CompuGroup Medical SE

Annual Report 2016

Synchronizing Healthcare

CompuGroup Medical

OUR VISION

CompuGroup Medical stands for the best possible healthcare. We support healthcare through available, structured medical data. We facilitate diagnosis and therapy, simplify workflows and enhance the exchange between all those involved in healthcare. We successfully employ intelligent IT in healthcare – to provide better and ever more financially sustainable healthcare in the best interest of all people.

CONTENTS

KEY FACTS 2016

Group Revenue (€ million)	Cash Net Income (€ million)	EBITDA (€ million)	Earnings Per share (€)	Employees
560	77	126	0.90	4,300

CHAIRMAN'S STATEMENT

Dear Shareholders,
I am very pleased to conclude 2016 on a highly positive note.

As we went through the year, we picked up more and more momentum and finished with an exceptional fourth quarter where both financial and operational success reached new all-time highs. Our commitment towards more efficiency and margin expansion was clearly stated already from the start of the year and we fully delivered on this promise in 2016. Revenue continues its steadfast growth to reach 560 million and profitability is almost two percentage points higher than last year with a 12 percent increase in EBITDA up to 126 million. From a financial scorecard perspective, this completes another successful step in our quest to be a leader in the healthcare information technology industry.

The display of our success is even more pronounced when we look behind the figures and summarize the operational progress we are making along the way. This year, I would like to highlight and celebrate the fact that our pharmacy software business has been firmly established as the second largest operating segment in CGM and its relevance is steadily increasing as we grow our footprint and deepen the relationship with our customers. CGM entered the market for pharmacy software with the Lauer-Fischer acquisition in 2011. Since then, new innovations have been developed to drive organic growth, efficiency has been greatly improved and all targets we had for the business in Germany have been reached and even exceeded. In the meantime, we have also conquered the Italian market where we now as the clear market leader serve around 13,000 pharmacies with software and related services. In 2016, we further strengthened our position in this market by acquiring one of our remaining independent distributors Vega Informatica. This means that we now service directly more than 75% of pharmacies and pharmacy-related service providers that use CGM's pharmacy software in Italy. This step brings us even closer to our customers and the acquisition of Vega confirms our successful strategy of being the one-stop-shop for all needs of the pharmacies and para-pharmacies in Italy. In terms of further expansion, we already serve pharmacy customers in the Netherlands and Spain and we are eager to see how far we can drive our growth in the pharmacy software sector in the coming years.

In 2016 we also launched an enhanced growth strategy for our hospital business. With currently around 900 employees, CGM is already serving more than 1,500 hospitals, rehabilitation and social care facilities in Europe, making us one of the largest vendors of hospital information systems on the European continent. Our clear approach to master this market is to continue to invest and focus on product leadership. In some ways this is nothing new as we have been quietly building our product capabilities for years to prepare for the next generation of opportunities in the European hospital market. With our freshly branded CGM CLINICAL software suite we are launching a cutting-edge hospital information system by combining our decades-long process expertise with the latest technologies. CGM CLINICAL enables existing inter-sectoral boundaries to be overcome once and for all with integrated resource management and optimization for all medical, nursing and administrative processes. And most importantly: all this with a sophisticated evolutionary deployment strategy that does not require major migration projects. It is a truly compelling value proposition that sets us apart from all other alternatives on the market.

2016 was also a year when we took important steps to further the use of our CGM LIFE personal health records in new and innovative products and services. For many years already, this patented security technology has been the platform for our patient driven services, the so-called eServices, which connect patients with doctors and give them the possibility to schedule appointments directly in the doctor's calendar, renew prescriptions online, get online advice from the doctor or access the most current test results – all according to the highest possible standards of data privacy and data security. In 2016 we have taken this technology a big step further with our joint venture MGS, a service provider focused on the market of private health insurers in Germany. The portal "My Health" which is based on CGM LIFE technology greatly simplifies the processes between private health insurers their health insured customers and health care providers. Through the new portal we are networking all parties involved in the process digitally and reliably for the first time in the German health care market. The resulting increase in the speed of communication secures the availability of medical data in the future and accelerates the financial clearing of private health services. In addition, numerous integrated features enable a customized health management tailored to the insured person. The vision is clear: the patient will increasingly decide about his or her own health. But good decisions require good information and a close integration and cooperation with the professional healthcare community. The security and functionality to support this collaboration is exactly what CGM LIFE can offer.

From this list of on-going strategic initiatives it is hopefully clear that alongside our daily profitability, CGM invests for the long-term future. This is nothing new and those who follow us know that we have invested in the German electronic health card and Telematics Infrastructure initiative all the way back from its inception in 2001. After more than a decade of investments that have burdened our P&L every year, we are extremely excited to now transition to a new phase where the outlook for 2017 and the years beyond is for CGM to develop significantly faster than historical growth rates based on the adoption of a completely new range of eHealth products and services in our home market.

As always, I want to thank all my colleagues, all our shareholders, our customers and all the members of the CGM family for their dedication to our business, for their loyalty and for their support. 2016 was again a year of great progress and through your commitment and participation we will continue on our positive trend in 2017 and in many exciting years to come.

Yours sincerely,

Frank Gotthardt
Chairman, CEO
27 March 2017

COMPUGROUP MEDICAL
AT A GLANCE

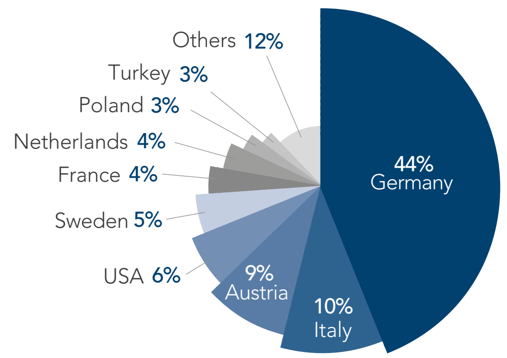
Synchronizing Healthcare

Unique global position

CompuGroup Medical is a leading global eHealth provider with office locations in 20 countries. Today we have the trust of customers from Koblenz to Kuala Lumpur, from Kiruna to Cape Town and Lublin to Los Angeles – in 46 countries worldwide. Our products assist doctors and dentists, hospitals, laboratories, pharmacies and other care providers towards safer and more efficient healthcare.

The heart of CGM beats in the Rhineland-Palatinate city of Koblenz. CGM's success story started here around 30 years ago. Today, around 750 employees – 17 percent of our global workforce – work in the company headquarter on the grounds of the historical Maria Trost site.

Regional employee deployment



2016
Partnership with Quest Diagnostics
CGM forms a strategic partnership with Quest Diagnostics in the US, the world's leading provider of diagnostic testing, information and services. The company offers the broadest access to diagnostic information services through its network of laboratories and patient service centers and will sell CGM products to existing customers and prospects.

2016
German eHealth
The introduction of the electronic health card (eGK) in Germany is one of the largest and most demanding IT projects in the world and a long-term growth opportunity for CGM. The roll-out to an estimated 225,000 participants in healthcare in Germany is scheduled for 2017-2018 timeframe.

2016
CGM AG becomes CGM SE
During the General Meeting of the company in May 2015, the shareholders have resolved to change the company into a European Company (Latin Societas Europaea, SE). This resolution is final and absolute with the registration in the Commercial Register in February 2016.

2016
MEDIAN-RHM implements CGM solution
With over 70 rehabilitation and acute clinics as well as nursing and re-education facilities, MEDIAN-RHM is one of the biggest privately-owned clinic groups in Germany. In order to optimize their clinical and administrative processes, MEDIAN-RHM will implement the industry-leading software from CGM. At the end of 2016, 22 facilities were running successfully in real operations.

2016
CGM prepares launch of CGM CLINICAL
Since the fourth quarter 2016, intensive preparations are under way for the launch of CGM's global HIS suite CGM CLINICAL. For the first time, the newly developed solution enables hospitals an interdisciplinary collaboration throughout patients' entire supply chain. CGM CLINICAL is in parallel being implemented in hospitals in Germany, Austria and Switzerland.

2016
XDENT Launch in Asia
XDENT, a product portfolio catering to dental clinics and centers, is launched in Malaysia and Singapore. With the launch of XDENT, CompuGroup expanded its product portfolio in Asia-Pacific beyond hospitals and medical clinics. In conjunction, CompuGroup Medical opens a subsidiary in Singapore to better serve the regional markets.

BUSINESS AREAS

Software for Doctors

Modern information systems for the ambulatory sector

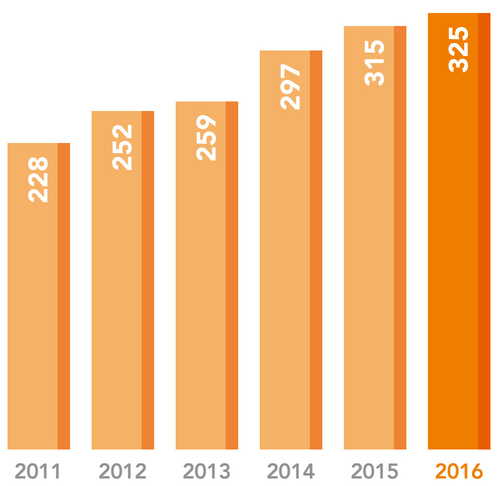
Our integrated practice management software and electronic medical records are packaged into an end-to-end solution that covers all clinical, administrative and financial functions needed to operate a modern care facility.

The solution from CGM creates safe and efficient structures for general practitioners, office-based specialists, dentists, medical care centers, physician networks, school healthcare and other ambulatory care providers.

Whether it is documentation, prescriptions, billing or administration – we make sure that bureaucracy and paperwork disappear and that the most important medical information is provided where and when it is needed.

CGM was one of the first companies to develop a fully integrated online consumer service for medical offices worldwide. With CGM, doctors and patients are in direct contact with each other – whether it is about an appointment request, a prescription renewal, an online consultation or requesting findings. The online services not only represent an innovative additional service for patients, they also lower administrative expenditures. This results in the entire medical office team having more time for what is really important: patient care.

Revenue (EUR million) Software for doctors



77%
Recurring revenue

58%
of Group revenue: software for doctors

BUSINESS AREAS

Software for Pharmacies

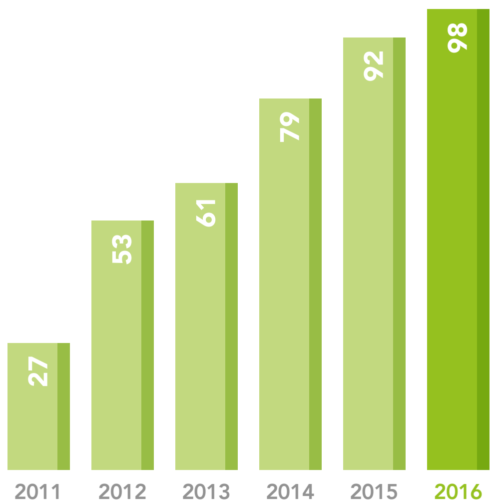
Modern information systems for community pharmacies

Software for pharmacies is focused on integrated clinical, administrative and financial software applications for pharmacies.

The software and related services provide accurate information and decision support to manage the complete drug supply chain from procurement and shipping of drugs through efficient management and control of inventory all the way to planning, execution and controlling of the retailing function.

Safe and cost-efficient dispensing to patients is ensured through advanced drug safety and control functions as well as decision support tools for generic substitution and cost optimization strategies. We also offer in-store and online merchandising programs supported by paper-based and screen-based communication and advertising solutions.

Revenue (EUR million)
Software for pharmacies



65%
Recurring revenue

18%
of Group revenue:
software for pharmacies

BUSINESS AREAS

Software for Hospitals

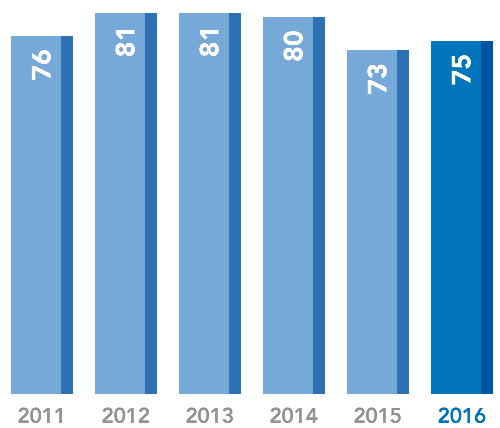
Modern information systems for secondary care institutions

During a patient's stay in a hospital, he or she passes through many wards: from admission to in-patient care and medication, from operation to discharge.

Our solution guides all management and medical specialists in all tasks and creates efficient structures for hospitals, rehabilitation centers and social care institutions.

Our hospital information system facilitates patient administration, resource and personnel management, medical documentation and billing programs in addition to a number of clinical applications aimed at various specialized departments and laboratories. As a full service provider, CGM pursues an integrated care approach and provides customized solutions for practically all aspects of administration, planning and care delivery in secondary care institutions.

Revenue (EUR million)
Software for hospitals



56%
Recurring revenue

13%
of Group revenue:
software for hospitals

BUSINESS AREAS

Connectivity Services

Networking systems for the healthcare sector

Physicians, pharmacists and treatment teams are working more and more closely together. Symptoms such as visual disorders can be treated together; prescribed medications could be coordinated with each other and preventative measures taken.

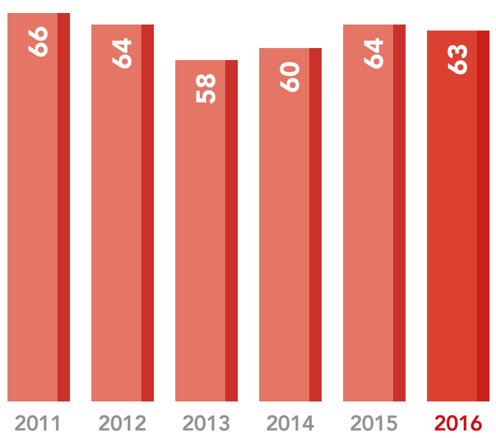
This benefits all participants: patients are holistically treated and are less likely to suffer from other health-related complications.

To offer targeted treatment, physicians require comprehensive data – preferably before the patient consultation. We take care of providing all relevant information in a timely manner – whether from colleagues, a laboratory, a health insurance or hospital.

Our networking solutions enable the secure exchange of data between the healthcare sectors – and this, fully integrated into the daily practice routine.

Our Software Assisted Medicine (SAM) links physicians, patients and payers and assists in the implementation of crucial initiatives into practice. The physician receives information about signs of a rare disease earlier – and he receives it precisely at the moment the patient is sitting in front of him. Together with physicians and payers, we create many ground-breaking innovations, helpful programs and direct interfaces in our SAM projects. Scientists confirm: Patients are healthier and the providers have a cost reduction of approximately 15%. This progress provides quality of life on the one hand, and also reduces costs.

Revenue (EUR million) Connectivity services



11%

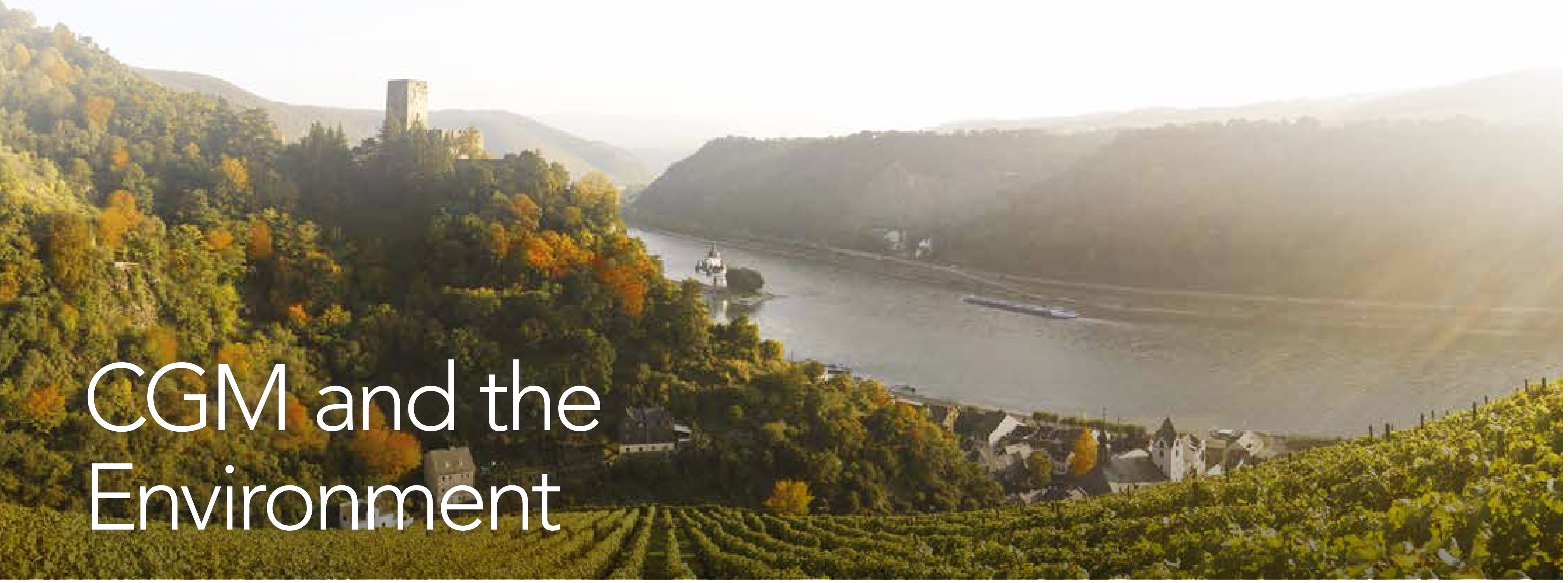
of Group revenue connectivity services

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This section of the Annual Report highlights our approach to manage CGM with a clear commitment to make contributions beyond our daily operations and markets.

We see responsible care for the environment, our employees and all people we engage with not only as a key driver for shareholder value of but also as an important obligation to society at large.

Following good corporate governance enables us to gain the trust of the communities we are part of and makes us long-term successful. Our good reputation ensures a good flow of talent, customers and capital to CGM.



CGM and the Environment

The nature of CGM's operations and activities does not affect the external environment. The main opportunity we have to make an environmental impact is to reduce energy use and carbon emissions.

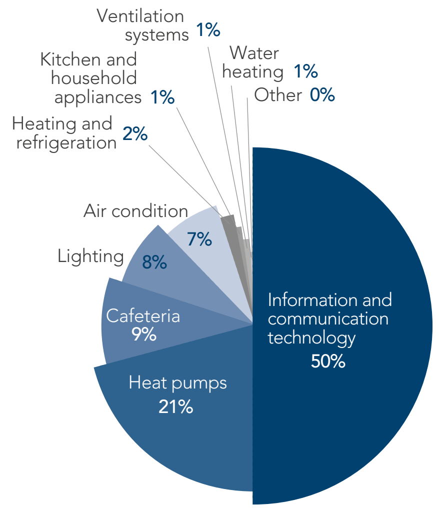
Energy Audit 2016

An energy audit is an important tool for an organization to optimize energy use and improve energy efficiency. In CGM, we performed our first energy audit in 2016 according to the standard DIN EN 16247 for our entire German operations, which encompass 2,100 employees and a total of 32 office locations.

Several areas for improvement were identified during the audit and it has formed the basis for increased awareness and initiatives for further reduction in energy use. Especially in the area of IT operations and servers, which comprises 50% of total electricity use in CGM, there is a large room for energy efficiency improvement in the coming years.

CGM and energy in Germany

32 Office Locations	**2,100** Employees	**3,600** Annual CO_2 emissions (metric tons)
8.7m kWh Annual energy consumption	**4.1m kWh** Annual energy consumption (Electricity)	**4.6m kWh** Annual energy consumption (Oil, Gas etc.)



CGM headquarter Koblenz

The main administration of CGM is an architectural highlight for Koblenz and sets new standards for the future in terms of energy efficiency.

The office building was built in 2012 according to a passive house standard and thus achieves a reduction in heating requirements of more than 80% compared to a comparable new building. With its extremely low energy requirements, the building will be one of the most energy-efficient office buildings in Germany and will help to reduce climate-damaging CO_2 emissions. The heating requirements of the new office building with a floor area of more than 6,900 m² are no higher than that of an average two-family house. The low energy requirement is achieved by combining a compact building shape with high thermal insulation of the outer shell and a very efficient heat and energy supply. At the same time, the passive energy gains in the form of heat and light are increased across large window areas.

Components of the building technology are a supply and exhaust air system with heat recovery and a gas condensing boiler to provide the low residual heat requirement. Via the central ventilation system, cool outside air can be brought into the building at night. This contributes to the accelerated cooling of the building during summer. By means of specific automatic control of the ventilation system, a defined air quality is achieved, but only the air which is really consumed is exchanged.

With the construction of the new headquarter building, CGM shows a clear sign in the area of sustainable and ecological energy management!!

Be healthy. Feel good.

"I PARTICIPATED IN THE WORLD RUN LAST YEAR AND ALREADY THEN DESCRIBED IT AS THE MOST IMPRESSIVE EVENT IN MY RUNNING CAREER. EVEN IF I DID NOT GET QUITE AS FAR THIS YEAR, IT WAS EVEN MORE IMPRESSIVE. RUNNING THE WHOLE WAY SIDE BY SIDE WITH A WHEELCHAIR USER IS AN INCREDIBLE AND INSPIRING EXPERIENCE. THE RESULT IS COMPLETELY IN THE BACKGROUND AND IN THE END YOU ARE SURPRISED HOW FAR YOU HAVE COME. FOR ME, THE WINGS FOR LIFE WORLD RUN IS DEFINITELY THE HIGHLIGHT IN THE RUNNING CALENDAR. I LOOK FORWARD TO NEXT YEAR AND HOPE TO SHARE THIS EXPERIENCE WITH MANY MORE OF MY COLLEAGUES!"

Philipp Streinz, Marketing Professional at CGM

Health, well-being and performance are closely linked and CGM puts great emphasis on measures to promote a healthy and balanced lifestyle for our employees. Under the motto "Be healthy. Feel good", our Workplace Health Management program is constantly evolving to create a fun, healthy, motivating, and highly efficient work environment.

A holistic and goal-oriented approach is taken with numerous interfaces to other management processes in the company. The strategic orientation is defined by a central steering committee with Management Board participation working in close cooperation with regional "Feel Good Teams" in other locations consisting of a representative of the management, an "Area Feel Good Manager" and a staff representative.

Both traditional approaches to health promotion (prevention courses, relaxation and nutrition) and the promotion of a healthy working environment (ergonomic advice, eye examination, workplace inspection) are decisive success factors on top of transparent and inspirational communication.

Wings for Life World Run

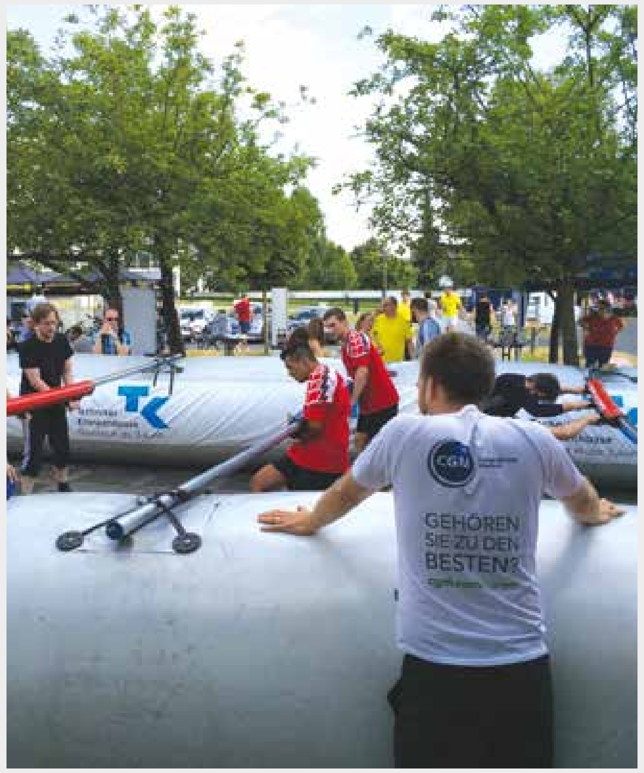
The Wings for Life World Run takes place in 34 different locations around the world at the same time. In 2016, 130,732 runners took part worldwide and covered more than 1.2 million kilometers. From CGM, employees participated in Austria (Vienna), Germany (Munich) and France (Rouen).

"Running for those who can't"

Entry fees are donated entirely to a foundation that supports research and studies about spinal cord and spinal cord injuries.

Activities 2016

- Münz company run
- AOK company run
- B2RUN Hannover
- Linz Marathon
- Wings for Life World Run
- Gotthardt tournament (tennis/badminton)
- Relaxation and stress management workshops
- Individual and group nutritional advice
- In-office massage
- FEEL GOOD WEEK (Health Week)
- FEEL GOOD DAY (Health Day)
- Occupational medical eye examination
- On-site flue vaccination
- Ergonomic consulting
- Blood donation
- First aid course
- Driving safety training



CGM Health Center, Koblenz

900m² Total area	**400m²** Weights and machines space
10 Endurance machines	**15** Power tools and free-hanging area
130m² Course space	**60m²** Physiotherapy practice
8 Strength endurance devices in the circle	**11** Cycling wheels

- Various small equipment and sling-trainer
- Training software and networking of endurance and strength devices for optimal training control and documentation
- Qualified, interdisciplinary support

Governance

CGM is an entrepreneurial company where risk taking, innovation and growth are core values. This business culture is accompanied by a consistent set of corporate governance practices at all levels of the organization where limits are enforced, success is rewarded and lack of performance leads to consequences.

A European Company

The parent company of CGM changed its legal form in 2015 from a German public limited company (Aktiengesellschaft – AG) to a European Company (also known by its Latin name Societas Europaea or SE). An SE is a type of public limited-liability company regulated under EU law which enables us to bring cross-border businesses within the integrated EU market under the umbrella of a single legal charter.

In the transformation to an SE, we have kept the best of both worlds from our German origins and from the modernized and forward looking framework that the European Company statute offers. Most notably, we have retained a dual board structure with two separate Boards of Directors that work together in order to govern our business.

Supervisory Board

The composition of the Supervisory Board is permanently fixed at a ratio of 2/3 independent outside directors and 1/3 (minimum two) employee representatives. All external members of the Supervisory Board are elected by the shareholders and do not hold any management responsibility or position in the Company. All employee representatives are elected by the SE Works Council. The Supervisory Board typically meets physically 7-10 times per year together with the Management Board to discuss and decide on key issues of relevance to CGM.

One of the primary roles of the Supervisory Board is to be involved in long-term decision making and strategic planning. Another key task that the Supervisory Board is in charge of is the designation of members to the Management Board and the removal of Management Board members should this be necessary. For specific areas of work, the Supervisory Board may form standing committees and the Supervisory Board of CGM currently has one such standing committee in place: the Audit Committee.

"IN THE TRANSFORMATION TO AN SE, WE HAVE KEPT THE BEST OF BOTH WORLDS FROM OUR GERMAN ORIGINS AND FROM THE MODERNIZED AND FORWARD LOOKING FRAMEWORK THAT THE EUROPEAN COMPANY STATUTE OFFERS."

Management Board

The main responsibility of the Management Board is to jointly run the business and to take care of all matters of daily operations. The four members of the Management Board are all dedicated to CGM on a full-time basis and usually meet physically once per week to discuss and decide on key tactical issues and the everyday management of the business.

The Management Board closely cooperates with the Supervisory Board to develop the long-term business strategy. Although daily matters are fully in the hand of the Management Board, all transactions, such as acquisitions, above a certain size have to be approved by the Supervisory Board. Other material corporate actions by the Management Board which are outside the regular course of business are also subject to the oversight and approval by the Supervisory Board.

Strategic Management Group

A selected group of managers who report directly to a member of the Management Board are appointed to the CGM Strategic Management Group (SMG). The SMG is not prescribed by any legal statute but has been created internally to clearly identify the top management level in CGM and to create a forum with a regular meeting schedule for international knowledge and experience transfer.

Once per year, the Supervisory Board, the Management Board and the SMG meet together for an off-site workshop over 2-3 days to discuss and exchange points of view on specific strategic and tactical topics of relevance.

MANAGEMENT BOARD

Frank Gotthardt
Chairman of the Management Board, CEO

Frank Gotthardt became a pioneer of IT in the healthcare sector in his days as a computer scientist. He is Chairman of the Management Board of CompuGroup Medical SE. He built the leading global eHealth company, domiciled in Koblenz, up from nothing and has continued to lead and shape it since its founding. Today, 400,000 customers and approx. 4,300 employees worldwide have put their trust in CompuGroup Medical SE. Mr. Gotthardt is also the Regional Chairman of the Economic Council of Rhineland-Palatinate, a member of the Federal Executive Board and Deputy Chairman of the Federal Commission for Health.

Frank Brecher
Chief Process Officer, CPO

Frank Brecher has been a member of the Executive Board of CompuGroup Medical SE since 2015 and has been employed with CompuGroup Medical since 1998 initially occupying various management positions in the group's dental software business. Beginning in late 2007, he was responsible for CGM's business operations in the hospital, clinic and rehabilitation sector in Germany. In 2011, Mr. Brecher was a key manager involved in the acquisition of LAUER-FISCHER and played a vital role in the successful integration of this new subsidiary in CGM. At the end of 2011, Mr. Brecher was appointed to the Executive Board of CGM Deutschland AG. Since April 2013, Mr. Brecher has also led and coordinated the worldwide rollout of CGM's new uniform IT platform "OneGroup IT".

Uwe Eibich
Executive Vice President, Central Europe

Uwe Eibich has been a member of the Executive Board of CompuGroup Medical SE since 2007 and today he leads the business segment Telematics & eHealth Platforms. The focus of his work is on the global development of eHealth Platforms for networking and communication as well as on the development and marketing of associated services. This includes the telematics infrastructure in Germany and Austria as well as the solutions around CGM LIFE. Before his start at CGM, the computer scientist worked for a dental software manufacturer. In his former positions at CGM, he headed the business operations in Germany and supervised the international expansion. In addition, Uwe Eibich is the Chief Financial Officer of the Federal Association for Healthcare IT (bvitg).

Christian B. Teig
Chief Financial Officer, CFO

Christian B. Teig was born in Norway in 1965. He has been on the Executive Board of CompuGroup Medical SE since 2008. He is the former CEO of the subsidiary, Profdoc. During his time in this position, he developed it into one of Scandinavia's market leaders and acquired customers in Africa and Asia. Prior to this position, he worked in the IT division of Norsk Data and also as a Management Consultant for McKinsey & Company. In 1990, Mr. Teig earned a B.S. degree from the University of California in Santa Barbara and in 1995, his MBA from INSEAD in France.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of CompuGroup Medical SE performed the duties required of it by law and by the Articles of Association during the 2016 fiscal year. The Supervisory Board regularly advised the Management Board in its management of the Company and supervised the Company's management team. The Supervisory Board was directly involved in all decisions of major significance to the company.

The Management Board informed the Supervisory Board regularly, comprehensively and promptly by means of verbal and written reports on all issues of relevance to corporate planning and strategic development, on the course of business and on the Group's general situation, including any risks and risk management.

The Supervisory Board obtained regular reports from the Management Board regarding the measures it had implemented to improve results and about any possible, planned or completed Company acquisitions. It also discussed the opportunities and risks involved in planned transactions with the Management Board in detail. Deviations from plans and targets that eventuated during the course of business were explained to the Supervisory Board in detail. In 2016, consultations between the Management Board and the Supervisory Board focused on two projects in particular: throughout the year, on the progress of CGM during the pilot phase of the expansion of telecommunications infrastructure for healthcare in Germany; and, in the second half of the year, on talks between CGM and Agfa-Gevaert N.V. about CGM's interest in purchasing Agfa-Gevaert N.V.

The Supervisory Board formed an Audit Committee from among its members, whose chairman was the chairman of the Supervisory Board. The Audit Committee held a total of four meetings over the course of the year under review and prepared resolutions for the Supervisory Board. The committee submitted its recommendation to the Supervisory Board for the appointment of an auditor for the 2016 fiscal year. The Supervisory Board was regularly informed about the work done by the Audit Committee.

Pursuant to new EU regulations about awarding tenders for the auditing of the financial statements of companies listed on the stock exchange, CompuGroup Medical SE invited auditing companies to submit tenders to audit CompuGroup Medical SE's single-entity and consolidated financial statements and the financial statements of its subsidiaries included in the consolidated financial statement for the 2017 fiscal year. After evaluating the documents submitted in a total of 11 applications, five financial auditing companies were invited to give presentations, during which the applicants introduced their concepts, methods and teams. After carefully analyzing these results, in November 2016, the Audit Committee passed a resolution recommending that the Supervisory Board appoint PricewaterhouseCoopers GmbH, Frankfurt (PwC) as the auditor of CompuGroup Medical SE's financial statements for the 2017 fiscal year. This is the auditor that the CGM Group also chose to audit its financial statements in previous years.

In line with the resolution passed by the Annual General Meeting on May 20, 2015 and after carrying out negotiations and concluding an investment agreement on December 3, 2015, the Koblenz District Court entered our Company's transformation into CompuGroup Medical SE into the Commercial Register on February 5, 2016. Accordingly, the form of employee participation in the Supervisory Board has developed into EU-Europe-wide participation. For this reason, Maik Pagenkopf and Klaus Schrod became members of the Supervisory Board on February 5, 2016, whereupon Karl Grüner and Lothar Wild withdrew from the Supervisory Board. We bade farewell to these colleagues with our deepest thanks.

The Supervisory Board held five ordinary meetings during the course of the past fiscal year, and four resolutions were adopted during telephone conferences and in procedures in writing:

February 3, 2016:
The Supervisory Board approved the conclusion of a contract for the purchase of the Equus business from the company MIBIT ApS in Denmark. With this purchase, CompuGroup significantly improved its market position in the field of psychologists and physiotherapists in Denmark.

March 17, 2016:
In the March 2016 session for the approval of the financial statements, the Management Board explained the 2015 annual financial statement of CompuGroup Medical SE, the 2015 consolidated financial statements and the respective Annual Reports to the Supervisory Board in detail in the presence of the auditors. The Management Board and the employees of the auditing firm PricewaterhouseCoopers AG, Frankfurt (PwC), personally answered all questions that were posed by the Supervisory Board in detail during the subsequent discussion. The annual financial statement was adopted. The consolidated financial statement was endorsed. The Management Board's proposed allocation of profits was approved. The agenda for the 2016 Annual General Meeting including its draft decisions was approved.

In addition, the Supervisory Board was presented with and discussed other activities, plans and funding for the 2016 fiscal year, as well as the Management Board's risk report.

REPORT OF THE SUPERVISORY BOARD CONTINUED

Another focus was on advising on the reappointment of Christian B. Teig to the position of Chief Financial Officer for the period October 1, 2016, until September 30, 2020, and deciding upon Mr. Teig's remuneration.

The Supervisory Board approved the planned acquisition of a distributor for CGM pharmacy software in Italy.

A joint statement of compliance with the German Corporate Governance Codex was discussed and confirmed unchanged.

April 7, 2016:

The Supervisory Board advised upon and set down payment modalities in connection with the variable component of the remuneration for the chairman of the Management Board.

May 18, 2016:

At this meeting, the Management Board reported on the current situation in all business divisions. The Supervisory Board decided upon the date for the 2017 Annual General Meeting.

June 09/10, 2016:

At its annual strategy meeting with the Management Board and second level management, the Supervisory Board discussed possible expansions to CompuGroup's business development.

August 10, 2016:

The Supervisory Board advised upon and approved the planned purchased of another distributor for CGM pharmacy software in Italy in a procedure in writing.

September 8, 2016:

At this meeting of the Supervisory Board, the Supervisory Board received information about the current status of the project to introduce the electronic health card in Germany.

The Supervisory Board was informed at the meeting that the Management Board was currently evaluating the possibilities of a takeover of the company Agfa-Gevaert N.V. and would undertake a limited due diligence exercise in a next step. The Supervisory Board consulted with the Management Board about the approach it planned to take and approved the further evaluation of the possibilities of purchasing the company.

The Supervisory Board advised on the reappointment of Mr. Uwe Eibich to the company's Management Board for the period January 1, 2017, to December 31, 2020, and about his future areas of responsibility. The Supervisory Board determined the remuneration for Mr. Eibich.

November 10, 2016:

The Management Board presented a draft of the 2017 budget and discussed it with the Supervisory Board.

The Management Board informed the Supervisory Board about the progress being made in the evaluation of the possibilities of a takeover of the company Agfa-Gevaert N.V. The Supervisory Board discussed the opportunities and risks of the potential purchase with the Management Board.

December 2, 2016:

The Supervisory Board was informed at this meeting about the current situation of all business divisions. The Management Board explained the 2017 budget for the group CompuGroup Medical to the Supervisory Board, which the Supervisory Board then approved.

The Management Board informed the Supervisory Board about the course the talks with the management of Agfa-Gevaert N.V. had taken and the reasons for ending them on December 1, 2016. The Management Board and Supervisory Board discussed the situation; the Supervisory Board supported the Management Board's decision to declare an amicable end to the talks.

December 23, 2016:

The Supervisory Board approved the planned acquisition of the company K-Line, a Medistar distributor, in a procedure in writing.

The Supervisory Board did not have any conflicts of interest during the reporting period.

All Supervisory Board members were always present during the meetings held during the 2016 fiscal year.

Pursuant to statutory provisions, the auditors elected at the Annual General Meeting and appointed by the Supervisory Board (PwC) audited the annual financial statement for CompuGroup Medical SE, the consolidated financial statements and the respective Annual Reports of CompuGroup Medical SE and the Group for the year ending on December 31, 2016, including accounting records, and issued unqualified audit opinions.

During its meeting on March 16, 2017, the annual financial statement prepared and submitted on time by the Management Board, the consolidated financial report and the situation report of CompuGroup Medical SE and the Group were submitted to the Supervisory Board, as was the Management Board's recommended appropriation of retained earnings and the auditor's corresponding audit reports. The Supervisory Board reviewed the documents submitted. The Management Board and the employees of the auditing firm PricewaterhouseCoopers GmbH in Frankfurt (PwC) personally answered all questions posed by the Supervisory Board in detail during the subsequent discussion.

The Supervisory Board took note of the audit's findings and did not raise any objections.

Pursuant to section 171 of the Stock Corporation Act (AktG), the Supervisory Board reviewed and adopted the annual financial statement of the parent company and the group; the Annual Reports of CompuGroup Medical SE and the group; the Management Board's recommended appropriation of retained earnings; and the risk management report. The financial statements of CompuGroup Medical SE were thus approved. The consolidated financial statement was endorsed.

The Management Board submitted the report prescribed by section 312 of the Stock Corporation Act (AktG) concerning relationships with related companies (dependency report) to the Supervisory Board together with the declaration required by section 312 (3) of the Stock Corporation Act (AktG). The auditor named above checked the dependency report and issued the following certificate confirming the results of the audit:
"Having conducted a proper audit and appraisal, we can confirm that
1. the actual details in the report are correct,
2. the payments made by the company were not unreasonably high for the legal transactions listed in the report."

The Supervisory Board noted and approved the audit results and also reviewed the dependency report. Following the final results of the review by the Supervisory Board, objections have been raised neither against the report nor against the Management Board's declaration at the end of the dependency report.

The Supervisory Board would like to thank all members of the Management Board and employees of CompuGroup Medical SE, including those employed by its subsidiaries, for their commitment and the work they performed during the past fiscal year.

Koblenz, Germany, March 16, 2017

The Supervisory Board

Dr. Klaus Esser
Chairman of the Supervisory Board

CORPORATE GOVERNANCE STATEMENT

The actions of CompuGroup Medical´s Management Board and Supervisory Board are based on the principles of good and responsible corporate governance. In this statement, the Management Board – also acting on behalf of the Supervisory Board – provides its report on corporate governance in the Company pursuant to sub-section 3.10 of the German Corporate Governance Code (GCGC) and pursuant to section 289a (1) of the German Commercial Code (HGB).

Declaration of Conformity

This declaration of conformity relates to conformity with the recommendations of the German Corporate Governance Codex (GCGC) in accordance with section 161 of the Aktiengesetz (German Stock Corporation Act).

Since the last declaration of conformity dated March 2016, CompuGroup Medical SE has conformed to the recommendations of the GCGC as amended on 5 May 2015, subject to the deviations mentioned in the aforesaid declaration.

In the future, CompuGroup Medical SE will comply with the recommendations, issued on February 7th 2017 of the German Corporate Governance Codex with the following exceptions:

Section 3.8 of the GCGC
A deductible within a D&O insurance for the Supervisory Board which suits all Management Board members should be determined. The current D&O insurance does not follow this recommendation as a deductible is not considered commensurate due to the amount of remuneration of the Supervisory Board.

Section 4.2.2 of the GCGC
The Supervisory Board should take the ratio of Senior Management to the overall workforce and its development over time into consideration when determining the compensation of the Management Board members. The Supervisory Board will not follow this recommendation because it does not consider this approach appropriate when determining the compensation of the Management Board members.

Section 4.2.3 of the GCGC
According to section 4.2.3 the compensation of the Management Board should be limited, both in terms of the total amount and the variable components. The management contract with the CEO does not provide such a limitation in order to provide an incentive effect which would not be given to the same extend in case of a limitation.

The Supervisory Board has reserved the right to adjust performance targets or underlying comparison parameters during the contract period. This is necessary in order to obtain the necessary flexibility to respond to relevant changes in market and business environment.

Pension commitments to Management Board Members are currently non-existent are also not intended for in the future.

Section 5.1.2 of the GCGC
An age limit for members of the Management Board shall be specified. CompuGroup Medical does not comply with this recommendation and has not fixed an age limit for its Management Board members. The Company believes that a rigid age limit does not represent an appropriate selection criterion for its corporate officers and will consider this aspect on a case by case basis when evaluating potential candidates. The Supervisory Board considers also an appropriate diversity with regards to the company's international scope.

Section 5.3.2 of the GCGC
The company deviates from the recommendation in section 5.3.2 of the GCGC stipulating that the Chairman of the Supervisory Board shall not be Chairman of the Audit Committee. The Chairman of the Supervisory Board of CompuGroup Medical has specific knowledge and experience in the field of accounting and internal control procedures and is also considered to be independent.

Section 5.3.3 of the GCGC
The Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting. CompuGroup Medical does not comply with this recommendation as has no nomination committee. It is not considered necessary to constitute a separate nomination committee as a working procedure has been established for the Supervisory Board to carry out the duties of a nomination committee in close cooperation with the largest shareholders of CompuGroup Medical.

Section 5.4.1 of the GCGC
According to section 5.4.1 of the Corporate Governance code an age limit for members of the Supervisory Board shall be specified. CompuGroup Medical does not comply with this recommendation and has not fixed an age limit for its Supervisory Board members. The Company believes that a rigid age limit does not represent an appropriate selection criterion for its Supervisory Board Members and will consider this aspect on a case-by-case basis when evaluating potential candidates.

With regard to the composition of the Supervisory Board, the Company will predominantly take into account potential candidates' expertise, skills and professional experience. Therefore the Supervisory Board will not specify any regular limit for the duration of membership in the Supervisory Board.

Only for the ratio of women in the supervisory board, the Board will determine the targets regarding its future composition. This is necessary to retain preferably flexibility in assessing the suitability of potential candidates.

Section 5.4.6 of the GCGC
The compensation arrangements for the Supervisory Board basically provide for a uniform fixed compensation. All Supervisory Board members are expected to perform their tasks with the highest level of engagement with focus on the Company's long-term success. Up to now, only the chairman of the Supervisory Board receives a 50 percent higher compensation, because the work pattern of the chairman is clearly larger than the work pattern of all other Board Members, including the deputy chairman and the committee members.

Koblenz, March 2017

Dr. Klaus Esser
Chairman Supervisory Board

Frank Gotthardt
Chief Executive Officer

Corporate Governance practices

CompuGroup Medical acknowledges the obligation to behave as a responsible member of society. Our business is based on trust and we are daily dealing with issues related to health care safety, patient privacy and public procurement processes. CompuGroup Medical's business activities will always comply with applicable laws and regulations and act in an ethical and socially responsible manner. This ethical foundation in some instances result in CompuGroup Medical's corporate governance principles to go beyond the requirements of law and the recommendations of the GCGC. There are written instructions with ethical guidelines which apply to all our staff, and to all those who act on CompuGroup Medical's behalf. We also expect our suppliers and partners to have ethical guidelines in their own enterprises, which are consistent with CompuGroup Medical's ethical values. The documents describing the CompuGroup Medical guidelines are permanently available from our website at www.cgm.com.

Operation principles of the Management and Supervisory Board

CompuGroup Medical SE is a company under German law, which also represents the basis of the GCGC. One of the fundamental principles of German stock corporation law is the dual management system involving two bodies, the Management Board and the Supervisory Board, each of which is vested with independent competences. CompuGroup Medical's Management Board and Supervisory Board cooperate closely and confiding in managing and monitoring the Company.

The Management Board is responsible for managing the enterprise. Its members are jointly accountable for the management of the enterprise. The Chairman of the Management Board coordinates the work of the Management Board and is also the Group Chief Executive Officer (CEO). Underneath the CEO, the organizational design is a regional-functional matrix organization with senior executives reporting directly to the Group CEO. This structure is supported by a detailed governance model that determines the way in which CompuGroup Medical operates. Until the end of the last fiscal Year one member of the Management Board was assigned to the regional line organization as Executive Vice President and overall responsible for the region of D-A-CH (Germany, Austria and Switzerland). To meet the requirements of the increasing importance of a networked eHealth in Germany and Austria, this Board member took over the responsibility of the new established department "Telematics & eHealth Platforms". Another Management Board member is assigned to the functional organization as Chief Financial Officer (CFO). The fourth Board member leads the department "Process and Efficiency Management" as Chief Process Officer (CPO). All members of the Management Board meet on a weekly basis to discuss a broad set of issues ranging from daily operations to the Group strategy. The Management Board together with all regional managers composes the Strategic Management Group, which meets about ten times per year to harmonize operations and ensure knowledge sharing across geographies and functions.

CompuGroup Medical supports the concept of an effective Supervisory Board in line with the Company's needs for expertise, capacity, balanced decision-making and ability to independently evaluate the Company's activities and the conduct of its management. The Supervisory Board appoints, supervises and advises the members of the Management Board and is directly involved in decisions of fundamental importance to the enterprise. The chairman of the Supervisory Board coordinates the work of the Supervisory Board. The duties of the Supervisory Board and its Committees are regulated in the Articles of Association. In addition, the Supervisory Board has adopted terms of reference governing its work. The Supervisory Board does not comprise any former Management Board members. It comprises a sufficient number of independent members not maintaining any personal or business relationship with the Company or its Management Board. Supervisory Board meetings are generally held six to eight times per year, and during at least one of these meetings the corporate strategy is up for review. Every month, the Supervisory Board receives a financial review, management reports and forward-looking analysis. The Supervisory Board regularly reviews the efficiency of its work. The last efficiency review took place in 2015. The next efficiency review is scheduled for 2017. The efficiency of the Supervisory Board's work, including its cooperation with the Management

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board, was determined on the basis of a list of questions and a subsequent discussion at a Supervisory Board meeting. The Supervisory Board has established one Committee from among its members: The Audit Committee consists of the Chairman of the Supervisory Board, two shareholder representatives and one employee representative. The Supervisory Board has appointed its Chairman, Dr. Klaus Esser, as the independent Audit Committee financial expert. The Audit Committee monitors the Company's financial reporting process, discusses and examines annual consolidated financial statements and management reports prepared by the Management Board, as well as the quarterly financial reports. Based on the independent auditors' report, the Audit Committee gives recommendations with respect to the approval of the annual financial statements and the consolidated financial statements by the Supervisory Board. Furthermore, the Audit Committee recommends to the Supervisory Board the independent auditors elected at the General Shareholders' Meeting to audit the annual financial statements.

The Management and Supervisory Board members are obliged to act in CompuGroup Medical SE's best interests. In the completed financial year, there was no conflict of interest, which was disclosed to the Supervisory Board. None of the Management Board members of CompuGroup Medical SE sat on more than three Supervisory Boards of listed non-Group companies.

Targets for the composition of the Supervisory Board and Management Board

According to § 111 paragraph 5 the Company's Supervisory Board has advised and determined the targets for the respective proportion of women according to the specific situation of the Company at last in March 2017 as follows:
a) For the Supervisory Board a target of 1/6 has been set, for the period ending June 30th, 2020
b) For the Management Board a target of zero has been set, for the period ending June 30th, 2020

The current composition of the Supervisory Board and the Management Board matches these targets.

In the opinion of the Supervisory Board, the number of independent members in the Supervisory Board is appropriate if their portion is at least 50%. The independent members are Dr. Klaus Esser (Chairman), Dr. Ulrike Flach and René Obermann.

Compensation of the Management Board and Supervisory Board

CompuGroup Medical SE complies with the recommendations of the GCGC to provide details of the compensation of each individual member of the Executive Board and Supervisory Board. The principles of the compensation systems and compensation amounts are outlined in the Compensation Report, which is part of the management report.

Risk management

Good corporate governance entails the responsible handling of Company risks. The Management Board of CompuGroup Medical use general and Company-specific reporting and monitoring systems to identify, assess and manage these risks. These systems are continually developed and adjusted to match changes in overall conditions. The Management Board regularly informs the Supervisory Board about existing risks and the development of these risks. The Audit Committee deals in particular with monitoring the accounting process, including reporting, the efficiency of the internal control system, risk management and the internal auditing system, compliance and audit of the annual financial statements. More detailed information about CompuGroup Medical's risk management is presented in the Risk Report. It also contains the report on the accounting related internal control and risk management system required in accordance with the German Accounting Modernization Act.

Accounting and auditing

CompuGroup Medical SE prepares its consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements of CompuGroup Medical SE are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared by the Management and audited by the auditors and the Supervisory Board. The interim reports are discussed between the Audit Committee and the Management Board prior to publication. The consolidated financial statements and the financial statements of CompuGroup Medical SE for the fiscal year 2016 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, the auditors elected by the 2016 Annual General Meeting. The audit was based on German auditing rules, taking account of the generally accepted auditing standards issued by the German Auditors' Institute as well as the International Standards on Auditing. In addition, a contractual agreement was concluded with the auditors to the effect that the auditors will immediately inform the Supervisory Board of any grounds for disqualification or partiality as well as of all findings and events of importance arising during the performance of the audit. There was no ground to provide such information in the framework of the audit of the financial year 2016.

Shareholders and Annual General Meeting

The shareholders of CompuGroup Medical exercise their rights in General Meetings. The Annual General Meeting takes place during the first six months of the business year. The Chairman of the Supervisory Board is the chair of the General Meeting. The General Meeting performs all duties assigned by the law. Our aim is to make the participation in General Meetings as easy for the stockholders as possible. Thus, all reports and documents necessary to the participation, including the Annual Report, are published in an easily accessible way on the Company's Internet site together with the agenda. The Management Board arranges for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions.

Shareholdings of Management and Supervisory Board

The following shareholdings currently consist to Management and Supervisory Board members:

Management Board:	
Frank Gotthardt:	17,910,804 shares (approximately 33.65%)
Uwe Eibich:	97,744 shares (approximately 0.18%)
Frank Brecher:	1,284 shares (approximately 0.00%)
Supervisory Board:	
Prof. Dr. Daniel Gotthardt:	3,571,711 shares (approximately 6.71%)
Dr. Klaus Esser	140,000 shares (approximately 0.26%)

Transparency

A standardized, comprehensive and prompt information flow is highly valued in CompuGroup Medical SE. CompuGroup Medical's business situation and results will be outlined in the Annual Report, in the quarterly reports, at the annual investor and analyst conference and regular conference calls. Furthermore, press releases or, if legally required, ad hoc announcements will also provide information. All announcements and reports are available on the Internet at www.cgm.com under the section Investor Relations. CompuGroup Medical SE has prepared the required directory of persons with insider information (insider register). The affected persons are informed about the legal obligations and penalties.

