25 YEARS CANCOM

# 2016

ANNUAL REPORT
CANCOM SE

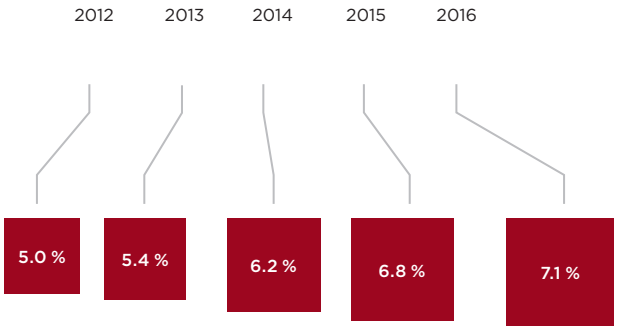
CANCOM

# Group key figures

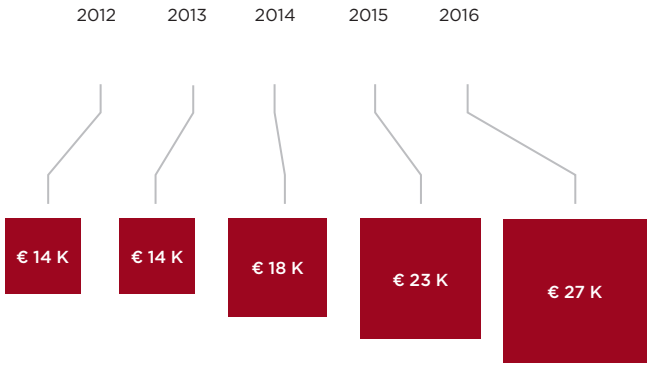
**CANCOM GROUP (IN € MILLION)**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Sales revenues | 1,023.1 | 932.8 | 828.9 | 613.8 | 558.1 |
| Gross profit | 292.7 | 274.2 | 257.7 | 186.5 | 166.2 |
| EBITDA | 72.9 | 63.1 | 51.6 | 33.1 | 28.1 |
| EBITDA margin in % | 7.1 % | 6.8 % | 6.2 % | 5.4 % | 5.0 % |
| EBITA | 59.5 | 50.5 | 40.3 | 25.3 | 22.2 |
| EBIT | 51.3 | 41.1 | 28.8 | 22.4 | 20.7 |
| Earnings per share from continuing operations (basic) in € | 2.11 € | 1.99 € | 1.27 € | 1.22 € | 1.15 € |
| | | | | | |
| Balance sheet | 537.8 | 436.3 | 439.3 | 319.6 | 208.6 |
| Equity | 285.1 | 204.3 | 193.8 | 162.7 | 80.8 |
| Equity ratio in % | 53.0 % | 46.8 % | 44.1 % | 50.9 % | 38.7 % |
| | | | | | |
| Total staff at December 31 | 2,654 | 2,724 | 2,909 | 2,360 | 2,076 |

**EBITDA margin**




**EBITDA per staff member**



# At a glance

| Year | Sales revenues (in € million) |
|---|---|
| 2012 | 558.1 |
| 2013 | 613.8 |
| 2014 | 828.9 |
| 2015 | 932.8 |
| 2016 | 1,023.1 |

| Year | Gross profit (in € million) |
|---|---|
| 2012 | 166.2 |
| 2013 | 186.5 |
| 2014 | 257.7 |
| 2015 | 274.2 |
| 2016 | 292.7 |

| Year | EBITDA (in € million) |
|---|---|
| 2012 | 28.1 |
| 2013 | 33.1 |
| 2014 | 51.6 |
| 2015 | 63.1 |
| 2016 | 72.9 |

| Year | EBITA (in € million) |
|---|---|
| 2012 | 22.2 |
| 2013 | 25.3 |
| 2014 | 40.3 |
| 2015 | 50.5 |
| 2016 | 59.5 |

| Year | EBIT (in € million) |
|---|---|
| 2012 | 20.7 |
| 2013 | 22.4 |
| 2014 | 28.8 |
| 2015 | 41.1 |
| 2016 | 51.3 |

| Year | Earnings per share (in €) |
|---|---|
| 2012 | 1.15 |
| 2013 | 1.22 |
| 2014 | 1.27 |
| 2015 | 1.99 |
| 2016 | 2.11 |

The pages „Group key figures“ and „At a glance“ are provided by way of explanation.
They do not form part of the consolidated financial statements based on IFRS.


CANCOM

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**Dear Stockholders:**

This annual report records another successful fiscal year for the CANCOM Group. Our sales revenues far exceeded the million euro mark in 2016, and there was a further increase in our consolidated earnings before interest, taxes, depreciation and amortization (EBITDA). Various issues and events had an impact on CANCOM's business performance in 2016. But the current year will also see developments and trends in the IT market and other economic sectors that will be reflected in our business.

This year will be a special one for CANCOM, as we celebrate our 25th anniversary in 2017. It will be an occasion for us to look back with pride over the history of CANCOM, which started as a trading company, went public only seven years later and is now one of the top 30 high-tech companies in the German TecDax technology companies index. But, above all, celebrating our first 25 years gives us a reason to look forward.

Trends such as digitization and the cloud have already started to affect all areas of our personal lives and business. They will continue to gain momentum in 2017 and bring many changes. For some time now we have been looking at how the CANCOM Group is positioned, with its business areas and its range of products and services, to assist our clients' digital transformation as a trusted advisor and cloud transformation partner. At the same time, we are also meeting the challenges of digitization within our own organization and looking forward to the opportunities it presents.

With our range of solutions and our expertise we are well positioned in the cloud and managed services segment, as demonstrated by the awards we have won from leading IT analysts and manufacturing partners in 2016. We intend to consolidate our position in the growth areas based on digitization, such as cloud, mobility, security, and big data and analytics. One way in which we aim to achieve this is by continuing to focus on strong partnerships with leading IT enterprises and manufacturers, which we expect will have a positive impact on our performance across all areas. In our view, many companies are still only beginning their transformation to the 'new way of computing' or 'new style of IT', but now there is an increased focus and a greater sense of urgency. This is reflected in the growing interest in the annual CANCOM Cloud Conference. So, not only is the market volume very large, but the changes in the IT environment should also continue through the next few years, presenting good growth prospects across all areas of our business.

As mentioned above, CANCOM has started its own digitization process within the Group in order to ensure that it is future-proof. We aim to develop our employees' digital skills, digitize our methods, systems and processes and explore innovative new avenues – for instance in the area of communication and marketing. The online IT journal cancom.info, which was launched more than three years ago, is a successful example of this approach.

One major event in the current year will be the Group-wide introduction of SAP's enterprise resource planning (ERP) system, which will enter the crucial phase in 2017. Owing to the complexity and scope of the project, the system changeover may have an adverse impact on our performance in the short term, which we have explained at length in the Group management report. The long-term objective is to establish a future-proof, scalable ERP system that is aligned to our organizational processes and will support the Group's growth targets, bring further increases in efficiency and safeguard our competitiveness.

We would like to thank our employees for their commitment, and our clients and partners for their support. Finally, we wish to thank you, our stockholders and investors, for your loyalty and trust.

Sincerely yours

Klaus Weinmann
Chief Executive Officer

Rudolf Hotter
Chief Operating Officer

Executive Board of CANCOM SE

# Report of the Supervisory Board

**Dear Stockholders:**

The Supervisory Board of CANCOM SE congratulates the Executive Board and the staff members on the company's successful performance in the fiscal year 2016. As the elected representatives of the stockholders of CANCOM, we would also like to thank them for their hard work and for what they have achieved as a team. We also wish to thank CANCOM's stockholders for their trust.

CANCOM is well positioned to continue the growth of the Group and to tackle the challenges faced by IT sector. During the past year, the Supervisory Board supported and guided the work of the Executive Board of CANCOM SE, and gave advice when necessary. After a successful fiscal year, the management has decided to propose to the general meeting of stockholders that a dividend be paid again this year.

The Supervisory Board carried out the tasks set by law, the corporate by-laws and the rules of procedure in the fiscal year 2016. It advised the Executive Board on matters of corporate management, and assisted with and supervised the management and development of the business. To maintain the usual close cooperation between the boards, the Executive Board used a combination of written correspondence, phone calls and face-to-face discussions to inform the members of the Supervisory Board promptly of any matters arising. This meant that the Supervisory Board was updated regularly and comprehensively on the company's situation and its prospects, the principles of corporate policy, the company's profitability and major business transactions. Between the scheduled meetings, the CEO in particular was in communication with the members of the Supervisory Board – especially the Chairperson – on a regular basis. The entire Supervisory Board was also kept informed of relevant developments and transactions requiring approval. The Supervisory Board was consulted directly and in good time when decisions had to be made that were of fundamental importance for the company, or where its involvement was required by law, the corporate by-laws or the rules of procedure. In urgent cases, the option of passing resolutions in writing was open to the Supervisory Board. Because it was updated promptly, thoroughly and at regular intervals by the Executive Board, the Supervisory Board was able to perform its supervisory and advisory functions at all times. The Supervisory Board therefore considers that the Executive Board acted lawfully, properly and appropriately in every respect.

**A. Meetings and key topics**

The IT sector will continue to face further great challenges and profound change globally, partly owing to the ever-increasing digitization and networking of economic activity and society. This was the subject of conversations on market trends and on the development of business areas, and was also covered in meetings and discussions on the Group's strategic orientation.

The Supervisory Board held nine meetings during the year, on March 2, March 3, March 9, March 22, June 6, June 14, September 21, December 13 and December 20. With the exception of the meeting on March 22, for which an apology for absence was received from Raymond Kober, the meetings were attended in person by all the incumbent Supervisory Board members. In their meetings, the Supervisory Board received regular reports from the Executive Board in accordance with Section 90, paragraph 1, sentence 1, numbers 1 to 3 of the German Stock Corporation Act (Aktiengesetz, AktG) on the intended corporate policy and the profitability and performance of the business, including the situation with regard to the market and competition. The reports were discussed in depth by the Supervisory Board. The Executive Board also reported, in accordance with Section 90, paragraph 1, sentence 1, numbers 1 to 4, on businesses that could be of major importance to the profitability or solvency of CANCOM SE and/or the Group, especially planned acquisitions and divestments.

The following topics and resolutions relating to the activities of the Supervisory Board in the fiscal year 2016 are particularly noteworthy:

- The resolutions passed in the Supervisory Board meetings on March 2 and March 3 concerned the approval of a capital increase against contributions in cash, including the details and the implementation, as well as the related change to the corporate by-laws. It was agreed to use authorized capital to increase the capital stock by up to approximately 10 percent while disapplying stockholders' subscription rights.

- In the meeting on March 9, the Supervisory Board received the auditor's report on the financial statements of CANCOM SE and the Group for 2015. The financial statements of the company and the Group were discussed at length, along with the combined management report for CANCOM SE and the Group. The Supervisory Board also discussed its own report and

the report on corporate governance. At its meeting on March 22, the Supervisory Board approved the annual financial statements of CANCOM SE, the consolidated financial statements and the combined management report for CANCOM SE and the Group. The annual financial statements were thus adopted.

- In the meeting on June 6, the Supervisory Board approved the negotiated court settlement in rescission proceedings against resolutions of the general meeting of stockholders on June 18, 2015 on the discharge of the Executive Board for the fiscal year 2014, the discharge of the Supervisory Board for the fiscal year 2014 and the election of a new member of the Supervisory Board.

- In the meeting on September 21, the Supervisory Board decided, along with the Executive Board, to make a court application for the appointment of Roland Welzbacher to the Supervisory Board. This decision was based on the recommendation of the Nominating Committee (see section C) and the targets for the composition of the Supervisory Board, taking into account the requirement under Section 100, paragraph 5 of the German Stock Corporation Act for the Supervisory Board as a whole to possess expertise in the sector in which the company operates.

- In the meeting on December 13, the business plans for 2017 were presented by the Executive Board and approved by the Supervisory Board. The latter was also given a report on CANCOM SE's system of internal audit and risk and compliance management. Following the recommendation of the German Corporate Governance Code, the Supervisory Board undertook an assessment of its own efficiency using a questionnaire prepared for the purpose, and found that there was no need for improvement.

- After Walter Krejci had announced his resignation as Chairperson of the Supervisory Board on December 20, 2016, the Supervisory Board elected a new Chairperson and a Deputy Chairperson from within its ranks on that date. The Supervisory Board also passed a resolution on the appointment of the members of the committees and the respective chairpersons and deputy chairpersons (see section C).

### B. Composition of the Executive Board and the Supervisory Executive Board

There were no changes in the membership of the Executive Board of CANCOM SE during the fiscal year 2016. The members of the Executive Board were CEO Klaus Weinmann and Rudolf Hotter.

The members of the Supervisory Board of CANCOM SE in the fiscal year 2016 were: Walter Krejci, Dr. Lothar Koniarski, Regina Weinmann, Uwe Kemm, Dominik Eberle, Raymond Kober, and Roland Welzbacher. Raymond Kober announced his resignation on June 15, 2016, giving the notice required by the corporate by-laws. Roland Welzbacher was a court-appointed member of the Supervisory Board of CANCOM SE from November 4 until his resignation with immediate effect on December 2, 2016. The Chairpersons and Deputy Chairpersons of the Supervisory Board were Walter Krejci (Chairperson until December 20, 2016), Dr. Lothar Koniarski (Deputy Chairperson until December 20, 2016, Chairperson from December 20, 2016), and Uwe Kemm (Deputy Chairperson with effect from December 20, 2016). Dr. Lothar Koniarski fulfills the requirement of Section 100, paragraph 5 of the German Stock Corporation Act for one member of the Supervisory Board to have expertise in the areas of accounting or audit.

### C. Composition and work of the committees

To help it to perform its function, the Supervisory Board has formed two committees. In 2016, the Audit Committee comprised Dr. Lothar Koniarski, Walter Krejci (until December 20, 2016), Uwe Kemm and Dominik Eberle (from December 20, 2016). The offices of Chairperson and Deputy Chairperson of the Audit Committee were occupied by Dr. Lothar Koniarski (Chairperson until December 20, 2016, Deputy Chairperson from December 20), Walter Krejci (Deputy Chairperson until December 20, 2016), and Uwe Kemm (Chairperson from December 20, 2016). The Audit Committee as a whole had relevant sector expertise at all times. The Audit Committee met on March 22, 2016. All members of the committee attended the meeting.

The Nominating Committee in 2016 comprised Walter Krejci (until December 20, 2016), Dr. Lothar Koniarski, Regina Weinmann and Uwe Kemm (from December 20, 2016). The Chairpersons and Deputy Chairpersons of the Nominating Committee were Walter Krejci (Chairperson until December 20, 2016), Dr. Lothar Koniarski (Chairperson from December 20, 2016; Deputy Chairperson until December 20, 2016), and Uwe Kemm (Deputy Chairperson from December 20, 2016).

The Nominating Committee discussed at length the composition of the Supervisory Board. All committee members attended the meeting held on June 20, 2016, in which they discussed the course of action following the resignation of Raymond Kober. On the basis of prior discussions and deliberations it was resolved to recommend to the Supervisory Board that Roland Welzbacher be appointed to the Supervisory Board by the court.

### D. Corporate Governance and declaration of conformity

The work of the Supervisory Board is governed by the regulations of the German Stock Corporation Act, as well as the recommendations of the German Corporate Governance Code. The meeting of the Supervisory Board on December 13 covered the relevant recommendations of the Corporate Governance Code of May 5, 2015, and examined the extent to which the Code has been implemented. In the past year, CANCOM complied with all the recommendations of the Code. The company's corporate governance guidelines are presented in detail in the corporate governance report on pages 9 to 13.

### E. Annual financial statements of CANCOM SE and the CANCOM Group

The annual financial statements prepared by the Executive Board and the combined management report for CANCOM SE and the Group for the fiscal year 2016 were audited by S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, Germany – the auditing firm appointed by the general meeting of stockholders – under the supervision of certified auditor and tax consultant Ulrich Stauber, managing director of S&P GmbH. S&P GmbH Wirtschaftsprüfungsgesellschaft has been auditing CANCOM's annual financial statements since 1999, and this is the fifth year that Ulrich Stauber has been the lead auditor for CANCOM SE. The auditor conducted the audit in accordance with Section 317 of the German Commercial Code (Handelsgesetzbuch, HGB), in compliance with the German standards for the audit of financial statements laid down by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). The auditor gave his unqualified approval to all the financial statements.

The annual financial statements of CANCOM SE and the consolidated financial statements of the CANCOM Group, the combined management report, the auditor's report and the Executive Board's proposal for appropriation of the net retained profit for the year were submitted to all Supervisory Board members in good time for the passing of a resolution to approve them on March 23, 2017. The auditor gave the Supervisory Board a report on the audit process and the main findings, and was available to answer questions, discuss the report and provide additional information where needed. He took part in the Supervisory Board's discussion of the financial statements and the Audit Committee's meeting on March 23, 2017, as well as the meeting of the Supervisory Board to approve the balance sheet, also on March 23, 2017.

The Audit Committee of the Supervisory Board held a meeting on March 23, 2017. The meeting dealt with the financial statements and the combined management report for CANCOM SE and the Group, as well as the Executive Board's proposal for the appropriation of net profit for the year and the payment of a dividend of € 0.50 per share. The proposal was backed by the entire Supervisory Board. The Audit Committee also made a recommendation as to the Supervisory Board's proposal to the general meeting of stockholders regarding the appointment of an auditor. Prior to this, the Supervisory Board obtained a written independence declaration from the auditor. The Supervisory Board also discussed CANCOM's accounting process and risk management system, the effectiveness of the in-house audit processes, the resources of the internal audit department and its findings, in addition to the issue of maintaining integrity in financial reporting.

After an in-depth discussion of the audit reports, the financial statements and the combined management report, the Supervisory Board had no objections to raise. It considered the proposal for the appropriation of the net retained profit to be reasonable. It approved the annual financial statements of CANCOM SE prepared by the Executive Board, the consolidated financial statements and the combined management report for CANCOM SE and the Group for the fiscal year 2016. The annual financial statements are thus adopted.

Dear stockholders, we are satisfied that CANCOM is well placed for the future. The Supervisory Board would like to thank the members of the Executive Board, the management and all the employees for their great commitment, which has contributed greatly to CANCOM's success and gives us confidence in the continuation of its positive performance.

Munich, Germany, March 2017

On behalf of the Supervisory Board

Dr. Lothar Koniarski
(Chairperson)

# Corporate Governance at CANCOM

**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 May 5, 2015. 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 2016 the Executive Board and the Supervisory Board of CANCOM SE again devoted much attention to CANCOM's compliance with the applicable recommendations of the German Corporate Governance Code. At the Supervisory Board meeting on December 13, 2016, 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 13, 2016, reads as follows:

'The Executive and Supervisory Boards of CANCOM SE declare that, since the previous declaration of conformity on December 8, 2015, the company has been fully compliant with the recommendations of the German Corporate Governance Code issued on May 5, 2015 and published in the German Federal Gazette (Bundesanzeiger) on June 12, 2015.'

### 2. Basic principles of the corporate governance policy

#### 2.1. Stockholders and the annual general meeting

The general meeting of stockholders is the central decision-making body, at which CANCOM's stockholders can exercise their rights and cast their votes. For the past several years, large numbers of stockholders have attended this meeting. The annual general meeting of stockholders was held in Munich, Germany, on June 14, 2016.

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 the appropriation of profit, the discharge of members of the Executive Board and Supervisory Board and the 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 any capital increase or reduction or any purchases of the company's own shares.

At the annual general meeting, our stockholders 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. Stockholders will be able to take advantage of this opportunity at the next general meeting of stockholders in Munich on June 20, 2017, 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. The Executive Board

There were no changes in the membership of the Executive Board of CANCOM SE during the fiscal year 2016. The Executive Board of CANCOM SE has two members, Chief Executive Officer Klaus Weinmann (a graduate in business administration) and Chief Operating Officer Rudolf Hotter (a graduate in business economics). The current term of office of Mr Weinmann expires as at December 31, 2017. The current term of office of Mr Hotter expires as at March 31, 2020. 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. The 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 when electing Supervisory Board members. 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 the Corporate Governance Report was written, the members of the Supervisory Board are: Dr. Lothar Koniarski (Chairperson), Uwe Kemm (Deputy Chairperson), Dominik Eberle, Regina Weinmann and Walter Krejci, who all bring proven professional expertise into the enterprise. They were appointed by the ordinary general meeting of stockholders on June 25, 2014, for the period up to the end of the general meeting of stockholders that resolves 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 2016 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 Dominik Eberle. 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 which, while considering the specifics of the enterprise, 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 as a whole the Supervisory Board is qualified to oversee and advise the Executive Board properly.

When appointing new members, the Supervisory Board bears in mind the following guiding principles:

Appropriate consideration should be give to the international activities of the enterprise. When nominating candidates for election by the general meeting of stockholders, 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 CANCOM, 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.

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 4.4.3 sentence 4 of the German Corporate Governance Code, the Executive Board and the Supervisory Board agree that no major transactions will be carried out with persons or companies associated with a member of the Executive Board without the consent 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 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 on page 105 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 four 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 of stockholders on June 14, 2016 appointed the audit firm S&P GmbH Wirtschaftsprüfungsgesellschaft based in Augsburg, Germany, to audit the annual financial statements for the fiscal year 2016. 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 23, 2017, as well as the meeting of the Supervisory Board to approve the balance sheet on the same day.

## 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 Executive Board members' remuneration 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 26 to 29.

## 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 2017

CANCOM SE

Executive Board and Supervisory Board

# CANCOM in the German capital market

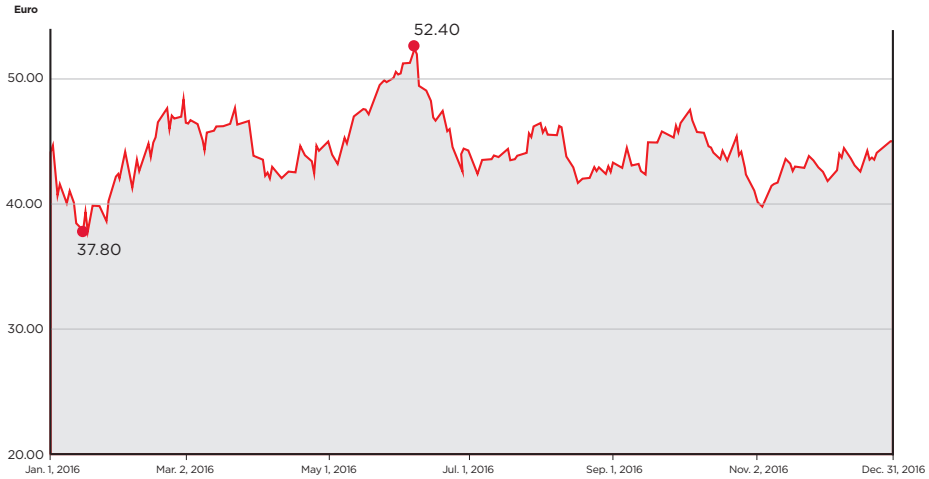
### German equity market performance

The German blue-chip index DAX closed the year 2016 up almost 7 percent at 11,481.06 points, following a year of frequent fluctuations. After falling to its low of 8,752 points as early as February, the DAX climbed – albeit somewhat shakily – through the first half of the year, during a time when events such as the Brexit vote in June were impacting on the equity markets. In the second half of the year the index hit an interim high of around 10,700 points – first in August, then in September, and again in October. At the beginning of December the DAX rose above the 11,000 mark, finally ending the year at 11,481.06 points. The TecDAX closed at 1,811.72 points, having gained only around 18 points over the year.
.

### CANCOM share performance

The CANCOM share started the year at € 44.13 and fell to its low for the year at € 37.80 in January, in line with the performance of the DAX and TecDAX. In the recovery that followed over the next few months, the share rose to its high of € 52.40 at the start of June. After a number of dips in the second half, the price of the CANCOM share finally stabilized at the end of the year at € 45.02. In the ranking of the German TexDax technology index, CANCOM is placed 19th in terms of market capitalization as at December 31, 2016, up by one place on its ranking in 2015. Measured by trading volume, CANCOM is ranked 13th.

### ONE YEAR PERFORMANCE OF CANCOM STOCK (GERMAN SECURITIES CODE - WKN - 541910)




### SHARE REFERENCE DATA AND INDICES

| | |
|---|---|
| Stock exchange segment | Prime Standard |
| Index membership | TecDAX, CDAX |
| Designated sponsorship | Hauck & Aufhäuser Privatbankiers KGaA |

### RESEARCH-COVERAGE

| |
|---|
| Hauck & Aufhäuser Research |
| Warburg Research |
| Commerbank |
| Baader Bank / Helvea |
| Bankhaus Lampe |

**KEY FIGURES AND TRADING STATISTICS ON THE CANCOM SHARE (GERMAN SECURITIES CODE - WKN - 541910)**

| | | 2016 | 2015 |
|---|---|---|---|
| Price at start of the year | € | 44.13 | 36.26 |
| Price at end of the year | € | 45.02 | 43.73 |
| High (June 8, 2016) | € | 52.40 | 43.73 |
| Low (January 20, 2016) | € | 37.80 | 29.13 |
| Performance - absolute | € | +0.89 | +7.47 |
| Performance - relative | % | +2.02 | +20.60 |
| Market capitalization at year-end | € million | 736.9 | 649.6 |
| Average turnover per trading day* | piece | 98,077 | 128,523 |
| Average turnover per trading day* | € | 4,323,978 | 4,583,608 |
| Earnings per share from continuing operations (basic) | € | 2.11 | 1.99 |
| Outstanding stock as at December 31, 2016 | piece | 16,367,531 | 14,879,574 |

(Closing prices on XETRA) * all German Stock exchanges

### Dividend

The aim of CANCOM's dividend policy is to support the company's growth strategy - the primary objective of the Executive Board. It has identified good growth potential in the IT environment, due in part to digitization, one of the current technology megatrends. It will therefore give priority to using future profits to finance the growth and development of the business. The objective of this policy is to achieve a long-term increase in the company's going-concern value, and it is thus deemed also to be in the interest of the stockholders. For the fiscal year 2016, the Executive Board and Supervisory Board will propose to the general meeting of stockholders that a dividend of 50 euro cent per share be paid.

The number of shares with dividend rights is 16,367,531. The total dividend payment for the fiscal year 2016 is therefore € 8.2 million.

### Convertible bond

In March 2014 CANCOM successfully issued a convertible bond (German securities code - WKN - A11QF3) for € 45 million. The bond matures in March 2019 and can be converted into around one million new no-par value bearer shares in CANCOM SE. There was no subscription right for existing stockholders. The conversion price at the time of publication of this annual report is € 42.4077.

### American depositary receipt program in the U.S.A.

CANCOM SE maintains a Level 1 American depositary receipt (ADR) program in the United States. ADRs are securities denominated in U.S. dollars that represent underlying equities of a non-U.S. company and can be traded in the U.S.A. This enables U.S. investors to buy bearer shares in CANCOM SE, which are listed on the Frankfurt Stock Exchange, indirectly on the U.S. market.

### General meeting of stockholders

The annual general meeting of stockholders of CANCOM SE took place in Munich, Germany, on June 14, 2016. The Executive Board and the Supervisory Board of the company welcomed a large number of stockholders and their proxies, who together represented 50.71 percent of the capital stock. The high degree of approval expressed by the stockholders on all agenda items demonstrated the high level of confidence in CANCOM's management.

### Investor and public relations – communication with the capital market

Active, open and transparent financial communication is of central importance to CANCOM. Maintaining an up-to-date website is very important to CANCOM, as is keeping in personal contact with stockholders, investors and analysts, in addition to business and specialist media. In the fiscal year 2016, CANCOM made numerous contacts at roadshows in Germany and other countries, investor conferences, on the occasion of capital market events, as well as in face-to-face meetings and by phone.

Up-to-date information about the CANCOM share can be found in the Investor Relations section of our website. Please visit us at www.cancom.de.


CANCOM

# Combined management report for CANCOM SE and the CANCOM Group

January 1 to December 31, 2016

## 1. Fundamental information about the Group

The CANCOM Group is one of the leading providers of IT infrastructure and services in Germany and Austria. With its decentralized distribution and service structure, as well as central services in areas such as finance, purchasing, warehousing, logistics, marketing, product management and human resources, the Group is well placed for sustainable, profitable growth. The Group has locations in Germany, Austria, Switzerland and the U.S.A. in addition to a representative office in Brussels, Belgium.

### Structure of the CANCOM Group

CANCOM SE, based in Munich, Germany, performs the central financial and management role for the long-term equity investments held by the CANCOM Group.

The structure of the CANCOM Group (also referred to as 'CANCOM') ensures that its control and management is highly efficient. It also provides effective support for operational units through central divisions, specialized distributors and competence centers.

### Areas of business

The IT solutions segment includes CANCOM GmbH, CANCOM Computersysteme GmbH, CANCOM a + d IT solutions GmbH, CANCOM (Switzerland) AG, NSG ICT Service GmbH (formerly CANCOM NSG GmbH), NSG GIS GmbH (formerly CANCOM NSG GIS GmbH), CANCOM SCS GmbH (formerly CANCOM NSG SCS GmbH), CANCOM ICP GmbH (formerly CANCOM NSG ICP GmbH), CANCOM on line GmbH, Cancom on line B.V.B.A., CANCOM physical infrastructure GmbH, CANCOM Inc., HPM Incorporated, Verioplan GmbH with the exception of the divisions of CANCOM GmbH allocated to the cloud solutions and 'other companies' segment. This operating 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 cloud solutions segment includes PIRONET Datacenter AG & Co.KG (formerly PIRONET NDH Datacenter AG & Co. KG), PIRONET Enterprise Solutions GmbH, and Pironet AG (formerly Pironet NDH Aktiengesellschaft), in addition to the division of CANCOM GmbH 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 their transition from corporate IT systems to cloud computing. As part of its range of services, the CANCOM Group can provide scalable cloud and managed services – in particular shared managed services – to run entire IT departments, or parts of them, for its clients. Distribution costs allocated to cloud distribution are included in the segment. The cloud business also benefits from synergies with CANCOM's central sales and marketing activities, the costs of which are allocated to the IT solutions reportable segment.

Some items in the segments were reclassified as at the reporting date of December 31, 2016. The merger of two Group companies during the year necessitated structural adjustments and reorganization in terms of the companies and regions included in the segments. This resulted in changes in the areas of responsibility and the splitting of entire departments, which necessitated a reallocation of the new structure to the segments. The figures for the previous year were adjusted to reflect these changes.

### Focus of activities and sales markets

CANCOM is one of the largest independent integrated IT systems providers in Germany. It provides IT architecture, systems integration and managed services. As a provider of integrated services, it mainly focuses on IT services, in addition to distributing hardware and software. The IT services offered include IT consulting, the design of IT architectures and landscapes, and the design, integration and operation of IT infrastructure and systems. CANCOM can manage individual partial assignments or run a company's entire IT systems.

The CANCOM's client base therefore mainly includes commercial end-users, from small and medium sized enterprises to large enterprises and groups, as well as public-sector clients. Geographically, the CANCOM Group operates primarily in Germany and Austria as well as in the U.S.A.

The strategy includes focusing on major IT trends such as cloud computing, mobility, analytics, collaboration and security, in addition to profitable, high-growth market segments such as complete integrated IT solutions, consulting and managed services. In the managed services business, CANCOM focuses on standardizing and increasingly automating services in a one-to-many model - in other words, as a shared service. Ideally, services are provided remotely and using a joint platform. Selective acquisitions are also part of the Group's growth strategy.

