received during the year	0	-10
Group's share of the long-term equity investment's net assets at the end of the year	**0**	**589**
Eliminiation of unrealized profits from downstream sales	0	-589
Carrying amount of the investment in the long-term equity investment at the end of the year	**0**	**0**

prudsys AG develops and distributes software for retail e-commerce applications by means of a licensing system that includes service. The prudsys software analyses client behavior (in realtime), enabling product recommendations to be made and dynamic pricing used during the shopping process. This increases the online store operator's client retention rate.

11. Income taxes

The rate of income tax for the German companies was 31.4 percent (2017: 31.3 percent). This is made up of corporate tax, trade tax and solidarity surcharge. The slight increase in the income tax rate is owing to a minor rise in the average rate of trade tax.

The divergence between the tax expenses reported and those at the tax rate of CANCOM SE is shown below:

	2018 € '000	2017 € '000
Earnings before tax	**64,169**	**58,732**
Expected tax expense at rate for German companies (31.4 percent; 2017: 31.3 percent)	**20,149**	**18,383**
- Difference from tax paid outside Germany	32	41
- Change in value adjustment of deferred tax assets on loss carryforwards	274	-98
- Tax-exempt income/ non tax-relevant losses on disposals	261	-80
- Actual income tax not relating to the period	-18	245
- Permanent differences	11	-27
- Non-deductible operating expenses, as well as trade tax add-backs and deductions	807	284
- Effects of tax rate changes	22	-327
- Other	-124	31
Total Group income tax expenses	**21,414**	**18,452**

The actual tax rate is calculated as follows:

	2018 € '000	2017 € '000
Income before tax	64,169	58,732
Income tax	21,412	18,452
Actual tax expense rate	33,37%	31,42%

Income tax comprises the income tax paid or owed in the individual countries, and the deferred taxes:

	2018 € '000	2017 € '000
Actual income tax expense	23,984	19,519
Deferred taxes:		
Assets	2,544	892
Liabilities	-4,969	-1,976
	-2,425	-1,084
Deferred taxes recognized directly in equity	-147	17
Group income tax expense	**21,412**	**18,452**

The calculation of income tax in accordance with IAS 12 takes account of tax deferrals resulting from different methods of measurement used for the tax balance sheet, as well as from realizable loss carryforwards, from differences in the results produced by the measurement of tax in the single-entity financial statements of the consolidated subsidiaries and those produced by the Group's standard method, and from the consolidation processes, in as far as these balance out over the course of time. Deferred tax claims relating to the carrying forward of tax losses which have not yet been utilized are capitalized if results can be expected to be positive within the next five years. The deferred taxes are calculated on the basis of the tax rates expected to apply in the period in which an asset is realized or a liability satisfied. The tax rates are those that apply or will apply on the balance sheet date. Deferred taxes on items recognized directly in equity relate to the cost of equity-settled share-based payments and the costs of the capital increase.

12. Discontinued operations

The impact of discontinued operations on the statement of income totals EUR 114 thousand (2017: loss of EUR 259 thousand). Of this amount, a loss of EUR 5 thousand is attributable to minority interests (2017: loss of EUR 13 thousand).

This amount consists entirely of expenditure. No income tax is due. The result before taxes from discontinued operations is the same as the result after taxes, which is a loss of EUR 114 thousand.

The discontinued operations mainly include the costs connected with the sale of Pirobase Imperia GmbH.

13. Non-controlling interests

Minority interests account for 5.04 percent (start of the year) and 4.91 percent (end of the year) of the net income for the period of the Pironet AG subgroup (EUR 128 thousand). Please see Appendix 4 for changes in non-controlling interests in equity.

14. Earnings per share

Basic earnings per share

The table below shows the change in the number of shares for calculation of the basic earnings per share:

2017 fiscal year (before stock split)	**16,711,565**
Effect of capital increase (pro rata)	18,332,073
2018 fiscal year	**35,043,638**

Due to the stock split implemented in the fiscal year 2018, the number of shares for 2017 was adjusted to calculate the earnings per share.

The amount used as the numerator in calculating the basic earnings per share was EUR 42.630 thousand.

Diluted earnings per share

On top of the number of shares taken to calculate the basic earnings, the figure for diluted earnings per share includes an additional 208,315 shares. This is the weighted average number of shares from the time the stock options were issued on August 17, 2018 that would have been issued if the options had been exercised (see section E.15. below).

15. Share-based payment agreements

CANCOM SE

On the basis of the authorization as per item number 9 on the agenda for the general meeting of shareholders on June 14, 2018 on the granting of subscription rights (stock options) and the creation of conditional capital I/2018, the Group has introduced an equity-settled stock option program that entitles management staff and other selected staff of the company or affiliated companies to purchase shares in the company. Under the employee stock ownership plan (ESOP 2018), the holders of exercisable options are entitled to buy shares at the market price on the grant date of the options.

Under the contract conditions below, the stock options can be converted at a ratio of 1:1 to subscribe for new notional no-par-value bearer shares in CANCOM SE, with each share representing EUR 1 of the capital stock. The options cannot be exercised until the staff member has served four years with the company following the grant date. A graded vesting schedule is used, under which 50 percent is vested after two years, a further 25 percent after three years, and the remaining 25 percent after four years. Once the vesting period is over, the options can be exercised up to ten years after the grant date.

For the options to be exercisable, the following market-related performance conditions must be met over the entire term of the stock options:

- the relevant reference price must exceed the exercise price on a linear basis by at least 5 percent (absolute performance target); and
- the price of the CANCOM SE share has performed better, between the date of issue and the date on which the option is exercised, than the unweighted average price per share of the peer group in the same period (relative performance target)

On August 17, 2018, the company issued 585,000 stock options. The options will be secured and satisfied by conditional capital 2018/I, which was recorded in the commercial register on the same day and which amounts to EUR 1,500,000, or another tranche of conditional capital to be approved in the future, or a tranche of authorized capital created in the future for this purpose, or treasury shares, if the company does not satisfy the subscription rights by a cash settlement.

The fair value of the stock options was determined by means of a multivariate binomial tree model. The main assumptions on which the calculation was based were an arbitrage-free and risk-neutral capital market and the potential for reproduction of the secure investment.

Exercise conditions other than market conditions are not used in determining the fair value of the stock options. Instead, the exercise conditions that are not market conditions have to be taken into account by adjusting the number of equity instruments involved in the determination of the transaction amount.
The amount determined for the service is therefore ultimately based on the number of equity instruments eventually exercisable.

The following parameters were used in determining the fair values on the day the equity-settled share-based payment plans were granted:

	Group 1 to 4 Executive Board members, members of management and senior managers of the CANCOM Group	Group 1 Executive Board members	Group 2 Members of management of affiliated companies	Group 3 Senior managers of the company	Group 4 Senior managers of affiliated companies
Fair value on grant date		10.40 €	9.78 €	9.33 €	9.39 €
Share price on grant date	39.60 €				
Exercise price	40.72 €				
Expected volatility	28.98%				
Expected dividends	1.11%				
Risk-free interest rate (based on government bonds)	0.02%				

The expected volatility is based on an assessment of the historical volatility of the share price of the company and the peer group.

Between the grant date and the balance sheet date, 30,000 of the options could no longer be exercised owing to a change in the non-fulfillment of service conditions, and have effectively lapsed. As at December 31, 2018 there were 555,000 options actually outstanding, none of which were exercisable.

The cost of equity-settled share-based payments was EUR 473 thousand (see section E.5.).

The Organised Group Ltd / Ocean Intelligent Communications Ltd (U.K.)

Stock options were granted to staff of the OCEAN group and the OCSL group in connection with the acquisition of the groups of companies. These stock options are classified as share-based payments for future services. The key parameters for the relevant agreements are shown in the table below:

Purchase	Options granted	Price per options at time of grant	Vesting period from grant date	Exercise period	Average remaining contract term as at December 31, 2018
OCSL group	2,000	1.18	3 years	4 years	75 months
OCEAN group	297	17.37	2 years	5 years	75 months

The options cannot be exercised until two years after the date of acquisition, in the case of the Ocean group, and three years after the acquisition in the case of the OCSL group (see section A.3. for the respective acquisition dates). One of the conditions for exercising the options is that the staff member concerned must still be an employee of the company concerned at the earliest date on which the option can be exercised. A probability-weighted model is used to determine the fair value.

There has been no change in the option price at the balance sheet date compared with the price at the grant date.

The expenses and liabilities for cash-settled share-based payments amounted to EUR 254 thousand as at December 31, 2018.

F. Notes to the statement of cash flows

The consolidated statement of cash flows is prepared in accordance with IAS 7 Statement of Cash Flows. This requires that a distinction be made between cash flows from operating activities, investing activities and financing activities. The cash and cash equivalents shown in the statement of cash flows comprise cash on hand and cash at banks.

The indirect method was used to establish the cash flow from current operating activities. There was a decrease of EUR 43.0 million in the cash flow from ordinary activities in comparison with the previous year.

The cash flow from ordinary activities has increased by EUR 8.8 million – the amount of the depreciation due to the adoption of IFRS 16 to account for leased assets. On the other hand, the cash outflow resulting from the principal repayments (EUR 8.2 million) and the interest payments (EUR 0.3 million) on lease liabilities has reduced the cash flow from financing activities by EUR 8.5 million altogether.

The cash resources of EUR 135,247 thousand (2017: EUR 157,619 thousand) include the cash and cash equivalents shown in the balance sheet. This comprises cash on hand and cash in banks.

Financial liabilities

	Dec. 31, 2017	Adjustment	Jan. 1, 2018	Cash	Non-cash					Dec. 31, 2018
		Opening balance sheet items under IFRS 16			Acquisitions	Currency effects	New contracts	Changes in fair value[1]	Other	
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Loan liabilities	10,164	0	10,164	-6,346	1,729	-28	0	527	0	6,046
Lease liabilities[2]	1,718	40,584	42,302	-8,473	2,407	1	6,242	0	-459	42,020
Total liabilities from financing activities	**11,882**	**40,584**	**52,466**	**-14,819**	**4,136**	**-27**	**6,242**	**527**	**-459**	**48,066**

1) Including interest
2) Reported in the balance sheet under current and non-current financial liabilities

G. Other disclosures

1. Related party disclosures

CANCOM SE has prepared these consolidated financial statements as the parent company with ultimate control. They are not included in the consolidated financial statements of any other group.

For the purposes of IAS 24, Klaus Weinmann, Thomas Volk, Rudolf Hotter and Thomas Stark can each be considered as related parties who can exercise a significant influence on the CANCOM Group as Executive Board members of CANCOM SE. Furthermore, the members of the Supervisory Board each are considered as related parties for the purposes of IAS 24, as are the members of the Supervisory Board. Other related persons under IAS 24.9 b are:

- PRIMEPULSE SE and its subsidiaries;
- Stemmer Imaging AG;
- Polecat Intelligence Ltd.;
- tyntec Group Ltd. and its subsidiaries;
- Unify Square and its subsidiaries;
- ABCON Holding GmbH and its subsidiaries;
- ABCON Vermögensverwaltung GmbH and its subsidiaries;
- DV Immobilien Management GmbH;
- Elber GmbH;
- Athanor Gesellschaft für Beratung und Beteiligung mbH and its subsidiaries;
- Wild Consult LLC;
- Accelerate Commerce GmbH, Munich, Germany (formerly Spacelab Invest GmbH);
- MediaMarktSaturn Retail Group and its subsidiaries;
- SBF AG and its subsidiaries;
- Mutares AG;
- Alfmeier SE; and
- Digitales Gründerzentrum der Region Ingolstadt GmbH.