COMBINED MANAGEMENT REPORT
FINANCIAL YEAR 2016

The CGM Group
CompuGroup Medical SE (CGM) develops and sells efficiency and quality-enhancing software as well as information technology services exclusively for the healthcare sector. The Company plays a leading role in the development of global e-health solutions and enjoys market leadership in Germany as well as in other key European countries. CGM's software products and related services are designed to support all medical and organizational activities in doctors' offices, medical laboratories, pharmacies, hospitals and other provider organizations. Its information services for health insurance companies and pharmaceutical producers contribute towards safer and more efficient healthcare. The Company's services are based on a unique customer base of doctors, dentists, hospitals and pharmacies, as well as other service providers in healthcare. With headquarters in Germany (Koblenz), the Company has a wide and global reach with offices in 20 countries and installations in 46 countries worldwide. Approximately 4,300 highly qualified employees support customers with innovative solutions for the steady growing demands of the healthcare system.

Organizational structure
The CGM Group consists of many companies in several countries; all controlled directly or indirectly by the parent legal entity CompuGroup Medical SE. For a complete list of Group companies and other equity investments, see Section C of the notes to the Consolidated Financial Statements. The subsidiaries in each country serve as a platform for our local employees who perform the tasks of sales and marketing, service and support, research and development as well as general administration close to customers and markets. Independent of the legal entities, the Group is managed as "one company" with reporting lines and decision powers defined by operating segments and not by legal structure.

Operating segments
CGM serves a broad range of healthcare providers, from general practitioners, community clinics and pharmacies, to hospitals and medical laboratories. In addition, we offer products and services to facilitate networking between various healthcare participants, targeted specifically at pharmaceutical companies, healthcare payers, healthcare providers and also patients. Our offer is built around a portfolio of reliable and user friendly software applications, complemented by a broad range of value-added services to facilitate networking within the complete healthcare universe. Our solutions are tailored to specific user communities, each with a unique set of requirements and success factors. The following six business segments contain our complete portfolio of products, solutions and services:

Ambulatory Information Systems (AIS) is focused on practice management software and electronic medical records for office-based physicians, dentists, medical care centers and physician's networks. The customers are usually primary care providers working in ambulatory care, providing health services on an outpatient basis to those who visit a healthcare facility and depart after treatment on the same day. For these providers, products and services are packaged into an end-to-end solution that covers all clinical, administrative and financial functions needed to operate a modern care facility. The integrated software solution creates efficient structures for the customers to manage, analyze and use medical data, organize business operations and generate invoices, including extensive administrative support and workflow functionality.

Pharmacy Information Systems (PCS) is focused on integrated clinical, administrative and financial software applications for retail pharmacies. The software and related services provide accurate information and decision support to manage the complete drug supply chain from procurement and shipping of drugs through efficient management and control of inventory all the way to planning, execution and controlling of the retailing function. Safe and cost-efficient dispensing to patients is ensured through advanced drug safety and control functions as well as decision support tools for generic substitution and cost optimization strategies. We also offer in-store and online merchandising programs supported by paper-based and screen-based communication and advertising solutions.

Hospital Information Systems (HIS) is focused on clinical and administrative solutions for the inpatient sector, where health services are provided over a prolonged period of time (from days to years) through highly specialized, secondary care institutions. The customers range from acute hospitals to rehabilitation centers and social services, including multi-site hospital networks and regional care organizations. The software and related services facilitate patient administration, resource and personnel management, medical documentation and billing programs in addition to a number of clinical applications aimed at various specialized departments and laboratories. As a full service provider, CGM pursues an integrated care approach and provides customized solutions for practically all aspects of administration, planning and care delivery in secondary care institutions.

Communication & Data is targeted at pharmaceutical companies, enabling them to provide information to healthcare providers through software interfaces. In addition, CGM collects and mediates anonymous clinical data for market studies, clinical trials etc.

Workflow & Decision Support is targeted at healthcare payers (health insurers, managed care companies and public sector organizations) by providing an information channel to healthcare providers via software interfaces. Information, best practices and clinical guidelines are integrated in the workflow of the doctors to optimize decision-making and thereby assist them in delivering the highest quality and most cost efficient care. Other service examples from this segment are clinical decision support systems as well as drugs and therapy databases for healthcare providers.

Internet Service Provider (ISP) is targeted at healthcare providers (physicians, dentists, pharmacists and hospitals), providing secure Internet and intranet solutions, through which a secure exchange of medical data is guaranteed.

Reporting segments
The business segments described above form the basis of our IFRS reporting segments (IFRS: International Financial Reporting Standards). The IFRS reporting segments (HPS I, HPS II and HCS) are described in Section F of the notes to the Consolidated Financial Statements.

Business model
CGM's business model is built for long-term sustainability and profitability. Software maintenance and other recurring revenue is the primary source of income. The managed service type contracts that CGM offers reflects the ongoing nature of the value we deliver to our clients. For a fixed and predictable annual cost, the client is offered high-quality products backed by premiere service and readily available and competent support. For our investors, the choice of a service-oriented business model provides CGM with high quality and visibility of future earnings. Based on these principles, the market characteristics and corresponding business model differ significantly between the business segments.

Ambulatory and Pharmacy Information Systems target smaller, office-based providers where the customer, buyer, decision maker and daily user of the software often is one and the same person. Sales and decision cycles are short, and installation and delivery of solutions is usually completed over the course of a few days. Software maintenance and other recurring revenue is the primary source of income and over the last few years the proportion of recurring revenue has been stable around 75 percent. Other revenue is up-front (one-time) charges coming from license sales, training/consulting and other sales such as third party licenses, associated hardware and equipment etc. Customer relationships are generally long-term.

Hospital Information Systems is a project oriented business where the buyer, decision maker and daily user typically are not the same person. In this segment, the customer is usually a hospital administration (IT or procurement department), the administration of a hospital chain or other operator of hospital networks, a regional care organization or regional public sector organization. In Europe, hospitals and care institutions are predominantly owned and operated by the public sector and thus subject to public tendering regulations with long lead times and long decision cycles. Installation and delivery of solutions can range from a few months to multi-year delivery projects. Compared to Ambulatory and Pharmacy Information Systems, the volume of consulting and other professional services is significantly higher and software maintenance and other recurring revenue currently constitute around 56 percent of revenue.

The business model in Communication & Data is based on co-operation agreements (typically with 6-12 months duration), ad-hoc advertising (on-going) and project revenue for collection and mediation of clinical data.

Revenue in Workflow & Decision Support is based on project sales (license and professional services), software maintenance and support, and performance-based revenue (cost and quality of care based).

The Internet Service Provider business model is based on subscriptions which make up virtually all revenue in this segment.

External factors influencing the business
The healthcare market is in general a large and growing market, with a resilient profile relative to business cycles. Global health care spending was in 2016 approximately USD 1,320 per capita and as a percentage of Gross Domestic Product (GDP) 10.5 on average, with regional percentages of 16.7 percent in North America, 10.4 percent in Western Europe, 7.1 percent in Latin America, 6.7 percent in Asia/Australasia, and 5.9 percent in the Middle East/Africa. For the period 2017 to 2021, global healthcare spending is expected to grow 4.4 percent annually while the average spending as percentage of GDP is expected to remain at the same level until 2019[1]. The development of the age structure (demographic change) and, associated therewith, the deterioration of the health status among the general population as well as the medical progress play a significant role in the increasing demand for medical treatments also in Germany. Healthcare spending in Germany thereby increased 3.9 percent annually from 2011 to 2016[2]. As a percentage of GDP, spending in Germany amounted to 11.1 percent in 2016 with a total volume of approximately EUR 359 billion, fourth rank in an OECD comparison after the US (16.9 percent), Switzerland (11.5 percent) and Japan (11.2 percent)[3]. In many parts of the world, costs related to healthcare are currently rising at four to five times the rate of growth in wages and inflation. Even during economic downturns, people will still require medical aid and medicine to overcome illness. Therefore, a business in the healthcare sector is often considered to be defensive because the products and services are essential. Having a consistent demand for goods and services makes this sector less sensitive to business cycle fluctuations.

Changes to the composition of the Group
Compared with the previous year, the composition of the Group has changed through a number of acquisitions as listed below. In addition, certain subsidiaries have been merged and/or changed name but this does not materially change the Group and is not discussed in this management report. For more information about such internal mergers and company name changes, as well as smaller acquisitions, see Section C of the notes to the Consolidated Financial Statements.

1 Source: The Economist Intelligence Unit. World Healthcare Outlook, December 2016.
2 Source: German Federal Statistical Office. Federal Health Monitoring information, February 2017.
3 Source: OECD. Health Statistics (database), February 2017.

COMBINED MANAGEMENT REPORT CONTINUED

Acquisition of the Equus product line, Denmark
In January 2016, CompuGroup Medical Denmark A/S, a wholly-owned subsidiary of CompuGroup Medical SE, acquired all relevant assets of Mibit Aps in Denmark related to the development, manufacturing and distribution of products and services of the web based IT-system "EQUUS" for practitioners of physical therapy and psychology. Equus contributes revenue of EUR 0.5 million and EBITDA of EUR 0.3 million to the Group in the reporting period.

Acquisition of Vega Informatica e Farmacia S.r.l., Italy
In August 2016, CompuGroup Medical Italia Holding S.r.l, a wholly-owned subsidiary of CompuGroup Medical SE, acquired 75 percent of the shares of the company VEGA Informatica e Farmacia S.r.l. (VEGA). Located in Pavia, Italy, VEGA distributes software solutions for pharmacies in Italy and is with its 1,400 customers the largest external distributor of CGM's pharmacy software in Italy. Furthermore, it sells hardware as well as a wide range of additional modules and services related to information technology for pharmacies. With this acquisition, CGM has strengthened its position in the Italian market for pharmacy information systems to serve now directly more than 75 percent of pharmacies and pharmacy-related service providers that use CGM's pharmacy software. Vega contributes revenue of EUR 2.6 million and EBITDA of EUR 0.2 million to the Group in the reporting period.

Acquisition of Micromedic GmbH, Germany
In September 2016, Turbomed Vertriebs- und Service GmbH, a wholly-owned subsidiary of CompuGroup Medical SE, acquired 100 percent of the shares of the company Micromedic GmbH, located in Neuss, Germany. Micromedic is a sales- and service partner for CGM's software for office-based doctors in the region North Rhine-Westphalia. Micromedic contributes revenue of EUR 0.3 million and EBITDA of EUR 0.1 million to the Group in the reporting period.

Acquisition of CSI Calabria, Italy
In October 2016, Qualità in Farmacia S.r.l., a wholly-owned subsidiary of CompuGroup Medical SE, acquired all relevant assets of CSI Calabria (CSI). Located in Calabria, Italy, CSI distributes CGM's software solutions for pharmacies in Italy and with this acquisition, CGM will serve more than 50 percent of the south-Italian region of Calabria with direct distribution and service for its pharmacy customers. CSI contributes revenue of EUR 0.2 million and zero EBITDA to the Group in the reporting period.

Objectives and strategies
The unchanged strategic aim of CGM is to continue to expand its position as a leading international provider of IT solutions for the healthcare system. The key elements of its corporate strategy can be summarized as follows:
- Continue to grow the customer base of doctors, dentist, pharmacists and hospitals through acquisition and organic growth
- Organic growth by adding new products and services to existing customers and through additional revenue streams from pharmaceutical companies, healthcare payers and other participants in healthcare.
- Continued leadership in technology and innovation.

Internal management system
The internal management system of CGM is based on a set of key performance Indicators (KPIs). The KPIs used to manage our performance are derived from three primary objectives:
1. Growth
2. Return on Capital
3. Sustainability

In any fundamental value calculation, growth is a primary driver of monetary value. In addition, and also because of the inherent economic benefit, growth drives pricing multiples in the stock market. Growth also offers benefits that go beyond economic equations. Growth enables the further development of the Company, creates career opportunities and motivates employees. For our customers, growth means we can invest more into our products and services with technology investments spread over a larger revenue base. In summary, growth is crucial to all stakeholders of CGM: customers, employees and shareowners.

In addition to organic growth, CGM uses acquisitions as a means to grow the business and therefore needs a system to ensure the efficient use of capital. Return on Capital (ROC) simultaneously captures improved income statement profitability and balance sheet efficiency and focuses management on controllable drivers of fundamental intrinsic value. This measure is also in harmony with the information we get from a more comprehensive net-present-value analysis. ROC rewards efficient use of capital in the daily management of the business and is a useful metric for comparing profitability across segments and business units based on the amount of capital they use.

The long-term viability and sustainability of the Company is recognized as another fundamental value for all stakeholders in CGM. The business is based on long-term customer relationships with software maintenance and recurring service fees as the primary source of income. Any relevant way to measure and ensure the size and development of the customer base and the size of the portfolio of recurring revenue is considered. We also recognize the importance of our employees as unique knowledge workers, carriers of experience and continuity in customer relations and therefore look for specific ways to measure and stimulate employee engagement as part of our sustainability objective. Our ability to make technology innovations and develop strategic partnerships also counts towards securing the long-term prospects of our business.

A comprehensive set of financial and non-financial key performance indicators are derived from the three primary objectives described above. Unchanged since 2013, we used the following financial KPIs to manage our performance in 2016. Unless otherwise stated, all financial numbers are reported and audited IFRS figures. For further details on IFRS reporting, please see section E of the notes to the Consolidated Financial Statements.

Sales revenue/revenue growth. This measure gives the highest level insight into our ability to fulfill our primary growth objective. The absolute size of CGM is internally defined by the sales to third parties ("revenue"), and growth is defined as the year-on-year revenue growth calculated as current year sales revenue relative to the same period 12 months ago, expressed as a percentage.

Recurring revenue/recurring revenue growth. Our recurring revenue includes all software maintenance contracts plus subscriptions for services such as Internet access (ISP), EDI and transaction processing, business process outsourcing, data center hosting, hardware rental etc. The principal source of recurring revenue is software maintenance which customers pay to get software updates and enhancements as well as access to a hotline support service.

EUR '000	2016	2015	Source
Software maintenance and other recurring revenue	374,901	361,194	Note 19
Hardware rental (non-IFRS)	5,043	5,212	Internal accounts
Recurring revenue	**379,944**	**366,406**	
Growth (in %)	**3.7%**	**8.5%**	

Organic growth. Organic growth is defined as the year-on-year growth in revenue excluding all revenue from acquisitions with first time consolidation within the last two financial years. Foreign exchange rate differences are included. Organic growth is an important component of our overall growth strategy and is also an important measure of our ability to add value to our acquisitions.

EUR '000	2016	2015	Source
Group sales revenue	560,195	543,066	Income Statement
Equus	-537	-/-	Internal accounts
Vega	-2,587	-/-	Company Acquisitions
Micromedic	-315	-/-	Company Acquisitions
Other acquisitions 2016	-190	-/-	Internal accounts
Other acquisitions 2015	-8,081	4,266	Internal accounts
Group organic revenue	**548,485**	**538,800**	
Organic growth (in %)	**1.8%**	**1,9%**	

EBITDA/EBITDA margin. Earnings before interest, taxes, depreciation and amortization (EBITDA) is a good indicator of our raw cash generating ability, before consideration of expenditures related to taxation, investments and financing. It is particularly relevant when comparing segments and business units since both capital procurement, larger investments (in particular Company acquisitions) and taxation are Group level responsibilities that are not subject to the direct influence of the business units. Correspondingly, the EBITDA margin defined as the EBITDA relative to sales revenue expressed as a percentage is a good indicator of operating profitability.

Cash Net Income. Cash Net Income is defined as the reported consolidated net income plus amortization and goodwill impairment less amortization of self-developed software. This measure is used to estimate the total cash liquidity generated after all expenditures to maintain the current business and sustain the organic growth have been paid, including all reported taxes and financial income and expenses.

EUR '000	2016	2015	Source
Consolidated net income	44,470	38,622	Income Statement
Amortization without amortization of self-developed software	27,842	32,891	Change in Intangible and Tangible Assets
Goodwill impairment	4,386	1,352	Change in Intangible and Tangible Assets
Cash Net Income	**76,698**	**72,865**	

Leverage. Debt financing and leverage represents an important measure at the corporate level to optimize the cost of capital in the Group. Leverage is defined as the ratio of net debt to EBITDA, where net debt is calculated as current and non-current liabilities to banks and credit institutions minus cash and cash equivalents.

COMBINED MANAGEMENT REPORT CONTINUED

EUR '000	2016	2015	Source
Net debt	**330,439**	327,035	a+b-c
a. Liabilities to banks (non-current)	**316,122**	310,158	Statement of financial position
b. Liabilities to banks (current)	**42,073**	41,934	Statement of financial position
c. Cash and cash equivalents	**27,756**	25,057	Statement of financial position
EBITDA	**125,667**	112,319	Income Statement
Leverage	**2,63**	**2,91**	

Return on Capital. Return on Capital is defined as after-tax operating income over invested capital expressed as a percentage. After-tax operating income is calculated as reported earnings before interest and taxes (EBIT) reduced by a pro-forma tax rate (30%). Invested capital is defined as total assets less current liabilities plus current liabilities to banks less cash and cash equivalents calculated at the beginning of the year. This definition of invested capital excludes the working capital provided through trade payables and other short term liabilities on which no interest or other return must be paid. Furthermore, the timing difference assumes that investments made during the course of a year will generally not start generating earnings before the next year. All figures are taken as year-end values.

EUR '000	2016	2015	2014	Source
Earnings before interest and tax (EBIT)	**81,844**	67,774		Income statement
After-tax operating income	**57,291**	47,442		EBIT x (1-30%)
Invested Capital		614,478	595,334	a- b+c-d
a. Assets		791,678	737,547	Statement of financial position
b. Current liabilities		194,077	140,691	Statement of financial position
c. Current liabilities to banks		41,934	19,943	Statement of financial position
d. Cash and cash equivalents		25,057	21,465	Statement of financial position
Return on Capital (%)	**9.3%**	**8.0%**	**6,7%**	**After-tax operating income / Invested Capital (t-1)**

CGM's access to a large and growing customer base, the reputation we hold among our customers and our ability to serve them through highly qualified and motivated employees are critical non-financial success factors which drive all our primary objectives. Unchanged since 2013 we used the following non-financial KPI to manage our performance in 2016:

Customer base. The customer base represents an important measure to assess our size and relative importance in the healthcare sector. The customer base is defined as the number of healthcare professionals (doctors, dentists, pharmacists) using CGM software and services and is counted in the CRM systems used by our sales and customer service departments.

A comprehensive planning and performance management system has been introduced to include the financial and non-financial performance indicators listed above. A group-wide planning and reporting software has been customized for CGM to bring the financial reporting and performance management information out to line management. The most important KPIs are closely monitored and distributed to the managers together with a financial reporting package which includes budget targets. The cycle of review and discussion with management is typically monthly with a world-wide physical management group meeting in the Koblenz headquarter followed by one-on-one discussion between the segment managers and the CEO and his staff. In case of negative deviations, a deeper and more detailed analysis is performed to identify root-causes and initiate corrective measures.

Research and development

Software development in CGM is generally organized centrally and can be broken down into the four main areas specified below:

- Development of individual components of the existing Ambulatory Information Systems and Pharmacy Information Systems, development activity that occurs both centrally and locally.
- Development of platform products, which are independent products that are plugged into the physician or dentist information systems via interfaces. Examples include electronic archiving systems or systems for managing appointments and optimizing organizational procedures.
- Development of a new generation of Ambulatory Information Systems as well as the development of a new international Hospital Information System, both based on a shared data model and technology platform ("G3"). The separation of business logic from user interface makes it possible to implement core functions through one-off development and maintenance work, these functions being subsequently deployed in different products and their individual product user interfaces.
- Development of innovative software solutions for use in Software Assisted Medicine (SAM).

Individual components are increasingly being adapted by central teams of developers across the sector. Training sessions by external instructors ensure that the teams remain up to date with technological developments. Group companies are continually working to provide customers with state-of-the-art software solutions and services. To ensure the quality of the products on offer, our development teams work with the latest tools in compliance with internationally recognized standards.

Future generations of software developed by CGM will be distinguished by having an individualized front-end solution uniquely adapted to the individual CGM product lines, while back-end modules are developed for all main product lines across platforms. This can be described as a "building block principle". In the medium term, this means, especially for the back-end area, that those development activities will become as centralized as possible. In contrast, developing and updating the front-end area will remain the responsibility of the subsidiaries close to markets and customers.

Capitalized in-house services

In accordance with the provisions of IAS 38, the development work for capitalized in-house services (approximately 238,000 hours) is capitalized as an asset, which had a EUR 10,3 million effect on CGM's EBITDA in 2016. The amortization of capitalized in-house services from prior periods was EUR 3.2 million in 2016. The vast majority of this development work stemmed from the new development project G3.HIS (new development of a Hospital Information System) which involves several Group companies. The larger item in terms of development hours has generated costs in the current year. This mainly involves software maintenance by adapting/constantly improving software products to new and/or amended legal or contractual requirements, work which cannot be recognized in assets. Depending on the area of expertise and/or current regulations, updates are generally required each quarter. The share of capitalized in-house services relative to total software development and maintenance costs was 10 percent in the reporting period. The average number of employees working in software development and maintenance during 2016 was 1,406.

Report on Economic Position

General economic conditions

Global economic development

Compared to last year, CGM has not experienced any material change in its business due to changes in the global economic environment. This can be partially attributed to the resilient and defensive attributes of the healthcare sector and the robust business model of CGM, but also to a relatively stable macroeconomic picture in CGM's main markets Europe (in particular Germany) and the United States.

In its most recent Economic Outlook published in November 2016, the OECD provides an analysis of the major economic trends in 2016. Real global GDP growth is estimated at around 2.9 percent in 2016, well below its long-run average but still relatively similar to 2015 (3.1 percent). Overall, the global trade, which was already growing relatively slowly over the past few years, appears to have stagnated and even declined in 2016. However, growth in the OECD economies has held up relatively well this year at around 1.7 percent (2015: 2.1 percent), helped by an upturn in private consumption growth. The Euro area is expected to achieve a slightly higher GDP growth of 1.7 percent compared to the US (1.5 percent), reversing the trend of previous years when the US growth rate was clearly above the Euro area[4].

Industry development

The consistent trend of a growing healthcare sector, including healthcare-specific information technology and related services, was apparent also in 2016. According to a study published by Markets and Markets in September 2016, the global healthcare industry is currently in a phase of technological transition, where healthcare IT has emerged as a powerful tool to transform the clinical, operational, and administrative outcomes of the industry. Over the past decade, the global healthcare IT market has evolved from basic EMR/EHR solutions to the development of specialized hospital information management systems, population health management solutions, and healthcare information exchange systems. The global healthcare IT market has registered steady growth in the last five years. This growth is attributed to the rising adoption of healthcare IT solutions by healthcare providers to meet regulatory requirements for patient care and safety, increasing need to curtail soaring healthcare costs, and growing need to improve healthcare quality while maintaining operational efficiency[5].

In terms of numbers, the same study by Markets and Markets estimates the size of the healthcare IT market to be USD 122 billion in 2015 and is further expected to grow at a CAGR of 13.4% to reach USD 229 Billion by 2020. The markets in North America and Europe are regarded as technologically competent, characterized by the presence of well-established infrastructure. Together, these two regions accounted for the majority of the global healthcare IT market in 2015, and are expected to grow at a healthy CAGR during 2015-2020. Changing regulatory requirements for improving the quality of healthcare and increasing patient safety and rising healthcare expenditures are some key factors driving the growth of the healthcare IT market in North America and Europe.

The overall size of the market and its developing trends is supported by a study published by Allied Market Research published in September 2016 which estimates the world market for healthcare IT solutions and services to be USD 125 billion in 2015 and is projected to reach $297 billion by 2022, registering a CAGR of 13.2% from 2016-2022. North America is the leading regional market in 2015, and is expected to maintain its position throughout the study period[6].

The healthcare IT market, by product, is in the study from Markets and Markets segmented into healthcare provider solutions, healthcare payer solutions, and HCIT outsourcing services. Within this segmentation, CGM is predominantly active in healthcare provider solutions and this market segment, comprising clinical and non-clinical IT solutions, accounts for the largest share of the global healthcare IT market. Electronic Health Records, mobile health solutions (mHealth) and Picture Archiving and Communication Solutions (PACS) are key areas within clinical provider solutions and together, these areas accounted for more than 65% of the global clinical healthcare IT solutions market in 2015. Supply chain management, revenue cycle management, and healthcare analytics are some of the key non-clinical provider

4 Source: OECD. Economic Outlook, November 2016.
5 Source: Markets and Markets. Healthcare IT market global forecast to 2020, September 2015.
6 Source: Allied Market Research. Healthcare IT market outlook 2016-2022, September 2016.

COMBINED MANAGEMENT REPORT CONTINUED

solutions areas, accounting for a share of approximately 50% of the non-clinical healthcare IT solutions market in 2015. In most all of these areas, CGM has competitive product and service offerings.

Overall, it can be said that the healthcare IT market is regarded as a growth market by all studies worldwide. CompuGroup Medical considers itself well-positioned and expects to profit from these developments.

Course of business

In summary, 2016 was a good year in all operating segments except Ambulatory Information Systems. Pharmacy Information Systems delivered financial performance well ahead of what was planned for the year and Communication & Data and Workflow and Decision Support also concluded the year in the upper end of the 2016 forecast. The reason for the shortfall in Ambulatory Information Systems is lower than planned revenue from sale of software licenses, sale of hardware and associated delivery of professional services in several markets. The "gematik project" in Germany (for further information see section under Ambulatory Information Systems below) also delivered a significantly lower revenue contribution with higher costs compared to what was planned for 2016.

The table below shows the 2016 outcome compared with the forecast presented in the Management Report for the 2015 financial year (published in March 2016), as expressed by the most important financial KPIs of the internal management system.

(EUR million)	2016 outcome	2016 forecast	Deviation (from mid-range)
Sales revenue	560	560-570	-5
Revenue growth (%)	3%	3-5%	-1%
Organic growth (%)	2%	2-4%	-1%
Recurring revenue	380	380	0
Recurring revenue growth (%)	4%	4%	0%
EBITDA	126	125-133	-3.3
EBITDA margin (%)	22%	22-23%	0%
Cash Net Income	77	79-84	-4.8
Return on Capital (%)	9.3%	9.4-10.3%	-0.5%

As can be seen from the table above, the growth-related KPIs are slightly below the forecasted ranges. The main reasons behind this development are the mentioned revenue shortfalls in Ambulatory Information Systems. For the other performance indicators the development in 2016 has been as expected albeit generally in the lower end in the forecasted ranges.

Ambulatory Information Systems (AIS)

In the 2015 Management Report, the expected 2016 full year AIS revenue was forecasted between EUR 334 million and EUR 338 million (including approximately EUR 2 million from acquisitions). The reported revenue outcome of EUR 325 million is below this range, reflecting lower than expected revenue in several markets as well lower than expected revenue from the Gematik project in Germany. Changes in currency exchange rates also reduced the reported revenue in the AIS segment with EUR 1.6 million in 2016 compared to what was planned.

The AIS business started 2016 with a flat revenue development across all main operating areas: the European business, the gematik project and the US business. For the core elements of the business model, being software maintenance and other recurring service fees, year-on-year growth was as expected. However, revenue from low margin hardware sales and professional services were down year on year and revenue from software license sales was also lower than expected. The reasons behind this development can be found both in external factors such as weak global demand for PC-related hardware as well as lower than normal public sector spending in markets like Sweden and Italy. In addition, delayed launch of certain add-on modules in Germany due to technical problems also contributed to the weak growth in the first period of the year. The German product challenges were eventually solved and in addition to an extended suite of add-on applications focused on re-designed and modernized user interfaces both for mobile devices and standard workstations, new add-on software modules were also launched in the Germany market to enable doctors to fulfill their legal obligations w.r.t. the nation-wide patient medication plan which will become a requirements for German doctors as part of the eHealth law (see below). The new products were accompanied by strong incentives and active campaigns both towards dealers and end customers to maximize uptake during the second half of 2016. However, these initiatives had limited impact over the summer period and the main effect only came in the fourth quarter where the AIS revenue development got back on track with 9 percent year-on-year organic growth. Even if this was a strong finish to the year, it was too late to fully compensate for the missing revenue at the beginning of the year. For the full year 2016, the AIS business grew organically with 2 percent, which is disappointing given the inherent growth potential in this segment.

Gematik project, Germany

In December 2013, CGM won the tender advertised by the Society for Telematic Applications for the German Health Card ("gematik" – Gesellschaft für Telematikanwendungen der Gesundheitskarte mbH) in a consortium with Strategy& (formerly Booz & Company) and KoCo Connector AG (a CGM group company). The tender is for the testing of the Telematics Infrastructure in one of two test regions in Germany. The term "Telematik" (telematics) is a combination of the German words "Telekommunikation" (telecommunications) and "Informatik" (information technology). Telematics is concerned with networking the IT systems of doctor's practices, pharmacies, hospitals and health insurances, thus achieving a cross-sector information exchange. CGM's share of the tender's contract value within the AIS segment is approximately EUR 24.1 million with a further approximately EUR 7.0 million of revenue from in other business segments (ISP).

The project was originally planned to be delivered over a 24 month project period but due to delays and changes in specifications, new cybercrime threat scenarios and data security requirements the project will instead take more than 36 months to complete with substantially more extensive research and development needed.

At the Berlin trade fair conhIT in April 2016, CGM showed live for the third time the insured master data update (VSDM) based on the new electronic health card (eGK). With another official real-life demonstration of all required hardware and software components fully functional, CGM again showed its readiness for a successful Roll-out to test the Telematics Infrastructure in the pilot region North/West. Already one year ago, at the 2015 conhIT, CGM showed live for the first time the insured master data update. At this point, CGM had also recruited all required doctors (500 out of 500 required) to participate in the pilot. Before this, in July 2015, one of the key hardware components to be developed and delivered by the CGM consortium in the project, the so-called "Konnektor", was delivered in the required quantities to the project customer according to agreed milestones and began the prescribed external testing and certification procedures.

In June 2016, the project customer (gematik) published a status report where it was confirmed that the testing in the project can be done with existing card readers with a software update. The status of both Konnektors (both test regions) was listed as "undergoing the approval test by gematik and the evaluation process for certification by the Federal Office for Information Security (BSI)". All other components of the Telematik Infrastructure were listed as either being finished or undergoing the approval test by gematik.

Significant progress was made in the project during the second half of the year. One of the key hardware components to be developed and delivered by the CGM consortium in the project, the so-called "Konnektor", was in November given its formal security certificate by the Federal Office for Information Security (BSI). Furthermore, a number of the existing card terminals were approved to be used throughout the complete pilot period (with a firmware update). A 3 week pre-pilot period in the North-West test region began on November 18 and the first and important application in the infrastructure, the verification and update of the insured master data (VSDM), was successfully tested with more than 7700 online VSDM services carried out in this period by the first 23 doctors' offices and one hospital. Already after 3 weeks, this greatly exceeded the 1000 successful events that were determined by Gematik as one of the conditions for the further rollout of test installations. CGM expects to complete the step-wise installation of all 506 contracted pilot users by June 2017.

The German eHealth law and planned national rollout of the Telematics Infrastructure

Parallel to the Gematik project, the German federal Ministry of Health (BMG) began in 2015 the preparation of a new bill – "The eHealth Law" (Gesetz für sichere digitale Kommunikation und Anwendungen im Gesundheitswesen), where the mandatory national rollout and use of the Telematics Infrastructure and electronic health card was to be written into German law. With clear majority, the bill was approved in the Bundestag (German parliament) in December 2015 and the new law became effective January 2016.

The eHealth law contains clear deadlines and financial incentives/penalties to ensure the timely rollout of the Telematics Infrastructure to an estimated 225,000 participants in healthcare all over Germany in the 2016-2018 timeframe. With a full rollout CGM has the opportunity to sell new eGK-compliant online access products to this complete market and in particular to all existing ~64,000 customer locations in Germany. Even more important the Telematics Infrastructure fits perfectly with CGMs strategy to provide more products and services to its customers, such as eServices, ePrescriptions, eLabOrder, physician networks, online clinical pathways, hosting services etc.

From the current status in the Gematik project, CGM expects to be ready to begin the nationwide roll-out towards the middle of 2017. Testing so far in the project has been successful and the transition over the first to second quarter in 2017 is expected to be done with all 506 planned test installations live which will give a strong indication of CGM's readiness to begin the nation-wide roll-out. Other important areas that also need to be completed before a roll-out can begin are financing agreement between providers and insurers, re-designed and security approved (BSI) card readers and central components for productive operation (e.g. VPN access service). All components including Konnektors and card readers also have to be re-certified as they are currently only certified according to the pilot specifications and not for the final productive specifications (differences being relatively limited). Assuming that these preconditions are met, completing the nationwide roll-out by 01.07.2018 as is required by the eHealth law is still the goal and is still possible. Roll-out will then need to be done in 12-15 calendar months with a substantial number in 2017 and the rest during the first 6 months of 2018.

Developments in the United States

In the United States, revenue had a flat development year-on-year at around USD 44 million, which has now been more or less an unchanged business volume since 2014. Over the same two year period, due to the significant strengthening of the US dollar, reported revenue in the US grew 19 percent from EUR 33.5 million in 2014 to EUR 39.8 million in 2016.

COMBINED MANAGEMENT REPORT CONTINUED

Broader distribution model in Germany

CGM currently serves approximately 87,000 physicians and dentists as customers and users of its medical and dental information systems in Germany. The distribution of software and hardware products, as well as the associated service and support is today done through a network of sales and service partners. These sales and service partners are predominantly independent IT system houses that specialize in a product line from CGM and support and sell towards medical and dental practices in their regional environment.

CGM wants to integrate closer with these highly specialized partners and at the same time strengthen the distribution power for new products and services in Germany. This goal shall be reached by selectively taking equity participations in efficient sales and service partners and gradually build CGM's own direct nationwide sales and service network. Discussions with various partners regarding an investment or full acquisition were performed during 2016 and one sales and service partner was acquired during the year (Micromedic).

Pharmacy Information Systems (PCS)

In the 2015 Management Report, the expected 2016 full year PCS revenue was forecasted between EUR 93 million and EUR 95 million. The revenue outcome of EUR 98 million is above this range and is a strong result even if there is a revenue contribution of EUR 3 million from acquisitions during the year which was not part of the forecast.

Similar to the doctor and dental software business, the pharmacy software business had a soft start to the year with a flat revenue development. Also here, it was revenue from low margin hardware sales and professional services falling behind whereas software maintenance and other recurring service fees are growing steadily as planned. Several initiatives were launched to stimulate revenue from hardware, software and services in the second half of 2016 which had a significant positive impact over the summer period and revenue rebounded strongly in the third quarter with 10 percent organic growth.

In Italy, a new scanning-product "eVision" (CGM owned patent) and a special hardware campaign for robotic prescription dispensing systems was launched in September and Italian customers also benefited from an increased tax depreciation of 140 percent for machinery and equipment, including computer equipment. The positive effects continued in the fourth quarter although the anticipated strong year-end sales in Italy driven by the increased tax depreciation was prolonged and even increased for 2017 which created less of an incentive for the Italian pharmacy customers to close hardware deals in 2016.

For the full year 2016, the PCS business grew organically with 3 percent, with a solid contribution both from the business in Italy and in Germany.

Hospital Information Systems (HIS)

In the 2015 Management Report, the expected 2016 full year HIS revenue was forecasted between EUR 71 million and EUR 73 million (including approximately EUR 2 million from acquisitions). The revenue outcome of EUR 75 million is at the high end of this range when adjustments to the segmentation structure are considered. There are however significant regional differences where weak growth is seen especially in Poland and other markets in Eastern Europe, whereas the markets in Austria, Switzerland and Germany are performing well based on a good backlog of already contracted project revenue. CGM was in 2015 awarded the contract for the implementation and delivery of a comprehensive new hospital information system for the five regional hospitals of the Vorarlberg Hospital Betriebs GmbH (KHBG) in Austria. The project start was in September 2015 and the implementation of the complete solution is planned for a 3-year period until autumn 2018. The progress in the project has been as expected during 2016.

Communication & Data

In the 2015 Management Report, the expected 2016 full year Communication & Data revenue was forecasted between EUR 21 million and EUR 22 million. The revenue outcome of EUR 22 million is at the high end of this range and especially the market in Germany contributed to a strong year for the Communication & Data business and also compensated for some revenue contraction in France and Italy. The positive development in Germany is a result from an increased number of projects in medical value communication for originator companies (e.g. vaccination reminders, genetic classification of patients, drug safety alerts, value tracking for stroke risk patients etc.).

Workflow & Decision Support

In the 2015 Management Report, the expected 2016 full year workflow and decision support revenue was forecasted between EUR 27 million and EUR 28 million. The revenue outcome of EUR 27 million is within this range and overall, 2016 was a good year in the area of workflow and decision support. This positive revenue development predominantly comes from new CardTrust contracts with statutory health insurance companies in Germany and revenue from the Joint Venture with AXA Group.

Joint Venture with AXA Group – MGS My Health Services

In the course of 2015, the private insurer AXA Group and CGM founded a joint venture "MGS My Health Services GmbH". The objective of this strategic partnership is to simplify processes between private insurance, doctors, hospitals and other medical service providers to make everyday health management more convenient and efficient for all. The new company MGS has developed to this end the patient portal "My health" based on contributions from both AXA and CGM. This cross-linked for the first time in the German market all stakeholders in private health insurance, in particular invoice management, which is previously handled almost entirely paper-based.

About CardTrust – preventing misuse and unnecessary costs

The CardTrust solution checks the health insurance card/electronic patient card immediately upon signing in at the practice's reception. If the patient is using an invalid card, the practice personnel will be informed of this in the doctor information system. In Germany, patients must make co-payments when redeeming prescriptions at pharmacies. Health insurances can, under certain circumstances, waive these co-payments. CardTrust reviews the payment status as soon as the doctor prescribes a medication and a notification is made if the co-payment exemption is incorrectly marked on the prescription. CardTrust is also offered to other manufacturers of software for doctors and dentists. At the end of 2016, CardTrust is used by 100,000 doctors and dentists throughout Germany and approximately 260 million card checks are conducted by CardTrust annually.

Internet Service Provider (ISP)

In the 2015 Management Report, the expected 2016 full year ISP revenue was forecasted at approximately EUR 14 million. The reported revenue outcome of EUR 14 million is in line with this forecast and overall, it has been a good year in the ISP business. Outside the gematik project, the development of the ISP business is flat but with many growth opportunities ahead, especially in Germany.

Results of Group operations
In comparison with the previous year

EUR m	2016	2015
Group sales	**560.2**	543.1
Other income	**7.9**	3.9
Capitalized in-house services	**10.3**	9.6
Expenses for goods and services purchased	**104.4**	100.5
Personnel expenses	**260.1**	250.6
Other expenses	**88.3**	93.1
EBITDA	**125.7**	112.3
in %	**22.4%**	20.7%
EBIT	**81.8**	67.8
in %	**14.6%**	12.5%
EBT	**74.2**	62.2
in %	**13.2%**	11.5%
Consolidated net income	**44.5**	38.6
in %	**7.9%**	7.1%

Revenue

Consolidated revenue in 2016 was EUR 560.2 million compared to EUR 543.1 million in 2015. This represents an increase of EUR 17.1 million and 3.2 percent respectively. Acquisitions and divestitures contributed 1.4 percent to growth and organic growth was 1.8 percent for the year. The weakening of Scandinavian currencies as well as other currency fluctuations decreased revenue with EUR 2.3 million compared to last year and organic growth at constant exchange rates was 2.2 percent.

In the HPS I segment, sales to third parties were EUR 422.8 million compared to EUR 406.6 million in 2015. This represents an increase of approximately 4 percent, of which approximately 2 percent is organic growth (3 percent at constant exchange rates). Sales to third parties in Ambulatory Information Systems (AIS) grew at 3 percent, of which approximately 2 percent is organic growth. Sales to third parties in Pharmacy Information Systems (PCS) grew at 6 percent, of which 3 percent is organic growth.

HPS I revenue development (including acquisitions and currency effects):

EUR m	01.01.-31.12.2016	01.01.-31.12.2015	Change
Ambulatory Information Systems	**325.1**	314.9	3%
Pharmacy Information Systems	**97.7**	91.7	6%
Sales to third parties	**422.8**	**406.6**	**4%**
Sales between segments	**7.2**	6.1	
Segment sales	**430.0**	**412.8**	

COMBINED MANAGEMENT REPORT CONTINUED

Growth from acquisitions in HPS I resulted from the first-time consolidation of the following entities:

EUR m	Revenue 2016	Revenue 2015	Segment
Equus (Consolidation from 1 February 2016)	**0.5**	0.0	HPS I (AIS)
Micromedic (Consolidation from 1 October 2016)	**0.3**	0.0	HPS I (AIS)
Compufit (Consolidation from 1 April 2015)	**2.7**	1.8	HPS I (AIS)
Stock Informatik (Consolidation from 1 May 2015)	**2.8**	1.9	HPS I (AIS)
Other acquisitions AIS	**0.7**	0.2	HPS I (AIS)
Vega (Consolidation from 1 September 2016)	**2.6**	0.0	HPS I (PCS)
Other acquisitions PCS	**0.2**	0.0	HPS I (PCS)
Total	**9.8**	3.9	

In the HPS II segment, sales to third parties were EUR 74.5 million compared to EUR 72.8 million in 2015. This represents an increase of approximately 1 percent, of which -1 percent is organic growth.

HPS II revenue development (including acquisitions and currency effects):

EUR m	01.01.-31.12.2016	01.01.-31.12.2015	Change
Hospital Information Systems	**74.5**	72.8	1%
Sales to third parties	**74.5**	**72.8**	**1%**
Sales between segments	**11.6**	10.0	
Segment sales	**86.1**	**82.8**	

Growth from acquisitions in HPS II resulted from the first-time consolidation of the following entities:

EUR m	Revenue 2016	Revenue 2015	Segment
LMZ-Soft (Consolidation from 1 November 2015)	**1.9**	0.4	HPS 2
Total	**1.9**	**0.4**	

In the HCS segment, sales to third parties were EUR 62.8 million compared to EUR 63.6 million in 2015. This represents an organic change of approximately -1 percent.

HCS revenue development (including currency effects):

EUR m	01.01.-31.12.2016	01.01.-31.12.2015	Change
Communication & Data	**22.3**	22.6	-2%
Workflow & Decision Support	**26.8**	26.9	0%
Internet Service Provider	**13.7**	14.1	-3%
Sales to third parties	**62.8**	**63.6**	**-1%**
Sales between segments	**6.7**	5.8	
Segment sales	**69.5**	**69.4**	

Profit

Consolidated EBITDA amounted to EUR 125.7 million compared to EUR 112.3 million in 2015. The corresponding operating margin (EBITDA margin) was 22.4 percent compared to 20.7 percent in 2015. In the HPS I-Segment, the EBITDA increased from EUR 117.1 million in 2015 to EUR 127.1 million in 2016. The higher EBITDA is a result from significant improvements in the core AIS business and reduced losses recorded in the Gematik project in 2016 compared with 2015.

In the HPS II segment, the EBITDA was EUR 11.7 million in 2016, up from EUR 3.5 million in 2015. This improvement is mostly related to special effects last year with poor results and loss provisions from specific projects in Poland and Switzerland.

In the HCS segment, the EBITDA went from EUR 14.7 million last year to EUR 16.3 million in 2016. The positive development in Communication & Data and Workflow & Decision Support is balanced by the losses from the Gematik project recorded under the ISP business.

The main developments in operating expenses in 2016 were:
- Expenses for goods and services purchased went from EUR 100.5 million to EUR 104.4 million. The gross margin is virtually unchanged compared to 2015 at 81 percent.
- The increase in personnel expenses by EUR 9.5 million is driven by smaller changes in the composition of the workforce as well as general salary inflation.
- Other expenses decreased from EUR 93.1 million in 2015 to EUR 88.3 million in 2016. The ratio of other expense relative to revenue is mostly unchanged compared to 2015.

Depreciation of tangible fixed assets is unchanged between the two years at EUR 8.4 million. Amortization of intangible assets in 2016 in the amount of EUR 35.4 million is EUR 1.3 million lower than in 2015 mainly due to changes in amortization of purchase price allocations as well as effects from goodwill impairments.

Financial income decreased from EUR 14.1 million in 2015 to EUR 8.1 million this year due largely due to non-cash gains on non-EURO group internal debt. The financial expense decreased from EUR 18.8 million in 2015 to EUR 14.3 million in 2016. Interest expense on liabilities to banks decreased from EUR 13.2 million in 2015 to EUR 7.9 million in 2016, whereas the other financial expenses are mostly non-cash items arising from changes in non-EURO group internal debt and changes to purchase price liabilities. For more information about financial income and expenses, see the Notes to the Consolidated Financial Statements section, Note 26.

The effective tax rate was in 2016 40 percent, up from 38 percent in 2015. The higher tax rate in 2016 is due to tax adjustments from prior years. After tax earnings came in at EUR 45.1 million in 2016, compared to EUR 38.6 million in 2015. This increase is predominantly driven by higher operating profit in 2016 compared to 2015.

Financial position

Since the statement of financial position of 31 December 2015, total assets increased by EUR 16.2 million to EUR 807.9 million. Intangible assets represent the largest item of individual asset classes in terms of value and are EUR 538.2 million as of 31 December 2016 compared to EUR 544.0 million as of 31 December 2015. Their share of total assets was 66.6 percent (previous year: 68.7 percent). Intangible assets primarily originated from undisclosed reserves from Company acquisitions uncovered during purchase price allocations. The uncovered intangible assets mainly pertain to customer relationships, order backlog, software, brand values, and "residual" goodwill. Tangible assets increased by EUR 13.5 million through the purchase of additional land and property around the Company headquarter in Koblenz as well as the replacement of the Company aircraft. Under current assets, trade accounts receivable increased from EUR 111.2 million as at 31 December 2015 to EUR 116.7 million as at 31 December 2016. This is mainly due to additional trade receivables in new companies acquired. For all other assets there are only minor changes during 2016.

After consolidating EUR 44.5 million in net profit for the period from 1 January to 31 December 2016, group equity was EUR 218.7 million as at 31 December 2016, up from EUR 192.6 million as at 31 December 2015. The increase in equity comes after the effect from a EUR 17.4 million dividend paid to the shareholders of CompuGroup Medical SE. In addition, the equity effect from changes in currency exchange rates amounted to EUR -1.5 million during 2016. The equity ratio increased from 24.3 percent as at 31 December 2015 to 27.1 percent as at 31 December 2016.

During the reporting period, a EUR 11.0 million change to total current and non-current liabilities occurred going from EUR 599.1 million as at 31 December 2015 to EUR 589.3 million as at 31 December 2016. The biggest change to individual positions is a decrease in income tax liabilities of EUR 19.1 million related to the payment of deferred taxes. Long and short-term liabilities to banks increased by EUR 6.1 million through the net assumption of debt.

Changes in currency exchange rates reduced the net assets of the Group by EUR 1.5 million during the reporting period (previous year: EUR 3.3 million).

Cash flow

Cash flow from operating activities during 2016 was EUR 67.6 million compared to EUR 73.2 million in 2015. The changes compared to 2015 mainly come from the following positions:
- Adjusted for non-cash earnings/expenditures and cash taxes, the gross cash flow from operations before change in working capital decreased from EUR 83.0 million in 2015 to EUR 68.8 million in 2016. This change is primarily driven by taxes being deferred in 2015 and paid in 2016.
- Change in working capital gave a decrease in operating cash flow of EUR -1.2 million compared to EUR -9.7 million in 2015.

Cash flow from investment activities during 2016 amounted to EUR -49.4 million compared to EUR -60.6 million in 2015. This change comes from lower expenditures for acquisitions in 2016 compared to 2015.

Cash flow from financing activities during 2016 amounted to EUR -15.7 million compared to EUR -9.1 million in 2015. Main items which make up the financial cash flow in 2016 is the dividend distribution of EUR 17.4 million and a net assumption of loans and financial leasing arrangements of EUR 1.7 million.

COMBINED MANAGEMENT REPORT CONTINUED

Principles and objectives of financial management

As a general principle, CGM strives to hold as little cash and cash equivalents as practically possible, both on Group level and in the operating subsidiaries. International cash-pooling services are used throughout the Group to manage bank accounts and to optimize and use surplus cash in all group companies to reduce external debt and increase overall liquidity. The main principle of cash-pooling is to hold the top-mother account (pool-leader) in CompuGroup Medical SE – the parent entity of the Group. It is also this entity that generally holds all external debt, including flexible revolving credit facilities and short-term credit lines used to manage daily liquidity across the Group.

The external debt in CompuGroup Medical SE is usually held in EURO currency and on the basis of variable interest rates. Due to the international focus of the Group, incoming and outgoing payments are performed in various currencies. The Company generally strives to achieve natural hedging by its choice of locations and suppliers and at present the Company does not use any derivative financial instruments to hedge the foreign currency exposure. The development of the relevant positions is monitored regularly to ensure adequate response to significant changes in the positions.

The Company does not have a specific dividend policy, but considers dividends to be tied to long-term sustainable earnings and aims to steadily increase in steps, or at least maintain, the dividend paid per year. Dividends declared and approved by the shareholders are paid annually in conjunction with the Annual General Meeting usually held in May.

Capital structure

CGM primarily uses debt and internally generated cash flows to finance acquisitions. In terms of equity, the goal is to manage consolidated profits, dividends and share buy-backs to keep the equity ratio above 25 percent.

As at 31 December 2016 the Group had gross debt of EUR 358.2 million and held EUR 27.8 million in cash. For more information about the liabilities to banks and the structure of debt, see the Notes to the Consolidated Financial Statements section, Note 13.

In September 2014, CGM entered into a syndicated loan facility for a total sum of EUR 400.0 million. The syndicated loan facility consists of a "term loan facility" (also referred to in the following as "TLF") for EUR 225 million and a "revolving loan facility" (also referred to in the following as "RLF") for EUR 175 million. The syndicated loan facility has a duration of five years. The TLF must be repaid pro rata in equal instalments of EUR 15.0 million on 31 January and 31 July in each year, commencing on 31 July 2015, with a final payment of the balance of any outstanding term facility loans to be repaid on the termination date. The RLF must be repaid at the end of each interest period and can be taken out again immediately thereafter. The interest period can be chosen by CGM at its discretion. The interest rate is based upon the 3 month-EURIBOR rate for the interest period chosen plus a margin derived from the relationship between the consolidated net borrowings and the adjusted consolidated EBITDA (Leverage).

As of 31 December 2016 EUR 180 million of the TLF and EUR 130.0 million of the RLF were utilized. Loan origination fees totaling EUR 3.2 million were incurred related to these facilities. These fees will be charged as a financial expense over the term of the loan agreement. For this syndicated loan facility no interest rate hedge has been concluded as of the reporting date. The grant of the loan is linked to the compliance of certain financial covenants. The loan agreement includes joint and several guarantees for payment by a number of CGM's subsidiaries (contingent liability in case of non-payment of CompuGroup Medical SE).

Investments

The investments of CGM during 2016 are composed of:

EUR m	2016
Company acquisitions	6.7
Investments in joint ventures	2.8
Self-developed software and other intangible assets	12.9
Group-wide ERP-/CRM-System (partial project)	3.6
Company aircraft	8.3
Land and property	6.7
Other fixed assets	10.1
Total	**51.1**

Liquidity

The Group is in a favorable position in terms of liquidity with a strong and stable cash flow from operations and limited need for capital expenditure to sustain the current business and organic growth. The majority of recurring revenue is based on pre-payments with a significant reduction of working capital at the beginning of the annual, quarterly and monthly periods. The Company increasingly uses direct-debit for such recurring revenue payments to further increase the visibility and security of incoming liquidity. In the past, the Group has always been able to meet its payment obligations in a planned and orderly manner and the Company does not expect any liquidity problems in the future.