### Competitive position

According to the Federal Statistical Office of Germany, there are currently around 90,000 information and communications technology (ICT) enterprises in Germany, although they vary in size and in the range of services they offer. Of these enterprises, approximately 85,600 provide IT hardware, software and IT services. There are around 160 businesses with more than 500 employees. Twelve integrated systems providers (including CANCOM) generate sales revenue in excess of € 250 million in Germany.

According to the German Association of the Information Industry, Telecommunications and New Media (BITKOM), the total volume of the German IT market in 2016 was € 84.0 billion. This means that, with annual sales revenues in Germany of € 914.2 million, the CANCOM Group currently has a market share of around one percent. The five largest German integrated IT systems providers in the latest ChannelPartner/COMPUTERWOCHE ranking (CANCOM is ranked fifth) have a market share of around fifteen percent between them. The remaining market share is held among others by IT manufacturers as well as small and medium sized, mainly regional, enterprises. This reflects the very fragmented nature of the German IT market.

### 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 expenditure and operating profit, and compares the actual figures with the targets. The key performance indicators are gross profit, EBITDA and operating profit (EBIT). The latter offers a detailed picture of the performance of the enterprise as a whole, as it enables management to draw conclusions about the operational business performance and make transparent comparisons, particularly over a period of time.

Any significant deviations identified in the key figures call for the preparation of a forecast. For the purpose of management control, the company also regularly looks at external indicators such as inflation and interest rates, and IT sector and general economic performance and forecasts. It also takes into account any early warning data or indicators generated by the Group-wide risk management system. Further details can be found in the risks and opportunities report.

### Research and development activities

Innovation is very important for economic momentum and growth. As it is a service and trading enterprise, CANCOM does not conduct any research activities. Its development work focuses mainly on software solutions, applications or architecture in IT growth segments such as cloud computing, virtualization, mobile solutions, IT security and shared managed services. Development work is limited in scope and is mainly used for the Group's own purposes. Cloud computing benefits the entire enterprise, as it offers huge advantages for the IT departments, management and staff. Above all, users benefit from the central provision of applications and being able to access company data at all times, in any location and on any device. During the fiscal year 2015, further development work was carried out on the Group's own IT architecture platform, CANCOM AHP Enterprise Cloud, in addition to customization of in-house software used by the company, mainly in connection with the Group-wide introduction of the enterprise resource planning (ERP) system of SAP.

### Environmental report

As an IT services and trading company, CANCOM aims to offer services and products of excellent quality, at an attractive price and as environmentally friendly as possible. It therefore places great importance on conserving the resources at its disposal. The corporation offers innovative solutions across its entire range of services and products in order to make a professional contribution to the environmentally-friendly and resource-conserving use of information technology over the whole life cycle of the equipment. For instance, CANCOM offers its clients the advantages of state-of-the-art, energy-efficient data centers, which bring not only ecological benefits, but also considerable savings on a company's energy and IT costs. CANCOM's use of advanced, intelligent systems for communication and collaboration (for instance, video and web conferencing solutions) also enables resources to be conserved. The resulting reduction in travel needs by employees leads to lower $CO_2$ emissions, in addition to benefits such as process optimization and considerable cost savings.

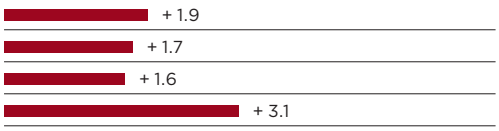
CANCOM SE is a member of the UN Global Compact, thereby supporting its principles, which cover human rights, labor standards and the combating of corruption in addition to environmental protection.

## 2. Economic report

### General economic situation

The German economy appeared robust and held its ground in 2016 despite uncertainty caused by numerous international events, crises and tensions. The Federal Statistical Office of Germany has calculated that gross domestic product grew by 1.9 percent, compared with 1.7 percent in 2015. This was primarily driven by stable private and government spending and an increase in corporate investment.

**Gross domestic product in 2016***
(real change compared with 2015, as a percentage)




* Forecast: Deutsche Bank Research, 10 February, 2017.

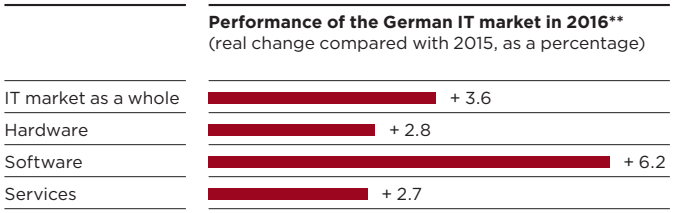
For the year 2016 as a whole, the Federal Statistical Office predicts an average inflation rate of 0.5 percent, compared with 0.3 percent in 2015. The inflation rate is expected to remain relatively low over the longer term.

Up to the time of preparation of this management report, the European Central Bank (ECB) has left the key interest rate unchanged at its historic low of zero percent. The U.S. Federal Reserve increased its benchmark rate by 0.25 percentage points for the second time since the financial crisis, to between 0.5 and 0.75 percent.

The labor market performed well in 2016. The number of unemployed people fell again, employment continued to rise - particularly in the first half of the year - and demand for new staff among businesses increased again.

### Performance of the information technology sector

Overall, the year 2016 was a good one for the IT sector. According to the latest estimates by the German Association of the Information Industry, Telecommunications and New Media (BITKOM), the German IT market grew by 3.6 percent in 2016. Within the IT sector, the hardware segment grew by 2.8 percent, the software segment by 6.2 percent and the IT services segment by 2.7 percent.




** Forecast: BITKOM, EITO, October 2016

The European Information Technology Observatory (EITO) predicts that global IT revenues will increase by 2.6 percent to € 1.3 billion in 2016. It expects IT revenues in EU member states to rise by 2.7 percent to € 388 billion.

### Impact on the CANCOM Group

In the previous year, the CANCOM Executive Board anticipated continued growth in the company with an improvement in profits if the demand for IT products and services remained steady. The forecast for the year 2016 also predicted a further increase in consolidated gross profits[1] and Group EBITDA[2]. The Executive Board's forecast was based on the growth in consolidated EBITDA exceeding the rate of organic growth in sales revenues, owing to the improved product mix.

Sales revenues of the CANCOM Group increased by 9.7 percent in the fiscal year 2016, to € 1,023.1 million compared with € 932.8 million in 2015. This represents considerably stronger growth than that of the German IT market, which grew by 3.6 percent. Of the sales revenues generated in 2016, a portion of € 46.0 million which CANCOM views as derived from inorganic growth was attributable to the companies acquired in 2015 and 2016. The acquired companies in turn benefited from being part of the Group and were able to expand their business as a result. This meant that marketing and cost synergies were exploited through integration and combining of units within the Group. The organic component of the Group's growth in the 2016 was 4.9 percent. The growth of the Group is mainly attributable to the continued high demand for, and the willingness of the companies to invest in, innovative, sustainable and integrated IT solutions, which had a positive impact on the performance of both of the Group's operating segments. The progressive digitization and networking of the economy, with all its increasing complexity, presents an opportunity for providers such as CANCOM, which have the relevant competence and experience, to reap profits.

There was a quite significant year-on-year increase in both the consolidated gross profit and the consolidated EBITDA, which were up 6.7 percent and 15.5 percent respectively. The high-skill services business had a particularly positive impact on profits. Owing to the increasing complexity and requirements in areas such as IT landscapes and applications, IT consulting is becoming more and more important. Additionally, the level of services provided is increasingly demanding and of higher quality. CANCOM has therefore developed its employee structure to increase further the number of qualified staff with the appropriate certification. There were further improvements in both the gross profit and EBITDA per employee in 2016.

CANCOM endeavors to position itself as a trusted advisor of its clients, and to deliver integrated IT solutions from a single source. In addition, investment by businesses both in standard IT systems and data center infrastructure and in cloud computing was encouraged by the development of new technologies and services and the advancement of existing ones, in addition to the transformation of business models and information technology to cloud computing. This had a positive impact on the growth of both the IT solutions segment and the cloud solutions segment. Also, attractive profit margins were achieved in the IT solutions segment by focusing on selling comprehensive one-stop-shop solutions comprising consulting, integration and services. In the cloud solutions operating segment, the level of recurring revenue from cloud and shared managed services remained at a consistently high level.

The digital revolution and the changes within the IT sector require many companies to realign and develop their current business models. As cloud computing becomes more widely used, the IT services to be provided are increasingly being transferred to data centers. This means the staff performing these higher-end IT services will have to be of increasingly high caliber, highly skilled and competent. CANCOM focuses on profitable business in the traditional IT environment and withdraws without hesitation from areas that the Group does not consider viable. We continued to consistently develop our strategic product and service range and the staffing structure in 2016.

The Executive Board is of the opinion that the positive development of sales revenues, gross profit and EBIDTA anticipated for the fiscal year 2016 was achieved in the IT solutions and cloud solutions operating segments and in the Group as a whole.

1) For an explanation of the alternative performance measures (APM) required by the guidelines on APMs issued by the European Securities and Markets Authority (ESMA), see a) Earnings position

2) See 1.

## Significant events and investments

CANCOM regularly optimizes its corporate structure in order to secure and consolidate its position in existing markets and also to tap new markets. Below is a description of events that had a significant effect on the Group's business performance, as well as other important events and investments in the fiscal year 2016:

- In order to strengthen the equity base for the continued organic and inorganic growth of the Group, CANCOM SE carried out a capital increase against cash contributions, which was recorded in the commercial register on March 4, 2016. Part of the authorized capital (2015/I) was used to increase the capital stock from € 14,879,574 to € 16,367,531 by issuing 1,487,957 new no-par value bearer shares. The stockholders' subscription right was disapplied. The total issuing value of the new shares is € 66.2 million gross.

- CANCOM SE has taken over selected portions of the company assets (the client list and inventories) and staff of Misco Germany Inc. through its subsidiary CANCOM GmbH. The takeover is documented in a contract of sale dated July 22, 2016, and was effective from September 2, 2016. The acquisition gives CANCOM access to new clients, increases its presence in the region of Frankfurt am Main, Germany, and increases CANCOM's direct sales capacity.

- CANCOM DIDAS GmbH has been merged into CANCOM GmbH. The merger is documented in a merger contract dated August 18, 2016. Xerabit GmbH was also merged into CANCOM GmbH, in April 2016.

- CANCOM SE sold its wholly-owned subsidiary NSG GIS GmbH on December 19, 2016. NGS GIS GmbH provides HR services in the information technology sector. The sale supports the continuous shift towards higher-margin business within the CANCOM Group.

## Staff

CANCOM employed an average of 2,657 people in the fiscal year 2016, compared with 2,724 in 2015.

**Number of employees in the CANCOM Group 2015 – 2016 (as at December 31)**


**The staff worked in the following areas (as at December 31):**

| | 2016 | 2015 |
|---|---|---|
| Professional services | 1,717 | 1,888 |
| Sales and distribution | 542 | 471 |
| Central services | 398 | 365 |

## Earnings, financial and assets position of the CANCOM Group

There was further improvement in the earnings, financial and assets position during the fiscal year 2016.

### a) Earnings position

The sales revenues of the CANCOM Group grew from € 932.8 million to € 1,023.1 million in 2016. This represents consolidated growth of 9.7 percent. The increase was reflected in both operating segments. The Executive Board believes the continued business demand for innovative, efficiency-enhancing solutions across all areas of the IT value chain is attributable to investments in ongoing IT operations as well as increased digitization efforts. The acquired companies accounted for € 46.0 million of the sales revenues. The companies have in turn benefited from being part of the Group and have been able to expand their business as a result.

**CANCOM Group sales revenues 2015 – 2016 (in € million)**

Sales revenues in Germany went up by 8.2 percent, from € 845.2 million to € 914.2 million. In international business, the Group's sales revenues rose by 24.3 percent from € 87.6 million to € 108.9 million.

Sales revenues in the IT solutions segment increased from € 801.0 million to € 866.9 million – a growth of 8.2 percent. In the cloud solutions segment, sales revenues were up 18.4 percent to stand at € 156.1 million, compared with € 131.8 million in 2015. The Group's positive performance in terms of sales revenues was driven by the cloud and managed services business and the shared managed services business, as well as related solutions such as IT mobility, IT security, network solutions, and communications and collaboration, which contributed to the positive performance of the integrated IT systems provider business.

The consolidated gross profit[3] of the CANCOM Group rose by 6.7 percent, from € 274.2 million in 2015 to € 292.7 million in 2016. The gross profit margin decreased from 29.4 percent in 2015 to 28.6 percent in 2016.

**CANCOM Group gross profit 2015 – 2016 (in € million)**


In the IT solutions segment, gross profits were up from € 199.3 million in 2015 to € 211.8 million in 2016. In the cloud solutions segment, gross profits increased from € 65.0 million to € 69.7 million in the same reporting period.

Owing to the increase in the Group's activity in the higher-margin consulting and services business and in the IT trend areas, and the associated upskilling of employees and changes in the staffing structure, staff expenses increased from € 169.9 million to € 178.6 million in the fiscal year 2016. However, the staff cost ratio went down from 18.2 percent to 17.5 percent.

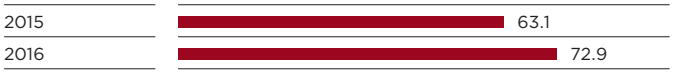
**The details of the staff expenses were as follows (in '000):**

| | 2016 | 2015 |
|---|---|---|
| Wages and salaries | 153,380 | 145,897 |
| Social security contributions | 24,816 | 23,642 |
| Pension provisions | 369 | 352 |
| **Total** | **178,565** | **169,891** |

Other operating expenses were on par with the previous year's level of € 41.3 million. There was further improvement in the ratio in relation to sales revenues. The ratio showed an improvement, from 4.4 percent in 2015 to 4.0 percent in 2016.

Consolidated earnings before interest, tax, depreciation and amortization (EBITDA)[4] were up 15.5 percent and amounted to € 72.9 million compared with € 63.1 million in 2015. The EBITDA margin improved from 6.8 percent to 7.1 percent.

**CANCOM Group EBITDA 2015 – 2016 (in € million)**



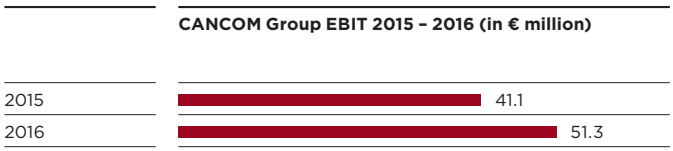

EBITDA in the IT solutions segment increased from € 42.6 million in 2015 to € 49.2 million in 2016. In the cloud solutions segment, EBITDA was up from € 28.8 million to € 31.4 million. The increase in earnings was driven by the expansion of the Group's business activities in the cloud and shared managed services business, as well as in the traditional integrated IT systems business. There was consequently an increase in the earnings of the Group as a whole. Market and cost synergies can usually be generated within the Group from acquisitions – for instance, by the use of resources for both existing and acquired units. This means that the relevant earnings cannot meaningfully be quantified or allocated to organic or acquisition-based profit, and for this reason we do not attempt any such quantification or allocation. The profitability of both segments continues to remain at a high level. The EBITDA margin of the IT solutions segment was 5.7 percent compared with 5.3 percent in 2015, while that of the cloud solutions segment was 20.1 percent compared with 21.8 percent in 2015.

Consolidated earnings before interest, tax and amortization[5] (EBITA) were up 17.8 percent, from € 50.5 million in 2015 to € 59.5 million in the fiscal year 2016. The amortization relates to the IFRS amortization of intangible assets from the purchase price allocation (PPA) from acquisitions, and mainly arises in relation to client lists and orders in hand.

**CANCOM Group EBITA 2015 – 2016 (in € million)**


3) Gross profit = gross performance (sales revenues + other operating income + other own work capitalized) less cost of purchased materials and services
4) EBITDA = earnings for the period + taxes + profit/loss accounted for using the equity method + income from equity investments + financial result + amortization and write-downs of intangible assets, and depreciation and write-downs of tangible assets
5) EBITA = earnings for the period + taxes + profit/loss accounted for using the equity method + income from equity investments + financial result + amortization and write-downs of intangible assets

Consolidated earnings before interest and tax[6] (EBIT) increased from € 41.1 million to € 51.3 million, representing growth of 24.8 percent.




The after-tax earnings from continuing operations after deduction of minority interests amounted to € 33.9 million, compared with € 29.6 million in 2015. This resulted in earnings per share of € 2.11, compared with € 1.99 in 2015.

### Order position

In the cloud solutions segment and large parts of the IT solutions segment, orders are often placed over long periods. For this reason, the reporting date figures do not give a good indication of the order situation in this segment, and they are therefore not published. At the time this management report was written, capacity utilization among our consultants was good in both segments. Demand for integrated solutions is in line with our expectations in either of the segments.

## b) Financial and assets position

### Objectives of financial management

The core objective of the financial management of CANCOM is to safeguard its liquidity at all times in such a way that day-to-day business activities can be continued. In addition, the Group aims to achieve optimum profitability as well as a high credit status to ensure favorable refinancing rates.

### Notes on the capital structure

The current liabilities amount to € 188.5 million (2015: € 159.6 million), and include trade accounts payable of € 127.0 million (2015: € 106.8 million), in addition to the component of long-term debt due within a year, subordinated loans and capital from profit participation rights, provisions and other current liabilities and other payables.

The non-current liabilities, which amount to € 64.2 million (2015: € 72.4 million), are liabilities with a residual term of at least one year. They consist mainly of a convertible bond, issued in 2014, with a volume of € 45 million with a maturity date of March 27, 2019. Owing to interest accrued, the carrying amount as at December 31, 2016 (debt component) is € 41.8 million (2015: € 40.4 million).

The financing structure is distinctly geared towards the long term. Interest-bearing liabilities rose slightly from € 48.1 million in 2015 to € 48.3 million as at December 31, 2016. They consisted mainly of the convertible bond, in addition to long-term loans, profit participation capital and subordinated loans. The short-term loans and the short-term portion of long-term loans amounted to € 1.9 million, compared with € 1.4 million recorded in 2015. Other long-term liabilities decreased from € 8.1 million to € 3.5 million, chiefly as a result of the reversal of provisions for variable purchase prices of subsidiaries.

Total assets grew from € 436.3 million in 2015 to € 537.8 million in 2016. Due to a capital increase and through the retention of profits, the nominal equity capital, including capital reserves, rose during the year from € 204.3 million at the end of 2015 to € 285.1 million in 2016. As a result, the equity ratio increased from 46.8 percent in 2015 to 53.0 percent as at December 31, 2016.

On the assets side, current assets went up from € 277.4 million to € 370.8 million. Cash and cash equivalents declined by € 22.2 million to € 63.6 million as at the reporting date, and other current financial assets increased by € 88.3 million to € 96.1 million, mainly due to investments in term deposits at banks. The cash position is covered in the section below. Due to the expansion of the company's business activities, trade accounts receivable rose from € 145.8 million to € 182.4 million. Inventories fell from € 27.9 million to € 22.5 million.

Non-current assets increased by € 8.1 million to € 167.0 million, compared with € 158.9 million in 2015. The increase is mainly evident in the balance sheet item property, plant and equipment (tangible assets), which is up by € 3.8 million, and in other financial assets, which increased by € 5.3 million. The latter item includes long-term claims to the payment of purchase price relating to lease projects, for example in the area of cloud services.

6) EBIT = earnings for the period + taxes + profit/loss accounted for using the equity method + income from equity investments + financial result

### Notes to the changes in the cash flow

Owing to the expansion of business activities, which resulted in an increase in liabilities and trade receivables as well as an improved profit for the year before tax and minority interest, the cash flow from operating activities was € 48.2 million, compared with € 13.6 million in 2015. There was a negative cash flow from investing activities of € 125.6 million, in comparison with minus € 29.9 million in 2015. This was mainly due to investment in term deposits at banks, in addition to payments for additions to intangible assets and property, plant and equipment (tangible assets). There was a positive cash flow of € 54.7 million from financing activities in 2016, compared with a negative cash flow of € 13.0 million in 2015. This was partly as a result of a capital increase against cash contributions. Overall, this gave rise to cash and cash equivalents of € 63.6 million as at December 31, 2016, compared with € 85.8 million in 2015. At the reporting date, the CANCOM Group had credit facilities (including guarantees) of € 37.5 million provided by banks. Of this amount, € 31.8 million was easily available as at December 31, 2016.

On balance, the earnings, assets and financial position of the Group improved further in the fiscal year 2016, and can therefore be described as good.

### Earnings, financial and assets position of CANCOM SE

CANCOM SE performs the central financial and management role with regard to the long-term equity investments held by the CANCOM Group. The risks and opportunities of CANCOM are therefore the risks and opportunities of its long-term equity investments. These are commented on in more detail in the report on risks and opportunities in section 6.

CANCOM SE generated sales revenues of € 7.8 million (2015: € 7.0 million) from intercompany management fees and net income for the year of € 27.2 million (2015: € 30.6 million). This figure mainly consisted of income of € 39.0 million from profit transfer agreements with subsidiaries and intercompany management fees.

Total assets increased from € 248.7 million in 2015 to € 340.7 million as at December 31, 2016, mainly as a result of the acquisition of shares in affiliated companies. The equity capital rose during the year from € 198.6 million to € 283.9 million, due to a capital increase against cash contributions and through the retention of profits. This represents an improved equity ratio of 83.3 percent as at the balance sheet (2015: 79.9 percent).

Cash and cash equivalents as at December 31, 2016 increased to € 95.8 million, compared with € 27.6 million at the end of 2015, mainly due to the inflow of funds from the capital increase against cash contributions. Net liquidity (cash and cash equivalents less financial liabilities) amounted to € 50.6 million in 2016, compared with a negative figure of € 16.9 million in 2015.

Overall, CANCOM SE's earnings, assets and financial position continued to be very robust in 2016.

## 3. Information concerning takeovers

The paragraphs below contain disclosures in accordance with Section 315, paragraph 4 and Section 289, paragraph 4 of the German Commercial Code (Handelsgesetzbuch, HGB). For details, please see the notes to the Group financial statements and the notes to the financial statements of CANCOM SE.

### Capital stock: amount and division

At December 31, 2016, the capital stock of CANCOM SE amounted to € 16,367,531, divided into 16,367,531 no-par value bearer shares (shares without nominal value). Each share represents € 1 of the capital stock. The shares are evidenced by global certificates, and the stockholders have no claim to the issue of individual physical share certificates.

Each no-par value share carries a voting right at general meetings of stockholders. Different classes of shares do not exist. The same rights and duties are attached to all shares. There are no holders of shares with special rights that confer controlling powers.

### Direct or indirect equity investments of 10 percent or more

As at December 31, 2016, CANCOM is not aware of any direct or indirect equity investments exceeding 10 percent of the voting rights:

### Appointment and dismissal of members of the Executive Board

The appointment and dismissal of members of the Executive Board is governed by Section 84 paragraph 3 and Section 85 of the German Stock Corporation Act in conjunction with Article 9, paragraph 1 c (ii) and Article 39 of the 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. CANCOM follows the recommendations of the German Corporate Governance Code when appointing members of the Executive Board, taking into account the company's specific situation.

### Changes to 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 stockholders. The corporate by-laws may differ in this respect from the legal stipulations and impose additional requirements. 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. Section 15, paragraph 3 of the corporate by-laws of CANCOM SE contains such a provision. According to this provision, resolutions to change 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 by a simple majority of the votes cast. In cases where the law additionally requires a majority of the capital stock represented in the vote on the resolution, a simple majority of the capital stock represented in the vote on the resolution will suffice, unless stipulated otherwise by law. The general meeting of stockholders may confer on the Supervisory Board the authority to make amendments that merely concern the wording. At CANCOM, this has been done by means of section 11 of the corporate by-laws.

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

Please see section 4.1.1. of the remuneration report for details of these agreements.

## 4. 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 Executive Board members' remuneration 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 below forms a part of the combined management report and the notes to the consolidated accounts.

### 4.1. Remuneration of the Executive Board

The Supervisory Board as a whole is responsible for establishing 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 performance, and its prospects, as well as the level of remuneration of the executive boards of comparable companies, both within and outside the IT sector. 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 given the remuneration structure of the rest of the company. The system of Executive Board remuneration used at CANCOM is aimed at the sustainable growth of the enterprise.

The remuneration system for the Executive Board was approved by the general meeting of stockholders on June 8, 2011.

#### 4.1.1. Components of Executive Board remuneration

The remuneration of the Executive Board is performance-based. In 2016, the remuneration of Klaus Weinmann and Rudolf Hotter consisted of a fixed payment (basic salary) and a variable bonus. The Executive Board remuneration does not include any equity-based element. In the fiscal year 2016, the Executive Board members did not have any subscription rights or any other stock-based remuneration regarding shares in CANCOM SE. There were no pension benefits.

The fixed remuneration is paid in the form of monthly salary payments. Whether the variable bonus is paid, and how much is paid, depends on the earnings for the year (EBITDA), or the degree to which the target EBITDA of the CANCOM Group is achieved. Half of the variable bonus is a short-term bonus based on the achievement of objectives (over one fiscal year), and the other half is a long-term bonus (for three fiscal years). The bonus paid to Klaus Weinmann is 1.0 percent of the EBITDA generated, while Rudolf Hotter's bonus is 0.5 percent of the EBITDA achieved. The amount of the bonus payment is capped for the fiscal year in question. If there is a significant worsening of the results within the three-year period of calculation in comparison with the relevant planned figures, the Executive Board members are obliged to pay back in full or in part the bonus payments received, in a type of negative incentive system.

The contract of the Chief Executive Officer, Klaus Weinmann, contains a change of control clause. This states that, in the event of a change of control, the CEO is entitled to resign his current post as CEO and terminate his contract at six months' notice, as long as this is done within nine months after the change of control takes legal effect. In the event of his resignation, his emoluments would be paid by the company for two years, but not longer than the remainder of his term of office. In the event that the service contract expires, or ends through the resignation or discharge of the Executive Board member, the Executive Board contracts provide for a severance payment as well as a compensatory payment for observing the restraint on competition. Compensation for observing the changed restraint on competition would be deducted from the emoluments paid.

In the event that an Executive Board member's contract is terminated early, whether by mutual agreement or without good cause, the Executive Board contracts provide for compensation up to a maximum of two years' annual remuneration. If the remaining term of the employment contract is less than two years, the severance payment is paid pro rata. The amount of the annual remuneration is calculated as the sum of the fixed remuneration and the bonus, without benefits in kind and ancillary benefits, for the last full fiscal year before the end of the employment contract. If the emoluments for the fiscal year during which the employment is terminated are expected to work out considerably higher or lower than for the previous full fiscal year, the Supervisory Board may at its discretion adjust the amount.

### 4.1.2. General 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 2016 was € 2,749 thousand (2015: € 2,617 thousand). The remuneration for the fiscal year 2016 (disclosed below) takes account of 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 present the breakdown of the amounts allowed in 2016.

The following table shows the remuneration granted to the individual members of the Executive Board in the fiscal year 2016 (broken down into individual components, with rounded figures):

| **Amounts allowed** (in EUR) | **Klaus Weinmann** Chief Executive Officer | | | | **Rudolf Hotter** Member of the Executive Board | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | **2016** | **2016** (Min) | **2016** (Max) | **2015** | **2016** | **2016** (Min) | **2016** (Max) |
| Fixed remuneration | 574,107 | 587,050 | 587,050 | 587,050 | 407,798 | 429,605 | 429,605 | 429,605 |
| Ancillary benefits[1)] | 1,696 | 1,696 | 1,696 | 1,696 | 2,850 | 2,943 | 2,943 | 2,943 |
| **Total fixed remuneration components** | **575,803** | **588,746** | **588,746** | **588,746** | **410,648** | **432,548** | **432,548** | **432,548** |
| Variable annual remuneration | 500,000 | 500,000 | 0 | 500,000 | 315,349 | 363,930 | 0 | 363,930 |
| Multiannual variable remuneration[2)] | 500,000 | 500,000 | 0 | 500,000 | 315,349 | 363,930 | 0 | 363,930 |
| Target achievement dependent on the degree to which the EBITDA target was met in the three-year period of calculation | 500,000 | 500,000 | 0 | 500,000 | 315,349 | 363,930 | 0 | 363,930 |
| **Total fixed and variable remuneration components** | **1,575,803** | **1,588,746** | **588,746** | **1,588,746** | **1,041,346** | **1,160,408** | **432,548** | **1,160,408** |
| Pension costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total remuneration** | **1,575,803** | **1,588,746** | **588,746** | **1,588,746** | **1,041,346** | **1,160,408** | **432,548** | **1,160,408** |

1) The ancillary benefits comprise the costs, or the monetary value, of benefits in kind, such as company cars and insurance premiums.

2) The bonus is dependent on the long-term profitable performance of the CANCOM group. If there is a signficant worsening of the company's result within the three-year period of calculation in comparison with the relevant planned figures used as reference ratio, the Executive Boardmembers are obliged to pay back in part or in full any bonuses received.

### 4.1.3. Payments received

The table below shows the amounts of fixed remuneration, ancillary benefits, annual variable remuneration and multiannual variable remuneration received by the Executive Board members in/for the fiscal year 2016, broken down into the relevant reference years, as well as the pension costs. Unlike the above table, which shows the multiannual variable remuneration allowed for the fiscal year 2016, the table below shows the actual value of the multiannual variable remuneration allowed in previous years and received in 2016.

| **Payments received** (in Euro) | **Klaus Weinmann** Chief Executive Officer | | **Rudolf Hotter** Member of the Executive Board | |
|---|---|---|---|---|
| | **2015** | **2016** | **2015** | **2016** |
| Fixed remuneration | 574,107 | 587,050 | 407,798 | 429,605 |
| Ancillary benefits[1] | 1,696 | 1,696 | 2,850 | 2,943 |
| **Total fixed remuneration components** | **575,803** | **588,746** | **410,648** | **432,548** |
| Variable annual remuneration | 500,000 | 500,000 | 250,000 | 315,349 |
| Multiannual variable remuneration[2] | 500,000 | 500,000 | 250,000 | 315,349 |
| Target achievement dependent on the degree to which the EBITDA target was met in the reporting year and in the past three fiscal years | 500,000 | 500,000 | 250,000 | 315,349 |
| **Total fixed and variable remuneration components** | **1,575,803** | **1,588,746** | **910,648** | **1,063,246** |
| Pension costs | 0 | 0 | 0 | 0 |
| **Total remuneration** | **1,575,803** | **1,588,746** | **910,648** | **1,063,246** |

1) The ancillary benefits comprise the costs, or the monetary value, of benefits in kind, such as company cars, and insurance premiums.

2) The bonus is dependent on the long-term profitable performance of the CANCOM Group. If there is a significant worsening of the company's results within the three-year period of calculation in comparison with the relevant planned figures used as reference ratio, the Executive Board is obliged to pay back in part or in full any bonuses received.

## 4.2. Remuneration of the Supervisory Board

The remuneration for the Supervisory Board was decided at the general meeting of stockholders on June 21, 2012. The principles of the remuneration system are laid down in number 13 of the currently applicable version of the corporate by-laws for CANCOM. The level of remuneration was determined by resolution of the general meeting of stockholders on June 21, 2012. The Supervisory Board's emoluments consist purely of a fixed component. The Chairperson and the Deputy Chairperson of the Supervisory Board, as well as of the Committees are paid a higher remuneration than the other Supervisory Board members.

### 4.2.1. Components of Supervisory Board remuneration

Each member of the Supervisory Board receives a fixed annual remuneration for his/her activities as Supervisory Board member, which is determined by the general meeting of stockholders and remains fixed until a general meeting of stockholders resolves on a change. In accordance with the resolution passed by the general meeting of stockholders on June 21, 2012, each member receives a payment of € 20,000. The Deputy Chairperson receives double the fixed amount paid to the other members, and the Chairperson receives four times the amount. Each member also receives an attendance fee of € 1,000. The attendance fee for the Chairperson of the Supervisory Board is € 2,000. If a Supervisory Board member does not serve a full year, he/she receives the pro rata remuneration for the period served.