With regard to persons related to affiliated companies, please see section A.3. Reporting entity, and the statement of ownership in section G.12. With regard to persons related to affiliated companies accounted for using the equity method, please see section E.10. of these notes for information regarding prudsys AG.

Transactions with related persons were settled in the same way as arm's length transactions, and the payment terms are net 10 to 30 days.

The transaction volumes of goods sold and services provided to related parties under IAS 24 were as follows: AL-KO Kober SE (a subsidiary of PRIMEPULSE SE) and its subsidiaries purchased goods/services to the value of EUR 2,264 thousand (gross) (2017: EUR 2,167 thousand), of which EUR 415 thousand (2017: EUR 281 thousand) was still outstanding on the reporting date. KATEK SE (a subsidiary of PRIMEPULSE SE) and its subsidiaries purchased goods/services to the value of EUR 322 thousand (gross) (2017: EUR 0), of which EUR 17 thousand (2017: EUR 0) was still outstanding at the reporting date. Stemmer Imaging AG (a subsidiary of PRIMEPULSE SE) and its subsidiaries purchased goods/services to the value of EUR 315 thousand (gross) (2017: EUR 139 thousand), of which EUR 17 thousand (2017: EUR 10 thousand) was still outstanding at the reporting date. PRIMEPULSE SE purchased goods/services to the value of EUR 166 thousand (gross) (2017: EUR 0), of which EUR 5 thousand (2017: EUR 0) was still outstanding at the reporting date. Inter-Connect-Holding GmbH (a subsidiary of PRIMEPULSE SE) and its subsidiaries purchased goods/services to the value of EUR 126 thousand (gross) (2017: EUR 0), of which EUR 27 thousand (2017: EUR 0) was still outstanding at the balance sheet date. Alfmeier SE purchased goods/services to the value of EUR 82 thousand (gross) (2017: EUR 0) of which EUR 6 thousand was still outstanding at the reporting date. Abcon Holding GmbH purchased goods/services to the value of EUR 2 thousand (gross) (2017: EUR 0), which had been paid for in full by the reporting date. Klaus Weinmann purchased goods/services to the value of EUR 7 thousand (gross) (2017: EUR 0), which had been paid for in full by the reporting date. Uwe Kemm purchased goods/services to the value of EUR 5 thousand (gross) (2017: EUR 0), which had been paid for in full by the reporting date.

There was no transaction volume of goods and services purchased from related parties under IAS 24.

The emoluments paid to members of the Executive Board in the fiscal year amounted to EUR 3,783 thousand (2017: EUR 3,042 thousand). The emoluments were regarded as short-term staff benefits. As in the previous year, no post-employment benefit plans or termination benefits and other long-term benefits were provided.

The total cost recognized for share-based payments made to the Executive Board in the fiscal year 2017 was EUR 248 thousand (2017: EUR 0).

The emoluments of the Supervisory Board members consisted of a base salary and an additional remuneration for their activities as committee members. They amounted to EUR 336 thousand (2017: EUR 244 thousand) in total, including attendance fees.

Details of the emoluments paid to individual members of the Executive Board and the Supervisory Board are presented in the remuneration report, which is part of the combined management report.

As in the previous year, there were no further significant transactions involving the company and the members of the Executive and Supervisory Boards.

2. Shares and stock options held by members of the Executive and Supervisory Boards (as at the balance sheet date)

Stockholder	Shares	Percentage	Stock options
Thomas Volk	5,000	0,0143	54,000 (exercisable) 200,000 (not exercisable)
Thomas Stark	0	0,0000	60,000 (not exercisable)

3. Guarantees, contingent liabilities and other financial obligations

The financial obligations of the companies in the CANCOM Group under tenancy, leasing and telecommunication agreements were as follows:

As at December 31, 2018:

Due	2019 € '000	2020 € '000	2021 € '000	2022 € '000	2023 € '000	Later € '000	Total € '000
Under tenancy agreements	2,022	1,747	1,396	936	622	2,156	8,879
Under telecommunication agreements	1,116	567	178	73	28	0	1,962
	3,138	**2,314**	**1,574**	**1,009**	**650**	**2,156**	**10,841**

Following the adoption of IFRS 16 from January 1, 2018, only liabilities under telecommunications contracts and for ancillary rental costs are included.

As at December 31, 2017:

Due	2018 € '000	2019 € '000	2020 € '000	2021 € '000	2022 € '000	Later € '000	Total € '000
Under tenancy agreements	7,945	5,827	4,730	4,331	3,349	6,702	32,884
Under leasing agreements	700	271	108	44	13	0	1,136
Under telecommunication agreements	1,658	579	318	31	23	0	2,609
	10,303	**6,677**	**5,156**	**4,406**	**3,385**	**6,702**	**36,629**

Contingent liabilities arising from two legal disputes amount to EUR 140 thousand. CANCOM is likely to succeed in defending itself against the claims.

4. Declaration of conformity with the German Corporate Governance Code

In the Supervisory Board meeting on December 11, 2018, the Executive Board and the Supervisory Board issued a joint declaration of conformity with the German Corporate Governance Code in accordance with Section 161, paragraph 1 of the German Stock Corporation Act, which was published immediately. The declaration is permanently displayed on the company's website for public access.

5. Auditors' fees

The following fees (total fees plus expenses, excluding input tax) were charged in the fiscal year 2018 by the auditors appointed in accordance with Section 318 of the German Commercial Code, including affiliated companies and subsidiaries as defined by Section 271, paragraph 2 of the same Code:

	2018 € '000	2017 € '000
a) Financial statements*	182	140
b) Other audit-related services	0	0
c) Tax consultancy	0	0
d) Other services	4	0

* thereof attributable to fiscal year 2017 EUR 22 thousand (2016: EUR 15 thousand)

6. Staff

	2018	2017
Average number of staff members during the year	3,206	2,820
Number of staff members at the reporting date	3,403	2,913

The average number of staff members is divided between the following functions: Professional Services (1,983; 2017: 1,782), Sales (686; 2017: 584), and Central Services (538; 2017: 454).

7. Details of equity interests in CANCOM SE

As at 31 December 2018 the company had received the following notifications regarding major holdings of voting rights in accordance with Sections 33 et seq of the German Stock Corporation Act:

On December 18, 2018, the Norwegian Ministry of Finance, Oslo, Norway, informed CANCOM SE on behalf of the state of Norway that its share of the voting rights in CANCOM SE, held directly or indirectly, had fallen below the 3 percent threshold on December 17, 2018 and on that day amounted to 2.86 percent (equivalent to 1,003,659 voting rights). Additional voting rights from financial instruments brought the total share of voting rights held on that day to 3.23 percent (equivalent to 1,131,145 voting rights).

BNP Paribas Asset Management France S.A.S., Paris, France, informed CANCOM SE on November 29, 2018 that its share of the voting rights in CANCOM SE, held directly or indirectly, had exceeded the 3 percent threshold on November 26, 2018 and on that day amounted to 3.02 percent (equivalent to 1,057,209 voting rights).

BlackRock Inc., Wilmington, Delaware, U.S.A., informed CANCOM SE on November 20, 2018 that its share of the voting rights in CANCOM SE, held directly or indirectly, had fallen below the 3 percent threshold on November 15, 2018 and on that day amounted to 2.77 percent (equivalent to 970,448 voting rights). Additional voting rights from financial instruments brought the total share of voting rights held on that day to 3.0005 percent (equivalent to 1,003,545 voting rights).

Allianz Global Investors GmbH, Frankfurt am Main, Germany, informed us on August 3, 2018 that its share of the voting rights in CANCOM SE, held directly or indirectly, had exceeded the 5 percent threshold on August 1, 2018 and on that day amounted to 5.02 percent (equivalent to 1,760,793 voting rights).

PRIMEPULSE Beteiligungs GmbH, Munich, Germany, informed us on June 27, 2018 that its total share of the voting rights in CANCOM SE, held directly or indirectly, had exceeded the 10 percent threshold on June 26, 2018 and on that day amounted to 10.631 percent (equivalent to 1,862,700 voting rights). The voting rights were acquired as a result of the merger of PRIMEPULSE Beteiligungs GmbH (formerly AL-KO Beteiligungs GmbH) into PRIMEPULSE SE.

8. Members of the Executive Board and Supervisory Board

The members of the Executive Board are:

- Klaus Weinmann, graduate in business administration (Diplom-Kaufmann), Munich, Germany, (until September 30, 2018) CEO -
- Thomas Volk, graduate in computer science (Diplom-Informatiker), Inning, Germany, (since October 1, 2018) CEO -
- Rudolf Hotter, graduate in business economics (Diplom-Betriebswirt), Roßhaupten, Germany
- Thomas Stark, graduate in industrial engineering (Diplom-Wirtschaftsingenieur), Wittislingen, Germany (since January 1, 2018)

All members of the Executive Board are authorized to represent the company jointly with another Executive Board member or a person holding general commercial power of attorney (Prokura under German commercial law).

The following members of the Executive Board are members of statutory supervisory boards or comparable controlling boards in commercial enterprises in Germany or other countries:

- Klaus Weinmann:
  - PRIMEPULSE SE
  - AL-KO Kober SE (until June 30, 2018)
  - CANCOM GmbH (until June 30, 2018)
  - CANCOM ICT Service GmbH (until June 30, 2018)
  - Stemmer Imaging AG

- Rudolf Hotter:
  - Pironet AG
  - CANCOM ICT Service GmbH
  - CANCOM GmbH

- Thomas Volk:
  - Polecat Intelligence Ltd, Ireland
  - tyntec Group Ltd, United Kingdom
  - Unify Square, U.S.A. (since June 27, 2018)
  - CANCOM GmbH (since July 2, 2018)

- Thomas Stark:
  - AL-KO Kober SE
  - Pironet AG

Supervisory Board

The members of the Supervisory Board are:

- Dr. Lothar Koniarski, graduate in business administration (Diplom-Kaufmann), managing director of Elber GmbH, Regensburg, Germany
  -Chairperson-
- Uwe Kemm, independent organizational, sales and marketing consultant
  -Deputy Chairperson-
- Regina Weinmann, graduate in business administration (Diplom-Kauffrau), managing director of ABCON Vermögensverwaltung GmbH, Munich, Germany and of Inter-Connect Holding GmbH (formerly Inter-Connect GmbH), Munich, Germany
- Marlies Terock, business person, self-employed management consult specializing in information technology
- Martin Wild, Chief Innovation Officer of MediaMarktSaturn Retail Group, Ingolstadt, Germany
- Dominik Eberle (until November 2, 2018), online marketing and e-commerce consultant
- Stefan Kober (since February 11, 2019), business person, investor and member of the supervisory boards of various companies

The following members of the Supervisory Board are members of other statutory supervisory boards or comparable controlling boards in commercial enterprises in Germany or other countries:

- Dr. Lothar Koniarski:
  - Chairman of the supervisory board of SBF AG
  - Chairman of the advisory board of DV Immobilien Gruppe
  - Member of the board of directors of Alfmeier SE
  - Member of the supervisory board of Mutares AG

- Uwe Kemm
  - Member of the board of directors of PRIMEPULSE SE (since August 1, 2018)

- Martin Wild:
  - Member of the supervisory board of Digitales Gründerzentrum der Region Ingolstadt GmbH

- Dominik Eberle
  Member of the supervisory board of Easy Training AG

- Stefan Kober
  - Chairman of the supervisory board of AL-KO Kober SE
  - Member of the supervisory board of Stemmer Imaging AG

9. Significant events after the reporting date

After the reporting date, the general meeting of shareholders of CANCOM's subsidiary Pironet AG passed a resolution to transfer all the shares held by minority shareholders to the main shareholder, CANCOM SE, in return for payment of a cash settlement of EUR 9.64 per Pironet share. The notional value of the cash settlement to be paid to minority shareholders by CANCOM SE would thus amount to around EUR 6.9 million.