The strong liquidity profile of the Group has led to the principle of holding as little cash as practically possible. To absorb normal everyday cash fluctuations, and also buffer the period pre-payments from customers, the Group held as at 31 December 2016 revolving credit facilities of EUR 175 million and other short-term credit lines of EUR 27.1 million that are used in conjunction with the cash-pooling instruments. The unused portion of these credit facilities was EUR 64.9 million as at 31 December 2016.

Financial covenants have been agreed for essentially all credit facilities. If the Group breaches any of these covenants, the loans can be recalled immediately. This creates liquidity and refinancing risks, which are further described in the risk report section. To date, the Company has never breached any financial covenant in any credit agreement and has always been able to refinance its credits in a timely manner.

Financial and non-financial key performance indicators

The financial and non-financial KPIs of the internal management system for the Group are shown in the table below for 2016 and 2015.

EUR m	2016	2015	Change
Sales revenue	560.2	543.1	17.1
Revenue growth (%)	3.2%	5.4%	-2.2%
Organic growth (%)	1.8%	1.9%	-0.1%
Recurring revenue	379.9	366.4	13.5
Growth in recurring revenue (%)	3.7%	8.5%	-4.8%
EBITDA	125.7	112.3	13.4
EBITDA-margin (%)	22.4%	20.7%	1.7%
Cash Net Income	76.7	72.9	3.8
Leverage (ratio)	2.63	2.91	-0.28
Return on Capital (%)	9.3%	8.0%	1.3%
Customer base (Providers at year-end)	360,000	360,000	0

Based on the indicators above, the performance in 2016 was a mixed picture relative to 2015. In terms of the growth indicators, the business slowed down in 2016. However, this is attributable to special effects from the Gematik project in Germany which recorded significantly lower revenue in 2016 compared to 2015. 2016 was also a year with a lower growth contribution from acquisitions which is a natural consequence from the strategy for 2016 to focus on the continued integration and consolidation of existing business units as well as to achieve a certain element of financial deleveraging. In terms of sustainability, the development in 2016 continues in a positive direction. Solid additions to the customer base and recurring revenue base shows that growth is created in a consistent way in accordance with the business model and strategic goals of CGM, i.e. revenue based primarily on long-term customer relationships and recurring revenue. The customer growth comes both from Company acquisitions and from sales of existing product and services to new customers.

The growth in recurring revenue and larger customer base is a strong foundation for future growth and underpins the sustainability objective. The area which shows clear improvement in 2016 is profitability and the resulting return on capital. A two percentage point increase in operating margin is consistent to the long-term margin expansion objective of the Company.

Finally, CGM is now trading within the target leverage range (2.0-3.0) which is a consequence of lower volumes of acquisitions and improved profitability in the existing businesses.

COMBINED MANAGEMENT REPORT CONTINUED

Employee satisfaction indicators and social commitment

Employee absenteeism due to illness remained at a low level throughout the Group in the 2016 financial year. This is an indication of a high degree of contentment and commitment among the workforce. In this context, CGM, in cooperation with the Company physician, regularly offers its employees the possibility of flu vaccinations, cancer screenings and eye examinations.

Since its opening in 2009, the children's daycare center – which is located in CompuGroup's Koblenz Technology Park – has met with very high acceptance, with all 32 places in this comprehensive facility being occupied as of 31 December 2016. Six experienced teachers look after the children.

In 2012, CGM opened its Health Center in Koblenz. The training facility, which is 900 m² in size, offers employees a wealth of sports, preventive and health activities. The CGM Health Center was developed in conjunction with renowned fitness experts and scores highly with innovative health concepts in the work environment. For example, the strength training and endurance equipment is electronically linked, allowing employees to control and document training sessions in order to ensure safe and effective training. Employees can review their physical activities at any time and can assess their progress and adjust personal training plans together with trainers. What's more, employees can use the endurance and strength training equipment free of charge. In addition, the CGM Health Center offers a range of various classes, physical therapy and massages. CGM is continuously expanding its corporate health management program.

Thanks to the establishment of these facilities, employees now benefit from measures to ensure safety at work and to provide an ergonomic workplace, preventive medical care such as eye exams, flu shots and sports events, or from healthy nutrition in the Company's own bistro. In addition, the daycare center helps young parents to return to work.

Personnel recruitment and development

Due to a continuously rising requirement of highly-skilled specialists and managers, the recruitment of new qualified employees is an important responsibility of human resources management.

The employees of CGM are one of the Group's major success factors. Their high degree of identification with the Company and great commitment to its objectives is one of the most important contributions to the Company's success. The potential of all employees is wanted and nurtured on an ongoing basis by giving them a high degree of responsibility. CGM's employees are highly qualified and have collected a large amount of knowledge within their industry over time. This enables CGM to fill the majority of national and international management positions from its own ranks. This keeps existing know-how within the Company and makes it possible to expand it further. For this purpose, CGM has implemented various processes to be able to act effectively. CGM has set up its own internal Business Academy to prepare qualified employees already within the Group for a career in middle and upper management. By its nature and with respect to quality, the Business Academy of CGM is a unique internal continuing education facility in the area served by the Koblenz Chamber of Industry and Commerce.

In addition, CGM carries out a regular performance evaluation of employees in order to evaluate whether training programs are needed and in what scope. The human resources department coordinates and supports employees in the selection and performance of their individually-coordinated programs. The effectiveness of the training programs is also analyzed and measures taken to increase quality.

To further increase the attractiveness of CGM as an employer, a partnership has been established with the University in Koblenz for a practice-integrated dual studies program resulting in a "Bachelor of Engineering" degree. The degree program "Software Engineering in Healthcare", which is assigned to the "Mathematics and Technology Department" of the University, was brought into being by CGM and CGM is thus expanding its responsibility as a major training company in Rhineland-Palatinate. The students in the program spend three of eight total semesters actively working on software projects and development tasks within CGM, learning the company's internal processes, taking on responsibilities early in the program, thus qualifying themselves as potential recruitment candidates. An additional partner for the practice-integrated portion of the dual studies program is Germany's largest private health insurance Company Debeka.

CGM has also established a second cooperative partnership with the Niederrhein University in Krefeld. Through this partnership, there are new opportunities for mutual research and development projects in eHealth and IT-supported medical treatment. Furthermore, university students can gain their first hand-on experience at CGM in the form of a dual study program. They will actively participate in the Company's software projects, learn about the internal Company processes and assume responsibility early on. Thus, students will be optimally prepared for entering the workforce. Additionally, both partners can benefit from an intensive exchange in the area of standardizing medical data.

Gender balance

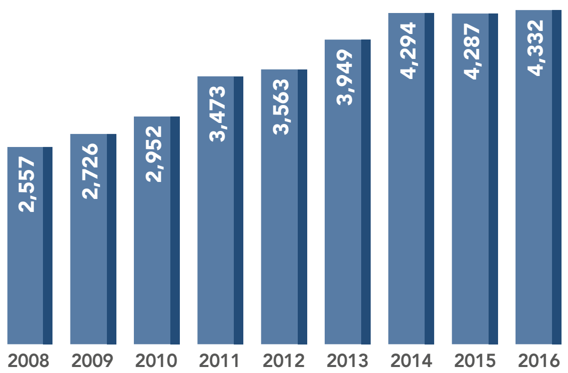
The amendment to the German Stock Corporation Act which entered into force on May 1, 2015, requires listed companies to set gender-based targets for the Supervisory Board, Management Board and two management levels under the Management Board. CGM is affected by this change of law but is not affected by the introduction of a fixed gender ratio of 30 percent on the Supervisory Board as this applies only to listed companies with a co-determined Supervisory Board. This does not apply to CGM.

At the meeting on September 10, 2015, the Supervisory Board set the first target for the female quota in the Supervisory Board and also in the Management Board, taking into account all relevant aspects and in particular the status quo. The Supervisory Board set a target of 1/6 female representation in the Supervisory Board for the period up to June 30, 2017. A target of zero was set for the Management Board.

Employees

At year-end 2016, CGM employed 4,332 persons worldwide which is virtually unchanged compared to last year (4,287). With regard to the development in the number of employees over the last 5 years (2012-2016), the average annual increase was approximately 5 percent per year.

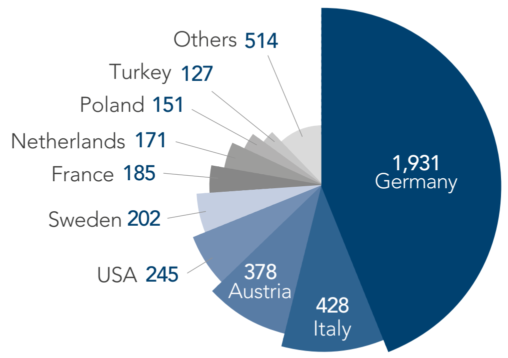
Number of employees 2008-2016



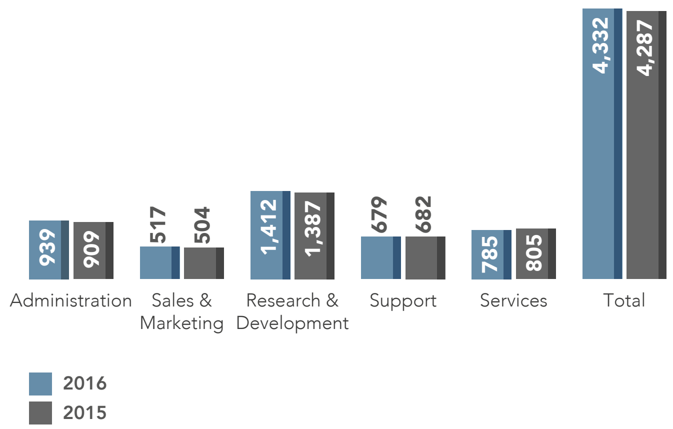
In Germany alone, which is currently the largest market, CGM had 1,931 employees in the 2016 financial year, representing 45 percent of the total number of employees worldwide.

Within the Group, employees work in Software Development, Sales, Administration, Professional Service and Support. The graph below shows the number of employees per area at the end of the reporting year in comparison to the year before:

Regional employee deployment 2016



Number of employees per area 2015/2016



COMBINED MANAGEMENT REPORT CONTINUED

Annual Financial Statements of CompuGroup Medical SE

Profit and financial position of CompuGroup Medical SE

The figures shown are based on the statutory financial statements of CGM SE.

EUR m	2016	2015
Operating income	-4.7	-17.1
Investment income	74.7	60.7
Depreciation of financial assets	-25.6	0.0
Net interest expense	-4.3	-6.9
Profit from ordinary activities	**40.1**	**36.7**
Tax	-19.0	-15.3
Annual result	**25.1**	**21.4**

The strong increase in operating income of EUR 12.4 million to EUR -4.7 million resulted primarily from increased costs allocations to Group companies and in particular the first-time charge for the use of the GGM brand (EUR 15.8 million) and a nearly unchanged level of operating expenses. Opposite effects came from an increase in personnel expenses (EUR 0.6 million) resulting from changes in employee compensation, increase in depreciation and amortization (EUR 1.2 million) which results from the capitalized assets related to the SAP Project "OneGroup", and a decrease in other income which stems from a change in currency exchange gains.

As a holding company, the profitability of the CGM SE depends largely on the development of its operating subsidiaries and the corresponding investment income, which is comprised of the net income from profit and loss pooling agreements plus other income from investments such as capital gains and dividends. Compared to the previous year, an increase in investment income of EUR 14.0 million from EUR 60.7 million to 74.7 million was recorded.

With the exception of a slight decline in earnings in Lauer-Fischer GmbH, all subsidiaries with a profit and loss pooling agreement in the 2016 financial year show a positive development of the results. The development of investment income from 2015 to 2016 is made up as follows:

EUR m	2016	2015
CompuGroup Medical Deutschland AG	28.6	25.1
Lauer-Fischer GmbH	12.6	13.1
CompuGroup Medical Dentalsysteme GmbH	17.7	16.6
Ifap Service Institut für Ärzte und Apotheker GmbH	5.1	4.7
CGM Clinical Deutschland GmbH	2.2	-0.1
Net income from profit and loss pooling	**66.2**	**59.4**
Other income from investments	8.5	1.3
Investment income	**74.7**	**60.7**

The improved contribution from CompuGroup Medical Dentalsysteme GmbH is mainly related to the pooling of results from the subsidiary Intermedix Deutschland GmbH being EUR 0.5 million higher in 2016 compared to 2015. In addition, a higher operating profit of EUR 0.6 million was recorded.

CompuGroup Medical Deutschland AG was able to report higher profits for the year due to a decrease in personnel expenses of EUR 1.8 million, lower interest expense on taxes of EUR 0.6 million as well as the first-time inclusion of profits from Stock GmbH & Co. KG in the amount of EUR 1.0 million.

The slightly lower result in Lauer-Fischer GmbH primarily comes from EUR 0.5 million higher operating expenses in 2016 compared to 2015. The improvement in Ifap Service Institut für Ärzte und Apotheker GmbH is a result from efficiency improvements achieved in 2016.

The positive development of CGM Clinical Deutschland GmbH in 2016 was primarily driven by the divestment of the IT Design & Service division to a Group company. In addition, earnings were also slightly improved compared to the previous year due to sales and efficiency gains.

The increase in other income from investments is attributable to Profdoc AS profit distribution of EUR 6.6 million (previous year: EUR 0).

In the financial year 2016, depreciation on financial assets of EUR 25.6 was made for the impairment on loans from subsidiaries CGM Lab International GmbH, Privadis GmbH and CompuGroup Medical Bilgi Sistemleri A.S, Turkey.

Net interest expense in the year under review was as follows:

EUR m	2016	2015
Interest income from loans granted	5.8	5.9
Other interest and similar income	2.7	1.9
Interest and similar expenses on loans taken	-12.8	-14.7
Net interest expense	**-4.3**	**-6.9**

Income from loans granted was roughly in line with the previous year's level. Other interest and similar income rose by EUR 0.8 million in the financial year due to higher receivables from affiliated companies and a higher internal interest rate compared to the previous year. Interest and similar expenses on loans taken fell by EUR 1.9 million compared to the previous year. The main reason for this is a decrease in interest expenses on taxes in the amount of EUR 1.7 million.

Tax expense for the period amount to EUR -19.0 million (previous year: EUR -15.3 million). This corresponds to a tax rate of profit from ordinary activities of around 29 percent.

The control of payments is mainly done by the central accounting based in Koblenz through a cash management system. In the operating business, the capital requirements of the Group companies are normally covered by the cash-flow from operating activities.

Net assets of CompuGroup Medical SE

With a share of about 85 percent (previous year about 85 percent), financial assets are in terms of value the most important item in the balance sheet, which is in accordance with the function as a holding company. Intangible assets consist almost entirely of capitalized expenses in connection with the Group-wide SAP implementation project "OneGroup".

Compared to last year, the carrying amount of financial assets increased by EUR 9.2 million to EUR 587.5 million. The total increase is almost exclusively due to increases in loans to affiliated companies amounting to EUR 34.7 million. The new loans to Group companies are primarily towards CompuGroup Lab International GmbH, Germany (EUR 11.1 million), CGM Immobilien Stuttgart GmbH, Germany (EUR 8.0 million) and KoCo Connector AG, Germany (EUR 6.5 million). Related to internal loans, there have been necessary write-downs on financial assets of 25.6 million during 2016.

In the 2016 financial year, CGM SE has made no share repurchases. The own shares held by the company as at date 31.12.2016 is unchanged at 3,495,731 which are presented at the balance sheet date at their notional value in a separate column from equity. The issued capital is recognized correspondingly lower. The corresponding theoretical value of the share is reported as a reserve in accordance with § 237 AktG 5 (analog).

The equity ratio for the reporting period is at 27.0 percent higher than the previous year (previous year: 26.9 percent).

In September 2014, a syndicated loan facility of EUR 400 million for a term of 5 years (until September 2019) was completed and was at the balance sheet date utilized with EUR 310 million. In addition to the syndicated loan, there is still an innovation loan from IKB and other credits in the amount of EUR 28.1 million as at 31 December 2016.

Receivables from affiliated companies and liabilities to affiliated companies from intercompany cash management system are also balanced in the position "Interest and similar expenses".

With regard to liabilities to banks as well as comments on the interest and similar expenses on loans taken we refer to the section "Results of Group operations".

Post balance sheet events

There were no material events after the balance sheet date.

COMBINED MANAGEMENT REPORT CONTINUED

Report on Expected Developments

The healthcare market is in general a large and growing market, with a resilient profile relative to business cycles. For the period 2017 to 2021 the Economist Intelligence Unit (EIU) expects fiscal pressures to continue to weigh on healthcare spending in Western Europe. The economic risks facing the region remain high, particularly after the UK's decision to quit the EU. Nevertheless, with the Euro expected to strengthen, the EIU expects this region to see health spending growth of 3.9% a year in Dollar terms. In the US, much depends on how US healthcare policies change in the wake of Donald Trump's victory in the presidential election of November 2016. However, the EIU still expects health spending to see robust growth averaging 3.9% a year in 2017-21[7].

The business model of CGM, with a large installed base of loyal customers, gives a relatively high degree of visibility for future revenue and earnings. The primary source of revenue is annual software maintenance and other recurring service fees from existing customers, with an expected amount of EUR 395 million at the beginning of 2017, compared to EUR 380 million in 2016. This corresponds to a 4 percent increase. As for the customer base, CGM does not expect a significant change in 2017.

Total Group revenue is in 2017 expected to be in the range of EUR 600 million to EUR 630 million, corresponding to a growth rate of 7-12 percent. Acquisitions completed to date are expected to give a growth contribution of EUR 8 million and organic growth is expected to be 6-11 percent. This outlook is based on the assumption that the roll-out of the Telematics Infrastructure in Germany will begin in the middle of 2017 with a gradual increase in monthly installations over the second half of the year.

Revenue in the HPS I segment is expected to be in the range of EUR 460 million to EUR 480 million, corresponding to a growth rate of 9-14 percent. AIS revenue is expected to be in the range of EUR 357 million to EUR 375 million including a growth contribution of approximately EUR 3 million from acquisitions. PCS revenue is expected to be in the range of EUR 103 million to EUR 105 million including a growth contribution of approximately EUR 5 million from acquisitions.

Revenue in the HPS II segment is expected to be in the range of EUR 73 million to EUR 75 million with no material organic growth expected in 2017.

Revenue in the HCS segment is expected to be in the range of EUR 67 million to EUR 75 million in 2017, corresponding to an organic growth rate of 7-19 percent.

In terms of profitability, 2017 is again expected to be a year of margin expansion relative to 2016, despite the significant increase in personnel resources currently undertaken to execute and support the nationwide roll-out of the Telematics Infrastructure in Germany. Operating margin (EBITDA margin) is expected to be in the range of 23-24 percent and the corresponding EBITDA is expected to be in the range of EUR 138 million to EUR 150 million.

Depreciation of fixed assets is on Group level expected to be approximately EUR 8 million in 2017 and amortization of intangible assets is expected to be approximately EUR 34 million, of which EUR 30 million will come from amortization of purchase price allocations related to past acquisitions. The corresponding Group earnings before interest and tax (EBIT) is in 2017 expected to be in the range of EUR 96 million to EUR 108 million.

Assuming a consistent investment volume in the 2017 financial year, CompuGroup Medical SE assumes that the leverage ratio will change down by 0.2 percent to 0.3 percent to 2.3 percent to 2.4 percent.

The 2017 forecast of the most important financial KPIs of the internal management system are shown in the table below.

EUR m	2017 forecast	2016 outcome	Change
Sales revenue	600-630	**560**	40-70
Revenue growth (%)	7-12%	**3%**	4-9%
Organic growth (%)	6-11%	**2%**	4-9%
Recurring revenue	395	**380**	15
Recurring revenue growth (%)	4%	**4%**	0%
EBITDA	138-150	**126**	12-24
EBITDA margin (%)	23%-24%	**22%**	1%
Cash Net Income	85-93	**77**	8-16
Return on Capital (%)	10.5%-11.8%	**9.3%**	1.2%-2.5%
Leverage (%)	2.3%-2.4%	**2.63%**	-0.2%-0.3%

7 Source: The Economist Intelligence Unit. World Healthcare Outlook December 2016.

Looking at the financial year 2018 and beyond, Group EBITDA and Group earnings after taxes are expected to record higher growth rates compared to revenue. As a market leader in Europe, and with a significant business in the United States, the Company is ideally positioned to benefit from changes in healthcare systems all over the world with demand for software solutions and IT services less sensitive to economic climate. As such, CGM does not expect permanent or long-lasting deterioration of the market conditions in the future.
Our strategy is based on a highly resilient business model with high margins and high proportion of recurring revenue from software maintenance and related services combined with high costs for customers to switch and technological barriers preventing competitors to enter the market.

Overall assessment CGM group (guidance)

In summary, CompuGroup Medical offers the following guidance for 2017:
- Group revenue is expected to be in the range of EUR 600 million to EUR 630 million.
- Group operating income (EBITDA) is expected to be in the range of EUR 138 million to EUR 150 million.

The foregoing outlook is given as at March 2017 and does not include revenue and costs associated with potential and currently undetermined further acquisitions during 2017. The outlook for 2017 represents management's best estimate of the market conditions that will exist in 2017 and how the business segments of CompuGroup Medical will perform in this environment.

Outlook for CompuGroup Medical SE

Investment income is expected to develop in line with the planned positive growth in the Group. Net interest income is expected to remain at the 2016 level. The Company therefore expects a pre-tax profit from ordinary activities between EUR 35.0 million and EUR 38.5 million for the local GAAP (HGB) financial statements for 2017. For 2018, no significant changes are expected.

Risk Report

As an internationally operating Company, CompuGroup Medical is subject to a variety of different risks. CompuGroup Medical is aware of the necessity to enter into risks, which also enable the Company to capitalize on opportunities.

The risk management system of CompuGroup Medical is implemented in all Group companies and in all the individual business units. A significant component of the risk management system is the Group-wide early warning system, for example in the form of internal benchmarking, cost efficiency analysis and performance gap analysis related to Key Performance Indicators. An Internal Audit function was created during 2014, of which responsibility includes the review of the adequacy, effectiveness and efficiency of risk management. Within the framework of good corporate governance, the internal control system also operates alongside and in support of the risk management system.

The risk reporting system encompasses the systematic identification, quantification, documentation and communication of risks. Corresponding foundations, processes, and responsibilities within risk management are documented in guidelines distributed and used throughout the Group. New and relevant experience gained during risk management work is being used to update the guidelines and processes to ensure continuous improvement of the risk management system. One of the important objectives of the risk management system is to give management the ability to identify and assess risks that endanger the growth and going concern of CGM at an early stage and to support in the design of corrective measures to minimize the impact of risks.

The deliberate taking of calculated risk positions within our risk management system is an unavoidable part of running our business. Risks that endanger the going concern of the Group may not be taken and the risk management system helps management avoid such risk positions. If this is not possible then such critical risks must be minimized or proactively transferred, for example by obtaining appropriate insurance. Risks are controlled and monitored at the level of individual companies, at business area level and at Group level.

We see potential future developments or events that could lead to a negative impact on the financial results and the current year earnings forecast of CGM as part of our risk picture. The assessment of the identified risks in this area is essential for the one-year forecast horizon of CGM.

The annual risk reporting process begins by using checklists to identify all major risks within defined risk areas. CGM has defined ten risk areas as follows:
- Strategic risks
- Economic and political risk
- Operational risks
- Financial risks
- Regulatory risks
- Personnel risks
- Data processing risks
- Project risks
- M&A risks
- Tax risks

COMBINED MANAGEMENT REPORT CONTINUED

We evaluate the identified risks in a two stage process according to probability of occurrence and potential loss. Here, the gross loss is initially estimated by the responsible risk manager of individual Group companies. Furthermore, measures for risk prevention and minimization as well ways of risk transfer are proposed by the risk managers. Risk identification and risk assessment is supported by senior management in the relevant company or business area and also by the responsible regional financial officer "Vice President Finance". The locally collated risks are then analyzed by the Group-level controlling function. After completion of the analysis of identified, reported and rated risks, risk aggregation and overall assessment is performed by the Group controlling function. The analytical procedures used for the aggregation and analysis of risks are based on a method similar to Monte Carlo simulation and an Operational Value-at-Risk analysis.

The risk aggregation resulting from the Monte-Carlo type simulation provides potential damage value for each risk class, each risk category and for the summary of all risks to the Group. The damage value is understood as the potential expected annual loss (at-risk entry). The Operational Value-at-Risk method provides information on the potential maximum annual loss for each risk class, each risk category and for the summary of all risks to the Group.

The subsequent risk reporting is done directly to the Chief Financial Officer of CGM SE, who again informs the Management Board and the Supervisory Board about the risk situation of the Group. In the event of unforeseen material changes, the CFO will be informed immediately and he in turn has the task to inform the Management Board and the Supervisory Board about such unforeseen developments. The coordination of the whole process and the analysis of the inventoried risks is the responsibility of the Group Controller.

A comprehensive risk report is submitted from the Group Controller to the Management Board on a quarterly basis. For the period from 1 January 2016 to 31 December 2016 the risks within the ten areas were reported to the Management Board. According to the quantity of the reported risks, the following ranking shows the risk areas in order of importance for the Group:

1. Operational risks	(1)
2. Strategic risks	(3)
3. Project risks	(4)
4. Financial risks	(2)
5. Macroeconomic and political risk	(9)
6. Personnel risks	(6)
7. Data processing risks	(5)
8. Regulatory risks	(8)
9. M&A risks	(10)
10. Tax risks	(7)

The numbers in parenthesis show the importance ranking of the risk areas for 2015. As a result of the reassessment of potential risk areas and individual risks the ranking of the risk categories have changed since 2015. Overall, the risk position has decreased during 2016 in terms of possible annual maximum damage. The same applies to the anticipated potential annual damage. From the individual risk categories, the higher risk positions are driven by changes in market conditions and are predominantly found within strategic risks, project risks and macroeconomic and political risks. The expected annual loss potential for operational was reduced due to an improved market environment and resulted in a swap with financial risks in the order of ranks 1 and 2.

The risk areas apply to all operating segments and the Group does not report or differentiate the risk picture between the segments. All segments essentially operate in the same macro environment and markets (exclusively in healthcare) and the nature of products and services are also fundamentally the same (based on software and related services).

The risk reporting process is supported by an intranet-based database which ensures transparent communication throughout the Group. During the 2016 financial year, the Internal Audit function periodically assessed the quality and function of our risk management system. As part of the annual audit in 2016, an external audit of the structure and function of our risk management system in accordance with section 317, paragraph 4 German Commercial Code (HGB) was performed, confirming that it is suitable to detect ahead in time developments that threaten the going concern of the Group.

Operational risks

This risk area includes risks associated with research and development, markets and customers. The analysis of expected potential annual loss for all identified operational risks is approximately EUR 7 million (previous year: EUR 11 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 33 million (previous year: EUR 50 million), with a 5 percent probability that there may be a higher, unexpected damage.

Research and development

Generally, there is always a risk that products and modules will not be able to be realized within the specified time frame as well as the adequate quality and cost budget constraints. To avoid this risk, the Group conducts systematic and regular reviews of project progress and compares the results at hand with the initially set targets. In case of deviations, measures can then be taken to compensate for impending damage. Due to the broad range of our research and development activities, it is not possible to identify a risk concentration on specific products, patents or licenses.

Market and customer risks

Due to the complexity and significant legal requirements of our products, the distribution of sales and service partners entails certain risks. To also ensure that quality requirements are also complied with by the sales and service partner, special trainings will be offered. The selection of the sales and service partners is subject to strict requirements.

The e-health market is characterized through strong competition and extensive saturation of the market. This intensive competition can lead to price erosion for our products and services as well as to increasing expenses to ensure customer loyalty and attraction. In the current financial year, CompuGroup Medical expects, as in the past financial year, consistently good business development with manageable risks which could have an impact on the profit situation.

Strategic risks

This risk area includes risks which can endanger the target achievement due to an insufficient orientation of the Company to the respective market environment. The analysis of expected potential annual loss for all identified strategic risks is approximately EUR 7 million (previous year: EUR 4 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 26 million (previous year: EUR 19 million), with a 5 percent probability that there may be a higher, unexpected damage.

Strategic risks may result from an inadequate strategic decision-making process, from unforeseen market developments or from a faulty implementation of the chosen corporate strategy. For CGM, the strategic direction of the Group is set at Board level and subjected to regular reviews.

- Essential for CGM are risks associated with changes in the healthcare market. This mainly concerns the development of new products and services by competitors, the financing of health care systems and reimbursement in the health care sector.
- The e-health market is characterized by rapidly changing technologies, the introduction of new industry standards and new software introductions and new functionalities. This can lead to existing products and services becoming obsolete and therefore losing their competitiveness.
- Regulatory changes or the introduction of new industry standards, could affect the market positioning of CompuGroup Medical to the extent that the offered products and services no longer completely adhere to these new statutory requirements or industry standards.

The future success of CompuGroup Medical will partially depend on the ability to improve existing products and services to respond in a timely manner to the introduction of new products from competitors, and to meet changing customer and market requirements.

Furthermore, CompuGroup Medical would be saddled with additional costs for product development as a result of products and services quickly becoming obsolete, which could lead in adverse effects on net results.

Due to potential new business opportunities related to the introduction of the telematics infrastructure in Germany, CGM is expected to manufacture Konnektor-technology with the help of subcontractors. Due to the resulting first-time status as a hardware producer, CGM may enter into risk areas typical for a production company.

Risk from project business

This risk area includes risks arising from non-compliance with agreed timelines, missing or inadequate staff resources, lack of or inadequate material resources, lack of customer acceptance of the project deliverables etc. The analysis of expected potential annual loss for all identified risks in this area is approximately EUR 5 million (previous year: EUR 4 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 23 million (previous year: EUR 20 million), with a 5 percent probability that there may be a higher, unexpected damage.

The Company makes part of its sales in the project business. There are longer time periods between the order assignment and the payment for the order, during which the Company has to take care of advance payments. The risk the Company faces in these periods is specifically the credit risk of its customers. Furthermore, the risk the Company faces in the project business is the continuous need for new orders/projects to be able to generate the necessary sales volume or sales volume growth. Resulting from the extremely high initial implementation costs of software solutions and the resulting long-term product life cycle, the HPS II business segment is especially exposed to the risk that profitable new business may take a long time to materialize. Hence, the Company strives to establish long-term business relationships with its customers, often by taking over software maintenance, in order to be a contact partner and to be able to participate in the bidding process when new orders/projects are awarded. Risks may also arise when the market is not sufficiently monitored, resulting in an inadequate bidding and order pipeline. In the absence of new business and the expiration of software maintenance contracts, the Company may suffer a loss in sales, which would have a negative impact on the Group's results.

In the reporting period, CGM has continued the largest internal IT and organizational project in the history of the Group. The project is named "OneGroup" and entails the standardization and optimization of roles, structures and processes in all our companies and business areas world-wide based on a centralized SAP IT platform and other integrated IT solutions. All existing internal IT solutions will be migrated to this platform once the new solution is finished and proven. From this project, there are risks of non-compliance with agreed timelines, start-up problems, etc. that can result in corresponding financial risks.

COMBINED MANAGEMENT REPORT CONTINUED

Financial risks

This risk area includes risks associated with liquidity and refinancing risks, currency risks, acquisition risks and control risks. The analysis of expected potential annual loss for all identified financial risks is approximately EUR 5 million (previous year: EUR 7 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 20 million (previous year: EUR 41 million), with a 5 percent probability that there may be a higher, unexpected damage.

Liquidity and refinancing risks

Business models that are not exclusively financed through equity capital generally face the risk that the leveraged portion of the business is dependent on the given refinancing situation in the capital markets. As a precaution against this specific risk factor, CompuGroup Medical implemented a support structure that is based on credit lines with national and international Company-affiliated banks.

The syndicated loan (EUR 310 million – for details see Group notes) covers the Group's basic capital requirements. It is composed of a term loan and a revolving loan. CompuGroup Medical has other credit lines (with a combined EUR 27.1 million limit) that are used for covering its short and medium-term liquidity requirements from operating activities and for expenses resulting from the Group restructuring measures, so as to provide additional capital if and when required.

Financial covenants have been agreed for the syndicated loan. If the Group breaches any of these covenants, the loan can be recalled immediately. This creates liquidity and refinancing risks. An additional short-term liquidity risk results from the risk of misjudgments during working capital planning that could mean that trade receivables and liabilities may not be collected or paid on time.

Corporate Treasury prepares a rolling one-week liquidity plan to monitor and manage short-term liquidity risks. Short-term fluctuations in working capital requirements are monitored on a daily basis and can be offset with bilateral credit lines. Short and medium-term structural liquidity requirements can generally be met by drawing on the revolving credit line.

Strict working capital management, whose methods and targets are regularly evaluated and adjusted, if necessary, also serves to manage short-term liquidity risks.

The medium-term liquidity risk is monitored and managed with the help of 12-month liquidity planning. Compliance with the financial covenants is consistently monitored as part of planning and the results are regularly reported to both management and the banks. For details on the financial covenants, please refer to the respective sections in the Group notes.

Essentially, CompuGroup Medical considered changes in interest rates as the primary market risk. The risk management strategy therefore aims to balance out all relevant fair value and cash flow risks. Keeping in mind that most of the long-term financial liabilities of the Company are closed on the basis of variable interest rates, an interest rate risk occurs, especially for cash flows.

Despite all the preventive measures taken, it is not possible to entirely prevent certain refinancing interest rates that the Company must pay from undergoing unfavorable developments or refinancing through leverage from being refused in the medium term. Considering our current situation, there is no evidence that future refinancing or, generally, an increase in leverage might be subject to risk out of the ordinary.

Further financial risks refer to the risk of bad debt losses. Due to the diversified markets and customer structure of the Group, no agglomeration risks are evident. Given the high creditworthiness of the majority of our customers, the long-term average of bad debt risk is generally low.

Currency risks

Due to the international focus of the Group, incoming and outgoing payments are performed in various currencies. The Group conducts a comparison and balancing of payment streams in the individual currencies. The Company generally strives to achieve extensive natural hedging by its choice of locations and suppliers. At present, the Company does not use any derivative financial instruments to hedge the foreign currency exposure. The development of the relevant positions is monitored regularly to ensure adequate response to significant changes in the positions.

Macroeconomic and political risks

This risk area includes risks arising from political changes and the influence of macroeconomic developments. The analysis of expected potential annual loss for all identified macroeconomic risks is approximately EUR 2 million (previous year: EUR 1 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 14 million (previous year: EUR 5 million), with a 5 percent probability that there may be a higher, unexpected damage.

The products and services offered by CGM are currently marketed in 46 countries. Both the development of business relations in these countries as well as the business activity itself is associated with the usual risks for international business dealings. This is in general and in particular related to the existing general economic or political situation of the single countries, the diversity of different tax systems, legal barriers in terms of import and export restrictions, competition regulations and laws for the use of the Internet or restrictions for the development and deployment of software products and services.

CGM counteracts these risks by regularly consulting with local lawyer's offices and tax advisors in countries where it is entering the market or conducting further business activities and by communicating with local public authorities. In general, risks that may arise from changes in macroeconomic factors can never be excluded completely.

Personnel risks

This risk area includes risks arising from the concentration of business-relevant expertise to individual employees, staff turnover, staff over-and-under utilization, poor working environment, etc. The analysis of expected potential annual loss for all identified risks in this area is approximately EUR 2 million (previous year: EUR 2 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 10 million (previous year: EUR 9 million), with a 5 percent probability that there may be a higher, unexpected damage.

To a large degree, the economic success of the Group is related to the management and strategic leadership of previous and current Management Board members as well as to a few Company employees in key positions. Despite the fact that there are, aside from Management Board members, additional employees who perform management tasks, it can be safely assumed that in the event of individual persons leaving the circle of key position holders, the business activities of the Company as well as the results and financial position would be negatively impacted.

The Group considers the performance of its employees to be essential for its growth and development. Thus, the Group is in competition with other companies for highly qualified specialists and executives. As a result, the Group offers an attractive compensation system as well as individually tailored continuing education to win employees and retain them over the long term. Currently, no significant risks are known that may have an impact on the recruitment of specialists and executive personnel, and that could thus endanger the growth targets we have set.

CGM considers its employees to be an integral part of the Group's public image. In the event of non-compliance with the ethical principles firmly anchored in CGM's management culture, risks may arise through possible negative effects on the image and good reputation of the Company. A temporary higher probability of risk by non-compliance with CGM's principles may arise in the case of newly-acquired companies.

Data processing risks

This risk area includes risks arising from a lack of coordination and alignment of IT strategy with corporate objectives, insufficient data in IT systems, inadequate documentation, etc. The analysis of expected potential annual loss for all identified risks in this area is approximately EUR 2 million (previous year: EUR 3 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 9 million (previous year: EUR 13 million), with a 5 percent probability that there may be a higher, unexpected damage.

COMBINED MANAGEMENT REPORT CONTINUED

CGM's customers use the Company's products and services to store, process and transmit highly confidential information about the health of their patients. Due to the sensitivity of this information, security features are very important as an integral part of our products and services. If despite all efforts the security features offered by CGM's products do not work in an orderly manner, claims for damages, fines, penalties and other liabilities due to a violation of applicable laws or regulations could arise. Also, extensive costs to rectify any deficiencies and re-engineering to prevent such vulnerabilities in the future could arise. Moreover, the image of CGM as a trustworthy business partner could suffer severe damage.

Regulatory risks
This risk area includes risks related to law and politics. The analysis of expected potential annual loss for all identified regulatory risks is approximately EUR 2 million (previous year: EUR 2 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 8 million (previous year: EUR 6 million), with a 5 percent probability that there may be a higher, unexpected damage.

Risks related to law and politics
CGM's business activities are strongly influenced by the regulatory environment in the public healthcare systems of the individual national markets and thus also by the market structures that are formed by these regulations. The regulatory structure of the European healthcare sector, which is the Company's primary market at this time, is based on regulations, such as the laws and directives issued by the respective national states and/or by supra-national structures, the latter primarily enacted by the European Union and/or quashed or amended by court decisions. In particular, CGM hereby faces the risk that amendments to existing or the adoption of new regulations at a national or supra-national level (the latter primarily referring to the EU level) may adversely affect market conditions relevant to CGM and thus have a detrimental impact on the business activities of the Group or its individual subsidiaries. Exact projections with regard to the introduction and extent of potential amendments to national and supra-national regulations or their impact on the markets that are important for CGM cannot be made as the introduction and extent of such regulations depend on the political process in the individual countries, and the subsequent impact of such regulations is strongly influenced by the reaction of the respective, affected market participants.

There are currently no known or threatened legal disputes in existence that might have a significant impact on the financial situation of the Group.

CGM is greatly dependent on its proprietary information and technology. However, risk that may arise from the illegal use of intellectual property cannot be fully eradicated. CGM believes that the currently available options are sufficient to protect its intellectual property rights in order to prevent illegal use, which could lead to significant quantitative and qualitative damaged.

Although the license agreements with customers prohibit the misuse of the source code or other trade secrets, there is a residual risk that source code or trade secrets could arrive into the possession of third parties so that they benefit from them illegally. It is also conceivable that third parties thereby are able to develop independently similar or superior products, which are corresponding to the technology or design around the proprietary rights of CGM. Considering the present situation, we class this risk as low.

M&A risks
This risk area concerns risks related to the acquisition and integration of new companies and business assets. The analysis of expected potential annual loss for all identified risks in this area is approximately EUR 1 million (previous year: EUR 1 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 4 million (previous year: EUR 4 million), with a 5 percent probability that there may be a higher, unexpected damage.

Going forward, CGM plans to further expand its presence in the national and international market. These plans include further company acquisitions and such transactions are always carried through with utmost care and diligence. Nevertheless, a certain risk is always associated with every acquisition, which again may impact the Group's results.

A substantial part of the assets of CGM consists of intangible assets acquired as part of acquisitions. Under the Group's accounting principles, these intangible assets are subject to an annual value test in particular to verify that the value of the goodwill in the balance sheet is still present. Here, various factors such as changes in legislation or the competitive environment can have a significant impact on the value of intangible assets. Such testing may lead to an impairment of goodwill values with a corresponding adjustment of the book value of these assets. Any goodwill impairment will lead to a commensurate lowering the Group's results.

Tax risks
This risk area is related to risks for additional tax payments (also in acquired businesses), pricing of goods and services between affiliates and inaccurate legal structure as a result of inaccurate tax planning. The analysis of expected potential annual loss for all identified risks in this area is approximately EUR 1 million (previous year: EUR 1 million). The potential annual maximum damage within this category inside a 95 percent confidence interval amounts to approximately EUR 3 million (previous year: EUR 2 million), with a 5 percent probability that there may be a higher, unexpected damage.

In terms of general risks from ongoing tax audits the group has from today's perspective made sufficient provisions. However, it cannot be completely excluded that tax authorities will levy additional claims for which the company has made no or insufficient provisions.

Representation of the overall risk position
Adding all risk areas together, the level of potentially expected total annual loss for the Group is EUR 33 million (previous year: EUR 37 million). The potential annual peak damage at Group level within a 95 percent confidence interval is EUR 149 million (previous year: EUR 168 million), with a 5 percent probability that there may be a higher, unexpected damage.

After evaluation of the currently identified existing risk positions, the continued existence of CGM SE and the Group is not compromised. The resulting accumulated potentially expected annual total damage could be covered by the anticipated operating cash flows of the Group.

Internal control system and risk management system relevant for the consolidated financial reporting process
In our financial reporting, there is a risk that the consolidated annual and interim financial statements contain errors and misrepresentations that may have a significant influence on the decisions of their addressees. Our accounting-related internal control system (ICS) aims to identify possible sources of error and to minimize the resulting risks. It encompasses the financial reporting throughout the Group.

In this way, we can provide assurance that the consolidated financial statements are prepared according to statutory rules. The following disclosure of the financial reporting process conforms to Section 289 (5) and Section 315 (2) No. 5 of the Handelsgesetzbuch (HGB – German Commercial Code) in accordance with the German Accounting Modernization Act (BilMoG), effective 29 May 2009. The main features of CompuGroup Medical SE's existing internal control system and the risk management system in relation to the (Group) financial reporting process can be described as follows:

- Within CGM, a clear management structure and enterprise structure is implemented. Key regional and sector functions are controlled centrally through CompuGroup Medical SE. Operationally active subsidiaries have a high level of individual responsibility. A clear separation of functionalities is ensured in the areas of "Group Accounting", "Controlling", "Financial Accounting", "Human Resources", "Internal IT", "Risk Management", "Procurement" and "Investor Relations", which are involved in the financial reporting process. Responsibilities are clearly defined.
- The departments involved in the financial reporting process are in line with the quantitative and qualitative requirements defined by the Group.
- Financial accounting, with the exception of the majority of German subsidiaries, which are centrally managed via CGM SE, is decentralized. The local subsidiaries sometimes in turn provide bookkeeping and other financial functions for its subsidiaries or affiliates. As the parent company of the Group, CGM SE performs key tasks in the field of accounting and finance, e.g. the Group consolidation, the accounting treatment of pension provisions in Germany, accounting for business combinations and the impairment tests of recognized goodwill. CGM SE furthermore performs the administration, accounting and monitoring of financial instruments, transaction banking, cash management and the calculations and disclosures related to the German tax group. External service providers and advisors are consulted in this respect.
- An internal directive written according to Company requirements is implemented (among other things a Group-wide accounting directive, risk management directive and research and development directive). The financial systems used are protected against unauthorized access by adequate security mechanisms. The financial systems used are mostly standard software.
- To ensure a Group-wide analysis and control of income relevant risk factors and risks that endanger the continuing operations of the Company, the Group uses standardized planning, reporting, control and early warning systems and processes.
- Group Accounting, in particular, is centrally organized and pools the Group's (global) information in one place. The subsidiaries' segment managers/company managers, and ultimately the Management Board, continuously monitor Group Accounting's reporting activities.
- CGM SE uses a Group-wide reporting system for the preparation of financial statements. This system is also used for the preparation of budgets and forecasts. All consolidated subsidiaries use this system which forms the basis for a standardized data reporting process in the Group.
- The members of the Board of CGM SE make an internal balance-sheet representation for the external full-year reporting and sign the Responsibility Statement. They thus confirm that the prescribed accounting standards have been complied with and that the figures give a true and fair view of the assets, financial and earnings position.
- A review of the financial reporting process is performed by the Internal Audit function.
- Required financial reporting processes are subject to regulated analytical tests. The Group-wide risk management system is regularly updated in line with current developments and its adequacy reviewed in terms of quantity and quality. To comply with the standards for the Group financial reporting processes, the function of regional responsibility through the position "Head of Finance" is implemented Group-wide. These regional financial managers report in all finance-related and accounting-related areas directly to the Chief Financial Officer of CGM SE. The Chief Financial Officer shall inform the Management Board and the Supervisory Board on critical or high-risk subjects and advises on corrective measures as needed. Other special departments involved in the financial reporting process to implement the activities and/or tracking of actions involved are "Group Accounting", "Group Controlling", "Financial Accounting", "Human Resources", "Internal IT", "Risk Management", "Procurement " and "Investor Relations". Furthermore, a regular review of complex and significant changes in underlying accounting-related topics (e.g. receivables management, impairment test, balance sheet analysis for compliance with the financial covenants and the sustainability of further acquisitions and initial consolidation of subsidiaries). The impact of accounting-related risks is evaluated for their influence on financial reporting by means of impact analysis (e.g. forward looking balance sheet simulation). This also includes the analysis of the measures introduced to limit identified risks, including the effectiveness of the measures.
- For key issues in accounting, risk management and the audit mandate of the auditor, the Supervisory Board has established an Audit Committee.
- For all main financial reporting processes, a "four-eye principle" is applied.

COMBINED MANAGEMENT REPORT CONTINUED

The accounting-related internal control and risk management system, whose main features have been described earlier, ensures that corporate balance sheet issues are properly recorded, processed, assessed and incorporated in the external accounts. Group Accounting is a central function and as such monitors all these processes. It is monitored in turn by the CFO and Audit Committee.

A strict organization, Company, control and monitoring structure forms the basis for efficient work processes. The staffing and equipment of the accounting-related areas in accordance with the requirements of the Group ensure effective and accurate work, in terms of both personnel and material. Legal and corporate directives and guidelines ensure that a unified and proper financial reporting process is implemented within the accounting-related areas. The clear delineation of responsibilities and various control and verification mechanisms ensure correct accounting and reliable handling of potential Company risks. Here, the task of the Group-wide risk management system, which is in accordance with the statutory requirements, is to identify risks at an early stage and to assess and communicate them appropriately.

Report on Opportunities

More and more data is being recorded in the health care system – in hospitals, at the family doctor, within health insurance companies and elsewhere. Patients are documented, classified and categorized according to their medical issues. At the same time, doctors want to share accurate, detailed findings from their colleagues. Everything done with the aim to provide patients with optimal, case-specific treatment. At the same, indications and treatment options are more differentiated and therefore more complex than ever before. The "human memory capacity" is inherently limited and it is increasingly difficult to always for healthcare providers to have all necessary information readily available.

For over 25 years, CGM has helped its customers to get rid of annoying bureaucracy and paperwork and made important medical information available when and where needed. In this way, physicians and health care professionals are relieved and more time is created for what matters most: the patient. For this purpose, information exchange and interaction between general practitioners and specialists, hospitals, pharmacies and other participants in health care is of paramount importance.

Operative opportunities

Technological leadership and innovation

CGM is well positioned to remain at the forefront of technology and innovation going forward. As an experienced first-mover, market leader and constant innovator, CGM's level of technical expertise is considered the highest in the industry. In addition to customer retention, technical expertise acts as another high barrier to entry. This is particularly true for hospital systems where technical implementation is highly complex and only trusted to those with the requisite expertise, resources and track record. Switching costs for hospitals are also particularly high given the high execution risks in term of technical changes, data migration and user re-training.

G3 technology

CGM's product strategy is based on a strategic R&D program named "G3". The goal with G3 is a common technology for all markets and segments. The architecture of G3 is based on a high degree of service-orientation and flexibility and the product is fully ready for SaaS offerings, including the ability also to power mobile applications, and can be deployed in almost any provider setting from single clinic use to regional and even national solutions. In 2016, important milestones were reached with G3 hospital modules successfully installed in three different countries: Germany, Switzerland and Austria. The first pilot customers were also installed in office-based practices in Germany. Going forward, CGM expects to increase its competitive advantages based on G3 technology.

Organizational and process-related improvements

"OneGroup" is the largest internal IT and organizational project in the history of CGM. Behind this project lies the standardization and optimization of roles, structures and processes in all our companies and business areas worldwide, based on a single centralized IT platform. All other existing internal IT solutions will be migrated and phased out once this standardized solution is ready and proven. In this way, we can create a synthesis of all our collective knowledge with perfect industry benchmarks and represent this in one single place in the form of an IT solution. We will use the power of information technology to organize, automate, and synchronize our business processes in a live global system. In this way we ensure that we ultimately address our markets with one unique, uniform and highly customized approach in areas such as marketing, sales, support, professional services and other customer facing activities. In the background, the finance, HR and other back-office functions provide perfect support with perfect transparency for managers to make qualified decisions and assist the front-line colleagues to improve even further. Through a fully standardized IT-based organization, we can increase our operational efficiency, improve profitability, grow faster and enhance our customer satisfaction.

Strategic opportunities

Leading market position for Ambulatory Information Systems (AIS)

CGM is the leader in the German market for Ambulatory Information Systems, as well as one of the leading AIS providers in Denmark, France, Sweden, Norway, Austria, Italy and the Czech Republic. As a result of the scale achieved in the AIS business, CGM has broad and central access to a large pool of doctors in private practice, which has a number of significant benefits. It places CGM in a key strategic position where it can be a first-mover in other efficiency-improving areas of healthcare. One such example is in the connectivity market, where the value and success of connecting doctors, hospitals and other healthcare participants is closely related to the number of participants.

The more participants a network has, the more attractive it will become for other potential participants to join and subsequently pay for services. CGM's ability to access its existing doctor base provides it with a substantial competitive advantage in this area. Also, the AIS business is predominantly marked by long-term service and software maintenance agreements and is therefore distinguished by stable, mostly recurring revenues. These regular revenues form a stable basis for financing investments and developing new products and services.

Telematics Infrastructure in Germany

The Telematics Infrastructure is a long-term growth opportunity for CGM and the pilot project delivered mostly in 2015 and 2016 is only the first stage in a transformation to a significantly higher revenue opportunity for CGM. With a full national Roll-out now written into German law, CGM has the opportunity to sell new eGK-compliant online access products to up to 225,000 provider locations in Germany and in particular to all existing customers in Germany: ~44,900 doctors' offices (69,100 doctors), ~13,300 dentists offices (17,900 dentists), ~5,000 pharmacies (7,900 pharmacists), ~300 hospitals, ~300 rehabilitation centers and ~550 social care institutions. Even more important; the Telematik Infrastructure fits perfectly with CGMs strategy to provide more products and services to its customers, such as eServices, ePrescriptions, eLabOrder, physician networks, online clinical pathways, hosting services etc.

Consumer Engagement

Consumers do many things online because it is convenient and saves time. CGM is shaping the healthcare revolution: with us, doctors and patients are in direct contact with each other – whether it is about an appointment request, a prescription renewal, an online consultation or requesting findings. More and more patients would like to be familiar with and manage their own medical data. We design solutions which allow patients to electronically merge and manage information from all treating physicians. The patient then decides which doctor(s) he makes his medical data available to. Confidential remains confidential – here, only CGM offers the highest safety standard.

Software Assisted Medicine

Our response to the increasingly more extensive demands on the "Healthcare System" is: Software Assisted Medicine (SAM). SAM links physicians, patients and payers and assists in the implementation of crucial initiatives into practice. The physician receives information about signs of a rare disease earlier – and he receives it precisely at the moment the patient is sitting in front of him. SAM helps in viewing the whole patient at the decisive moment, and thereby ensures optimal care.