The company reimburses the Supervisory Board members for any expenses incurred in direct connection with their position. Sales tax is reimbursed by the company if the relevant Supervisory Board member is entitled to bill separately for sales tax of the company, and exercises this entitlement.

For his/her duties in a committee, the member will receive a fixed annual remuneration as follows: as members of the Nominating Committee or the Audit Committee, the members of the Supervisory Board receive a single annual payment; members of the Nominating Committee receive a remuneration of € 1,000 (the Chairperson of the Committee is paid € 2,000); members of the Audit Committee receive remuneration of € 2,000 (the Chairperson receives € 4,000). If a Supervisory Board member does not serve a full year on a Committee, he/she receives the pro rata remuneration for the period served.

### 4.2.2. General overview of Supervisory Board remuneration

The Supervisory Board members received the following remuneration in the fiscal year 2016 (rounded figures):

| | Fixed remuneration (In euro) | Attendance fee (In euro) | Total 2016 (In euro) | Total 2015 (In euro) |
|---|---|---|---|---|
| Dr. Lothar Koniarski | 46,290 | 10,000 | 56,290 | 45,917 |
| Uwe Kemm | 22,645 | 9,000 | 31,645 | 25,167 |
| Dominik Eberle | 20,000 | 9,000 | 29,000 | 24,000 |
| Regina Weinmann | 21,000 | 9,000 | 30,000 | 24,583 |
| Walter Krejci | 82,065 | 18,000 | 100,065 | 90,333 |
| Roland Welzbacher | 1,667 | 0 | 1,667 | 0 |
| Raymond Kober | 11,667 | 5,000 | 16,667 | 1,000 |
| **Total** | **205,334** | **60,000** | **265,334** | **223,000** |

In fiscal 2016, the Supervisory Board members did not receive any other remuneration or benefits for services provided individually, especially consulting or agency services. They were not granted loans or advance payments, nor has the company entered any contingent liabilities in favor of Supervisory Board members.

### 4.3. D & O insurance

The company has 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 for the D&O insurance covering the Executive and Supervisory Boards.

## 5. Corporate governance declaration as defined in Section 315, paragraph 5 in conjunction with Section 289a of the German Commercial Code

As defined in Section 315, paragraph 5, in conjunction with Section 289a of the German Commercial Code, CANCOM has published a corporate governance declaration on the company's website that can be freely accessed.

## 6. Risks and opportunities report

As an international operator in a fast-moving sector, the CANCOM Group faces many risks and opportunities, which may have considerable impact on CANCOM's business performance, and thus also on its financial and assets position and profits. There are always certain risks associated with business opportunities. CANCOM's aim, therefore, is to achieve a sustainable increase in the value of the company for our stockholders by means of an optimal balance between the risks and opportunities.

### Risk and opportunity management

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

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

Ongoing risk management, on the other hand, is necessary for efficient monitoring and early identification of risks and is thus also an integral component of the strategic and business development as well as the internal monitoring and control system of the CANCOM Group. CANCOM's risk management system is aimed at identifying as early as possible any risks that could endanger the future of the company as a going concern, and/or substantial business risks, and dealing with them in a responsible way.

**Risk management system**

**The Internal control and risk management system in relation to the Group accounting process**

The internal control and risk management system at CANCOM in relation to the (Group) accounting process includes guidelines, procedures and measures intended to ensure that the accounting process complies with the relevant laws and standards.
The main features of the system are as follows:

- CANCOM has a clear management and corporate structure, in addition to a schedule of responsibilities. Cross-departmental key functions are centrally controlled by CANCOM SE.
- The functions of the business areas with the greatest involvement in the accounting process are clearly divided. The areas of responsibility are clearly allocated.
- Integrity and responsibility with regard to finance and financial reporting are safeguarded by a commitment made to this effect in the company's internal Code of Conduct.
- CANCOM takes care to analyze new laws, accounting standards and other announcements, as failure to comply with them would pose a major risk to the correctness of CANCOM's accounting processes.
- Appropriate facilities are in place in the IT department to protect CANCOM's financial systems against unauthorized access. Where possible, standard software is used in the financial systems.
- The consolidation is performed in the central consolidation department, using the same consolidation software across all companies.
- The annual financial statements that are included in the consolidated financial statements are prepared according to accounting guidelines that apply throughout the Group.
- There is an integrated approach to corporate governance, in which all elements – risk management, compliance management, the in-house audit department and the internal control system (ICS) – influence each other. The effectiveness of the various elements is regularly checked.
- An appropriate system of guidelines (for example payment and travel cost guidelines etc.) is in place, and is continuously updated. The main assets of all the companies are regularly tested for impairment, and there are guidelines that cover the checking of all accounting-related processes.
- All payment-related processes are subject to cross-checking.
- Accounting-related processes are inspected by the in-house audit department, (which is independent of these processes).
- Both the risk management system and the internal control system have appropriate measures for the control of accounting-related processes.
- Departments and divisions involved in the accounting process are equipped with appropriate resources, in terms of both quantity and quality.
- Accounting data received and passed on is continually checked in order to ensure it is complete and correct. This is done by means of spot checks, among other methods. There is a three-stage system for checking the correctness of financial statements. First, single-entity financial statements are generated 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 of the finance department.

The internal control and risk management system with regard to the accounting process is intended to ensure that company data is always correctly recorded, processed and acknowledged in the balance sheet, and included in the financial statements.

A proper, consistent and continuous accounting process is dependent on skilled and qualified staff, the use of appropriate software, and clear legal and corporate guidelines. A well-defined demarcation of responsibilities and various controlling and checking mechanisms, as described above (especially plausibility checks and cross-checking), ensure that accounting is carried out correctly and responsibly.

In particular, the process creates the necessary organizational structure for recording, processing and documenting business transactions and entering them immediately and correctly in the accounts in compliance with the legal requirements, the corporate by-laws and the internal guidelines. At the same time the process provides for assets and liabilities in the annual and consolidated financial statements to be accurately recognized, reported and valued, and for comprehensive, reliable and relevant information to be made available quickly.

### Risk identification, analysis and documentation

To identify risks and ensure that the risk control system is adequate, the Executive Board has formulated risk principles and appointed a central risk officer to monitor and evaluate possible risks. One of the prime objectives of risk management is the early identification of major risks and those that might jeopardize the future of the company as a going concern, as well as the initiation of appropriate measures as part of the risk control process to minimize or prevent any loss caused to the enterprise when a risk materializes.

CANCOM has put together a risk manual, which documents the organizational rules and measures for risk identification, analysis, evaluation, quantification, management and control. The manual also describes the appropriate way to handle business risks at CANCOM.

CANCOM's risk evaluation process starts by grouping the identified risks into thematic clusters. The probability that these risks will materialize is then assessed and the potential loss determined. All the risks identified 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.

Three categories are used to distinguish between the levels of probability that a risk will materialize: low, medium and high. The severity of the potential loss associated with the individual risk is also ranked according to these categories. The individual risks are arranged in a risk matrix, where they are allocated to various risk classes according to the above dimensions. The tables below outline the two dimensions and show 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 negative impact on the earnings, asset and financial situation |
| Medium | Significant negative impact on the earnings, asset and financial situation |
| High | Major negative impact on the earnings, asset and financial situation |

**RISK MATRIX**

| Probability of occurrence | Potential loss | | |
|---|---|---|---|
| | Low | Medium | High |
| Hoch | Moderate risk | High risk | High risk |
| Mittel | Low risk | Moderate risk | High risk |
| Gering | Low risk | Low risk | Moderate risk |

For risks to the company as a going concern, CANCOM's risk management system has defined 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 ongoing and timely control of existing and future risks. They also provide the best possible guarantee that the Executive Board and the Supervisory Board are informed in good time of any possible major risks.

### Risks of future development

The following paragraphs provide an overview of the risks classified as substantial, and the possible future developments or events that would potentially have a negative impact on the CANCOM Group. It is not possible to rule out the existence of other risks that are not yet known or that are currently felt to be insignificant, and which could be equally damaging to the business in the future. In principle, all the risk factors referred to below concern both operating segments (cloud solutions and IT solutions) equally. If one of the two business fields is particularly affected by a risk, this will be pointed out in each case.

### Industry and market risks

**The CANCOM Group's order position is affected 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 information technology solutions. The size of the client's IT budget depends on both the companies' financial situation and the general economic and increasingly (geo)political conditions. If budgets for IT expenditure are cut, or the funds are used for other purposes, companies may become less willing to invest in IT and therefore postpone or cancel orders. A significant deterioration in the economic situation could therefore have a serious impact on the outlook for the CANCOM Group's business.

**The IT market is intensely competitive. An increasing level of 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 highly competitive and subject to 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, and the Group's strategic and tactical product and pricing policy. This could be detrimental to the Group's sales performance and result in perseverance in already saturated markets, as well as risky investments in new business fields with uncertain market success. CANCOM guards against these risks by means of regular analysis of research information and discussions with clients, experts and IT analysts as well as continuous reviews of market attractiveness, technological developments, the competitive situation and sales patterns.

The Group is in competition with both large and medium sized providers of integrated IT systems. International integrated systems providers are increasingly attempting to gain a market share in the operating segments and client groups served by the CANCOM Group. Additionally, the process of consolidation in the market has accelerated in the past few years owing to takeovers, as well as insolvencies among integrated IT systems providers of various sizes. If this process continues, the pricing and competitive pressure the Group already experiences could intensify. It is also possible that new competitors will emerge onto the market, or that new alliances could be formed between competitors, which could gain a substantial market share within a short period of time. In the market for cloud computing in particular, rapid growth is being recorded by hyperscale cloud providers such as Google and Amazon, which offer public cloud services. This could lead future transactions and related corporate expenditure or investments shifting to hyperscale cloud providers. Although only a few of CANCOM's current and potential competitors have better resources (for instance, in terms of finance, technology, marketing or purchasing) at their disposal, we cannot rule out the possibility that competitors may be able to respond more quickly to new or developing technologies or standards, or to changes in clients' requirements, or to supply competitive products at a lower consumer price. Intensified competition could lead to downward pressure on prices, reduced margins and a loss of market share. CANCOM's integrated portfolio of products and services, carefully tailored to the target Groups, makes it stand out from the competition.

In order to counter the industry and market risks, CANCOM is constantly adapting its organizational structure, its processes and its range of products and solutions to the current market conditions and to clients' requirements. In particular, the focus and the challenge are concentrated on the expansion in business fields with higher growth potential (cloud computing, shared managed services etc.). Unlike projects exclusively involving the integrated systems business, contracts for projects in these new business areas generally run over several years, reducing the Group's dependence on short-term trends in the economy. In addition, CANCOM conducts in-depth analyses of the market and technologies on an ongoing basis to enable it to identify new trends early and ensure that the Group remains competitive in the long term.

We cannot rule out the possibility that one or more of the individual industry and market risks described above might materialize. CANCOM estimates the probability of their occurrence as high. Depending on the individual case, these risks could have a major adverse impact on CANCOM's business activities and its assets and earnings position. These risks are therefore considered to be high. There has not been any change in the classification since 2015.

**There are risks from direct sales by manufacturers.**

The CANCOM Group is increasingly in direct competition with manufacturers of hardware and software. Whereas in the past manufacturers predominantly distributed their products through intermediaries such as CANCOM, there is now an increasing tendency for manufacturers in the sector to engage in retail sales. This creates additional price and competitive pressure for the CANCOM Group. If the manufacturers succeed in establishing their direct sales business more firmly, this could have a substantial negative impact on the Group's assets, financial and earnings position. CANCOM feels its flexibility and service quality give it a definite competitive advantage over manufacturers in its core target market – (high-end) medium sized enterprises – and is working to boost its competitive edge by means of appropriate measures.

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 adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers the risk to be moderate. There has not been any change in the classification of this risk in comparison with 2015.

### Product and technology risks

**There is a risk that the solutions and services of the CANCOM Group might not meet the latest requirements of its clients or comply with changed regulatory requirements, owing to technological and digital change or new trends.**

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

The success of the CANCOM Group therefore depends crucially on its ability to predict well in advance any new trends and developments, such as in cloud computing and data protection.
It must constantly adapt and improve existing solutions and services and develop new ones to stay abreast of changes in technologies, regulations and clients' requirements. Every delay in the introduction of improved or new solutions or services as part of the product portfolio, or failure to take account of them, or any lack of acceptance or delayed acceptance of these solutions or services on the market, can have a serious impact on the competitive position and the business prospects of the CANCOM Group.

There is a risk that CANCOM's own digital transformation may progress too slowly or even fail. Digital transformation requires digital skills and new methods and processes. It also calls for staff to take an active role in the transition and put it into practice, determine the correct course of action and translate it into innovations. Disruptive technologies, products or services change the competitive landscape rapidly and with lasting effect. However, they seldom happen overnight or with a big bang, but usually develop over an extended period of time, in the shadow of existing products or services. CANCOM's success in this area likewise depends crucially on its ability to predict new trends and developments well in advance, keep a careful watch on the environment in which it operates, and encourage the development of innovative new solutions and services and the enhancement of existing ones in all business fields. To this end, CANCOM fosters a creative and open corporate culture, streamlined structures and agile processes.

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

Companies in the IT sector are under great pressure to innovate. The sector is characterized by ever-shorter development cycles, while IT solutions and systems are becoming increasingly complex. The innovativeness of the CANCOM Group and its ability to identify technological trends early and turn them into products and solutions are major factors distinguishing it from the competition. In addition to its in-house developments, the CANCOM Group draws on technological solutions from external providers. If the CANCOM Group does not succeed in identifying technology trends early and introducing technological innovations onto the market at the right time, this could have a serious impact on the competitive position and the business prospects of the CANCOM Group.

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

We cannot rule out the possibility that one or more of the individual product and technology risks described above might materialize. CANCOM estimates the probability of their occurrence as medium. Depending on the individual case, these risks could have a major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers these risks to be high. There has not been any change in the classification since 2015.

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

The CANCOM Group purchases its products, especially hardware and software, from manufacturers or dealers, and is dependent on the products being of high quality and meeting the relevant specifications and standards of quality. In the event of any faults coming to light within the warranty period, the CANCOM Group can usually be compensated by its suppliers. Owing to delays between purchasing the merchandise from suppliers and selling it on to clients, however, there may be warranty claims from clients against the CANCOM Group for which the Group itself cannot claim compensation from suppliers, so that it bears the warranty risk.

The CANCOM Group provides IT solutions as part of complex installation, system integration, software, operational management and outsourcing projects. This may give rise to technical risks due to the complexity of the IT solutions and their level of integration into clients' processes. These risks could have a serious impact on clients' 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, in the event of malfunctions, incorrect configurations, or in connection with updates. In CANCOM's hosting services business, data center outages or errors could result in the restriction or even interruption of clients' operations. As the CANCOM Group also leases space in some external data centers, a risk of this kind could materialize through no fault of the CANCOM Group. There is a risk of business interruptions, both in the CANCOM Group and at suppliers or clients, as a consequence of environmental or natural disasters or similar events. Management risks may also arise from failure to identify interruptions in time, from monitoring failures or from violations of service level agreements in which commitments are made to clients that faults will be remedied without delay. As a result CANCOM may find itself exposed to warranty claims and claims for damages, or even loss of contracts.

CANCOM takes extensive precautions to minimize these risks, for instance to safeguard the operation and provision of cloud services. This includes the use of redundant data centers secured against damage caused by natural disaster. The probability of being unable to provide business-critical applications is significantly reduced, for instance, by a modular process based on the on-demand principle. PIRONET's data centers also have an information security management system certified to the stringent international ISO 27001 standard, including extensive, tried and tested contingency plans. Additionally, CANCOM is seeking to add limitation of liability clauses, as commonly used in the industry, to the contracts relating to the services and project business concerned.

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, these risks could have a major adverse impact on CANCOM's business activities, and its assets and earnings position. CANCOM therefore considers these risks to be high. There has not been any change in the classification of this risk in comparison with 2015.

### Project and business risks

**CANCOM Group projects could be delayed or aborted, or for other reasons not be as successful as expected, potentially 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 specific needs are planned and implemented. IT projects are frequently highly complex and involve a considerable amount of time and financial resources. This may give rise to both technical risks connected with the execution of the project and contract risks. We cannot rule out the possibility that projects may be delayed, aborted or for other reasons not be as successful as had been hoped.

It is often not possible to arrange for down-payments during such projects. The services provided by the CANCOM Group can therefore generally only be billed once certain previously agreed project milestones are reached, or at the end of the project as a whole. For this reason the CANCOM Group sometimes has to provide a considerable quantity of work on a project in advance of payment. If a project is delayed or abandoned, this may result in CANCOM partly of fully losing investments it has made, or not being able to bill for work performed. If, for a justified or unjustified reason, a client refuses to accept the results of a project, this can lead to expected payments being delayed or not received at all.

If IT projects are calculated at fixed prices, there is a risk that owing to erroneous assumptions or the occurrence of unforeseen events, the actual cost in time and money may exceed the budget and the client may not accept the price adjusted to the new situation.

In cloud computing, there is also a major risk that various agreed services cannot be provided and that outages of all kinds might result for the client. This could involve substantial costs in time and money, and might entail contract penalties or damage the relationship with the client or even result in the loss of the client.

Before drawing up quotations for projects, CANCOM generally reviews all requests to establish whether they are technically and financially feasible. Its focus is on ensuring that the client receives the best possible solutions, while taking adequate account of the risks connected with the project. Internal reviews are also carried out to establish potential contract risks. Standard contracts are used where possible. These are controlled by the project management during the course of the project. Projects are subject to a risk management process which is integrated into CANCOM's project management system and has coordinated risk and quality management programs to safeguard the implementation process. CANCOM applies various measures and procedures, such as the use of redundant data centers, to ensure that the agreed service can be provided.

We cannot rule out the possibility that one or more of project-related risks described above might materialize. CANCOM estimates the probability of occurrence as high. Depending on the individual case, this risk could have a major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers the project-related risks to be high. There has not been any change in the classification of this risk in comparison with 2015.

**There are risks associated with operating as a subcontractor.**

CANCOM Group companies are often used as subcontractors on large-scale projects. These companies are subcontracted by a general contractor to perform specific tasks as part of an overall IT project. In these cases, the CANCOM Group is dependent on subcontracts from these general contractors, and there may be deferrals or reductions in the volume of contracts awarded. CANCOM seeks to minimize this risk by constantly expanding the client base and by maintaining strong relationships with its 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, this risk could have a major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers the risk to be high. There has not been any change in the classification of this risk in comparison with 2015. This risk factor is of particular relevance for the IT solutions segment.

**There are risks from dependence on large clients.**

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

To limit this risk, CANCOM is constantly working to expand and further diversify its client base. All the activities of large clients are monitored on an ongoing basis – from incoming orders to receivables management.

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 major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers the risk to be high. There has not been any change in the classification of this risk in comparison with 2015.

## Financial risks

**There are financing, liquidity and counterparty risks.**

The CANCOM Group uses both borrowed capital and equity capital to finance its business activities. A downturn in the cash situation of a company can bring with it considerable risks, which could endanger the future of the company as a going concern.

At the reporting date, CANCOM had a liquidity position of € 63.6 million and credit facilities (including guarantees) of € 37.5 million provided by banks. Of this amount, € 31.8 million was easily available as at December 31, 2016. The company regularly monitors the changes in the credit facilities and looks at the extent to which they have been used. In addition to the medium-term financial plan, the Group also prepares a monthly cash flow plan. All companies of the reporting entity are included in the planning system. An adequate credit rating is essential for the procurement of borrowed capital, especially bank loans, and thus for the company's long-term existence. Any marked deterioration in the credit rating therefore constitutes a significant risk for the company's continued existence. Since the equity ratio (calculated according to the method used by banks) is a decisive criterion for the granting of bank loans, it is monitored regularly so that prompt corrective action can be taken if necessary.

The CANCOM Group has a solid financial standing, a good equity position and a comfortable cash situation. We do not currently see any financing risks or other risks that could jeopardize CANCOM's continued existence.

**There are risks from exchange rate and interest rate fluctuations.**

The CANCOM Group's international business operations generate cash flows in different currencies. However, the majority of transactions are conducted in the euro area, which limits the exchange rate risk. Nevertheless, a significant fall in the value of the euro against other currencies could lead to currency losses. Financial derivative instruments are used as a means of safeguarding sound underlying transactions, such as currency hedging. Hedging is used to secure transactions in different currencies on a daily basis. There are in principle underlying transactions that are secured by hedging. Hedge accounting was not applied to economic hedging activities during the fiscal year. The conclusion of 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 Chief Financial Officer/Executive Board. Treasury activities to optimize purchasing conditions could have a negative impact and worsen the purchasing conditions if the hedging transaction is unfavorable. Cash pooling within the Group reduces the volume of financing through borrowed capital, and thus optimizes the CANCOM Group's interest management, with positive effects on the net interest income. The Group derives internal advantages relating to cash investments and borrowing from the cash management system. It facilitates the internal utilization of the surplus funds of Group companies to finance the cash requirements of other Group companies. Apart from overdraft facilities, CANCOM has only fixed-interest loans or loans subject to a quantifiable interest rate change calculated on the basis of the company's results.

**There are financial market and stock market price risks.**

A major objective of CANCOM is to acquire, hold and sell long-term equity investments in companies, as well as to carry out activities connected with raising capital on the capital market. Dealing in derivatives 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, such as currency hedging for trading and service transactions.

Fluctuations in the price of the CANCOM share can have a negative impact on the company's financial position, especially with regard to raising capital on the capital market. CANCOM therefore sees active financial communication as one of its central management tasks, and attaches great importance to openness and transparency. In addition to maintaining an extensive Internet presence with a comprehensive website, one of the primary objectives of CANCOM's public relations work is to keep in close contact with stockholders, investors, analysts, and business and IT media in the interests of sustaining the stock price. However, external factors, for instance uncertainty in the economy as a whole or in the capital market with resulting fluctuations in prices, cannot be ruled out.

**There are default risks.**

Default on payment by clients can pose a risk. To counter this risk, CANCOM has a rigorous receivables management system. There are internal guidelines for the issuing of credit limits with regard to both the limits granted and the employees authorized to approve them. Deliveries to clients are generally only made after a credit check has been carried out. There is also a risk of default on long-term loans or financial receivables.

We cannot rule out the possibility that one or more of the individual financial risks described above might materialize. CANCOM estimates the probability of their occurrence as medium. Depending on the individual case, these risks could have a moderately adverse impact on the business activities, the assets and the earnings position. CANCOM therefore considers the financial risks to be medium. There has not been any change in the classification of this risk in comparison with 2015.

### Human resources risks

**The success of the CANCOM Group depends on its ability to develop, attract and retain sufficiently well qualified key staff, and to retain expertise within the company.**

Larger projects involving services give rise to increased risks connected with the deployment of staff. The loss of big projects can lead to increased staff costs, since often employees cannot be usefully deployed on other projects, or there are delays in readjusting staffing. CANCOM counters the risk of high staff turnover and stagnating staff development in the Group by fostering a culture of open communication and access to information, in addition to appropriate measures for employee motivation and development. The latter are an important cornerstone of corporate and human resources policy, as they are designed specifically to build employee loyalty and increase technical competence and expertise in the enterprise.

The loss of key staff in the company, on whose knowledge and familiarity with clients CANCOM's success depends, at least in the short term, constitutes a further risk. The CANCOM Group's development staff members are among those with expert knowledge. If these staff members leave the company and possibly switch to competitors, there is the danger that the CANCOM Group would lose not only their expertise, but the rights to software developed in-house.

Continual monitoring of the productivity of individual employees makes it possible to identify at all times the key employees and devote particular attention to them. CANCOM also applies various measures for long-term staff retention. In addition, there are appropriate rules on deputizing, particularly in sensitive and knowledge-intensive areas, to compensate as well as possible for the unexpected absence of an employee, at least in the short term. Nevertheless, there is a risk that the shortage of specialist staff could make future recruitment difficult, or that the staff might not possess the skills necessary for CANCOM's own digital transformation.

One of the ways in which CANCOM counters this is by appropriate measures to boost its image as an employer and by offering various training measures and further education for employees. CANCOM also offers its staff a high degree of flexibility by enabling them to work flexibly, with easy and secure access to company data and applications at any time, anywhere and on any device or terminal (Workplace of the Future). This cultivates the company's image as an attractive employer for the digital generation. For this reason, the management feels that despite the human resources risks described, with CANCOM's current strong market position and the measures in place, it is in a position to continue recruiting and retaining well-qualified specialist staff with the potential to boost CANCOM's business success.

Since CANCOM is a service provider, the employees are major company assets. However, they are also the largest cost item. If the transaction volume declined, there would be a time lag before the company could respond by adjusting its human resources structures to the reduced demand. Moreover CANCOM, and therefore also the enterprise's core staff, is constantly shifting its focus towards the provision of high-value services and the creation of greater value added for its clients. If existing or newly acquired clients cannot be convinced of the added value of these services, there is a risk that they may be less willing to pay for these services than expected by CANCOM.

We cannot rule out the possibility that one or more of these risks might materialize. CANCOM estimates the probability of their occurrence as medium. Depending on the individual case, these risks could have a major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers these risks to be high. There has not been any change in the classification of this risk in comparison with 2015.

**Risks exist due to legal changes in connection with the German Temporary Employment Act (Arbeitnehmerüberlassungsgesetz, AÜG), and in relation to the conclusion of works contracts for service provision**

The CANCOM Group has a license for hiring out employees and uses it to hire out some of its staff members to work on IT projects for clients where necessary. Major changes to the framework regulatory conditions, especially the laws on temporary work, could have a negative impact on the assets, financial and earnings position of the CANCOM Group.

In addition, risks may arise in connection with the use of works and service contracts for clients and sub-contractors, if the services to be provided are geared to the needs of the particular client and are listed in a service specification. In the event of a dispute before a labor court, the court could take the view that the person providing the service should be classified as an employee and is integrated into the client's operations. If the contract is classified as a (temporary) employment contract, there is a danger that, besides the requirement to make back-payments of differences in remuneration and social security contributions, fines may be imposed on the company.

We cannot rule out the possibility that one or more of the risks might materialize. CANCOM currently estimates the probability of its occurrence as low. Depending on the individual case, this risk could have a moderately adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers this risk to be low. There has not been any change in the classification of this risk in comparison with 2015.

### Information risks

**The CANCOM Group may not be able to protect its developments and its expertise or to maintain their secrecy.**

In our view, the expertise built up by the CANCOM Group in the course of its business activities, especially from developing innovative solutions, represents a decisive competitive advantage. The competitiveness of the CANCOM Group depends particularly on the safeguarding of its technological innovations and the expertise connected with them. If this expertise should be partly or fully revealed to third parties, this could result in the erosion of the competitive edge CANCOM has gained, resulting in a reduction in sales and income opportunities.

CANCOM has taken various organizational precautions to protect confidential information. These range from putting in place technical security measures covering internal and external communication, to making employees aware of the subject through internal training.

We cannot rule out the possibility that the risk might materialize. CANCOM estimates the probability of its occurrence as medium. Depending on the individual case, this risk could have a moderately adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers this risk to be moderate. There has been no change in the assessment of this risk in comparison with 2015. This risk factor primarily concerns the cloud solutions segment.

## Operational risks

**The CANCOM Group is dependent on its suppliers.**

CANCOM relies on its manufacturers and/or distributors for the supply of hardware and software. Unexpected supply bottlenecks or price rises – as a result of shortages on the market or lower supplier bonuses, for example – can be detrimental to sales and profits, since our merchandise inventories at the logistics centers are of a short-term nature for reasons relating to optimization. CANCOM tries to reduce these risks by keeping in close contact with major manufacturers and distributors, and by signing long-term supply contracts. In particular, our broad base of manufacturers and distributors enables us to resort to alternative manufacturers or sources at relatively short notice.

**There are warehousing risks.**

The quantity of merchandise kept in stock by the CANCOM Group is based on sales forecasts as well as expectations of the quantities needed for promotions and to fill make-and-hold orders. The risk of break-in, theft and loss is relatively high, especially in relation to computer and PC merchandise, and small electronic products. There is therefore a risk of uninsured damage or loss occurring. Owing to sometimes sudden, sharp fluctuations in the prices of products, there is also a risk that it may only be possible to sell merchandise at a lower price than usual, if at all, or that the quantities requested for release under make-and-hold orders may not be as large as agreed. This would result in inventories having to be written-down, with a possible negative impact on the financial, assets and earnings position of the CANCOM Group.

To reduce the warehousing risk, CANCOM is constantly working to optimize its procurement process. By maintaining close links with manufacturers and distributors, CANCOM always endeavors to keep inventories and warehousing costs as low as possible while at the same time avoiding short-term shortages.

We cannot rule out the possibility that one or more of the individual operating risks mentioned above might materialize. CANCOM estimates the probability of their occurrence as low. Depending on the individual case, this risk could have a moderately adverse impact on CANCOM's assets and earnings position. CANCOM therefore considers these risks to be low. There has not been any change in the classification since 2015.

**Internal risks**

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

In addition, there is the risk of problems with quality, particularly in the areas of the IT solutions segment and the cloud solutions segment where consulting is a major element of the service offered. The company's rapid growth also entails the risk that our administrative structures, as well as our organizational structures and operational processes, cannot be adapted at the same rate as the company grows, and that the control of the Group as a whole will suffer as a result. Additionally, tax audits can lead to diverging legal viewpoints on data of tax relevance, possibly resulting in demands for back-payments of taxes and levies.

We cannot rule out the possibility that one or more of these risks might materialize. CANCOM estimates the probability of their occurrence as medium. Depending on the individual case, this risk could have a moderately adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers this risk to be moderate. There has not been any change in the classification of this risk in comparison with 2015.

**Risks connected with the introduction of the enterprise resource planning system (ERP) of SAP**

CANCOM is planning to implement the SAP ERP system throughout the Group. The introduction of SAP could be delayed if some or all of the various tasks connected with the project are not fulfilled, or if deadlines are not met. This could have a prolonged and sometimes severe impact on the business activities and the competitiveness of the CANCOM Group. A delay in the implementation could cause additional expense for CANCOM, for instance for external consulting.

However, a delayed introduction is not the only risk for the Group. 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 online store or customer connections and the entire e-commerce process chain. Also, it might not or only to a limited extent be possible to carry out determinate operational activities. This could have an adverse impact on some aspects of the handling of clients' projects and orders, such as deliveries and billing. Technology downtimes could also seriously impair CANCOM's ability to carry out internal processes such as the recording of time worked, billing or accounting transactions, with serious consequences.

To minimize this risk, CANCOM uses various measures such as experienced staff, project managers for the successful implementation of internal projects, as well as tried, tested and trusted administration and controlling systems to ensure the highest possible level of risk control. A specific person appointed to head each project, and project goals and sub-goals are clearly defined in the form of milestones. The person in charge of the project supervises the individual steps and drives the swift implementation of the SAP system.

A training concept is drawn up and there is a test phase for the purpose of reducing any additional risks. Whatever measures are taken, it must be noted that a switch to a new ERP system represents an important step for any company, and its effects on the company cannot be evaluated conclusively. All those responsible are made fully aware of the implications and the potential risk of introducing a new system. Despite all preparatory measures, disruptions in operation could follow the switch. CANCOM will handle any such events 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 their occurrence as high. Depending on the individual case, these risks could have a major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers this risk to be high. Owing to the complexity and the scale of the switch to SAP, the possibility of an increase in expenditure with a consequent impact on Group profitability cannot be ruled out.

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

The success and functioning capacity of a company depends to a considerable degree on its IT equipment. There are fundamental information technology risks from operating computer-assisted databases as well as 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 failure which - whether partial or complete - could bring working processes to a standstill in extreme circumstances. This or a delay in restoring the systems to normal operation could jeopardize the company's continued existence. A malfunction of the IT systems that ensure the proper processing of orders could present a risk with regard to the availability of products, for example.