10. Proposal for the appropriation of net retained profit of CANCOM SE

The Executive Board has resolved to propose to the Supervisory Board and the general meeting of stockholders that the EUR 48,102,451.14 net retained profit from the fiscal year 2018 be used for a dividend payment of EUR 0.50 per eligible notional no-par value share, and that the balance of the retained profit remaining after the dividend payment be transferred to other retained earnings.

11. Approval of consolidated financial statements in accordance with IAS 10.17

These consolidated financial statements were approved for publication by the Executive Board on March 5, 2019.

12. Statement of ownership in accordance with Section 313 of the German Commercial Code

Tochterunternehmen:	Registered office of company	Stockholding in percent
1. CANCOM GmbH	Jettingen-Scheppach, Germany	100.00
and its subsidiaries		
• CANCOM (Switzerland) AG	Caslano, Switzerland	100.00
• CANCOM Computersysteme GmbH	Graz, Autria	100.00
and its subsidiaries		
• CANCOM a+d IT solutions GmbH	Perchtoldsdorf, Autria	100.00
2. CANCOM ICT Service GmbH	Munich, Germany	100.00
3. CANCOM physical infrastructure GmbH	Jettingen-Scheppach, Germany	100.00
4. CANCOM Financial Services GmbH	Jettingen-Scheppach, Germany	100.00
5. CANCOM Managed Services GmH (formerly CANCOM VVM GmbH)	Munich, Germany	100.00
6. CANCOM, Inc.	Palo Alto, U.S.A.	100.00
and its subsidiary		
• HPM Incorporated	Pleasanton, U.S.A.	100.00
7. CANCOM on line GmbH	Berlin, Germany	100.00
8. Cancom on line BVBA	Elsene, Belgium	100.00
9. Pironet AG	Cologne, Germany	95.09
and its subsidiaries		
• CANCOM Pironet AG & Co. KG	Hamburg, Germany	95.09
• PIRONET Enterprise Solutions GmbH	Cologne, Germany	95.09
• PIRONET NDH LLC	Atlanta, U.S.A.	95.09
• PIRONET NDH Beteiligungs GmbH	Cologne, Germany	95.09
10. CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Informations-Technologien mbH)	Aachen, Germany	100.00
11. CANCOM LTD	London, U.K.	100.00
and its subsidiaries		
• CANCOM OCEAN LTD	London, U.K.	80.02
and its subsidiaries		
• Ocean Intelligent Communications Ltd	Tames Dilton, U.K.	80.02
and its subsidiaries		
• Ocean Unified Communications Ltd	Tames Dilton, U.K.	80.02
• Ocean Network Services Ltd	Tames Dilton, U.K.	80.02
• CANCOM UK LTD	London, U.K.	87.50
and its subsidiaries		
• The Organised Group Ltd	U.K.	87.50
and its subsidiaries		
• Organised Computer Systems Ltd	U.K.	87.50 ***
• OCSL Managed Services Ltd	U.K.	87.50
• OCSL Project Services Ltd	U.K.	87.50
and its subsidiaries		
• M.H.C. Consulting Services Ltd	U.K.	87.50
• OCSL ITO Ltd	U.K.	87.50
• OCSL Emloyee Services LLP	U.K.	87.50 *
• OCSL Property LLP	U.K.	87.50 **

* Members: The Organised Group Ltd and OCSL Managed Services Ltd

** Members: The Organised Group Ltd and Organised Computer Systems Ltd

*** The Organised Group Ltd holds 90 percent and OCSL Employee Services LLP holds 10 percent.

CANCOM GmbH and CANCOM ICT Service GmbH have availed of the exemption option provided by Section 264, paragraph 3 of the German Commercial Code.

Munich, Germany, March 5, 2019

Thomas Volk Rudolf Hotter Thomas Stark

The Executive Board of CANCOM SE

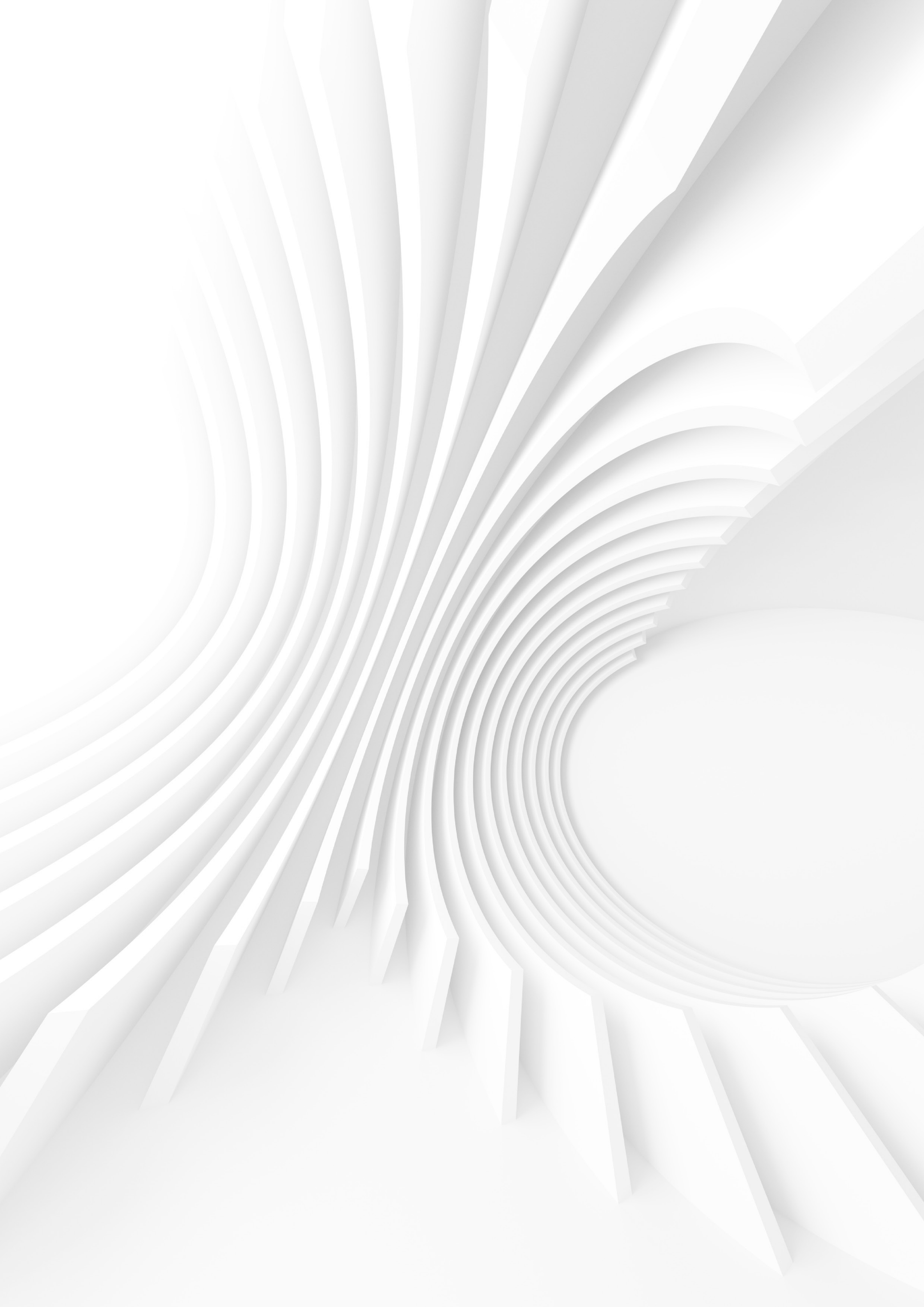
Responsibility Statement

The members of the Executive Board have assured that, to the best of their knowledge and in accordance with the applicable reporting principles, the financial statements and the management report of CANCOM SE and of CANCOM Group give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, give a true overall picture of the company's situation, and present an accurate view of the opportunities and risks of future development of the group.

Munich, Germany, March 2, 2019

Thomas Volk Rudolf Hotter Thomas Stark

The Executive Board of CANCOM SE



Report of the independent auditor

To CANCOM SE, Munich, Germany

Note on the audit of the consolidated financial statements and the group management report

Audit opinions

We have audited the consolidated financial statements of CANCOM SE, Munich, Germany, and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the financial year from 1 January to 31 December 2018 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of CANCOM SE, which is combined with the management report of the Company, for the fiscal year from 1 January to 31 December 2018.

In our opinion, based on the findings of our audit, the annual financial statements

- the accompanying consolidated financial statements comply in all material respects with IFRSs as adopted by the EU, the additional requirements of German law pursuant to § 315e Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as of 31 December 2018 and of its results of operations for the fiscal year from 1 January to 31 December 2018 in accordance with these requirements, and

- the group management report provides a suitable understanding of the Group's position as a whole. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and suitably presents the opportunities and risks of future development.

In accordance with section 322 (3) sentence 1 of the HGB, we declare that our audit has not led to any objections to the correctness of the consolidated financial statements and the group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the group management report in accordance with § 317 HGB and the EU Auditor's Regulation (No. 537/2014; hereinafter „EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these rules and principles is further described in the section „Responsibility of the auditor for the audit of the consolidated financial statements and the group management report" of our audit opinion. We are independent of the Company in accordance with European and German commercial and professional regulations and we have performed our other German professional duties in accordance with these requirements. In addition, we declare pursuant to Article 10 (2) (f) EU-APrVO that we have not provided any prohibited non-audit services pursuant to Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the group management report.

Particularly Important Audit Issues in the Audit of the Consolidated Financial Statements

Those matters of particular importance in our audit are those matters which, in our dutiful judgment, were most significant in our audit of the consolidated financial statements for the business year from January 1 to December 31, 2018. These matters have been considered in connection with our audit of the consolidated financial statements as a whole and in the determination of our audit opinion thereon; we do not express a separate opinion on these matters.

In the following, we present what we consider to be particularly important audit issues:

1) Impairment of goodwill
2) Accounting for acquisitions made in the fiscal year
3) Classification, measurement and presentation of stock-based compensation plans

We have structured our presentation of these particularly important audit issues as follows:

1) Reasons for identifying as particularly important audit issue and risk for closure
2) Auditing procedure
3) Conclusions and further information

1) Impairment of goodwill

1) In the consolidated financial statements of CANCOM SE, goodwill of EUR 157,442 thousand is reported under non-current assets. Goodwill is tested for impairment at least once during the financial year. These valuations are generally based on the present value of future cash flows from the cash-generating unit to which the respective goodwill is allocated. The valuations are based on the budgets of the individual cash-generating units, which are based on financial plans approved by management. Discounting is based on the weighted average cost of capital of the respective cash-generating unit. As a result of the impairment tests, there was no need for impairment.

   The result of the valuations depends in particular on the assessment of future cash inflows by the legal representatives and the discount rate used. The valuations are therefore subject to uncertainties.

2) We have satisfied ourselves that the future cash inflows underlying the valuations and the discount rates used overall form an appropriate basis for the impairment tests of the individual cash-generating units. Our assessment was based, among other things, on a comparison with general and industry-specific market expectations as well as management explanations of the key value drivers of the plans. With the knowledge that even relatively small changes in the discount rate used can in some cases have significant effects on value, we have also appreciated the parameters used to determine the discount rate used and have followed the calculation scheme. In addition, we have performed our own sensitivity analyses for the cash-generating units with low excess cover (carrying amount compared with present value) in order to assess the potential risk of impairment in the event of a possible change in a material valuation assumption.