Financial opportunities

Acquisitions are essential for both strengthening existing market positions and entering into new markets. In the last five years CGM acquired and successfully integrated more than 30 companies. This proves the Company's strong track record in acquiring new businesses.

Opportunities related to law and politics

The demand for IT solutions is universal across all healthcare systems in Western industrial countries given the same challenges being faced of aging populations and increasing treatment costs. Accordingly, CGM's business model is transferable to many different international markets, particularly given its long-standing experience. As a result of this, CGM has been able to increase its geographical diversity and currently is present with offices in 20 countries and installations in 46 countries worldwide.

Personnel opportunities

Successful and experienced management team

CGM benefits from a strong team of managers that are well respected as leaders in the e-Health industry. The team is led by Chairman and CEO Frank Gotthardt who founded CGM in 1987 and has grown it into a worldwide leading enterprise. Supporting Mr. Gotthardt is a strong, experienced cadre of managers, all who have been active in the industry for more than a decade. This includes Frank Brecher (Chief Process Officer), Uwe Eibich (Executive Vice-President) and Christian B. Teig (Chief Financial Officer).

Attractive employer

The strong motivation, skills and creativity of our employees are the main sources of our success. Therefore, a sound education and the regular development of each individual are critical factors for our future. In 2016, CGM employed 74 trainees in Germany in areas ranging from office assistants to IT-specialist. Two thirds of all apprentices in 2016 were given a job offer from CGM after successful completion of final exams. The staff development concept of CGM includes seminars, language courses, on-the-job training and a modular development program for young professionals. A good balance between work and private life is a crucial basis for employee satisfaction and performance – to the benefit of employees and the company. With a daycare center being operated at the office campus in Koblenz CGM is actively promoting the reconciliation of work and family. In this center, up to 43 children are cared for by experienced educators since 2009.

Data processing opportunities

Every day, our customers are faced with new technology requirements: they must implement necessities such as electronic patient records or increase the electronic exchange of information with colleagues. To save costs, for example, many doctors outsource administrative tasks to external service providers. All with the same result: the healthcare sector is increasingly demanding of them to network. This, however, increases the risk of data protection. With CGM doctors act safely and responsibly. Patient data is already encrypted inside the practice and hospital – before transmission to external networks. Any personal identification reference is removed and the data is encrypted so that unauthorized access is impossible. The security technologies from CGM are TÜV-certified and often patented.

COMBINED MANAGEMENT REPORT CONTINUED

Overall picture of opportunities
CGM is in a perfect position. At CGM, we use the power of modern information technology to improve efficiency, reduce costs, optimize workflows and increase the quality of care. Healthcare is a market in growth – even when times are bad – and CGM is one of the leading eHealth companies in the world. With our unique customer base, we serve hundreds of thousands of doctors, dentists, hospitals and pharmacies world-wide we get the best of both worlds: Structural, long-term growth opportunities and strong and robust defensive properties. eHealth truly is the "cherry on the cake" when we talk about an early stage business with a big potential.

The new eHealth law in Germany has significantly increased the Group's opportunities during 2016. Outside this, no significant changes in the Group's opportunities happened during the reporting period compared to the previous year.

Takeover-related Disclosures Information Pursuant to Section 315 (4) Commercial Code

Composition of subscribed capital
The share capital of CompuGroup Medical SE amounts to EUR 53,219,350 and is composed of 53,219,350 no-par bearer shares with the security identification code 543730 (ISIN: DE0005437305). Since 4 May 2007, the shares have been traded on the regulated market on the Frankfurt Stock Exchange (Prime Standard). Taking into consideration the treasury shares held by the Company in the amount of 3,495,731 shares, the voting capital comes to 49,723,619 common shares.

Restriction pertaining to voting rights or the transfer of shares
Restrictions of voting rights of the shares can result from the provisions of the German Companies Act (Aktiengesetz, hereinafter AktG). This primarily results in shareholders being subject, under certain conditions, to a voting prohibition and, in accordance with Section 71b AktG, the Company is not entitled to vote on the basis of its treasury shares.

The shareholder group of the "Gotthardt family/Dr. Koop" consisting of the natural persons Frank Gotthardt, Dr. Brigitte Gotthardt, Dr. Daniel Gotthardt and Dr. Reinhard Koop as well as the affiliated legal entities attributable to them hold a total of more than 50 percent of the voting shares.

Two effectively separate concluded pooling agreements, first between Frank Gotthardt, GT1 Vermögensverwaltung GmbH, Dr. Brigitte Gotthardt and Dr. Daniel Gotthardt, and secondly between GT1 Vermögensverwaltung GmbH and Dr. Reinhard Koop, result in the attribution of 11,918,236 shares to the share pool, reflecting 23.97 percent of shares with voting rights. The purpose of both pooling agreements is, among other things, to safeguard a consistent exercise of voting rights with respect to the shares of CompuGroup Medical SE. Frank Gotthardt as well as GT1 Vermögensverwaltung GmbH hold additional shares which are not attributable to the share pool.

The treasury shares reported in the Company assets do not have voting rights.

Interests in capital exceeding 10 percent of the voting rights
In addition to the major shareholder group Gotthardt family/Dr. Koop mentioned above, no further investors held more than 10 percent of voting rights as of the reporting date.

Shares with special rights that confer control powers
No shares with special rights that confer control powers have been issued by the Company.

Nature of voting-right controls in the event of employee participations
The Management Board is not aware of any Company employees holding interests in the Company in some manner in which they do not exercise their control rights directly for themselves.

Legal provisions and provisions of the articles of association concerning the appointment and dismissal of members of the Management Board and concerning amendments to the articles of association
Sections 84 and 85 AktG apply to appointments and dismissals of members of the Management Board. Sections 179 to 181 AktG are to be applied to amendments to the articles of association.

Powers of the Management Board for issuance and repurchase of shares
Authorized capital
With the approval of the Supervisory Board, the Management Board is authorized to increase the equity of the Company by up to EUR 26,609,675.00 through a one-time or multiple issuance of new shares for cash and/or in-kind capital contributions until 11 May 2016 (approved capital). In utilizing approved capital, the shareholders must in principle be granted a subscription right; however, the Management Board is also authorized, with the approval of the Supervisory Board, to exclude the statutory subscription right of the shareholders under certain conditions. Furthermore, the Management Board was authorized, with the approval of the Supervisory Board, to determine the further details for capital increases from authorized share capital.

Authorization to purchase and use (including cancellation) of treasury shares
The authorization granted to the Management Board by resolution of the Annual General Meeting held on 14 May 2009 to acquire treasury shares, which was limited until 14 November 2010, was terminated and replaced by a new authorization pursuant to a resolution of the Annual General Meeting of May 19, 2010. Following the amendment of section 71 (1) no. 8 of the German Stock Corporation Act (AktG), the authorization can now be granted for a period of up to five years.

The authorization granted to the Management Board by resolution of the Annual General Meeting of May 19, 2010, which was limited until 19 May 2015, was terminated and replaced by a new authorization pursuant to the resolution of the Annual General Meeting of May 20, 2015. The authorization may be exercised in whole or in part, once or more than once, by the Company or indirectly by delegated third parties for one or more purposes. The authorization took effect on May 21, 2015 and will be valid until May 20, 2020.

Pursuant to the resolution of the Annual General Meeting on May 20, 2015, the company was authorized to acquire treasury stock up to a total of 10 percent of the value at the time of the resolution or, if this value is lower, exercise of this authorization. The shares acquired together with other treasury shares owned by the Company or attributable to it pursuant to Sections 71d and 71e of the German Stock Corporation Act may at no time account for more than 10 percent of the capital stock at the time of the resolution. The acquisition may also be carried out by third parties dependent on the Company within the meaning of Article 17 of the German Stock Corporation Act (AktG) or by third parties for its account. The authorization may not be used for the purpose of trading treasury shares.

At the discretion of the Management Board, the purchase will be made via the stock exchanges or by a public buy offer made to all shareholders or by a public request to all shareholders to issue offers for sale.

(1) If the share purchase is performed on the stock exchange, the purchase price for one share may not be more or less than 10 percent of the Company's unweighted average share price, as calculated by the closing auction of the Xetra trading system (or a corresponding successor system) on the Frankfurt am Main stock exchange in the five trading days prior to the purchase date.

(2) If the share purchase is performed through a public purchase offer to all shareholders or through a public invitation to all shareholders to submit sales offers, the purchase price for one share (without ancillary purchase costs) may not be more or less than 20 percent of the Company's unweighted average share price, as calculated by the closing auction of the Xetra trading system (or a corresponding successor system) on the Frankfurt am Main stock exchange in the five trading days prior to the public notification of the invitation to submit such an offer.

(3) The purchase offer or invitation to submit sales offers may stipulate further conditions. If the purchase offer is oversubscribed or, in the case of an invitation to submit sales offers of several equivalent offers, not all offers are accepted, the shares must be allocated proportionately to the shares respectively offered. A preferential acceptance of low numbers of tendered shares up to 100 shares per shareholder and rounding in accordance with commercial principles could be foreseen.

The Management Board is entitled to utilize the purchased treasury shares as follows:

(1) With the approval of the Supervisory Board they may be sold on the stock exchange or offered to all shareholders. In addition, with the approval of the Supervisory Board they may be sold by another means provided the consideration for the sale is in cash and the sales price at the time of the sale is not significantly lower than the share price for the same class share on the stock exchange. The total proportion of the shares sold under this authorization in relation to the total share capital, together with the proportion of the share capital of new shares that have been issued since the shareholders' resolution for this authorization, i.e. since May 21, 2015, due to any authorizations for share issues from authorized capital in accordance with Section 186 (3) Sentence 4 AktG, may not exceed 10 percent of the Company's share capital.

(2) With the approval of the Supervisory Board they may be offered and transferred to third parties for the purposes of direct or indirect acquisition of companies, Company shares or equity investments in companies.

(3) With the approval of the Supervisory Board they may be offered and sold as consideration, so that the Company or one of its subsidiaries are issued copyright or third party intellectual property rights by third parties, particularly patents or brands, or licenses to such rights, for the marketing and development of CGM products.

(4) The shares may also be utilized to exercise options arising from share options granted by the Company.

(5) In addition, with the approval of the Supervisory Board, they may also be cancelled without the need for an additional Annual General Meeting. The proportion of the remaining shares in relation to share capital will not be increased by a cancellation. Notwithstanding the above, the Management Board can determine that equity is not reduced, but instead the percentage of the other shares in equity is raised in accordance with Section 8 (3) AktG. In this case, the Management Board is entitled to amend the number of shares stated in the articles of association.

COMBINED MANAGEMENT REPORT CONTINUED

The authorizations previously issued in accordance with (1) to (5) may be used on one or more occasions, in full or in part, individually or collectively, and the authorizations in accordance with (1) to (4) may be used pursuant to instructions issued by the Management Board but also by dependent companies or companies in which the Company holds a majority stake, or third parties acting on the Company's account.

The subscription right of the shareholders to treasury shares is excluded insofar as these shares are used according to the above authorizations in numbers (1) to (4).

Authorization to issue convertible bonds, bonds with warrants, profit participation certificates or profit participation bonds (or combinations of these instruments) with the option of excluding subscription rights pursuant to Sections 221 (4) and 186 (3) Sentence 4 AktG and the creation of corresponding conditional capital (amendment to the articles of association)
According to the resolution of the Annual General Meeting of 9 May 2012, the Management Board was given the authorization to issue convertible bonds (and similar instruments) and corresponding conditional capital. The authorization is limited to a volume of EUR 500 million.

The Management Board of CompuGroup Medical SE was authorized to exclude shareholders' subscription rights on convertible bonds (and similar instruments). In order to ensure that the authorization limit can be used to the full extent, even in the case of later adjustments to conversion or warrant prices, the conditional capital serving to fulfill conversion rights, warrants or conversion or warrant obligations is to amount to EUR 26,609,675.00. However, in the event of the exclusion of subscription rights on bond issues pursuant to Section 186 (3) Sentence 4 AktG, the shares to be issued for the purpose of the serving of conversion rights, warranty or conversion or warrant obligations may not exceed 10 percent of the equity capital either at the point at which the subsequent authorization comes into force or – should the number of shares be lower – at the point at which the authorization is exercised.

(1) Authorization period, nominal value, number of shares, term, contribution in kind, currency, issuance by Group companies
According to the resolution of the Annual General Meeting of 9 May 2012, the Management Board of CompuGroup Medical SE was authorized, with the consent of the Supervisory Board, to issue registered or bearer convertible bonds, bonds with warrants, profit participation certificates or profit participation bonds (or combinations of these instruments) (hereinafter referred to collectively as "Bonds") amounting to a total principal amount of up to EUR 500 million on one or more occasions up to and including 8 May 2017, to grant bearers or rather creditors (hereinafter referred to collectively as "Bearers") of the Bonds conversion rights and warrants on Company shares with a proportionate share in equity capital of up to EUR 26,609,675.00 in accordance with the terms and conditions of the Bonds (hereinafter also referred to as "Bond Terms and Conditions") and to place conversion and warrant obligations on these Bonds. The Bonds, conversion rights, warrants and conversion and warrant obligations may be issued with no maturity limitations. The Bonds can also be issued in return for a contribution in kind. The Bonds can be issued in euros and in the official currency of an OECD member country, provided that the corresponding Euro equivalent is not exceeded.

(2) Granting or exclusion of subscription rights
In principle, shareholders are entitled to subscription rights on the Bonds. Subscription rights may also be granted indirectly whereby Bonds are assumed by one or more credit institutions or by equivalent companies pursuant to Section 186 (5) Sentence 1 AktG with the obligation to offer said subscription rights to shareholders.

However, the Management Board of CompuGroup Medical SE is authorized to exclude shareholders' right to subscribe to the Bonds with the consent of the Supervisory Board:
- in the case of fractional shares;
- to the extent necessary to grant subscription rights to the holders of previously issued Bonds with conversion rights, warrants or conversion or warrant obligations on Company shares in the amount to which they would be entitled after their conversions rights or warrants have been exercised or conversion or warrant obligations met;
- to the extent in which Bonds are issued with conversion rights, warrants or conversion or option obligations in return for cash and the issue price is not significantly lower than the theoretical market value calculated in accordance with recognized financial and mathematical methods and only insofar as the shares issued to serve conversion rights, warrants or conversion or option obligations do not exceed 10 percent of the equity capital either at the point at which the subsequent authorization comes into force or – should the number of shares be lower – at the point at which the authorization is exercised. It is also declared that the authorization volume of 10 percent of equity capital is reduced by the proportion of the equity capital attributed to shares or on which conversion rights, warrants or conversion or warrant obligations from Bonds are based, which have been issued or sold under the exclusion of subscription rights in direct, corresponding or logical application of Section 186 (3) Sentence 4 AktG;
- insofar as the shares are issued in return for contributions in kind, provided that the value of the contribution in kind is appropriate in relation to the market value of the Bonds as calculated pursuant to the preceding paragraph.

Insofar as profit participation certificates or profit participation bonds are issued without conversion rights, warrants or conversion or warrant obligations, the Management Board is authorized to exclude the shareholders' subscription rights in full with the consent of the Supervisory Board if these profit participation certificates or profit participation bonds feature terms similar to those of a debenture, in other words do not grant any membership rights within the Company or grant any share in liquidation proceeds and the level of interest is not determined in line with profits on the basis of net income, net profit or dividends. In this case, the interest and the issue value of the profit participation certificates or profit participation bonds must conform to the current market conditions for equivalent assumption of capital at the time of the issuance.

(3) Conversion right
In the case of the issuance of Bonds with conversion rights, Bearers may convert their Bonds into shares in the Company in accordance with the Bond Terms and Conditions. The proportion of equity capital of the shares to be issued upon conversion may not exceed the nominal value of the Bond or a lower issue price. The conversion ratio is determined by dividing the nominal value of a Bond by the fixed conversion price of a share in the Company. The conversion ratio can also be calculated by dividing the issue price of a Bond underlying the nominal value by the fixed conversion price for a share in the Company. A fixed additional contribution to be paid in cash can also be determined. It can also be stipulated that fractional shares can be aggregated and/or exchanged for cash.

(4) Warrant
In the case of the issue of bonds with warrants, each Bond is issued with one or more detachable warrants which entitle the Bearer to subscribe to shares in the Company in accordance with the Bond Terms and Conditions. It can also be stipulated that fractions be combined and/or exchanged for cash. The proportion of equity capital of the shares to be subscribed to for each Bond may not exceed the nominal value of the bond with warrant or rather an issue price below the nominal value.

(5) Conversion and warrant obligation
The Bond Terms and Conditions can also stipulate a conversion or warrant obligation at the end of the Bond's term or at another point in time (also known as "maturity"). In this case, the conversion or warrant price for a share can correspond to the mean closing price of the listed Company in the Xetra securities trading system on the Frankfurt Stock Exchange (or a corresponding subsequent system) over the ten days prior to or following maturity, even if this price is below the minimum price stipulated in (6). Section 9 (1) AktG is to be complied with in conjunction with Section 199 (2) AktG.

(6) Conversion/warrant price, prevention of dilutive effects
The conversion or warrant price is either – in the case of the exclusion of subscription rights – at least 60 percent of the mean closing price of the Company shares in the Xetra securities trading system on the Frankfurt Stock Exchange (or a corresponding subsequent system) over the ten days prior to or following the resolution by the Management Board concerning the issue of Bonds or – in the case of the granting of subscription rights – at least 60 percent of the mean closing price of the Company shares in the Xetra securities trading system on the Frankfurt Stock Exchange (or a corresponding subsequent system) either (i) over the ten trading days prior to the start of the subscription period or (ii) during the trading of subscription rights apart from the final two subscription rights trading days. Section 9 (1) AktG remains unaffected by this.

If, during the term of a Bond for which conversion rights, warrants or conversion or warrant obligations have been granted or rather stipulated, the financial value of existing conversion rights, warrants or conversion or warrant obligations is diluted and no subscription rights are granted in the form of compensation, conversion rights, warrants or conversion or warrant obligations can be adjusted while preserving their value provided that such an adjustment is not already required by law. In all cases, the proportion of the equity capital of all shares to be subscribed to per Bond may not exceed the nominal value per Bond or rather the lower issue price.

(7) Further options
The Bond Terms and Conditions can stipulate that the Company may also grant new shares from approved capital or Company shares in the case of conversion rights or warrants being exercised. The Bond Terms and Conditions can also stipulate variability in terms of the conversion ratio or a direct link between the conversion or warrant price and the development of the Company's share price on the stock exchange. Furthermore, it can also be stipulated that, rather than issuing shares in the Company, the Company pays those eligible to exercise conversion rights or warrants the equivalent in cash.

(8) Authorization to stipulate further terms and conditions for bonds
The Management Board of CompuGroup Medical SE is authorized, with the consent of the Supervisory Board, to stipulate further terms and conditions concerning the issue and structure of bonds, particularly interest rate, type of interest, issue price, term, denomination and conversion or warrant terms.

Creation of new conditional equity
Equity may be increased by up to EUR 26,609,675.00 through the issue of up to 26,609,675 new bearer shares with dividend entitlement from the start of the financial year of their issuance. The purpose of the conditional equity increase is to grant shares to bearers or creditors of convertible bonds, bonds with warrants, profit participation certificates or profit participation bonds (or combinations of these instruments) with conversion rights, warrants or conversion or warrant obligations issued in accordance with the aforementioned authorization insofar as the bonds are issued in return for cash.

The new shares are issued at the conversion or warrant price to be determined in accordance with the aforementioned authorization. The conditional equity increase is only to be performed to the extent to which conversion rights or warrants are exercised on the basis of Bonds issued in return for cash or to which conversion or warrant obligations are met on the basis of such bonds and provided that no other forms of fulfilment are used to service these rights.

In accordance with the resolution of the Annual General Meeting of 9 May 2012, the Management Board of CompuGroup Medical SE is authorized to stipulate further terms and conditions of the conditional increase of equity.

COMBINED MANAGEMENT REPORT CONTINUED

Amendment to the articles of association

On the basis of the resolution of the Annual General Meeting from 9 May 2012, Section 4 (6) was added to the Company's articles of association: "Equity is increased by up to EUR 26,609,675.00 (in words: twenty-six million six hundred and nine thousand six hundred and seventy-five Euros) through the issue of up to 26,609,675 new bearer shares with dividend entitlement from the start of the financial year of their issuance (conditional equity 2012). The conditional equity increase is only performed to the extent to which bearers or creditors of convertible bonds, bonds with warrants, profit participation certificates or profit participation bonds exercise their conversion rights or warrants on the basis of Bonds the Company issues in return for cash up to and including 8 May 2017 as a result of the authorization resolution of the Annual General Meeting from 9 May 2012 or to the extent to which conversion or warrant obligations are met on the basis of such bonds and provided that no other forms of fulfilment are used to service these rights."

The previous Section 4 (6) of the Company's articles of association becomes Section 4 (7) of the Company's articles of association and reads as follows: "The Supervisory Board is entitled to change the wording of Section 4 (1), (2), (5) and (6) of the articles of association (amount and distribution of equity, approved capital, conditional capital) accordingly after a full or partial increase of equity or after the expiry of the authorization period in accordance with Section 4 (5) of the articles of association."

Significant agreements of the Company under the condition of a change of control and compensation agreements with the Management Board or employees in the event of a takeover offer

With respect to reporting obligations under Section 315 (4) No. 8 and 9 of the German Commercial Code (HGB), we herewith make a nil report with the following exception:

Should there be a "change-of-control" of the Group, Mr. Christian B. Teig may terminate his contract by the month-end and receive a severance payment of up to EUR 1.8 million. According to this provision, change-of-control is defined when Mr. Frank Gotthardt and his family have in total less than 30 percent of the shares of Compugroup Medical SE, or any other natural or legal person control more shares in Compugroup Medical SE than Frank Gotthardt and his family.

Share Repurchase Programs

Within the scope of its share repurchase program started on 9 July 2012, which authorized the purchase of up to 1,000,000 own shares, CGM SE did not acquire any own shares in the reporting period.

As of the end of the reporting period, CompuGroup Medical held 3,495,731 own shares or around 6.57 percent of equity capital.

Corporate Governance declaration

The Corporate Governance declaration pursuant to § 289a HGB is published on the Company's website at http://www.cgm.com. It includes the declaration in accordance with § 161 AktG and details on key corporate governance practices and operation of Management and Supervisory Board.

Remuneration System

The compensation report of CompuGroup Medical presents the principles for establishing Management and Supervisory Board compensation as well as the amounts and structure involved.

Compensation of the Management Board

Total compensation of members of the Management Board comprises results-independent and results-dependent components. The level of compensation is mainly dependent on the responsibilities of the particular Management Board member, his or her personal performance, and the economic situation of the Company. In addition, the success and future prospects of the Company in the appropriate field of comparison are important criteria in determining the compensation. The components of the results-independent compensation are a fixed salary and fringe benefits, while the results-dependent compensation components consist of management bonus payments.

The fixed salary, a base compensation independent of performance, is paid out monthly as salary. In addition, the members of the Management Board, except the Chief Executive Officer, receive fringe benefits in the form of in-kind compensations, which consist essentially of the use of a Company car. The use of a Company car is taxable due to its attribution as a component of compensation for each member of the Management Board.

The results-dependent compensation depends on goals agreed individually with each Management Board member, including goals measured over a multi-year period (long-term incentive). For all Management Board members, the long-term incentive is based on goals related to organic growth and consolidated EBITA. The (quantitative and qualitative) targets on which the calculation of bonus payments is based and their weighting are focused on sustainable Company management in accordance with Section 87 AktG.

Loans were not made to members of the Management Board during the reporting year. No member of the Management Board received benefits or corresponding commitments from a third party in the past financial year in consideration of his or her activity as a member of the Management Board. There are no pension commitments to any of the members of the Management Board.

On 14 December 2012, the Supervisory Board of CompuGroup Medical SE appointed Frank Gotthardt for a new four and a half year term as CEO, starting 1 July 2013 and ending 31 December 2017. In addition to an annual fixed salary of EUR 660,000, Mr. Frank Gotthardt is entitled to a performance-related remuneration depending on the average EBITA and average organic growth rate in the fiscal year and the following two years. Because the contract term is limited to the end of 2017, the period of averaging is reduced from fiscal year 2016. In the last year of his term (fiscal year 2017), the amount of the bonus depends also on the level of recurring revenues, which must be higher in fiscal year 2018 than in fiscal 2017. Otherwise, the bonus for the fiscal year 2017 is reduced proportionally. Should Frank Gotthardt during the contract period die or become permanently incapacitated, the fixed annual salary and the variable portion of compensation for a period of three months will be paid (death benefits to beneficiaries).

On 14 December 2011, the Supervisory Board of CompuGroup Medical AG appointed Christian B. Teig for a second four year term as CFO, starting 1 October 2012 and ending 30 September 2016. In addition to an annual fixed salary of EUR 300,000, Christian B. Teig has been granted a results dependent compensation of up to EUR 300,000 per year, composed of two equal components each with a maximum of EUR 150,000 per year. The first performance-based remuneration component depends on the achievement of individually defined goals for each annual fiscal year. The second performance-based compensation component is measured by the average EBITA and average organic growth in the financial year and the previous period. As fringe benefit, Christian B. Teig is also entitled to a Company car. Should Christian B. Teig during the contract period become permanently disabled, the service contract is terminated six months after determination of incapacity. In the event of termination by the Company, Mr. Christian B. Teig receives a severance payment in the amount of up to EUR 1,200,000 or the amount of the total compensation that would be payable for the remaining term of the employment contract after the early termination. The service contract also includes a change of control clause (section "Information required by § 315 Section 4 of the German Commercial Code"). In the event of a change of control, Christian B. Teig has the right to cancel his contract within one month to the end of the month and the aforementioned severance payment shall be paid in full.

On 17 March 2016, the Supervisory Board of CompuGroup Medical SE appointed Christian B. Teig for a third four year term as CFO, starting 1 October 2016 and ending 30 September 2020. In addition to an annual fixed salary of EUR 400,000, Christian B. Teig has been granted a results dependent compensation of up to EUR 400,000 per year, composed of two equal components each with a maximum of EUR 200,000 per year. The first performance-based remuneration component depends on the achievement of individually defined goals for each annual fiscal year. The second performance-based compensation component is measured by the average EBITA and average organic growth in the financial year and the previous period. As fringe benefit, Christian B. Teig is also entitled to a Company car. Should Christian B. Teig during the contract period become permanently disabled, the service contract is terminated six months after determination of incapacity. In the event of termination by the Company, Mr. Christian B. Teig receives a severance payment in the amount of up to EUR 1,800,000 or the amount of the total compensation that would be payable for the remaining term of the employment contract after the early termination. The service contract also includes a change of control clause (section "Information required by § 315 Section 4 of the German Commercial Code"). In the event of a change of control, Christian B. Teig has the right to cancel his contract within one month to the end of the month and the aforementioned severance payment shall be paid in full.

Uwe Eibich is in his second four year term as Executive Vice President Central Europe, starting 1 January 2014 and ending 31 December 2016. In addition to an annual fixed salary of EUR 300,000, Uwe Eibich has been granted a results-dependent compensation of up to EUR 200,000 per year. The performance-related remuneration depends on the achievement of individually defined goals for each annual fiscal year. Furthermore, Mr. Uwe Eibich is entitled to an additional performance-based compensation over the contract term of up to EUR 400,000. The second performance-based compensation component is measured by the average organic growth in the region "Central Europe" over the period of appointment, which must amount to at least 4 percent per annum. With an average organic growth of 12 percent per annum, a target achievement of 100 percent applies. Uwe Eibich is also entitled to a Company car. Should Mr. Uwe Eibich during the contract period die or become permanently incapacitated, the fixed annual salary and the variable portion of compensation for a period of three months will be paid (death benefits to beneficiaries). In the event of termination by the Company, Mr. Uwe Eibich receives a severance payment equal to the pro rata compensation due until the end of his term. The severance payment is limited to a maximum amount of EUR 600,000.

On 9 September 2016, the Supervisory Board of CompuGroup Medical SE appointed Uwe Eibich for a second four year term as Executive Vice President Central Europe, starting 1 January 2017 and ending 31 December 2020. In addition to an annual fixed salary of EUR 400,000, Uwe Eibich has been granted a results-dependent compensation of up to EUR 200,000 per year. The performance-related remuneration depends on the achievement of individually defined goals for each annual fiscal year. Furthermore, Mr. Uwe Eibich is entitled to an additional performance-based compensation over the contract term of up to EUR 600,000. The second performance-related remuneration depends on the revenue from business in relation to the introduction of the Telematik Infrastructure in Germany as well as on recurring revenue from other eHealth services CGM provides on the basis of the Telematik Infrastructure. Uwe Eibich is also entitled to a company car. Should Mr. Uwe Eibich during the contract period die or become permanently incapacitated, the fixed annual salary and the variable portion of compensation for a period of three months will be paid (death benefits to beneficiaries). In the event of termination by the Company, Mr. Uwe Eibich receives a severance payment equal to the pro rata compensation due until the end of his term. The severance payment is limited to a maximum amount of EUR 600,000.

COMBINED MANAGEMENT REPORT CONTINUED

At its meeting on March 19, 2015, the Supervisory Board of CompuGroup Medical SE decided to expand the Management Board by adding the "Process and Efficiency Management" section, and at the same time appointed Frank Brecher in the new position as Chief Process Officer with effect from April 1, 2015. In addition to an annual fixed salary of EUR 300,000, Frank Brecher has been granted a results dependent compensation of up to EUR 300,000 per year, composed of one component equal to maximum EUR 200,000 per year and the second equal to maximum EUR 400,000 over the contract period. The first performance-based remuneration component depends on the achievement of individually defined goals for each annual fiscal year. The second performance-related remuneration component is based on EBITA and organic growth. Frank Brecher is also entitled to a Company car. Should Mr. Frank Brecher during the contract period die or become permanently incapacitated, the fixed annual salary and the variable portion of compensation for a period of three months will be paid (death benefits to beneficiaries). In the event of termination by the Company, Mr. Frank Brecher receives a severance payment equal to the pro rata compensation due until the end of his term. The severance payment is limited to a maximum amount of EUR 900,000.

Management board compensation tables

	Frank Gotthardt CEO Joined Management Board 29.09.1993					
	Benefits granted				Inflows	
	2015	**2016**	**2016 (min.)**	**2016 (max.)**	2015	**2016**
Fixed compensation	660,000	**660,000**	**660,000**	**660,000**	660,000	**660,000**
Fringe benefits	1,300	**0**	**0**	**0**	1,300	**0**
Total	**661,300**	**660,000**	**660,000**	**660,000**	**661,300**	**660,000**
One-year variable compensation	0	**0**	**0**	**0**	0	**0**
Multi-year variable compensation						
Long-term incentive (01.07.2013-31.12.2017)	1,705,000	**1,963,990**	**0**	**–**	1,081,000	**1,149,731**
Other					0	**0**
Total	**2,366,300**	**2,623,990**	**660,000**	**–**	**1,742,300**	**1,809,731**
Service cost	0	**0**	**0**	**0**	0	**0**
Total	**2,366,300**	**2,623,990**	**660,000**	**–**	**1,742,300**	**1,809,731**

	Christian B. Teig CFO Joined Management Board 01.10.2008					
	Benefits granted				Inflows	
	2015	**2016**	**2016 (min.)**	**2016 (max.)**	2015	**2016**
Fixed compensation	300,000	**325,000**	**325,000**	**325,000**	300,000	**325,000**
Fringe benefits	38,415	**37,596**	**37,596**	**37,596**	38,415	**37,596**
Total	**338,415**	**362,596**	**362,596**	**362,596**	**338,415**	**362,596**
One-year variable compensation	140,000	**136,268**	**0**	**162,500**	140,000	**137,500**
Multi-year variable compensation						
Long-term incentive (01.10.2012-30.09.2016)	115,000	**86,748**	**0**	**112,500**	100,545	**202,902**
Long-term incentive (01.10.2016-30.09.2020)	–	**48,137**	**0**	**50,000**	0	**0**
Other					0	**0**
Total	**593,415**	**633,749**	**362,596**	**687,596**	**578,960**	**702,998**
Service cost	0	**0**	**0**	**0**	0	**0**
Total	**593,415**	**633,749**	**362,596**	**687,596**	**578,960**	**702,998**

	Uwe Eibich EVP Germany, Austria, Switzerland Joined Management Board 01.01.2007					
	Benefits granted				Inflows	
	2015	**2016**	**2016 (min.)**	**2016 (max.)**	2015	**2016**
Fixed compensation	300,000	**300,000**	**300,000**	**300,000**	300,000	**300,000**
Fringe benefits	36,329	**36,329**	**36,329**	**36,329**	36,329	**36,329**
Total	**336,329**	**336,329**	**336,329**	**336,329**	**336,329**	**336,329**
One-year variable compensation	140,000	**183,410**	**0**	**200,000**	200,000	**189,072**
Multi-year variable compensation						
Long-term incentive (01.01.2013-31.12.2016)	50,000	**100,000**	**0**	**100,00**	50,000	**50,000**
Other					0	**0**
Total	**526,329**	**619,739**	**336,329**	**636,329**	**586,329**	**575,401**
Service cost	0	**0**	**0**	**0**	0	**0**
Total	**526,329**	**619,739**	**336,329**	**636,329**	**586,329**	**575,401**

	Frank Brecher CPO Joined Management Board 01.04.2016					
	Benefits granted				Inflows	
	2015	**2016**	**2016 (min.)**	**2016 (max.)**	2015	**2016**
Fixed compensation	225,000	**300,000**	**300,000**	**300,000**	225,000	**300,000**
Fringe benefits	19,221	**25,628**	**25,628**	**25,628**	19,221	**25,628**
Total	**244,221**	**325,628**	**325,628**	**325,628**	**244,221**	**325,628**
One-year variable compensation	130,000	**126,561**	**0**	**200,000**	0	**125,750**
Multi-year variable compensation						
Long-term incentive (01.04.2015-31.03.2019)	75,000	**70,206**	**0**	**100,000**	0	**0**
Other					0	**0**
Total	**449,221**	**522,395**	**325,628**	**625,628**	**244,221**	**451,378**
Service cost	0	**0**	**0**	**0**	0	**0**
Total	**449,221**	**522,395**	**325,628**	**625,628**	**244,221**	**451,378**

2015 amounts for Frank Brecher are for 9 months.

Regarding the disclosure of Management Board compensation according §285 Nr 9a HGB und §314 Abs 1 Nr 6a HGB we refer to the notes to the consolidated financial statements.

Compensation of the Supervisory Board
In fiscal year 2016, the change in legal form to a European Public Company (SE) led to changes to the composition of the Supervisory Board. These changes are included in the tables below.

The compensation of the Supervisory Board was established by the Annual General Meeting and is regulated by Section 16 of the Company's articles of association. The compensation is geared to the functions and the responsibilities of the members of the Supervisory Board as well as to the Group's economic success.

The compensation of the Supervisory Board is based on an annual fixed amount. In the past financial year, there was no change in the amount of compensation of the individual members of the Supervisory Board compared to the previous year.

COMBINED MANAGEMENT REPORT CONTINUED

The chairman of the Supervisory Board receives one and a half times the compensation granted to the other members of the Supervisory Board. Accordingly, the Chairman of the Supervisory Board receives a fixed amount of EUR 60 thousand while all other members receive EUR 40 thousand each. All other expenses arising from the members' activities on the Supervisory Board are also recompensed (notably travel expenses). This results in the following allocation for the reporting year:

Supervisory Board compensation 2016

Name	Supervisory Board compensation EUR
Dr. Esser, Klaus	60,000
Dr. Flach, Ulrike	40,000
Dr. Gotthardt, Daniel	40,000
Wild, Lothar (until 19.05.2016)	6,667
René Obermann	40,000
Grüner, Karl (until 19.05.2016)	6,667
Schrod, Klaus (from 20.05.2016)	36,667
Pagenkopf, Maik (from 20.05.2016)	36,667
Total	**266,668**

Supervisory Board compensation 2015

Name	Supervisory Board compensation EUR
Dr. Esser, Klaus	60,000
Dr. Flach, Ulrike	40,000
Dr. Gotthardt, Daniel	40,000
Prof. Dr. Hinz, Rolf (until 06.02.2015)	6,667
René Obermann (from 20.03.2015)	33,333
Wild, Lothar	40,000
Grüner, Karl	40,000
Total	260,000

Additional compensation is paid to employee representatives on the Supervisory Board for activities outside the Supervisory Board at arm's length terms and conditions. No individual disclosures are made in this respect as these payments are deemed as not being of a material nature.

Dependency Report

Pursuant to § 312 AktG, the Board has submitted to the Supervisory Board the prescribed report on relations with affiliated companies (dependency report), including the declaration pursuant to § 312 para 3 of the AktG. The corporation has, based on the circumstances that were known to the Board at the time at which the transactions were made, received an appropriate consideration for each such transaction. Reportable actions according to § 312 AktG are not present.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

Assets	Notes*	31.12.2016 EUR '000	31.12.2015 EUR '000
Non-current assets			
Intangible assets	(E.1)	**538,191**	543,967
Property, plant and equipment	(E.2)	**73,851**	60,394
Investments in associates and joint ventures	(E.3)	**4,580**	2,953
Other participations	(E.3)	**168**	261
Trade receivables**	(E.6)	**12,162**	8,982
Other financial assets**	(E.7)	**845**	2,281
Deferred taxes	(E.4)	**7,668**	7,948
		637,465	**626,786**
Current assets			
Inventories	(E.5)	**5,271**	6,515
Trade receivables	(E.6)	**116,750**	111,187
Other financial assets	(E.7)	**1,837**	2,269
Other non-financial assets	(E.8)	**13,700**	13,932
Income tax receivables	(E.4)	**3,904**	4,560
Securities (recognized at fair value through profit or loss)		**0**	150
Cash and cash equivalents	(E.9)	**27,756**	25,057
		169,218	163,670
Non-current assets held for sale	(E.10)	**1,222**	1,222
		170,440	164,892
		807,905	**791,678**

* Note refers to the corresponding text number in the chapter "E. Explanation of items on the statement of financial position and income statement".
** Compared to previous year the leasing receivables from other financial assets have been reclassified into trade receivables.

(The appended notes are an integral part of the consolidated financial statements).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 CONTINUED

Equity and Liabilities

	Notes*	31.12.2016 EUR '000	31.12.2015 EUR '000
Equity	(E.11)		
Subscribed capital		**53,219**	53,219
Treasury shares		**-20,292**	-20,292
Reserves		**184,903**	159,364
Capital and reserves allocated to the shareholder of the parent company		**217,830**	**192,291**
Minority interests		**823**	319
		218,653	**192,610**
Non-Current liabilities			
Pensions and other non-current provisions	(E.12)	**23,936**	21,945
Liabilities to banks	(E.13)	**316,122**	310,158
Purchase price liabilities	(E.14)	**3,512**	4,632
Other financial liabilities	(E.17)	**12,468**	15,923
Other non-financial liabilities	(E.17)	**2,839**	3,915
Deferred taxes	(E.4)	**49,548**	48,418
		408,425	**404,991**
Current liabilities			
Liabilities to banks	(E.13)	**42,073**	41,934
Trade payables**	(E.15)	**31,381**	27,349
Income tax liabilities	(E.4)	**16,067**	35,136
Other provisions	(E.16)	**29,795**	29,083
Purchase price liabilities	(E.14)	**10,535**	9,180
Other financial liabilities***	(E.17)	**11,429**	18,418
Other non-financial liabilities	(E.17)	**39,547**	32,977
		180,827	**194,077**
Liabilities related to assets held for sale		**0**	0
		807,905	**791,678**

* Note refers to the corresponding text number in the chapter "E. Explanation of items on the statement of financial position and income statement".
** Compared to previous year the leasing liabilities from other financial liabilities have been reclassified into trade payables.
*** Compared to previous year individual positions from other financial liabilities have been reclassified into other non-financial liabilities.

(The appended notes are an integral part of the consolidated financial statements).

INCOME STATEMENT
FOR THE REPORTING PERIOD 2016

	Notes*	2016 EUR '000	2015 EUR '000
Sales revenue	(E.18)	**560,195**	543,066
Capitalized in-house services	(E.19)	**10,318**	9,615
Other income	(E.20)	**7,930**	3,859
Costs for goods and services purchased	(E.21)	**-104,361**	-100,511
Personnel expenses	(E.22)	**-260,083**	-250,626
Other expenses	(E.23)	**-88,332**	-93,084
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**125,667**	**112,319**
Depreciation on property, plants and tangible assets	(E.24)	**-8,423**	-7,798
Earnings before interest, taxes and amortization (EBITA)		**117,244**	**104,521**
Amortization on intangible assets	(E.24)	**-35,400**	-36,747
Earnings before interest and taxes (EBIT)		**81,844**	**67,774**
Results from associates recognised at equity	(E.25)	**-1,409**	-911
Financial income	(E.26)	**8,086**	14,136
Financial expense	(E.26)	**-14,308**	-18,795
Earnings before taxes (EBT)		**74,213**	**62,204**
Income taxes for the period	(E.27)	**-29,743**	-23,582
Results from continued operations		**44,470**	**38,622**
Profit for the period from discontinued operations		**0**	0
Consolidated net income for the period		**44,470**	**38,622**
of which: allocated to parent company		**44,530**	**38,494**
of which: allocated to minority interests		**-60**	**128**
Earnings per share from continuing operations	(E.28)		
undiluted (EUR)		**0.90**	**0.77**
diluted (EUR)		**0.90**	**0.77**
Additional information:			
Cash net income (EUR)**		**76,698**	**72,865**
Cash net income per share (EUR)**		**1.54**	**1.47**

* Note refers to the corresponding text number in the chapter "E. Explanation of items on the statement of financial position and income statement".
** Definition: Consolidated net income from the period plus amortization on intangible assets with the exception of capitalized in-house services.

(The appended notes are an integral part of the consolidated financial statements).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE REPORTING PERIOD 2016

	Notes*	2016 EUR '000	2015 EUR '000
Consolidated net income for the period		**44,470**	**38,622**
Items that will not be reclassified to profit/loss:			
Actuarial gains and losses from pensions			
Changes in actuarial gains and losses	(E.12)	**-269**	-893
Deferred income taxes	(E.4)	**154**	120
		-115	**-773**
Items that may be reclassified to profit/loss:			
Cashflow Hedges			
of which: in equity	(E.11)	**0**	0
of which: income (recycling)	(E.11)	**0**	0
Deferred income taxes	(E.4)	**0**	0
Currency conversion differences		**0**	**0**
of which: in equity	(E.11)	**-1,473**	-3,284
of which: income (recycling)		**0**	0
		-1,473	**-3,284**
		-1,473	**-3,284**
Operating income and expense recognized directly in equity		**-1,588**	**-4,057**
Total result of the period		**42,882**	**34,565**
of which: allocated to parent company		**42,942**	34,437
of which: allocated to minority interests		**-60**	128

* Note refers to the corresponding text number in the chapter "E. Explanation of items on the statement of financial position and income statement".

(The appended notes are an integral part of the consolidated financial statements).

CHANGES IN CONSOLIDATED EQUITY 2016

	Share capital EUR '000	Treasury shares EUR '000	Reserves EUR '000	Accumulated other operating income: Cashflow hedges EUR '000	Accumulated other operating income: Currency conversion EUR '000	Equity attributable to shareholders of CGM AG EUR '000	Non-controlling interest EUR '000	Consolidated equity EUR '000
Balance as at 31.12.2014	**53,219**	**-20,292**	**161,721**	**0**	**-18,980**	**175,668**	**-41**	**175,627**
Group net income	**0**	**0**	**38,494**	**0**	**0**	**38,494**	**128**	**38,622**
Other results	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Changes in the fair value of cashflow hedges	0	0	0	0	0	0	0	0
Reversal of cashflow hedges	0	0	0	0	0	0	0	0
Actuarial gains and losses	0	0	-773	0	0	-773	0	-773
Currency conversion differences	0	0	0	0	-3,284	-3,284	0	-3,284
Total result of the period	**0**	**0**	**37,721**	**0**	**-3,284**	**34,437**	**128**	**34,565**
Transactions with shareholders								
Capital contributions	0	0	0	0	0	0	0	0
Dividend payment	0	0	-17,403	0	0	-17,403	-29	-17,432
Non-controlling interests from acquisitions	0	0	0	0	0	0	0	0
Additional purchase of shares from non-controlling interests after control	0	0	-261	0	0	-261	261	0
Issue of treasury shares	0	0	0	0	0	0	0	0
	0	**0**	**-17,664**	**0**	**0**	**-17,664**	**232**	**-17,432**
Other changes (Previous year: Changes in scope of consolidation)	**0**	**0**	**-150**	**0**	**0**	**-150**	**0**	**-150**
Balance as at 31.12.2015	**53,219**	**-20,292**	**181,628**	**0**	**-22,264**	**192,291**	**319**	**192,610**
Group net income	**0**	**0**	**44,530**	**0**	**0**	**44,530**	**-60**	**44,470**
Other results	0	0	0	0	0	0	0	0
Changes in the fair value of cashflow hedges	0	0	0	0	0	0	0	0
Reversal of cashflow hedges	0	0	0	0	0	0	0	0
Actuarial gains and losses	0	0	-115	0	0	-115	0	-115
Currency conversion differences	0	0	0	0	-1,473	-1,473	0	-1,473
Total result of the period	**0**	**0**	**44,415**	**0**	**-1,473**	**42,942**	**-60**	**42,882**
Transactions with shareholders	0	0	0	0	0	0	0	0
Capital contributions	0	0	0	0	0	0	0	0
Dividend payment	0	0	-17,403	0	0	-17,403	-39	-17,442
Non-controlling interests from acquisitions	0	0	0	0	0	0	603	603
Additional purchase of shares from non-controlling interests after control	0	0	0	0	0	0	0	0
Issue of treasury shares	0	0	0	0	0	0	0	0
	0	**0**	**-17,403**	**0**	**0**	**-17,403**	**564**	**-16,839**
Other changes (Previous year: Changes in scope of consolidation)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Balance as at 31.12.2016	**53,219**	**-20,292**	**208,640**	**0**	**-23,737**	**217,830**	**823**	**218,653**

(The appended notes are an integral part of the consolidated financial statements).

CASH FLOW STATEMENT
FOR THE REPORTING PERIOD 2016

	Notes*	2016 EUR '000	2015 EUR '000
Group net income		**44,470**	38,622
Amortization on intangible assets, plant and equipment	(E.24)	**43,823**	44,544
Earnings on sales of fixed assets	(E.20)	**-680**	-176
Change in provisions (including income tax liabilities)		**-16,702**	23,495
Change in deferred taxes	(E.27)	**-568**	-11,554
Other non-cash earnings/expenditures		**-1,525**	-11,966
		68,818	**82,965**
Change in inventories	(E.5)	**1,423**	-584
Change in trade receivables	(E.6)	**-6,340**	-12,983
Change in income tax receivables		**656**	694
Change in other assets		**3,054**	-2,470
Change in trade payables		**3,355**	1,456
Change in other liabilities		**-3,353**	4,169
Cash flow from operating activities		**67,613**	**73,247**
Cash inflow from disposals of intangible assets		**102**	82
Cash outflow for capital expenditure in intangible assets		**-16,501**	-17,602
Cash inflow from disposals of sales of property, plant and equipment		**1,466**	544
Cash outflow for capital expenditure in property, plant and equipment		**-23,112**	-6,835
Net cash outflow for company acquisitions (less acquired cash and cash equivalents)		**-6,732**	-32,103
Cash outflow for acquisitions in prior periods	(E.14)	**-1,855**	-940
Cash outflow for capital expenditures in joint ventures		**-2,755**	-3,782
Cash flow from investing activities		**-49,387**	**-60,636**
Dividends paid	(E.11)	**-17,403**	-17,403
Dividends paid to non-controlling interests	(E.11)	**-39**	0
Acquisition of additional shares from non-controlling interests	(E.11)	**0**	-150
Cash outflow from the repayment of liabilities from finance lease**		**-3,565**	0
Cash inflow from assumption of loans	(E.13)	**70,140**	69,595
Cash outflow from the repayment of loans	(E.13)	**-64,833**	-61,105
Cash flow from financing activities		**-15,700**	**-9,063**
Cash and cash equivalents at the beginning of the period	(E.9)	**25,057**	21,465
Change in cash and cash equivalents		**2,526**	3,548
Change in cash and cash equivalents due to exchange rate fluctuations		**173**	44
Cash and cash equivalents at the end of the period	(E.9)	**27,756**	**25,057**
Interest paid		**11,068**	16,873
Interest received		**1,210**	829
Income tax paid		**31,365**	13,299

* Note refers to the corresponding text number in the chapter "E. Explanation of items on the statement of financial position and income statement".
** Compared to the previous year, cash outflow from the repayment of liabilities from finance lease are disclosed separately and no longer in cash outflow from repayment of loans or in change in other liabilities.

(The appended notes are an integral part of the consolidated financial statements).

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR

A. General disclosures

1. Company information

CompuGroup Medical SE (in the following "Company" or "CGM") is an European Company (Societas Europaea, SE) registered in Germany in the Commercial Register of the Koblenz Municipal Court under HRB No. 24981. At the shareholders' meeting in May 2015 the shareholders of the Company decided to change the legal form of the ultimate parent company CompuGroup Medical AG into a European Company. The date of registration of this transformation in the German commercial register took place on 20 February 2016 at the Municipal Court in Koblenz.

CompuGroup Medical SE is the ultimate parent company of the Group. The place of business of the Company is Maria Trost 21, 56070 Koblenz Germany. The purpose of the Company and its core business activities can be described as follows:

CGM is currently divided into three business segments
– Health Provider Services I (HPS I);
– Health Provider Services II (HPS II); and
– Health Connectivity Services (HCS).

These segments are the basis for the Company's primary segment reporting:
– HPS I: Development and sale of software solutions for physicians and dentists in their practices as well as for pharmacies and laboratories.
– HPS II: Development and sale of software solutions for hospitals.
– HCS: Connecting service providers (physicians, dentists, hospitals, and pharmacies) with other important market participants in the healthcare sector, such as health and care insurance providers, pharmaceutical companies and research institutes. In addition, internet provider services are offered to physicians and other participants in the healthcare sector.

2. Reporting principles and fundamental principles

The consolidated financial statement encloses the financial statements of CompuGroup Medical SE and its subsidiaries (also referred to in the following as "CGM Group"). As in the prior year, the consolidated financial statements of CGM Group as of 31 December 2016 has been prepared in accordance with Section 315a Handelsgesetzbuch (HGB – German Commercial Code) and in compliance with the International Financial Reporting Standards (IFRS).

For the financial year 2016 the International Financial Reporting Standards (IFRS) – previously International Accounting Standards (IAS) – and the interpretations of the International Financial Interpretations Committee (IFRSIC) – previously the Standing Interpretations Committee (SIC) – as applicable in the EU have been applied as amended. The application of individual standards is described in the explanatory notes sections to the consolidated financial statement.

In addition, the supplementary under commercial law according to Section 315a HGB has been applied.

The consolidated financial statement for 2016 has been prepared by the Management Board of CGM and will be reviewed by the audit committee on 16 March 2017. It is expected that the consolidated financial statement will be reviewed, approved and released for publication by the Supervisory Board at its meeting on 16 March 2017.

The consolidated financial statement is presented in thousands of Euro (EUR '000) unless otherwise stated. Smaller deviations in absolute figures and in the calculation of percentage rates may occur due to rounding differences.

The income statement as well as the consolidated statement of the comprehensive Income and the consolidated statement of financial position for CGM Group are in accordance with requirements of IAS 1, while the income statement is being prepared according to the nature of expense method.

All subsidiaries of CGM are instructed to use the same accounting and measurement principles by applying the Group accounting policy.

The consolidated financial statement is primarily based on the historical cost principle. Unless stated otherwise, assets and liabilities are carried on the basis of historical cost, less necessary value reductions (fair value).