In particular, there has recently been a significant increase in cyber attacks. It cannot be guaranteed that the security measures taken will provide sufficient protection. There is therefore a risk that the CANCOM Group may also become a victim of a cyber attack of whatever kind. This could cause damage to, or a complete failure of, internal IT systems. The monitoring of clients' systems could become ineffective as a result of management tools not functioning property, in turn resulting in disruptions for clients, or possibly the total failure of their systems.

The CANCOM Group offers its clients data center services, both in its own data centers and in rented data centers. There is a possibility that it might no longer be able to provide the data center services or any connected services. Additionally, the possibility that a cyber attack might lead to client information and sensitive, protected data becoming available to the public cannot be ruled out. In the event of a failure of one of the data centers, the stand-by systems in the second data center could ensure that operations can be continued. However, if both data centers fail simultaneously, this would cause not only considerable financial loss, but also serious damage to the reputation of the CANCOM Group.

CANCOM is aware of this risk. The company therefore makes every effort to minimize it in order to ensure the availability of IT systems and data centers as well as possible. For instance, the data centers are equipped with advanced data center technology. Additionally, failure scenarios are simulated as a precautionary measure, and protective mechanisms are checked and tested to ensure that they are functioning. However, disruptions or a complete failure of IT systems and data centers could have a negative impact on the course of business and on supplier and client relationships.

We cannot rule out the possibility that one or more of these risks might materialize. CANCOM estimates the probability of their occurrence as medium. Depending on the individual case, these risks could have a major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers these risks as high risks. There has not been any change in the classification of this risk in comparison with 2015.

### Legal risks

**There is a risk that CANCOM (allegedly) violates the property rights of third parties.**

The CANCOM Group is not aware of violating any third party's industrial property rights in connection with the products, solutions and services it offers. However, we cannot rule out the possibility that the CANCOM Group may violate the property rights of third parties in the course of its business activities, or that third parties may make claims against the Group for violation of property rights, or that action may be brought against the CANCOM Group as part of a legal dispute. This may result in the Group having to pay licensing fees. There is also a possibility that inventions of the CANCOM Group cannot be used commercially, or that their commercial use is delayed. Successful claims for breaches of patent could result in the CANCOM Group being obliged to pay substantial compensation. Legal disputes of this kind can also involve considerable costs in time, staff and money. At the time this management report was written, there were no contingent liabilities resulting from major legal disputes or relevant litigation risks. Even a claim by a third party that the CANCOM Group is violating industrial property rights could lead to economic loss, owing to the crucial role of industrial property rights in the sector in which the CANCOM Group operates.

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, this risk could have a moderate adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers this risk to be moderate. There has not been any change in the classification of this risk since 2015.

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

The use of data – especially data relating to clients, suppliers or staff – by the CANCOM Group is subject to the German Federal Data Protection Act (Bundesdatenschutzgesetz, BDSG) and similar regulations, including international provisions. If unauthorized third parties obtain access to data processed by the CANCOM Group or stored by it in the context of the provision of storage solutions, or if the CANCOM Group itself violates data protection regulations, there could be resulting claims for compensation and damage to the reputation of the 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 assets and earnings position. CANCOM therefore considers this risk to be high. There has not been any change in the classification of this risk since 2015.

### Merger and acquisition (M&A) risks

**There is a risk of misjudgments with regard to both acquisitions already made and potential acquisitions of companies, 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 that assets must 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 M&A 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.

**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 and 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 major adverse impact on CANCOM's business activities and its assets and earnings position. CANCOM therefore considers this risk to be high. There has not been any change in the classification of this risk since 2015.

### Review of overall risk

Overall, there was no major change in the evaluation of the individual risks described in comparison with 2015. Against the background of the overall risk situation, from the current perspective, CANCOM SE's management does not 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 2017 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. Dun & Bradstreet (D&B), one of the largest companies in the world providing commercial information to businesses, gives CANCOM a 'minimal default risk' rating. Independent banks also give CANCOM a positive assessment in their annual ratings: UniCredit views its 'sound investment grade' rating as steadily improving, at M9 on a scale of M1 to M18. Landesbank Baden-Württemberg (LBBW) gives it a rating of 2 on a scale of 1A4444 to 18.

### Opportunities of future development

CANCOM's international business activities in various fields of the IT sector 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, customer proximity, innovation and agility. The focus is therefore no longer on optimization and cost reduction. According to IT analysts, budgets could also shift over the next few years. Money for legacy IT systems is being diverted into areas of Fast IT such as big data and analytics, the Internet of Things and customer experience.

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 branches, 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 enormous 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 we speak of a third platform today. This is also fundamentally changing IT operations. 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. By 2019, according to market research institute IDC, third platform technologies and services will account for 75 percent of IT expenditure. A study by Forrester Research shows that in the next few years enterprises will increasingly be looking for service support for their digital transformation.

### Trends

The subject of the digital transformation of German businesses and the associated technologies will continue to dominate the IT market in 2017. The success of companies' digital transformation will depend on agile, flexible and scalable IT infrastructure systems.

### Cloud and mobile computing

#### IT as a service (ITaaS) / hybrid or multi-cloud platforms (adoption/operation via managed services)

Cloud computing will continue to be one of the strategic elements in companies' digital transformation, and the basis for new high-tech trends. Hardly any third platform technologies or central digital initiatives can be implemented without cloud computing. German enterprises therefore also want to increase their use of cloud solutions. A survey by market research institute IDC on behalf of IT service provider Cisco found that around two-thirds of them use at least one such application. eco - the Association of the Internet Industry - predicts that in the next few years large parts of the economy will rely on cloud computing for data storage and data processing. IT research and consulting company Crisp Research has also found that more than 85 percent of small and medium sized German enterprises are devoting serious attention to the subject and are either in the planning or implementation phase or have already implemented cloud solutions in their productive operations. According to eco, the functional benefits and cost advantages of cloud services are so great that 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. The majority of small and medium sized German enterprises will implement hybrid and multi-cloud architecture (68.8 percent), according to Crisp Research. In a hybrid cloud model, both internal and external clouds (private and public clouds) are used to provide data and applications. 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. A survey of enterprises by the leading IT research and consulting company Gartner found that IT managers complain of a lack of support from providers. 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.

Gartner's research found that 80 percent of organizations worldwide are planning to use services from a public cloud. The way to the public cloud in enterprises is 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 offer 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 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 impacts 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 workspace / Workplace of the Future**

Another IT concept of central importance for enterprises, in addition to cloud computing, mobility, big data and analytics, is that of the digital workspace. Digital transformation is changing the workplace. 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 the digital workplace also includes 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 Google and many creative agencies - 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 workspace 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 increasingly 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 workspaces, 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 Digital Workspace Service Provider Benchmark 2016 study, Experton Group examined the capabilities of the providers of digital workspace services currently active in Germany. CANCOM was awarded the title of Digital Workspace Leader in all categories. 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 and analytics**

**Artificial intelligence 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 digitization 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 customer 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 big data and analytics portfolio, CANCOM has a lot to offer its clients in this area.

It is clear that artificial intelligence will be one of the rising stars of 2017. Application scenarios for self-learning systems, artificial intelligence, augmented reality (AR) 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.

**Internet of Things 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 increasingly steadily, just as networking, cooperation and communication between the various devices is becoming more common. It is currently predicted that by 2020 there will be more than 33 billion connected products, or around 3.5 products per person. The wearables market is expected to more than double in the next three to four years, increasing to a total of US$ 14 billion. This would mean a radical change in the consumers' user experience in everyday situations. 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. IDC expects the number of industry collaborative clouds to triple by 2018.

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 carries great risk potential, 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 instance, 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 2017, but also in the coming years. According to IDC, 80 percent of CIOs will amend their strategies for security and compliance in 2017, also making provisions for business continuity and disaster recovery.

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 customer 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, as the latest Cloud Monitor survey by KPMG has found. The majority of German companies expect their cloud providers to have data centers and usually also headquarters in Germany. Companies are therefore significantly more disposed to trust Germany as a location than other countries in the European Union. 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.

This also presents opportunities for the development of the CANCOM Group's business, with its broad portfolio of IT security solutions. 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. Cisco awarded CANCOM the title of Security Partner of the Year in the category of Architectural Excellence Security in 2016. The reasons Cisco cited for the award were CANCOM's excellent approach to its clients, its specialized sales and advice team for Internet of Everything (IoE) security, its integrated security for investment protection and innovation, and its innovative solutions for vertical markets and the integration of existing data and processes into new cloud-based models.

### Overall view of trends

Efficient means of handling information, 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 offer adequate IT components under one roof and complement these with managed information services and scalable cloud solutions. This could present opportunities for CANCOM.

### Organization and staff

CANCOM offers 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 1,700 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 assets 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.

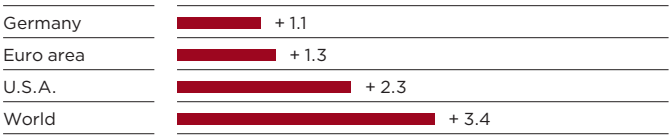
## 7. Events of particular significance after the reporting date

Events of particular significance after the end of the fiscal year are described in the notes to the consolidated financial statements and the notes to the financial statements of CANCOM SE.

## 8. Forecast

After the strong growth of the past two years, the German economy is likely to slow down in 2017. According to Deutsche Bank Research, the rate of growth could drop by almost half, to 1.1 percent, although roughly half of the predicted decline is due to the smaller number of working days in 2017. The robust growth in the German economy is nevertheless expected to be unaffected, thanks to good labor market conditions and stable retail spending, although it is expected that the growth in real income will probably fall off somewhat owing to the inflation increase caused by rising energy prices.

**Gross domestic product in 2017***
(real change compared with 2016, as a percentage)




* Forecasts: Deutsche Bank Research, December 16, 2016.

Other GDP forecasts from leading institutions range from 1.2 percent to 1.8 percent.

The European Central Bank's key interest rate is likely to remain low for the foreseeable future, while the gap between the rates of interest in the U.S. A. and the euro area grows and the euro consequently depreciates.

The IT market will continue to be shaped by strong growth and innovation. The complexity and variety of solutions, and thus also the demands placed on corporate IT, will continue to increase – driven, among other things, by changed work and usage patterns. The digitization of nearly all sectors and the resulting comprehensive networking – along with the Internet of Things – are increasingly driving the development of business models, production processes and products, across all sizes of organization and in all areas of the economy. Against this background, a rise in the demand for innovative and intelligent IT solutions can be expected.

This is also reflected in a forecast by the German digital association BITKOM, according to which the German IT market is likely to grow by 2.7 percent to € 86.0 billion in 2017. The somewhat lower growth rate compared with 2016, according to BITKOM, is in part attributable to the slightly weaker growth in the economy as a whole, but mainly it is due to a predicted slowdown in trading in IT hardware. The software segment is expected to grow most strongly, with growth of 6.3 percent. Sales in IT services should increase by 2.3 percent, whilst sales in IT hardware are expected to remain almost unchanged, with growth of 0.1 percent.

The market research company IDC forecasts growth of 1.7 percent in the German IT market as a whole in comparison with 2016. The software area is expected to perform most strongly, and the largest of the three sub-markets - IT services - to grow by a barely noticeable 0.3 percent. Capgemini has published a study in which 148 information technology managers of large enterprises in Germany, Austria and Switzerland took part. It found that 44.4 percent of companies plan to increase their IT budgets in 2017, with around 11 percent increasing by two-digit rates. The largest share of the IT budget is to be spent on operational processes, maintenance and servicing. This reflects the fact that digitization is already causing a rapid increase in the number of applications and a consequent increase in complexity, which is set to continue. Only the remaining portion of IT budgets can be used for innovation projects; such expenditure is therefore being covered to an increasing degree by the relevant specialist departments within enterprises. These have specific ideas about the benefits of IT applications and services. They want to be able to respond more quickly to changes in the market. To do this they need agile and collaborative environments that meet both business and IT requirements. This demands that IT managers change their way of thinking. They must redefine their role and that of the company's IT organization, developing from being a mere provider of IT tools into a strategic partner of the business by operating according to an 'IT as a Service' model.

CANCOM plans to take this into account, both in its portfolio of products and services and in its sales approach, and to expand further its competencies in the area of IT as a Service. CANCOM has an integrated portfolio and certified employees to help clients with onboarding and IT operation. These CANCOM products, services and solutions have the potential - partly owing to their high degree of standardization and automation - to improve agility, control costs and ultimately reduce the number of operational activities having to be performed by the IT department. IT managers could invest in innovation projects the IT budgets that are consequently freed up. CANCOM also plans to take into account in its sales approach the fact that future IT investment will increasingly be business-driven, or could be made by specialist departments.

According to a study by market research and consultancy company Lünendonk, in 2017 enterprises offering IT consulting and systems integration stand to reap significantly greater profits from the transformation and adaptation projects arising out of digitization than those offering IT services. What is involved is preparation for digital transformation in the form of IT modernization projects. Of primary importance are the end-to-end capabilities of IT systems and the implementation of digital solutions in an integrated way. Equally, digital business models, and companies' openness to networked value-creation ecosystems with external partners and suppliers, are placing completely new demands in terms of IT security.

Cloud computing must be adopted in order to take advantage of the opportunities connected with other megatrends such as mobility, big data and analytics for the company. The cloud market should therefore continue to grow in the coming years. U.S. business analysis company CEB agrees with this assessment. A business survey found that a quarter of firms will spend at least a fifth (20 percent) of their IT budgets on cloud computing. This represents a dramatic increase within two years - in 2015 that figure was six percent. Analysts at Gartner are referring to this development as a veritable 'cloud shift'. They forecast that global revenue from public cloud services will grow by 17 percent in 2017. However, it is not only the public cloud market that is growing. According to Gartner, private and hosted private cloud environments will also gain increasing currency at the latest in 2017, as the way to the public cloud in enterprises is through hybrid and multi-cloud scenarios. The analysts believe this creates new business opportunities, especially for providers who best cover the growing demand for hybrid cloud solutions.

Existing corporate applications, which in some cases have evolved over time, are generally not cloud-ready. It is therefore often not possible to make a direct shift to the cloud. Experts at analyst firm Experton Group therefore believe that, while cloud services are gaining increasing importance, traditional hosting and managed infrastructure services will continue to be in great demand and form a cornerstone of the IT market. Newly developed corporate applications are generally cloud-ready, so they can either be operated directly in cloud services or be used initially in a traditional IT environment before being migrated to a cloud service at a later stage. It is therefore important to choose a service provider in the hosting and managed services environment that can also offer cloud services when the time comes. CANCOM believes it is well positioned as a Group, both in the hosting and managed infrastructure services business and in the area of cloud service and migration.

**Anticipated performance of the CANCOM Group**

The IT market is currently characterized by major changes. These changes are being driven by the digital revolution, which is affecting the whole economy and which the CANCOM management believes is set to continue for the next few years. IT trends such as cloud computing, big data, analytics, mobility and security are becoming increasingly important. Also, the demand for consulting and innovative, flexible IT solutions and services is also rising, owing to the increase in complexity and in networking. This creates great opportunities for growth in the IT sector.

With its proven expertise and outstanding market position in the IT growth areas referred to above and in shared managed services, the CANCOM Group aims to continue growing its two operating segments, both organically and through acquisitions, at a faster rate than the German IT market as a whole, so continuously expanding its market share. To achieve this objective, CANCOM decided at an early stage to gear its business policy to the IT growth areas, designing its sales and services structure around them while focusing on the expansion of the higher-end service and consulting business. With its integrated portfolio of services across all areas of IT, and its flexibility in providing individually tailored packages for its clients, CANCOM has major client advantages to enable it to penetrate the market even further. In addition, the increasing complexity of information technology is stretching smaller integrated IT systems providers to the limits of their capabilities. This could result in the CANCOM Group gaining new clients and orders – with positive impacts on the IT solutions and cloud solutions business.

CANCOM plans to continue pursuing its own digital transformation. In order to take full advantage of the trends and efficiently translate them into a demand and market oriented range of solutions for its clients, CANCOM fosters an innovative corporate culture and provides support for individual staff members wishing to undergo further professional training and development and obtain skills certification. With this aim in mind, CANCOM is building on strong, close partnerships with the manufacturers of leading technologies. It uses professional recruitment to gain highly-qualified specialists as employees, while continuously developing the Group's existing high-potential staff and encouraging them to acquire the relevant technical qualifications and project management skills.

In the past fiscal year, the Executive Board set the course for further growth and good performance in the future. CANCOM focuses on profitable business in the traditional IT environment and withdraws without hesitation from low-growth or declining areas or those that the Executive Board believes are not viable.

Attractive margins can be achieved in the IT solutions operating segment by selling integrated IT solutions as opposed to just selling products, optimizing or standardizing processes and services in the trading business. Future digitization efforts in enterprises, continuing development and enhancement of technologies, and cloud transformation could lead to an increase in the volume of transactions in the IT solutions business owing to the necessity for investments in standard IT and data center infrastructure. With the opportunities for IT providers such as CANCOM that accompany the progressive digitization of all areas of people's private and working lives, it should be possible to increase the volume of transactions in the cloud solutions operating segment. The cloud solutions business is characterized by high margins but also longer sales and project durations, which tie up capital. CANCOM intends to make rapid gains in its market share in the cloud environment and sees the growth in the development and broadening of skills and client relationships in this area as crucial factors. The IT solutions and cloud solutions operating segments benefit from each other's business, due to the interactions between the CANCOM units across the Group and the fact that the provision of integrated solutions for clients usually requires input from both areas.

CANCOM has significantly expanded its market presence and improved its client proximity in the German-speaking area (i.e. Germany, Austria and Switzerland). The Group is represented all over Germany and Austria by its many service and consulting locations. It also has subsidiaries in Switzerland and the U.S.A. as well as a representative office in Brussels, Belgium. CANCOM intends to continue strengthening its market position, partly through selective acquisitions, while taking advantage of marketing and cost synergies. The highly fragmented service provider landscape, particularly in the IT environment in the German-speaking area, continues to offer favorable conditions for CANCOM to act as a market consolidator.

CANCOM remains committed to maintaining high standards and an innovative approach to consulting and services for its clients. It aims to improve further the efficiency of working processes.

CANCOM is planning to implement the SAP ERP system throughout the Group in 2017. Owing to the complexity and scale of the project, the changeover may have a negative impact on business performance in the short term if, for instance, business organization and controlling are affected, processes do not take place correctly, resources are misused or sales activities are held in check. These potential negative impacts should be regarded as possible once-off effects of the system changeover. In the long term, CANCOM believes, a viable, scalable ERP system tailored to corporate processes will support the Group's targeted growth, improve efficiency, and ensure its competitiveness.

In the fiscal year 2017, significant investments will be made in the construction of extensions to the logistics and service factory at the company's location in Jettingen-Scheppach, Germany.

### Basis for forecasts

Our forecasts take into account all events that were known at the time this report was drawn up that could have an impact on the future performance of the CANCOM Group. The outlook is based, among other things, on the expectations with regard to economic growth referred to above, and on the performance of the IT market. This forecast does not take into account the impact of legal or regulatory matters.

### Outlook for the CANCOM Group

Against the background of the Group's successful performance in 2016 and in view of its favorable positioning in the IT market overall as well as in the growth markets connected to cloud computing and related trends, the Executive Board expects further growth in the sales revenues and profits of the Group, provided that the demand for IT products and services remains steady.

Unforeseen events could influence the currently anticipated performance of both the Group as a whole and of the reporting segments, IT solutions and cloud solutions. Even foreseeable events such as the Group-wide implementation of the SAP ERP system and the connected system migrations could have negative impacts.

The Executive Board currently expects a further increase in the sales revenues and gross profit of the Group as a whole in the fiscal year 2017. The growth of the CANCOM Group should continue to exceed the growth of the German IT market, which is the market of particular relevance to the Group. The Executive Board expects the CANCOM Group's EBITDA to increase further in the fiscal year 2017, in line with the organic growth.

CANCOM believes in an increase in the sales revenues, gross profit and EBITDA generated by the IT solutions operating segment. The Group aims to achieve growth in these key figures at a higher rate than that of the German IT market, which is the market of particular relevance to the Group. For the cloud solutions operating segment, the Executive Board expects significant increases in sales revenue and noticeable growth in gross profit and EBITDA.

Munich, Germany, March 8, 2017

Klaus Weinmann Rudolf Hotter

Member of the Executive Board of CANCOM SE

**Disclaimer regarding forward-looking statements**
This document contains statements relating to our 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 we take the greatest of care when making these statements, we 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. Due to rounding, some of the numbers presented in this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures they refer to.

# Consolidated balance sheet as at December 31, 2016

## ASSETS

| (in € '000) | Notes | Balance sheet date Dec. 31, 2016 | Balance sheet date Dec. 31, 2015 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | C.1. | 63,590 | 85,802 |
| Assets held for sale | C.2. | 360 | 0 |
| Trade accounts receivable | C.3. | 182,433 | 145,760 |
| Other current financial assets | C.4. | 96,062 | 7,844 |
| Inventories | C.5. | 22,524 | 27,948 |
| Contracts in progress | C.6. | 417 | 565 |
| Prepaid expenses and other current assets | C.7. | 5,377 | 9,477 |
| **Total current assets** | | **370,763** | **277,396** |
| **Non-current assets** | | | |
| Property, plant and equipment (tangible assets) | C.8.1. | 44,147 | 40,326 |
| Intangible assets | C.8.2. | 28,307 | 28,682 |
| Goodwill | C.8.3. | 73,230 | 72,780 |
| Long-term financial assets | | 795 | 65 |
| Investments accounted for using the equity method | C.8.4. | 501 | 452 |
| Loans | C.8.5. | 1,912 | 2,401 |
| Other non-current financial assets | C.9. | 12,716 | 7,431 |
| Deferred taxes arising from temporary differences | C.10. | 2,665 | 2,398 |
| Deferred taxes arising from tax loss carryforward | C.10. | 1,605 | 2,983 |
| Other assets | | 1,157 | 1,407 |
| **Total non-current assets** | | **167,035** | **158,925** |
| **Total assets** | | **537,798** | **436,321** |

## EQUITY AND LIABILITIES

| (in € '000) | Notes | Balance sheet date Dec. 31, 2016 | Balance sheet date Dec. 31, 2015 |
|---|---|---|---|
| **Current liabilties** | | | |
| Short-term loans and current portion of long-term loans | C.11. | 1,922 | 1,386 |
| Profit-participation capital and subordinated loans - short-term portion | | 633 | 12 |
| Trade accounts payable | | 127,047 | 106,781 |
| Prepayments received | | 5,349 | 7,724 |
| Other current financial liabilities | C.12. | 6,425 | 6,205 |
| Provisions | C.13. | 4,883 | 3,782 |
| Deferred income | C.14. | 3,946 | 2,917 |
| Income tax liabilities | C.15. | 10,244 | 4,258 |
| Other current liabilities | C.16. | 27,294 | 26,528 |
| Liabilities in connection with assets held for sale | C.2. | 772 | 0 |
| **Total current liabilties** | | **188,515** | **159,593** |
| **Non-current liabilities** | | | |
| Long-term loans | C.17. | 2,081 | 2,865 |
| Convertible bonds | C.18. | 41,778 | 40,434 |
| Profit-participation rights and subordinated loans | C.19. | 4,457 | 4,761 |
| Deferred income | C.14. | 2,316 | 3,867 |
| Deferred taxes arising from temporary differences | C.20. | 7,550 | 8,891 |
| Pension provisions | C.21. | 1,942 | 1,744 |
| Other non-current financial liabilities | C.22. | 629 | 1,757 |
| Other non-current liabilities | C.13. | 3,451 | 8,122 |
| **Total non-current liabilities** | | **64,204** | **72,441** |
| **Equity** | | | |
| Capital stock | C.23. | 16,368 | 14,880 |
| Capital reserves | | 173,935 | 110,197 |
| Net retained profit/net accumulated loss (incl. revenue reserves) | C.23. | 91,263 | 72,534 |
| Equity capital difference due to currency translation and exchange rate differences | | 1,571 | 1,092 |
| Non-controlling interests | C.24. | 1,942 | 5,584 |
| **Total equity** | | **285,079** | **204,287** |
| **Total equity and liabilities** | | **537,798** | **436,321** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (in € '000) | Notes | Jan. 1, 2016 - Dec. 31, 2016 | Jan. 1, 2015 - Dec. 31, 2015 |
|---|---|---|---|
| Sales revenues | E.1. | 1,023,107 | 932,800 |
| Other operating income | E.2. | 3,095 | 1,305 |
| Other own work capitalized | E.3. | 2,436 | 1,773 |
| **Total revenue** | | **1,028,638** | **935,878** |
| | | | |
| Cost of purchased materials and services | | -735,931 | -661,649 |
| **Gross profit** | | **292,707** | **274,229** |
| | | | |
| Human resources expenses | E.4. | -178,565 | -169,891 |
| Amortization and write-downs of intangible assets, and depreciation and write-downs of tangible assets | | -21,598 | -22,007 |
| Other operating expenses | E.5. | -41,271 | -41,268 |
| **Operating result** | | **51,273** | **41,063** |
| | | | |
| Interest and similar income | E.6. | 644 | 643 |
| Interest and other expenses | E.6. | -3,257 | -3,441 |
| Other financial result: income | E.7. | 1,239 | 3,179 |
| Other financial result: expenses | E.7. | -116 | -64 |
| Income from long-term equity investments | | 0 | 7 |
| Write-downs of financial assets | E.8. | -350 | -1,414 |
| Share of profit/loss from associated companies accounted for using the equity method | | 49 | 58 |
| Currency translation gains/losses | | 18 | 47 |
| **Earnings before taxes** | | **49,500** | **40,078** |
| | | | |
| Income taxes | E.9. | -15,267 | -10,791 |
| **Earnings after taxes from continuing operations** | | **34,233** | **29,287** |
| | | | |
| Earnings from discontinued operations | E.10. | -582 | -7,188 |
| **Net income/(loss) for the period** | | **33,651** | **22,099** |
| | | | |
| thereof attributable to the stockholders of the parent | | 33,365 | 22,365 |
| thereof attributable to non-controlling interests | E.11. | 286 | -266 |
| | | | |
| Average number of shares outstanding (basic) | E.12. | 16,111,407 | 14,879,574 |
| Average number of shares outstanding (diluted) | E.12. | 17,166,917 | 15,935,094 |
| | | | |
| **Earnings per share from continuing operations (basic) in €** | E.12. | **2.11** | **1.99** |
| **Earnings per share from continuing operations (diluted) in €** | E.12. | **2.05** | **1.93** |
| **Earnings per share from discontinued operations (basic) in €** | E.12. | **-0.04** | **-0.48** |
| **Earnings per share from discontinued operations (diluted) in €** | E.12. | **-0.03** | **-0.45** |
| **Earnings per share attributable to stockholders of the parent from net income/loss for the period (basic) in €** | E.12. | **2.07** | **1.50** |
| **Earnings per share attributable to stockholders of the parent from net income/loss for the period (diluted) in €** | E.12. | **2.01** | **1.48** |

## STATEMENT OF COMPREHENSIVE INCOME

| (in € '000) | Jan. 1, 2016 - Dec. 31, 2016 | Jan. 1, 2015 - Dec. 31, 2015 |
|---|---|---|
| **Net income/loss for the period** | **33,651** | **22,099** |
| | | |
| **Other comprehensive income** | | |
| | | |
| **Items possibly to be reclassified in profit or loss in subsequent periods** | | |
| Currency translation difference | 692 | 831 |
| Exchange price differences - securities | 0 | -1 |
| Income taxes | -214 | -257 |
| | | |
| **Items not to be reclassified in profit or loss** | | |
| Change in actuarial gains/losses from pensions | -187 | 74 |
| Deferred taxes from change in actuarial gains/losses from pensions | 58 | -23 |
| | | |
| **Other comprehensive income for the period (after taxes)** | **349** | **624** |
| | | |
| **Comprehensive income for the period** | **34,000** | **22,723** |
| | | |
| thereof attributable to stockholders of the parent | 33,714 | 22,989 |
| thereof attributable to non-controlling interests | 286 | -266 |

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

| (in € '000) | Notes | Jan. 1, 2016 - Dec. 31, 2016 | Jan. 1, 2015 - Dec. 31, 2015 |
|---|---|---|---|
| **Cash flow from ordinary activities** | | | |
| Profit for the period before taxes and non-controlling interests | | 49,500 | 40,078 |
| Adjustments | | | |
| + Amortization and write-downs of intangible assets, and depreciation and write-downs of tangible assets | | 21,598 | 22,007 |
| + Write-downs of financial assets | | 350 | 1,414 |
| + Interest result and other financial result | | 1,491 | -317 |
| +/- Changes in long-term provisions | | 257 | 796 |
| +/- Changes in short-term provisions | | 229 | -326 |
| +/- Result from the sale of intangible assets, tangible assets and financial assets | | -704 | -314 |
| +/- Changes in inventories | | 5,642 | -5,171 |
| +/- Changes in accounts receivable from purchases and services, as well as other receivables | | -40,557 | -19,196 |
| +/- Changes in accounts payable for purchases and services, as well as other payables | | 18,461 | -5,757 |
| - Interest paid | | -167 | -269 |
| +/- Income tax paid and refunded | | -6,209 | -19,610 |
| +/- Non-cash expenses and income | | -1,020 | -34 |
| +/- Cash inflow/outflow from discontinued operations | | -702 | 282 |
| **Net cash from operating activities** | | **48,169** | **13,583** |
| **Cash flow from investing activities** | | | |
| +/- Acquisition of subsidiaries and equity instruments of other companies | | -13,699 | -15,613 |
| +/- Cash from acquisitions | | 0 | 5,426 |
| +/- Cash inflow/outflow from disposal of formerly consolidated subsidiaries | | 200 | -854 |
| - Acquisition of long-term financial assets | | -737 | -2,332 |
| - Acquisition of financial assets held-for-sale | | -88,000 | 0 |
| - Payments for additions to intangible assets and tangible assets | | -25,105 | -16,309 |
| + Income from disposal of intangible assets, tangible assets and financial assets | | 1,770 | 1,175 |
| - Cash transferred on the sale of shares | | -105 | -2,076 |
| + Interest received | | 50 | 642 |
| **Net cash used in investing activities** | | **-125,626** | **-29,941** |
| **Cash flow from financing activities** | | | |
| +/- Income from the issue of subscribed capital | | 66,214 | 0 |
| +/- Capital increase costs | | -1,429 | 0 |
| - Repayment of long-term debt (incl. short-term portion) | | -1,040 | -3,271 |
| +/- Changes in short-term financial liabilities | | 523 | 90 |
| - Interest paid | | -822 | -949 |
| - Dividends paid | | -8,274 | -7,563 |
| +/- Receipts and payments for finance lease | | -452 | -1,346 |
| **Net cash used in financing activities** | | **54,720** | **-13,039** |
| **Net increase/decrease in cash and cash equivalents** | | **-22,737** | **-29,397** |
| +/- Changes in value resulting from foreign currency exchange | | 525 | 904 |
| +/- Cash and cash equivalents at the beginning of the period | | 85,802 | 114,295 |
| **Cash and cash equivalents at the end of the period** | F. | **63,590** | **85,802** |
| Structure : | | | |
| Cash | | 63,590 | 85,802 |
| Cash from discontinued operations | | 0 | 0 |
| | | 63,590 | 85,802 |