3) In our opinion, the valuation parameters and assumptions applied by management were derived appropriately for the purpose of impairment testing. Please refer to the disclosures in the notes to the consolidated financial statements under C.8.3.

2) Accounting for acquisitions made in the fiscal year

1) In fiscal 2018, CANCOM made acquisitions with a total volume of EUR 78.6 million. The acquired assets and liabilities are recognised at fair value at the time of acquisition. The remaining part of the purchase price that is not allocated to the acquired assets and liabilities as part of the purchase price allocation is recognised as goodwill. There are no observable market values for individual assets acquired, in particular brands and customer relationships. Complex, assumption-based valuation models are therefore used to determine the corresponding fair values. The result of the valuation depends to a large extent on the estimate of future cash flows and the cost of capital used and is subject to considerable uncertainty due to the discretionary scope. Against this background and due to the underlying complexity of the valuation models, there is a risk for the financial statements that the fair values (in particular the intangible assets) were not determined properly. In addition, there is a risk that the disclosures required by IFRS 3 in the notes to the consolidated financial statements may not be appropriate.

2) With the support of our valuation specialists, we have assessed the appropriateness of the valuation models and the planning calculations underlying the valuation. This included, on the one hand, assessing the arithmetical accuracy of the valuation models and, on the other hand, assessing expectations for future short-, medium- and long-term revenue and cost developments on the basis of external market data and management surveys, among other things. Our audit also focused on identifying value drivers for the intangible assets identified and to be measured. We have analysed whether the assumptions for the value drivers for customer relationships (customer grouping, maturity, meltdown rates, risk premiums) are appropriate and in line with variables observable on the market. For the goodwill resulting from the purchase price allocation, we have analysed the main synergy drivers and assessed them on the basis of the information and evidence provided to us. We also focused on the assumptions and

parameters used to determine the weighted average cost of capital, in particular the appropriate peer group determination to derive the cost of equity, and assessed the calculation method.

In addition, we have assessed whether the disclosures required by IFRS 3 in the notes to the consolidated financial statements are appropriate.

3) The purchase price allocations shown in the consolidated financial statements were carried out appropriately on the basis of appropriate valuation models, assumptions and data. We also refer to the disclosures in the notes to the consolidated financial statements under A.3.

3. Classification, measurement and presentation of stock-based compensation plans

1) In 2018, CANCOM SE launched a share-based compensation program for management and selected employees. As of the balance sheet date, 555,000 stock options had been issued. These entitle the holder to subscribe to new no-par value bearer shares of CANCOM SE with a proportionate amount of the share capital of EUR 1 per share. The program contains various exercise conditions. As of 31 December 2018, CANCOM SE had accrued a total of EUR 325 thousand in expenses for share-based payment programs in equity (after taking into account offsetting deferred taxes).

The interpretation of contractual agreements and thus the classification of share-based payment programs in accordance with IFRS 2 is complex. Furthermore, the assessment of the fulfilment of exercise conditions on the balance sheet date and during the vesting period is discretionary.

There is a risk for the consolidated financial statements that the requirements of IFRS 2 for classification as share-based payment programs are not met or that the classification as equity-settled share-based payment transactions within the meaning of IFRS 2 is incorrect. There is also the risk that the fair values of the equity instruments granted or the respective liability may not have been measured in accordance with IFRS 2.

2) We first assessed whether the requirements for classification as share-based payment programs under IFRS 2 were met. To this end, we have analyzed the contractual provisions of the program in detail and assessed whether it is a question of share-based payments in accordance with IFRS 2 settled by equity instruments.

We have also assessed the valuation model and the appropriateness of the underlying assumptions regarding vesting conditions (employee turnover) and performance conditions (share price at the end of the vesting period). To this end, we have acknowledged the estimates derived from the past with regard to employee fluctuation. The share price developments calculated from valuation models based on financial mathematics were validated by an expert opinion of BAV Ludwig GmbH.

By reviewing the relevant contractual documents and accounting records, we have verified that the underlying assumptions about the fulfillment of the vesting conditions were properly estimated as of the balance sheet date and that the share-based programs were accounted for correctly.

3) The share-based payment programs were appropriately classified in accordance with IFRS 2. The valuation methods applied are appropriate and the underlying assumptions regarding the fulfillment of the exercise conditions as of the balance sheet date were reasonably estimated.

The information provided in the notes to the consolidated financial statements is complete and accurate.

Other information

The legal representatives are responsible for the other information. Other information includes

- the Group Declaration on Corporate Governance, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the group management report and our audit opinion.

Our audit opinions on the consolidated financial statements and the group management report do not extend to the other information and, accordingly, we do not express an opinion or any other form of audit conclusion thereon.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information is free of material misstatement.

- have material discrepancies with the consolidated financial statements, with the group management report or with the knowledge acquired during the audit, or
- appear to be displayed incorrectly in some other way.

If, based on the work we have performed, we determine that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this context.

Responsibility of the legal representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The legal representatives are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs.1 HGB, and for the presentation of the net assets, financial position and results of operations of the Group in accordance with these requirements. In addition, management is responsible for internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing matters relating to the continuing operation of the entity, if relevant. In addition, they are responsible for accounting under the going concern assumption unless there is an intention to liquidate the group or discontinue operations, or there is no realistic alternative.

In addition, the legal representatives are responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. In addition, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to permit the preparation of a group management report in accordance with the applicable German legal provisions and to provide sufficient and suitable evidence for the statements in the group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for preparing the consolidated financial statements and the Group management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the group management report

Our objective is to obtain reasonable assurance whether the consolidated financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the group management report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the consolidated financial statements and the findings of our audit, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to express an opinion that includes our audit opinion on the consolidated financial statements and the group management report.

Sufficient assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with § 317 HGB and the EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they will affect, individually or collectively, the economic decisions of addressees made on the basis of these consolidated financial statements and the group management report.

Throughout the audit, we exercise professional judgment and maintain a critical attitude. In addition

- we identify and evaluate the risks of material misstatement, whether intentional or not, of the consolidated financial statements and the group management report, plan and perform audit procedures in response to those risks, and obtain audit evidence sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements will not be detected is greater for violations than for inaccuracies, as violations may involve fraudulent collusion, falsification, intentional incompleteness, misrepresentation, or the overriding of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the group management report 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.

- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the reasonableness of accounting estimates made and related disclosures made.

- we draw conclusions about the appropriateness of the accounting principle applied by the legal representatives for the continuation of the business activity and, on the basis of the audit evidence obtained, whether there is a material uncertainty in connection with events or circumstances that could cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to express an opinion on the related consolidated financial statements and on the group management report or, if the information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the date of our audit opinion. Future events or circumstances may, however, result in the Group no longer being able to continue its business activities.

- we have assessed the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, as well as whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to § 315e Abs. 1 HGB.

- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the group management report. We are responsible for the direction, monitoring and performance of the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- we assess the consistency of the group management report with the consolidated financial statements, its legal pronouncements and the group management report as a whole.

- we perform audit procedures on the forward-looking statements in the group management report as presented by the legal representatives. On the basis of sufficient and suitable audit evidence, we particularly verify the significant assumptions on which the forward-looking statements of the legal representatives are based and assess the proper derivation of the forward-looking statements from these assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit and significant findings of the audit, including any deficiencies in the internal control system that we identify during our audit.

We make a declaration to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that are reasonably believed to affect our independence and the safeguards that have been put in place to that effect.

From among the matters discussed with those responsible for monitoring, we identify those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the most important matters for the audit. We describe these matters in the auditor's report unless required to do so by law or other regulations.

Other statutory and other legal requirements

Other information pursuant to Article 10 of the APrVO:

We were appointed as auditors of the consolidated financial statements by the Annual General Meeting on 14 June 2018. We were appointed by the Audit Committee on 7 January 2019. We have been the uninterrupted auditors of the consolidated financial statements of CANCOM SE since fiscal year 1998.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 EU-APrVO (audit report).

Responsible auditor

The auditors responsible for the audit are Oliver Kanus and Joachim Mairock.

Augsburg, 5 March 2019

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Oliver Kanus Wirtschaftsprüfer (Certified auditor)	Joachim Mairock Wirtschaftsprüfer (Certified auditor)

If the consolidated financial statements and the group management report are published, reproduced or forwarded to third parties in a form that differs from the audited version and if our audit opinion is quoted or reference is made to our audit, we must first issue a new opinion. This also applies to the translation of the consolidated financial statements into other languages. In this regard, we refer to § 328 HGB.

SE Company balance sheet as at December 31, 2018

ASSETS

	Dec. 31, 2018 €	Dec. 31, 2017 €
A. FIXED ASSETS		
I. Intangible fixed assets		
purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	101,618	138,822
II. Property, plant and equipment (tangible fixed assets)		
1. Technical equipment and machinery	29,008	50,059
2. Other equipment, operating and office equipment	377,536	479,000
	406,544	529,059
III. Long-term financial assets		
1. Shares in affiliated companies	248,290,429	246,163,438
2. Loans to affiliated companies	73,743,923	13,461,987
3. Loans to companies, with whom an investment relationship exists	1	200,067
4. Long-term securities	4,000,000	5,047,852
	326,034,353	264,873,343
B. CURRENT ASSETS		
I. Accounts receivable and other assets		
1. Trade accounts payable	5,353	10,147
2. Accounts receivable from affiliated companies	61,437,576	54,311,165
3. Other assets	836,851	660,286
	62,279,780	54,981,598
II. Cash in hand, central bank balances, cash on banks and checks	13,281,229	56,739,605
C. PREPAID EXPENSES	122,177	92,765
	402,225,702	**377,355,191**

EQUITY AND LIABILITIES

	Dec. 31, 2018 €	Dec. 31, 2017 €
A. EQUITY		
I. Capital stock	35,043,638	17,521,819
II. Capital reserves	207,722,354	225,244,173
III. Revenue reserves		
1. Statutory reserves	6,666	6,666
2. Other reserves	102,497,359	81,985,487
	102,504,025	81,992,153
IV. Net retained profit/ net accumulated loss	48,102,451	38,033,691
	393,372,468	362,791,836
B. PROVISIONS		
1. Tax provisions	4,272,301	9,245,294
2. Other provisions	2,700,531	2,862,932
	6,972,832	12,108,226
C. LIABILITIES		
1. Bonds	597,019	1,592,064
2. Liabilities to banks	223,859	597,007
3. Trade accounts receivable	874,421	119,451
4. Liabilities to affiliated companies	52	65
5. Other liabilities	179,077	138,985
	1,874,428	2,447,572
D. DEFERRED INCOME	5,974	7,558
	402,225,702	**377,355,191**

Statement of income for the period from January 1 to December 31, 2018

	2018 €	2017 €
1. Sales revenues	8,711,557	7,696,982
2. Other operating income	691,651	873,667
3. Human resources expenses		
a) Wages and salaries	-7,639,535	-6,376,052
b) Social security, pension, and other staff benefit costs	-706,415	-583,711
	-8,345,950	-6,959,763
4. Depreciation, amortization and write-downs:		
Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property, plant and equipment (tangible fixed assets)	-256,156	-230,041
On current assets, as far as they exceed the depreciation typical for stock corporations	-300,000	0
5. Other operating expenses	-5,055,623	-2,972,614
6. Income from long-term equity investments	13,737,906	7,519,996
7. Profits received under a profit transfer agreement	52,747,566	45,761,615
8. Interest and similar income	2,655,789	1,930,723
9. Write-downs on financial investments and securities within current assets	-205,066	0
10 Interest and similar expenses	-71,096	-1,211,198
11. Income taxes	-16,195,680	-14,373,932
12. Earnings after taxes	**48,114,897**	**38,035,435**
13. Other taxes	-12,446	-1,744
14. Net income for the year	**48,102,451**	**38,033,691**
15. Retained profit/accumulated loss brought forward from previous year	38,033,691	27,244,568
16. Allocation to revenue reserves/to other revenue reserves	-20,511,872	-19,060,803
17. Distribution	-17,521,819	-8,183,766
18. Net retained profit	**48,102,451**	**38,033,691**