The estimates and assumptions applied to prepare the consolidated financial statement according IFRS have effects on the valuation of assets (goodwill; deferred tax assets) and debts (accruals; purchase price liabilities), the disclosure of contingent assets and liabilities at the respective balance sheet dates. as well as the amount of income and expenses for the reporting period. Although these assumptions and estimates have been made to Management Board's best estimate, the actual results can differ from such estimations and assumptions.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

B. Principle accounting and measurement methods

1. Principles for the preparation of the consolidated financial statements
The consolidated financial statement of CGM was prepared on the basis of historical cost. This principle does not apply to certain financial instruments that are measured at balance sheet date with their revaluation amount or at fair value. Details are provided in the explanatory notes to the respective accounting and measurement methods.

In general, historical costs are based on the fair value of the consideration which has been provided in exchange for the respective asset.

The fair value is the amount that would be paid for an asset or paid to transfer a liability between market participants at the measurement date. This applies irrespectively of whether the amount is directly observed on the market or estimated on the basis of the best possible measurement method.

When measuring the fair value of an asset or a liability, CGM takes into account certain characteristics of the asset or the liability, such as the condition and location of the asset or restrictions on the sale of use of the asset, provided that the market participants also took these characteristics into account when determining the purchase price of an asset or the transfer of a liability at the balance sheet date. In these consolidated financial statement, the fair value to be applied for the measurement and/or disclosure requirements is generally determined on the basis of the previously-described principles. The only exceptions are:
– Share-based payment within the scope of IFRS 2 "Share-based Payment";
– Leases that belong to the scope of IAS 17 "Leases"; and
– Measurement criteria similar but not equal to fair value. This includes, among other things the net realizable value according to IAS 2 "Inventories" or the value in use according to IAS 36 "Impairment of Assets".

The fair value is not always available as a market value, which often necessitates a determination based on various measurement parameters. Depended from the availability of observable parameters and the relevance of these parameters for determining the fair value in total, the fair value is assigned to level 1, 2 or 3. The assignment of the fair value to those level takes place in accordance with the following criteria:
– Level 1 parameters are quoted prices in active markets for identical assets or liabilities. CGM uses these quoted prices, where available and without any adjustment, to determine the fair value.
– Level 2 parameters: Here, the market value of assets and liabilities is calculated on the basis of parameters for which either directly or indirectly quoted prices are also made available to an active market.
– Level 3 parameters are unobservable input parameters which have to be developed to simulate the assumptions of market participants who would apply this when determining an appropriate price for the asset/liability.

2. New and revised standards, interpretations and amendments to published standards applied for the first time in 2016
The applied methods of accounting and valuation correspond basically to those used in the previous financial year. For new applicable IFRS standards which has been first time adopted in the financial year 2016, the effects on CGM's accounting and valuation methods are outlined below:

Standard (Issue date)	Subject matter	Effective for financial years beginning on or after (EU)
Amendments to IAS 19 (Defined Benefit Plans: Employee Contributions) (21 November 2013)	The amendments apply to the recognition of employee contributions to defined benefit retirement plans. Their objective is to simplify accounting for employee contributions that are independent of the number of years of service.	1 February 2015
Annual Improvements to IFRS 2010-2012 Cycle (12 December 2013)	The annual improvement process refers to the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 37, IAS 38 and IAS 39.	1 February 2015
Amendments to IFRS 10, IFRS 12 and IAS 28, Investment-entities (18 December 2014)	Applying the Consolidation Exception.	1 January 2016
IAS 27, amendment (12 August 2014)	Equity method in Separate Financial Statements.	1 January 2016
IAS 16 and IAS 41, amendment (30 June 2014)	Agriculture: Bearer Plants.	1 January 2016
IAS 16 and IAS 38, amendment (12 May 2014)	Clarification of Acceptable Methods of Depreciation and Amortization.	1 January 2016
IFRS 11, amendment (6 May 2014)	The amendment clarifies that the acquisition and additional acquisition of interests in joint operations in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, must be recognised in accordance with the principles governing business combinations accounting in IFRS 3 and other relevant IFRSs, with the exception of those principles that conflict with the requirements of IFRS 11.	1 January 2016
Amendments to IAS 1 (Presentation of Financial Statements) (18 December 2014)	The changes comprise clarifications relating to the materiality of the items presented in the balance sheet, the statement of comprehensive income, the cash flow statement, the statement of changes in equity and the disclosures in the notes.	1 January 2016
Annual Improvements to IFRS (2012-2014 Cycle) (25 September 2014)	The annual improvement process refers to the following standards: IFRS 5, IFRS 7, IAS 19, IAS 34.	1 January 2016

With the exception of "annual improvements of the IFRS cycle 2010-2012", thereby specifically only the improvement of IFRS 8, the application of the new standards had no impact on the methods of accounting and valuation applied to the CGM.

a) IAS 19 Employee Benefits – Defined Benefits Plans: Employee Contributions
In November 2013, the IASB published an adjustment to IAS 19R (2011) "Employee Benefits", which adds an option regarding the accounting of defined benefit plans – in which employees (or third parties) participate in the form of mandatory contributions – to the standard.

IAS 19R (2011) provides for employer contributions, which are specified in the formal provisions of a defined benefit plan and linked to job performance, to be allocated to years of service as negative contributions. This guideline is generally in line with the projected unit credit method, which comprises the projection of (in this case negative) contributions and the allocation to entitlement periods (project and prorate). While it was usual to consider employee's contributions for the payment of the pension obligation in the respective amount before the implementation of IAS 19R (2011), the application of IAS 19R (2011) may make it necessary to perform very complex calculations.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Taking into account the published adjustment of IAS 19R (2011) it is allowed to continue recognizing employee contributions linked to work performed – but not the number of years of service – in the period in which the corresponding work was performed without following the described calculation and allocation method using the projected unit credit method. This applies in particular to the following:
– Contributions in the amount of a fixed percentage of the salary for the current year;
– Fixed contributions during the employee's entire period of service; as well as
– Contributions the amount of which depends exclusively on the employee's age.

However, if employee contributions vary depending on the number of years in service, the described calculation and allocation method using the projected unit credit method must be applied.

b) Improvements to the International Financial Reporting Standards (Cycle 2010-2012)
In December 2013 regulations of the improvement project were published and contain the following amendments of the standards:

IFRS 2 – Share-based Payment
The amendment includes a clarification for the definition of "vesting conditions", by adding separate definitions for "performance conditions" and "service conditions" to Appendix A of the standard. Performance conditions are vesting conditions, which require both the completion of a specified period of service as well as the meeting of certain performance targets within this period of service. The performance targets are to be determined by taking into account the entity's activities or the value of its equity instruments (including shares and options). These can relate to both the overall performance of the entity and the performance of parts of the entity or individual employees. Unlike vesting conditions, service conditions on the other hand require only the completion of a specified period of service and do not include any performance targets. If the employee leaves before this period of service has been completed, the vesting condition is considered as not fulfilled.

The definition of "market conditions" also clarifies that it does not only relate to performance conditions that depend on the market price or value of the entity's equity instruments, but also to performance conditions which depend on the market price or value of the equity instruments of another entity in the group.

IFRS 3 – Business Combinations
In IFRS 3.40 the reference to other applicable IFRS was eliminated as it was not clear in which cases other IFRS are used for a classification of a contingent consideration as a financial liability or as equity.

The wording of IFRS 3.40 was amended in such a way that it only applies to contingent consideration within the scope of business combinations and if this meets the definition of a financial instrument.

On the other hand, the regulation of IFRS 3.58 relating to the subsequent measurement of contingent consideration was misleading as it stipulated that contingent consideration not classified as equity had to be measured at fair value, while at the same time referring to IFRS 9 (or IAS 39), IAS 37 or other IFRS which, under some circumstances, do not require a measurement at fair value.

The amendment of this paragraph and the corresponding consequential amendments to IFRS 9, IAS 39 and IAS 37 now stipulate that all contingent consideration not classified as equity are subsequently measured at fair value with all resulting effects posted in the income statement.

IFRS 8 – Operating Segments
The following clarifications were added to IFRS 8 "Operating Segments":
– When aggregating operating segments into reportable segments, management must state the underlying considerations used to identify reportable segments (a short description of the aggregated operating segments, economic factors that were used to determine "similar economic characteristics" within the meaning of IFRS 8.12); and
– A reconciliation of segment assets with the corresponding amounts in the balance sheet is only required if the disclosures of segment assets are included in the financial information that is regularly reported to the chief operating decision maker.

The application of the amendment according IFRS 8 had an effect on the qualifying explanatory notes of the segment reporting in terms of adjustments in the aggregation of business units into the operating segments (Chapter "F Segment reporting").

IFRS 13 – Fair Value Measurement
An amendment to the "Basis for Conclusions" of IFRS 13 will clarify that the IASB did not want to eliminate the resulting changes of IFRS 13 on IFRS 9 and IAS 39 and relinquish on a discounting in case of inessentiality of current receivables and liabilities.

IAS 16 – Property, Plant and Equipment/IAS 38 – Intangible Assets
The amendment clarifies how cumulated depreciation at the time of valuation is to be determined when applying the re-valuation model pursuant to IAS 16.35 and IAS 38.80.

The amendment to IAS 16.35(a) takes account of the fact, for example, that the revaluation can be changed on both, based on the available market data, resulting from the carrying amount and on the gross carrying amount. This would then not result in a proportional change in cumulative depreciation. Furthermore, the change in depreciation results from the difference between the revalued amounts. Moreover, impairment losses in previous periods can result in a non-proportional change in depreciation. Also in this case, the revaluation of the gross carrying amount and the carrying amount – taking into account impairment losses – will not result in a proportional change in depreciation.

IAS 24 – Related Party Disclosures
The amendment expands the definition of "related parties" to include entities that provide compensation for the reporting entity's key management personnel – either directly or indirectly via a group company – without this resulting in management entities within the meaning of IAS 24. New paragraph 18A stipulates the additional disclosures required for "management entity" compensation expenses at the reporting entity. On the other hand, the reporting entity does not need to make any disclosures pursuant to IAS 24.17 as to compensation paid by the "management entity" to employees who assume management duties at the reporting entity.

c) Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Companies
In December 2014 the IASB has published amendments to IFRS 10, IFRS 12 and IAS 28 with the title "Investment Entities: Applying the Consolidation Exception". These amendments concern facts, which arose in context with the application of the consolidation exception for investment companies.

d) IAS 27 Equity Method in Separate Financial Statements
The amendments to IAS 27 reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:
(i) At cost,
(ii) In accordance with IAS 39 "Financial Instruments: Recognition and Measurement",
(iii) Using the equity method as described in IAS 28 "Investments in Associates and Joint Ventures".

e) IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Agriculture: Bearer Plants
The IASB has published an amendment to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" in June 2014. The amendments reclassify bearer plants, which are used solely for agricultural commodities, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. For the purpose of bringing bearer plants from the scope of IAS 41 into the scope of IAS 16 and therefore enabling entities to measure them at cost subsequent to initial recognition or at revaluation, a definition of a bearer plant will be introduced in both standards.

f) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
The IASB has published an amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" in May 2014. The amendment to IAS 16 "Property, Plant and Equipment" clarifies that revenue-based methods are not appropriate for calculating the depreciation of property, plant and equipment. The amendment to IAS 38 introduces the refutable hypothesis that revenue does not represent an appropriate basis for the amortization of intangible assets. This hypothesis can only be refuted by the following two cases:
(i) If the intangible assets can be expressed as a measure for revenue.
(ii) If revenue and the consumption of the economic benefits are highly correlated.

g) IFRS 11 Joint Arrangements
In May 2014, the IASB has published amendments to IFRS 11 "Joint Arrangements". The amendments to IFRS 11 "Joint Arrangements" provide guidance on the accounting of acquisitions of a share in a joint operation when the operation constitutes a business pursuant to IFRS 3 "Business Combinations". In this case, all principles on business combinations accounting in IFRS 3 and other relevant IFRSs with the exception of those principles that conflict with the guidance in IFRS 11 "Joint Arrangements" must be applied. The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

h) Amendments on IAS 1 – application of the financial statement
Furthermore, the IASB has published amendments to IAS 1 in December 2014 with the title "Disclosure Initiative". These amendments shall encourage the companies to judge the application of important information in the financial statement. This clarifies for instance that essentiality considerations from each part of the financial statement have to be applied and that insignificant information could have an influence on the use of important facts.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

i) Improvements to the International Financial Reporting Standards (Improvements Project 2012-2014)
Resulting from the yearly improvements project, changes of the following reporting standards were published in September 2014:

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
The amendment includes specific guidance on IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" for cases where an entity reclassifies an asset from held for sale to held for distribution or vice versa. In addition, an inclusion of specific guidelines for transactions where the held for distribution accounting is discontinued.

IFRS 7 – Financial Instruments: Disclosures
The amendment includes additional guidance to determine the disclosures required according to IFRS 7 "Financial Instruments: Disclosures" to clarify whether a servicing contract is a continued commitment in a transferred asset for the purpose of determining the required disclosures. This amendment also clarifies the applicability of the amendments to IFRS 7 disclosures on offsetting in the consolidated interim financial statements.

IAS 19 – Employee Benefits
The amendment to IAS 19 "Employee Benefits" clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The depth of the market for high quality corporate bonds should be assessed at currency level.

IAS 34 – Interim Financial Reporting
The amendment to IAS 34 "Interim Financial Reporting" clarifies the meaning of "elsewhere in the interim report" and requires a cross-reference if it is not part of the main body of the report.

3. Standards, interpretations and changes to published standards to be applied in 2016 or later, which are already adopted in the European legislation ("Endorsement")

Standard (Issue date)	Subject matter	Effective for financial years beginning on or after (EU)
IFRS 15 (28 May 2014)	The new standard establishes uniform requirements regarding the amount, time and time period of revenue recognition. The standard will in future replace existing requirements governing revenue recognition under IAS 18 Revenue and IAS Construction Contracts.	1 January 2018
IFRS 9 (24 July 2014)	IFRS 9 contains requirements governing the recognition and measurement of financial instruments, derecognition and hedge accounting. The final version of IFRS 9 replaces all previous versions.	1 January 2018

a) IFRS 15 Revenue from Contracts with Customers
In May 2014, the IASB and US standard setter FASB published the jointly developed standards on revenue recognition. IFRS 15 includes the principles, pursuant companies have to provide relevant information regarding the type, the amount, the date and uncertainty factor of revenues, and cash flows from a contract with a customer to the users of the financial statements.

The regulatory requirements as set forth in IFRS 15 have to be applied uniformly for various transactions and across all industries, while thereby enhancing the global comparability of entities' revenue disclosures (top line of financial statements). IFRS 15 is generally to be applied to all contracts with customers except for:
– Leases within the scope of IAS 17 "Leases";
– Financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures";
– Insurance contracts within the scope of IFRS 4; and
– Non-monetary exchanges between entities in the same line of business to facilitate sales to customers to potential customers.

IFRS 15 "Revenue from Contracts with Customers" will replace the current standards and interpretations related to revenue recognition (IAS 11 "Construction Contracts", IAS 18 "Revenue" as well as IFRIC 13 "Customer Loyalty Programs", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue – Barter Transactions Involving Advertising Services"). Contrary to the current applicable standards and interpretations, IFRS 15 is based on a single, rule based five-step model, which has to be applied to all relevant contracts with customers.

The core principle of IFRS 15 consists therein, that an entity has to recognize revenue in the same amount as the entity will be entitled for consideration in exchange for the transfer of goods or services to ultimately present the contractually agreed transfer of goods and services (performance obligations) to customers appropriate.

Step 1 is to determine whether a contract with a customer falls within the scope of IFRS 15, which is the case if all of the following conditions of IFRS 15 are met accumulated:
(a) The contract has been approved by the contractual parties;
(b) all contractual obligations belonging to the goods to be transferred or the services to be rendered can be clearly identified;
(c) the payment terms for the good to be transferred and services to be rendered can be clearly identified;
(d) the contract has commercial substance; and
(e) it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected. By assessing the probability, the customer's ability and intention to pay when the invoice is due has to be exclusively taken into account. In case of a variable consideration, the consideration can also be lower than the contractual terms and conditions (e.g. price), since discounts can be granted.

Two or more contracts, that were entered into at, or near, the same time with the same customer requires to combine the contracts and to treat them for accounting purposes as one single contract if at least one of the following criteria is met:
(a) the contracts are negotiated as a package with a single commercial objective;
(b) the amount of the consideration to be paid for a contract is dependent on the price or the fulfilment of the other contract; or
(c) the goods or services on which has been agreed in the contracts are classified as single performance obligation in accordance with IFRS 15.22-30.

IFRS 15 extensively provides guidance on contract modifications which has to be considered as separate contracts or not, depending on their arrangement (such as an increase in the range of services) or the distinctness of the services to be rendered now or in the future.

Step 2 is the identification of the performance obligations in the contract, as revenues has to be recognized at the level of individual performance obligations. Goods or services are separately identifiable and therefore classified as individual performance obligation if the customer will obtain the benefit from the transferred goods or services – regardless of any other contractually agreed performance obligations. It has to be clearly understood that such given performance obligations have to be separately identifiable from each other.

Step 3 is the identification of the transaction price; which is the expected amount an entity is entitled to be paid from the customer in exchange for the transfer of goods and services. Although this price will often be a fixed amount, the transaction price can also include variable components, such as discounts, credits, performance bonuses or penalties, etc. The amount of the variable consideration is to be estimated and included in the transaction price. The accompanying inherent uncertainty in transactions with variable prices has to be considered to such extent that is highly probable that the omission of uncertainties will not lead to any significant change in the revenues recognized. The transaction price also includes possible financial components or non-monetary services (measured at fair value).

In step 4 the previously determined transaction price will be allocated to the individual performance obligation on the basis of their relative standalone selling prices. If a standalone selling price is not directly observable (such as from corresponding transactions with the similar individual performance obligations), the entity has to estimate the prices; whereby IFRS 15 offers various methods.

Finally, in step 5 the revenue has to be recognized according to the fulfilment of the underlying performance obligation over a period of time or at a point in time. The performance obligation is satisfied, in the moment when the control over the goods or service has been completely transferred to the customer. Control over an asset is given if the economic benefits can be obtained and the decision power about the usage of the asset is transferred.

When concluding a contract pursuant to IFRS 15, it generally has to be determined whether the revenue resulting from the contract is to be recognized at a point in time or over a period of time. Therefore, it has first to be clarified by applying specific criteria, if the control of the individual performance obligations is transferred over a period of time. If this is not the case, the revenue has to be recognized at the point in time when control is transferred to the customer. Indicators for the transfer of control are for example the legal transfer of ownership, the transfer of all substantial risks and rewards, or official acceptance.

However, if control is transferred over a longer period of time, revenue can only be recognized over time in the event that the percentage of completion can be determined reliably by using input or output methods. In addition to the general revenue recognition principles, the standard also includes detailed guidance on topics such as, transactions on sale or return basis, customer options on the purchase of additional goods or services, principal-agent relationships, as well as bill-and-hold arrangements. IFRS 15 also includes new guidelines related to costs to obtain or fulfill a contract with a customer as well as for the question at which point in time these costs have to be recognized. Costs which do not fulfill the specified criteria have to be expensed when incurred.

IFRS 15 also includes new and more extensive regulations relating to revenue disclosures. An entity should disclose qualitative and quantitative information for all of the following points:
– all contracts with customers;
– significant discretionary decisions, and their changes, which were made when applying the guidelines for those contracts; and
– any assets recognized from the costs to obtain or fulfill a contract with a customer.

The standard has to be applied to financial years beginning on or after 1 January 2018. Earlier application is permitted.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

CGM will apply IFRS 15 "Revenue from Contracts with Customers" for the first time in the financial year 2018. According to IFRS 15 the following new regulated or clarified topics will have an effect on the net assets and earnings of the CGM:
- Recognition of revenues on a period of time basis
- Separation of performance relationships
- Bundling of contracts on sale or return basis
- Approach and assessment of costs for contracts

Especially in contracts where according to IFRS 15.53c the construction of a customer specific asset without any alternative use is the basis for the revenue recognition over a period of time, CGM expects changes on the revenue recognition for the group.

Additionally, amendments of the financial statement of the CGM could arise out of transactions in which software solutions will be sold with a guarantee (such as a maintenance agreement). The balancing of these transactions has to depend on whether
- the customer has the option to acquire the guarantee standalone;
- the guarantee is part of a bundle of services; and
- if this is the case, the guarantee only ensures that the software meets the agreed requirements.

Furthermore, amendments on transactions could also arise in cases, where the customer has the possibility to replace software solutions with a credit note, another product or something similar. In this case, a liability for the remuneration and a new asset 'in exchange' for the old asset have to be balanced (insofar the primary asset still has a value with its return).

In addition, amendments in the areas "Internal supervision" and "IT-architecture" will considerably be necessary.

The analyses and fact assessments concerning revenue generating transactions in the CGM Group are not yet completed. Thereafter no quantification of the effects can be made regarding the first time application of IFRS 15.

b) IFRS 9 Financial Instruments
The IASB adopted the final version of IFRS 9 "Financial Instruments" on 24 July 2014. The revised version of IFRS 9 now also includes regulations relating to a new valuation category for fair value through other comprehensive income (FVOCI) as well as to the impairment of financial instruments.

The adoption of the final version of IFRS 9 introduces a third valuation category for selected financial assets, whereby changes in fair value are initially recognized in other comprehensive income (FVOCI). This valuation category is linked to two conditions:
(1) The assets are managed with the aim of recognizing and disposing of contractually agreed cash flows (hold and sell business model).
(2) The contractually agreed cash flows from the assets include exclusively redemptions and interest payments (cash flow criteria)

In situations, where both conditions are fulfilled a debt capital instrument has to be measured as a FVOCI – subject to the application of the fair value option on time of contribution. However, this is only provided for cases in which an accounting mismatch can be prevented or reduced.

Valuation results arising from a FVOCI-classified financial asset have to be recognized in other comprehensive income; impairment losses, income from write-ups, exchange rate gains or losses as well as interest income have to be reported in the income statement. The valuation results recognized in other comprehensive income have to be reclassified (recycled) when derecognized in the income statement.

The irrevocable option of applying a FVOCI option exists for equity instruments that are recognized at fair value through profit and loss as they do not meet the cash flow criteria due to the absence of contractual payment claims. However, it is required that these equity instruments are not held for trading purposes. The amounts recognized in other comprehensive income are not reclassified (recycled) to the income statement.

The classification of financial liabilities remains unchanged as against IAS 39. Valuation categories "designated at fair value" and "at amortized cost" remain in force for financial liabilities held for trading purposes and other financial liabilities, respectively. The only amendment to financial liabilities measured at fair value on account of the fair value option relates to the regulations in the event of a change in the entity's own credit risk; these are to be recognized in other comprehensive income.

Embedded derivatives will no longer need to be separated in the future and are to be classified in their entirety. The new benchmark tests allow the reviewing of possible effects from embedded derivatives and other contractual agreements on cash flows.

The new regulations covering the recognition of impairments rely on expected losses (expected loss model). According to the previous IAS 39 regulations, impairments were only recognized if they related to already incurred losses (incurred loss model). The difference between the two models is that the expected loss model takes into account expected losses without the need for any specific loss indicators, while the expected losses in the incurred loss model can only be taken into account when loss indicators already exist. This delayed recording of losses was identified as a significant weakness of IAS 39 during the course of the financial crisis. Pursuant to the new regulations, impairments would not just be recognized once they have already been incurred. Instead, a risk provision for expected defaults is to be generated.

The new regulations will cover the following:
- Financial assets measured at amortized cost (including trade receivables);
- Debt instruments held by creditors, which are measured at fair value recognizing the impairment in other comprehensive income (directly);
- Leasing receivables;
- Irrevocable loan commitments and financial guarantees, which are not measured at fair value in the income statement;
- Contract assets that fall under the scope of IFRS 15 "Revenue from Contracts with Customers".

The scope of the impairment of financial instruments depends on the credit quality of the financial instruments since its initial recognition. Three risk provision levels (level 1, level 2 and level 3) have been stipulated. Pursuant to this model, 12-month loss expectations will generally be recognized from initial recognition. In the event of a significant deterioration in credit risk, this will be switched from this time to the recognition of expected total losses.

Level 1 provides for all financial instruments to be categorized on addition; no impairment discount will be taken into account for these on initial recognition. These instruments will remain at level 1 until such time as their credit quality does not deteriorate and the instruments continue to feature a low default risk.

Expected losses have to be recognized immediately in the income statement at the present value of an expected 12-month loss starting from the respective balance sheet date through an allowance account. Interest is recognized on the basis of the gross book value. The effective interest method is therefore applied before the risk provisions are taken into account. Financial instruments with a default risk right from the start, are discounted on initial recognition using a credit risk adjusted effective interest rate, also a corresponding impairment discount is taken into account. These financial instruments are subsequently measured using the same credit risk adjusted effective interest rate as long as their credit quality does not deteriorate significantly.

All financial instruments with a significantly higher default risks, but for which there are (as yet) no objective indications of impairment, are classified in level 2. Risk provisions are valued at the present value of all expected losses over the entire remaining term of the instrument. Interest is recognized in the same way as in level 1.

In the event that the default risk is higher and there are objective indications of impairment, the respective financial instrument in then classified in level 3; and the risk provisions are valued like in level 2, at the present value of all expected losses over the entire remaining term of the instrument. However, in this case, interest is recognized on the basis of the net book value (book value after the deduction of risk provisions).

A simplified procedure may be used for leasing receivables as well as trade receivables and contract assets that contain a material financing component. These instruments are not categorized into levels and risk provisions are valued at the present value of the expected defaults within the remaining term. However, a simplified procedure has to be used for trade receivables and contract assets that do not contain a material financing component.

In terms of trade receivables, IFRS 9 specifies financial instruments to estimate the 12-month loss and the expected loss over the remaining terms as practical exceptions for the preparation of a so-called valuation allowance matrix based on historical default rates. This matrix enables the flat-rate determination of percentages for valuation adjustments depending on how overdue the receivables are.

In addition to extensive transitional provisions, IFRS 9 is also associated with a number of disclosure requirements relating both to the transitional period and current application. Significant changes compared with IFRS 7 "Financial Instruments: Disclosures mainly result from the regulations on value reductions.

The new IFRS 9 Financial Instruments have to be applied for the first time to financial years starting on or after 1 January 2018.

The reclassification of financial instruments, in particular the financial assets, will not have any material effects on the consolidated financial statement.

In the future the valuation allowance process will be significantly influenced by the customer's creditworthiness. In this context, fluctuations will be directly reflected in the result. The conversion of the valuation allowance from the incurred loss model to the expected loss model will lead to an one-time effect. However, the management of CGM Group expects that this effect will not be significant, as trade receivables are the main component of CGM Group's financial assets.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

For trade receivables the application of the above mentioned simplification procedure based on specific percentage rates for valuation allowances is allowed. Since CGM Group already applies for the determination of the valuation allowances a specific lump sum allowance approach on a portfolio basis, a high comparability is given to the possible future accounting approach in using the so-called valuation allowance matrix. Therefore, CGM does not expect any material changes in the determination of the amount for valuation allowances.

IFRS 9 – Financial Instruments: Hedge Accounting
In July 2014, the IASB amended IFRS 9 "Financial Instruments" by adding a chapter with hedge accounting rules, which will in the future replace the corresponding section of IAS 39. The changes to the hedge accounting rules comprise in particular, application and effectivity conditions, permitted underlying transactions as well as accounting, presentation and notes disclosures.

– **Application and effectivity conditions**
  According to IAS 39, one hedge accounting application condition is that the hedge relationship must be highly effective within prescribed strict fluctuation margins (80 percent to 125 percent).

  IFRS 9 deviates from this rule-oriented method and replaces this with a risk management-oriented approach. This approach states a hedge relationship may be continued that as long as it is generally suited to reducing risks and can also be found in risk management; this may also be the case if it is not 100 percent effective. The effectiveness of a hedge relationship continues to be required to take existing ineffectiveness in earnings into account.

– **Permitted underlying transactions**
  One of the basic new regulations resulting from the new accounting standard IFRS 9 are related to the actual existing differentiation between financial (loans or securities, etc.) and non-financial underlying transactions (such as commodities, etc.). In future, it will be possible to hedge individual risk components of non-financial underlying transactions, if those risk components are separately identifiable and reliably measurable (such as the risk of oil price fluctuations within the risk of fuel price fluctuations).

– **Accounting, presentation and notes disclosures**
  According to IAS 39, the change in the fair value of an option ("time value") based on fair value fluctuations was recognized in profit and loss, which could lead to high volatility.

  According to IFRS 9, an option will be treated similar to an insurance contract. As a result, the original fair value of an option (e.g. paid premium of an at- or out-of-the-money option) is to be either recognized over the duration of a hedge with a time reference (e.g. fair value hedge for inventories over six months) or, if the hedged transaction has to be recognized in the income statement, through profit or loss. Changes in the fair value of the option in conjunction with the fair value itself have to be recognized in other comprehensive income (OCI).

Furthermore, new notes disclosures requirements from the introduction of the IFRS 9.

Moreover, non-derivative financial instruments recognized at fair value through profit or loss may also be designated as hedging instruments in the future, under certain conditions. Pursuant to IFRS 9, it will no longer be allowed to optionally terminate designated hedging relationships.

Not included in the published amendment to IFRS 9 are rules and regulations related to macro hedge accounting. Therefore, the IASB has initiated a separate project to avoid any further delays.

The application of the new IFRS 9 regulations will be mandatory for financial years starting 1 January 2018.

From the first time application of the new rules and regulations related to hedge accounting according to IFRS 9 the management board of CGM Group is expecting no effects on the consolidated financial statements, since as of today no transactions fulfilling the hedge accounting criteria are existing.

4. Amendments, standards and interpretations published by the IASB but not yet transposed into European legislation

In the financial years 2014 and 2016 the IASB has adopted several additional standards and interpretations which are not yet mandatory applicable in the financial year 2016. The application of these IFRS and IFRIC is dependent from the EU-endorsement.

Standard (Issue date)	Subject matter	Effective for financial years beginning on or after
IFRS 14 (30 January 2014)	Regulatory Deferral Accounts	The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
IFRS 16 (13 January 2016)	The new standard principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. Going forward, lessees will therefore no longer required to make the distinction between finance and operating leases that was required in the past in accordance with IAS 17.	1 January 2019
Amendments to IFRS 10 and IAS 28 (11 September 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.	Postponed indefinitely
Amendments to IAS 12 (19 January 2016)	Clarification of the accounting for deferred tax assets for unrealized losses on debt instruments that are classified as available-for-sale financial assets.	1 January 2017
Amendments to IAS 7 (29 January 2016)	The pronouncement requires that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
Clarifications to IFRS 15 (12 April 2016)	Clarifying some requirements and providing additional transitional relief for companies that are implementing the new Standard.	1 January 2018
Amendments to IFRS 2 (20 June 2016)	The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	1 January 2018
Amendments to IFRS 4 (12 September 2016)	The amendments in Applying IFRS 9 with IFRS 4 provide two options for entities that issue insurance contracts within the scope of IFRS 4: an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (overlay approach); an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (deferral approach).	1 January 2018
Annual Improvements to IFRS 2014-2016 Cycle (8 December 2016)	The annual improvement process refers to the following standards: IFRS 1, IFRS 12 and IAS 28.	1 January 2017/ 1 January 2018
IFRIC 22 (8 December 2016)	IFRIC 22 clarifies the accounting for transactions including the receipt or payment of considerations in foreign currencies.	1 January 2018
Amendments to IAS 40 (8 December 2016)	The amendments to IAS 40 concern the reallocation of properties under construction between the categories of the assets and the yield property.	1 January 2018

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

a) IFRS 14 Regulatory Deferral Accounts
In January 2014, the IASB adopted the interim-standard IFRS 14 "Regulatory Deferral Accounts". The objective of IFRS 14 is to increase the comparability of the financial statements from entities which render price regulated sales transactions. Pricing regulations can lead in economic advantages or disadvantages with expenses in the current financial year, have impacts on demanded prices in future financial years. The national accounting regulations in some countries permit the capitalization/deferral of economic advantages (passivation/deferral of economic disadvantages) or have even a strict legal requirement to apply such an accounting treatment. With some few restrictions, IFRS 14 "Regulatory Deferral Accounts" is permitting entities which are first-time adopter of the International Financial Reporting Standards to continue to account for "regulatory deferral account balances", which those entities have recognized in their financial statements by applying their previously used generally accepted accounting principles. This applies for the first financial statements according to IFRS as well as for the subsequent financial statements. Regulatory deferral accounts or changes to them, have to be shown separately in the financial position and the in the consolidated income statement or the other comprehensive income (OCI).

The application of IFRS 14 is optional, but not required, to be applied. The standard can be applied once the first IFRS financial statement of an entity has been prepared for financial years beginning on or after 1 January 2016. However, an earlier application is permitted. In case an entity decides to apply IFRS 14 in its first time IFRS financial statement the entity has to apply the standard continuous it in its subsequent financial statements. The EU has decided to not initiate the endorsement process for this interim standard and to wait instead for the publication of the final standard.

The management of CGM Group does not expect that IFRS 14 "Regulatory Deferral Accounts" will have any effects on the consolidated financial statements, since CGM does not have to consider any regulatory deferral accounts.

b) IFRS 16 Leases
On 13 January 2016, the International Accounting Standards Board (IASB) published the IFRS 16 accounting standards. The core idea of the new standard is to record all leases and the associated rights and obligations in the balance sheet of the lessee. As a result, the differentiation between finance and operating leases, which is actually required under IAS 17, is no longer to be applied from the lessee.

In principle, the lessee has to record for all leases a corresponding leasing liability in the balance sheet reflecting the obligation to perform leasing payments in the future. At the same time, the lessee capitalizes a right of use in the underlying asset, which basically corresponds to the present value of the future lease payments plus directly attributable costs. The balance sheet of the lessee will therefore contain in the future more assets and liabilities, which can have a significant impact on financial ratios and credit terms and conditions. The new regulations will allow analysts to make better comparisons between companies that acquire assets and those who lease them.

For the duration of the leasing contract, the leasing liability will be perpetuated by applying appropriate financial mathematics methods, similar to the actual regulations for finance leases according to IAS 17, while the capitalized right of use will be regularly amortized. This generally results in higher expenses at the beginning of the lease and a shift from operating expenses to financial expenses.

Short-term leases with duration of less than one year and immaterial leases are excluded from the general accounting obligation for leases according IFRS 16.

For the lessor, the regulations resulting from the new accounting standard are, however, similar to the current accounting standard IAS 17. Leasing contracts have still to be classified in finance or operating leases. Leases where substantially all risks and rewards from the legal ownership are have been transferred are classified as finance leases, while all other leases are classified as operating leases. The identification criteria of the current IAS 17 have been adopted for IFRS 16.

Furthermore, IFRS 16 contains a number of regulations regarding notes disclosures and sale and leaseback transactions.

IFRS 16 replaces IAS 17 as well as all related interpretations and has to be applied for the first time for financial years beginning on or after 1 January 2019. For European adopters, this requires the final endorsement by the EU-Commission which is planned for 2017.

By applying IFRS 16 for the first time, CGM expects significant changes to financial ratios. For example, CGM assumes that debt and interest charges will increase while the equity ratio will decrease. At the same time, the EBITDA of CGM Group is expected to be positively impacted, as the lease payments to be paid are no longer shown in the operating expenses. CGM also expects that the first-time application of IFRS 16 will lead to high implementation efforts, since all existing leases are to be subject to a review and a revaluation, which applies in particular to contracts that have been so far classified as operating leases.

c) Amendments to IAS 12 Income taxes – Recognition of deferred tax assets for unrealized losses
On January 16, 2016, the IASB has published amendments to IAS 12 income taxes – recognition of deferred tax assets for unrealized losses. With the amendment of IAS 12, a clarification is made; that unrealized losses from debt instruments measured at fair value lead to tax deductible temporary differences. It was also clarified, that it has to be evaluated for all fundamentally tax deductible temporary differences in total, if the expected future taxable income is sufficient in order to use and this recognize all tax deductible temporary differences in the balance sheet. IAS 12 is supplemented by principles and examples which clarify how the future taxable income has to be determined with respect to the balance sheet recognition of deferred tax assets.

The change from the amendments to IAS 12 will most likely have effects on the consolidated financial statement, however CGM's management is as of today not expecting those to be significant.

d) Amendments to IAS 7 cash flow statements
The IASB has published amendments to IAS 7 cash flow statements on 29 January. The following changes in borrowed capital as a result of the financing activities must be indicated in the future: Changes in the cash flow from financing activities, changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes. The amendments to IAS 7 have to be applied for financial years beginning on or after 1 January 2017.

CGM will fulfill the disclosure requirements as recommended from the IASB by preparing a reconciliation apart from the Cash flow statement.

e) IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
In September 2014, the IASB published amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates". The amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates" result from a conflict between the requirements of these accounting standards and clarify that in a transaction involving an associate or joint venture the amount of gain or loss has to be recognized when a transaction between an investor and its associate or joint venture involves assets that constitute a business operation according to IFRS 3. So far, transactions involving an associate or joint venture within the Group do not comprise any business operation pursuant to IFRS 3 "Business Combinations", but solely individual assets. The amendments have to be applied for financial years beginning on or after 1 January 2017.

The management of CGM Group does not expect that the amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates" to have any effects on the consolidated financial statements.

f) Clarification to IFRS 15 Revenue from Contracts with Customers
On 12 April 2016 the IASB has issued amendments to provide clarification to the Revenue Standard, IFRS 15 Revenue from Contracts with Customers. This amendment clarifies how to identify a company's performance obligation in a contract. It clarifies when a promised good or service is 'separately identifiable' from other service obligations in the contract. In addition, the amendments add new examples and modify some of the existing ones to help entities to apply these amendments.

Clarification has also been made with regard to principal agent relationships. The amendments clarify how to determine whether a company is a principal or an agent in a transaction in which another party is involved in delivering goods or rendering services to a customer. An entity is a principal if it controls the assured good or service before transferring them to the customer. However, if an entities role is to arrange for another entity to provide the goods or services, the entity acts as an agent. A change in the existing measurement principles has been introduced and new examples and changes to existing examples haven been added.

Furthermore, open points regarding licensing agreements have been clarified. If a license is granted that can be separately distinguished from other goods and services, the contractual agreement must be used to differentiate whether revenue has to be recognized at a point in time or over a period of time. In addition, new guidelines were introduced in IFRS 15 to clarify when an intangible asset has been significantly changed.

Besides, two optional practical simplifications for the first-time application were introduced: The contracts which were changed before the beginning of the earliest reporting period to be presented have not to be shown retrospectively anew. An entity must not evaluate contracts anew which are concluded at the beginning of the earliest reporting period to be presented (only allowed in combination with optional full application of IFRS 15).

These amendments and the new Standard IFRS 15 become effective 1 January 2018. For European adopters this means that EU commission first has to endorse the Clarification to IFRS 15 Revenue from Contracts with Customers, which is planned for the first half of 2017. The potential impact on the consolidated financial statements of CGM Group is currently under investigation. However, it is expected that the amendments will not lead to any deviations in relation to CGM's overall assessments of the impacts on the consolidated financial statements from the first time application of IFRS 15.

g) Amendment to IFRS 2 Shared-based Payment Transactions
On 20 June 2016 the IASB published amendments to IFRS 2 Shared-based Payment, which clarify the classification and valuation of certain types of shared-based payment transactions.

The amendments cover the following accounting areas:
– Consideration of vesting conditions, such as service conditions, market conditions, and other non-market performance conditions when measuring cash-settled share-based payment transactions: According to the amendments market and non-vesting conditions are taken into account when estimating the fair value of the cash-settled share-based payment granted. Service conditions and non-market performance conditions, on the other hand, are taken into account by adjusting the number of awards included in the measurement of the liability arising.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

– Classification of share-based payment transactions which include a net settlement for taxes to be withheld: If the terms of the shared-based payment arrangement require a net settlement, the entity needs to reduce the number of equity instruments that otherwise would have been issued to meet its obligation to withhold a certain amount in order to meet the employee's tax obligation and to transfer the respective amount to the tax authorities on behalf of the employee. The reduction needs to be equal to the monetary value of the employee's tax obligation and the total payment needs to be balanced as shared-based payment with settlement through equity instruments, despite of partial payments in cash.
– Modifications to terms and conditions that change classification from cash-settled to equity-settled: The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The remaining fair value of the equity instrument is recognized over the remaining vesting period of the equity-settled transaction.

The amendments to shared-based payment transactions are effective for changes in compensation which will be granted or changed for financial years starting on or after 1 January 2018. An earlier application is permitted. A retrospective application of the amendments is only possible without the usage of hindsight information. However, in general, the endorsement by the EU-Commission – which is planned to take place in the second half of 2017 – is mandatory for the application of the amendments to IFRS 2.

It is expected that the amendments to IFRS 2 will have no effect on the consolidated financial statements of CGM Group.

h) Amendment to IFRS 4 Insurance Contracts
Due to different effective dates of IFRS 9 and the successor of IFRS 4, which is not expected to be issued before year 2020, possible scenarios of accounting mismatches and volatilities in the profit and loss statements of companies, that offer insurance contracts in the scope of IFRS 4, where expected. On 12 September 2016 the IASB issued amendments to IFRS 4 to address the interaction with IFRS 9 (Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts). To ease the transition period, companies can choose between two options.

The first option enables to remove from profit or loss the effects of some of the accounting mismatches for designated financial assets that may occur due to prior application of IAS 39 and first time adoption of IFRS 9 (overlay approach).

The second possibility is to apply a temporary defer the application of IFRS 9. IAS 39 would be in this case binding instead of IFRS 9 for all reporting periods starting before 1 January 2021. This exemption will only be available to entities which have not previously applied any version of IFRS 9 and whose activities are predominantly connected with insurance (deferral approach).

The application of both options is voluntary and companies are free to abandon its application even before the new standard for insurance contracts is issued. However, in general, the endorsement by the EU-Commission – which is planned to take place in the second half of 2017 – is a prerequisite for the application.

The Management of CGM Group does not expect any significant changes to the consolidated financial statements of CGM Group caused by the first time adoption of the amendments to IFRS 4, since ´CGM Group has no insurance contracts to which the standard should be applied.

i) Improvements to the International Financial Reporting Standards (Improvements Project 2014-2016)
In the context of the annual improvements project 2014-2016, the IASB issued on 8 December 2016 amendments, which affect generally three standards.

IFRS 1: The short-term exemptions in paragraph E3-E7 of IFRS 1 have been deleted (among others, regarding the disclosure of the transfer of financial instruments), because the affected financial years has expired.

IFRS 12: The disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5.

IAS 28: IAS 28.28 is affected to clarify that the choice to measure an investment at fair value through profit or loss (IFRS9/IAS 39) is available for each investment in an associate or joint venture in terms of IFRS 11, which is held directly or indirectly by an entity that is a venture capital organization, or other qualifying entity, on an investment-by-investment basis, upon initial recognition and as exception to the equity method.

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017. An earlier adoption is voluntary. However, in general, the endorsement to IFRIC 22 by the EU-Commission – which is planned to take place in the second half of 2017 – is a prerequisite for the application.

The Management of CGM group currently evaluates the consequences which will arise from the first time adoption of these standards. However, it is expected that the application of the amendments will have no significant changes to the consolidated financial statements of CGM Group.

j) IFRIC 22 – Foreign Currency Transactions and Advance Consideration
IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. According to IAS 21.21 an entity needs to record a foreign currency transaction, on initial recognition in its functional currency, by applying the spot exchange rate to the foreign currency amount and the foreign currency at the date of the transaction. Prior to the interpretation there was ambiguity regarding which exchange rate to use for revenue recognition in cases where an entity receives prepayments to which the non-monetary item (prepayment asset) can be applied.

According to IFRIC 22 the date of the transaction for determining the exchange rate to use on the initial recognition of the related asset, expense or income is the date in which an entity initially recognizes the non-monetary liability arising from the payment or receipt of advance consideration.

According to IFRIC 22 the valuation date for determining the exchange rate which should be used for the related asset, income or expense is the date in which the asset or the liability arising from the advanced payment will be initially recognized.

IFRIC 22 is effective for annual periods starting from or after 1 January 2018. An early application is permitted. However, in general, the endorsement to IFRIC 22 by the EU-Commission – which is planned to take place in the second half of 2017 – is a prerequisite for the application.

The initial application can be done by affected companies and is to apply as follows:
– retrospectively applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
– prospectively to all assets, expenses and income in a foreign currency, which are in the scope of the Interpretation, and which are initially recognized on or after the beginning of the reporting period in which the entity first applies the Interpretation or at the beginning of a prior reporting period presented as comparative information in the financial statements.

The Management of CGM group currently evaluates the consequences on the annual financial statement which will arise from the first time adoption of this Interpretation. However, it expects that the application will have no significant effect on the result stated in the consolidated financial statements.

k) Amendments to IAS 40
The amendments to IAS 40 affect reclassifications between categories of inventories and investment properties. Until now it was uncertain, at which point a property under construction or development that was previously classified as inventory (IAS 2) could be transferred to investment property (IAS 40).

Paragraph 57 of IAS 40 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is an evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of evidence in paragraph 57(a)-(d) was therefore re-characterized as a non-exhaustive list of examples to help illustrate the principle.

The amendments are effective for financial periods beginning on or after 1 January 2018. However, in general, the endorsement to IAS 40 by the EU-Commission – which is planned to take place in the second half of 2017 – is a prerequisite for the application.

The Management of CGM currently evaluates the consequences which will arise from the first time adoption of this Interpretation. However, it expects that the application will have no significant effects on the results presented in the consolidated financial statements of CGM.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

C. Principles of consolidation

1. Date of consolidation
The balance sheet date for the consolidated financial statement is the 31 December, which corresponds to the balance sheet date of the annual financial statements of the ultimate parent Company and all its subsidiaries.

2. Consolidated subsidiaries
In the consolidated financial statement of CGM for each financial year the financial statements at 31 December of the ultimate parent company and of the companies that are controlled by this Company, also considering structured entities (its subsidiaries) are included.

The entity obtains control, when:
– it can exercise control over the associated companies;
– it is exposed to fluctuating returns, which result from the participation; and
– the amount of the return can be affected because of the position of power.

The entity will re-estimate whether it controls an associated company or not, if some facts or circumstances indicate that one or more of the above mentioned three control criteria have changed.

In the event, that the entity does not hold the majority of voting rights, it still controls the associated company if the entity's voting rights enable it to practically unilaterally decide on the company's relevant activities. When determining whether the entity's voting rights suffice to control the associated company, the entity must take into account all facts and circumstances, including:
– The scope of the voting rights held by the entity compared to the scope and distribution of the voting rights held by other shareholders;
– The possible voting rights of the entity, other shareholders and other parties;
– Rights from other contractual agreements; and
– Other facts and circumstances, which indicate that the entity currently has or does not have the possibility to decide on the relevant activities at the time at which decisions need to be made, taking into account voting decisions at previous annual general and shareholder meetings.

A subsidiary will be included in the consolidated financial statements from the point of time the entity obtains control over the subsidiary until the time the control ceases. The financial results of the acquired or sold subsidiaries during the year are recognized in the consolidated income statement in other comprehensive income from the actual date of acquisition until the actual date of disposal.

The profit or loss and each component of the other comprehensive income are attributed to the shareholders of the parent company and the minority shareholders, even if this results in a deficit balance for the minority shareholders.

If necessary, the annual financial statements of the subsidiaries are adjusted so that their accounting and valuation methods match those applied to the Group.

The capital consolidation principles applied within CGM are described below:

a) Changes in participation rate of CGM in existing subsidiaries
Changes in the participation rate in subsidiaries within CGM, which do not trigger a loss of control over the respective subsidiaries, are accounted for as equity transactions. The carrying values of interests and non-controlling interests held by CGM Group are adjusted in a way so as to reflect the changes in interests in the subsidiaries. Any differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognized directly in equity and allocated to shareholders of the parent company.

If the Company loses control of a subsidiary, the deconsolidation gains or losses are recognized in the income statement and are calculated as follows:
– The total amount of the fair value of the consideration received and the fair value of the retained interest; and
– The carrying amount of the asset (including goodwill), the liabilities of the subsidiary and any non-controlling interests.

As in a sale of assets, all amounts recognized as other comprehensive income in connection with this subsidiary are accounted for accordingly, resulting in a reclassification to the income statement, or a direct transfer to retained earnings.

All shares in the former subsidiary retained by CGM are recognized at the fair value determinable at the time of loss of control. This value represents the cost of the shares which are to be evaluated in the context of a subsequent assessment relative to the degree of control in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or according to the requirements for associates or joint ventures.

b) Acquisition of subsidiaries
CGM Group accounts for the acquisition of businesses using the acquisition method. Consideration transferred in a business acquisition is measured at fair value. This is determined from the sum of the fair values of the assets and liabilities assumed on the date of acquisition as well as equity instruments issued by the Group in exchange for control of the acquired company. Transaction costs associated with the business combination are recognized in the income statement.

The identifiable assets acquired and liabilities assumed are measured at fair value with the following exceptions:
– Deferred tax assets or deferred tax liabilities as well as assets or liabilities for employee benefits are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits";
– Liabilities or equity instruments based on share-based payment or replacement of share-based payments by CGM Group are measured on the acquisition date in accordance with IFRS 2 "Share-based Payment"; and
– Assets (or disposal groups) classified as held for sale are measured in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Goodwill is the residual of the sum of the consideration transferred, the amount of any non-controlling interests in the acquired company and, if available, the fair value of equity interest previously held by the acquirer in the acquired company, less the fair value of acquired identifiable assets and liabilities at the date of acquisition. To the extent that the assessment of an acquisition of a subsidiary results in negative goodwill, it will be recognized immediately as income in the income statement.

In the event of the existence of non-controlling interests that convey property rights and ensure the shareholder's right to receive a proportionate share in the entity's net assets in case of liquidation, these interests are initially measured at either fair value or at the proportionate share of the identifiable net assets. This option can be exercised anew for each business combination. If there are other components of interests held by non-controlling shareholders, they are measured at fair value or by assessment criteria arising from other applicable standards. Liabilities from put options on non-controlling interests are measured at initial recognition at their fair value. Since the initial recognition of these liabilities has not been clearly defined in equity, the equity share of non-controlling interests are reduced or written off regardless of the transfer of risks and rewards of ownership of the shares concerned. This also applies to a liability from a forward.

If contingent consideration is a component of the consideration transferred for the acquisition of the subsidiary, it will be measured at fair value at the date of acquisition. Resulting changes in the fair value of the contingent consideration are adjusted retrospectively within the valuation period and offset accordingly against goodwill. Adjustments carried out within the valuation period of business combinations reflect additional information about facts and circumstances that existed at the acquisition date, but could not yet be conclusively considered. As a rule, the valuation period expires one year after the acquisition date.

The accounting of changes in the fair value of contingent consideration, which should not be interpreted as adjustments in the course of the valuation period, is carried out in close dependence on how contingent consideration is classified. If contingent consideration consists of equity, no subsequent measurement is to be conducted on future reporting dates. The fulfillment of contingent consideration is accounted for within equity. If contingent consideration constitutes an asset or a liability, provisions, contingent liabilities and contingent assets are to be measured in accordance with IAS 39 or IAS 37 on future financial reporting dates, if applicable. Any resulting gains or losses are recognized in the income statement.

In the event of a gradual merger, the equity share previously held by the entity in the acquired entity is to be measured at the fair value prevailing at the acquisition date. The resulting gains or losses are recognized in the income statement.

Changes in the value of the acquirer's equity interests held prior to the acquisition date, which are to be recognized in other comprehensive income, are reclassified to the income statement when the entity obtains control of the acquired entity.

If the first-time accounting of a business combination has not yet been completed by the end of a financial year, the preliminary valuations are provided by CGM. In case of subsequent events that deliver new information on the circumstances at the acquisition date, the provisionally recognized amounts will be corrected, or if necessary, additional assets and liabilities will be recognized.