## 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, 2015** | **14,880** | **14,880** | **110,197** | **34,620** | **516** | **3** | **-268** | **-153** | **25,768** | **185,563** | **8,228** | **193,791** |
| Net income/(loss) for the period | | | | | | | | | 22,365 | 22,365 | -266 | 22,099 |
| Other comprehensive income | | | | | 574 | -1 | 51 | | | 624 | 0 | 624 |
| Comprehensive income | | | | | 574 | -1 | 51 | | 22,365 | 22,989 | -266 | 22,723 |
| Transfer of net retained profit/net accumulated loss/revenue reserves | | | | 5,856 | | | | | -5,856 | 0 | | 0 |
| Distribution in fiscal year | | | | | | | | | -7,440 | -7,440 | -124 | -7,564 |
| Changes due to acquisition of non-controlling interests | | | | -2,409 | | | | | | -2,409 | -2,150 | -4,559 |
| Effect from disposal of non-controlling interests | | | | | | | | | | 0 | -104 | -104 |
| **December 31, 2015** | **14,880** | **14,880** | **110,197** | **38,067** | **1,090** | **2** | **-217** | **-153** | **34,837** | **198,703** | **5,584** | **204,287** |
| Net income/(loss) for the period | | | | | | | | | 33,365 | 33,365 | 286 | 33,651 |
| Other comprehensive income | | | | | 479 | 0 | -129 | | | 350 | 0 | 350 |
| Comprehensive income | | | | | 479 | 0 | -129 | | 33,365 | 33,715 | 286 | 34,001 |
| Capital increase | 1,488 | 1,488 | 64,726 | | | | | | | 66,214 | | 66,214 |
| Changes in reserves: Capital increase costs | | | -988 | | | | | | | -988 | | -988 |
| Transfer of net retained profit/net accumulated loss/revenue reserves | | | | 22,455 | | | | | -22,455 | 0 | | 0 |
| Distribution in fiscal year | | | | | | | | | -8,184 | -8,184 | -90 | -8,274 |
| Changes due to acquisition of non-controlling interests | | | | -6,323 | | | | | | -6,323 | -3,838 | -10,161 |
| **December 31, 2016** | **16,368** | **16,368** | **173,935** | **54,199** | **1,569** | **2** | **-346** | **-153** | **37,563** | **283,137** | **1,942** | **285,079** |

# Segment information – IFRS

| Segment information | Cloud solutions | | IT solutions | |
|---|---|---|---|---|
| | Dec. 31, 2016 € '000 | Dec. 31, 2015 € '000 | Dec. 31, 2016 € '000 | Dec. 31, 2015 € '000 |
| **Sales revenues** | | | | |
| - External sales | 156,122 | 131,753 | 866,929 | 801,028 |
| - Intersegment sales | 1,257 | 2,229 | 5,078 | 5,491 |
| - Total sales revenues | 157,379 | 133,982 | 872,007 | 806,519 |
| - Cost of purchased materials and services | -86,425 | -66,741 | -655,109 | -601,765 |
| - Human resources costs | -32,398 | -31,126 | -139,587 | -132,485 |
| - Other income and expenses | -7,129 | -7,363 | -28,114 | -29,644 |
| **EBITDA** | 31,427 | 28,752 | 49,197 | 42,625 |
| - Depreciation and amortization | -6,382 | -6,599 | -14,944 | -15,156 |
| **Operating result (EBIT)** | 25,045 | 22,153 | 34,253 | 27,469 |
| - Interest income | 360 | 289 | 313 | 393 |
| - Interest expenses | -56 | -57 | -2,345 | -2,557 |
| - Other financial income | 0 | 0 | 1,238 | 3,162 |
| - Other financial expenses | 0 | 0 | -111 | 0 |
| - Income from long-term equity investments | 0 | 0 | 0 | 0 |
| - Write-downs of long-term financial assets | 0 | 0 | -350 | -655 |
| - Share in profit or loss of associated companies accounted for by using the equity method | 49 | 58 | 0 | 0 |
| Result from ordinary activities | 25,398 | 22,443 | 32,998 | 27,812 |
| - Foreign currency exchange differences | | | | |
| Earnings before taxes | 25,398 | 22,443 | 32,998 | 27,812 |
| - Income taxes | | | | |
| - Discontinued operations | -582 | -5,330 | 0 | -1,858 |
| **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 | |
|---|---|---|---|---|---|---|---|
| **Dec. 31, 2016 € '000** | **Dec. 31, 2015 € '000** | **Dec. 31, 2016 € '000** | **Dec. 31, 2015 € '000** | **Dec. 31, 2016 € '000** | **Dec. 31, 2015 € '000** | **Dec. 31, 2016 € '000** | **Dec. 31, 2015 € '000** |
| | | | | | | | |
| | | | | | | | |
| 1,023,051 | 932,781 | 56 | 19 | | | | |
| 6,335 | 7,720 | 189 | 32 | -6,524 | -7,752 | | |
| 1,029,386 | 940,501 | 245 | 51 | -6,524 | -7,752 | 1,023,107 | 932,800 |
| | | | | | | | |
| | | | | | | | |
| -741,534 | -668,506 | -106 | 0 | 5,709 | 6,857 | -735,931 | -661,649 |
| -171,985 | -163,611 | -6,580 | -6,279 | 0 | 0 | -178,565 | -169,891 |
| -35,243 | -37,007 | -1,312 | -2,079 | 815 | 895 | -35,740 | -38,190 |
| 80,624 | 71,377 | -7,753 | -8,307 | 0 | 0 | 72,871 | 63,070 |
| -21,326 | -21,755 | -272 | -252 | 0 | 0 | -21,598 | -22,007 |
| 59,298 | 49,622 | -8,025 | -8,559 | 0 | 0 | 51,273 | 41,063 |
| 673 | 682 | 1,373 | 1,446 | -1,402 | -1,485 | 644 | 643 |
| -2,401 | -2,614 | -2,258 | -2,312 | 1,402 | 1,485 | -3,257 | -3,441 |
| 1,238 | 3,162 | 1 | 17 | 0 | 0 | 1,239 | 3,179 |
| -111 | 0 | -5 | -64 | 0 | 0 | -116 | -64 |
| 0 | 0 | 0 | 0 | 0 | 7 | 0 | 7 |
| -350 | -655 | 0 | -759 | 0 | 0 | -350 | -1,414 |
| 49 | 58 | 0 | 0 | 0 | 0 | 49 | 58 |
| 58,396 | 50,255 | -8,914 | -10,231 | 0 | 7 | 49,482 | 40,031 |
| | | | | 18 | 47 | 18 | 47 |
| 58,396 | 50,255 | -8,914 | -10,231 | 18 | 54 | 49,500 | 40,078 |
| | | | | -15,267 | -10,791 | -15,267 | -10,791 |
| -582 | -7,188 | 0 | 0 | 0 | 0 | -582 | -7,188 |
| | | | | | | **33,651** | **22,099** |
| | | | | | | 33,365 | 22,365 |
| | | | | | | 286 | -266 |

# Schedule of changes in non-current assets

| | ACQUISITION/PRODUCTION COSTS | | | | | | |
|---|---|---|---|---|---|---|---|
| | As at Jan. 1, 2016 € '000 | Currency translation differences 2016 € '000 | Additions from first-time consolidation 2016 € '000 | Additions 2016 € '000 | Disposals 2016 € '000 | Transfers 2016 € '000 | As at Dec. 31. 2016 € '000 |
| Property, plant and equipment (tangible assets) | 71,978 | 45 | 0 | 15,510 | 8,810 | -365 | 78,358 |
| Intangible assets: | | | | | | | |
| Software and other | 13,282 | 2 | 0 | 9,595 | 99 | 0 | 22,780 |
| Client lists | 49,289 | 363 | 1,178 | 0 | 2,329 | 0 | 48,501 |
| Goodwill | 92,351 | 450 | 0 | 0 | 0 | 0 | 92,801 |
| Long-term financial assets | 2,034 | 0 | 0 | 730 | 1,959 | 0 | 805 |
| Financial assets accounted for by the equity method | 952 | 0 | 0 | 49 | 0 | 0 | 1,001 |
| Loans | 2,401 | 0 | 0 | 11 | 500 | 0 | 1,912 |
| **Total** | **232,287** | **860** | **1,178** | **25,895** | **13,697** | **-365** | **246,158** |

# Fiscal year 2015

| | ACQUISITION/PRODUCTION COSTS | | | | | | |
|---|---|---|---|---|---|---|---|
| | As at Jan. 1, 2015 € '000 | Currency translation differences* 2015 € '000 | Additions from first-time consolidation 2015 € '000 | Additions 2015 € '000 | Disposals 2015 € '000 | Transfers 2015 € '000 | As at Dec. 31. 2015 € '000 |
| Property, plant and equipment (tangible assets) | 68,548 | 62 | 150 | 13,194 | 9,976 | 0 | 71,978 |
| Intangible assets: | | | | | | | |
| Software and other | 13,561 | 3 | 33 | 2,744 | 3,059 | 0 | 13,282 |
| Client lists | 45,365 | 1,151 | 2,875 | 370 | 472 | 0 | 49,289 |
| Goodwill | 86,494 | 1,428 | 4,488 | 0 | 59 | 0 | 92,351 |
| Long-term financial assets | 2,036 | 0 | 0 | 0 | 2 | 0 | 2,034 |
| Financial assets accounted for by the equity method | 893 | 0 | 0 | 59 | 0 | 0 | 952 |
| Loans | 99 | 0 | 0 | 3,733 | 1,431 | 0 | 2,401 |
| **Total** | **216,996** | **2,644** | **7,546** | **20,100** | **14,999** | **0** | **232,287** |

* In 2015: currency translation differences were included in disposals and under goodwill included in additions from first-time consolidation.

| DEPRECIATION, AMORTIZATION AND WRITE-DOWNS | | | | | | CARRYING AMOUNTS | |
|---|---|---|---|---|---|---|---|
| As at Jan. 1, 2016 € '000 | Currency translation differences 2016 € '000 | Additions from first-time consolidation 2016 € '000 | Additions 2016 € '000 | Disposals 2016 € '000 | As at Dec. 31, 2016 € '000 | As at Dec. 31., 2016 € '000 | As at Dec. 31, 2015 € '000 |
| 31,652 | 17 | 0 | 10,416 | 7,874 | 34,211 | 44,147 | 40,326 |
| | | | | | | | |
| 7,364 | 1 | 0 | 2,980 | 98 | 10,247 | 12,533 | 5,918 |
| 26,525 | 330 | 0 | 8,201 | 2,329 | 32,727 | 15,774 | 22,764 |
| 19,571 | 0 | 0 | 0 | 0 | 19,571 | 73,230 | 72,780 |
| 1,969 | 0 | 0 | 0 | 1,959 | 10 | 795 | 65 |
| 500 | 0 | 0 | 0 | 0 | 500 | 501 | 452 |
| 0 | 0 | 0 | 350 | 350 | 0 | 1,912 | 2,401 |
| **87,581** | **348** | **0** | **21,947** | **12,610** | **97,266** | **148,892** | **144,706** |

| DEPRECIATION, AMORTIZATION AND WRITE-DOWNS | | | | | | CARRYING AMOUNTS | |
|---|---|---|---|---|---|---|---|
| As at Jan. 1, 2015 € '000 | Currency translation differences* 2015 € '000 | Additions from first-time consolidation 2015 € '000 | Additions 2015 € '000 | Disposals 2015 € '000 | As at Dec. 31, 2015 € '000 | As at Dec. 31., 2015 € '000 | As at Dec. 31, 2014 € '000 |
| 30,895 | 15 | 103 | 9,729 | 9,090 | 31,652 | 40,326 | 37,653 |
| | | | | | | | |
| 7,855 | 0 | 20 | 2,464 | 2,975 | 7,364 | 5,918 | 5,706 |
| 16,776 | 407 | 0 | 9,814 | 472 | 26,525 | 22,764 | 28,589 |
| 19,571 | 0 | 0 | 0 | 0 | 19,571 | 72,780 | 66,923 |
| 1,969 | 0 | 0 | 0 | 0 | 1,969 | 65 | 67 |
| 500 | 0 | 0 | 0 | 0 | 500 | 452 | 393 |
| 0 | 0 | 0 | 1,414 | 1,414 | 0 | 2,401 | 99 |
| **77,566** | **422** | **123** | **23,421** | **13,951** | **87,581** | **144,706** | **139,430** |

# Notes to the consolidated financial statements for the fiscal year January 1 to December 31, 2016

## 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 2016 were drawn up according to the International Financial Reporting Standards (IFRS) or the International Accounting Standards (IAS).

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 (€ thousand) 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, 2016. The address of the company's registered office is Erika-Mann-Strasse 69, 80636 München, Germany.

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, 2016. 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 reporting standards – implemented

The following accounting standards relevant to the CANCOM Group have to be taken into account for the first time in the fiscal year 2016. None of the changes has a major impact on the consolidated financial statements of CANCOM SE.

In November 2013, the IASB published amendments to IAS 19 Employee Benefits, which clarified how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service. The amendments are effective for annual periods beginning on or after February 1, 2015. They are not expected to have a major impact on the CANCOM Group.

In December 2013, the IASB issued Annual Improvements to IFRSs 2010-2012 Cycle, a collection of amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

In May 2014, IASB published amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets with regard to acceptable methods of depreciation and amortization. The amendments provide guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated.

Also in May 2014, the IASB published 'Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)'. The amendments clarify the rules relating to accounting for the acquisition of an interest in a joint operation that constitutes a business.

In December 2014, the IASB published 'Disclosure Initiative (Amendments to IAS 1)'. The amendments aim to address perceived impediments to preparers exercising their judgement in presenting their financial reports.

### Accounting standards published – not yet implemented

The IASB and the IFRIC published the pronouncements described below, which were not yet mandatorily effective in the fiscal year 2016 or had not yet been formally adopted by the European Union. As a matter of principle, the pronouncements are only adopted by CANCOM from the date at which their adoption becomes mandatory. The pronouncements below only include those expected to apply to the consolidated financial statements of CANCOM SE.

### IFRS 9

In November 2013, the IASB published amendments to IFRS 9, IFRS 7 and IAS 39 with regard to hedge accounting. The object of the amendments was to broaden the hedged item and hedging instruments of a hedge relationship to be considered. In addition, there was a departure from the previous interval definition to determine the hedge effectiveness. Under the IFRS 9 model, it is necessary for there to be an economic connection between the hedged item and the hedging instrument, without the existence of quantitative thresholds. The amendments also provide for increased hedge accounting disclosure requirements. Particularly affected by this are disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2018.

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. 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 loss 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 new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. CANCOM SE is currently investigating the impact that adoption of IFRS 9 will have on the consolidated financial statements of the corporation.

The actual impact on the consolidated financial statements for the fiscal year 2018 of applying IFRS 9 cannot be assessed reliably at present, as it depends on the financial instruments that the Group holds at the time of first adoption, the economic conditions at that time, the choice of accounting methods and any future discretionary decisions. The new standard requires that the Group adapt its accounting processes and internal controls connected with the presentation of financial instruments, and its analysis of the required adjustments is not yet complete. In view of its financial positions as at December 31, 2016 (see section B. Details of financial instruments) the Group does not expect the regulations on classification of financial assets and liabilities in IFRS 9 to have a major impact. The effect of the rules for hedge accounting in IFRS 9 is dependent on whether and to what extent financial instruments will be used for hedging purposes in the future. For the fiscal year 2016, there would be no major impact.

The Group believes that the impairment losses for assets based on the impairment model of IFRS 9 will probably increase and become more volatile. Based on the impairment losses as at December 31, 2016, the CANCOM Group estimates that the additional impairment losses will not be substantial. Also, the Group has not yet decided on the impairment methods to be applied by it in accordance with IFRS 9.

**IFRS 15**

In May 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. This IFRS 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. The standard is effective for annual periods beginning on or after January 1, 2018.

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.

Finally, the standard has new, more detailed rules with regard to disclosures that must be made on revenues in IFRS financial statements.

The Group is currently assessing the possible impact on the consolidated financial statements of applying IFRS 15.

At present, the Group generates revenues in the following areas:
- sale of hardware and software;
- provision of services such as IT strategy consulting, IT services and support;
- IT project business (including cloud business)

The Group's preliminary assessment is that the sale of hardware and software and, where applicable, related services, represent separate performance obligations, meaning that sales revenues should be recognized when control of the relevant goods and services is transferred to the client. This is in line with the current identification of individual revenue components under IAS 18. Although IFRS 15 requires that the transaction price be allocated to the individual performance obligations by reference to their relative standalone selling prices, the Group expects this allocation not to deviate significantly from the current allocation. No significant deviations from the current practice are expected in terms of the timing of revenue recognition either.

In relation to the IT project business, the Group gave particular consideration to the guidelines in IFRS 15 on the aggregation of contracts, on contract modifications and on the assessment as to whether the contracts include a significant financing component. The preliminary assessment of the Group is that the revenue from these contracts should be recognized over time, as the assets already sold cannot be used by the Group for any other purpose and the Group has an enforceable right to payment for the performance completed to date. Furthermore, it is assumed that the input-based method hitherto used for measuring progress will also be appropriate under IFRS 15 in the future.

Management is currently still examining the full impact that adoption of IFRS 15 will have on the consolidated financial statements, so a reliable estimate of the amount of the financial impact can only be provided after this examination is completed. The above preliminary assessment is therefore subject to change. Management does not plan to adopt IFRS 15 early and intends to adopt the standard on a full retrospective basis. The Group intends to apply the practical expedients for contracts that have been performed.

### 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. 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. The new rules are mandatorily effective for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that IFRS 15 is also applied.

The Group is currently examining the impact of IFRS 16. As at December 31, 2016, the Group has liabilities relating to non-cancellable rental contracts and leases amounting to € 26,805 thousand (see section G. Other disclosures). Unlike IFRS 16, IFRS 17 does not require the recognition of either a right-of-use asset or a lease liability for these future payments. Instead, related disclosures are required. The Group is currently examining which contractual relationships constitute leases within the meaning of IFRS 16. A preliminary assessment indicates that the existing liabilities arising from rental contracts and leases, which amount to € 24,601 thousand, constitute leases within the meaning of IFRS 16, and therefore the relevant right-of-use assets and lease liabilities should be recognized when IFRS 16 is adopted, except in cases where the exemptions provided for short-term leases or low-value assets apply. A reliable estimate of the amount of the financial impact can only be provided after this examination is completed.

For finance leases in which the Group is the lessor, it is not expected that the adoption of IFRS 16 will have a significant impact on the consolidated financial statements.

### Other accounting standards

In September 2014, the IASB issued Annual Improvements to IFRSs 2012-2014 Cycle, a collection of amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments are effective for annual periods beginning on or after July 1, 2016. They are not expected to have any major impact on the CANCOM Group.

Also in September 2014, the IASB issued Sale of Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The revisions provide clarification with regard to transactions between investors and associated companies or joint ventures. The endorsement process was suspended in February 2015 and the effective date has been postponed indefinitely.

In January 2016, IASB published amendments to IAS 7 Statement of Cash Flows under its disclosure initiative. The amendments aim to improve information about the changes in an entity's liabilities. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Entities do not need to provide comparative information for the previous year when they first apply the amendments. The Group anticipates that the amendments will give rise to extended disclosures in the Notes to the accounts.

Also in January 2016, the IASB published Recognition of Deferred Tax Assets for Unrealized Losses, which contains amendments to IAS 12 Income Taxes. The amendments clarify that impairments on the acquisition cost of debt instruments measured at fair value as a result of a change in the market interest rate, give rise to deductible temporary differences. The IASB also clarifies that deductible temporary differences should generally be assessed together to determine whether sufficient taxable income is expected to be generated in the future to enable these to be utilized and thus recognized at this rate. An independent assessment should only be made if and in so far as the tax law distinguishes between different types of taxable profits. The IASB has also added rules and examples to IAS 12 that clarify how the future taxable income for the accounting of deferred tax assets should be calculated. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2017. They are not expected to have any major impact on the CANCOM Group.

In June 2016, the IASB published Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2). The amendments include clarifications with regard to accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions settled inclusive of tax withholdings, and accounting for modifications of certain share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. They are not expected to have any major impact on the CANCOM Group.

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts. The amendments offer two approaches to dealing with the challenges of the different effective dates of IFRS 9 and the new insurance contracts standard that will replace IFRS 4. The amendments are effective for annual periods beginning on or after January 1, 2018. They are not expected to have any impact on the CANCOM Group.

In December 2016, the IASB issued Annual Improvements to IFRS Standards 2014-2016 Cycle. The IASB's annual improvements process involves amendments to IFRSs to eliminate inconsistencies between standards and clarify wording. The standards concerned are IFRS 1, IAS 28, IFRS 12, and IFRS 7. The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017. The other amendments are effective for annual periods beginning on or after January 1, 2018. The amendments are not expected to have any major impact on the consolidated financial statements of the CANCOM Group.

Also 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. The amendments are effective for annual periods beginning on or after January 1, 2018. The amendments are not expected to have any 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 40.57. The amendments are effective for annual periods beginning on or after January 1, 2018. The possible impact on the CANCOM Group is currently being examined.

## 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 2016

CANCOM SE has taken over selected portions of the company assets (the client list and inventories) and the staff of Misco Germany Inc. through its subsidiary CANCOM GmbH. The takeover is documented in a contract of sale date July 22, 2016, and was effective from midnight CET on September 2, 2016. A purchase price of € 208 thousand was agreed (€ 1,00 for the client list; € 208 thousand for the inventories), in addition to a variable purchase price for hidden liabilities of € 246 thousand (preliminary value). The amount of the variable purchase price is based on the future rental costs expected at the time of acquisition.

Incidental acquisition costs amounting to € 70 thousand were incurred in connection with the asset deal; these are recognized under other operating expenses.

The following assets were acquired as part of the asset deal (including deferred taxes):

| | Fair value € '000 | Carrying amount € '000 |
|---|---|---|
| Inventories | 208 | 208 |
| **Total current assets** | **208** | **208** |
| | | |
| Intangible assets | 1.178 | 70 |
| **Total non-current assets** | **1.178** | **70** |
| | | |
| **Total assets** | **1.386** | **278** |
| | | |
| Deferred tax resulting from temporary differences | 339 | 0 |
| **Total non-current liabilities** | **339** | **0** |
| | | |
| **Total liabilities** | **339** | **0** |
| | | |
| **Net assets acquired** | **1,047** | **278** |

This results in a negative difference of € 593 thousand and intangible assets of € 1,178 thousand (preliminary values). The negative difference was recognized in the statement of income under other operating income. A negative difference arises because the value of the net assets acquired exceeds the agreed purchase price.

The acquisition gives CANCOM access to new clients, strengthens its presence in the region of Frankfurt am Main, Germany, and increases CANCOM's direct sales capacity.

The sales revenues included in the consolidated sales revenues arising from the acquisition of the assets and liabilities of Misco Germany Inc. since the time of acquisition amount to € 10,967 thousand, and the loss included in the consolidated profit/loss to € 9 thousand.

If the asset deal had been completed on January 1, 2016, based on pure linear extrapolation of sales revenues and profits it would have resulted in a contribution of approximately € 32,900 thousand to sales revenues and a negative contribution of approximately € 26 thousand to the statement of income.

### Company acquisitions in prior years:

The change during 2016 in the variable purchase price liability arising from the acquisition of HPM Inc. in 2014 is shown in the table below. The change in valuation is the result of a change in the assessment of the attainable EBITDA.

| | € '000 |
|---|---|
| As at January 1, 2016 | 7,399 |
| Purchase price payments in 2016 | -3,140 |
| Reclassification | -1,355 |
| Currency | 28 |
| Discounting | 180 |
| **As at December 31, 2016** | **3,112** |

### Disposals in the fiscal year 2016

CANCOM GmbH (subsidiary of CANCOM SE) has sold its shares in NSG GIS GmbH. The transaction is documented in a purchase agreement dated December 19, 2016. The effective date of transfer of the shares was December 31, 2016 (23hr59).

The purchase price was € 1,000,000

The table below shows the impact of the sale of NSG GIS GmbH on the reporting entity

| | Balance as at Dec. 31, 2016 € '000 |
|---|---|
| Cash and cash equivalents | -106 |
| Trade accounts receivable | -1,205 |
| Other current financial assets | -26 |
| Prepaid expenses and other current assets | -119 |
| **Total current assets** | **-1,456** |
| | |
| Property, plant and equipment | -23 |
| Deferred taxes from temporary differences | -1 |
| Other assets | -1 |
| **Total non-current assets** | **-25** |
| | |
| **Total assets** | **-1,,481** |
| | |
| Trade accounts payable | -271 |
| Other current financial liabilities | -6 |
| Provisions | -6 |
| Other current liabilities | -575 |
| **Total current liabilities** | **-858** |
| | |
| **Total liabilities** | **-858** |
| | |
| **Net assets disposed of** | **-623** |

**Mergers in the fiscal year 2016**

Xerabit GmbH was merged into CANCOM GmbH. The merger is documented in a merger contract dated April 21, 2016 and was entered in the commercial register of CANCOM GmbH on April 29, 2016.

CANCOM DIDAS GmbH was merged into CANCOM GmbH. The merger is documented in a merger contract dated August 18, 2016 and was entered in the commercial register of CANCOM GmbH on September 5, 2016.

## 4. Adjustment of comparative information contained in the consolidated financial statements for the year ended December 31, 2015

Reclassification from the other companies segment to the cloud solutions and IT solutions segments:

The merger of two Group companies during the fiscal year 2016 necessitated structural adjustments and reorganization in terms of the companies and regions included in the segments. This resulted in changes in the areas of responsibility and in the splitting of entire departments, which necessitated a reallocation of the new structure to the segments. The figures for the previous year were adjusted accordingly.

## 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.

There has been no early adoption of standards that came into effect after the accounting date, so these standards have had no impact on the earnings, financial and assets position of the Group.

**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 for CANCOM SE.

**Principles of consolidation**

The consolidated financial statements are based on the single-entity financial statements of the companies consolidated 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 shareholders 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 current 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. 8.3.).

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 2016 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 | 2016 | 2015 | 2014 |
|---|---|---|---|
| **U.S. dollars** | | | |
| Rate on reporting date | EUR 1 = USD 1.0541 | EUR 1 = USD 1.0887 | EUR 1 = USD 1.2153 |
| Average rate | EUR 1 = USD 1.1066 | EUR 1 = USD 1.1095 | EUR 1 = USD 1.3286 |
| **Swiss francs** | | | |
| Rate on reporting date | EUR 1 = CHF 1.0739 | EUR 1 = CHF 1.0835 | EUR 1 = CHF 1.2024 |
| Average rate | EUR 1 = CHF 1.0902 | EUR 1 = CHF 1.0679 | EUR 1 = CHF 1.2146 |
| **British pounds** | | | |
| Rate on reporting date | EUR 1 = GBP 0.8562 | EUR 1 = GBP 0.7340 | EUR 1 = GBP 0.7785 |
| Average rate | EUR 1 = GBP 0.8189 | EUR 1 = GBP 0.7258 | EUR 1 = GBP 0.7891 |

The currency translation differences recognized in the statement of income amount to € 18 thousand. The currency translation differences shown in the financial statements for the fiscal year as a separate item under equity amount to € 478 thousand (2015: € 572 thousand). As at December 31, 2016, the reserve for currency translation amounts to € 1,569 thousand (2015: € 1,093 thousand).

**Realization of income/sales revenues**

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 in accordance with IAS 18 and IAS 11. 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. An explanation of the sales revenues calculated using the POC method can be found in section E.1.

Payments on an operating lease are recorded as expenses in the statement of income using the straight-line method over the term of the lease contract, unless another systematic fundamental corresponds more closely to the changes in the benefit to the company over the term. An operating lease is one in which not all major risks and opportunities are assigned to the lessee by the leasing contract. The company reviews all lease contracts at regular intervals to establish whether operating or finance lease terms apply.

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.

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.

The rental agreement concluded for the premises in Erika-Mann-Strasse 69, in Munich, Germany, represents a major operating lease. The lease term ends in 2022. There is no purchase option, but there is an option to extend the lease.

As at December 31, 2016:

| **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 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| Finance lease | 6,417 | 5,632 | 10,338 | 10,099 | 0 | 0 | 1,023 | 16,755 |

| **Leases in which the company is lessee** | **Net carrying amount at Dec. 31., 2016** | **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** | **Recognized lease payments in 2016*** |
|---|---|---|---|---|---|---|---|---|---|
| | | < 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 | 8,497 | 0 | 14,287 | 0 | 4,021 | 0 | 0 | 9,259 |
| Finance lease | 516 | 317 | 300 | 222 | 216 | 0 | 0 | 539 | 0 |

*minimum lease payments only

As at December 31, 2015:

| Leases in which the company is 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 | 79 | 0 | 6 | 0 | 0 | 0 | 8 | 86 |
| Finance lease | 4,127 | 3,698 | 7,828 | 7,387 | 0 | 0 | 870 | 11,955 |

| Leases in which the company is lessee | Net carrying amount at Dec. 31, 2015 | 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 | Recognized lease payments in 2015* |
|---|---|---|---|---|---|---|---|---|---|
| | | < 1 year | < 1 year | > 1 < 5 years | > 1 < 5 years | > 5 years | > 5 years | | |
| | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 | € '000 |
| Operating lease (operating segment) | 0 | 8,772 | 0 | 12,492 | 0 | 4,271 | 0 | 0 | 9,114 |
| Finance lease | 1,657 | 470 | 410 | 2,550 | 482 | 1,959 | 765 | 3,020 | 0 |

*minimum lease payments only

There are generally no options to extend or purchase with the above lease agreements. Apart from the lease contract for Erika-Mann-Strasse 69 in Munich, Germany, for which the rent payments are linked to the national consumer price index, there are no adjustment clauses. There are incidental costs in relation to this rental agreement, but there are no other restrictions in relation to the lease agreements that would affect dividends, additional liabilities or other lease agreements.

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.

### 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 the consolidated earnings 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 the statement of income.

### 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.

Contracts in progress 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, allowing for a write-down for receivables that may not be recoverable. 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. If a receivable is unlikely to be recoverable, the amount is written down.

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**

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 |
| Fixtures, fittings and 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 € 150 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. At each balance sheet date assets are reviewed to look for any indication of impairment. 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, goodwill and other 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 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.

**Goodwill and first inclusion of acquired companies in the Group financial statements**

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 the associate's other comprehensive income 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 securities held as fixed assets, cash and cash equivalents, trade accounts receivable, receivables relating to finance leases, derivative assets, and other financial assets.

*Classification and valuation*

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:

- inancial 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:

- inancial assets classified from the start as held for trading;
- any financial asset designated on initial recognition as one to be measured at fair value with fair value changes in 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 derivatives not designated as hedging instruments are classified as held for trading and recognized in 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 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.

*Impairment of financial assets*

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.

*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.

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.

Derivatives embedded in non-derivative host contracts are treated as standalone derivatives if

- •they meet the definition of a derivative;
- •their economic characteristics and risks are not closely related to the host contract;
- •the entire contract is not measured at fair value with changes in fair value recognized in the statement of income.

**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.

**Financial liabilities**

The financial liabilities comprise loans, trade accounts payable, capital from profit participation rights and subordinated loans, finance lease liabilities, purchase price liabilities from company acquisitions, convertible bonds, 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 employee 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. The version of IAS 19 effective from 2013 is mandatorily effective for the fiscal year 2016, so the only effective method is now the other comprehensive income (OCI) method. This means actuarial gains and losses are recognized directly in equity.

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 short-term financial liabilities.