Schedule of changes in fixed assets

	ACQUISITION/PRODUCTION COSTS			
	As at Jan 1, 2018 €	Additions 2018 €	Disposals 2018 €	As at Dec. 31, 2018 €
I. Intangible fixed assets				
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	280,342.16	52,540.50	0.00	332,882.66
	280,342.16	52,540.50	0.00	332,882.66
II. Property, plant and equipment (tangible fixed assets)				
1. Technical equipment and machinery	324,193.43	0.00	0.00	324,193.43
2. Other equipment, operating and office equipment	973,354.57	117,205.88	178,455.89	912,104.56
	1,297,548.00	117,205.88	178,455.89	1,236,297.99
III. Long-term financial assets				
1. Shares in affiliated companies	246,163,437.57	2,154,257.85	27,266.29	248,290,429.13
2. Loans to affiliated companies	13,461,986.64	60,281,936.59*	0.00	73,743,923.23
3. Long-term equity investments (Stockholding of less than 20 percent)	200,067.10	0.00	0.00	200,067.10
4. Long-term securities	5,047,851.75	0.00	1,047,851.75	4,000,000.00
5. Other loans	0.00	5,000.00	5,000.00	0.00
	264,873,343.06	62,441,194.44	1,080,118.04	326,234,419.46
Total	**266,451,233.22**	**62,610,940.82**	**1,258,573.93**	**327,803,600.11**

* Net presentation of expenditure and repayments

AMORTIZATION, DEPRECIATION AND WRITE-DOWNS				CARRYING AMOUNTS	
As at Jan. 1, 2018 €	Additions 2018 €	Disposals 2018 €	As at Dec. 31, 2018 €	As at Dec. 31, 2018 €	As at Dec. 31,2017 €
141,520.52	89,743.93	0.00	231,264.45	101,618.21	138,821.64
141,520.52	89,743.93	0.00	231,264.45	101,618.21	138,821.64
274,134.20	21,050.96	0.00	295,185.16	29,008.27	50,059.23
494,354.67	145,361.02	105,146.66	534,569.03	377,535.53	478,999.90
768,488.87	166,411.98	105,146.66	829,754.19	406,543.80	529,059.13
0.00	0.00	0.00	0.00	248,290,429.13	246,163,437.57
0.00	0.00	0.00	0.00	73,743,923.23	13,461,986.64
0.00	200,066.10	0.00	200,066.10	1.00	200,067.10
0.00	0.00	0.00	0.00	4,000,000.00	5,047,851.75
0.00	5,000.00	5,000.00	0.00	0.00	0.00
0.00	205,066.10	5,000.00	200,066.10	326,034,353.36	264,873,343.06
910,009.39	**461,222.01**	**110,146.66**	**1,261,084.74**	**326,542,515.37**	**265,541,223.83**

Notes to the company accounts

for the fiscal year 2018

A. General information

CANCOM SE is based in Munich, Germany, and is registered in the commercial register of the Munich Local Court (Amtsgericht) under HRB 203845.

The company is a large joint-stock company, for the purposes of Section 267, paragraph 3 of the German Commercial Code (Handelsgesetzbuch, HGB). The accounting and valuation methods are subject to the provisions of the German Commercial Code on financial reporting for joint-stock companies, as amended by the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG), in addition to the supplementary provisions of the German Stock Corporation Act (Aktiengesetz, AktG), and Council Regulation (EC) No. 2157/2001 on the Statute for a European Company (SE).

The financial statements were drawn up in euro. Rounding of figures may result in apparent inconsistencies between totals and sums of constituent parts. For the same reason, percentages may not exactly match the aggregate values shown or total 100 percent.

B. Accounting and valuation principles

Intangible fixed assets

Intangible fixed assets subject to amortization are valued at acquisition cost less pro-rata amortization according to plan (based on a useful life of three years). Items are written down according to the straight-line method of amortization.

Property, plant and equipment (tangible fixed assets)

Property, plant and equipment (tangible fixed assets) are recognized at cost less depreciation according to plan or write-downs. Depreciation is calculated by the straight-line method.

A useful life of between 3 and 14 years is applied to property, plant and equipment (tangible fixed assets). Assets will be written down if their impairment is expected to be permanent.
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Low-value assets with acquisition costs of EUR 250 or less are written off in full as operating costs in the year of their acquisition.

Since January 1, 2008, assets with acquisition costs of between EUR 250 and EUR 1,000 are capitalized in a collective item. All assets for the whole year are accumulated in this collective item and depreciated over five years by the straight-line method.

Long-term financial assets

Long-term financial assets are valued at acquisition cost or at the lower fair value in the event of permanent impairment.

Accounts receivable and other assets

Accounts receivable and other assets are carried at their nominal value and, where applicable, at their lower fair value.

Cash and cash equivalents (liquid funds)

Cash and cash equivalents (liquid funds) have been valued at their nominal value.

Equity

Subscribed capital has been valued at its nominal value.

Provisions

Provisions have been measured at their settlement values according to reasonable commercial assessment, and take account of all identifiable risks, contingent liabilities and anticipated losses.

Liabilities

Liabilities are recognized at their settlement values.

Deferred taxes

If a tax burden is expected overall in future fiscal years, an excess of deferred tax liabilities is recognized for the differences between the financial and tax recognition of assets, liabilities and prepaid expenses/deferred income. If a future tax benefit is expected overall, the company does not recognize deferred tax assets, which is an option offered by Section 274, paragraph 1, sentence 2 of the German Commercial Code. Loss carryovers are taken into account to the extent that they can be offset against taxable income within the next five years.

Additionally, differences between the financial and tax recognition of the assets, liabilities and prepaid expenses/deferred income of subsidiaries are taken into account to the extent that future tax burdens and tax benefits are anticipated from the reversal of temporary differences at the parent company, CANCOM SE.

Deferred taxes are measured on the basis of the tax rates applicable in the future fiscal year in which the temporary differences in measurement are reversed, provided that the future tax rates are already known. The income tax rate is 31.1 percent (2017: 31.1 percent) and consists of corporate tax and trade tax as well as the solidarity surcharge.

Basis for currency conversion

Accounts payable and receivable in currencies other than the euro within the Group are converted at the average spot rate on the balance sheet date. Monetary balance sheet items in currencies other than the euro were also converted at the rate applicable on the reporting date.

Accounts payable and receivable with a remaining term to maturity of less than one year are converted at the average spot rate on the reporting date in line with Section 256a of the German Commercial Code. Accounts payable with a remaining term to maturity of more than one year are converted at the higher rate if applicable, while accounts receivable and other monetary assets with a remaining term to maturity of more than one year are converted at the lower rate on the reporting date, where applicable. This can give rise to gains or losses from exchange rate fluctuations.

Share-based payments

The general meeting of shareholders on June 14, 2018 passed a resolution to issue subscription rights for shares in CANCOM SE to members of the Executive Board and management team, as well as selected staff members of CANCOM SE and affiliated companies. CANCOM SE can elect to settle the stock options in cash or from the conditional capital approved by the general meeting of shareholders (conditional capital 2018/1). The company issued 585,000 stock options on August 17, 2018. As at December 31, 2018, there are 555,000 stock options actually outstanding, none of which are exercisable. It is currently assumed that the options will be settled in the form of equity instruments. They will therefore only be recognized when they are exercised.

C. Explanations and disclosures concerning individual balance sheet items

Fixed assets

Changes in fixed assets are shown in the statement of changes in fixed assets (Appendix 3, page 11).

For the composition of the financial assets and the net income/(loss) for the year of the individual subsidiaries, please see the statement of stockholdings in companies (Appendix 3, page 13).

The loans to affiliated companies are long-term loans to CANCOM Inc. (EUR 14,554 thousand; 2017: EUR 13,462 thousand) and to CANCOM Ocean Ltd (EUR 29,071 thousand; 2017: EUR 0), CANCOM Ltd (EUR 29,504 thousand; 2017: EUR 0) and CANCOM UK Ltd (EUR 615 thousand; EUR 0) for the expansion of the U.K. business.

Accounts receivable and other assets

All accounts receivable and other assets have a residual term of less than one year.

Accounts receivable from affiliated companies amount to EUR 61,438 thousand (2017: EUR 54,311 thousand). These relate to CANCOM GmbH (EUR 45,626 thousand; 2017: EUR 35,613 thousand), CANCOM ICT Service GmbH (EUR 8,745 thousand; 2017: EUR 7,917 thousand), CANCOM on line GmbH (EUR 6,452 thousand; 2017: EUR 5,074 thousand), CANCOM physical infrastructure GmbH (EUR 549 thousand; 2017: EUR 621 thousand), CANCOM Pironet AG & Co. KG (EUR 24 thousand; 2017: EUR 23 thousand), CANCOM a+d IT solutions GmbH (EUR 22 thousand; 2017: EUR 22 thousand), CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Informations-Technologien mbH) (EUR 15 thousand; 2017: EUR 2,209 thousand), PIRONET Enterprise Solutions GmbH (EUR 3 thousand; 2017: EUR 3 thousand), Pironet AG (EUR 2 thousand; 2017: EUR 1 thousand) and CANCOM Computersysteme GmbH (EUR 0; 2017: EUR 674 thousand). In 2017 there were also receivables of EUR 2,143 thousand from CANCOM SCS GmbH (legal successor CANCOM ICT Service GmbH) and EUR 11 thousand from CANCOM ICP GmbH (legal successor CANCOM ICT Service GmbH).

Of the accounts receivable from affiliated companies, loans account for EUR 1,740 thousand (2017: EUR 8,424 thousand) and other current assets EUR 59,697 thousand (2017: EUR 45,887 thousand).

Capital stock

In accordance with the by-laws, the company's capital stock at December 31, 2018 was EUR 35,043,638 (2017: EUR 16,553,245), divided into 35,043,638 (2017: 16,553,245) notional no-par value shares. In the previous year the conversion of CANCOM SE's convertible bonds into shares in the company increased the capital stock to EUR 17,521,819. However, the change in the corporate by-laws associated with this conversion was not recorded in the commercial register until after the reporting date.

Authorized and conditional capital

The general meeting of shareholders on June 14, 2017 cancelled the existing authorized capital I/2015 and passed a resolution to create new authorized capital. In conformity with the corporate by-laws, the company's authorized capital stock (authorized capital I/2018) totaled EUR 10,513,091 as at December 31, 2018. The details of the authorized capital are as follows:

A resolution passed at the general meeting of stockholders on June 14, 2018 authorizes the Executive Board to increase the capital stock once or in several steps by up to a total of EUR 10,513,091 by issuing up to 10,513,091 new notional no-par value bearer shares for a cash or non-cash consideration (authorized capital I/2018). The shares must be issued by June 13, 2023 and any issue of shares is subject to the approval of the Supervisory Board. In general, stockholders will be granted subscription rights, but the Executive Board is authorized to exclude the stockholders' statutory subscription rights in the following cases with the approval of the Supervisory Board:

- for fractional amounts;
- if a capital increase for a cash consideration does not exceed 10 percent of the capital stock and the issue price of the new shares is not significantly lower than the stock market price (Section 186, paragraph 3, sentence 4 of the German Stock Corporation Act). If this authorization is used and stockholders' subscription rights are excluded in accordance with the above Act, the exclusion of subscription rights on the basis of other authorizations in accordance with the same Act must be taken into account;
- for capital increases for a non-cash consideration to grant new shares for the purpose of acquiring companies or equity interests in companies or parts of companies, or for a debt-for-equity swap.