The financial results of the subsidiaries acquired or sold in the course of the year are included in the consolidated income statement beginning on the date of acquisition or on the date of loss of control.

c) Goodwill
Goodwill resulting from a business combination is stated at acquisition cost, and to the extent necessary, less any impairment losses, and is presented separately in the consolidated balance sheet.

For the purpose of impairment testing, goodwill is to be allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Cash-generating units, to whom a part of the goodwill has been allocated, shall be tested for impairment at least annually. If there is concrete evidence indicating a unit has been impaired, it will be subject to more frequent impairment checks. If the recoverable amount of a cash-generating unit is less than the unit's carrying amount, the resulting impairment loss is initially allocated to the carrying amount of each goodwill associated with the unit, and then proportionately to the other assets on the basis of the carrying amount of each asset within the unit. Any impairment loss of goodwill is recognized directly in the income statement. The amount recognized as impairment loss of goodwill may not be reversed in future periods.

In the case of divestiture of a cash-generating unit, the attributable amount of goodwill is taken into account when determining gains or losses on disposal.

3. Associates and joint ventures

CGM Group accounts for associates using the equity method. An associate is an entity over which the Group is in a position to exercise significant influence, but not control, through participation in its financial and operating policies. Significant influence is presumed when the Group holds a voting interest of 20 percent or more in such an entity and bases the entity's status as company in this relationship.

Joint ventures are a joint arrangement whereby the parties with joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The results, assets and liabilities of joint ventures are included in these financial statements using the equity method.

In the event that investments in associates or joint ventures are classified as held for sale, these are to be accounted for pursuant to the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the requirements for an associate or a joint venture are fulfilled. Any excess of the cost of the acquisition of shares over the acquired portion of the fair value of the identifiable assets, liabilities and contingent liabilities is recognized as goodwill. Goodwill arising from the acquisition of an associate or a jointly controlled entity is included in the amortized carrying amounts of the interest in the associates or jointly controlled entities and is not subject to a separate impairment test.

To determine whether indicators exist that make an impairment of investments in associates or joint ventures necessary, the provisions of IAS 39 are applied accordingly. If an impairment test is to be carried out, the carrying amount of the interest (including goodwill) is tested according to the requirements of IAS 36 for impairment. To this end, the recoverable amount of the investment is compared with the carrying amount of the interest. Any resulting impairment loss is offset against the carrying value. Impairment losses are not allocated to assets, including goodwill, contained in the interest's carrying amount. If the recoverable amount rises again in subsequent years, an impairment loss is reversed in accordance with IAS 36.

CGM Group discontinues the use of the equity method from the time at which its investment no longer represents an associate or a joint venture, or the investment is to be classified as held for sale pursuant to IFRS 5. In the event that CGM Group retains an interest in a former associate and this interest is a financial asset within the meaning of IAS 39, this interest is to be measured at fair value upon initial recognition. The difference between the previous carrying amount of the associate or the joint venture at the time of the discontinuation of the equity method and the fair value of a retain portion, include revenue from the disposal of a portion of the interest in an associate or a joint company is to be taken into account when determining capital gains/losses.

Furthermore, CGM Group accounts for all amounts related to these associates or joint ventures in other comprehensive income in the manner that would be required if the associate or joint venture had directly sold the assets or liabilities. This means that CGM Group reclassifies gains or losses, which the associate or joint venture has to date recognized in other comprehensive income and then reclassified in the income statement when the assets or liabilities are sold, from equity to the income statement following the discontinuation of the equity method. In the event of the disposal of an associate or jointly controlled entity, the attributable amount of goodwill is taken into account in determining the deconsolidation.

If an investment changes from being an associate to being a joint venture, or vice versa, the Group will continue to apply the equity method and will not revalue the fair value on account of the change in investment category.

In the event that the Group's investment in an associate or a joint venture changes but the Group continues to apply the equity method, the portion of the profits or losses attributable to the reduction in the investment, which was previously recognized in other comprehensive income, will be reclassified to profit or loss in the event that the profits or losses of the associated assets and liabilities had to be reclassified to profit or loss when they were sold.

In the case of transactions between a CGM Group company and an associate or a joint venture of CGM Group, gains and losses are eliminated to the extent of the Group's portion of the corresponding associate or joint venture.

In CGM Group, four associates and three joint ventures are measured using the equity method. The accounting and measurement methods for associates were changed, if necessary, to guarantee uniform accounting principles throughout the Group.

4. Joint operations

Joint operations are joint arrangements whereby the parties that exercise joint control have rights to the assets and obligations for the liabilities of the arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions on relevant activities require the unanimous consent of the control sharing parties.

If a CGM Group company carried out activities within the scope of a joint operation, CGM Group, as joint operator, will recognize the following items relating to its share of the joint operation:

- its assets, including its share of the jointly incurred assets;
- its liabilities, including its share of the jointly incurred liabilities;
- its revenue from the sale of its share of the products or services of the joint operation; and
- its expenses, including its share of the jointly incurred expenses.

CGM recognizes all assets, liabilities, income and expenses relating to its share of the joint operation in accordance with the IFRS accounting standards applicable to those assets, liabilities, revenues and expenses.

If a CGM Group company engages in transactions with a joint operation whereby another CGM Group company is a joint operator, CGM Group will treat the corresponding transaction as though it was a joint operation conducted with the other parties. This means that possible gains and losses from such transactions are only recognized to the extent of the share in the joint operation of the other parties.

If transactions relate to the sale of assets by a CGM Group company, then the gains and losses are recognized at the time that these assets are sold to a third party, pro rata to the Group's share in the joint operation.

5. Scope of consolidation

All included financial statements of CGM are prepared according to uniform accounting and measurement methods. The consolidated financial statements are prepared at the level of CompuGroup Medical SE, Koblenz (parent company).

a) Changes in scope of consolidation

The following changes have occurred within the scope of consolidation, as compared with the previous year:

Changes in Scope of Consolidation	Germany	Foreign countries	Total
CompuGroup Medical SE and consolidated subsidiaries			
As at 1. January 2016	**28**	**56**	**84**
Additions	1	4	5
Disposals/Merger	1	2	3
As at 31. December 2016	**28**	**58**	**86**

The disposals result from CGM Group internal merger of LMZ-Soft AG into CGM Clinical Deutschland GmbH (formerly CGM Systema Deutschland GmbH), of CareTrace B.V. into Labelsoft Clinical IT B.V., both in the Netherlands, and of Farmatia S.r.l. into Mondofarma S.r.l., both in Italy.

The two additions to the scope of consolidation result from the foundation of CompuGroup Medical Singapore PTE.LTD., Singapore and CGM Software RP SRL, Romania.

All further additions result from CGM's acquisitions in financial year 2016. CGM acquired Micromedic GmbH and Vega Informatica e Farmatica S.r.l., Italy; and OWL Computer SL, Spain – along with other business combinations without effecting the scope of consolidation. In the following, the values based on the date of acquisition and its impact on the consolidated financial statements are shown.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

b) Company acquisitions and disposals
The business combinations made by CGM in 2016 are shown with their values as of the acquisition date and effects on the consolidated financial statements in the following table:

EUR '000	Total 2016	Vega Informatica e Farmacia S.r.l.	Micromedic GmbH	System Equus (MiBit)	Other Acquisitions
Purchase date		31.08.2016	30.09.2016	12.02.2016	–
Voting rights acquired in %		85%	100%	Asset Deal	–
Acquired assets and liabilities assumed recognized at acquisition date					
Non-current assets	**9,123**	5,572	1,661	1,459	431
Software	**125**	0	0	115	10
Customer relationships	**8,074**	4,858	1,528	1,314	374
Brands	**489**	344	99	30	16
Order backlog	**0**	0	0	0	0
Property and buildings	**0**	0	0	0	0
Other fixed assets and office equipment	**150**	85	34	0	31
Other non-current financial assets	**285**	285	0	0	0
Other non-current non-financial assets	**0**	0	0	0	0
Deferred tax assets	**0**	0	0	0	0
Current assets	**3,126**	2,894	179	0	53
Inventories	**179**	152	8	0	19
Trade receivables	**2,403**	2,320	83	0	0
Other current financial assets	**300**	300	0	0	0
Other current non-financial assets	**126**	122	4	0	0
Other assets	**0**	0	0	0	0
Cash and cash equivalents	**118**	0	84	0	34
Non-current liabilities	**2,654**	1,809	501	260	84
Pensions	**228**	175	0	0	53
Liabilities to banks	**10**	0	10	0	0
Other provisions	**2**	0	0	2	0
Other financial liabilities	**20**	0	0	0	20
Other non-financial liabilities	**258**	0	0	258	0
Other liabilities	**0**	0	0	0	0
Deferred tax	**2,136**	1,634	491	0	11
Current liabilities	**2,930**	2,791	131	0	8
Trade payables	**677**	633	43	0	1
Contingent liabilities	**0**	0	0	0	0
Liabilities to banks	**458**	433	25	0	0
Other provisions	**106**	62	44	0	0
Other liabilities	**0**	0	0	0	0
Other financial liabilities	**264**	252	5	0	7
Other non-financial liabilities	**1,425**	1,411	14	0	0
Net assets acquired	**6,665**	3,866	1,208	1,199	392

EUR '000	Total 2016	Vega Informatica e Farmacia S.r.l.	Micromedic GmbH	System Equus (MiBit)	Other Acquisitions
Purchase price paid in cash	**6,850**	3,300	1,650	1,499	401
Liabilities assumed	**1,675**	1,299	250	0	126
of which contingent consideration	**494**	494	0	0	0
Issued equity instruments	**0**	0	0	0	0
Total consideration transferred	**8,525**	4,599	1,900	1,499	527
Non-controlling interests	**604**	580	0	0	24
Goodwill	**2,464**	**1,313**	**692**	**300**	**159**
Acquired cash and cash equivalents	**118**	0	84	0	34
Purchase price paid in cash	**6,850**	3,300	1,650	1,499	401
Prepayments on acquisitions	**0**	0	0	0	0
Fair value of equity interest in the acquiree held by acquirer immediately before the acquisition date	**0**	0	0	0	0
Payments for acquisitions after date of acquisition	**1,855**	0	0	0	1,855
Cash outflow for acquisitions (net)	**-8,587**	**-3,300**	**-1,566**	**-1,499**	**-2,222**
Effects of the acquisition on Group result					
Sales revenue following date of acquisition	**2,952**	2,591	326	–	35
Result following date of acquisition	**197**	121	83	–	-7
Sales revenue in 2016 (hypothetical date of acquisition 1 January 2016)	**9,217**	7,773	1,304	–	140
Result 2016 (hypothetical date of acquisition 1 January 2016)	**667**	363	332	–	-28
Costs attributable to the acquisition	**144**	**71**	**8**	**0**	**65**

Acquisition of Vega Informatica e Farmacia S.r.l., Italy
At the end of August 2016, CompuGroup Medical Italia Holding S.r.l, a 100 percent subsidiary of CompuGroup Medical SE, Germany, acquired 75 percent of the shares of the company Vega Informatica e Farmacia S.r.l. (VEGA). Located in Pavia, Italy. The minority interest results from the percentage of net assets.

VEGA distributes software solutions for pharmacies in Italy and is with its 1,400 customers the largest external distributor of CGM's pharmacy software in Italy. Furthermore, it sells hardware as well as a wide range of additional modules and services related to information technology for pharmacies.

With this acquisition, CompuGroup Medical has strengthened its position in the Italian market for pharmacy information systems to serve now directly more than 75 percent of pharmacies and pharmacy-related service providers that use CGM's pharmacy software.

VEGA branches are located in Parma, Mantua, Genoa, Massa, Bergamo, Vicenza and Padua. The former shareholders will remain on board as a strategic partner.

VEGA was initially consolidated on 1 September 2016. The turnover of VEGA was at about EUR 5,472 thousand in the financial year 2015 with an EBITDA of about EUR 624 thousand. The purchase price amounted to EUR 4,125 thousand. Until closing date an amount of EUR 3,300 thousand was paid out.

The still contractually outstanding purchase price payments of EUR 825 thousand are recognized at closing date in the current purchase price liabilities with an amount of EUR 412 thousand and – discounted with 2.5 percent – in the non-current purchase price liabilities with an amount of EUR 396 thousand (valuated at EUR 393 thousand at acquisition date).

In addition, an agreement on a "Call-put" option for further 10 percent of the shares of VEGA was signed. As at acquisition date it was valuated at its fair value of EUR 494 thousand which was recognized at balance sheet date including interests in the amount of EUR 498 thousand in the position purchase price liabilities.

The goodwill value of EUR 1,313 thousand results from the synergies within the group as a result of the inclusion of VEGA in the group. No recognized goodwill will be deductible for tax purposes.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The fair value of the acquired intangible assets excluding goodwill amounts to EUR 5,202 thousand and is related to customer relationships and trademarks. The receivables and payables associated with the acquisition, which essentially consist of trade receivables and payables, are balanced at book value at the date of acquisition, which corresponds to fair value based on the expected collection period and the best estimate of access to contractual cash flows. Uncollectable receivables were not identified at the time of initial recognition.

Deferred tax liabilities of EUR 1,633 thousand were applied to the fair value of the acquired intangible assets excluding goodwill. There were no contingent liabilities or contingent claims identified with the initial accounting.

The initial consolidation of VEGA was carried out in preliminary format as at 1 September 2016, due to partly incomplete or not yet fully evaluated information of the acquired customer relationships and trademarks.

Acquisition of Micromedic GmbH, Germany

End of September 2016, Turbomed Vertriebs- und Service GmbH, a 100 percent subsidiary of CompuGroup Medical SE, Germany, acquired 100 percent of the shares of the company Micromedic GmbH, located in Neuss, Germany.

Micromedic GmbH has been distribution and service partner for the Ambulatory Information System Turbomed for a long time and thereby secured the customer service in the region North Rhine-Westphalia. In the course of building an own distribution and service structure, Turbomed Vertriebs- und Service GmbH acquired also this important reseller.

Micromedic was initially consolidated on 30 September 2016. The turnover of Micromedic was about EUR 1,132 thousand in the 2015 financial year with an EBITDA of about EUR 89 thousand. The purchase price amounted to EUR 1,900 thousand. Until closing date an amount of EUR 1,650 thousand was paid out. The still contractually outstanding purchase price payments of EUR 250 thousand are recognized at closing date under the position purchase price liabilities.

The goodwill value of EUR 692 thousand results particularly from the synergies within the Group as a result of the inclusion of Micromedic in the Group. No recognized goodwill will be deductible for tax purposes.

The fair value of the acquired intangible assets, excluding goodwill, amounts to EUR 1,627 thousand and is related to customer relationships and trademark rights. The receivables and payables associated with the acquisition, which essentially consist of trade receivables and payables, are balanced with the book value at the date of acquisition of control, which corresponds to the fair value based on the expected collection period and the best estimate of access to contractual cash flows. Uncollectable receivables were not identified at the time of initial recognition.

Deferred tax liabilities of EUR 491 thousand were applied to the fair value of the acquired intangible assets excluding goodwill. There were no contingent liabilities or contingent claims identified with the initial accounting.

The initial consolidation of Micromedic was carried out in preliminary format as at 30 September 2016, due to partly incomplete or not yet fully evaluated information of the acquired customer relationships and trademarks.

Acquisition of the Equus system from MIBIT Aps, Denmark

In February 2016 CGM Denmark has acquired the net assets (asset deal) of the system Equus from MIBIT Aps. With this transaction CGM strengthens its market position and consequently follows the strategy to become the preferred eHealth provider in Denmark.

The acquired net assets before uncovering the hidden reserves amounted to EUR 1,199 thousand.

The preliminary goodwill of EUR 300 thousand results particularly from synergies which result from the integration of EQUUS into CGM. It is expected that the recognized goodwill will not be deductible for tax purposes.

The preliminary fair value of the acquired intangible assets, excluding goodwill, amounts to EUR 1,459 thousand and includes software, customer relationships and brand. There were no contingent liabilities or contingent claims identified with the initial accounting.

The initial consolidation of the asset deal as of 1 March 2016 has been carried out in preliminary form. The analysis of the acquired order backlog as well as the valuation of the acquired customer relationships, software and brands is not yet completed due to some not yet fully received or evaluated information.

Remaining Additions

The remaining additions include the following mergers:

Business Combination	Acquisition date	Percentage of voting equity interests acquired	Description of how the acquirer obtained control of the acquiree	Primary reasons for the business combination
Qualità in Farmacia S.r.l.	29 June 2016	100	Business combination achieved in stages (interests from 95 percent to 100 percent).	Extension of the customer platform in the PCS segment in Italy and expansion of the market share.
Turbomed Vertriebs – und Service GmbH	30 April 2014	100	Remaining purchase price payment in 2016 resulting from the acquisition of 100 percent interest in 2014.	Extension of the customer platform in the AIS segment in Germany and continuation of the strategy to establish a strong sales and service structure.
EBM AG	1 January 2013	100	Remaining purchase price payment in 2016 resulting from the acquisition of 100 percent interest in 2013.	Extension of the customer platform in the AIS segment in Germany.
OWL Computer SL	3 October 2016	70	Acquisition of 70 percent interests in 2016. Call-Option for the acquisition of the remaining 30 percent. Exercisable between 3 to 5 years after acquisition.	Additional acquisition to establish the own presence in spain and the basis for future expansion of the market position in the spanish market for the PCS segment.
CSI	10 October 2016	n.a.	Asset Deal	Extension of the customer platform in the PCS segment in Italy and expansion of the market share.
Medicitalia S.r.l.	4 August 2016	90	Acquisition of 90 percent of interests in 2015. Call-Option for the acquisition of the remaining 10 percent.	Extension of the customer platform in the PCS and AIS segments in Italy and expansion of the market share.
Meditec GmbH	1 February 2013	30	Business combination achieved in stages (interests from 70 percent to 100 percent).	Extension of the product demand in the PCS segment in Germany.

Qualità in Farmacia, Italien

In June 2016 CompuGroup Medical Italia Holding S.r.l. exercised the call option and acquired the outstanding 5 percent of the shares of Qualità in Farmacia. The call option had a fixed exercise price of TEUR 375, which was fully paid out. CompuGroup Medical Holding S.r.l. is now owning 100 percent of the shares of Qualità in Farmacia.

Turbomed Vertriebs- und Service GmbH

According to the contractual agreement signed in 2014, CGM was obliged to pay out the provision for a legal case that was pending at the time of acquisition. After successful settlement of the legal case in fiscal year 2015 the provision was released. The paid out amount of EUR 50 thousand was paid in 2016 and a purchase price liability was built accordingly.

EBM AG

Concerning the contractually outstanding purchase price liability for the acquisition of 100 percent of shares for EBM AG (formally Dr. Ralle Medienholding GmbH) in 2013, the purchase price liability of EUR 500 thousand, which was still shown as a purchase price liability in December 2015, was fully paid in 2016.

OWL Computer SL, Spain

In Oktober 2016, Medigest Consultores S.L., Spain (OWL), which is a 100 percent subsidiary of CompuGroup Medical SE, acquired 70 percent of the shares of OWL Computer SL with registered office in Madrid, Spain. The minority share results from the proportional share of the net assets.

OWL distributes software solutions for pharmacies in Spain. With this acquisition, CGM pursues a market entry into the Spanish market for pharmacy information systems.

The initial consolidation of OWL was carried out as at 1 October 2016. The turnover of OWL was at about EUR 145 thousand in the fiscal year 2015 with an EBITDA of EUR 9 thousand. The purchase price for 70 percent of the shares amounted to EUR 100 thousand and was fully paid at balance sheet date. A "call-option" was agreed for the acquisition of the outstanding 30 percent of the OWL shares.

The goodwill value of EUR 45 thousand results particularly from the synergies within the Group as a result of the inclusion of OWL in the Group. The recognized goodwill will not be deducted for tax purposes.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The fair value of the acquired intangible assets, excluding goodwill, amounts to EUR 46 thousand and is related to software, customer relationships and trademark rights. The receivables associated with the acquisition, which essentially consist of trade receivables, are balanced at fair value, which equals due to the expected lifespan of receivables and best estimated access to contractual fixed cash flows, the adopted book values at acquisition date. Uncollectable receivables were not identified at the time of initial recognition.

Deferred tax liabilities of EUR 11 thousand were applied to the fair value of the acquired intangible assets excluding the goodwill. There were no contingent liabilities or contingent claims identified within the initial accounting.

The initial consolidation of OWL was carried out in preliminary format as at 1 October 2016, due to partly incomplete or not yet fully evaluated information of the acquired software, customer relationships and trademarks.

CSI, Italy
As part of a business combination through the transfer of net assets (asset deal) in October 2016, Qualita in Farmacia S.r.l. acquired customer contracts and employees of CSI, Italy.

CSI is the second largest distributor of CGM software Wingesfar in Italy right after the Qualita in Farmacia S.r.l., with a customer base of 180 pharmacies and 101 drugstores. The business combination enables Qualita in Farmacia to deliver directly to 50 percent of the Calabrian market, which is consequently an important step to achieve higher earnings with direct sales performed by own distributors.

The acquired net assets amounted to EUR 313 thousand. The preliminary goodwill value of EUR 114 thousand results particularly from the synergies within the Group as a result of the inclusion of CSI in the Group. No recognized goodwill will be deductible for tax purposes.

The preliminary fair value of the acquired intangible assets, excluding goodwill, amounts to EUR 354 thousand. There were no contingent liabilities or contingent claims identified with the initial accounting.

The initial consolidation of the asset deal was carried out in preliminary format as at 1 October 2016, due to partly incomplete or not yet fully evaluated information of the acquired customer relationships and trademarks.

Medicitalia, Italy
In August 2015, CompuGroup Medical Italia SpA, a wholly-owned subsidiary of CompuGroup Medical SE, acquired 90 percent of the shares of Medicitalia S.r.l., Italy. The purchase price amounted to EUR 3,150 thousand, from which EUR 2,205 thousand were paid in 2015. The remaining short-term share of the purchase price with the amount of EUR 630 thousand were paid in the 2016 financial year. The outstanding purchase price is still shown as purchase price liability.

Meditec
In January 2013 CGM Deutschland AG acquired 70 percent of the shares of Meditec GmbH. The purchase price of these shares amounted to EUR 1,562 thousand and was already paid in 2013. For the additional 30 percent a "call-option" and two "put-options" were agreed. As at 31 December 2015 a purchase price liability of EUR 951 thousand was shown accordingly.

With a notarial share purchase agreement dated on 5 August 2016, CGM Deutschland AG acquired the remaining 30 percent of the Meditec GmbH company shares with the amount of EUR 300 thousand. At the same time both sides waived their rights of "call-option" and "put-option" respectively.

c) Change of Purchase Price Allocation 2015
For the acquisition of Compufit BVBA, Belgium, in 2015, following changes of the purchase price allocation resulted in the current fiscal year:

	Before changes of purchase price allocation	Changes in purchase price allocation	After changes in purchase price allocation
Assets	5,243	28	5,271
Liabilities	2,743	10	2,753
Net assets acquired	**2,500**	**18**	**2,518**
Total consideration transferred	5,000	200	5,200
Goodwill	**2,500**	**182**	**2,682**

For the acquisition of Medicitalia S.r.l., Italy, in 2015, following changes of the purchase price allocation resulted in the current fiscal year:

	Before changes of purchase price allocation	Changes in purchase price allocation	After changes in purchase price allocation
Assets	1,346	9	1,355
Liabilities	428	3	431
Net assets acquired	**918**	**6**	**924**
Total consideration transferred	3,595	0	3,595
Goodwill	**2,677**	**-6**	**2,671**

The following mergers, which were disclosed under the position remaining additions on 31 December 2015, following changes of the purchase price allocation resulted:

Business Combination	Acquisition date	Percentage of voting equity interests acquired	Description of how the acquirer obtained control of the acquiree	Primary reasons for the business combination
Caretrace	30.11.2015	100	Business combination achieved in stages (interests from 50% to 100%)	Extension of the customer platform in the AIS segment in the Netherlands and expansion of the market share.
Medigest	22.12.2015	100	Business combination achieved in stages (interests from 49% to 100%)	Additional acquisition of old shares to establish the own presence in spain and the basis for future expansion of the market position in the spanish market for the AIS segment.

Summing up the purchase price allocation of both business combinations, following changes result:

	Before changes of purchase price allocation	Changes in purchase price allocation	After changes in purchase price allocation
Assets	997	31	1,028
Liabilities	505	8	513
Net assets acquired	**492**	**23**	**515**
Total consideration transferred	885	0	885
Goodwill	**393**	**-23**	**370**

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

d) Subsidiaries included in the scope of consolidation

	Company name		Registered Office	Equity voting rights in %
	Subsidiaries in the region Central Europe (CER)			
1	AESCU DATA Gesellschaft für Datenverarbeitung mbH	1)	Winsen	100.0
2	CompuGroup Medical Deutschland AG		Koblenz	100.0
3	CompuGroup Medical Dentalsysteme GmbH		Koblenz	100.0
4	CGM Immobilien Stuttgart GmbH (formerly: CompuGroup Medical Mobile Services GmbH)	6)	Stuttgart	100.0
5	CompuGroup Medical Managementgesellschaft mbH		Bochum	100.0
6	ifap Institut für Unternehmensberatung und Wirtschaftsdienste im Gesundheitswesen GmbH	4)	Neu-Golm	100.0
7	ifap Service Institut für Ärzte und Apotheker GmbH		Martinsried	100.0
8	Intermedix Deutschland GmbH	5)	Koblenz	100.0
9	IS Informatik Systeme Gesellschaft für Informationstechnik mbH	6)	Kaiserslautern	60.0
10	LAUER-FISCHER GmbH		Fürth	100.0
11	CGM IT Solutions und Services GmbH (formerly: LAUER-FISCHER ApothekenService GmbH)	3)	Koblenz	100.0
12	CGM Clinical Deutschland GmbH (formerly: CGM Systema Deutschland GmbH)		Koblenz	100.0
13	Privadis GmbH	3)	Cologne	100.0
14	AESCU DATA Gesellschaft für Datenverarbeitung mbH AT	9)	Steyr/Austria	100.0
15	Meditec Marketingservices im Gesundheitswesen GmbH	3)	Steinhagen	100.0
16	EBM Medienholding GmbH (formerly: Dr. Ralle Medienholding GmbH)	3)	Munich	100.0
17	eHealth Business Media AG (formerly: änd Ärztenachrichtendienst Verlags-AG)	38)	Hamburg	100.0
18	KoCo Connector AG		Berlin	95.0
19	CompuGroup Medical Research GmbH	4)	Koblenz	100.0
20	CompuGroup Medical Mobile GmbH	4)	Koblenz	100.0
21	CGM LAB International GmbH		Koblenz	100.0
22	CGM LAB Deutschland GmbH	27)	Koblenz	100.0
23	Turbomed Vertriebs- und Service GmbH	3)	Trossingen	100.0
24	CGM Mobile Services GmbH (formerly: Turbomed-Center Verwaltungs GmbH)	32)	Blankenburg	100.0
25	Stock Informatik GmbH & Co. KG	3)	Fröndenberg	100.0
26	Stock Informatik Verwaltungs GmbH	3)	Fröndenberg	100.0
27	Micromedic GmbH	31)	Neuss	100.0
28	LAUER-FISCHER ApothekenService GmbH (formerly: Kronen zweitausend171 GmbH)	39)	Koblenz	100.0
	Subsidiaries in the region Central Eastern Europe (CEE)			
29	CompuGroup Medical CEE GmbH		Vienna/Austria	100.0
30	CGM Arztsysteme Österreich GmbH (formerly: CompuGroup Österreich GmbH)	10)	Steyr/Austria	100.0
31	HCS Health Communication Service Gesellschaft m.b.H.	10)	Steyr/Austria	100.0
32	INNOMED Gesellschaft für medizinische Softwareanwendungen GmbH	10)	Wiener Neudorf/Austria	70.3
33	Intermedix Österreich GmbH	10)	Vienna/Austria	100.0
34	CGM Clinical Österreich GmbH (formerly: Systema Human Information Systems Gesellschaft mbH)	10)	Steyr/Austria	100.0
35	CompuGroup Medical Schweiz AG	10)	Bern/Switzerland	100.0
36	CompuGroup Medical Polska Sp. z o.o.		Lublin/Poland	100.0
37	CompuGroup Medical Česká republika s.r.o.	11)	Prague/Czech Republic	100.0
38	Intermedix Česká republika s.r.o.	12)	Prague/Czech Republic	100.0
39	CompuGroup Medical Slovensko s.r.o.	12)	Bratislava/Slovakia	100.0
40	CompuGroup Medical Bilgi Sistemleri A.Ş.	14)	Istanbul/Turkey	100.0
	Subsidiaries in the region North Europe (NER)			
41	CompuGroup Medical Norway AS	7)	Lysaker/Norway	100.0
42	Profdoc AS		Lysaker/Norway	100.0
43	CompuGroup Medical Sweden AB	7)	Uppsala/Sweden	100.0
44	Lorensbergs Communication AB	22)	Gothenburg/Sweden	100.0
45	Lorensbergs Holding AB	7)	Gothenburg/Sweden	100.0
46	CompuGroup Medical LAB AB	8)	Borlänge/Sweden	100.0
47	CompuGroup Medical Denmark A/S	7)	Randers/Denmark	100.0
48	CompuGroup Medical Belgium BVBA	15)	Nevele/Belgium	100.0
49	CompuGroup Medical Nederland B.V.	21)	Echt/Netherlands	100.0
50	CompuGroup Medical Holding Coöperatief U.A.	20)	Echt/Netherlands	100.0
51	CompuGroup Medical Nederland Software and Services B.V.	21)	Echt/Netherlands	100.0
52	Labelsoft Clinical IT B.V.	21)	Zoetermeer/Netherlands	100.0
53	Compufit BVBA	23)	Ostend/Belgium	100.0
	Subsidiaries in the region South Europe (SER)			
54	CompuGroup Medical Solutions SAS	16)	Montpellier/France	100.0
55	Intermedix France SAS	16)	Rueil-Malmaison/France	100.0
56	CompuGroup Medical France SAS		Rueil-Malmaison/France	100.0
57	Imagine Assistance S.a.r.l.		Soulac sur mer/France	100.0
58	Imagine Editions SAS		Soulac sur mer/France	100.0
59	CGM LAB France SAS	27)	Paris/France	100.0
60	CompuGroup Medical Italia SpA		Molfetta/Italy	100.0
61	Intermedix Italia S.r.l.	17)	Milan/Italy	100.0
62	CompuGroup Medical Italia Holding S.r.l.		Milan/Italy	100.0
63	CGM XDENT Software S.r.l.	17)	Ragusa/Italy	80.0
64	Studiofarma S.r.l.	24)	Brescia/Italy	100.0
65	Qualità in Farmacia S.r.l.	24)	Novara/Italy	100.0
66	SF Sanità S.r.L	25)	Brescia/Italy	60.0
67	Farloyalty s.r.l.	25)	Brescia/Italy	51.0
68	farma3tec S.r.l.	24)	Milan/Italy	80.0
69	Mondofarma S.r.l.	30)	Chiusi/Italy	100.0
70	Medicitalia S.r.l.	17)	Milan/Italy	90.0
71	Vega Informatica e Farmacia Srl	24)	Pavia/Italy	75.0
72	CGM LAB Belgium SA	28)	Barchon/Belgium	100.0
73	Intermedix ESPANA SL		Madrid/Spain	100.0
74	Medigest Consultores S.L.		Madrid/Spain	100.0
75	OWL Computer SL	41)	Madrid/Spain	70.0
	Subsidiaries in the region United States und Canada (USC)			
76	All for One Software, Inc.	2)	Los Angeles/USA	100.0
77	CompuGroup Holding USA, Inc.		Delaware/USA	100.0
78	CompuGroup Medical, Inc.	18)	Delaware/USA	100.0
79	All for One Software, Inc.	19)	Vancouver/Canada	100.0
	Subsidiaries in the region Other (OTH)			
80	CompuGroup Medical South Africa (Pty) Ltd.	13)	Capetown/South Africa	100.0
81	Medical EDI Services (Pty) Ltd.	32)	Margate/South Africa	100.0
82	CompuGroup Medical Malaysia Sdn Bhd	7)	Kuala Lumpur/Malaysia	100.0
83	CompuGroup Medical Software GmbH	3)	Koblenz	100.0
84	UCF Holding S.a.r.l.	3)	Luxembourg/Luxembourg	100.0
85	CGM Software RO SRL	36)	Iasi/Romania	100.0
86	CompuGroup Medical Singapore PTE.LTD.		Singapore/Singapore	100.0

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

	Company name		Registered Office	Equity voting rights in %
Joint ventures				
87	MGS Meine Gesundheit Services GmbH	33)	Koblenz	50.1
88	Wikipharm S.r.L.	34)	Milan/Italy	50.0
89	CGM-Alstar Healthcare Solutions Sdn Bhd	26)	Kuala Lumpur/Malaysia	45.0
Associated companies at equity				
90	Mediaface GmbH		Hamburg	49.0
91	AxiService Nice S.a.r.l.	16)	Nice/France	28.0
92	Technosante Nord-Picardie SAS	16)	Lille/France	20.0
93	Smoove Software S.r.l.	37)	Milan/Italy	47.6
Other participations				
94	AES Ärzteservice Schwaben GmbH	3)	Bad Wimpfen	10.0
95	BFL Gesellschaft des Bürofachhandels mbH&Co.KG	30)	Eschborn	2.0
96	CD Software GmbH	2)	Lampertheim	9.1
97	ic med EDV-Systemlösungen für die Medizin GmbH	3)	Halle	10.0
98	Savoie Micro S.a.r.l.	16)	Meythet/France	10.0
99	Technosante Toulouse S.A.S.	16)	Toulouse/France	10.0
100	Consalvo Servizi S.r.l.	25)	Salerno/Italy	5.0
101	Daisy-NET S.c.a r.l.	17)	Bari/Italy	0.5
102	Practice Perfect Medical Software (PTY) Limited	35)	Hillcrest/South Africa	15.0

1) Subsidiary of CGM Managementgesellschaft mbH
2) Subsidiary of CGM Clinical Deutschland GmbH
3) Subsidiary of CompuGroup Medical Deutschland AG
4) Subsidiary of ifap Service Institut für Ärzte und Apotheker GmbH
5) Subsidiary of CompuGroup Medical Dentalsysteme GmbH
6) Subsidiary of LAUER-FISCHER GmbH
7) Subsidiary of Profdoc AS
8) Subsidiary of CompuGroup Medical Sweden AB (vormals Profdoc AB)
9) Subsidiary of AESCU DATA Gesellschaft für Datenverarbeitung mbH
10) Subsidiary of CompuGroup Medical CEE GmbH
11) Subsidiary of CompuGroup Medical SE (78.5%) and CompuGroup Medical Deutschland AG (21.5%)
12) Subsidiary of CompuGroup Medical Česká republika s.r.o.
13) Subsidiary of CompuGroup Medical SE (91.511%) and Profdoc AS (8.489%)
14) Subsidiary of CompuGroup Medical SE (43.99%), CompuGroup Medical Deutschland AG (53.16%), Intermedix Deutschland GmbH (0%), CGM Clinical Deutschland GmbH (0.48%), CompuGroup Medical Software GmbH (2.37%)
15) Subsidiary of CompuGroup Medical SE (99%) and CompuGroup Deutschland AG (1%)
16) Subsidiary of UCF Holding S.a.r.l
17) Subsidiary of CompuGroup Medical Italia SpA
18) Subsidiary of CompuGroup Holding USA, Inc.
19) Subsidiary of All for One Software, Inc.
20) Subsidiary of CompuGroup Medical SE (99.98%) and CompuGroup Medical Deutschland AG (0.02%)
21) Subsidiary of CompuGroup Medical Holding Coöperatief U.A.
22) Subsidiary of Lorensbergs Holding AB
23) Subsidiary of CompuGroup Medical Belgium BVBA
24) Subsidiary of CompuGroup Medical Italia Holding S.r.l.
25) Subsidiary of Studiofarma S.r.l.
26) Subsidiary of CompuGroup Medical Malaysia Sdn Bhd
27) Subsidiary of CGM LAB International GmbH
28) Subsidiary of CGM LAB International GmbH (99.9%) and CompuGroup Medical SE (0.01%)
29) Subsidiary of CompuGroup Medical Deutschland AG (1.0%) and CGM Clinical Deutschland GmbH (1.0%)
30) Subsidiary of fama3tec S.r.l.
31) Subsidiary of Turbomed Vertriebs- und Service GmbH
32) Subsidiary of CompuGroup Medical South Africa (Pty) Ltd.
33) Subsidiary of CompuGroup Medical Mobile GmbH
34) Subsidiary of Medicitalia S.r.L. (50%)
35) Subsidiary of Medical EDI Services (Pty) Limited
36) Subsidiary of CompuGroup Medical SE (5%) and CompuGroup Medical Software GmbH (95%)
37) Subsidiary of Vega Informatica e Farmacia S.r.l.
38) Subsidiary of EBM Medienholding GmbH (formerly: Dr. Ralle Medienholding GmbH)
39) Subsidiary of CGM IT Solutions und Services GmbH
40) Subsidiary of CompuGroup Medical Software GmbH
41) Subsidiary of Medigest Consultores S.L.

Remarks:
The companies INNOMED Gesellschaft für medizinische Softwareanwendungen GmbH, CGM XDENT Software S.r.l., farma3tec S.r.l. und Medicitalia S.r.l. will be incorporated with 100 percent through existing Put-/ Call- Options in the consolidated financial statement without recognitions of minorities.

The company KoCo Connector AG and Vega Informatica e Farmacia are included due to existing option contracts with 5 percent and with 15 percent minority in the consolidated financial statement.

6. Debt consolidation
Receivables, liabilities and reserves within the in the consolidated financial statements included companies were offset.

7. Consolidation of results
Internal revenue between the consolidated companies were offset against the expenditures attributable to them. Other earnings (including earnings from equity investments) were offset against the corresponding expenditures with the recipient of the services.

Interim profits from deliveries and services within the Group were eliminated.

8. Foreign currency conversion
In the preparation the financial statements of each Group company, transactions, which are conducted in currencies other than the functional currency of the ultimate Group company (parent company), are translated using the exchange rates prevailing on the transaction date. The functional currency is the respective national currency which equals the currency of the primary business environment. At each reporting date, monetary items in foreign currencies are converted with the effective period-end exchange rate. Non-monetary items denominated in foreign currencies, which are measured at fair value, are converted at the rates which were effective at the date of the determination of fair value. Non-monetary items, which have been estimated on cost of acquisition and production, are converted with the exchange rate at the time they were first recognized on the balance sheet.

Exchange rate differences on monetary items are recognized in the period in which they occur. The only exceptions are:
- Exchange differences resulting from borrowings denominated in foreign currency that arise with assets intended for productive use during the production process. These differences are attributed to production costs if they represent adjustments to the interest paid on borrowings denominated in foreign currency. Such exchange rate differences had no impact on the present consolidated financial statements of CGM as there are no areas to which these regulations relate.
- Exchange rate differences from transactions that were entered to hedge against certain foreign currency risks. Such exchange rate differences had no impact on the present consolidated financial statements of CGM.
- Translation differences from retained or payable monetary items from foreign business whose performance is neither planned nor likely to occur and thus part of the net investment in that foreign business. These translation differences are initially recognized in other comprehensive income and are reclassified to the income statement when equity is sold. Such exchange rate differences had no impact on the present consolidated financial statements of CGM as there are no areas to which these regulations relate.

In preparing the consolidated financial statements, the assets and liabilities of the affiliated foreign currency operations are converted into euros (EUR) using the exchange rates prevailing on the reporting date. Income and expenses are translated at the average exchange rate for the period. Strong fluctuations in foreign currencies, which would trigger a conversion of income and expenses at the time of a transaction, are not relevant for the present consolidated financial statements. The equity is converted at historical rates.

In the event of disposal of a foreign business, all accumulated translation differences attributable to the Group recognized in other comprehensive income from this business are reclassified to the income statement. The following transactions are regarded as disposals of foreign business:
- The disposal of the whole group share to a foreign business;
- A partial disposal with the loss of control over a foreign subsidiary; or
- A partial disposal of an investment in a joint arrangement or an associate, which includes a foreign business.

If parts of a subsidiary are disposed and those parts include a foreign business without causing a loss of control, the percentage of the amount of exchange rate differences attributable to the disposed portion is allocated to non-controlling interests as of the time of disposal.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Both, a goodwill resulting from the acquisition of a foreign business and adjustments to the fair values of identifiable assets and liabilities, are treated as assets and liabilities from the foreign business and are translated at the closing rate. The resulting exchange rate differences are recognized in the currency translation reserve.

The following table provides information on the exchange rates of the (essential) currencies used within CGM Group:

	Fixed rates		Average rates January – December	
1€ corresponds to	**31.12.2016**	31.12.2015	**2016**	2015
Denmark (DKK)	**7.43**	7.46	**7.45**	7.46
Canada (CAD)	**1.42**	1.51	**1.47**	1.42
Malaysia (MYR)	**4.73**	4.70	**4.58**	4.34
Norway (NOK)	**9.09**	9.60	**9.29**	8.95
Poland (PLN)	**4.41**	4.26	**4.36**	4.18
Romania (RON)	**4.54**	4.50	**4.49**	4.44
Sweden (SEK)	**9.55**	9.19	**9.47**	9.35
Switzerland (CHF)	**1.07**	1.08	**1.09**	1.07
Singapore (SGD)	**1.52**	1.54	**1.53**	1.53
South Africa (ZAR)	**14.46**	16.95	**16.26**	14.17
Czech Republic (CZK)	**27.02**	27.02	**27.03**	27.28
Turkey (TRY)	**3.71**	3.18	**3.34**	3.03
USA (USD)	**1.05**	1.09	**1.11**	1.11

D. Summary of the principal accounting and measurement methods and underlying assumptions

Individual balance sheet and income statement items are summarized, disclosed and explained separately in the notes. Balance sheet items are subdivided into current and non-current items. Items are disclosed as non-current if they are realized after more than 12 months or outside an ordinary business cycle. Deferred taxes are always allocated to non-current items.

1. Intangible assets

a) Intangible assets acquired separately and as part of a business combination

CGM recognizes intangible assets with a certain useful life that were acquired separately and not as part of a business combination at acquisition cost less accumulated amortization and impairments. Intangible assets are amortized on a straight-line basis over the estimated useful life of the asset and recognized as expenses. Both the estimated useful life and the amortization method are reviewed at the end of each reporting period. Any changes from reassessments are taken into consideration prospectively.

If CGM Group acquires intangible assets with indefinite useful lives separately, these assets are recognized at acquisition cost less accumulated impairments.

Currently CGM Group does not own any intangible assets with indefinite useful lives, which were acquired separately.

Intangible assets acquired as part of a business combination are recognized separately from goodwill and measured at fair value at the time of acquisition. Intangible assets are amortized on a straight-line basis over the estimated useful life of the asset and recognized as expenses. Both the estimated useful life and the amortization method are reviewed at the end of each reporting period. Any changes from reassessments are taken into consideration prospectively.

For the amortization of intangible assets, the following values for useful life are used:

	Useful life in years
Acquired software	2-15
Customer relationships	10-30
Brands	1-20
Order backlogs	1-3

Amortizations as well as impairments and reversed impairments of intangible assets are recorded in the income statement under "Amortization of intangible assets".

The main part of intangible assets in the balance sheet come from company acquisitions. Currently, with the exception of goodwill, CGM Group has no assets with indefinite useful lives, which have been acquired as part of a business combination.

b) Capitalized in-house software

Costs directly allocated to research activities are recognized as expenses in the period in which they are incurred.

Capitalized in-house intangible assets resulting from development activities or the development phase of an internal software development project are capitalized if the following conditions have been fulfilled:
- The completion of the intangible asset is technically possible, meaning that it will be available for use or sale.
- The intangible asset is intended for completion as well as for use or sale.
- The intangible asset can be used or sold.
- The intangible asset will likely provide future economic benefit.
- Suitable technical, financial and other resources are available to complete development and to use or sell the intangible asset.
- The expenses allocated to the development of the intangible asset can be reliably determined (e.g. by means of project-specific time sheets).

An in-house intangible asset is capitalized for the first time at the sum of all expenses incurred from the day on which the intangible asset fulfills all of the aforementioned conditions for the first time. As long as a capitalized in-house intangible asset cannot be capitalized or is not yet available, development costs are recognized as expenses in the period in which they are incurred.

As with acquired intangible assets, capitalized in-house intangible assets are recognized at cost less accumulated amortization and impairments in subsequent periods.

Borrowing costs that are directly attributable to software development (qualifying asset) form part of the cost of that asset and should be capitalized until all work has largely been completed to prepare the asset for its intended use or sale.

Capitalized in-house services assets (generally software) are amortized on a straight-line basis over their estimated useful life of two to fifteen years.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

c) Goodwill
Goodwill is not amortized but instead tested annually for impairment on December 31. Goodwill resulting from a business combination is capitalized at cost less accumulated impairments.

For the purposes of the impairment test, goodwill is allocated upon acquisition to the cash-generating units (or groups thereof) of CGM Group that are expected to be able to make use of the benefit from the synergies generated by the business merger.

The impairment test of goodwill is based on cash-generating units (CGU). A CGU is the lowest level on which goodwill is monitored for the internal purposes of company management. As part of the impairment testing, the carrying amount of the cash-generating units on which the goodwill is based is compared to their recoverable value. If the carrying amount of the CGU exceeds its recoverable value, then impairment exists and the goodwill must be written down to its recoverable value.

The recoverable value is the higher of two amounts: the value in use and its fair value minus disposal costs. To determine the recoverable value, the Company first calculates the value in use of the CGU using a discounted cash flow (DCF) method. A subsequent write-up of an impairment loss recognized in previous financial years on goodwill, to reflect the absence in the current financial year of the reasons for the impairment loss, is not permitted.

Even if the recoverable value exceeds the carrying amount of the CGU allocated to goodwill in future periods, impaired goodwill is not written up. Impairments of goodwill are recorded in the income statement under "Amortization of intangible assets."

The accounting and measurement principles for goodwill resulting from the acquisition of an associate is described under "C.c) Associates and joint ventures."

d) Impairments of property, plant, and equipment and intangible assets (excluding goodwill)
As of each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible (depreciable) assets to determine whether there is a need to write them down. If there is evidence of such a need, the realizable value of the asset is estimated in order to determine the amount of the potential impairment charge required. If the realizable value for the individual asset cannot be estimated, the realizable value is estimated for the CGU to which the asset belongs. This also applies in the event of evidence for a reduction in value.

The realizable value is the higher value between the fair value less costs to sell and the value in use. When determining the value in use, the estimated future cash flows are discounted to present value.

If the estimated realizable value of an asset (or a CGU) is less than the carrying amount, the carrying amount of the asset (or of the CGU) has to be reduced to the realizable value. The impairment is recognized immediately and posted to the income statement.

If impairment is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the newly estimated realizable value.

The increase in the carrying amount is limited to the amount that would have been determined if no impairment had been recognized for the asset (the CGU) in previous years. A reversal of the write down is recognized immediately and posted to the income statement.

e) Derecognition of intangible assets
An intangible asset is to be derecognized upon disposal or if no further benefit is expected from its use or sale. The gains or losses calculated from the difference between net sales proceeds and the intangible asset's carrying amount from derecognition of an intangible asset is recognized in the income statement at the time of the asset's derecognition. Derecognition is carried out under either "other operating income" or "other operating expenses."

2. Property, plant, and equipment
a) Land and buildings
Land and buildings serving as locations for the manufacture or supply of goods, the provision of services, or for administrative functions are recognized at amortized cost less accumulated depreciation and accumulated impairments.

Land and buildings intended to serve as locations for the manufacture or supply of goods, the provision of services or for administrative functions, and those that are currently under construction are capitalized at cost less recognized impairments. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and should be capitalized until all work has largely been completed to prepare the asset for its intended use or sale. The depreciation of these assets begins on the same basis as all other buildings, namely once they have reached operating condition. Land is not subject to depreciation.

b) Other assets and plant and office equipment
Other assets as well as plant and office equipment are recognized at cost less accumulated depreciation and recognized impairments.

Assets are depreciated on a straight-line basis. Acquisition costs and fair values are written down as follows over the estimated useful life of an asset, but no lower than the residual carrying amount. The estimated useful lives, residual amounts and depreciation methods are reviewed at the end of each reporting period. Any changes from reassessments are taken into consideration prospectively. For the depreciation of property, plant and equipment, the following values for useful life are used:

	Useful life in years
Buildings	Up to 60
Other assets and plant and office equipment	3-21

Depreciation as well as impairments and reversed impairments of property, plant and equipment are recorded in the income statement under "Depreciation of property, plants, and equipment".

In 2016 CGM SE has bought a new aircraft for EUR 8.317.000. The following main components of the new aircraft haven been recognized and depreciated separately over their estimated useful lives, which are indicated in brackets:
– Engines (11 years)
– Interior (10 years)
– Aircraft excluding engines and interior (21 years)

3. Borrowing costs
Borrowing costs directly relating to the acquisition, construction, or production of qualifying assets are added to production costs until the point at which the assets are essentially available for their intended use or sale. Qualifying assets include assets that require a considerable period of time before they reach their intended condition ready for use or sale.

Should earnings be generated from the intermediate investment of borrowed capital taken out especially for the production of qualifying assets, these earnings are deducted from capitalizable borrowing costs. Other borrowing costs are recognized in the income statement in the period in which they are incurred.

4. Investments in companies recognized with the "equity method"
Investments in companies recognized with the "equity method" include the associates and the joint ventures.

a) Investments in associates
Pursuant to IAS 28, Investments in Associates and Joint Ventures, associates are stated in accordance with the "equity method".

At the time of acquisition, they are stated at purchase costs. The book value of the investment also includes goodwill identified at the time of acquisition less impairment. Dividend payments of the investments will be accounted for in the year of payment as a reduction of the carrying amount without any effects in the income statement. The Company's share of earnings of associates in the period is posted to income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Impairment tests will be carried out if there is a so-called "triggering event" (particularly at high changes in net results).

b) Joint Ventures
Pursuant to IAS 28, Investments in Associates and Joint Ventures, joint ventures are also stated in accordance with the "equity method". The classification as a joint venture is based on the criteria of IFRS 11, Joint Arrangements.

At the time of acquisition, they are stated at purchase costs. The book value of the investment also includes goodwill identified at the time of acquisition less impairment. Dividend payments of investments will be accounted for in the year of payment as a reduction of the carrying amount without any effects in the income statement.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the Company.

Impairment tests will be carried out if there is a so-called "triggering event" (particularly at high changes in net results).

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

5. Financial assets

a) Classification
CGM Group classifies its financial assets in the following categories: at fair value in the income statement, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets recognized at fair value in income
Financial assets recognized at fair value in the income statement are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise they are classified as non-current. Fluctuations in the value of financial assets at fair value are recognized in financial income or financial expenses respectively.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. CGM's loans and receivables comprise trade receivables, other receivables, and cash and cash equivalents.

Financial assets available for sale
Financial assets available for sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

b) Recognition and measurement
Regular purchases and sales of financial assets are recognized on the trading day – the day on which the Group commits to purchase or dispose of the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value in the income statement. Financial assets carried at fair value in the income statement are initially recognized at fair value and transaction costs are expensed in the income statement.

Financial assets are derecognized when the rights to receive cash flow from the investments have expired or have been transferred and CGM has transferred all substantial risks and rewards of ownership. Financial assets recognized at fair value in the income statement are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Financial assets available for sale are subsequently carried at fair value unless the fair value cannot be determined, in which case the financial assets available for sale are carried at cost.

Dividends on financial assets available for sale are recognized in the income statement as part of financial income when the Group's right to receive payments is established.

c) Impairment of financial assets
Assets carried at amortized cost
CGM assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine if there is objective evidence of an impairment loss include:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- CGM, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- probability that the borrower will enter bankruptcy or other financial reorganization;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
- adverse changes in the payment status of borrowers in the portfolio; or national or local economic conditions that correlate with defaults on the assets in the portfolio.