## B. Details of financial instruments

### Classification of financial instruments

Financial assets and financial liabilities are grouped into different classes of financial instruments, in line with IAS 39 and IFRS 7. The categories are also presented in aggregated form.

| | Category in line with IAS 39 and IFRS 7 | Carrying amount Dec. 31, 2016 € '000 | Fair value Dec. 31, 2016 € '000 | Carrying amount Dec. 31, 2015 € '000 | Fair value Dec. 31, 2015 € '000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | LaR | 63,590 | 63,590 | 85,802 | 85,802 |
| Fixed-term deposits (short term) | LaR | 86,000 | 86,000 | 0 | 0 |
| Securities held as fixed asets | AfS | 795 | 795 | 65 | 65 |
| Trade accounts receivable | LaR | 182,433 | 182,433 | 145,760 | 145,760 |
| Leasing receivables | LaR | 15,732 | 17,233 | 11,084 | 11,476 |
| Other financial assets | LaR | 9,761 | 9,761 | 7,384 | 7,384 |
| Derivatives | FApl | 0 | 0 | 111 | 111 |
| | | | | | |
| **Liabilities** | | | | | |
| Short-term loans and current component of long-term loans | FLAC | 1,922 | 1,922 | 1,386 | 1,386 |
| Capital from profit participation rights and subordinated loans (short-term portion) | FLAC | 633 | 633 | 12 | 12 |
| Trade accounts payable | FLAC | 127,047 | 127,047 | 106,781 | 106,781 |
| Long-term loans | FLAC | 2,081 | 2,343 | 2,865 | 3,210 |
| Convertible bonds - debt component | FLAC | 41,778 | 46,066 | 40,434 | 41,069 |
| Capital from profit participation rights and subordinated loans (short-term portion) | FLAC | 4,457 | 6,350 | 3,104 | 7,020 |
| Leasing liabilities | FLAC | 516 | 516 | 1,657 | 1,657 |
| Contingent purchase price liabilities | FLpl | 3,358 | 3,358 | 7,465 | 7,465 |
| Other financial liabilities | FLAC | 6,541 | 6,541 | 6,310 | 6,310 |
| | | | | | |
| of which aggregated according to categories in line with IAS 39: | | | | | |
| Financial assets at fair value through profit or loss (FApl) | | 0 | 0 | 111 | 111 |
| Loans and Receivables (LaR) | | 357,516 | 359,017 | 250,030 | 250,422 |
| Held-to-Maturity Investments (HtM) | | 0 | 0 | 0 | 0 |
| Available-for-Sale Financial Assets (AfS) | | 795 | 795 | 65 | 65 |
| Financial Assets Held for Trading (FAHfT) | | 0 | 0 | 0 | 0 |
| Financial Liabilities Measured at Amortised Cost (FLAC) | | 184,975 | 191,418 | 162,549 | 167,445 |
| Financial Liabilities Held for Trading (FLHfT) | | 0 | 0 | 0 | 0 |
| Financial Liabilities at fair value through profit or loss (FLpl) | | 3,358 | 3,358 | 7,465 | 7,465 |

Cash and cash equivalents, trade accounts receivable 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 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.

Financial assets classified as available for sale are not payable at term, are not held for commercial purposes and are available for sale at any time.

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

The convertible bond constitutes a compound financial instrument that contains both a liability component and an equity component. The option of conversion into stocks constitutes an embedded derivative. The fair values of the liability and equity components are interdependent.

The net gains/losses are as follows:

| | **2016 € '000** | **2015 € '000** |
|---|---|---|
| Loans and receivables (LaR) | 36 | 231 |
| | | |
| Financial assets and liabilities at fair value through profit or loss | 940 | 2,909 |
| *of which: held for trading* | *-111* | *111* |
| | | |
| Available-for-sale financial assets | 1 | 0 |
| *of which: recognized in other comprehensive income* | *0* | *-1* |
| | | |
| Financial liabilities measured at amortized cost | -2,248 | -2,341 |

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

Using the effective interest rate method to measure financial liabilities not recognized at their fair value gives rise to an interest expense of € 1,820 thousand (2015: € 1,781 thousand), which is recognized in the statement of income. This relates to the FLAC category.

Interest income of € 589 thousand was produced by the interest accrued on financial assets according to the effective interest rate method (2015: € 556 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, 2016**<br><br>**Class of financial instrument** | **Prices at which listed on active markets (level 1) € '000** | **Main observable input parameter (level 2) € '000** | **Main unobservable input parameter (level 3) € '000** | **Total € '000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Securities held as fixed assets | 795 | - | - | 795 |
| Leasing receivables | - | 17,233 | - | 17,233 |
| Currency futures | - | - | - | |
| | | | | |
| **Financial liabilities** | | | | |
| Long-term loans - fixed interest rate | - | 2,343 | - | 2,343 |
| Convertible bonds- debt component | - | 46,066 | - | 46,066 |
| Capital from profit participation rights and subordinated loans (short-term portion) | - | 6,350 | - | 6,350 |
| Leasing liabilities | - | 516 | - | 516 |
| Contingent purchase price liabilities | - | - | 3,358 | 3,358 |

| **31. Dezember 2015**<br><br>**Class of financial instrument** | **Prices at which listed on active markets (level 1) € '000** | **Main observable input parameter (level 2) € '000** | **Main unobservable input parameter (level 3) € '000** | **Total € '000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Securities held as fixed assets | 65 | - | - | 65 |
| Leasing receivables | - | 11,476 | - | 11,476 |
| Currency futures | - | 111 | - | 111 |
| | | | | |
| **Financial liabilities** | | | | |
| Long-term loans - fixed interest rate | - | 3,210 | - | 3,210 |
| Convertible bonds- debt component | - | 41,069 | - | 41,069 |
| Capital from profit participation rights and subordinated loans (short-term portion) | - | 7,020 | - | 7,020 |
| Leasing liabilities | - | 1,657 | - | 1,657 |
| Contingent purchase price liabilities | - | - | 7,466 | 7,466 |

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, the liability component of the convertible bond and of the capital from profit participation rights 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 valuation model for determining the fair value of the contingent purchase price liability takes into account the present value of the expected payment, discounted at a risk-adjusted discount rate. The expected payment is calculated on the basis of the forecast revenues and the EBITDA on the assumption that average growth in revenues would average 15.8 percent, and the EBITDA margin 7.4 percent. The discount rate is 1.7 percent. The estimated fair value would rise (fall) if:

- the annual growth rate in revenues were higher (lower);
- the EBITDA margin were higher (lower); or
- the risk-adjusted discount rate were lower (higher).

A change in the annual revenue growth rate is generally associated with a change in the EBITDA margin in the same direction.

**Risk management**

CANCOM's risk policy is geared towards the early identification of severe or serious 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 liabilities 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:

| | 2017<br>€ '000 | 2018<br>€ '000 | 2019-2021<br>€ '000 | 2022 and thereafter<br>€ '000 |
|---|---|---|---|---|
| Trade accounts payable | 127,047 | 0 | 0 | 0 |
| Liabilities to banks | 1,980 | 841 | 1,308 | 0 |
| Convertible bonds | 0 | 0 | 45,000 | 0 |
| Capital from profit participation rights and subordinated loans | 796 | 2,242 | 3,489 | 0 |
| Leasing liabilities | 317 | 182 | 40 | 0 |
| Contingent purchase price liabilities | 2,414 | 712 | 0 | 0 |
| Other financial liabilities | 6,124 | 87 | 261 | 65 |
| Other financial obligations | 8,497 | 4,950 | 9,337 | 4,021 |
| Interest expense | 721 | 637 | 567 | 0 |

The Group has access to credit facilities. As at December 31, 2016, the Group had credit and guarantee facilities of € 37,521 thousand (2015: € 47,945 thousand). The full amount not yet utilized as at the balance sheet date is € 31,818 thousand (2015: € 40,226 thousand). There were no delays in the payment of interest or capital on loans during the fiscal year 2016.

*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 account for less than 10 percent in total of the Group's equity.

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 hedging. The use of 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 Chief Financial Officer or the Executive Board.

At December 31, 2016, the carrying amount of the Group's monetary assets and liabilities in foreign currencies was as follows:

| (€ '000) | Dec 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Assets in USD | 31,222 | 29,250 |
| Liabilities in USD | 13,043 | 15,721 |
| | **18,179** | **13,529** |
| Assets in CHF | 0 | 0 |
| Liabilities in CHF | 0 | 3 |
| | **0** | **-3** |
| Assets in GBP | 6 | 5 |
| Liabilities in GBP | 0 | 0 |
| | **6** | **5** |

Currency risks did not result in any significant concentration of risks arising from financial instruments in the fiscal year 2016.

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 increase or decrease by € 76 thousand and the equity capital would increase or decrease by € 821 thousand.

Both effects are negligible in the overall context and thus do not necessitate any further measures.

*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.

The default risks are the prevailing market risks. These are allowed for by appropriate provisions. Owing to the Group's client structure, there is no concentration of risk and thus no significant default risk caused by a contract party or a group of contract parties with similar characteristics. In view of the financial market crisis, the internal guidelines for credit insurance and for the issuing of credit limits have been stepped up.

The maximum theoretical default risk for the categories shown above is equal to the carrying amounts shown. With the exception of the foreign currency hedging mentioned above, the Group has no other securities that would reduce the default risk.

*Financial market risk*
Since 2008, the risk management activities of CANCOM SE have included continuous analysis of potential risks arising from the financial market crisis.

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. Foreign exchange exposures of USD 11.1 million, GBP 2.3 million and NOK 2.1 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 (€ 0 thousand).

Only the Executive Board and the Chief Financial Officer are authorized to purchase or sell structured products from or to 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

A hereditary building right for an undeveloped property was sold on August 18, 2016. The owner of the property contested the sale within the period prescribed for objections on the basis of a formal error for which the purchaser was responsible. The hereditary building right was consequently not regarded as having been sold as at the reporting date, although the Group still intends to sell it.

The property (finance lease), which was previously recognized in the balance sheet under property, plant and equipment, was reclassified as assets held for sale. The related liability was also reclassified as held for sale.

The reclassification did not give rise to the recognition of any impairment loss.

### 3. Trade accounts receivable

The trade accounts receivable are as follows:

| | Dec. 31, 2016<br>€ '000 | Dec. 31, 2015<br>€ '000 |
|---|---|---|
| Accounts receivable before write-downs | 182,946 | 146,180 |
| Write-downs | 513 | 420 |
| **Carring amount of accounts receivable** | **182,433** | **145,760** |

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.

Generally, all outstanding Group receivables that are more than two years old are written off in full. At the reporting date, outstanding receivables that were more than two years old amounted to € 50 thousand.

Receivables are automatically written down after 120 days. An age analysis of receivables that are overdue but not impaired shows that those between one and two years old are written down by 50 percent, if no other reasons or circumstances are known to suggest they will not be paid. At the reporting date, the value of these receivables was less than 0.1 percent of total receivables.

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.

In 2016, the impairments included trade accounts receivable amounting to € 0 thousand (2015: € 121 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.

Impairment of accounts receivable includes an addition of € 190 thousand (2015: € 458 thousand), and reductions for receivables written off as uncollectible, amounting to € 97 thousand (2015: € 144 thousand).

There were no impairments for trade accounts receivable, which total € 40,641 thousand (2015: € 43,091 thousand) and were due at the reporting date, because no major change in the credit rating of these debtors was established and the outstanding amounts are expected to be paid. Of the overdue accounts receivable, € 37,605 thousand is less than three months overdue; € 2,433 thousand more than three but less than six months overdue; €229 thousand more than six but less than 12 months overdue; and € 50 thousand more than 12 months overdue. The accounts receivable that were due at the reporting date included bills that were payable immediately without reduction.

The fair value of the trade accounts receivable is equal to the carrying amount. Additions to the provisions in the fiscal year are posted in the statement of income under other operating expenses, while reversals are shown under other operating income.

The trade accounts receivable are due within a year.

### 4. Other current financial assets

This item includes receivables from banks (€ 86,000 thousand; 2015: € 0 thousand) claims to the payment of a purchase price relating to lease projects (€ 5,632 thousand; 2015: € 3,698 thousand), bonuses due from suppliers (€ 2,821 thousand; 2015: € 2,385 thousand), marketing revenue (€ 824 thousand; 2015: € 812 thousand), creditors with a debit balance (€ 487 thousand; 2015: € 408 thousand), claims to the payment of a purchase price from the disposal of companies (€ 200 thousand; 2015: € 0 thousand), and receivables from staff (€ 98 thousand; 2015: € 430 thousand). In the previous year the item also included assets relating to financial derivatives (€ 111 thousand).

### 5. Inventories

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

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

| | Dec. 31, 2016 € '000 | Dec. 31, 2015 € '000 |
|---|---|---|
| Finished products and goods | 22,222 | 27,760 |
| Prepayments made | 302 | 188 |
| | **22,524** | **27,948** |

The cost of goods, raw materials and supplies in the fiscal year 2016 was € 686,649 thousand (2015: € 609,691 thousand).

Inventories were written down by € 607 thousand (2015: € 583 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. Contracts in progress

The contracts in progress are orders calculated according to the percentage of completion method. They amount to € 417 thousand (2015: € 565 thousand). The costs accumulated for current projects as at the balance sheet date amounted to € 398 thousand (2015: € 531 thousand). Gains resulting from current projects as at the reporting date totaled € 19 thousand (2015: € 35 thousand).

### 7. Prepaid expenses and other current assets

This item mainly consists of other current assets such as tax refunds (€ 1,992 thousand; 2015: € 6,124 thousand), commission income (€ 326 thousand; 2015: € 600 thousand), insurance refunds (€ 207 thousand; 2015: € 150 thousand) and receivables from social insurance institutions (€ 13 thousand; 2015: € 28 thousand).

The prepaid expenses (€ 2,746 thousand; 2015: € 2,563 thousand) include deferred insurance premiums and expenses paid in advance.

### 8. Non-current assets

Changes in, and the composition of, non-current assets in 2016 are shown in the consolidated statement of changes in non-current assets (pages 60 and 61).

#### 8.1 Property, plant and equipment (tangible assets)

Property, plant and equipment mainly consists of land and buildings, (€ 10,974 thousand); and features, fittings and equipment, in particular motor vehicles (€ 17,921 thousand), IT data centers (€ 7,308 thousand), assets held for rental (€ 563 thousand), the unified communications and collaboration (UCC) system (€ 828 thousand) and equipment for the logistics center (€ 221 thousand). Computer equipment, tenant's fittings, and office furnishings and equipment are also shown under this item.Motor vehicles valued at € 2,001 thousand were pledged as security for the loans from Stadtsparkasse Augsburg.

#### 8.2 Intangible assets

The intangible assets include client lists (€ 13,243 thousand; 2015: € 18,779 thousand), purchased software (€ 3,653 thousand; 2015: € 4,133 thousand), orders in hand (€ 246 thousand; 2015: € 758 thousand), restraint on competition (€ 1,057 thousand; 2015: € 1,897 thousand), brand name (€ 1,227 thousand; 2015: € 1,330 thousand), prepayments made (€ 7,133 thousand; 2015: € 830 thousand) and capitalized development costs (€ 1,748 thousand; 2015: € 955 thousand).

Client lists, orders in hand, restraint on competition and brand name are mainly based on acquisitions made in prior years and in 2016. They are written down over their expected useful lives.

#### 8.3 Goodwill

Goodwill totaling € 73,230 thousand (2015: € 72,780 thousand) as at the reporting date is attributable to CANCOM GmbH (€ 27,808 thousand; 2015: € 20,015 thousand), the Pironet AG Group (formerly Pironet NDH Aktiengesellschaft Group) (€ 19,974 thousand; 2015: € 19,974 thousand), HPM Incorporated (€ 14,160 thousand; 2015: € 13,710 thousand), CANCOM on line GmbH (€ 7,049 thousand; 2015: 7,049 thousand), NSG ICT Service GmbH (€ 2,522 thousand; 2015: € 2,522 thousand) and CANCOM a + d IT solutions GmbH (€ 1,717 thousand; 2015: € 1,717 thousand). In the previous year this item also included goodwill of € 4,488 thousand attributable to Xerabit GmbH and € 3,305 thousand attributable to CANCOM DIDAS GmbH. These amounts are now included in the goodwill attributed to CANCOM GmbH, following the merger of the two companies 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 € 450 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 by the German digital association 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 2017, not taking into account non-recurring items, were calculated at between minus 4.6 percent (CANCOM a+d IT Solutions GmbH) and 26.4 percent (Segment Cloud Solutions CC GmbH). For the years 2018 to 2021, it is assumed that sales revenues will grow steadily at rates between 2.7 percent and 5.8 percent. Parts of the CANCOM Group are therefore expected to outperform the rest of the IT sector and the market, with hardware increasing by 2.8 percent, software by 6.2 percent and IT services by 2.7 percent (figures from BITKOM for the German IT market in 2017).

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

| | 2016 | 2015 |
|---|---|---|
| Risk-free interest | 1.04% | 1.57% |
| Market risk premium | 7.00% | 6.50% |
| Beat coefficient | 0.91 | 0.94 |
| Capitalization rate (weighted average cost of capital -WACC) | 6.95% | 7.27% |
| Input tax-WACC | 10.00% | 10.46% |

The impairment tests carried out in the fiscal year 2017 did not result in any write-downs. There was therefore no impairment charge at the end of the reporting period (at the start of the reporting period there was an impairment charge of € 0 thousand).

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.

### 8.4 Investments accounted for using the equity method

The CANCOM Group holds a 19.88 percent stake in prudsys AG, Chemnitz, Germany through its subsidiary Pironet AG (formerly Pironet NDH Aktiengesellschaft). As employees of the CANCOM Group are members of the supervisory board of prudsys AG, the Group has a controlling interest in the associate. The company's net income for the fiscal year 2016 was € 247 thousand (2015: € 243 thousand). The related profit from the equity-accounted investment is therefore € 49 thousand (2015: € 48 thousand).

Summarized financial information on the associate prudsys AG on the basis of the preliminary IFRS financial statements:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| Sales revenues | 3,610 | 3,563 |
| Earnings after tax from continuing operations | 247 | 243 |
| **Comprehensive income** | **247** | **243** |
| **Comprehensive income attributable to the group** | **49** | **48** |
| | | |
| Current assets | 3,225 | 2,994 |
| Non-current assets | 184 | 76 |
| Current liabilities | -890 | -798 |
| Non-current liabilities | 0 | 0 |
| **Net assets** | **2,519** | **2,272** |
| | | |
| Group's share of the long-term equity investment's net assets at the start of the year | 451 | 393 |
| Comprehensive income attributable to the Group | 50 | 48 |
| Adjustments to the previous year's figure | 0 | 10 |
| Dividends received during the year | 0 | 0 |
| Group's share of the long-term equity investment's net assets at the end of the year | **501** | **451** |
| **Carrying amount of the investment in the long-term equity investment at the end of the year** | **501** | **451** |

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. This increases the online store operator's client retention rate.

### 8.5 Loans

The loans consist of loans to former subsidiaries (€ 1,807 thousand; 2015: €2,302) and the asset value from reinsurance, amounting to € 105 thousand (2015: € 99 thousand).

### 9. Other non-current financial assets

This item includes long-term claims to the payment of a purchase price relating to lease projects (€ 10,100 thousand; 2015: € 7,387 thousand), receivables from banks (€ 2,000 thousand; 2015: € 0 thousand), claims to the payment of a purchase price from disposal of companies (€ 600 thousand; 2015: € 0 thousand) and receivables from staff (€ 16 thousand; 2015: € 44 thousand).

### 10. Deferred tax assets

The deferred tax assets are as follows:

| Deferred tax from | Temporary differences € '000 | Tax loss carryovers € '000 |
|---|---|---|
| As at January 1, 2016 | 2,398 | 2,983 |
| Derecognition owing to deconsolidation, directly in equity | -1 | 0 |
| Addition owing to recognition of acturial losses from pension provisions, directly in equity * | 57 | 0 |
| Tax expense/income from profit and loss calculation | 208 | -1,378 |
| Currency exchange gains/losses * | 3 | 0 |
| **As at December 31, 2016** | **2,665** | **1,605** |
| | | |
| As at January 1, 2015 | 3,071 | 4,238 |
| Addition owing to recognition of assets, directly in equity because of first-time inclusion in consolidated financial statements | 14 | 0 |
| Derecognition owing to deconsolidation, directly in equity | -470 | 0 |
| Addition owing to recognition of acturial losses from pension provisions, directly in equity* | -20 | 0 |
| Tax expense/income from profit and loss calculation | 257 | -1,255 |
| Tax expense from profit and loss calculation relating to discontinued operations | -470 | 0 |
| Currency exchange gains/losses * | 16 | 0 |
| **As at December 31, 2015** | **2,398** | **2,983** |

* directly recognized in equity

As at December 31, 2016 the CANCOM Group had corporate tax loss carryovers of € 4.6 million (2015: € 8.7 million) and trade tax loss carryovers of € 5.3 million (2015: € 9.6 million). On the basis of the planned tax results, it is expected that the capitalized deferred tax advantages from loss carryovers will be realized.

The deferred taxes from temporary differences are mainly the result of differences in property, plant and equipment (€ 841 thousand; 2015: € 665 thousand), intangible assets (€ 673 thousand; 2015: € 735 thousand), pension provisions (€ 447 thousand; 2015: € 369 thousand), other financial liabilities (€ 391 thousand; 2015: € 408 thousand), other provisions (€ 166 thousand; 2015: € 122 thousand) and other liabilities (€ 123 thousand; 2015: € 97 thousand).

### 11. 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.

### 12. Other current financial liabilities

Other current financial liabilities includes liabilities to former affiliated companies (€ 2,778 thousand; 2015: € 2,750 thousand), debtors with a credit balance (€ 2,168 thousand; 2015: € 2,329 thousand), outstanding bills of charge (€ 795 thousand; 2015: € 330 thousand), leasing purchase price liabilities (€ 300 thousand; 2015: € 410 thousand), Supervisory Board remuneration (€ 296 thousand; 2015: € 294 thousand) and rent obligations (€ 88 thousand; 2015: € 82 thousand). In 2015 this item also included liabilities to former shareholders (€ 10 thousand).

## 13. Other provisions

The changes in other provisions during 2016 are detailed below:

| | Jan. 1, 2016 € '000 | First-time consolidation (addition) € '000 | Used € '000 | Reversal and transfer € '000 | Addition € '000 | Currency € '000 | Dec. 31, 2016 € '000 |
|---|---|---|---|---|---|---|---|
| Purchase price of shares in affiliated entities | 7,465 | 246 | 3,140 | 1,421 | 180 | 28 | 3,358 |
| Guarantees and warranties | 1,480 | 0 | 857 | 5 | 831 | 0 | 1,449 |
| Copyright fees | 922 | 0 | 0 | 0 | 268 | 0 | 1,190 |
| Termination and severance payments, salaries | 1,008 | 0 | 628 | 11 | 368 | 0 | 737 |
| Financial statement costs | 229 | 0 | 217 | 12 | 167 | 0 | 167 |
| Uncertain risks | 98 | 0 | 98 | 0 | 166 | 0 | 166 |
| Decommissioning and restoration liability | 117 | 0 | 0 | 0 | 7 | 0 | 124 |
| Archiving costs | 146 | 0 | 0 | 39 | 0 | 0 | 107 |
| Additional leasing costs | 115 | 0 | 54 | 10 | 0 | 0 | 51 |
| Others | 324 | 0 | 17 | 14 | 692 | 0 | 985 |
| | **11,904** | **246** | **5,011** | **1,512** | **2,679** | **28** | **8,334** |

The total provisions include a long-term provision of € 3,451 thousand (2015: € 8,122 thousand), which are recognized under other non-current liabilities. These are mainly for copyright fees (€ 1,191 thousand; 2015: € 923 thousand), contingent purchase price (earn-out) for the stocks of HPM Incorporated (€ 944 thousand; 2015: 5,929 thousand), guarantees and warranties (€ 692 thousand; 2015: € 658 thousand), anniversaries (€ 296 thousand; 2015: € 255 thousand), decommissioning and restoration liability (€ 123 thousand; 2015: € 117 thousand), termination and severance payments, for which a provision is legally mandatory in Austria (€ 98 thousand; 2015: € 81 thousand) and archiving costs (€ 80 thousand; 2015: € 113 thousand).

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

| | Expected due date |
|---|---|
| Purchase price of shares in HPM Incorporated | less than 2 years |
| Provisions for guarantees and warranties | Warranty by law or contract |
| Provisions for termination and severence payments | Date of termination of the employment of relevant staff member |
| Provisions for anniversary payments | Together with salary payments |
| Archiving costs | 1 to 6 years |
| Decommissioning and restoration liability | 1 to 2 years |

## 14. Deferred income

In addition to deferred sales revenues, 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 rates over the entire remaining term), and amount to a total of € 1,562 thousand (see comments under E.2. Other operating income).

## 15. Income tax liabilitie

Income tax liabilities mainly consist of obligations for 2015 and 2016.

## 16. Other current liabilities

Other current liabilities mainly include staff bonus payments (€ 10,777 thousand; 2015: € 9,840 thousand), sales tax (€ 9,394 thousand; 2015: € 9,483 thousand), holiday and overtime entitlements (€ 2,786 thousand; 2015: € 2,840 thousand), tax on salaries and church tax (€ 2,417 thousand; 2015: € 2,288 thousand), employers' liability insurance association (€ 741 thousand; 2015: € 798 thousand), interest liability relating to the convertible bond (€ 299 thousand; 2015: € 299 thousand); social security contributions (€ 248 thousand; 2015: € 128 thousand), wages and salaries (€ 236 thousand; 2015: € 250 thousand) and compensation levy for non-employment of the severely handicapped (€ 235 thousand; 2015: € 239 thousand).

### 17. 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. 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.

### 18. Convertible bonds

CANCOM SE issued a convertible bond for a total nominal amount of € 45,000 thousand in March 2014. The bonds mature in March 2019 and the holders are entitled to convert their bonds into a total of up to 1,055,510 new no-par value bearer shares in CANCOM SE. The denomination per unit is € 100,000. The initial conversion price is € 42.6334 per share. The conversion ratio is therefore 2,345.5788 shares per bond at the relevant nominal amount of € 100,000. The conversion right for the bonds can be exercised throughout its term to maturity. The bond has a coupon of 0.875 percent. Interest will be paid annually on March 27, starting on March 27, 2015.

On the balance sheet, the convertible bond is split into an equity component and a liability component. The carrying amount of the liability component as at the reporting date is € 41,778 thousand. The value of the equity component is € 6,026 thousand, which is recognized under additional capital reserves. An effective interest expense of € 1,738 thousand was recognized for the bond in the period from January 1 to December 31, 2016, and the nominal interest payments amounted to € 394 thousand.

### 19. Capital from profit participation rights and subordinated loans

Capital from profit participation rights and subordinated loans includes two subordinated loans from Sparkasse Günzburg-Krumbach of € 642,958.28 (loan proceeds € 1,000,000, minus repayment of € 128,800 in 2012) and € 733,616.79 (loan proceeds € 1,000,000); and four subordinated loans from Stadtsparkasse Augsburg of € 1,594,717.33 (loan proceeds € 1,995,600), € 311,709.48 (loan proceeds € 392,500), € 978,501.05 (loan proceeds € 1,621,000) and € 511,424.44 (loan proceeds € 846,000). 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 € 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 € 83,334 on each loan, followed by a final instalment of € 83,326 on each loan. An unscheduled repayment of € 128,800 was made on one of the loans on April 10, 2012. The scheduled repayments for this loan will be reduced to € 72,600 per quarter from March 30, 2018.

A loan of € 1,995,600 (loan proceeds) from Stadtsparkasse Augsburg was granted in tranches of € 1,500,000 on September 23, 2009 and € 495,600 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 € 166,300, will commence on December 30, 2016.

A further loan of € 392,500 (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 will commence on December 30, 2016, with payment of 11 quarterly instalments of € 32,709 followed by a final instalment of € 32,701.

A further loan of € 1,621,000 (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 will begin on March 30, 2018, with 11 quarterly instalments of € 135,084 each, followed by a final instalment of € 135,076.

A further loan of € 846,000 (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 will begin on March 30, 2018 in 12 quarterly instalments of € 70,500.

## 20. Deferred tax liabilitie

The deferred tax liabilities are as follows:

| | € '000 |
|---|---|
| As at January 1, 2016 | 8,891 |
| Addition owing to recognition of liabilities, directly in equity because of first-time inclusion | 339 |
| Tax expense/income from profit and loss calculation | -1,745 |
| Tax expense/income from profit and loss calculation relating to discontinued operations | -120 |
| Currency gains/losses * | 185 |
| **As at December 31, 2016** | **7,550** |
| | |
| As at January 1, 2015 | 10,552 |
| Addition owing to recognition of liabilities, directly in equity because of first-time inclusion | 850 |
| Derecognition owing to deconsolidation, directly in equity | -183 |
| Income tax/expense from profit and loss calculation | -3,008 |
| Income tax/expense from profit and loss calculation from discontinued operations | 120 |
| Currency exchange gains/losses* | 560 |
| **As at December 31, 2015** | **8,891** |

* directly recognized in equity

The deferred tax liabilities arise from deviations from the tax balance sheets. They are the result of the recognition and revaluation of intangible assets (€ 4,453 thousand; 2015: € 6,702 thousand), other financial assets (€ 926 thousand; 2015: € 707 thousand), loans to affiliated companies (€ 640 thousand; 2015: € 251 thousand), software development costs (€ 540 thousand; 2015: € 296 thousand), property, plant and equipment (€ 387 thousand; 2015: € 262 thousand), goodwill (€ 354 thousand; 2015: € 155 thousand), convertible bonds (€ 118 thousand; 2015: € 165 thousand), other financial liabilities (€ 54 thousand; 2015: € 18 thousand), prepaid expenses (€ 49 thousand; 2015: € 31 thousand), other provisions (€ 17 thousand; 2015: € 17 thousand), contracts in progress (€ 6 thousand; 2015: € 11 thousand), equity-accounted investments (€ 5 thousand; 2015: € 5 thousand), and long-term investments (€ 1 thousand; 2015: € 1 thousand). In the previous year the deferred tax liabilities also included intragroup payables (€ 270 thousand).

An explanation of the differences arising from the first inclusion of the company assets of Misco Germany Inc. 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 € 23,934 thousand.

Recognition is based on an individual tax rate of between 25 percent (Austrian subsidiary) and 39.83 percent (U.S. subsidiary).

## 21. Pension provisions

This item only includes provisions for staff pensions (€ 1,942 thousand; 2015: € 1,744 thousand) based on defined benefit obligations assumed as a result of acquisitions.

The pension obligations for pension schemes in Germany are basically measured according to the number of years of service and the remuneration of the employee in question.

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 asset value of the funds for the defined benefit schemes are shown below:

| | 2016 € '000 | 2015 € '000 |
|---|---|---|
| **Changes in pension obligation** | | |
| Defined benefit obligation (DBO) as at January 1, 2016 | 2,181 | 2,160 |
| Service cost: present value of claims accrued in 2016 | 59 | 60 |
| Adjustments: acturial gain/loss arising from financial assumptions | 186 | -72 |
| Interest cost | 51 | 48 |
| Pension payments | -15 | -15 |
| Defined benefit obligation (DBO) as at December 31, 2016 | **2,462** | **2,181** |
| | | |
| **Changes in plan assets** | | |
| Fair value of plan assets as at January 1, 2016 | 437 | 370 |
| Income/expenses on plan assets | 7 | -6 |
| Employer's contributions | 79 | 76 |
| Pension payments | -3 | -3 |
| Fair value of plan assets as at December 31, 2016 | **520** | **437** |
| | | |
| **Composition** | | |
| Present value of the pension obligations | 2,462 | 2.181 |
| Fair value of plan assets | -520 | -437 |
| Pension obligations reported on the balance sheet | **1,942** | **1,744** |

The plan assets mainly include reinsurance policies.