The total number of shares issued with excluded subscription rights on the basis of the above authorization in the context of capital increases against cash or non-cash contributions, is not allowed to exceed the amount representing a portion of 20 percent of the capital stock either at the date of the resolution or at the time the authorization is used.

This upper limit of 20 percent of the capital stock must include the portion of the capital stock represented by company shares issued by the Executive Board during the term of the authorized capital with excluded subscription rights in line with Section 186, paragraph 3, clause 4 of the German Stock Corporation Act, or against non-cash contributions, or sold as treasury shares. Additionally, it must include the portion of the amount of the capital stock represented by company shares issued, or required to be issued, from conditional capital during the term of the authorized capital to satisfy warrant bonds or convertible bonds, which in turn are issued by the Executive Board during the term of the authorized capital with excluded subscription rights in line with the above Act, or against non-cash contributions.

The Executive Board will determine the nature of the relevant rights conferred by the shares and the conditions for carrying out capital increases, subject to the approval of the Supervisory Board.

The Executive Board has not made use of the above authorization in 2018.

In accordance with the corporate by-laws, the conditional capital at December 31, 2018 amounted to EUR 1,5000,000. The details of the conditional capital are as follows:

The capital stock has been increased conditionally by up to EUR 1,500,000 by the issue of up to 1,500,000 new notional no-par value shares (conditional capital I/2018). The conditional increase in capital will only be implemented to the extent that holders of stock options issued by the company in the period up to June 13, 2023 on the basis of the authorization granted by resolution of the general meeting of shareholders on June 14, 2018 exercise their subscription rights for shares in the company and the company does not satisfy these subscription rights by granting treasury shares or paying a cash settlement. The new shares in the company issued in connection with the exercising of these subscription rights carry dividend rights from the start of the fiscal year in which they are issued.

The Executive Board is authorized to determine the other details for the implementation of the conditional capital increase with the approval of the Supervisory Board.

No new shares were issued in the fiscal year 2018 using conditional capital I/2018.

The Executive Board is not aware of any restrictions on voting rights or on the transfer of shares.

Capital reserves

The capital reserves consist of the following:

	2018 € '000	2017 € '000
Capital reserves at January 1	225,244	177,328
Increase in capital stock (Section 272 paragraph 2, No. 1 of the German Commercial Code)		9,814
Increase in capital stock (Section 272, paragraph 2, No. 2 of the German Commercial Code)		38,102
Withdrawal (capital increase out of company funds)	-17,522	
Capital reserves	**207,722**	**225,244**

Other retained earnings

The other retained earnings consist of the following:

	2018 € '000	2017 € '000
Other retained earnings at January 1	81,985	62,925
Allocation from net retained profit	20,512	19,060
Other retained earnings	**102,497**	**81,985**

Net retained profit

The net retained profit breaks down as follows:

	2018 € '000	2017 € '000
Profit brought forward at January 1	38,034	27,245
Dividend distribution	-17,522	-8,184
Reclassification to other retained earnings	-20,512	-19,061
Net income for the year	48,102	38,034
Net retained profit	**48,102**	**38,034**

Other provisions

The other provisions comprise bonus payments (EUR 1,500 thousand; 2017: EUR 2,030 thousand), outstanding bills (EUR 326 thousand; 2017: EUR 172 thousand), emoluments to Supervisory Board members (EUR 309 thousand; 2017: EUR 205 thousand), financial statements and audit fees (EUR 223 thousand; 2017: EUR 161 thousand), storage obligations (EUR 149 thousand; 2017: 98 thousand), variable salary components (EUR 83 thousand; 2017: EUR 93 thousand), vacation entitlements (EUR 56 thousand; 2017: EUR 26 thousand), benefit from rent-free period (EUR 21 thousand; 2017: EUR 26 thousand) future tax audits (EUR 20 thousand; 2017: EUR 41 thousand) and provisions for the German employers' liability insurance association (EUR 14 thousand; 2017: EUR 11 thousand).

Liabilities

For a breakdown of liabilities, please see the statement of liabilities (Appendix 3, page 13).

The item 'bonds' comprises subordinated loans.

Subordinated loans includes two subordinated loans of EUR 498,900 (2017: EUR 1,330,400) and EUR 98,119 (2017: EUR 261,664) towards Stadtsparkasse Augsburg.

A loan of EUR 1,995,600 from Stadtsparkasse Augsburg was granted in tranches of EUR 1,500,000 on September 23, 2009 and EUR 495,600 on December 8, 2009, at an interest rate of 4.25 percent per annum.

This is a specific-purpose loan out of funds from Germany's publicly-owned development bank, Kreditanstalt für den Wiederaufbau (KfW). Repayment in 12 quarterly instalments of EUR 166,300 each has commenced on December 30, 2016.

A loan of EUR 392,500 from Stadtsparkasse Augsburg was granted on December 8, 2009, at an interest rate of 4 percent per annum. This is another specific-purpose loan from Kreditanstalt für den Wiederaufbau (KfW). Repayment in 11 quarterly instalments of EUR 32,709 each and a final instalment of EUR 32,701 has commenced on December 30, 2016.

CANCOM SE issued a convertible bond for a total nominal amount of EUR 45,000 thousand in March 2014 with a maturity term until March 2019.

CANCOM SE called all the convertible bonds on September 5, 2017, and notified bondholders that they would be repaid on October 6, 2017 (call redemption date). The last day on which bondholders could exercise their conversion rights was September 29, 2017. By the end of the conversion period, holders of 410 convertible bonds, each with a nominal value of EUR 100,000, had converted their bonds into 968,574 CANCOM shares. This resulted in an increase in the capital stock of EUR 968,574. Convertible bonds of holders who had not accepted the conversion option (40 convertible bonds at a nominal value of EUR 100,000 each) were redeemed on October 6, 2017.

Expenses in connection with the compounding of interest of EUR 611 thousand and interest payments of EUR 412 thousand were recognized for the bond in 2017.

SCHEDULE OF LIABILITIES (DECEMBER 31, 2018)

	Remaining term		
	up to 1 year €	more than 1 year €	more than 5 years €
1. Bonds			
Profit participation rights and subordinated loans	597,019,00	0,00	0,00
2. Liabilities to banks	223,859,00	0,00	0,00
3. Trade accounts payable	874,420,62	0,00	0,00
4. Liabilities to affiliated companies	52,06	0,00	0,00
5. Other liabilities	179,077,02	0,00	0,00
(of which taxes)	*149,613,57*	*0,00*	*0,00*
(of which social security contributions)	*0,00*	*0,00*	*0,00*
	1,874,427,70	**0,00**	**0,00**

SCHEDULE OF LIABILITIES (DECEMBER 31, 2017)

	Remaining term		
	up to 1 year €	more than 1 year €	more than 5 years €
1. Bonds			
Profit participation rights and subordinated loans	995,045,00	597,019,00	0,00
2. Liabilities to banks	373,145,00	223,861,90	0,00
3. Trade accounts payable	119,451,09	0,00	0,00
4. Liabilities to affiliated companies	64,69	0,00	0,00
5. Other liabilities	138,985,01	0,00	0,00
(of which taxes)	*105,985,51*	*0,00*	*0,00*
(of which social security contributions)	*0,00*	*0,00*	*0,00*
	1,626,690,79	**820,880,90**	**0,00**

D. Explanations and disclosures concerning the statement of income

The statement of income was prepared according to the total cost accounting principle.

Sales revenues for 2018 mainly consist of Group allocations (EUR 8,576 thousand; 2017: EUR 7,494 thousand).

Other operating income includes income not relating to the period, amounting to EUR 16 thousand (2017: EUR 33 thousand), as well as income arising from currency conversion totaling EUR 1 thousand (2017: EUR 23 thousand). It also comprises income from the reversal of provisions (EUR 16 thousand; 2017: EUR 29 thousand) and accounting profits from the sale of property plant and equipment (tangible fixed assets) (EUR 0; 2017: EUR 4 thousand).

Other operating expenses include currency conversion expenses amounting to EUR 1 thousand (2017: EUR 58 thousand) and extraordinary expenses of EUR 6 thousand (2017: EUR 53 thousand). These were incurred as a result of the capital increase out of company funds.

In 2017, there were extraordinary expenses relating to the issuing costs in connection with the acquisition of CANCOM synaix GmbH (formerly synaix Gesellschaft für angewandte Informations-Technologien mbH) (capital increase against non-cash contributions) (EUR 24 thousand) and orders for conversion of bonds (EUR 29 thousand).

Income from long-term equity investments in affiliated companies amount to EUR 13,738 thousand (2017: EUR 7,520 thousand).

Dec. 31, 2018 €	Secured by lien or similar rights €	Type
597,019,00	0,00	
223,859,00	0,00	
874,420,62	0,00	none
52,06	0,00	
179,077,02	0,00	
149,613,57		
0,00		
1,874,427,70	**0,00**	

Dec. 31, 2017 €	Secured by lien or similar rights €	Type
1,592,064,00		
597,006,90	597,004,00	
119,451,09	0,00	Assignment of motor vehicle as security
64,69	0,00	
138,985,01	0,00	
105,985,51		
0,00		
2,447,571,69	**597,004,00**	

Profits received under a profit transfer agreement consists of CANCOM GmbH's net income for the year (EUR 44,391 thousand; 2017: EUR 37,905 thousand) and that of CANCOM ICT Service GmbH (EUR 8,357 thousand; 2017: EUR 7,856 thousand), which were transferred to CANCOM SE.

Interest and similar income comprises mainly interest income of EUR 2,625 thousand (2017: EUR 1,895 thousand) from affiliated companies.

Interest and other expenses includes expenses in connection with the compounding of interest, which amounts to EUR 0 (2017: EUR 611 thousand).

E. Other disclosures

Disclosures in compliance with Section 285 No. 29 of the German Commercial Code

In the fiscal year 2018 there were differences between the financial balance sheet and the tax balance sheet which would have given rise to both deferred tax assets and deferred tax liabilities. However, there is an excess of deferred tax assets over deferred tax liabilities. Section 274, paragraph 1, sentence 2 of the German Commercial Code offers an option to capitalize these assets, but the company did not exercise this option.

The net deferred tax assets mainly result from taxable temporary differences in the recognition of equity investments, and from deductible temporary differences in the recognition of the goodwill, provisions for pensions and other provisions of a subsidiary.

Other financial obligations

Obligations under current tenancy and lease agreements are as follows:

	Due in 2019 € '000	Total € '000
Tenancy agreements	241	516
of which from affiliated companies	133	133

Contingent liabilities

As at the reporting date, there are guarantees for CANCOM GmbH (EUR 11,642 thousand; 2017: EUR 11,642 thousand), CANCOM ICT Service GmbH (EUR 5,192 thousand; 2017: EUR 5,192 thousand), CANCOM on line GmbH (EUR 0; 2017: EUR 3,000 thousand), CANCOM physical infrastructure GmbH (EUR 150 thousand; 2017: EUR 150 thousand), CANCOM Inc. (USD 2,500 thousand; 2017: USD 2,500 thousand), and a joint guarantee (EUR 200 thousand; 2017: EUR 200 thousand) for CANCOM GmbH, CANCOM physical infrastructure GmbH, CANCOM ICT Service GmbH (legal successor of CANCOM SCS GmbH and CANCOM ICP GmbH).