CGM Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is to be reversed in the income statement.

Financial assets available for sale
CGM Group carries its financial assets available for sale at cost. To assess whether there is objective evidence that a financial asset available for sale or a group of financial assets is impaired, refer to the criteria and methods mentioned in (a) above. In addition to these criteria and methods, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. CGM Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Such impairment losses are not reversed.

d) Derecognition of financial assets
CGM Group only derecognizes a financial asset if the contractual rights concerning future cash flows from the financial asset expire or if CGM Group transfers the financial asset together with all risks and rewards associated with ownership of the asset to a third party.

If CGM Group neither transfers all risks and rewards associated with ownership nor retains them, but maintains control of the transferred asset, the Group recognizes its remaining share in the asset and a corresponding liability equaling the anticipated contributions to be paid.

In case of CGM Group essentially retaining all risks and rewards associated with ownership of a transferred financial asset, CGM Group will continue to recognize the financial asset as well as a secured loan for the received consideration.

In case of the complete derecognition of a financial asset, the difference between the carrying amount and the total of fees already received or to be received, plus all accumulated profits or losses recognized in other income and in equity, is carried in the income statement.

In case of the partial derecognition of a financial asset, CGM Group splits the previously carried carrying amount of the financial asset into the part that continues to be recognized in accordance with its continuing involvement and the part that is no longer recognized on the basis of the relative fair values of these two parts at the time of transfer. The difference between the carrying amount of the part that is no longer recognized and total fees from the part that is no longer recognized plus all accumulated profits and losses attributable to this part that were recognized in other income is carried in the income statement. All accumulated profits and losses recognized in other income are distributed between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of each part.

e) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount is reported in the consolidated financial statements when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. There was one of these elements as at the reporting date.

6. Inventories
Inventories are valued at the lower of cost and net realizable value. Manufacturing costs include material costs and production costs, plus any production overheads. The values are calculated either according to the weighted-average cost method or according to the first in, first out (FIFO) method. The net realizable value represents the estimated selling price less all estimated costs to completion, as well as costs for marketing, sales and distribution.

7. Trade receivables and other current receivables
CGM Group records receivables at amortized cost less impairments. Impairments are carried out in the form of specific loan loss provisions in line with default risk. Actual defaults on receivables result in derecognition of the respective receivable. Receivables that are deemed to be of minor importance as well as receivables of similar default risk are grouped together and analyzed using historical values to test for impairment. At CGM Group, separate impairment accounts are often used to record impairments on trade receivables. In effect, the fundamental default risk (assessment in relation to probability of default) is the decisive factor in the decision as to whether the receivable is recognized in the income statement through derecognition or by means of an impairment account.

8. Cash and bank deposits
Cash and bank deposits are recognized at cost. They comprise cash reserves, bank deposits available on demand and other current, highly liquid financial assets that have terms of a maximum of three months at the time of acquisition. It is indicated if the Group holds a substantial amount of cash and cash equivalents which cannot be disposed of.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

9. Assets held for sale and discontinued operations
CGM Group classifies a non-current asset as held for sale if the majority of the asset's inherent carrying amount is generated through a sale transaction and not through continued usage within CGM Group. CGM Group classifies assets and liabilities as disposal groups if these assets and liabilities are to be sold or otherwise ceded as a group in a single transaction and the criteria of IFRS 5 "Assets Held for Sale and Discontinued Operations" are fulfilled.

Non-current assets (or disposal groups) are classified as assets held for sale if the majority of the associated carrying amount is realized through a sale transaction and not through continued usage. This condition is only considered fulfilled if the non-current asset (or disposal group) is immediately available for sale in its current state and if it is highly likely to be sold. The management must be committed to a sale and it must be assumed that the sale process will be concluded within a period of one year after the classification of the asset as held for sale.

Non-current assets or disposal groups classified as held for sale are recognized at the lower of original carrying amount or fair value minus disposal costs.

Should CGM Group be committed to a sale that leads to the disposal of an investment or a share in an investment in an associate or joint venture, the investment or share in an investment is to be classified as held for sale provided that the aforementioned conditions for assets held for sale have been fulfilled. From this point on, the equity method is no longer used in relation to the share held for sale. Retained shares in an investment in an associate or joint venture that are not classified as held for sale are to be carried in accordance with the equity method as before. CGM Group discontinues the use of the equity method at the time of the disposal of the asset classified as held for sale if the disposal causes the Group to lose a controlling interest in the associate or joint venture.

Following disposal, CGM Group carries all retained shares in the respective associate or joint venture in accordance with the requirements of IAS 39. Should the retained shares mean that an associate or joint venture continues to exist, this represents an exception to this rule and necessitates the continued use of the equity method.

10. Provisions for post-employment benefits
For defined benefit plans, the costs for services rendered are determined on the basis of the projected unit credit method, with an actuarial assessment being carried out at the end of each reporting period. In this method, biometric bases for calculation and the respective, current long-term capital market interest rate, as well as current assumptions regarding future salary and pension increases, are taken into account.

Revaluations consisting of actuarial profits and losses, changes resulting from the application of asset ceilings and income from plan assets (not including interest on net debt) are recognized immediately in other income and are directly included in the balance sheet. The revaluations recognized in other income are part of retained earnings and are no longer reclassified in the income statement.

Past service costs are recognized as expenses as soon as the changes to the pension plan come to fruition and provided that the changes to the pension plan depend on the employees remaining in service for a specified period of time (vesting period).

Net interest is calculated by multiplying the pension interest rate by net debt (pension obligation less plan assets) or, if the plan assets are greater than the pension obligations, by the net asset value at the beginning of the financial year. Defined benefit costs comprise the following components:
– Service cost (including current service cost, past service cost and potential profit or loss from changes or reductions to pension plans)
– Net interest income or expenses from net debt or the net asset value
– Revaluation of net debt or the net asset value

CGM Group recognizes the first two components in the "personnel expenses" item in the income statement. Profits and losses from reductions to pension plans are carried as past service costs.

The provision for defined retirement benefits plans in the consolidated balance sheet corresponds to the present value of the pension commitment on the balance sheet date less the fair value of the plan assets. Any resulting surplus is limited to the present value of future economic benefit, and is available in the form of reimbursements (of contributions) from pension plans or a reduction in future contributions to pension plans.

Contributions to defined contribution pension plans are recognized as expenses in personnel expenses if the employees have performed the services that entitle them to the contributions. Payments for state pension plans are treated as defined contribution plans. CGM Group has no further payment obligations other than the payment of contributions.

11. Provisions for anniversaries
Pursuant to IAS 19.67, provisions for anniversaries are stated in accordance with the "projected unit credit method". The provisions for anniversaries are paid out according to the aging list of the workforce to the respective anniversaries of service of the employees. Based on the current workforce, payments will mainly take place during the next 30 years.

12. Other provisions
Provisions are established for legal and actual obligations that existed as at the balance sheet date or that arose for economic reasons if it is likely that the fulfillment of the obligation will lead to an outflow of funds or an outflow of other resources of the Company, and if there is uncertainty, resulting from estimating inaccuracies, with regard to due dates and amounts.

Measurement is on the basis of the amount of the obligation with the highest degree of probability or, in the case of equal probability, on the expected amount of the obligation. Risks and uncertainties linked to the obligation are to be taken into consideration. Should a provision be measured on the basis of the estimated cash flows from the fulfillment of the obligation, these cash flows are to be discounted if there is a material interest effect.

If it can be assumed that the economic benefit necessary for the fulfillment of the provision, or parts thereof, are to be reimbursed by a third party, CGM Group recognizes this economic benefit as an asset on the condition that it is almost certain that the reimbursement will take place and that the reimbursement amount can be estimated accurately.

a) Onerous contracts
Current obligations in relation to onerous contracts are recognized as provisions. The existence of an onerous contract is assumed if CGM Group constitutes a contractual party in a contract in which it is anticipated that unavoidable costs necessary to fulfill the contract exceed the maximum potential economic benefit.

b) Restructuring
A provision for restructuring expenses is recognized if CGM Group has prepared a detailed, official restructuring plan, which gives those affected the justified impression that the commencement of the plan's implementation or the announcement of its key elements means that the restructuring will be carried out. Only the direct expenses linked to the restructuring are applied to the measurement of the restructuring provision. Therefore, only the expenses incurred as a result of the restructuring are recognized and not the expenses relating to the ongoing business operations of the Group.

c) Guarantees
Provisions for anticipated expenses from guarantee obligations pursuant to national laws governing sales contracts are recognized at the time of the sale of the product concerned. The amount is calculated on the basis of an estimate of expenditure necessary for the Group to fulfill its obligation. If a large number of similar obligations exist, such as for guarantees, the probability of a charge over assets is determined on the basis of this group of obligations. Provisions are also carried under liabilities if the probability of a burden on assets is low in relation to a single obligation contained in this group.

d) Severance payments
A liability for payments resulting from the termination of an employment relationship is recognized when CGM Group can no longer revoke the offer of such benefits. Should severance payments arise in relation to restructuring, the liability for payments resulting from the termination of an employment relationship is recognized at an earlier time (before an offer is submitted).

13. Financial liabilities
CGM Group recognizes financial liabilities when a Group company becomes a contractual party in a financial instrument. Depending on the circumstances, these kinds of liabilities are either classified as financial liabilities recognized at fair value in the income statement or as other financial liabilities.

CGM Group measures financial liabilities at fair value upon addition.

a) Financial liabilities measured at fair value in the income statement
Financial liabilities are classified as financial liabilities measured at fair value in the income statement when they are either held for the purposes of trading or are voluntarily measured at fair value in the income statement.

A financial liability is classified as held for trading purposes, if:
– It was acquired with the primary intention of being bought back in the short term; or
– It is part, at the time of initial recognition, of a portfolio of clearly defined financial instruments managed by CGM Group, for which there has been evidence of short-term profit taking in the recent past; or
– It is a derivative, which is not designed as a hedging instrument, and is effective and does not constitute a financial guarantee.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Other financial liabilities not held for the purposes of trading can be designated at fair value in the income statement at the time of initial recognition, if:
– Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
– The financial liability belongs to a group of financial assets and/or financial liabilities that is managed and measured in accordance with a documented Group risk or investment management strategy on the basis of fair values and on which the internal information flow is based; or
– It is part of a contractual agreement that contains one or more embedded derivatives and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire contract (asset or liability) to be measured at fair value.

In the category "Financial assets at fair value (FVtPL)" the designated financial liabilities are measured at fair value. Therefore, all gains or losses resulting from the measurement are recognized in the income statement. The net profit or loss recognized in the income statement includes interest paid on financial liabilities and is recorded under "Financial income and liabilities".

b) Other financial liabilities
Other financial liabilities, such as loans, trade liabilities and other liabilities are measured at amortized cost using the effective interest method. The effective interest method is used for the calculation of the amortized cost of a financial liability and the allocation of the interest expense to the corresponding period. The effective interest rate is the interest rate at which estimated future cash outflow – including incurred costs and paid or received fees, which are integral parts of the effective interest rate, as well as transaction costs and other premiums or discounts – is discounted on the net carrying amount from initial recognition over the expected term of the financial instrument or for a shorter period.

c) Derecognition of financial liabilities
CGM Group derecognizes a financial liability as soon as the respective obligation is settled, reversed, or expires. The difference between the carrying amount of the derecognized financial liability and the received consideration is recognized in the income statement.

14. Equity
If equity instruments exist, they are recognized at issue earnings less directly attributable issue proceeds. Issue costs include costs that would not have otherwise been incurred had the equity instrument not been issued.

Shares bought back by CGM Group (treasury shares) are to be directly deducted from shareholders' equity. The purchase, sale, issue or cancellation of treasury shares is not recognized in the income statement. All paid or received payments related to treasury shares are recognized directly in equity.

15. Accumulated other income
Changes in equity with no effect on net income are recorded in accumulated other income provided these changes are not based on transactions with shareholders recognized in equity. Changes recorded in other income include differences from currency conversion, unrealized gains and losses from the measurement at fair value of assets held for sale and from derivative financial instruments. Actuarial gains and losses are recorded in equity under provisions in the period in which they are recognized.

16. Derivative financial instruments (in hedge accounting)
CGM Group hedges derivative financial instruments in order to control its interest and exchange rate risks. This includes the conclusion of forward exchange transactions and interest swaps. Derivatives are carried initially at fair value at the time of contract conclusion and subsequently measured at fair value at the end of each reporting period. The gains or losses resulting from the measurement is recognized immediately in the income statement, provided that the derivative is not a hedging instrument as part of designated and effective hedge accounting.

Derivatives included in hedge accounting are generally designated as either:
– hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
– hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
– hedges of a net investment in a foreign operation (net investment hedge).

At the start of hedge accounting, the relationship between the underlying transaction and the hedge is documented, including risk management targets and the corporate strategy behind the conclusion of hedge accounting. In addition, the effectiveness of the hedging derivative designated as part of hedge accounting is documented with regard to compensation for changes to the fair value or to payment flows in the underlying transaction, both when the hedge accounting is commenced and at regular intervals. The recognition of the measurement results in the income statement depends on the type of hedge accounting. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than one year and as a current asset or liability when the remaining maturity of the hedged item is less than one year.

Trading derivatives are classified as non-current assets or liabilities in accordance with IAS 1.68 and IAS 1.71 if they are due after more than one year; otherwise they are classified as current.

If derivatives embedded in non-derivative basis contracts are concluded, CGM Group treats these as freestanding derivatives on the condition that:
– derivative requirements are fulfilled;
– their financial features and risks are not closely linked with the basic contract; and
– the contract as a whole is not measured at fair value in the income statement.

As of December 31, 2016, neither derivatives in the income statement nor derivatives as interest rate hedges exist.

Moreover, forward exchange contracts have been concluded in the reporting period, while at balance sheet date December 31, 2016 no exchange contracts existed.

17. Cash flow hedges
The effective portion of changes in the fair value of derivatives that can be used for cash flow hedges and are designated as such is recognized in other operating income under "Cash flow hedges." Any gains or losses attributable to the ineffective portion are immediately recognized in the financial result in the income statement.

Amounts recognized in other income are reclassified in the income statement in the period in which the underlying transaction is recognized in the income statement. The amounts are recognized under the same income statement item as the underlying transaction. However, if a hedged anticipated transaction leads to the recognition of a non-financial asset or a non-financial debt, the profits and losses previously recorded in other income and in shareholders' equity are derecognized from shareholders' equity and taken into consideration in the initial measurement of the cost of the asset or debt.

The recognition of hedge accounting on the balance sheet ends when CGM Group dissolves, sells, terminates, or exercises the hedging instrument or when the derivative is no longer suitable for hedging purposes. The profits and losses recognized at this time in other income and in shareholders' equity remain in shareholders' equity and are only recognized in the income statement when the anticipated transaction is also carried in the income statement. If the anticipated transaction is no longer expected to occur, all income recognized in shareholders' equity is immediately reclassified in the income statement.

See section "Fair value measurement" for details on the fair values of derivatives used for hedging purposes. As of December 31, 2016, no cash flow hedges existed.

18. Liabilities from government grants
Government grants are recognized according to the gross method on the one hand (for historical reason applied in Italy), i.e. their gross amounts are recognized on the liabilities side, on the other hand they are recognized according to the net method, where investment grands get netted with the respective asset. They exclusively comprise investment grants that are recognized in other income in proportion to the write-downs of the subsidized assets.

19. Leases
Leases are essentially classified as finance leases if all risks and rewards incidental to ownership are transferred to the lessee through the leasing agreement. Leases in which a substantial proportion of all risks and rewards incidental to ownership of an asset remain with the lessor are classified as operating leases.

a) CGM Group as lessee
The Group leases certain items of property, plant and equipment (leased items). Assets in connection with finance leases are capitalized at the beginning of the leasing term at the lower of the fair value of the leased item and the present value of minimum lease payments. Leasing liabilities of the same amount are recognized under non-current liabilities. Each leasing installment is divided into its respective interest and principal components in such a way that the leasing liabilities remain constant. The net lease liability is recorded under non-current liabilities. The interest component of the leasing installment is charged to the income statement so as to produce a constant rate of interest over the term of the lease agreement. Items of property, plant and equipment governed by finance leases are depreciated over the shorter of their economic useful life or the term of the lease.

Payments made in relation to an operating lease are recognized as expenses on a straight-line basis over the duration of the lease. The only exception to this is when another accounting method is more suitable to the pattern of economic benefits for CGM Group. Conditional payments within the scope of an operating lease are recognized as expenses in the period in which they occur.

b) CGM as lessor
If assets are leased under a finance lease, the present value of the minimum lease payments is carried as a lease receivable. Any difference between the gross receivable (minimum lease payment before discounts) and the present value of the receivable is recognized as unrealized financial income. The receipt of differences in amounts is recognized in revenue. Leasing income is recognized over the lease term using the annuity method, reflecting a constant annual return in terms of the lease receivable.

Assets leased by customers within the scope of leasing relationships are recognized in non-current assets. Income from leases is recognized on a straight-line basis over the term of the lease.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

20. Income taxes and deferred taxes

Income tax expenses for the reporting period recognized in the CGM Group income statement consist of the current tax charge and deferred taxes charged in the income statement. CGM Group calculates the current tax charge on the basis of Group companies' taxable income under valid national income tax rates.

In accordance with the requirements of IAS 12, CGM Group recognizes all temporary differences between the tax balance sheet and the consolidated financial statements as deferred taxes. Deferred tax assets on loss carry forwards are recognized as assets in the amount for which it can be assumed that usage will take place in the medium term (five years) permitted under tax law.

Deferred tax assets and liabilities are also formed on the basis of temporary differences resulting from Company acquisitions. One exception to this is temporary differences from goodwill for which no deferred taxes are recognized. If goodwill is taken into account for tax purposes, the recognition of deferred taxes that are not realized before the disposal is performed in the subsequent evaluation.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates unless the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The respective valid national income tax rates for Group companies are used in the calculation of deferred taxes. Income tax rates that are already fixed but will only be applied in future periods are also taken into consideration in the calculation of deferred taxes.

Deferred tax entries generally impact the income statement (with the exception of first-time consolidation) unless they relate to items that are directly recognized in equity or other income. In this case, the taxes are also recognized in equity or other income.

21. Revenue recognition

Revenue from the sale of goods and rights is recorded once the risks and rewards of ownership of the goods and rights have been transferred to the buyer, the transfer of the economic use of the asset is likely and the amount can be reliably established. Revenue from services purchased is recorded as soon as the service is performed. Revenue is not recognized if there are any material risks regarding the receipt of the consideration or the potential return of goods. CGM Group recognizes its revenue less any reductions such as bonuses, rebates or discounts.

Revenue and expenses resulting from manufacturing orders (primarily from the implementation of software solutions in clinics, larger laboratories, social services and rehabilitation centers) are carried according to the percentage of completion method. According to this, Revenue is recognized according to the percentage of completion. The percentage of completion is calculated on the basis of the relationship between the order costs incurred on the respective date and total order costs estimated on the reporting date. Manufacturing orders carried according to the percentage of completion method are recognized on the reporting date at incurred order cost plus the percentage of profit resulting from the percentage of completion. The Revenue generated from manufacturing orders is recognized less received prepayments and invoiced services already settled by the customer in the balance sheet under trade receivables.

Changes to ordered services as well as subsequent services are only taken into account as part of an existing manufacturing order if acceptance on the part of the customer is considered likely and a reliable assessment can be made regarding the amount. Should Revenue from a manufacturing order not be able to be estimated with a sufficient level of certainty, probable revenue is recognized at least up to the amount of incurred costs. Order costs are recognized as expenses for the period in which they are incurred. If it is foreseeable that anticipated order costs will exceed order income, the anticipated loss is recognized immediately as expenses.

Revenue from contracts that contain a number of different elements (multi-component contracts) is recognized if the respective contractual component has been supplied or provided and is based on the objective, relative fair values of each individual contractual component.

The main types of revenue and their recognition are presented below:

Revenue type	Description and income recognition
Software licenses	These include revenue from the sale of software licenses, which are usually subject to a single payment. The license entitles the customer to permanent use of the software. The license fee is contractually fixed and does not trigger any future license payments or usage-dependent invoices. Only software expansion modules trigger further license payments. Income from sales of software licenses is recognized on dispatch.
Software license and other recurring income	This includes revenue from contracts that give customers access to new releases of software products after they have already been supplied. These updates serve to rectify bugs, improve performance and other features and also adapt the software to changes in the usage environment. The contractual relationship for software maintenance also includes hotline support (either via telephone or online). A software maintenance contract usually runs for twelve months and is automatically extended by a further twelve months. Revenue from recurring, transaction-specific services and other long-term services include application service provider services, hosting fees, Internet service provider fees, eServices fees, EDI and compensation payments, receivables management payments, outsourcing agreements, hardware maintenance and repair agreements etc. Customer relationships are usually long-term. Income from software maintenance and other recurring income as well as from support services is booked over the period when the services are rendered.
Professional Services	Revenue from services remunerated on an hourly basis or at contractually agreed fixed prices falls under the "Services" revenue type. Activities performed on behalf of customers include project management, analysis, training, system configuration, customer-specific programming as well as hardware maintenance and repair work. Income from services to be remunerated on an hourly basis is recognized upon completion of the service. Income from service components as part of manufacturing and other service contracts is recognized according to the degree of completion of the project (percentage of completion method).
Hardware	Revenue from the sale of hardware and infrastructure components, such as PCs, servers, monitors, printers, switches, racks, network components, etc. This income is recognized immediately after the hardware components are dispatched. This does not apply to contractually fixed hardware components within the scope of manufacturing orders, which are recognized in the project as a whole according to the degree of completion (percentage of completion method).
Advertising, eDetailing and data	This includes revenue from paid advertising content and communications services relating to software or other media. It also includes revenue from software services and associated services supporting the sales process of pharmaceutical companies. Revenue from the collation, organization and provision of data (i.e. blacklists) for service providers in the healthcare sector (e.g. health insurances, pharma companies) is attributed to this income type. Income from advertising, eDetailing and data that take the form of a continuing obligation is booked over the period when the services are rendered. Income from services to be remunerated on an hourly basis is recognized upon completion of the service.
Software assisted medicine (SAM)	This includes revenue from healthcare management and associated services. In addition, revenue that originates from the use of special software modules (i.e. software supporting medical decision-making) in physician's offices, hospitals, networks of physician's offices and hospitals, health insurance providers, patient networks, etc. is allocated to this revenue type. Income from health management services to be remunerated on an hourly basis is recognized upon completion of the service. Income from sales of SAM software licenses is recognized immediately after they are dispatched. Income from software maintenance and other recurring income in SAM is booked over the period when the services are rendered.
Other revenue	This comprises all revenue that cannot be attributed to any of the aforementioned categories. Income recognition is carried out on a case-by-case basis in compliance with the relevant IFRS requirements.

Interest revenue is posted to the correct accounting period based on the outstanding loan balance and the applicable interest rate. The applicable interest rate is the interest rate calculated on the estimated future cash to be received over the term of the financial asset and the net carrying amount of the financial asset.

Dividend income from investments is recorded when the shareholder (the Company) is entitled to payment.

22. Deferred income

Deferred income is recognized in compliance with the basic revenue recognition criteria as software license income, software maintenance, and other recurring income, income from advertising, e-detailing and data, and income from Software Assisted Medicine (SAM) in the income statement. This is typically the case when the related services are rendered.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

23. Earnings per share
Undiluted earnings per share equate to the sum of the net result attributable to the shareholders of CompuGroup Medical SE divided by the weighted average of the number of issued shares. If new shares are issued or bought back during the reporting period, this calculation is carried out pro rata based on the shares in circulation during the given period. There are no instruments that could potentially dilute earnings per share.

24. Segment reporting
The segment reporting of CGM Group is aligned with the internal organizational and reporting structure in accordance with the so-called "management approach". The data and financial information used to determine internal management parameters is derived from the consolidated financial statements of CGM Group prepared in accordance with IFRS accounting principles.

25. Use of accounting estimates and management judgments
The preparation of consolidated financial statements under IFRS requires that assumptions are made and estimates are applied. These have an effect on the amount and reporting of recorded assets and liabilities, income and expenses, and contingent liabilities of the reporting period. The main estimates and judgments in preparing the consolidated financial statements are discussed below:

a) Purchase price allocations and company acquisitions
Assumptions and estimates are particularly made as part of the purchase price allocations for the purchase of companies. The determination of the value of capitalized software is based upon the relief from royalty method, customer relationships as per the multi-period excess earnings method, and trademark rights using the relief from royalty method. Estimates are also used to support the calculation of the depreciation of identified undisclosed reserves.

b) Estimated impairment of goodwill
An assessment of the recoverable amount for goodwill is carried out both annually and as soon as there is any evidence for an impairment of goodwill; it is based upon budget calculations for the CGU over the next five years using a discount rate reflecting any specific Company risk. CGM Group determines the recoverable amount from either the fair value less disposal costs or the value in use, whichever is greater. However, the management of CGM Group believes that the assumptions used in the calculation of the recoverable value are suitable, unforeseeable changes in these assumptions would lead to an impairment charge which could have negative implications on the net assets, financial position and results of operations of CGM Group.

c) Recoverable amount of assets
CGM Group assesses whether there is evidence of impairment of property, plant, and equipment or an intangible asset (also including intangible assets from capitalized in-house services software) at the end of every reporting period. The recoverable amount of the corresponding asset is determined using the best possible estimate of the input parameters. Similarly, to the recoverable goodwill test, the recoverable amount equates to the fair value less disposal costs or the value of use, whichever is greater. The recoverable amount is determined on the basis of budget calculations for the cash flows of the relevant asset over the next five years using a discount rate reflecting any specific Company risk. However, the management of CGM Group believes that the assumptions used in the calculation of the recoverable amount are suitable with regard to the economic climate and the development of the sector, changes in the underlying parameters could lead to an adjustment of recoverable value analysis for the asset concerned. This could lead to further impairments but also reversed impairments in future periods should the underlying assumptions and estimates set by the management prove to be unsuitable.

d) Useful life of property, plant and equipment
As explained in this section under "Property, plant and equipment", CGM Group reviews the suitability of the estimated useful lives of property, plant and equipment at the end of each reporting period. This results in reassessments in relation to the remaining economic useful life. Changes resulting in a reassessment of the economic useful life can ensue due to changing market conditions (e.g. fall in prices) or general technological advances.

e) Assessment of the probability of other provisions
The recognition and measurement of other provisions on the basis of the best possible assessment of the probability of future outflow of resources as well as by means of empirical values in consideration of known circumstances as of the reporting date can cause the actual outflow of resources to deviate from the other provisions formed to this effect.

f) Provisions for post-employment benefits
The present value of the pension obligation is dependent on a number of factors which, in turn, are based on actuarial assumptions. The assumptions used to determine these net expenses (and income) include the pension interest rate. Any change in this assumption will have an effect on the present value of the obligation.

g) Income recognition from manufacturing orders
As part of their business operations, some of the CGM Group consolidated subsidiaries conclude manufacturing orders that are carried using the percentage of completion method (PoC). Revenue is therefore recognized according to the degree of project completion, applying the cost-to-cost method. The application of the percentage of completion method requires a precise assessment of project progress in relation to the project as a whole. Assessments must be made on anticipated costs for the rest of the project, total order income, inherent order risks and all other relevant factors. CGM Group regularly reviews the suitability of assessments made for the purposes of recognizing income from manufacturing orders and, if necessary, makes the necessary adjustments on the basis of any new findings.

h) Income taxes
Management also has to make estimations and assumptions when calculating current and deferred taxes. Deferred tax assets are assessed at the value at which the recoverability of future tax benefits is judged probable. The actual value of deferred tax assets is dependent upon the actual future taxable income situation. This can vary from the estimate made at the time when the deferred tax asset was first capitalized. Various factors are used to assess the probability of the future utilization, including past operating results, operational planning, loss carry forward periods and tax planning strategies.

i) Fair value of derivative and other financial instruments
The measurement of interest rate derivatives includes expectations about future interest rates as well as the assumptions upon which these expectations are based.

Further explanations regarding the assumptions and estimates made which support these consolidated financial statements are included in the disclosures on the individual line items of the year-end accounting records.

Discretionary decisions have to be taken when applying accounting and measurement methods. These decisions are constantly reassessed and are based on historical experiences and expectations in respect of future events that can be considered reasonable under the given circumstances.

This applies especially with regard to the following issues:
- The determination of the fair values of assets and liabilities acquired as part of a business combination, as well as of the useful lives of the assets is based on management's judgment.
- With regard to assets held for sale, it must be determined if they can be sold in their current condition and if the sale of such is highly probable.
- Financial assets are categorized as either "financial assets recognized at fair value in the income statement", "loans and receivables", or as "financial assets available for sale".

j) Measurement of individual non-current assets held for sale
Basically, assets held for sale are recognized at the lower of carrying amount or fair value minus disposal costs. To determine the fair value less disposal costs, estimates and assumptions are used, which may be subject to various uncertainties.

All assumptions and estimates are based upon the circumstances that exist as of the balance sheet date. Actual future circumstances can, of course, deviate from these estimates and assumptions. If such a deviation occurs, the assumptions are adjusted and, if necessary, the carrying amount of the impacted asset or liability is changed accordingly.

All amounts in the consolidated financial statements are stated in thousands of EURO (EUR '000) unless otherwise stated. Smaller deviations in absolute figures and in the calculation of percentages may occur due to rounding.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

E. Explanation of items on the statement of financial position and income statement

1. Intangible assets

a) Development of intangible assets

Development of intangible assets were as follows in 2016:

	Purchase or manufacturing costs						Book value	
EUR '000	01.01.2016	Additions from acquisitions	Other additions	Disposals and transfers	Exchange rate differences	31.12.2016	31.12.2016	31.12.2016
Goodwill	**273,860**	2,464	153	0	907	**277,384**	**261,999**	**262,861**
Acquired software	**242,987**	125	1,793	-16,052	-509	**228,344**	**41,510**	**47,625**
Customer relationships	**225,157**	8,074	25	-70	1,835	**235,021**	**157,272**	**160,571**
Brands	**31,007**	489	13	131	120	**31,760**	**10,807**	**13,171**
Order backlogs	**9,834**	0	0	-719	0	**9,115**	**377**	**665**
Prepayments on software	**6,683**	0	3,643	-4,470	-23	**5,833**	**5,583**	**6,433**
Capitalized in-house services	**80,630**	0	11,093	0	73	**91,796**	**60,643**	**52,641**
Total	**870,158**	**11,152**	**16,720**	**-21,180**	**2,403**	**879,253**	**538,191**	**543,967**

The other additions include additions amounting to EUR 219 thousand, which result from the finalization of purchase price allocations from company acquisitions made during 2015.

Development of intangible assets were as follows in 2015:

	Purchase or manufacturing costs						Book value	
EUR '000	01.01.2015	Additions from acquisitions	Other additions	Disposals and transfers	Exchange rate differences	31.12.2015	31.12.2015	31.12.2015
Goodwill	254,385	17,375	348	0	1,751	273,860	262,861	244,456
Acquired software	227,533	4,253	1,905	7,369	1,927	242,987	47,625	49,464
Customer relationships	206,006	17,441	0	-86	1,796	225,157	160,571	154,486
Brands	29,691	822	1	86	407	31,007	13,171	15,245
Order backlogs	8,866	849	0	0	119	9,834	665	84
Prepayments on software	10,727	0	3,431	-7,420	-55	6,683	6,433	10,463
Capitalized in-house services	68,842	0	12,208	-264	-156	80,630	52,641	43,344
Total	**806,050**	**40,740**	**17,894**	**-315**	**5,789**	**870,158**	**543,967**	**517,542**

All amortization of intangible assets are recognized in the income statement.

The complete development of intangible assets is disclosed in the separate appendix to the Notes "Changes in intangible assets and property, plant and equipment in 2016".

The positions software and prepayments on software include the SAP-system of CGM Group. Due to a sale and lease back agreement, the legal ownership of the SAP-system is restricted, as the accounting of the SAP-system is based solely on the beneficial ownership. At the end of the minimum lease term, the leasing company holds the exploitation rights of the SAP-system. The current carrying amount of the respective assets at the balance sheet date is EUR 16,793 thousand (previous year: EUR 15,114 thousand).

b) Goodwill

The goodwill is allocated to cash-generating units (CGUs) as follows:

CGU	01.01.2016 EUR '000	Additions due to changes in scope of consolidation EUR '000	Other additions EUR '000	Disposals EUR '000	Impairment EUR '000	Reclassifica-tions EUR '000	Exchange rate differences EUR '000	**31.12.2016 EUR '000**
Lauer-Fischer	30,813	0	0	0	0	0	0	**30,813**
CGM Deutschland	30,618	0	0	0	0	0	0	**30,618**
CGM Sweden	29,690	0	0	0	0	0	-1,128	**28,562**
CGM US	26,309	0	0	0	0	0	863	**27,172**
Systema HIS	14,304	0	0	0	0	0	0	**14,304**
CGM Italy	12,822	0	0	0	0	0	0	**12,822**
CGM Norway	10,915	0	0	0	0	0	621	**11,536**
Imagine Editions	9,517	0	0	0	0	0	0	**9,517**
ifap	9,290	0	0	0	0	0	0	**9,290**
CGM Denmark	8,357	300	0	0	0	0	32	**8,689**
CGM Systema Deutschland	7,640	0	0	0	0	2,643	0	**10,283**
CGM Netherlands	7,294	0	0	0	0	0	0	**7,294**
CGM Österreich	5,975	0	0	0	0	0	0	**5,975**
CGM LAB International	4,076	0	0	0	-4,076	0	0	**0**
CGM LAB Sweden	4,455	0	0	0	0	0	-169	**4,286**
Turbomed Vertriebs und Service	3,548	692	0	0	0	0	0	**4,240**
Sales and Service Pharmacy Italy (previous year Qualita in Farmacia)	4,143	1,427	0	0	0	4,576	0	**10,146**
Innomed	3,789	0	0	0	0	0	0	**3,789**
CGM Solution	4,479	0	0	0	0	0	0	**4,479**
Medical EDI Services	4,051	0	0	0	0	0	699	**4,750**
CGM Dentalsysteme	2,905	0	0	0	0	0	0	**2,905**
Stock	2,547	0	0	0	0	0	0	**2,547**
CGM Belgium	2,342	0	0	0	0	0	0	**2,342**
Compufit	2,500	0	182	0	0	0	0	**2,682**
HCS	2,258	0	0	0	0	0	0	**2,258**
Studiofarma	2,168	0	0	0	0	0	0	**2,168**
Medicitalia	2,677	0	-6	0	0	0	0	**2,671**
Labelsoft Clinical IT	1,715	0	-19	0	0	0	0	**1,696**
CGM Ceska republika	1,381	0	0	0	0	0	0	**1,381**
Intermedix Deutschland	1,147	0	0	0	0	0	0	**1,147**
CGM Schweiz	27	0	0	0	-27	0	0	**0**
Meditec	686	0	0	0	0	0	0	**686**
Intermedix France	543	0	0	0	0	0	0	**543**
CGM France	284	0	0	0	0	0	0	**284**
CGM Turkey	76	0	0	0	0	0	-11	**65**
CGM Poland	14	0	0	0	0	0	0	**14**
LMZ Soft	2,643	0	0	0	0	-2,643	0	**0**
OWL Computer	0	45	0	0	0	0	0	**45**
Farma3Tec S.r.l./Mondofarma S.r.l. (incl. FARMATICA S.r.l.)	4,576	0	0	0	0	-4,576	0	**0**
Medigest Consultores	287	0	-4	0	-283	0	0	**0**
Total	**262,861**	**2,464**	**153**	**0**	**-4,386**	**0**	**907**	**261,999**

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

In contrast to the previous year, Qualità in Farmacia and Farma3Tec/Mondofarma are summarized in one CGU Sales and Service Pharmacy Italy, together with the in 2016 acquired Vega Informatica e Farmacia, because all sales and services activities are bundled in a single organizational unit under a single management. As a consequence, the management of the CGM Group expects synergistic effects based on a uniform and standardized sales structure.

The additions from the change of the scope of consolidation concern to business combinations by acquisition of common stock (share deal) as well as business combinations by acquisition of net assets (asset deal).

Due to the respectively single management and economic accountability, the acquisition of Micromedic GmbH as well as the acquisition of the Equus system from the company MIBIT Aps, Denmark (asset deal) are allocated to existing CGUs. The acquisition of Micromedic GmbH is allocated to CGU Turbomed Vertriebs and Service, while acquisition of Equus system is allocated to CGU CGM Denmark. Apart from that, the additions include the acquisition of OWL Computer.

The other additions generally include adjustments, which arise from the finalization of purchase price allocation from the previous year. These concerns in 2016 to adjustments of the purchase price allocations made in 2015 for the companies Medicitalia S.r.l., Italy, Compufit BVBA, Belgium, CareTrace B.V., Netherlands, and Medigest Consultores S.L., Spain. For details, please refer to chapter C. 5. c) "Change of purchase price allocation 2015".

The transfers arise as a result from changes in the organization of the cash-generating units by mergers. As result of the merger and restructuring processes, the merged cash generating units are assigned each to a single management and are economically fully integrated. Consequently, the goodwill of the CGU LMZ from now on is allocated to the CGU CGM Clinical Deutschland.

During the financial year 2016, CareTrace B.V. merged into Labelsoft Clinical IT B.V. and Farmatica S.r.l. merged into Mondofarma S.r.l.. These mergers had no effect on the composition of the cash-generating units since CareTrace B.V. and Labelsoft Clinical IT B.V. as well as Farmatica S.r.l. and Mondofarma S.r.l. were each cash-generating units before.

Due to the mergers within CGM Group, management of CGM Group expects synergies as well as efficiency gains because of a holistic market coverage in the respective countries.

As result of the annual goodwill impairment testing, impairment losses for the CGUs CGM LAB International, CGM Schweiz and Medigest Consultores were recognized.

Divestitures from the Group did not take place during the reporting period.

c) Impairment test of goodwill

For the purpose of impairment testing, goodwill is allocated to the cash generating unit (CGU) or a group of cash generating units that is expected to benefit from the synergies of the business combination. CGM Group defines CGU on basis of related business units and regions. Here, customer groups, market coverage and responsibility of management play a major role.

The discounted future cash flows of the CGUs, discounted by using the DCF method, are determined on the base of the Budget 2016 for the financial position and performance and then verified by using historical values. Subsequently, the results are extended by four additional years using individual planning assumptions per CGU that reflect the Company's future development under current conditions. After the five-year planning period, a perpetuity value is calculated using a conservative Group-wide growth rate of 1 percent. To determine the present value of future cash flows, a discount rate based on WACC (Weighted Average Cost of Capital) is applied. The following table provides information on key assumptions used to compile the business plan:

Explanation of assumptions of corporate budgeting

Description of key assumptions of budgeting	Approach used to determine key assumptions
– Expected development of customer revenue (new customer, cross-selling-activities, winning of public tender).	Internal estimates referring to past experiences as well as expected market trends or market analysis. On availability, external market studies were considered.
– Expected possible price increase for existing customers affecting recurring revenue.	
– Use of current and historical organic growth rates for Business Units or Segments.	
– Consideration of regulatory changes affecting the development of a Business Unit.	
– Development of purchased services based on current circumstances (e.g. based on contracts, strategic businesses) as well as the anticipated development of the sales activities.	
– Expected development of personnel expenses and other operating expenses, based on future personnel requirement, contractual matters (e.g. labor agreements) and statistic procedures (e.g. inflation).	

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The individual growth assumptions included here for calculating the 2015 and 2016 recoverable amounts of individual CGUs are as follows. The EBITDA margin resulting from the assumed growth projections is also listed to illustrate the plausibility of the assumptions made
.

	EBITDA-Margin				Growth rate			
	2016		2015		2016		2015	
	Year 1	Following years	Year 1	Following years	Year 1	Following years	Year 1	Following years
Lauer-Fischer	21.8%	22.8%	15.8%	16.0%	0.5%	3.5%	2.2%	2.8%
CGM Deutschland	33.4%	34.1%	30.4%	31.8%	28.0%	3.2%	4.1%	4.2%
CGM Sweden	10.8%	13.3%	27.5%	27.5%	1.0%	3.1%	-2.4%	1.2%
CGM US	16.0%	16.8%	12.9%	18.7%	10.5%	2.4%	7.7%	3.6%
CGM Denmark	36.4%	36.9%	27.7%	27.8%	0.1%	2.2%	0.2%	3.7%
CGM Clinical Österreich (Systema HIS)	17.4%	18.4%	16.1%	16.8%	-6.6%	2.4%	-5.4%	3.3%
CGM Italy	41.8%	43.5%	45.0%	47.2%	13.9%	3.6%	8.1%	4.6%
Qualità in Farmacia S.r.l.	13.0%	14.0%	11.4%	11.9%	8.7%	3.0%	22.5%	3.3%
Studiofarma	21.5%	21.5%	25.7%	26.6%	27.1%	1.6%	4.4%	3.4%
Intermedix Deutschland GmbH	33.2%	33.4%	25.4%	24.3%	0.2%	2.4%	-6.6%	1.7%
Meditec GmbH	27.1%	29.3%	27.7%	28.8%	-3.0%	3.8%	8.6%	4.5%
CGM Norway	1.1%	8.4%	0.7%	15.1%	-6.3%	3.2%	-4.3%	4.0%
Ifap	25.1%	24.4%	30.8%	32.3%	1.0%	1.1%	5.0%	3.7%
CGM Österreich	31.8%	33.5%	28.8%	31.7%	3.8%	3.3%	3.7%	4.9%
CGM Turkey	19.0%	9.0%	9.0%	16.5%	-21.0%	-1.0%	-30.1%	-2.0%
Innomed	47.6%	48.8%	47.6%	49.5%	9.7%	3.3%	20.7%	4.9%
CGM Solution	50.1%	52.0%	51.2%	53.3%	13.1%	3.7%	5.1%	4.8%
Imagine Editions SAS	25.9%	28.4%	38.0%	39.3%	13.3%	3.7%	4.0%	3.7%
CGM Netherlands	27.6%	28.2%	28.6%	30.5%	9.9%	2.2%	8.6%	5.0%
CGM Dentalsysteme	40.8%	41.2%	42.4%	44.1%	9.2%	2.2%	4.6%	4.4%
CGM Belgium	22.6%	25.1%	42.8%	44.1%	17.1%	3.7%	21.3%	4.5%
HCS	33.6%	35.3%	25.8%	27.8%	22.0%	3.4%	3.3%	4.8%
CGM Ceska republika	29.2%	31.1%	49.0%	49.4%	4.2%	3.5%	2.0%	4.5%
Turbomed Vertriebs- und Service	6.7%	9.2%	5.9%	8.8%	29.3%	4.2%	21.0%	4.8%
LMZ Soft AG	–	–	8.7%	18.7%	–	–	-12.3%	7.7%
CGM LAB International	-29.4% – 16.9%	-17.8% – 18.5%	-0.7%	7.1%	-6% – 7.8%	3% – 7.9%	29.7%	5.8%
Labelsoft Clinical IT B.V.	8.6%	12.9%	25.0%	28.4%	0.4%	4.7%	-5.2%	5.0%
Farma3Tec S.r.l./Mondofarma s.r.l.	10.6%	11.6%	8.0%	12.5%	-0,8%	3.0%	1.2%	5.4%
Medical EDI Services (Pty) lrd.	34.7%	36.5%	45.4%	51.4%	13.5%	-1.0%	-7.5%	-7.8%
Medicitalia S.r.l.	27.3%	34.9%	28.6%	47.8%	29.5%	11.9%	40.3%	18.1%
Stock-Gruppe	12.8%	15.4%	24.6%	27.0%	3.8%	3.4%	4.0%	4.1%
Compufit BVBA	34.9%	37.2%	30.6%	32.5%	9.9%	3.7%	0.6%	3.9%
CGM Systema Deutschland	4.1%	4.9%	8.2%	9.5%	-0.4%	2.3%	6.3%	3.5%
CGM Poland	11.6%	12.5%	11.3%	12.9%	84.5%	0.0%	-5.2%	0.8%
CGM Schweiz	–	–	-2.7%	0.9%	–	–	4.0%	5.8%
CGM LAB Sweden	28.0%	30.1%	23.8%	22.9%	4.4%	3.0%	13.0%	1.8%
Intermedix France SAS	51.3%	51.2%	31.6%	32.7%	1.0%	2.4%	11.5%	5.0%
Medigest	-2.7%	0.0%	–	–	28.8%	3.5%	–	–
OWL	38.2%	40.3%	–	–	56.2%	14.1%	–	–
Vega	18.4%	23.7%	–	–	–	2.1%	–	–
CGM France	7.6%	9.2%	9.5%	11.6%	3.8%	3.7%	5.9%	4.8%

The discount rates (WACC) used to calculate the recoverable amounts for 2016 and 2015 have been divided into WACC after tax and WACC before tax as follows:

	WACC (after tax)		WACC (before tax)	
	2016	2015	2016	2015
Lauer-Fischer	7.5%	8.6%	12.2%	11.8%
CGM Deutschland	7.5%	8.6%	12.3%	11.7%
CGM Sweden	7.5%	8.6%	10.3%	10.7%
CGM US	7.5%	8.6%	14.0%	13.0%
CGM Denmark	7.5%	8.6%	10.5%	11.0%
CGM Clinical Österreich (Systema HIS)	8.1%	8.6%	12.0%	11.0%
CGM Italy	10.2%	11.5%	17.5%	16.0%
Qualità in Farmacia S.r.l.	10.2%	11.5%	17.4%	16.2%
Studiofarma	10.2%	11.5%	17.6%	16.2%
Intermedix Deutschland GmbH	7.5%	8.6%	12.4%	11.9%
Meditec GmbH	7.5%	8.6%	12.1%	11.8%
CGM Norway	7.5%	8.6%	10.3%	10.9%
Ifap	7.5%	8.6%	12.6%	11.8%
CGM Österreich	8.1%	8.6%	12.0%	11.0%
CGM Turkey	11.0%	11.9%	11.0%	14.3%
Innomed	7.5%	8.6%	12.1%	11.0%
CGM Solution	8.2%	9.2%	14.9%	13.1%
Imagine Editions SAS	8.2%	9.2%	14.7%	13.2%
CGM Netherlands	7.5%	8.6%	11.1%	11.0%
CGM Dentalsysteme	7.5%	8.6%	12.4%	11.7%
CGM Belgium	8.4%	9.5%	15.2%	13.7%
HCS	8.1%	8.6%	12.0%	11.0%
CGM Ceska republika	8.5%	9.7%	11.3%	11.6%
Turbomed Vertriebs- und Service	7.5%	8.6%	11.7%	11.4%
LMZ Soft AG	–	8.6%	–	11.4%
CGM LAB International	7.5% – 8.4%	8.6%	7.5% – 15.4%	11.0%
Labelsoft Clinical IT B.V.	7.5%	8.6%	10.5%	11.0%
Farma3Tec S.r.l./Mondofarma s.r.l.	10.2%	11.5%	17.3%	15.5%
Medical EDI Services (Pty) lrd.	10.2%	11.5%	18.3%	15.8%
Medicitalia S.r.l.	10.2%	11.5%	16.3%	15.4%
Stock-Gruppe	7.5%	8.6%	11.8%	11.7%
Compufit BVBA	8.4%	9.5%	15.4%	13.7%
CGM Systema Deutschland	7.5%	8.6%	12.0%	11.7%
CGM Poland	8.7%	9.9%	11.7%	11.9%
CGM Schweiz	–	8.6%	–	10.0%
CGM LAB Sweden	7.5%	8.6%	10.4%	10.7%
Intermedix France SAS	8.2%	9.2%	15.2%	13.2%
Medigest	10.2%	–	13.7%	–
OWL	10.2%	–	14.9%	–
Vega	10.2%	–	17.4%	–
CGM France	8.2%	9.2%	14.4%	12.9%

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

In 2016 impairment losses by EUR 4,386 thousand (including exchange rate effects) are recognized for the CGUs "CGM LAB International", "CGM Schweiz" and "Medigest Consultores", which increase amortization of intangible assets in the financial year accordingly. The impairment loss for CGU "CGM Schweiz" resulted from continuous negative business performance. In the case of the CGU "CGM LAB International" and CGZ "Medigest Consultores", impairment losses incurred in spite of positive long-term growth assumptions, as these growth assumptions were not sufficient to guarantee a value in excess of the book value in relation to the assets and liabilities concerned. The impairments for these CGUs are made entirely in goodwill.

All other impairment tests showed a value in excess of the book value and did not result in any further impairment of goodwill in the 2016 financial year.

A 0.5 percentage point lower growth rate in the perpetuity value would result in an impairment loss of EUR -1.2 million. If the growth rate were 0.5 percentage points lower, the Group-wide surplus would be reduced by EUR 96.5 million.

A 1 percentage point increase in WACC would necessitate impairment of EUR -5.0 million. With a 1 percentage point increase in WACC, Group-wide coverage would be reduced by EUR 245.4 million.

A 2 percentage point higher WACC would result in an impairment of EUR -15.9 million. The Group-wide surplus would then be reduced by EUR 458.8 million.

Impairment losses that would arise from a change in the WACC and the growth rate of the perpetuity value were allocated as shown in the following table:

EUR '000	Surplus of recoverable amount (Headroom)	Lower growth rate by 0.5% in the terminal value	Higher cost of capital (WACC) by 1.0 percent	Higher cost of capital (WACC) by 2.0 percent
Stock	389	0	-483	-1,148
Medicitalia	25	-137	-382	-714
Labelsoft	17	-463	-1,086	-1,927
CGM Schweden	7,552	0	0	-5,591
CGM Norway	717	-422	-1,899	-3,893
CGM US	18,750	0	0	-163
Turbomed Vertriebs- und Service	554	-182	-1,132	-2,418
Total	**28,004**	**-1,205**	**-4,982**	**-15,854**

d) Acquired software, customer relationships and brands

Acquired software, customer relationships and brands, along with goodwill, constitute the bulk of intangible assets of CompuGroup Medical SE. The following table provides an overview of these assets as well as their useful lives:

	31.12.2016 EUR '000	31.12.2015 EUR '000	Amortization until
Acquired software from acquisitions for distribution to customers:			
CGM Sweden	0	1,104	30.06.2016
CGM Norway	0	398	30.06.2016
CGM Denmark	159	433	28.02.2021
Lauer-Fischer	5,612	6,557	30.06.2021
CGM US (ehemals Visionary Gruppe)	1,709	2,561	31.08.2020
Systema HIS	3,425	4,223	31.08.2021
CGM Turkey	0	564	31.12.2016
CGM US (ehemalige Noteworthy Gruppe)	1,513	2,142	28.02.2019
CGM US (ehemalige Healthport)	0	106	31.12.2016
CGM Netherlands	1,923	2,286	31.12.2018
CGM LAB International	4,660	5,049	31.12.2028
Imagine-Gruppe	1,614	1,809	31.12.2023
Labelsoft	648	850	30.09.2024
MED EDI	1,098	1,082	31.12.2022
Stock	667	761	30.04.2025
Compufit	555	620	31.03.2023
Other	17,926	17,078	
Total acquired software	**41,510**	**47,624**	
Acquired customer relationships:			
CGM Sweden	13,558	14,838	30.06.2038
CGM Norway	5,757	5,700	30.06.2038
CGM Denmark	5,549	4,379	30.06.2038
CGM US (ehemals Visionary Gruppe)	21,192	21,590	31.08.2040
CGM Netherlands	10,823	11,318	31.12.2030
Innomed	7,375	7,942	31.12.2029
CGM Italy (inkl. Effepieffe)	5,516	6,201	30.06.2029
CGM US (ehemalige Healthport)	4,149	4,712	31.12.2024
Lauer-Fischer	12,427	13,065	30.06.2036
CGM Clinical Deutschland	3,224	3,229	30.06.2028
CGM LAB International	7,897	8,239	31.12.2043
Qualita in Farmacia (inkl. Puntofarma)	3,521	3,416	31.07.2026
Imagine-Gruppe	10,537	11,156	31.12.2033
MED EDI	6,477	6,075	31.12.2026
FARMA3TEC	3,990	4,694	31.08.2022
Vega	4,750	–	31.08.2031
Micromedic	1,498	–	30.09.2029
Other	29,032	34,017	
Total acquired customer relationships	**157,272**	**160,571**	

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

	31.12.2016 EUR '000	31.12.2015 EUR '000	Amortization until
Acquired brands:			
CGM US (ehemals Visionary Gruppe)	**1,148**	1,667	31.08.2018
Lauer-Fischer	**1,709**	2,088	30.06.2021
CGM Clinical Österreich	**1,658**	2,000	31.08.2021
CGM Sweden	**622**	835	31.12.2020
CGM Netherlands	**426**	671	31.12.2017
CGM Clinical Deutschland	**583**	756	30.08.2019
CGM LAB International	**2,069**	2,191	31.12.2033
Vega	**330**	–	31.08.2024
Other	**2,262**	2,963	
Total acquired brands	**10,807**	**13,171**	
Acquired order backlog:			
Stock-Gruppe	**362**	634	30.04.2018
Other	**14**	30	
Total acquired order backlog	**376**	**665**	

In 2016, as in 2015, there were no changes to the underlying useful lives of intangible assets.

e) Capitalized in-house services
In the 2016 financial year, EUR 10,318 thousand of in-house services (software development) were capitalized pursuant to the requirements of IAS 38 (previous year: EUR 9,630 thousand). These were valued at directly attributable production costs. In accordance with IAS 23 borrowing costs related to capitalized in-house services in the amount of EUR 774 thousand (previous year: EUR 2,578 thousand) were additional capitalized. The decrease of the capitalized borrowing costs is mainly due to significantly lower interest rate and one-off effects in the previous year. Amortization of capitalized in-house services was EUR 3,172 thousand (previous year: EUR 1,139 thousand) in the reporting period.