Computation of the actuarial pension scheme obligations was based on the following assumptions:

| | 2016 % | 2015 % |
|---|---|---|
| Interest rate | 1.90 | 2.30 |
| Salary trend | 2.00 | 2.00 |
| Pension trend | 1.50 | 1.50 |

The total cost of the pension schemes according to IAS 19 is broken down as follows:

| | 2016 € '000 | 2016 € '000 |
|---|---|---|
| Current service costs | 59 | 60 |
| Acturial gains/losses due to changes in financial assumptions | 186 | -72 |
| Net interest cost | 44 | 54 |
| | **289** | **42** |

*Sensitivity analyses:*
A change in the assumptions on which the above figures are based would increase or reduce the DBO as follows:

| | 2015 | 2016 | Sensitivity | Increase total | | Decrease total | |
|---|---|---|---|---|---|---|---|
| | | | | % | € '000 | % | € '000 |
| Assumed interest rate | 2.30% | 1.90% | +/-1.00% | 0.90% | 613 | 2.90% | -461 |
| Salary trend | 2.00% | 2.00% | +/-0.50% | 2.50% | 30 | 1.50% | -28 |
| Pension trend | 1.50% | 1.50% | +/-0.25% | 1.75% | 87 | 1.25% | -83 |

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 2017 is expected to be € 111 thousand (2015: € 110 thousand), and the contributions to plan assets € 79 thousand (2015: € 79 thousand). Benefit payments in the fiscal year 2017 are expected to be the same as the payments made in 2016. The average term of the pension liabilities is 21.6 years (previous year: 22.2 years).

## 22. Other non-current financial liabilities

Other non-current financial liabilities include rent obligations of € 413 thousand (2015: € 506 thousand) and purchase price liabilities of € 216 thousand (2015: € 1,247 thousand).

## 23. Equity

Changes in equity are shown on page 59.

### Capital stock

The company's capital stock at December 31, 2016 was € 16,367,531 (2015: € 14,879,574), divided into 16,367,531 (2015: 14,879,574) notional no-par value shares.

### Genehmigtes und bedingtes Kapital

In conformity with the corporate by-laws, the company's authorized capital stock totaled € 5,951,830 (2015: € 7,439,787) as at December 31, 2016. The details of the authorized capital are as follows:

A resolution passed at the general meeting of shareholders on June 18, 2015 authorizes the Executive Board to increase the capital stock once or in several steps by up to a total of € 7,439,787 by issuing up to 7,439,787 new notional no-par value bearer shares

for a cash or non-cash consideration (authorized capital 2015/I). The shares must be issued by June 17, 2020 and any issue of shares is subject to the approval of the Supervisory Board. In general, shareholders will be granted subscription rights, but the Executive Board is authorized to exclude the shareholders' 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 shareholders' subscription rights are excluded in accordance with the above Act, the disapplication 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 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 2016:

The Executive Board has made partial use of the authorization granted by resolution of the general meeting of stockholders of CANCOM SE on June 18, 2015 to increase the company's capital stock by issuing up to 7,439,787 new no-par value bearer shares (authorized capital 2015/I). On March 2, 2016, with the agreement of the Supervisory Board, it resolved to increase the company's capital stock by up to € 1,487,957, from € 14,879,574 up to a maximum of € 16,367,531 for a cash consideration by issuing up to 1,487,957 new no-par-value bearer shares with each share representing € 1 of the capital stock. The new shares were issued at the lowest issuing value of € 1 per new share and carry dividend rights from January 1, 2015.

Stockholder subscription rights were disapplied pursuant to section 4, paragraph 4, sentence 3, second indent, of the corporate by-laws (Section 186, paragraph 3, sentence 4 of the German Stock Corporation Act).

The capital stock was increased by the full amount of € 1,487,957 (equivalent to 1,487,957 new shares) and recorded in the company's commercial register at Munich Local Court (HRB 203845) on March 4, 2016.

Following the capital increase, the company's capital stock is € 16,367,531, divided into 16,367,531 no-par-value bearer shares. Each share represents € 1 of the capital stock. The remaining authorized capital (2015/I) is € 5,951,830.

In accordance with the corporate by-laws, the conditional capital at December 31, 2016 amounted to € 1,450,000 (2015: € 1,450,000). The details of the conditional capital are as follows:

The capital stock has been increased conditionally by up to € 1,450,000 by the issue of up to 1,450,000 new no-par value shares (contingent capital 2013/I). The conditional increase in capital will only be implemented to the extent that holders of the convertible bond issued on March 27, 2014 exercise their conversion rights in line with the terms and conditions of the bond. The shares will be issued at the relevant conversion price under the terms and conditions of the bond. The new shares will carry dividend rights from the beginning of the fiscal year for which, at the time of their issue, no resolution of the general meeting of shareholders has been passed on the appropriation of the net retained profit/(net accumulated loss). 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.

The Executive Board is not aware of any restrictions on voting rights or on the transfer of shares.

**Net retained profit/(net accumulated loss)**

In accordance with the resolution of the general meeting of shareholders, a dividend of € 0.50 per share (total € 8,184 thousand) was paid in 2016 from the net retained profit/(net accumulated loss) generated in the previous year.

## 24. Non-controlling interests

Non-controlling interests relate to the share of the equity held by the minority shareholders of Pironet AG (formerly Pironet NDH Aktiengesellschaft).

Summarized financial information on the Pironet NDH AG subgroup, compiled in accordance with IFRS:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| Sales revenue | 44,256 | 46,519 |
| Net income/loss for the period | 2,535 | -964 |
| Net income/loss for the period attributable to non-controlling interests | 286 | -234 |
| Other comprehensive income | -6 | 0 |
| **Total comprehensive income **** | **2,529** | **-964** |
| Total comprehensive income attributable to non-controlling interests | 286 | -234 |
| | | |
| Current assets | 31,496 | 29,528 |
| Non-current assets | 18,946 | 18,430 |
| Current liabilities | -10,540 | -9,454 |
| Non-current liabilities | -1,675 | -2,222 |
| **Net assets** | **38,227** | **36,282** |
| Net assets attributable to non-controlling interests | 1,942 | 5,584 |
| | | |
| Cash flows from operating activities | 11,032 | 6,619 |
| Cash flows from investing activities | -22,372 | -7,606 |
| Cash flows from financing activities | -584 | -584 |
| **Net increase in cash and cash equivalents** | **-11,924** | **-1,571** |
| | | |
| Dividends paid to non-controlling interests during the year * | 99 | 124 |

* included in the cash flows from financing activities

** Total comprehensive income includes the earnings from discontinued operations

## 25. 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, 2016 | Dec. 31, 2015 |
|---|---|---|---|
| Equity | € million | 285.1 | 204.3 |
| Equity as a percentage of the total capital | percent | 53.0 | 46.8 |
| Borrowed capital | € million | 252.7 | 232.0 |
| Borrowed capital as a percentage of the total capital | percent | 47.0 | 53.2 |
| | | | |
| Total capital (equity and borrowed capital) | € million | 537.8 | 436.3 |

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 2016.

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 operating segments: cloud solutions and IT solutions.

### Description of the segments subject to mandatory reporting

The cloud solutions operating segment comprises PIRONET Datacenter AG & Co. KG (formerly PIRONET NDH Datacenter AG & Co. KG), PIRONET Enterprise Solutions GmbH, Pironet AG (formerly Pironet NDH Aktiengesellschaft) and the divisions of CANCOM GmbH allocated to the cloud solutions segment. This operating 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 operating segment comprises CANCOM GmbH, CANCOM Computersysteme GmbH, CANCOM a + d IT solutions GmbH, CANCOM (Switzerland) AG, NSG ICT Service GmbH (formerly CANCOM NSG GmbH), NSG GIS GmbH (formerly CANCOM NSG GIS GmbH), CANCOM SCS GmbH (formerly CANCOM NSG SCS GmbH), CANCOM ICP GmbH (formerly CANCOM NSG ICP GmbH), CANCOM on line GmbH, Cancom on line B.V.B.A, CANCOM physical infrastructure GmbH, CANCOM, Inc., HPM Incorporated and Verioplan GmbH, with the exception of the divisions of CANCOM GmbH allocated to the cloud solutions and other companies segment. This operating 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 VVM GmbH, CANCOM Financial Services GmbH in addition to the divisions of CANCOM GmbH allocated to the other companies segment. CANCOM SE and the division of CANCOM DIDAS 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.

Some items in the operating segments were reclassified as at the reporting date of December 31, 2016. The merger of two Group companies during the year necessitated structural adjustments and reorganization in terms of the companies and regions included in the segments. This resulted in changes in the areas of responsibility and the splitting of entire departments, which necessitated a reallocation of the new structure to the segments. The figures for the previous year were adjusted to reflect these changes.

### 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 profit 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 customer location | | Sales revenue according to company location | |
|---|---|---|---|---|
| | 2016 € '000 | 2015 € '000 | 2016 € '000 | 2015 € '000 |
| Germany | 849,997 | 785,149 | 914,199 | 845,182 |
| Outside Germany | 173,110 | 147,651 | 108,908 | 87,618 |
| Group | 1,023,107 | 932,800 | 1,023,107 | 932,800 |

| | Non-current assets | |
|---|---|---|
| | Dec. 31, 2016 € '000 | Dec. 31, 2015 € '000 |
| Germany | 142,603 | 131,528 |
| Outside Germany | 19,262 | 21,916 |
| Group | 161,865 | 153,444 |

Non-current assets include property, plant and equipment, 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:

| | 2016 € '000 | 2015 € '000 |
|---|---|---|
| From the sale of goods | 781,124 | 694,097 |
| From the provision of services | 241,983 | 238,703 |
| **Total** | **1,023,107** | **932,800** |

The sales revenues include order revenue of € 1,424 thousand calculated using the POC method.

### 2. Other operating income

The other operating income is made up of the following:

| | 2016 € '000 | 2015 € '000 |
|---|---|---|
| Rent | 0 | 4 |
| Negative goodwill arising from first-time consolidation | 593 | 0 |
| Income not relating to the period | 1,683 | 679 |
| Government grants | 590 | 530 |
| Compensation | 1 | 11 |
| Other operating income | 228 | 81 |
| **Total** | **3,095** | **1,305** |

Income not relating to the period mainly includes proceeds of the sale of non-current assets of € 842 thousand, income from derecognition of debtors with a credit balance of € 378 thousand, and the proceeds of the sale of the subsidiary NSG GIS GmbH of € 377 thousand.

Government grants include the profit allocated to the fiscal year 2017 from availing of loans at a favorable interest rate.

For more information see details on loans in sections C. 17 and C. 19.

### 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:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| Capitalized development costs | 1,073 | 629 |
| Own work capitalized for acquired intangible assets | 1,295 | 939 |
| Own work capitalized for acquired property, plant and equipment | 68 | 205 |
| **Total** | **2,436** | **1,773** |

Research and development costs were not capitalized if they did not meet the criteria for recognition under IAS 38. They amounted to less than € 0.1 million (2015: € 0.1 million).

### 4. Human resources expenses

The human resources expenses consist of the following:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| Wages and salaries | 153,380 | 145,897 |
| Social security contributions | 24,816 | 23,642 |
| Pension expenses | 369 | 352 |
| **Total** | **178,565** | **169,891** |

### 5. Other operating expenses

The other operating expenses consist of the following items:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| Premises costs | 10,238 | 9,243 |
| Insurance and other charges | 1,372 | 982 |
| Motor vehicle costs | 4,323 | 5,306 |
| Advertising costs | 2,456 | 2,443 |
| Stock exchange and entertainment costs | 377 | 385 |
| Hospitality and travelling expenses | 5,153 | 5,070 |
| Delivery costs | 3,489 | 3,465 |
| Third-party services | 2,220 | 2,873 |
| Repairs, maintenance, leasing | 2,956 | 2,017 |
| Communication and office expenses | 2,481 | 2,700 |
| Professional development and training costs | 1,669 | 1,531 |
| Legal and consultancy fees | 1,632 | 1,889 |
| Fees, costs of money transactions | 675 | 823 |
| Adjustments of accounts receivable | 211 | 368 |
| Other operating expenses | 2,019 | 2,173 |
| **Total** | **41,271** | **41,268** |

### 6. Interest income and expenses

Interest income mainly consists of interest on cash in banks and interest income from clients.

### 7. Other financial result – income and expenses

The other financial result mainly includes income from the reversal of provisions for variable purchase prices for subsidiaries, and expenses arising from subsequent payments in connection with consideration due for purchases in accordance with the relevant contracts of sale.

## 8. Write-downs of financial assets

The write-downs of financial assets, which amount to € 350 thousand, relate exclusively to the impairment of a long-term financial receivable from a subsidiary that has been sold.

## 9. Income taxes

The rate of income tax for the German companies was 30.90 percent (2015: 30.96 percent). This is made up of corporate tax, trade tax and solidarity surcharge. The slight decrease in the income tax rate is owing to the decline 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:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| **Earnings before tax** | **49,500** | **40,078** |
| | | |
| **Expected tax expense at rate for German companies (30.90 percent; 2015: 30.96 percent)** | **15,296** | **12,408** |
| - Difference from tax paid outside Germany | 132 | 112 |
| - Change in value adjustment of deferred tax assets on loss carryforwards | 1 | -499 |
| - Tax-exempt income /non tax-relevant losses on disposals | -84 | -1,516 |
| - Actual income tax not relating to the period | 108 | 41 |
| - Permanent differences | -415 | -1,162 |
| - Non-deductible operating expenses, as well as trade tax add-backs and cuts | 388 | 1,362 |
| - Income from negative goodwill | -182 | 0 |
| - Effects of tax rate changes | -4 | 9 |
| - Miscellaneous | 27 | 36 |
| **Total Group income tax expenses** | **15,267** | **10,791** |

The actual tax rate is calculated as follows:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| Income before tax | 49,500 | 40,078 |
| Income tax | 15,267 | 10,791 |
| Actual tax expense rate | 30.84% | 26.92% |

Income tax comprises the income tax paid or owed in the individual countries, and the deferred taxes:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| **Actual income tax expense** | 15,400 | 12,801 |
| **Deferred taxes:** | | |
| Assets | 1,170 | 998 |
| Liabilities | -1,745 | -3,008 |
| | -575 | -2,010 |
| | | |
| **Deferred taxes recognized directly in equity** | 442 | 0 |
| | | |
| **Group income tax expense** | **15,267** | **10,791** |

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 charged directly to equity relate to the costs of increasing the capital stock.

### 10. Discontinued operations

The impact of discontinued operations on the statement of income was a loss of € 582 thousand (2015: loss of € 7,188 thousand). Of this amount, a loss of € 30,000 is attributable to minority interests (2015: loss of € 1,444 thousand).

This amount consists of expenditure of € 702 thousand, resulting in a loss before taxes of € 702 thousand. The respective tax income amounts to € 120 thousand. The current loss after taxes from discontinued operations amounts to € 582 thousand.

The discontinued operations only include the costs connected with the sale of Pirobase Imperia GmbH in the previous year.

### 11. Non-controlling interests

Minority interests account for 15.39 percent (start of the year) – 5.08 percent (end of the year) of the net income of the period of Pironet AG subgroup (€ 286 thousand). Please see page 59 for changes in non-controlling interests in equity.

### 12. 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:

| | |
|---|---|
| **As at January 1, 2016** | **14,879,574** |
| Effect of capital increase (pro rata) | 1,231,833 |
| **As at December 31, 2016** | **16,111,407** |

*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 1,055,510 shares which would be issued if all the convertible bonds were converted. The net income for the period was accordingly adjusted by the effective interest (after tax) recognized as an expense, which amounts to € 1,202 thousand.

## 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 an increase of € 34.6 million in the cash flow from ordinary activities in comparison with the previous year.

The cash resources of € 63,590 thousand (2015: € 85,802 thousand) include the cash and cash equivalents shown in the balance sheet. This comprises cash on hand and cash in banks.

## 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 can be considered a related party who can exercise a significant influence on the CANCOM Group as an Executive Board member of CANCOM SE. Rudolf Hotter, the other Executive Board member, is also a related party for the purposes of IAS 24, as are the members of the Supervisory Board. Other related persons under IAS 24.9 b are:

- AL-KO Kober SE and its subsidiaries;
- ABCON Holding GmbH and its subsidiaries;
- ABCON Vermögensverwaltung GmbH (formerly WFO Vermögensverwaltung GmbH) and its subsidiaries;
- AURIGA Corporate Finance GmbH;
- DV Immobilien Management GmbH; and
- Elber GmbH.

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 and its subsidiaries purchased goods/services amounting to € 3,049 thousand (gross) (2015: € 3,070 thousand), of which € 428 thousand (2015: € 339 thousand) was outstanding at the balance sheet date.

The transaction volume of goods and services purchased from related parties under IAS 24 was € 0 in 2016 (gross) and € 0 thousand in 2015, which had been paid in full by the balance sheet date. This amount relates to goods/services purchased from AL-KO Kober SE and its subsidiaries.

The emoluments paid to members of the Executive Board in the fiscal year amounted to € 2,749 thousand (2015: € 2,617 thousand). The emoluments were regarded as short-term employee benefits. As in the previous year, no post-employment benefit plans or termination benefits, other long-term benefits or share-based payments were provided.

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 € 265 thousand (2015: € 223 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 held by members of the Executive and Supervisory Boards (at the balance sheet date

| Stockholder | Number of no-par value shares | percentage |
|---|---|---|
| Klaus Weinmann | 10,000 | 0.0611 |
| Dominik Eberle | 10,000 | 0.0611 |

### 3. Guarantees, contingent liabilities and other financial obligations

The financial obligations of the companies in the CANCOM Group under tenancy, telecommunications and leasing agreements were as follows:

**As at December 31, 2016:**

| Due | 2017 € '000 | 2018 € '000 | 2019 € '000 | 2020 € '000 | 2021 € '000 | later € '000 | total € '000 |
|---|---|---|---|---|---|---|---|
| under tenancy agreements | 6,848 | 4,109 | 3,225 | 2.906 | 2,632 | 4,013 | 23,733 |
| under leasing agreements | 546 | 182 | 81 | 33 | 18 | 8 | 868 |
| under telecom-munication agreements | 1,103 | 659 | 316 | 108 | 18 | 0 | 2,204 |
| | **8,497** | **4,950** | **3,622** | **3,047** | **2,668** | **4,021** | **26,805** |

**As at December 31, 2015:**

| Due | 2016 € '000 | 2017 € '000 | 2018 € '000 | 2019 € '000 | 2020 € '000 | later € '000 | total € '000 |
|---|---|---|---|---|---|---|---|
| under tenancy agreements | 6,787 | 3,960 | 2,878 | 2,407 | 2,190 | 4,271 | 22,493 |
| under leasing agreements | 1,106 | 400 | 108 | 27 | 0 | 0 | 1,641 |
| under telecom-munication agreements | 879 | 355 | 157 | 10 | 0 | 0 | 1,401 |
| | **8,772** | **4,715** | **3,143** | **2,444** | **2,190** | **4,271** | **25,535** |

The leasing agreements are for operating leases.

### 4. Declaration of conformity with the German Corporate Governance Code

In the Supervisory Board meeting on December 13, 2016, 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 value-added tax) were charged in the fiscal year 2016 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:

| | 2016<br>€ '000 | 2015<br>€ '000 |
|---|---|---|
| a) Financial statements * | 130 | 185 |
| b) Other audit-related services | 29 | 18 |
| c) Tax consultancy | 2 | 2 |
| d) Other services | 7 | 13 |

* thereof attributable to fiscal year 2015: € 5 thousand (2014: € 3 thousand)

Additional audit services were provided during the year under review, particularly in connection with the capital increase.

### 6. Staff

| | 2016 | 2015 |
|---|---|---|
| Average number of employees during the year | 2,742 | 2,788 |
| Employed at the reporting date | 2,657 | 2,724 |

The average number of employees is divided between the following functions: professional services (1,842; 2015: 1,935), sales (508; 2015: 473), and central services (392; 2015: 380).

### 7. Details of long-term equity interests in CANCOM SE

As at December 31, 2016, the company had the following details of equity interests subject to mandatory disclosure in accordance with Sections 21 ff. of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG):

On January 16, 2014, Allianz Global Investors Luxembourg S.A., Senningerberg, Luxembourg, informed us that its share of the voting rights of CANCOM SE, held directly or indirectly, had fallen below the 5 percent threshold on January 15, 2014 and on that day amounted to 4.87 percent (equivalent to 711,270 voting rights).

Allianz Global Investors GmbH, Frankfurt am Main, Germany, informed us on March 27, 2015 that its share of the voting rights in CANCOM SE, held directly or indirectly, had fallen below the 10 percent threshold on March 26, 2015 and on that day amounted to 9.93 percent (equivalent to 1,477,079 voting rights).

Universal-Investment-Gesellschaft mit beschränkter Haftung, Frankfurt am Main, Germany, informed us on February 8, 2016 that its total share of the voting rights of CANCOM SE, held directly or indirectly, had exceeded the 3 percent threshold on February 4, 2016 and on that day amounted to 3.33 percent (equivalent to 498,953 voting rights), of which 0.33 percent (equivalent to 49,417 voting rights) is regarded as instruments within the meaning of Section 25, paragraph 1, no. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

Invesco Ltd., Hamilton, Bermuda, informed us on June 27, 2016 that its share of the voting rights of CANCOM SE, held directly or indirectly, had exceeded the 3 percent threshold on June 24, 2016 and on that day amounted to 3.33 percent (equivalent to 544,636 voting rights).

AL-KO Beteiligungs GmbH, Munich, Germany, informed us on November 11, 2016 that its share of the voting rights of CANCOM SE, held directly or indirectly, had exceeded the threshold of 5 percent of the voting rights on November 10, 2016, and on that date amounted to 5.004 percent (equivalent to 819,000 voting rights).

### 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 (CEO)
- Rudolf Hotter, graduate in business economics (Diplom-Betriebswirt), Rosshaupten, Germany

All members of the Executive Board have sole power of representation. Persons holding general commercial power of attorney (Prokura under German commercial law) are authorized to represent the company jointly with another Executive Board member or another person holding general commercial power of attorney.

The following members of the Executive Board are members of the supervisory boards of other companies:

- Klaus Weinmann :
  - AL-KO Kober SE
  - CANCOM GmbH
  - NSG ICT Service GmbH
- Rudolf Hotter
  - Pironet AG
  - NSG ICT Service GmbH

#### Supervisory Board

The members of the Supervisory Board are:

- Dr. Lothar Koniarski, graduate in business administration (Diplom-Kaufmann), managing director of DV Immobilien Managament GmbH and Elber GmbH, Regensburg, Germany
  Chairperson (since December 20, 2016)
  Deputy Chairperson (until December 20, 2016)
- Walter Krejci, managing director of AURIGA Corporate Finance GmbH, Munich, Germany
  Chairperson (until December 20, 2016)
- Uwe Kemm, independent organizational, sales and marketing consultant
  Deputy Chairperson (since December 20, 2016)
- Regina Weinmann, graduate in business administration (Diplom-Kauffrau), managing director of ABCON Holding GmbH and ABCON Vermögensverwaltung GmbH (formerly WFO Vermögensverwaltung GmbH), Munich, Germany
- Dominik Eberle, online marketing and e-commerce consultant
- Raymond Kober, Managing Director of AL-KO GmbH, Kammeltal, Germany (until July 13, 2016)
- •Roland Welzbacher, commercial employee (from November 4 to December 2, 2016)

The following members of the Supervisory Board are also members of other supervisory boards:

- Raymond Kolber
  AL-KO Kober SE
- Dr. Lothar Koniarski
  SBF AG
- Roland Welzbacher
  Semperit Reifen Ges.m.b.H., Austria
  Otomotiv Lastikleri Tevzi A. S. Turkey

### 9. Significant events after the reporting date

There were no significant events after the reporting date.

### 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 € 27,244,568.46 net retained profit from the fiscal year 2016 be used for a dividend payment of € 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 reserves.

### 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 8, 2017.

## 12. Statement of ownership in accordance with Section 313 of the German Commercial Code

| Subsidiaries: | Company's registered office | Stockholding (in percent) |
|---|---|---|
| 1. CANCOM GmbH | Jettingen-Scheppach, Germany | 100.0 |
| and its subsidiaries | | |
| • CANCOM (Switzerland) AG | Caslano, Switzerland | 100.0 |
| • CANCOM Computersysteme GmbH | Graz, Austria | 100.0 |
| and its subsidiaries | | |
| • CANCOM a + d IT solutions GmbH | Perchtoldsdorf, Austria | 100.0 |
| 2. NSG ICT Service GmbH | Munich, Germany | 100.0 |
| 3. CANCOM on line GmbH | Berlin, Germany | 100.0 |
| 4. Pironet AG | Cologne, Germany | 94.9 |
| and its subsidiaries | | |
| • PIRONET Datacenter AG & Co. KG | Hamburg, Germany | 94.9 |
| • PIRONET Enterprise Solutions GmbH | Cologne, Germany | 94.9 |
| • PIRONET NDH LLC | Atlanta, U.S.A. | 94.9 |
| • PIRONET NDH Beteiligungs GmbH | Cologne, Germany | 94.9 |
| 5. CANCOM SCS GmbH | Munich, Germany | 100.0 |
| 6. CANCOM ICP GmbH | Munich, Germany | 100.0 |
| 7. CANCOM physical infrastructure GmbH | Jettingen-Scheppach, Germany | 100.0 |
| 8. Verioplan GmbH | Munich, Germany | 100.0 |
| 9. CANCOM, Inc. | Palo Alto, U.S.A. | 100.0 |
| and its subsidiary | | |
| • HPM Incorporated | Palo Alto, U.S.A. | 100.0 |
| 10. Cancom on line BVBA | Elsene, Belgium | 100.0 |
| 11. CANCOM Ltd | London, U.K. | 100.0 |
| 12. CANCOM Financial Services GmbH | Jettingen-Scheppach, Germany | 100.0 |
| 13. CANCOM VVM GmbH | Jettingen-Scheppach, Germany | 100.0 |
| | | |
| **Associated companies:** | | |
| 1. prudsys AG | Chemnitz, Germany | 19.9* |

* stockholding of Pironet AG

CANCOM GmbH and NSG ICT Service GmbH have availed of the exemption option provided by Section 264, paragraph 3 of the German Commercial Code.

Munich, Germany, March 8, 2017

Klaus Weinmann Rudolf Hotter

The Executive Board of CANCOM SE

**Responsibility Statement of the consolidated financial 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 consolidated financial statements and the management report for CANCOM SE and the CANCOM Group give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, give a true overall picture of the Group's situation, and present an accurate view of the opportunities and risks of future development.

Munich, Germany, March 8, 2017

Klaus Weinmann Rudolf Hotter

Executive Board of CANCOM SE

**Auditors' opinion**

We have audited the consolidated annual financial statements (consisting of balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the accounts) prepared by CANCOM SE, Munich, as well as the management report of CANCOM SE and the CANCOM Group for the fiscal year from 1 January to 31 December 2016. It is the responsibility of the Executive Board of CANCOM SE to prepare the annual financial statements and the management report of CANCOM SE and the CANCOM Group in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union, and in line with the supplementary provisions of German commercial law according to Section 315a paragraph 1 of the German Commercial Code (Handelsgesetzbuch, HGB). Our task is to issue an opinion on the consolidated annual financial statements and the management report of CANCOM SE and the CANCOM Group on the basis of our audit.

We have carried out our audit of the consolidated annual financial statements in accordance with Section 317 of the German Commercial Code, in compliance with the German standards for the audit of financial statements laid down by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). These require us to plan and conduct our audit in such a way that any inaccuracies or irregularities significantly affecting the asset, financial and earnings position presented by the consolidated annual financial statements prepared in compliance with statutory accounting requirements, and by the management report of CANCOM SE and the CANCOM Group, can be detected with reasonable certainty. In establishing the audit procedures, we took into consideration our knowledge of the Group's business activities, and of the economic and legal environment in which it operates, as well as our expectations with regard to possible errors. The audit reviews the efficacy of the internal controlling system relating to the accounting system, and seeks proof for the details provided in the consolidated financial statements and the management report of CANCOM SE and the CANCOM Group primarily on the basis of random checks. The audit includes an assessment of the financial statements of the companies included in the consolidated financial statements, of the determination of entities to be included in the consolidated statements, of the accounting and consolidation principles applied, and of the significant estimates made by the Executive Board, as well as an evaluation of the overall presentation of the facts by the consolidated annual financial statements and the management report of CANCOM SE and the CANCOM Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion, based on the information we have obtained during our audit, the consolidated financial statements conform with IFRS as applicable in the European Union, and the requirements of German commercial law according to Section 315a paragraph 1 of the German Commercial Code and give a true and fair view of the assets, financial situation and earnings of the Group, while complying with these requirements. The management report of CANCOM SE and the CANCOM Group is in line with the consolidated financial statements and complies with the legal requirements. It gives a true overall picture of the Group's situation and presents an accurate view of the opportunities and risks of future development.