In 2014, CANCOM SE provided a parent company guarantee on behalf of CANCOM Pironet AG & Co. for a EUR 4.5 million project for a major client. The company does not currently expect any claim to be made under the guarantee, as the project is progressing well and CANCOM Pironet AG & Co. KG has a strong financial standing.

	Dec. 31, 2018 € '000	Dec. 31, 2017 € '000
Joint and several liability for financial guarantees and other loans	6,125	4,158

The guarantees, which amount to EUR 6,125 thousand (2017: EUR 4,158 thousand) relate entirely to affiliated companies.

CANCOM SE only gives guarantees or other commitments after careful assessment of the risks, and strictly only in respect of its own business activities or in connection with the business activities of affiliated companies. Based on the company's continuous assessment of the risk situation regarding the guarantees or other commitments it has given, and in consideration of its observations up to the time that these financial statements were compiled, CANCOM SE anticipates at present that the commitments on which the guarantees are based can be fulfilled by the relevant principal debtors. CANCOM SE therefore assesses the likelihood of a loss on any of the guarantees listed as remote.

Members of the Executive Board

- Klaus Weinmann, graduate in business administration (Diplom-Kaufmann), Munich, Germany, (CEO) (until September 30, 2018)
- Thomas Volk, graduate in computer science (Diplom-Informatiker), Inning, Germany, CEO (since October 1, 2018)
- Rudolf Hotter, graduate in business economics (Diplom-Betriebswirt), Roßhaupten, Germany
- Thomas Stark, graduate in industrial engineering (Diplom-Wirtschaftsingenieur), Wittislingen, Germany (since January 1, 2018)

All members of the Executive Board are authorized to represent the company jointly with another Executive Board member or a person holding general commercial power of attorney (Prokura under German commercial law).

The following members of the Executive Board are members of statutory supervisory boards or comparable controlling boards in commercial enterprises in Germany or other countries:

- Klaus Weinmann:
  - PRIMEPULSE SE (chairperson)
  - AL-KO Kober SE (chairperson) (until June 30, 2018)
  - CANCOM GmbH (until June 30, 2018)
  - CANCOM ICT Service GmbH (until June 30, 2018)
  - Stemmer Imaging AG (chairperson)

- Rudolf Hotter:
  - Pironet AG (chairperson)
  - CANCOM ICT Service GmbH (chairperson)
  - CANCOM GmbH (chairperson)

- Thomas Volk:
  - Polecat Intelligence Ltd, Ireland (chairperson)
  - tyntec Group Ltd, United Kingdom (chairperson)
  - Unify Square, U.S.A. (since June 27, 2018)
  - CANCOM GmbH (since July 2, 2018)

- Thomas Stark:
  - AL-KO Kober SE
  - Pironet AG

Supervisory Board

The members of the Supervisory Board are:

- Dr. Lothar Koniarski, graduate in business administration (Diplom-Kaufmann), managing director of Elber GmbH, Regensburg, Germany
  -Chairperson-
- Uwe Kemm, independent organizational, sales and marketing consultant
  -Deputy Chairperson-
- Regina Weinmann, graduate in business administration (Diplom-Kauffrau), managing director of ABCON Vermögensverwaltung GmbH, Munich, Germany and of Inter-Connect Holding GmbH (formerly Inter-Connect GmbH), Munich, Germany
- Marlies Terock, business person, self-employed management consult specializing in information technology
- Martin Wild, Chief Innovation Officer of MediaMarktSaturn Retail Group, Ingolstadt, Germany
- Dominik Eberle (until November 2, 2018), online marketing and e-commerce consultant
- Stefan Kober (since February 11, 2019), business person, investor and member of the supervisory boards of various companies

The following members of the Supervisory Board are members of other statutory supervisory boards or comparable controlling boards in commercial enterprises in Germany or other countries:

- Dr. Lothar Koniarski:
  - Chairman of the supervisory board of SBF AG
  - Chairman of the advisory board of DV Immobilien Gruppe
  - Member of the board of directors of Alfmeier SE
  - Member of the supervisory board of Mutares AG

- Uwe Kemm
  - Member of the board of directors of PRIMEPULSE SE (since August 1, 2018)

- Martin Wild:
  - Member of the supervisory board of Digitales Gründerzentrum der Region Ingolstadt GmbH

- Dominik Eberle
  Member of the supervisory board of Easy Training AG

- Stefan Kober
  - Chairman of the supervisory board of AL-KO Kober SE
  - Member of the supervisory board of Stemmer Imaging AG

Staff

The average number of staff members working for the company during 2018 was 95 (2017: 79). This includes part-time staff but excludes trainees, interns and the members of the Executive Board.

Auditors' fees

The disclosures according to Section 285 No. 17 of the German Commercial Code are omitted because they are included in the consolidated financial statements of CANCOM SE.

Declaration of conformity with the Corporate Governance Code

In the Supervisory Board meeting on December 11, 2018, the Executive Board and the Supervisory Board issued a joint declaration of conformity with the German Corporate Governance Code in accordance with Section 161, paragraph 1 of the German Stock Corporation Act, which was published immediately. The declaration is permanently displayed on the company's website for public access.

Total emoluments paid to the Executive Board and the Supervisory Board

The total emoluments paid to the Executive Board in 2018 amounted to EUR 3,783 thousand (2017: 3,042 thousand).

The total emoluments paid to members of the Executive Board are subdivided into fixed and variable components. The variable components are dependent on the attainment of defined performance targets. Stock options were granted to the members of the Executive Board in 2018.

Full disclosures in compliance with Section 285, No. 9a, sentences 5 to 8 of the German Commercial Code can be found in the management report.

The total emoluments of the Supervisory Board in 2018 amounted to EUR 337 thousand (2017: 244 thousand).

Details of long-term equity interests in CANCOM SE

As at 31 December 2018 the company had received the following notifications regarding major holdings of voting rights in accordance with Sections 33 et seq of the German Stock Corporation Act:

On December 18, 2018, the Norwegian Ministry of Finance, Oslo, Norway, informed CANCOM SE on behalf of the state of Norway that its share of the voting rights in CANCOM SE, held directly or indirectly, had fallen below the 3 percent threshold on December 17, 2018 and on that day amounted to 2.86 percent (equivalent to 1,003,659 voting rights). Additional voting rights from financial instruments brought the total share of voting rights held on that day to 3.23 percent (equivalent to 1,131,145 voting rights).

BNP Paribas Asset Management France S.A.S., Paris, France, informed CANCOM SE on November 29, 2018 that its share of the voting rights in CANCOM SE, held directly or indirectly, had exceeded the 3 percent threshold on November 26, 2018 and on that day amounted to 3.02 percent (equivalent to 1,057,209 voting rights).

BlackRock Inc., Wilmington, Delaware, U.S.A., informed CANCOM SE on November 20, 2018 that its share of the voting rights in CANCOM SE, held directly or indirectly, had fallen below the 3 percent threshold on November 15, 2018 and on that day amounted to 2.77 percent (equivalent to 970,448 voting rights). Additional voting rights from financial instruments brought the total share of voting rights held on that day to 3.0005 percent (equivalent to 1,003,545 voting rights).

Allianz Global Investors GmbH, Frankfurt am Main, Germany, informed us on August 3, 2018 that its share of the voting rights in CANCOM SE, held directly or indirectly, had exceeded the 5 percent threshold on August 1, 2018 and on that day amounted to 5.02 percent (equivalent to 1,760,793 voting rights).

Die PRIMEPULSE Beteiligungs GmbH, Munich, Germany, informed us on June 27, 2018 that its total share of the voting rights in CANCOM SE, held directly or indirectly, had exceeded the 10 percent threshold on June 26, 2018 and on that day amounted to 10.631 percent (equivalent to 1,862,700 voting rights). The voting rights were acquired as a result of the merger of PRIMEPULSE Beteiligungs GmbH (formerly AL-KO Beteiligungs GmbH) into PRIMEPULSE SE.

Supplementary report

After the reporting date, the general meeting of shareholders of CANCOM's subsidiary Pironet AG passed a resolution to transfer all the shares held by minority shareholders to the main shareholder, CANCOM SE, in return for payment of a cash settlement of EUR 9.64 per Pironet share. The notional value of the cash settlement to be paid to minority shareholders by CANCOM SE would thus amount to around EUR 6.9 million.

Proposal for the appropriation of net retained profit

The Executive Board has resolved to propose to the Supervisory Board and the general meeting of stockholders that the EUR 48,102,451.14 net retained profit from the fiscal year 2018 be used for a dividend payment of EUR 0.50 per eligible notional no-par value share, and that the balance of the retained profit remaining after the dividend payment be transferred to other retained earnings.

Parent company

CANCOM SE, Munich, Germany, is the company that prepares the consolidated financial statements. The consolidated financial statements of CANCOM SE are published on the company's website. They are also available on the electronic German Federal Gazette (Bundesanzeiger) at www.bundesanzeiger.de.

STATEMENT OF STOCKHOLDINGS

Name and registered seat of company	Stockholding as a percentage	Equity at Dec. 31, 2018 € '000	Net income/(loss) for the year 2018 € '000
Stockholding of more than 20 percent			
1. CANCOM GmbH, Jettingen-Scheppach, Germany	100.00	60,007	0 [*1]
2. CANCOM (Switzerland) AG, Caslano, Switzerland	100.00 [A)]	0 [1)]	0 [*1]
3. CANCOM Computersysteme GmbH, Graz, Austria	100.00 [A)]	2,459	267
4. CANCOM a+d IT solutions GmbH, Perchtoldsdorf, Austria	100.00 [B)]	3,138	1,338
5. CANCOM ICT Service GmbH, Munich, Germany	100.00	3,589	0
6. CANCOM physical infrastructure GmbH, Jettingen-Scheppach, Germany	100.00	1,044	106
7. CANCOM Financial Services GmbH, Jettingen-Scheppach, Germany	100.00	92	-1
8. CANCOM Managed Services GmbH, Munich, Germany (formerly CANCOM VVM GmbH, Jettingen-Scheppach, Germany)	100.00	53	0
9. CANCOM, Inc., Palo Alto, U.S.A.	100.00	287 [2)]	-682
10. HPM Incorporated, Pleasanton, U.S.A.	100.00 [C)]	23,217 [2)]	-67
11. CANCOM on line GmbH, Berlin, Germany	100.00	6,082	4,684
12. Cancom on line BVBA, Elsene, Belgium	100.00	1,929	1,848
13. Pironet AG, Cologne, Germany	95.09	38,478 [4)]	7,566
14. CANCOM Pironet AG & Co. KG, Hamburg, Germany	95.09 [D)]	3,068 [4)]	0
15. PIRONET Enterprise Solutions GmbH, Cologne, Germany	95.09 [D)]	3,457	352
16. PIRONET NDH LLC, Atlanta, U.S.A.	95.09 [D)]	0	0
17. PIRONET NDH Beteiligungs GmbH, Cologne, Germany	95.09 [D)]	31	1
18. CANCOM synaix GmbH '(formerly synaix Gesellschaft für angewandte Informations-Technologien mbH), Aachen, Germany	100.00	5,492	5,829
19. CANCOM LTD, London, U.K.	100.00	-464 [3)]	-476
20. CANCOM OCEAN LTD, London, U.K.	80.02 [E)]	5,186 [3)]	-915
21. Ocean Intelligent Communications Ltd, Tames Dilton, U.K.	80.02 [F)]	2,190 [3)]	0
22. Ocean Unified Communications Ltd, Tames Dilton, U.K.	80.02 [H)]	4,998 [3)]	1,523
23. Ocean Network Services Ltd, Tames Dilton, U.K.	80.02 [H)]	9 [3)]	0
24. CANCOM UK LTD London, U.K.	87.50 [E)]	32,405 [3)]	-14
25. The Organised Group Ltd, Wisborough Green, U.K.	87.50 [G)]	797 [3)]	-38
26. Organised Computer Systems Ltd, Wisborough Green, U.K.	87.50 [I)]	13,280 [3)]	-12
27. OCSL Managed Services Ltd, Wisborough Green, U.K.	87.50 [I)]	3,081 [3)]	833
28. OCSL Project Services Ltd, Wisborough Green, U.K.	87.50 [I)]	-1,144 [3)]	-73
29. M.H.C. Consulting Services Ltd, Wisborough Green, U.K.	87.50 [J)]	1,963 [3)]	375
30. OCSL ITO Ltd, Wisborough Green, U.K.	87.50 [I)]	496 [3)]	0
31. OCSL Employee Services LLP, Wisborough Green, U.K.	87.50 [I)]	620 [3)]	-9
32. OCSL Property LLP, Wisborough Green, U.K.	87.50 [I)]	1,800 [3)]	53
		217,640	**22,488**