Augsburg, Germany, March 8, 2017

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Henriette Burkhardt-Böck
Certified auditor

Ulrich Stauber
Certified auditor

# SE Company balance sheet as at December 31, 2016

## ASSETS

| | Dec. 31, 2016<br>€ | Dec. 31, 2015<br>€ |
|---|---|---|
| **A. FIXED ASSETS** | | |
| **I. Intangible fixed assets** | | |
| purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets | 187,672 | 247,100 |
| | | |
| **II. Property, plant and equipment (tangible fixed assets)** | | |
| 1. Technical equipment and machinery | 71,110 | 92,161 |
| 2. Other equipment, operating and office equipment | 424,324 | 540,762 |
| | 495,434 | 632,923 |
| | | |
| **III. Long-term financial assets** | | |
| 1. Shares in affiliated companies | 182,521,127 | 161,919,096 |
| 2. Loans to affiliated companies | 11,363,704 | 8,335,134 |
| 3. Long-term equity investments (Stockholding of less than 20 percent) | 100,000 | 0 |
| 4. Long-term securities | 630,232 | 0 |
| | 194,615,063 | 170,254,231 |
| | | |
| | | |
| **B. CURRENT ASSETS** | | |
| **I. Accounts receivable and other assets** | | |
| 1. Trade accounts payable | 69,020 | 0 |
| 2. Accounts receivable from affiliated companies | 47,985,790 | 48,871,163 |
| 3. Other assets | 1,483,795 | 998,978 |
| | 49,538,605 | 49,870,141 |
| | | |
| **II. Cash in hand, central bank balances, cash on banks and checks** | 95,769,012 | 27,617,265 |
| | | |
| **C. PREPAID EXPENSES** | 67,163 | 52,323 |
| | | |
| | **340,672,949** | **248,673,982** |

## EQUITY AND LIABILITIES

| | Dec. 31, 2016<br>€ | Dec. 31, 2015<br>€ |
|---|---|---|
| **A. EQUITY** | | |
| **I. Capital stock** | 16,367,531 | 14,879,574 |
| **II. Capital reserves** | 177,328,367 | 112,602,238 |
| **III. Revenue reserves** | | |
| 1. Statutory reserves | 6,666 | 6,666 |
| 2. Other reserves | 62,924,684 | 40,469,976 |
| | 62,931,350 | 40,476,642 |
| **IV. Net retained profit/ net accumulated loss** | 27,244,568 | 30,638,473 |
| | 283,871,816 | 198,596,927 |
| | | |
| **B. PROVISIONS** | | |
| 1. Tax provisions | 8,531,923 | 2,473,249 |
| 2. Other provisions | 2,569,373 | 2,427,760 |
| | 11,101,296 | 4,901,009 |
| | | |
| **C. LIABILITIES** | | |
| 1. Bonds | | |
| a) Convertible bonds | 42,160,877 | 40,968,355 |
| b) Capital from profit participation rights and subordinated loans | 2,189,091 | 2,388,100 |
| 2. Liabilities to banks | 820,891 | 1,119,675 |
| 3. Trade accounts receivable | 112,234 | 113,944 |
| 4. Liabilities to affiliated companies | 11 | 65,856 |
| 5. Other liabilities | 407,591 | 509,391 |
| | 45,690,695 | 45,165,320 |
| | | |
| **D. DEFERRED INCOME** | 9,142 | 10,726 |
| | | |
| | **340,672,949** | **248,673,982** |

# Statement of income for the period from January 1 to December 31, 2016

| | 2016<br>€ | 2015<br>€ |
|---|---|---|
| 1. Sales revenues | 7,778,787 | 7,043,265 |
| | | |
| 2. Other own work capitalized | 0 | 100,586 |
| 3. Other operating income | 948,191 | 675,037 |
| 4. Human resources expenses | | |
| a) Wages and salaries | -5,895,852 | -5,511,472 |
| b) Social security, pension, and other staff benefit costs | -521,097 | -489,339 |
| | -6,416,949 | -6,000,811 |
| 5. 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) | -245,554 | -178,114 |
| 6. Other operating expenses | -3,865,995 | -2,410,417 |
| 7. Income from long-term equity investments | 1,645,114 | 9,846,942 |
| 8. Profits received under a profit transfer agreement | 38,967,447 | 32,385,942 |
| 9. Interest and similar income | 1,370,203 | 1,445,405 |
| 10. Write-downs of long-term financial assets | 0 | -758,948 |
| 11. Interest and similar expenses | -1,735,648 | -1,831,414 |
| 12. Income taxes | -11,199,599 | -9,676,726 |
| **13. Earnings after taxes** | **27,245,997** | **30,640,746** |
| 14. Other taxes | -1,429 | -2,273 |
| **15. Net income for the year** | **27,244,568** | **30,638,473** |
| 16. Retained profit/accumulated loss brought forward from previous year | 30,638,473 | 13,296,396 |
| 17. Allocation to revenue reserves/to other revenue reserves | -22,454,708 | -5,856,609 |
| 18. Distribution | -8,183,766 | -7,439,787 |
| | | |
| **21. Net retained profit** | **27,244,568** | **30,638,473** |

# Statement of changes in fixed assets

| | COST | | | |
|---|---|---|---|---|
| | **Balance as at Jan 1, 2016 €** | **Additions 2016 €** | **Disposals 2016 €** | **Balance as at Dec. 31, 2016 €** |
| **I. Intangible fixed assets** | | | | |
| Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets | 277,460.16 | 24,312.00 | | 301,772.16 |
| | 277,460.16 | 24,312.00 | 0.00 | 301,772.16 |
| **II. Property, plant and equipment (tangible fixed assets)** | | | | |
| 1. Technical equipment and machinery | 340,998.34 | 0.00 | 16,804.91 | 324,193.43 |
| 2. Other equipment, operating and office equipment | 1,181,285.47 | 70,801.35 | 303,093.32 | 948,993.50 |
| | 1,522,283.81 | 70,801.35 | 319,898.23 | 1,273,186.93 |
| **III. Long-term financial assets** | | | | |
| 1. Shares in affiliated companies | 161,919,096.17 | 21,292,393.03 | 690,361.93 | 182,521,127.27 |
| 2. Loans to affiliated companies | 8,335,134.34 | 3,028,569.36 | 0.00 | 11,363,703.70 |
| 3. Long-term equity investments (stockholding of less than 20 percent) | 0.00 | 100,000.00 | 0.00 | 100,000.00 |
| 4. Long-term securities | 0.00 | 630,231.75 | 0.00 | 630,231.75 |
| | 170,254,230.51 | 25,051,194.14 | 690,361.93 | 194,615,062.72 |
| **Total** | **172,053,974.48** | **25,146,307.49** | **1,010,260.16** | **196,190,021.81** |

| DEPRECIATION, AMORTIZATION AND WRITE-DOWNS | | | | CARRYING AMOUNTS | |
|---|---|---|---|---|---|
| **Balance as at Jan. 1, 2016 €** | **Additions 2016 €** | **Disposals 2016 €** | **Balance as at Dec. 31, 2016 €** | **Balance as at Dec. 31, 2016 €** | **Balance as at Dec. 31,2015 €** |
| | | | | | |
| 30,360.53 | 83,739.46 | 0.00 | 114,099.99 | 187,672.17 | 247,099.63 |
| 30,360.53 | 83,739.46 | 0.00 | 114,099.99 | 187,672.17 | 247,099.63 |
| | | | | | |
| 248,837.24 | 21,050.94 | 16,804.91 | 253,083.27 | 71,110.16 | 92,161.10 |
| 640,523.79 | 140,763.29 | 256,617.82 | 524,669.26 | 424,324.24 | 540,761.68 |
| 889,361.03 | 161,814.23 | 273,422.73 | 777,752.53 | 495,434.40 | 632,922.78 |
| | | | | | |
| 0.00 | 0.00 | 0.00 | 0.00 | 182,521,127.27 | 161,919,096.17 |
| 0.00 | 0.00 | 0.00 | 0.00 | 11,363,703.70 | 8,335,134.34 |
| 0.00 | 0.00 | 0.00 | 0.00 | 100,000.00 | 0.00 |
| 0.00 | 0.00 | 0.00 | 0.00 | 630,231.75 | 0.00 |
| 0.00 | 0.00 | 0.00 | 0.00 | 194,615,062.72 | 170,254,230.51 |
| **919,721.56** | **245,553.69** | **273,422.73** | **891,852.52** | **195,298,169.29** | **171,134,252.92** |

# Notes to the company accounts for the fiscal year 2016

## A. General information

CANCOM SE is based in Munich, Germany, and is registered in the commercial register of Munich Local Court 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 first-time adoption of the Accounting Directive Implementation Act for the fiscal year 2016 did not result in any significant deviations from the consistency of presentation principle, and takes into account the provisions regarding structure in the new wording of Section 275, paragraph 2 of the German Commercial Code. The redefinition of sales revenues does not limit the comparability of the figures for 2016 with those of previous years.

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 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. Assets will be written down if their impairment is expected to be permanent.

Low-value assets with acquisition costs of € 150 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 € 150 and € 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 30.6 percent (2015: 30.9 percent) and consists of corporate tax and trade tax as well as the solidarity surcharge. The slight decrease in the income tax rate compared with the previous year is owing to the decline in the average trade tax rate resulting from the merger of CANCOM DIDAS GmbH and Xerabit GmbH.

### 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.

## 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 (page 114 + 115).

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 (page 124).

Loans to affiliated companies relate to a long-term loan to CANCOM Inc. of € 11,364 thousand (2015: € 8,335 thousand).

### 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 € 47,986 thousand (2015: € 48,871 thousand). These relate to CANCOM GmbH (€ 41,082 thousand; 2015: € 27,497 thousand), NSG ICT Services GmbH (€ 4,731 thousand; 2015: € 10,402 thousand), CANCOM Computersysteme GmbH (€ 1,242 thousand, 2015: € 1,820 thousand), CANCOM physical infrastructure GmbH (€ 381 thousand; 2015: € 144 thousand), CANCOM SCS GmbH (€ 258 thousand; 2015: € 3 thousand), CANCOM on line GmbH (€ 165 thousand; 2015: € 4,290 thousand), CANCOM ICP GmbH (€ 61 thousand; 2015: € 884 thousand), PIRONET Datacenter AG & Co. KG (formerly PIRONET NDH Datacenter AG & Co. KG ) (€ 38 thousand; 2015: € 24 thousand), CANCOM a + d IT solutions GmbH (€ 22 thousand; 2015: € 22 thousand), PIRONET Enterprise Solutions GmbH (€ 3 thousand; 2015: € 3 thousand), Pironet AG (formerly Pironet NDH Aktiengesellschaft) (€ 2 thousand; 2015: € 2 thousand), CANCOM on line BVBA (€ 1 thousand; 2015: € 198 thousand), CANCOM Inc. (€ 0 thousand; 2015: € 422 thousand), and Verioplan GmbH (€ 0 thousand; 2015:€ 60 thousand).

In the previous year, this item also included receivables of € 2,375 thousand from CANCOM DIDAS GmbH, which was merged into CANCOM GmbH with retrospective effect from January 1, 2016. It also included receivables of € 725 thousand from NSG GIS GmbH, which was sold on December 31, 2016.

Of the accounts receivable from affiliated companies, loans account for € 7,462 thousand (2015: € 17,216 thousand), other current assets for € 39,360 thousand (2015: € 30,659 thousand) and trade accounts receivable for € 1,164 thousand (2015: € 996 thousand).

### Capital stock

As at December 31, 2016, the company's capital stock was € 16,367,531 (2015: € 14,879,574), divided into 16,367,531 notional no-par value bearer shares (shares without nominal value) (2015: 14,879,574).

### Authorized and conditional capital

In conformity with the corporate by-laws, the company's authorized capital stock totaled € 5,951,830 as at December 31, 2016; and is regulated as follows:

A resolution passed at the general meeting of shareholders on June 18, 2015 authorizes the Executive Board to increase the capital stock once or in several steps by up to a total of € 7,439,787 by issuing up to 7,439,787 new notional no-par value bearer shares for a cash or non-cash consideration (authorized capital 2015/I). The shares must be issued by June 17, 2020 and any issue of shares is subject to the approval of the Supervisory Board. In general, shareholders will be granted subscription rights, but the Executive Board is authorized to exclude the shareholders' 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 shareholders' 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 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 made use of the above authorization as follows during the fiscal year 2016.

The Executive Board has made partial use of the authorization granted by resolution of the general meeting of stockholders of CANCOM SE on June 18, 2015 to increase the company's capital stock by issuing up to 7,439,787 new no-par value bearer shares (authorized capital 2015/I). On March 2, 2016, with the agreement of the Supervisory Board, it resolved to increase the company's capital stock by up to € 1,487,957, from € 14,879,574 up to a maximum of € 16,367,531 for a cash consideration by issuing up to 1,487,957 new no-par value bearer shares with each share representing € 1 of the capital stock. The new shares were issued at the lowest issuing value of € 1 per new share and carry dividend rights from January 1, 2015. Stockholder subscription rights were disapplied pursuant to section 4, paragraph 4, sentence 3, second indent, of the corporate by-laws (Section 186, paragraph 3, sentence 4 of the German Stock Corporation Act). The capital stock was increased by the full amount of € 1,487,957 (equivalent to 1,487,957 new shares) and recorded in the company's commercial register at Munich Local Court (HRB 203845) on March 4, 2016. Following the capital increase, the company's capital stock is € 16,367,531, divided into 16,367,531 no-par value bearer shares. Each share represents € 1 of the capital stock. The remaining authorized capital (2015/I) is € 5,951,830.

In accordance with the corporate by-laws, the conditional capital at December 31, 2016 amounted to € 1,450,000 (2015: € 1,450,000). The details of the conditional capital are as follows:

The capital stock is increased conditionally by up to € 1,450,000 by the issue of up to 1,450,000 new no-par value shares (contingent capital 2013/I). The conditional increase in capital will only be implemented to the extent that holders of the convertible bond issued on March 27, 2014 exercise their conversion rights in line with the terms and conditions of the bond. The shares will be issued at the relevant conversion price under the terms and conditions of the bond. The new shares will carry dividend rights from the beginning of the fiscal year for which, at the time of their issue, no resolution of the general meeting of stockholders has been passed on the appropriation of the net retained profit/(net accumulated loss). 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.

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:

| | 2016 € '000 | 2015 € '000 |
|---|---|---|
| Capital reserves at January 1, 2016 | 112,602 | 112,602 |
| Increase in capital stock (Section 272, paragraph 2, no. 1 of the German Commercial Code) | 64,726 | 0 |
| Increase in capital stock (Section 272, paragraph 2, no. 2 of the German Commercial Code) | 0 | 0 |
| **Capital reserves** | **177,328** | **112,602** |

### Other revenue reserves

The other revenue reserves consist of the following:

| | 2016 € '000 | 2015 € '000 |
|---|---|---|
| Other revenue reserves at January 1, 2016 | 40,470 | 34,613 |
| Allocation from net retained profit | 22,455 | 5,857 |
| **Other revenue reserves** | **62,925** | **40,470** |

### Net retained profit/(net accumulated loss)

The net retained profit breaks down as follows:

| | 2016 € '000 | 2015 € '000 |
|---|---|---|
| Profit brought forward at January 1, 2016 | 30.638 | 13.296 |
| Dividend distribution | -8.183 | -7.440 |
| Reclassification to other revenue reserves | -22.455 | -5.857 |
| Net income for the year | 27.245 | 30.638 |
| **Net retained profit** | **27.245** | **30.638** |

### Other provisions

The other provisions comprise bonus payments (€ 1,896 thousand; 2015: € 1,748 thousand), emoluments to Supervisory Board members (€ 205 thousand; 2015: € 204 thousand), financial statements and audit fees (€ 138 thousand; 2015: € 144 thousand), outstanding bills (€ 120 thousand; 2015: € 168 thousand), storage obligations (€ 98 thousand; 2015: 0 thousand), variable salary components (€ 46 thousand; 2015: € 38 thousand), future tax audits (€ 35 thousand; 2015: € 32 thousand), vacation entitlements (€ 34 thousand; 2015: € 29 thousand), benefit from rent-free period (€ 32 thousand; 2015: € 37 thousand) and provisions for the German employers' liability insurance association (€ 11 thousand; 2015: € 11 thousand).

### Liabilities

For a breakdown of liabilities, please see the statement of liabilities page 120 + 121.

Convertible bonds, capital from profit participation rights and subordinated loans are disclosed in the balance sheet under bonds.

CANCOM SE issued a convertible bond for a total nominal amount of € 45,000 thousand in March 2014. The bonds mature in March 2019 and the holders are entitled to convert their bonds into up to 1,055,510 new no-par value bearer shares in CANCOM SE. The denomination per unit is € 100,000. The initial conversion price is € 42.6334 per share. The conversion ratio is therefore 2,345.5788 shares per bond at the relevant nominal amount of € 100,000. The conversion right for the bonds can be exercised throughout the entire term to maturity. The bond has a coupon of 0.875 percent. Interest will be paid annually on March 27, starting on March 27, 2015.

On the balance sheet, the convertible bond is split into an equity component and a liability component. The carrying amount of the liability component as at the reporting date is € 42,161 thousand (2015: € 40,968 thousand). The market value, including issuing costs, is € 46,066 thousand (2015: € 41,069 thousand). This was calculated using the binomial model. This resulted in the recognition under capital reserves of € 6,026 thousand for the equity component. An expense of € 1,586 thousand from the compounding of interest on the liability component was recognized for the bond in the period January 1 to December 31, 2016.

Capital from profit participation rights and subordinated loans includes two subordinated loans of € 1,829,300 (2015: € 1,995,600) and € 359,791 (2015: € 392,500) towards Stadtsparkasse Augsburg.

A loan of € 1,995,600 from Stadtsparkasse Augsburg was granted in tranches of € 1,500,000 on September 23, 2009 and € 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 € 166,300 each will commence on December 30, 2016.

A loan of € 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 € 32,709 each and a final instalment of € 32,701 will commence on December 30, 2016.

### D. Explanations and disclosures concerning the statement of income

The statement of income was prepared according to the total cost accounting principle.

Revenues for 2016 mainly consist of Group allocations (€ 7,534 thousand; 2015: € 7,007 thousand).

Other operating income includes income not relating to the period, amounting to € 64 thousand (2015: € 9 thousand), income from the disposal of financial assets € 310 thousand; (2015: € 0 thousand) as well as income arising from currency conversion totaling € 32 thousand (2015: € 82 thousand). It also comprises accounting profits from the sale of property plant and equipment (tangible assets) (€ 16 thousand; 2015: € 5 thousand), and income from the reversal of provisions (€ 48 thousand; 2015: € 2 thousand). In 2015, this item also included bonuses of € 2 thousand from a car manufacturer for cars purchased.

The other operating expenses include extraordinary expenses of € 1,429 thousand (2015: € 0 thousand). These relate to issuing costs in connection with the capital increase carried out in the fiscal year.

Profits received under a profit transfer agreement consists of CANCOM GmbH's net income for the year (€ 34,242 thousand; 2015: € 29,399 thousand) and that of NSG ICT Service GmbH (€ 4,726 thousand; 2015: € 2,987 thousand), which were transferred to CANCOM SE.

In the previous fiscal year, write-downs of long-term financial assets comprise the adjustment of a loan to a former subsidiary owing to the insolvency of that company.

Interest and similar income comprises mainly interest income of € 1,348 thousand (2015: € 1,430 thousand) from affiliated companies.

Interest and other expenses includes expenses in connection with the compounding of interest, which amounts to € 1,586 thousand.

### SCHEDULE OF LIABILITIES

| | Remaining term | | |
|---|---|---|---|
| | up to 1 year<br>€ | more than 1 year<br>€ | more than 5 years<br>€ |
| 1. Bonds | | | |
| a) Convertible bonds | 0.00 | 42,160,877.21 | 0.00 |
| b) Profit participation rights and subordinated loans | 796,036.00 | 1,393,055.00 | 0.00 |
| 2. Liabilities to banks | 298,516.00 | 522,375.00 | 0.00 |
| 3. Trade accounts payable | 112,234.38 | 0.00 | 0.00 |
| 4. Liabilities to affiliated companies | 10.56 | 0.00 | 0.00 |
| 5. Other liabilities | 407,590.71 | 0.00 | 0.00 |
| *(of which taxes)* | *18,736.75* | *0.00* | *0.00* |
| *(of which social security contributions)* | *0.00* | *0.00* | *0.00* |
| | **1,614,387.65** | **44,076,307.21** | **0.00** |

## E. Other disclosures

### Disclosures in compliance with Section 285, no. 29 of the German Commercial Code

In the fiscal year 2016 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 and other provisions of a subsidiary.

### Other financial obligations

Obligations under current tenancy and lease agreements are as follows:

| | due in 2017 € '000 | total € '000 |
|---|---|---|
| Tenancy agreements | 94 | 562 |
| of which from affiliated companies | 21 | 21 |

### Contingent liabilities

As at the reporting date, there are guarantees for CANCOM GmbH (€ 11,642 thousand; 2015: € 11,642 thousand), NSG ICT Services GmbH (€ 5,192 thousand; 2015: € 5,192 thousand), CANCOM on line GmbH (€ 3,000 thousand; 2015: € 3,000 thousand), CANCOM physical infrastructure GmbH (€ 150 thousand; 2015: € 150 thousand), CANCOM Inc. ($ 2,500 thousand; 2015: $ 2,500 thousand), and a joint guarantee (€ 200 thousand; 2015: € 200 thousand) for CANCOM GmbH, CANCOM physical infrastructure GmbH, CANCOM SCS GmbH and CANCOM ICP GmbH.

In 2014, CANCOM SE provided a parent company guarantee on behalf of PIRONET Datacenter AG & Co. KG (formerly PIRONET NDH Datacenter AG & Co. KG) for a € 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 PIRONET Datacenter AG & Co. KG has a strong financial standing.

| | Dec. 31, 2016 € '000 | Dec. 31, 2015 € '000 |
|---|---|---|
| Joint and several liability for financial guarantees and other loans | 5,276 | 6,892 |

The guarantees, which amount to € 5,276 thousand (2015: € 6,892 thousand) relate entirely to affiliated companies.

| Dec. 31, 2016 € | Dec. 31, 2015 € | Secured by lien or similar rights € | Secured by lien or similar rights Type |
|---|---|---|---|
| 42,160,877.21 | 40,968,354.94 | | |
| 2,189,091.00 | 2,388,100.00 | | |
| 820,891.00 | 1,119,675.06 | 820,891.00 | Assignment of motor vehicle as security |
| 112,234.38 | 113,943.51 | 0.00 | |
| 10.56 | 65,856.00 | 0.00 | |
| 407,590.71 | 509,390.95 | 0.00 | |
| *18,736.75* | *118,723.64* | | |
| *0.00* | *0.00* | | |
| **45,690,694.86** | **45,165,320.46** | **820,891.00** | |

CANCOM SE only gives guarantees or other commitments after careful assessment of the risks, and strictly only in respect of its own affiliated companies, or companies that engage in related business activities. 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.

**Management**

The members of the Executive Board are:

- Klaus Weinmann, graduate in business administration (Diplom-Kaufmann), Munich, Germany (CEO)
- Rudolf Hotter, graduate in business economics (Diplom-Betriebswirt), Rosshaupten, Germany

All members of the Executive Board have sole power of representation. Persons holding general commercial power of attorney (Prokura under German commercial law) are authorized to represent the company jointly with another Executive Board member or another person holding general commercial power of attorney.

The following members of the Executive Board are on the supervisory boards of other companies:

- Klaus Weinmann:
  - AL-KO Kober SE
  - CANCOM GmbH
  - NSG ICT Service GmbH

- Rudolf Hotter
  - Pironet AG (formerly Pironet NDH Aktiengesellschaft)
  - NSG ICT Service GmbH

**Supervisory Board**

The members of the Supervisory Board are:

- Dr. Lothar Koniarski, graduate in business administration (Diplom-Kaufmann), managing director of DV Immobilien Managament GmbH and Elber GmbH, Regensburg, Germany
  Chairperson (since December 20, 2016)
  Deputy Chairperson (until December 20, 2016)
- Walter Krejci, managing director of AURIGA Corporate Finance GmbH, Munich, Germany
  Chairperson (until December 20, 2016)
- Uwe Kemm, independent organizational, sales and marketing consultant,
  Deputy Chairperson (since December 20, 2016)
- Regina Weinmann, graduate in business administration (Diplom-Kauffrau), managing director of ABCON Holding GmbH and ABCON Vermögensverwaltung GmbH (formerly WFO Vermögensverwaltung GmbH), Munich, Germany
- Dominik Eberle, online marketing and e-commerce consultant
- Raymond Kober, Managing Director of AL-KO GmbH, Kammeltal, Germany, (until July 13, 2016)
- Roland Welzbacher, commercial employee,
  (from November 4 to December 2, 2016)

The following members of the Supervisory Board are also members of other supervisory boards:

- Raymond Kolber
  AL-KO Kober SE
- Dr. Lothar Koniarski
  SBF AG
- Roland Welzbacher
  Semperit Reifen Ges.m.b.H., Austria
  Otomotiv Lastikleri Tevzi A. S., Turkey

**Staff**

The average number of employees working for the company during 2016 was 73 (2015: 75). This includes part-time employees 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 13, 2016, 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 (Aktiengesetz, AktG), 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 2016 amounted to € 2,749 thousand (2015: 2,617 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. No stock options were granted to the members of the Executive Board in 2016.

Full disclosures in compliance with Section 285, no. 9a, sentences 5 to 9 of the German Commercial Code (Handelsgesetzbuch, HBG) can be found in the management report.

The total emoluments of the Supervisory Board in 2016 amounted to € 265 thousand (2015: 223 thousand).

### Details of long-term equity interests in CANCOM SE

As at December 31, 2016, the company has the following details of equity interests subject to mandatory disclosure in accordance with Sections 21 ff. of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG):

On January 16, 2014, Allianz Global Investors Luxembourg S.A., Senningerberg, Luxembourg, informed us that its share of the voting rights of CANCOM SE, held directly or indirectly, had fallen below the 5 percent threshold on January 15, 2014 and on that day amounted to 4.87 percent (equivalent to 711,270 voting rights).

Allianz Global Investors GmbH, Frankfurt am Main, Germany, informed us on March 27, 2015 that its share of the voting rights in CANCOM SE, held directly or indirectly, had fallen below the 10 percent threshold on March 26, 2015 and on that day amounted to 9.93 percent (equivalent to 1,477,079 voting rights).

Universal-Investment-Gesellschaft mit beschränkter Haftung, Frankfurt am Main, Germany, informed us on February 8, 2016 that its total share of the voting rights of CANCOM SE, held directly or indirectly, had exceeded the 3 percent threshold on February 4, 2016 and on that day amounted to 3.33 percent (equivalent to 498,953 voting rights), of which 0.33 percent (equivalent to 49,417 voting rights) is regarded as instruments within the meaning of Section 25, paragraph 1, no. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

Invesco Ltd., Hamilton, Bermuda, informed us on June 27, 2016 that its share of the voting rights of CANCOM SE, held directly or indirectly, had exceeded the 3 percent threshold on June 24, 2016 and on that day amounted to 3.33 percent (equivalent to 544,636 voting rights).

AL-KO Beteiligungs GmbH, Munich, Germany, informed us on November 11, 2016 that its share of the voting rights of CANCOM SE, held directly or indirectly, had exceeded the threshold of 5 percent of the voting rights on November 10, 2016, and on that date amounted to 5.004 percent (equivalent to 819,000 voting rights).

### Supplementary report

There were no significant events after the reporting date.

### 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 net retained profit of € 27,244,568.46 for the fiscal year 2016 be used for a dividend payment of € 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 reserves.

### 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 capital Dec. 31, 2016 € '000 | Net income/loss 2016 € '000 |
|---|---|---|---|
| **Stockholding of more than 20 percent** | | | |
| 1. CANCOM GmbH, Jettingen-Scheppach, Germany | 100.0 | 58,314 | 0 *1 |
| 2. NSG ICT Services GmbH, Munich, Germany | 100.0 | 1,347 | 0 *1 |
| 3. CANCOM on line GmbH, Berlin, Germany | 100.0 | 11,375 | 3,966 |
| 4. Cancom on line BVBA, Elsene, Belgium | 100.0 | 37 | 9 |
| 5. CANCOM physical infrastructure GmbH, Jettingen-Scheppach, Germany | 100.0 | 683 | 140 |
| 6. CANCOM SCS GmbH, Munich, Germany | 100.0 | 699 | 569 |
| 7. CANCOM ICP GmbH, Munich, Germany | 100.0 | 442 | 204 |
| 8. Verioplan GmbH, Munich, Germany | 100.0 | 34 | 9 |
| 9. CANCOM Financial Services GmbH, Jettingen-Scheppach, Germany | 100.0 | 93 | 0 |
| 10. CANCOM VVM GmbH, Jettingen-Scheppach, Germany | 100.0 | 10 | 0 |
| 11. CANCOM Computersysteme GmbH, Graz, Austria | 100.0 A) | 1,630 | 315 |
| 12. CANCOM a+d IT solutions GmbH, Perchtoldsdorf, Austria | 100.0 B) | 1,969 | 660 |
| 13. CANCOM (Switzerland) AG, Caslano, Switzerland | 100.0 A) | 0 1) | 3 |
| 14. CANCOM, Inc., Palo Alto, USA | 100.0 | 1,545 2) | -931 |
| 15. HPM Incorporated, Plasanton, USA | 100.0 C) | 24,344 2) | 2,137 |
| 16. CANCOM LTD, London, UK | 100.0 | 7 3) | 0 |
| 17. Pironet AG (formerly Pironet NDH Aktiengesellschaft), Cologne, Germany | 94.9 | 30,911 4) | 4,284 |
| 18. PIRONET Datacenter AG & Co. KG (formerly PIRONET NDH Datacenter AG & Co. KG), Hamburg , Germany | 94.9 D) | 3,068 4) | 0 |
| 19. PIRONET Enterprise Solutions GmbH, Cologne, Germany | 94.9 D) | 2,407 | 720 |
| 20. PIRONET NDH LLC, Atlanta, USA | 94.9 D) | 0 | 0 |
| 21. PIRONET NDH Beteiligungs GmbH, Cologne, Germany | 94.9 D) | 29 | 1 |
| | | **138,944** | **12,086** |

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

1) Conversion at reporting date - CHF 1 = EUR 1.07
2) Conversion at reporting date - USD 1 = EUR 1.05
3) Conversion at reporting date - GBP 1 = EUR 0.86
4) After crediting to the stockholder account

*1 Profit transfer agreement with CANCOM SE

Munich, Germany, March 8, 2017

Klaus Weinmann Rudolf Hotter

Member of the Executive Board of CANCOM SE

**Responsibility Statement of the financial 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.

Munich, Germany, March 8, 2017

Klaus Weinmann Rudolf Hotter

Member of the Executive Board of CANCOM SE

**Auditors' opinion**

Based on the final results of our audit, on March 8, 2017 we issued an unqualified opinion, which is reproduced below, on the annual financial statements for the year ended December 31, 2016 (Annexes 1 to 3) and on the management report of CANCOM SE and the CANCOM Group for the fiscal year 2016 (Annex 4) prepared by CANCOM SE, Munich, Germany:

'Auditor's opinion

We have audited the annual financial statements (consisting of the balance sheet, statement of income and notes to the accounts) prepared by CANCOM SE, Munich, Germany, including the accounts and combined management report of CANCOM SE and the CANCOM Group for the financial year from 1 January to 31 December 2015. The accounting system and the preparation of the annual financial statements and the management report according to German commercial law and the supplementary provisions of the corporate by-laws are the responsibility of the legal representatives of the company. Our task is to submit an opinion, based on our audit, on the annual financial statements, including the accounting system used, and on the management report of CANCOM SE and the CANCOM Group.

We have conducted our audit of the single-entity's annual financial statements in accordance with Section 317 of the German Commercial Code (Handelsgesetzbuch, HGB), in compliance with the German standards for the audit of financial statements laid down by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). These require us to plan and perform the audit in such a way that inaccuracies or irregularities significantly affecting the asset, financial and earnings position of the company presented by the single-entity annual financial statements prepared in compliance with the principles of proper accounting, and by the management report of CANCOM SE and the CANCOM Group, can be detected with reasonable certainty. In establishing the audit procedures, we took into consideration our knowledge of the company's business activities, and of the economic and legal environment in which the company operates, as well as our expectations with regard to possible errors. The audit reviews the efficacy of the internal controlling system relating to the accounting system and seeks proof for the details provided in the accounts, the financial statements and the management report of CANCOM SE and the CANCOM Group primarily on the basis of random checks. The audit includes an assessment of the accounting principles applied, and the significant estimates made by the company's legal representatives, as well as an appraisal of the overall presentation of the facts by the annual financial statements and the management report of CANCOM SE and the CANCOM Group.

We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion, based on the information we have obtained during our audit, the annual financial statements conform with the legal requirements and the supplementary provisions of the corporate by-laws and give a true and fair view of the assets, financial situation and earnings of the company, while complying with the generally accepted accounting principles. The management report of CANCOM SE and the CANCOM Group is in line with the financial statements, conforms with the legal requirements, gives a true overall picture of the company's situation, and presents an accurate view of the opportunities and risks of future development.'

The audit report above is issued in compliance with the legal requirements and generally accepted reporting standards for audits of annual accounts (IDW PS 450).

The auditor's opinion reproduced above may not be used outside this audit report without our prior consent. If the annual financial statements and management report of CANCOM SE and the CANCOM Group are to be published or reproduced in a form other than the certified version (including translation into other languages, our opinion must first be obtained again if our auditor's opinion is being quoted or our audit referred to; see Section 328 of the German Commercial Code.

Augsburg, Germany, March 8, 2017

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Henriette Burkhardt-Böck
Certified auditor

Ulrich Stauber
Certified auditor

# CANCOM SE financial calendar

**IMPORTANT DATES 2017**

| | |
|---|---|
| Publication of financial results as at 31 March/first quarter 2017 | May 11, 2017 |
| Annual General shareholders' meeting in Munich, Germany<br><br>Location:<br>Alte Kongresshalle<br>Theresienhöhe 15<br>80339 Munich, Germany | June 20, 2017 |
| Publication of financial results as at 30 June/second quarter 2017 | August 11, 2017 |
| Publication of financial results as at 30 September/third quarter 2017 | November 09, 2017 |
| Analysts' Conference at the German Equity Forum in Frankfurt, Germany<br><br>Date and time to be finalized.<br>Veranstaltungsort:<br>Sheraton Frankfurt Airport Hotel and Conference Center<br>Airport/Terminal 1<br>Hugo-Eckener-Ring 15<br>60594 Frankfurt am Main | 27. - 29. November 2017 |

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 may publish our quarterly or fiscal-year-end results before the dates listed above.

# Publication Details

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