A) Indirect stockholding through CANCOM GmbH
B) Indirect stockholding through CANCOM Computersysteme GmbH
C) Indirect stockholding through CANCOM Inc.
D) Indirect stockholding through Pironet AG
E) Indirect stockholding through CANCOM LTD
F) Indirect stockholding through CANCOM OCEAN LTD
G) Indirect stockholding through CANCOM UK LTD
H) Indirect stockholding through Ocean Intelligent Communications LTD
I) Indirect stockholding through The Organised Group LTD
J) Indirect stockholding through OCSL Project Services LTD

1) Conversion at reporting date - CHF 1 = EUR 1,13
2) Conversion at reporting date - USD1 = EUR 1,15
3) Conversion at reporting date - GBP 1 = EUR 0,89
4) After crediting to the stockholder account

*1 Profit transfer agreement with CANCOM SE

Munich, Germany, March 5, 2018

Thomas Volk Rudolf Hotter Thomas Stark

Executive Board of CANCOM SE

Responsibility statement

The members of the Executive Board have assured that, to the best of their knowledge and in accordance with the applicable reporting principles, the financial statements and the management report of CANCOM SE give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, give a true overall picture of the company's situation, and present an accurate view of the opportunities and risks of future development of the company.

Munich, Germany, March 5, 2019

Thomas Volk	Rudolf Hotter	Thomas Stark

Executive Board of CANCOM SE

Report of the independent auditor

To CANCOM SE, Munich, Germany

Note on the audit of the annual financial statements and the management report

Audit opinions

We have audited the annual financial statements of CANCOM SE, Munich, comprising the balance sheet as at 31 December 2018 and the income statement for the fiscal year from 1 January 2018 to 31 December 2018, and the notes to the financial statements, together with a description of the accounting policies used. In addition, we have audited the management report of CANCOM SE, which is combined with the group management report, for the fiscal year from 1 January 2018 to 31 December 2018.

In our opinion, based on the findings of our audit, the annual financial statements

- the accompanying annual financial statements comply in all material respects with the requirements of German commercial law applicable to corporations and give a true and fair view of the net assets and financial position of the Company as of 31 December 2018 and of its results of operations for the fiscal year from 1 January 2018 to 31 December 2018 in accordance with German principles of proper accounting and German commercial law; and

- The accompanying management report as a whole provides a suitable view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and suitably presents the opportunities and risks of future development.

In accordance with section 322 (3) sentence 1 of the HGB, we declare that our audit has not led to any objections to the correctness of the annual financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with § 317 HGB (German Commercial Code) and the EU Auditor's Directive (No. 537/2014; hereinafter „EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these rules and principles is further described in the section „Responsibility of the auditor for the audit of the annual financial statements and the management report" of our audit opinion. We are independent of the Company in accordance with European and German commercial and professional regulations and have performed our other German professional duties in accordance with these requirements. In addition, we declare pursuant to Article 10 (2) (f) EU-APrVO that we have not provided any prohibited non-audit services pursuant to Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and management report.

Particularly important audit issues in the audit of the annual accounts

The most important matters in our audit are those that, in our dutiful judgment, were most significant in our audit of the financial statements for the year from 1 January 2018 to 31 December 2018. These matters have been considered in connection with our audit of the financial statements as a whole and in the preparation of our opinion thereon; we do not express a particular opinion on these matters.

In the following, we present what we consider to be the most important audit matter

- Impairment of investments in affiliated companies

We have structured our presentation of this particularly important audit matter as follows:

1) Reasons for designating as particularly important audit issue and risk for financial statements
2) Auditing procedure
3) Conclusions

Impairment of investments in affiliated companies

- The annual financial statements of CANCOM SE as of 31 December 2018 include shares in affiliated companies amounting to €248,290 thousand (61.7% of total assets). CANCOM SE reviewed the recoverability of its investments as of the balance sheet date. CANCOM SE carried out its own valuations to determine the fair values for the carrying amounts mentioned. Based on the Company's available calculations and other documentation, there was no need for impairment in the 2018 financial year. The fair values of shares in affiliated companies were determined in each case as the present values of the expected future cash flows using discounted cash flow models („DCF"), based on the planning calculations prepared by the legal representatives. The result of these valuations depends in particular on the assessment of future cash inflows by the legal representatives and the discount rates used in each case. The valuations are therefore subject to uncertainties. Against this background and in view of the material significance for the net assets and results of operations of CANCOM SE, this matter was of particular importance in the context of our audit.

- With regard to the valuations carried out by CANCOM SE, we have satisfied ourselves that the fair values were determined appropriately using DCF methods in compliance with the relevant valuation standards. To this end, we have examined whether the underlying future cash inflows and the capital costs recognized represent an appropriate basis overall. Our assessment was based, among other things, on a comparison with general and industry-specific market expectations as well as extensive explanations by the legal representatives on the key value drivers of the planning. With the knowledge that even relatively small changes in the discount rate used can in some cases have significant effects on the value, we have also examined the parameters used to determine the discount rate used and have followed the calculation scheme.

- In our opinion, the valuation parameters and assumptions applied by management were derived appropriately for the purpose of impairment testing.

Other information

The legal representatives are responsible for the other information. Other information includes

- the Group Declaration on Corporate Governance

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the group management report and our audit opinion.

Our audit opinions on the annual financial statements and the management report do not extend to the other information and, accordingly, we do not express an audit opinion or any other form of audit conclusion thereon.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information is free of material misstatement.

- have material discrepancies with the annual financial statements, the management report or the knowledge we have acquired during the audit, or

- appear to be displayed incorrectly in some other way.

If, based on the work we have performed, we determine that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this context.

Responsibility of the legal representatives and the supervisory body for the annual financial statements and the management report

The legal representatives are responsible for the preparation and fair presentation of the annual financial statements in accordance with German principles of proper accounting and in all material respects comply with the requirements of German commercial law applicable to corporations, and for the presentation of a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with German generally accepted accounting principles 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 are also responsible for disclosing matters relating to the continuing operation of the entity, if relevant. In addition, they are responsible for accounting for continuing operations on the basis of the same accounting policy, except to the extent that this is contrary to fact or law.

In addition, the legal representatives are responsible for the preparation of the management report, which as a whole provides a suitable view of the Company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. In addition, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the management report.

The Supervisory Board is responsible for monitoring the Company's accounting process for the preparation of the annual financial statements and the management report.

Responsibility of the auditor for the audit of the annual financial statements and management report

Our objective is to obtain reasonable assurance whether the annual financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the management report as a whole provides a suitable view of the Company's position and is consistent, in all material respects, with the annual financial statements and the findings of our audit, complies with German legal requirements and presents fairly the opportunities and risks of future development, and to express an opinion that includes our audit opinion on the annual financial statements and the management report.

Sufficient assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with § 317 HGB and the EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements could result from violations or inaccuracies and are considered material if it could reasonably be expected that they would individually or collectively influence the economic decisions of users made on the basis of these annual financial statements and management report.

During the audit, we exercise our best judgment and maintain a critical attitude. In addition

- we identify and evaluate the risks of material misstatement, whether intentional or not, of the annual financial statements and management report, plan and perform audit procedures in response to those risks, and obtain audit evidence sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements will not be detected is greater for violations than for inaccuracies, as violations may involve fraudulent collusion, falsification, intentional incompleteness, misrepresentation, or the overriding of internal controls.

- we gain an understanding of the internal control system relevant to the audit of the annual financial statements and of the procedures and measures relevant to the audit of the management report to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.

- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the reasonableness of accounting estimates made and related disclosures made.

- we draw conclusions about the appropriateness of the accounting principle applied by the legal representatives for the continuation of the company's activities and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances that could cast significant doubt on the company's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to express an opinion on the related statements in the financial statements and management report or, if the information is inappropriate, to modify our respective opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances may, however, result in the Company no longer being able to continue its business activities.

- we express an opinion on the overall presentation, the structure and the content of the annual financial statements, including the disclosures, as well as on whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

- we assess the consistency of the management report with the annual financial statements, the promulgation of the law and the presentation of the Company's position by the management report.

- we perform audit procedures on the forward-looking statements in the management report as presented by the legal representatives. On the basis of sufficient and suitable audit evidence, we particularly verify the significant assumptions on which the forward-looking statements of the legal representatives are based and assess the proper derivation of the forward-looking statements from these assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit and significant findings of the audit, including any deficiencies in the internal control system that we identify during our audit.

We make a declaration to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that are reasonably believed to affect our independence and the safeguards that have been put in place.

From among the matters discussed with those responsible for monitoring, we identify those matters that were most significant in the audit of the annual financial statements for the current reporting period and are therefore the most important matters for the audit. We describe these matters in the auditor's report unless required to do so by law or other regulations.

Other statutory and other legal requirements

Other information pursuant to Article 10 EU AprVO

We were elected as auditors by the Annual General Meeting on 14 June 2018. We were appointed by the Audit Committee on 7 January 2019. We have been the uninterrupted auditors of CANCOM SE since fiscal year 1998.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 EU-APrVO (audit report).

Responsible auditor

The auditors responsible for the audit are Oliver Kanus and Joachim Mairock.

Augsburg, March 5, 2019

S & P GmbH
Wirtschaftsprüfungsgesellschaft

Oliver Kanus	Joachim Mairock
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified auditor)	(Certified auditor)

CANCOM SE financial calendar

2019

15 May 2019	Interim Statement 1st Quarter 2019
26 June 2019	Annual General shareholders' meeting Location: Alte Kongresshalle Theresienhöhe 15 80339 Munich
14 August 2019	Half-year Report 2019
14 November 2019	Interim Statement 3rd Quarter 2019
25-27 November 2019	Analysts' Conference at the German Equity Forum Location: Sheraton Frankfurt Airport Hotel and Conference Center Airport/Terminal 1, Hugo-Eckener-Ring 15 60594 Frankfurt am Main

Note:
Subject to change. Art 17 of the European Market Abuse Regulation (MAR) requires issuers to promptly publish any information which will significantly impact share price. This means that we might publish our quarterly or fiscal-year-end results before the dates listed above.

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