For more information about changes to intangible assets, refer to the separate appendix to the Notes "Changes in intangible assets and property, plant and equipment in the 2016 financial year".

f) Cumulative impairment charges
Intangible assets include cumulative impairment losses on goodwill from the 2008 to 2016 financial years in the amount of EUR 15.4 million; taking into account exchange rate effects as at balance sheet date. In the following, the individual items are described, which have led to impairments losses, using the historical exchange rates.

The impairment loss in the 2008 financial year relates to CGU CGM Turkey (formerly "Tepe International") and is broken down as follows: cooperation agreement EUR 5.9 million, software EUR 0.8 million and goodwill EUR 1.4 million (this asset was already depreciated in previous years due to permanently negative business development).

The impairment charge in 2012 resulted from an extraordinary impairment loss of EUR 1.0 million on goodwill for CGU CGM South Africa.

In the 2013 financial year, an extraordinary impairment loss of goodwill in the amount of EUR 0.9 million was recorded in CGU CGM Malaysia. Furthermore, the goodwill attributable to the "online portals" and "publishing business" segments, which are held for sale and classified as disposal groups, was impaired by EUR 0.2 million in the 2013 reporting year because the expected selling price (fair value less selling costs) was below the net of the attributable asset values of the business segments held for sale.

For the 2014 financial year, losses from impairments to goodwill came to a total of EUR 1.6 million, EUR 1.2 million of which was attributable to CGU Tekne and EUR 0.4 million to CGU CGM Slovensko.

Extraordinary impairment loss of goodwill in the amount of EUR 1.4 million was recorded, which was attributable to CGU CGM Switzerland (EUR 1.1 million) and CGU Farma3Tec/Mondofarma (EUR 0.3 million).

For 2016 extraordinary impairment charge of goodwill amounted to EUR 4.4 million, thereof EUR 4.1 million for CGU "CGM LAB International", EUR 0.3 million for CGU "Medigest Consultores" and EUR 27 thousand for CGU "CGM Switzerland".

Furthermore, the position "goodwill" includes amortization of EUR 5.4 million that resulted from financial years before the IAS/IFRS conversion.

g) Intangible assets from company acquisitions
The following additions to software, customer relationships and brands resulted from business combinations during the 2016 reporting period:

	Vega Informatica e Farmacia S.r.l. EUR '000	Micromedic GmbH EUR '000	System Equus (MiBit) EUR '000	Other acquisitions EUR '000
Software	0	0	115	10
Customer relationships	4,858	1,528	1,314	374
Brands	344	99	30	16
Order backlog	0	0	0	0
Total	**5,202**	**1,627**	**1,459**	**400**

2. Property, plant and equipment
Overview of the development of property, plant and equipment 31 December 2016:

	Purchase and production costs						Book value	
EUR '000	01.01.2016	Additions from acquisitions	Additions	Disposals and transfers	Exchange rate differences	31.12.2016	31.12.2016	01.01.2016
Land and buildings	**52,416**	0	6,696	-1,064	-64	**57,985**	**46,691**	**41,815**
Other facilities, furniture and office equipment	**49,865**	150	13,465	-5,998	163	**57,645**	**24,281**	**17,483**
Payments on account and assets under construction	**1,151**	0	2,951	-1,167	0	**2,935**	**2,880**	**1,096**
Total	**103,433**	**150**	**23,112**	**-8,229**	**99**	**118,565**	**73,851**	**60,394**

Overview of the development of property, plant and equipment 31 December 2015:

	Purchase and production costs						Book value	
EUR '000	01.01.2015	Additions from acquisitions	Additions	Disposals and transfers	Exchange rate differences	31.12.2015	31.12.2015	01.01.2015
Land and buildings	53,532	350	303	-1,841	72	52,416	41,815	44,735
Other facilities, furniture and office equipment	44,865	623	5,517	-1,768	628	49,865	17,483	17,089
Payments on account and assets under construction	229	0	1,016	-94	0	1,151	1,096	229
Total	**98,626**	**973**	**6,836**	**-3,702**	**700**	**103,433**	**60,394**	**62,053**

Additions to other facilities, furniture and office equipment are mainly based on the purchase of an aircraft for EUR 8,317 thousand that is mainly use for Company purposes. Due to differing depreciation periods for significant parts in relation to the total cost of the aircraft (component approach) please refer to chapter D. 2. b) "Other assets and property, plant and office equipment".

The disposal includes the sale of the former company aircraft, that resulted in a book profit of EUR 690 thousand.

Additions to payments on account and assets under construction includes the construction of a new wing at an office building at the registered office in Koblenz.

Impairment losses to property, plant and equipment were not recognized in 2016 or in 2015.

During the year, the Group capitalized borrowing costs for property, plant and equipment in the amount of EUR 10 thousand. For details on the development of property, plant and equipment, please refer to the separate annex to the Notes "Development of intangible assets and property, plant and equipment in the 2016 financial year".

CGM Clinical Austria realized in 2009 a sale-and-lease-back agreement for a building in cooperation with a leasing company. The net book value of the building as per 31 December 2016 amounted to EUR 843 thousand. The corresponding lease liabilities are disclosed in other liabilities at their present value of EUR 975 thousand as of 31 December 2016.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

3. Financial assets

a) Investments in associates and joint ventures (at equity)

Investments in Associates and Joint Ventures	31.12.2016 EUR '000	31.12.2015 EUR '000
Joint Ventures:		
MGS Meine Gesundheit Services GmbH	**4,209**	2,867
Wikipharm S.r.L.	**28**	28
CGM-Alstar Healthcare Solutions Sdn Bhd	**0**	0
Associates:		
Mediaface GmbH	**50**	50
Technosante Nord-Picardie SAS	**8**	8
AxiService Nice S.a.r.l.	**0**	0
Smoove Software S.r.l.	**285**	0
Total	**4,580**	**2,953**

The AXA Group and CompuGroup Medical SE (CGM) have founded in 2015 the joint venture "MGS Meine-Gesundheits-Services GmbH". Purpose of this strategical partnership is to fundamentally simplify the processes between customers who are insured, doctors, and private health insurance companies. The new company MGS has developed the new ePortal "Meine Gesundheit". It interconnects all involved parties of the German market for the first time ever and will in future simplify especially the invoice management.

Summarized financial information regarding MGS Meine Gesundheit Services GmbH are as follows:

	2016 EUR '000	2015 EUR '000
Revenue	**434**	0
Depreciation and amortisation	**-998**	-97
Interest income	**0**	0
Interest expense	**0**	0
Income tax income/Income tax expense (-)	**0**	0
Profit or loss from continuing operations	**-2,826**	-1,826
Other comprehensive income	**0**	0
Total comprehensive income	**-3,390**	**-1,923**

	31.12.2016 EUR '000	31.12.2015 EUR '000
Current assets	**3,994**	3,631
thereof cash and cash equivalents	**3,052**	3,125
Non-current assets	**6,988**	2,820
Current liabilities	**2,636**	778
thereof current financial liabilities (excluding trade and other payables and provisions)	**0**	0
Non-current liabilities	**0**	0
thereof non-current financial liabilities (excluding trade and other payables and provisions)	**0**	0
Net assets	**8,346**	**5,673**
Group's share of the net assets of the joint venture at the beginning of the period	**2,867**	**3,782**
Portion of the comprehensive income	**-1,413**	-915
Capital measures/dividends/changes in the scope of consolidation	**2,755**	0
Group's share of the net assets of the joint venture at the end of the period	**4,209**	**2,867**
Carrying amount of the interest in joint venture at the end of the period	**4,209**	**2,867**

Detailed disclosures in accordance to IFRS 12 for the other investments in associates and joint ventures at equity are not provided, as these companies are of minor importance.

b) Other participations

The other participations (ownership interest is lower than 20 percent) are measured at acquisition costs and comprise the following:

Other participations	31.12.2016 EUR '000	31.12.2015 EUR '000
ic med EDV-Systemlösungen für die Medizin GmbH	**7**	7
AES Ärzteservice Schwaben GmbH	**10**	10
BFL Gesellschaft des Bürofachhandels mbH & Co.KG	**26**	25
CD Software GmbH	**59**	118
Daisy-NET S.c.a r.l.	**3**	3
Technosante Toulouse S.A.S.	**4**	4
Consalvo Servizi S.r.l.	**0**	5
Savoie Micro S.a.r.l.	**20**	20
Practice Perfect Medical Software (PTY) Limited	**39**	33
Other	**0**	36
Total	**168**	**261**

4. Income tax receivables, income tax liabilities and deferred tax

a) Income tax receivables and liabilities

	31.12.2016 EUR '000	31.12.2015 EUR '000
Income tax receivables	**3,904**	**4,560**
Benefit of tax losses to be carried back to recover taxes paid in prior periods	**80**	1,338
Income tax receivable	**3,824**	3,223
Income tax liabilities	**16,067**	**35,136**
Income tax liability	**15,344**	34,571
Other	**723**	565
Total	**12,163**	**30,575**

Income tax receivables (EUR 3,904 thousand; previous year: EUR 4,560 thousand) comprise current income tax receivables of the Group companies. Income tax liabilities (EUR 16,067 thousand; previous year: EUR 35,136 thousand) mainly relate to current tax expenditure (EUR 15,370 thousand; previous year: EUR 34,571 thousand).

b) Deferred tax assets and liabilities

The deferred tax rates abroad in the reporting period ranged between 0 and 35 percent (previous year: 0 and 40 percent).

The deferred tax calculation is based on the tax regulations that are in force or enacted at the reporting date. Deferred tax receivables and liabilities will be netted if deferred tax assets and liabilities are balanced, if a legal claim to offset exists, and if the deferred tax receivables and liabilities are with the same tax authority.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Group Company	Substantial evidences according to IAS 12.82
Profdoc	The Company shows a temporally unlimited loss carry forward, which on long-term is being consumed due to operational profits and dividend incomes. Related to this long-term sustainability a safety margin of 50 percent has been taken on the deferred tax asset.
KoCo Connector	Due to the positive business prospects within the scope of the nationwide Telematik-Infrastructure-Roll-out, the existing loss carry forward is expected to be completely consumed. Which is why a deferred tax asset has been generated on the total amount of the existing tax loss carry forward.
CGM US	Due to the economic development of the company the tax loss carry forward will probably not be completely consumed, which is why the deferred tax asset has been generated only up to the amount of the deferred tax liability.
CGM South Africa	The merger of MedEDI and CGM South Africa will probably lead to a complete utilization of the existing tax loss carry forward, due to the expecting future profitability. On this account, a deferred tax asset has been generated on the total amount of the existing tax loss carry forward.
Turbomed Vertriebs- und Service	Due to the positive business prospects within the scope of the nationwide Telematik-Infrastructure-Roll-out, the existing loss carry forward is expected to be completely consumed. Which is why a deferred tax asset has been generated on the total amount of the existing tax loss carry forward.
Xdent	Both, the present and the future economic development of the company (organic increase and expansion in the Asian market) give reason to assume that the existing tax loss carry forward are completely used, which is why a deferred tax asset is generated on this amount.
CGM Schweiz	Due to the economic development of the company the tax loss carry forward will probably not be completely consumed, which is why the deferred tax asset has been generated only up to the amount of the deferred tax liability.
CGM Lab Deutschland	Due to the economic development of the company the tax loss carry forward will probably not be completely consumed, which is why a deferred tax asset has been generated by reference to the minimum taxation conditions of the German taxation law, which have been used for the calculation of the deferred tax liabilities.
CGM Lab International	Due to the economic development of the company the tax loss carry forward will probably not be completely consumed, which is why a deferred tax asset has been generated by reference to the minimum taxation conditions of the German taxation law, which have been used for the calculation of the deferred tax liabilities.

The amount of deferred tax assets and liabilities by balance sheet items of the consolidated balance sheet as of 31 December 2016 is determined in the following overview:

	01.01.2016		Recognized in profit or loss		Recognized in OCI		Acquisitions/Disposals		**31.12.2016**	
	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	**Deferred tax assets EUR '000**	**Deferred tax liabilities EUR '000**
Intangible assets	229	54,634	440	8,484	0	0	0	2,136	**669**	**65,254**
Property, plant and equipment	1,710	347	31	72	0	0	0	0	**1,741**	**420**
Financial assets	57	0	-57	0	0	0	0	0	**0**	**0**
Inventories	77	0	-37	3	0	0	0	0	**40**	**3**
Trade receivables	922	8,322	3,330	-3,393	0	0	0	0	**4,252**	**4,929**
Other financial assets	2,185	471	-1,132	4,464	0	0	0	0	**1,053**	**4,934**
Provisions for post-employment benefits	2,949	43	-784	-143	441	286	0	0	**2,606**	**187**
Derivative financial intruments	0	0	0	0	0	0	0	0	**0**	**0**
Trade payables	1,129	182	-1,032	186	0	0	0	0	**97**	**368**
Other liabilities	8,446	852	-160	1,307	0	0	0	0	**8,286**	**2,159**
Tax losses carried forward	6,679	0	10,949	0	0	0	0	0	**17,628**	**0**
	24,383	**64,851**	**11,550**	**10,980**	**441**	**286**	**0**	**2,136**	**36,373**	**78,253**
Offsetting of deferred tax assets and liabilities	**-16,433**	**-16,433**					**-12,272**	**-12,272**	**-28,705**	**-28,705**
Total	**7,949**	**48,418**	**11,550**	**10,980**	**441**	**286**	**-12,272**	**-10,136**	**7,668**	**49,548**

* Including changes due to currency effects.

The netting of deferred tax assets with deferred tax liabilities in the current reporting year in the amount of EUR -12,272 thousand is shown in the column "acquisitions/disposals" and relates to deferred taxes for the Group as a whole.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The amount of deferred tax assets and liabilities by balance sheet items of the consolidated balance sheet as of 31 December 2015 is determined in the following overview:

	01.01.2015		Recognized in profit or loss		Recognized in OCI		Acquisitions/Disposals		31.12.2015	
	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000
Intangible assets	0	54,824	229	-6,836	0	0	0	6,645	229	54,634
Property, plant and equipment	1,714	1,214	-4	-866	0	0	0	0	1,710	347
Financial assets	44	0	13	0	0	0	0	0	57	0
Inventories	0	0	77	0	0	0	0	0	77	0
Trade receivables	226	4,057	696	4,265	0	0	0	0	922	8,322
Other financial assets	1,139	41	1,046	430	0	0	0	0	2,185	471
Provisions for post-employment benefits	2,785	0	2	0	162	43	0	0	2,949	43
Derivative financial instruments	1,428	0	-1,428	0	0	0	0	0	0	0
Trade payables	206	0	923	182	0	0	0	0	1,129	182
Other liabilities	1,289	1,700	7,157	-848	0	0	0	0	8,446	852
Tax losses carried forward	7,169	0	-490	0	0	0	0	0	6,679	0
	16,000	**61,836**	**8,221**	**-3,673**	**162**	**43**	**0**	**6,645**	**24,383**	**64,851**
Offsetting of deferred tax assets and liabilities	-12,624	-12,624					-3,811	-3,811	-16,435	-16,433
Total	**3,376**	**49,212**	**8,221**	**-3,673**	**162**	**43**	**-3,811**	**2,834**	**7,948**	**48,418**

* Including changes due to currency effects.

d) Tax loss carried forward

	31.12.2016	31.12.2015
Total losses carried forward	**203,518**	179,493
thereof tax deductible	**60,248**	22,452
thereof unused tax losses carried forward	**61,145**	77,294
thereof forfeitable	**82,124**	79,747

The recognized losses carried forward of EUR 60,248 thousand (previous year: 22,452 thousand) can currently be carried forward and used unlimited. At balance sheet day, tax losses carried forward exist in several foreign subsidiaries, which are not recognized as it is not foreseeable if they can be used in the future. Depending on the profit situation of the subsidiaries and tax legislation, this current assessment can change and indicate adjustments in future years. For these tax losses carried forward by EUR 61,145 thousand (previous year: EUR 77,294 thousand), no deferred tax assets were recognized, as it is currently expected that these tax losses carried forward cannot be used within the tax-related earnings planning. Tax loss carried forward of EUR 82,124 thousand (previous year: EUR 79,747 thousand) can no longer be used for tax purposes. The major part of this not usable tax loss carried forward comes from the foreign subsidiary CompuGroup Medical Inc. in the United States.

Deferred tax liabilities mainly concern capitalized in-house services at Group level and acquired software licenses, customer relationships and brands from company acquisitions as well as deferred taxes from other consolidation adjustments (particularly elimination of intercompany results).

Deferred taxes are distributed as follows based on their expected future recoverability:

	Deferred tax assets		Deferred tax liabilities	
	31.12.2016 EUR '000	31.12.2015 EUR '000	**31.12.2016 EUR '000**	31.12.2015 EUR '000
Utilization expected within 12 months	**3,412**	2,695	**6,916**	6,295
Utilization expected after more than 12 months	**4,256**	5,253	**42,632**	42,123
Total	**7,668**	**7,948**	**49,548**	**48,418**

5. Inventories

	31.12.2016 EUR '000	31.12.2015 EUR '000
Raw materials and supplies	**251**	210
Products	**5,020**	6,305
Total	**5,271**	**6,515**

Inventories are mostly hardware components. Inventories including write-downs of inventories developed as follows:

	2016 EUR '000	2015 EUR '000
Inventories as of 1 January	**6,515**	5,877
Changes in the scope of consolidation	**179**	54
Write-downs in the reporting period	**-50**	-136
Changes in inventory	**-1,373**	703
Reversal write-downs/Utilization	**0**	6
Changes in exchange rate	**0**	11
Inventories as of 31 December	**5,271**	**6,515**

There are no inventories pledged as security for liabilities. The inventories reported on the balance sheet date won't remain longer than 1 year in inventory.

6. Trade receivables

In the financial year, allowances (including derecognition) were made in the amount of EUR 5,384 thousand (previous year: EUR 3,790 thousand).

Specific valuation allowances are based on the age of receivables throughout the Group. There are exceptions to the specific valuation allowances based on aging. This concern significant receivables in business areas where regular long-term contractual relationships exist (e.g. hospital business, ASP service). Such receivables are tested individually for impairment on a case-by-case basis.

Doubtful debts are always impaired individually. The book value of the trade receivables, reduced by specific valuation allowances, correspond closely to the fair value due to the short-term nature of the receivables. Receivables that are either individually not significant or receivables with a similar default risk are grouped together and tested collectively for impairment by using historical experience. Due to the breadth of its customer base as well as the non-existence of correlations, there no significant concentration of credit and default risks at CGM Group.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

a) Trade receivables (regions)

	31.12.2016 EUR '000	31.12.2015 EUR '000
Trade receivables (without PoC)	**96,986**	99,176
thereof domestic	**25,190**	35,352
thereof foreign	**71,796**	63,824
Trade receivables PoC	**31,926**	20,993
thereof domestic	**25,730**	14,851
thereof foreign	**6,196**	6,142
Total	**128,912**	**120,169**

b) Age of receivables, breakdown of provisions

	31.12.2016 EUR '000	31.12.2015 EUR '000
Trade receivables	**128,912**	120,169
thereof not overdue and not impaired	**84,926**	87,141
thereof overdue but not impaired		
– overdue 0-3 months	**7,468**	5,818
– overdue 4-6 months	**690**	401
– overdue 7-12 months	**393**	1,532
– overdue 12-18 months	**705**	453
– overdue 19-24 months	**112**	665
– overdue more than 24 months	**768**	1,435
thereof impaired	**45,579**	32,390
Specific valuation allowance	**-11,729**	**-9,666**

The receivables presented above include amounts that are due at the reporting date, but the Group has recognized no specific valuation allowances. This is because the creditworthiness of the customers do not change, and the collectability and value of the receivables are considered for granted. The fair value of the amounts that are due, but not impaired greater than twelve months amounted to EUR 1,420 thousand (previous year: EUR 2,264 thousand) at the reporting date.

The changes of the specific valuation allowances in the reporting period are shown in the following table:

	2016 EUR '000	2015 EUR '000
As at 1 January	**9,666**	8,211
Utilization	**-665**	-565
Reversal	**-2,656**	-1,911
Addition	**5,348**	3,790
Additions from company acquisitions	**36**	141
As at 31 December	**11,729**	**9,666**

* Exchange rate related changes in individual value adjustments are not disclosed separately for reasons of materiality.

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

c) Receivables from the percentage of completion method (PoC)
Receivables from contracts recognized under the PoC method relate to projects in the Hospital Information Systems business, Ambulatory Information Systems, and Internet Service Providing.

	31.12.2016 EUR '000	31.12.2015 EUR '000
Contract costs incurred and recognized contract profits	**41,524**	31,086
– less recognized losses	**-2,163**	-2,655
– less advanced payments received	**-7,435**	-7,438
Net position of trade receivables from PoC	**31,926**	20,993
– less recognized losses under other financial liabilities	**-442**	-2,058
– less advanced payments received under other financial liabilities	**-1,013**	-1,449
Net result of trade receivables from PoC	**30,471**	**17,486**

Explanation of construction contracts with a credit balance
The receivables from contracts are recognized using the Percentage of Completion (PoC) totaled EUR 41,524 thousand (previous year: EUR 31,086 thousand), less recognized losses of EUR 2,163 thousand (previous year: EUR 2,655) and less advanced payments received by EUR 7,435 thousand (previous year: EUR 7,438).

Explanation of construction contracts with a debit balance
Construction contracts recognized using the Percentage of Completion (PoC) with a debit balance, are shown under the liabilities. This include received partial billings which rose the amount of the corresponding receivables from PoC (EUR 1,013 thousand; previous year EUR 1,449 thousand) disclosed as other non-financial liabilities (previous year: other financial liabilities). As well as accrued and recognized losses from construction contracts with a debit balance in total (EUR 442 thousand; previous year EUR 2,058 thousand) which are shown under the other financial liabilities.

d) Receivables from financial leases
Receivables from finance lease mainly belong to the Group companies of Lauer-Fischer GmbH, CGM Clinical Austria, Qualita in Farmacia S.r.l. and Turbomed Vertriebs und Service GmbH, who offer their customer the leasing of hardware (including all peripheral devices) for up to five years. Income from these lease contracts is recognized in the income statement as sales revenue. The contracts are classified as finance leases (IAS 17.10).

The following table provides an overview of finance lease receivables among the trade receivables.

	31.12.2016			31.12.2015		
	Future minimum lease payments EUR '000	Interest component EUR '000	Present value of future leasing receivables EUR '000	Future minimum lease payments EUR '000	Interest component EUR '000	Present value of future leasing receivables EUR '000
< 1 year	**6,479**	**1,293**	**5,186**	5,077	839	4,238
1-5 years	**12,940**	**1,365**	**11,575**	10,265	1,293	8,972
> 5 years	**100**	**3**	**97**	9	2	7
Total	**19,519**	**2,661**	**16,858**	**15,351**	**2,134**	**13,217**

The table includes finance lease receivables of CGM Clinical Austria, which were disclosed in the previous year under other financial assets with EUR 1,192 thousand. Due to new contractual agreements of substantial amount, these business transactions are now disclosed under the trade receivables in the amount of EUR 3,744 thousand as at 31 December 2016.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

7. Other financial assets
Other financial assets are broken down as follows:

	31.12.2016		31.12.2015	
	Short-term EUR '000	Long-term EUR '000	Short-term EUR '000	Long-term EUR '000
Leasing receivables	0	63	276	916
Long term loans	998	514	1,024	953
Creditors with debit balances	250	0	364	0
Asset value of liability insurance	0	119	0	176
Other financial assets	589	149	605	236
Total	**1,837**	**845**	**2,269**	**2,281**

The following aging analysis provides information on the maturities and impairments of the other financial assets:

	31.12.2016 EUR '000	31.12.2015 EUR '000
Book value – Other financial assets	**2,682**	**4,550**
thereof not overdue and not impaired:	2,284	3,991
thereof overdue but not impaired		
– overdue 0-3 months	82	466
– overdue 4-6 months	21	0
– overdue 7-12 months	20	27
– overdue 12-18 months	73	53
– overdue 18-24 months	14	8
– overdue more than 24 months	74	5
thereof impaired	114	0

The fair value of the other financial assets, which are due but not impaired, corresponds approximately to the book value at the reporting date.

Receivables from finance lease of CGM Clinical Austria, in previous year disclosed under the other financial assets of EUR 1,192 thousand, are disclosed in trade receivables in the amount of EUR 3,744 thousand as at 31 December 2016.

	31.12.2016			31.12.2015		
	Future minimum lease payments EUR '000	Interest component EUR '000	Present value of future leasing receivables EUR '000	Future minimum lease payments EUR '000	Interest component EUR '000	Present value of future leasing receivables EUR '000
< 1 year	–	–	–	350	74	276
1-5 years	–	–	–	1,015	99	916
> 5 years	–	–	–	0	0	0
Total	**–**	**–**	**–**	**1,365**	**173**	**1,192**

8. Other non-financial assets
Other non-financial assets are broken down as follows:

	31.12.2016 current EUR '000	31.12.2015 current EUR '000
Security deposit	691	424
Input tax surplus receivable	3,745	1,642
Receivables from purchase price reductions for business combinations	0	1,339
Prepayments for future periods	8,207	9,324
Other	1,057	1,203
Total	**13,700**	**13,932**

The receivables from purchase price reductions for business combinations in the previous year are reversed due to an out-of-court settlement in the Netherlands in 2016.

As in the previous year, there were no non-financial assets classified as non-current at the balance sheet date.

9. Cash and cash equivalents

	31.12.2016 EUR '000	31.12.2015 EUR '000
Cash and cash equivalents	25,350	24,301
Restricted cash	2,405	756
Total	**27,755**	**25,057**

Under the 31 December 2016, the balance sheet cash and cash equivalents include restricted cash in the amount of EUR 2,405 thousand, which are held by subsidiaries in countries with exchange restrictions (South Africa EUR 2,345 thousand). These are subject to legal restrictions on transfers and are therefore not available for general use to the group. The remaining part of the restricted cash amounting EUR 60 thousand, was pledged to secure a bank guarantee in Turkey.

Positive balances at banks relate to current accounts with an interest rate of 0 percent per year.

For changes in cash and cash equivalents, we refer to the cash flow statement.

10. Assets held for sale
In the course of an efficiency-increase project and the related closure of the location Molfsee of CompuGroup Medical Deutschland AG, the office building in Molfsee was for the first time in 2015 reclassiefied from the tangible asset to the assets held for sale and was valued at the lower of book value and fair value less costs to sell. The fair value was determined by an expert opinion.

Due to unforeseeable unfavorable market developments, the building could not be sold within a 12 months period despite intensive efforts. Therefore, the office building is still disclosed as an asset held for sale amounting to EUR 1,222 thousand as of 31. December 2016. The sale of the office building is definitely expected in 2017.

Since classifying as asset held for sale neither earnings nor cash flows were generated in the reporting periods 2015 and 2016 with the offive building. Due to this a separate presentation of cash inflows and outflows in the consolidated cash flow statement was renounced.

The building is assigned to reporting segment HPS 1.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

11. Equity
a) Subscribed capital
The Company's subscribed capital consists of:

	31.12.2016 EUR '000	31.12.2015 EUR '000
Issued and fully paid ordinary shares		
53,219,350 nominal shares of EUR 1.00 each	**53,219**	53,219
Authorized capital		0
26,609,675 nominal shares of EUR 1.00 each	**26,610**	26,610

(i) Issued and fully paid ordinary shares
The Company has only one class of shares. These do not grant entitlement to a fixed dividend. The share capital is divided into 53,219,350 bearer shares, having the securities ID number 543730 (ISIN: DE0005437305).

(ii) Approved capital
With the approval of the Supervisory Board, the Management Board is authorized to increase the Company's subscribed capital by up to EUR 26,609,675.00 through either an one-time or multiple issuance of new shares for cash and/or in-kind capital contributions until 17 May 2021 (authorized capital). In principle, shareholders must be granted a subscription right to utilize authorized capital; however, under certain conditions the Management Board is also authorized, provided the approval of the Supervisory Board, to exclude the statutory subscription right of the shareholders. Furthermore, with the approval of the Supervisory Board, the Management Board was authorized to determine further details of capital increases from authorized share capital.

(iii) Conditional capital
According to the resolution of the Annual General Meeting of 9 May 2012, the Management Board was given the authorization to issue convertible bonds (and similar instruments) as well as the corresponding conditional capital. The authorization is limited to a volume of EUR 500 million.

b) Treasury shares
As of 31 December 2016, CompuGroup Medical SE held 3,495,731 treasury shares which is equivalent to 6.57 percent of equity capital. The calculated value attributable to subscribed capital is EUR 3,495,731. The number of own shares held by the company is based on the following acquisitions and divestments:

Financial Year	Buy-back program period	Number of shares	Purchase price interval	Average weighted purchase price per share
2007		532,350		
2008	23 January to 18 April 2008	500,000	EUR 8.6430 to 12.6788	EUR 10.3276
2008	22 July to 14 October 2008	500,000	EUR 3.8243 to 5.4881	EUR 4.8426
2008	15 October to 30 December 2008	428,736	EUR 3.1519 to 4.4279	EUR 3.8849
2009	5 January to 31 March 2009	403,876	EUR 3.4100 to 4.7402	EUR 4.0810
2009	1 April to 27 May 2009	500,000	EUR 3.8357 to 4.5988	EUR 4.1578
2009	4 June to 31 December 2009	125,746	EUR 4.1853 to 6.0000	EUR 5.6852
2010		no buy-back		
2011	17 August to 31 December 2011	225,553	EUR 7.6496 to 9.3140	EUR 8.3033
2012	2 January to 30 June 2012	101,835	EUR 8.4429 to 9.9764	EUR 8.8488
2012	9 July to 31 December 2012	282,843	EUR 11.30 to 14.00	EUR 13.2397
2013	18 December 2013 (Issue)	-105,208		EUR 5.7643
2014		no buy-back		
2015		no buy-back		
2016		no buy-back		
Total	–	**3,495,731**	–	–

In accordance with the resolution by the Annual General Meeting on 14 May 2009, the Management Board was authorized to acquire treasury shares. This authorization was valid until 14 November 2010. By resolution of the Annual General Meeting on 19 May 2010, it was terminated and replaced by a new authorization. After the amendment of section 71, paragraph 1, No. 8 of the German stock Corporation Act (AktG – Aktiengesetz), by the Act on the Implementation of the Shareholders' Rights Directive (ARUG – Gesetz zur Umsetzung der Aktionärsrechterichtlinie), an authorization is allowed to last up to five years.

According to the resolution of the Annual General Meeting on 19 May 2010, the Management Board was granted authorization, expiring on 19 May 2015, to purchase own shares. This authorization was cancelled in accordance with the resolution of the Annual General Meeting on 20 May 2015 and replaced by a new resolution.

This authorization may be exercised in whole or for partial amounts, on one or more occasions, for one or more purposes, by the Company or by third parties for its account. The authorization took effect on 21 May 2015 and remains valid until 20 May 2020.

In accordance with a resolution by the Annual General Meeting on 20 May 2015, the Management Board was authorized to acquire treasury shares up to 10 percent of the subscribed capital, either on the date of the adoption of the resolution or, if the amount is lower, on the date when the authorization is exercised. The Company's acquired shares together with its other existing treasury shares held by the Company or attributable to it according to paragraphs 71d and 71e AktG must at no time account for more than 10 percent of the registered capital on the date of the adoption of the resolution. The acquisition may also be exercised by Group Companies dependent on the Company within the meaning of section 17 AktG or by third parties for their account or for the account of the Company. This authorization may not be used for the purposes of trading with Company's own shares.

At the discretion of the Management Board, the purchase is made via the stock exchanges or by a public buy offer made to all shareholders or by a public request to all shareholders to issue offers for sale.

(1) If the share purchase is performed on the stock exchange, the purchase price for one share may not be more or less than 10 percent of the Company's unweighted average share price, which was calculated on the five trading days prior to the purchase date by the closing auction of the Xetra trading system (or a corresponding successor system) on the Frankfurt am Main stock exchange.

(2) If the share purchase is performed through a public purchase offer to all shareholders or through a public invitation to all shareholders to submit offers for sale, the purchase price for one share (without ancillary purchase costs) may not be more or less than 20 percent of the Company's unweighted average share price, which is calculated by the closing auction of the Xetra trading system (or a corresponding successor system) on the Frankfurt am Main stock exchange on the five trading days prior to the public notification of the invitation to submit such an offer.

(3) The purchase offer or the invitation to submit offers for sale may entail further conditions. If the purchase offer is oversubscribed or, in case of an invitation to submit offers for sale, a number of equivalent bids are placed but not all are accepted, the acceptance must be in proportion to the number of shares offered. Preferential acceptance of small numbers of up to 100 shares offered per shareholder as well as rounding according to commercial principles may be provided for.

The Management Board is entitled to utilize the treasury shares, which it purchased according to this authorization, as follows:

(1) With the approval of the Supervisory Board treasury shares may be sold on the stock exchange or by means of an offer to all shareholders. With the approval of the Supervisory Board, they may be sold by other means provided the consideration for the sale is in cash and the sales price at the time of sale is not significantly lower than the share price for the same class of shares on the stock exchange. The pro rata amount of the share capital attributable to the number of shares sold under this authorization, together with the proportion of the share capital of new shares that have been issued since the shareholders' resolution for this authorization, i.e. since 21 May 2015, due to any authorizations for share issues from authorized capital in accordance with section 186, paragraph 3, sentence 4 AktG, may not exceed 10 percent of the Company's share capital.

(2) With the approval of the Supervisory Board, these shares may be offered and transferred to third parties for the purposes of direct or indirect acquisition of companies, Company shares or equity investments in companies.

(3) With the approval of the Supervisory Board, these shares may be offered and sold as consideration, so that the Company or one of its subsidiaries are issued copyright or third party intellectual property rights by third parties, particularly patents or brands, or licenses to such rights, for the marketing and development of CompuGroup Medical products.

(4) The shares may also be utilized to exercise options arising from share options granted by the Company.

(5) The shares may be used to meet obligations or rights to acquire CompuGroup shares, especially from and in connection with bonds/convertible bonds issued by the Company or its affiliates.

(6) In addition, with the approval of the Supervisory Board, the shares may also be cancelled without the need of an additional Annual General Meeting. The proportion of the remaining shares in relation to share capital will not be increased by cancellation. In deviation to this, the Management Board may decide not to reduce the subscribed capital but instead to increase the proportion of the subscribed capital of the remaining shares in accordance with section 8, paragraph 3 AktG. In this case, the Management Board is entitled to adjust the number of shares in the articles of association.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The authorizations regarding (1) to (6) may be used in whole or for partial amounts, on one or more occasions, separately or jointly. Upon the instruction of the Management Board, the authorizations regarding (1) to (5) may also be used by dependent companies or companies that are majority-owned by the Company or by third parties acting on the Company's account.

Shareholders' subscription rights on treasury shares is excluded as far as thesis shares are used according to the above authorizations in (1) to (5).

c) Reserves (equity reserves, retained earnings, and dividends with regard to equity instruments)
The changes in CGM Group's reserves are as follows:

	31.12.2016 EUR '000	31.12.2015 EUR '000
Balance as at 1 January	**181,628**	161,721
Group net income	**44,530**	38,494
Actuarial gains and losses	**-115**	-773
Dividend distribution	**-17,403**	-17,403
Additional purchase of shares from minority interests after control	**0**	-261
Change in scope of consolidation	**0**	0
Issue of own shares	**0**	0
Other Changes	**0**	-150
Balance as at 31 December	**208,640**	181,628

The most significant developments in 2016 are described below:

The consolidated net income for the period of EUR 44,530 thousand (previous year: EUR 38,494 thousand) was transferred to the reserves.

By resolution of the Annual General Meeting of 18 May 2016, a dividend of EUR 17,403 thousand (previous year: EUR 17,403 thousand) was issued to shareholders, which corresponds to a dividend of EUR 0.35 (previous year: EUR 0.35) per dividend-bearing share.

In addition, the actuarial loss of EUR -115 thousand (previous year: EUR -773 thousand) decreased the reserves (equity reserves, retained earnings and dividends with regard to equity instruments).

If a dividend is recommended, it will be conditional on shareholder approval at the Annual General Meeting in 2017. Therefore, it is not recognized as a liability in the consolidated financial statements. There are no corporate tax effects resulting from dividend payments for the Company. The size of the dividend depends exclusively on the single-entity financial statements of CompuGroup Medical SE. For the financial year 2016 an amount of EUR 0.35 will most likely be proposed as the dividend per dividend-bearing share, which corresponds to a total amount of EUR 17,403 thousand.

d) Reserves from hedging transactions (cash flow hedge accounting)

	31.12.2016 EUR '000	31.12.2015 EUR '000
Balance as at 1 January	**0**	**40**
Changes in the fair value of cashflow hedges		
Interest rate swap	**0**	0
Income tax related to gains/(losses) recognized in OCI	**0**	0
Other changes	**0**	-40
Balance as at 31 December	**0**	**0**

The reserve from hedging transactions includes gains or losses on the effective portion of cash flow hedges that have arisen due to changes in the fair value of the hedging transactions. The cumulative gain or loss from changes in the fair value of the hedging instrument that was recognized in the reserve from hedging transactions will be reclassified to the income statement once the hedged transaction has an impact on the income statement. All hedging transactions expired in the previous year; there were no new hedging transactions that are accounted for as a cash flow hedge.

e) Reserves from foreign currency conversion

	31.12.2016 EUR '000	31.12.2015 EUR '000
Balance as at 1 January	**-22,264**	**-18,980**
Currency conversion differences	**-1,473**	-3,284
Realized gains and losses	**0**	0
Balance as at 31 December	**-23,737**	**-22,264**

Exchange differences arising from converting foreign operations from their functional currency to the Group's reporting currency (EUR) are recognized directly in other comprehensive income and accumulated in the foreign currency conversion reserve. Conversion differences which were recognized earlier in the foreign currency conversion reserve (conversion of net assets of foreign operations) are reclassified to the income statement once a partial or complete sale of the foreign operation has been performed.

f) Non-controlling interests
Non-controlling interests by company

	KoCo Connector AG		IS Informatik Systeme Gesellschaft für Informationstechnik mbH		SF Sanità S.r.l. und Farloyalty S.r.l.		OWL Computer		Vega Informatica e Farmacia S.r.l.		Total	
	2016 EUR '000	2015 EUR '000	2016 EUR '000	2015 EUR '000	2016 EUR '000	2015 EUR '000	2016 EUR '000	2015 EUR '000	2016 EUR '000	2015 EUR '000	2016 EUR '000	2015 EUR '000
Amount of holding	**95%**	95%	**60%**	60%	**60%/51%**	60%/51%	**70%**	–	**85%**	–	**–**	–
Voting interest	**50%**	50%	**60%**	60%	**60%/51%**	60%/51%	**70%**	–	**75%**	–	**–**	–
Equity of non controlling shares	**-634**	-377	**710**	595	**98**	101	**22**	0	**627**	0	**823**	319
Dividends paid to non-controlling shares	**0**	0	**0**	0	**39**	0	**0**	0	**0**	0	**39**	0
Assets	**16,418**	13,057	**2,662**	2,396	**493**	647	**50**	–	**8,772**	–	**28,395**	16,100
Liabilities	**29,111**	20,600	**860**	858	**282**	420	**13**	0	**4,592**	0	**34,858**	21,878
Net result	**-5,150**	-1,379	**287**	384	**64**	91	**-7**	0	**317**	–	**-4,489**	-904

Changes in non-controlling interests in the 2016 financial year

	31.12.2016 EUR '000	31.12.2015 EUR '000
Balance as at 1 January	**319**	-41
Share of profit for the year	**-60**	99
Addition OWL Computer	**23**	0
Addition Vega Informatica e Farmacia S.r.l.	**580**	0
Dividend distribution to non-controlling shareholder	**-39**	0
Additional purchase of shares from minority interests after control	**0**	261
Balance as at 31 December	**823**	**319**

Addition of Vega Informatica e Farmacia S.r.l. and OWL Computer
Please refer to section C) 5. b) Company acquisitions and disposals for information regarding the increase in non-controlling interests relating to the acquisition of Vega Informatica e Farmacia S.r.l. and OWL Computer.

Acquisition of further interests in subsidiaries
In September 2016 CompuGroup Medical Italy Holding S.r.l. exercised their call-option early and acquired the outstanding 5 percent of the shares of Qualità in Farmacia. The option had a fixed price of EUR 375 thousand and was paid in full.

Due to the existing option, Qualità in Farmacia was already consolidated 100 percent without disclosure of non-controlling interests. A purchase price liability amounting to EUR 375 thousand was recognized. In this respect, this transaction did not affect the carrying amount of non-controlling interests at the time of acquisition and of the equity attributable to share-holders of the parent company.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The impact of the change in the CGM Group's share on the equity attributable to shareholders of the parent company in the financial year 2016 is as follows:

in EUR '000	2016 Qualità in Farmacia	2015 CGM South Africa
Book value of acquired non-controlling interests	0	-261
Purchase price paid to non-controlling shareholders	0	0

12. Retirement plans and provisions for post-employment benefits and other non-current provisions

Benefits provided by CGM Group's pension scheme consist of defined benefit and defined contribution plans for employees in Germany, the Netherlands, Austria, Switzerland and the United States.

a) Defined contribution plans

In Germany, all employees in the Group companies are offered a defined contribution plan under the German statutory pension insurance, which the employer is required to contribute to. The employer contribution is tied to the current contribution rate of 9.35 percent (employer's share) in relation to the pension-based employee remuneration. In addition, the CGM Group offers occupational pension schemes (direct insurance) in the form of deferred compensation without increasing employer payments.

Furthermore, there are defined contribution plans (401 thousand plans as direct insurance) for employees in the United States. Through its 401 thousand plan, our subsidiary in the United States pays deferred compensation elements for employees into certain tax-advantaged retirement savings plans (retirement plans), which are offered by financial institutions. With the 401 thousand plans, employees have a portion of their remuneration transferred to the savings plan with employers having the option of increasing their contributions. An increase in employer contributions is currently not offered by the US subsidiary.

In addition to receiving this benefit, eligible employees in other countries, such as Austria or the Netherlands, benefit from respective country-specific regulations or other individual agreements.

The expenses of EUR 11,407 thousand (previous year: EUR 11,255 thousand) recognized in income statement represent CGM Group's contributions to these defined contribution plans in accordance with the contributions stipulated therein.

b) Defined benefit plans

CGM Group offers defined benefit plans for employees in Germany, Switzerland and the Netherlands.

CompuGroup Medical Deutschland AG has non-forfeitable pension obligations to current and former employees. The Company has pledged firmly guaranteed retirement and disability pensions to former employees upon reaching retirement age. Moreover, in case of a former employee passing away, surviving dependents are entitled to a lump-sum payment. For two active employees of CompuGroup Medical Deutschland AG, there are guaranteed retirement and disability pension commitments effective at the time of retirement. In case of these employees passing away, surviving dependents are entitled to 60 percent of the guaranteed pension. Another six active employees of CompuGroup Medical Deutschland AG have received firm commitments for fixed benefits at retirement age. These employees have not been guaranteed disability pension commitments or death benefits. The agreed retirement age for all current and former employees entitled to benefits is 65 years. In the event of early retirement of current and former employees who are entitled to benefits, the agreed benefits are reduced by 0.5 percent per month until the agreed retirement age of 65 has been reached.

Employees at the subsidiary CGM Schweiz AG are granted pensions financed by a pension fund consisting of employer and employee contributions and income generated on investments. Due to the inclusion of statutory minimum pension provision pursuant to Swiss law through BVG (Swiss occupational pension plans), the pension plan is recognized as a defined benefit plan. All provisions are non-forfeitable. Under the legal requirements, the employer is obliged to make employer contributions that enable the pension fund to finance the minimum level of provision. The pension fund is managed through a trust board comprising employee and employer representatives, which manages and monitors the benefit plan and asset investment.

In the Netherlands, the Company offers defined benefit commitments depending on salary and years of service. The details of the pension plan are listed in the following table:

Eligibility requirements	All employees older than 21 years
Normal retirement age	Age 65
Early retirement age	Not applicable
Pensionable	12 times fixed monthly salary including holiday allowance, with a maximum of EUR 220,500
Offset	The part of the salary with no pension accrual
Pension Base	Pensionable salary less offset
Pensionable service normal retirement	Number of (part-time weighted) years from beginning of service until normal retirement age (maximized on 44 years)
Indexation Actives	Uncapped salary indexation
Indexation Deferred/Pensioners	Uncapped inflation indexation
Pension scheme	Average payments
Retirement pension	Sum of 2.25 percent times pension base per year
Survivor's pension	54.44 percent of retirement pension (fully funded)
Orphans's pension	10.89 percent of retirement pension
Waiver of premium disability	Yes

In 2013, the defined benefit pension plan for the Dutch subsidiary's active employees was changed. All active employees were transferred to a defined contribution plan. For former employees entitled under the defined benefit pension, the commitment remains unchanged.

Furthermore, there are also severance payment provisions for the majority of Austrian employees (pursuant to Section 23 Angestelltengesetz (Salaried Employees Act) and Section 2 Arbeiterabfertigungsgesetz (Employees Severance Pay Act), which, in accordance with IAS 19, are considered post-employment benefits. These severance payment provisions generally correspond to a severance payment in relation to payments that eligible employees receive at the point of departure from the Company. Payment of the severance pay entitlement is also impacted by the reason for the employee's resignation. In addition, surviving dependents will be paid 50 percent of existing severance payment benefits.

The defined benefit pension plan in Turkey shows a similar structure as the aforementioned pension benefits of Austrian employees and is also considered as a post-employment benefit in accordance with IAS 19. In accordance with social legislation, the Company is obliged to pay a lump-sum severance payment for each separating employee. This obligation arises when the employee has completed at least one year of employment, his employment was terminated without cause, when he will be called up for military service, dies or reaches retirement age. The amount payable consists of one month's salary for each year of work. The amount is limited to TRY 4,297.21 (EUR 1,159) per working year.

Similar provisions have been recognized in other foreign subsidiaries for statutory programs such as the TFR Fund (Italian Civil Code Article 2120) in Italy which are considered post-employment benefits in accordance with IAS 19. Essentially, the TFR fund is equivalent to severance pay, which eligible employees receive at the point of departure from the Company.

The present value of the defined benefit obligation from the underlying plan is determined using a discount rate based on the yields from prime fixed-rate corporate bonds. The discount rate used by the CGM Group is based on the iBoxx indices, which are applied to the defined benefit obligation with matching maturities.

In general, CGM Group is exposed to the following actuarial risks with regard to the existing CGM Group benefit plans:

- **Longevity risk:** The present value of the defined benefit obligation for the corresponding benefit plans is determined based on the best estimate of the probability of death of each beneficiary both during employment and after termination. An increase in the life expectancy of eligible employees leads to an increase in the plan liability.
- **Salary risk:** The present value of the defined benefit obligation for appropriate benefit plans is determined based on the expected future salaries of eligible employees. Accordingly, salary increases raise the benefit obligation associated with the plan.
- **Inflation risk:** An increase in the long-term inflation assumption would primarily affect the expected pension increase and the expected increase in pensionable salaries.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Risks arising from the payment of benefits to family members (surviving dependent benefits) of eligible employees are partially reinsured by an external insurance company.

Provisions for post-employment benefits are accounted for using the current pension reports, all of which were compiled by external service providers (actuaries).

The following actuarial assumptions were made in determining the defined benefit obligation and related plan assets:

Principle Assumptions used for the purposes of the actuarial valuations were as follows:	Germany		Austria		The Netherlands		Italy		France		Switzerland		Turkey	
	31.12. 2016	31.12. 2015	**31.12. 2016**	31.12. 2015	**31.12. 2016**	31.12. 2015	**31.12. 2016**	31.12. 2015	**31.12. 2016**	31.12. 2015	**31.12. 2016**	31.12. 2015	**31.12. 2016**	31.12. 2015
Discount rate(s) in %	**1.1**	1.6	**1.5**	2.2	**1.7**	2.2	**1.3**	2.0	**1.7**	2.2	**0.65**	0.9	**11.5**	10.8
Expected rate(s) of salary increase in %	**n/a**	n/a	**2.0**	2.0	**n/a**	n/a	**3.0**	3.0	**3.0**	3.0	**1.25**	1.25	**5.0**	5.0
Pension growth rate(s) in %	**1.75**	1.75	**n/a**	n/a	**1.8**	1.8	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a

Domestic pension obligations are based on the typical mortality rates applied in Germany (according to Heubeck 2005 G). For the Netherlands, pension obligations are based on the mortality rates according to the "AG Prognosetafel 2016".

The amounts recognized in other comprehensive income for the defined benefit plans are as follows:

The amounts recognized in other comprehensive income for the defined benefit plans are as follows	**31.12.2016 EUR '000**	31.12.2015 EUR '000
Service cost:		
Current service cost	**1,963**	1,606
Past service cost and (gain)/loss from settlements	**155**	76
Net interest expense	**317**	284
Components of defined costs recognised in profit or loss	**2,435**	**1,966**
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	**-85**	54
Actuarial gains and losses arising from changes in demographic assumptions	**-1,011**	-45
Actuarial gains and losses arising from changes in financial assumptions	**1,538**	238
Actuarial gains and losses arising from experience adjustments	**-190**	646
Adjustments for restrictions on the Defined benefit asset	**0**	0
Other effects	**16**	0
Components of defined benefit costs recognised in other comprehensive income	**269**	**893**
Total	**2,704**	**2,859**

The annual cost in the financial year 2016 of EUR 2,435 thousand (previous year: EUR 1,966 thousand) is recognized in full in the personnel expenses of CGM Group. Defined benefit expenses arising from the revaluation of the net liability for defined benefit plans in the amount of EUR 269 thousand (previous year: EUR 893 thousand) were recognized in other comprehensive income.

The defined benefit obligations developed as follows in the financial year:

	Present value of pension commitment EUR '000	Fair value of plan assets EUR '000	Total EUR '000
Balance as at 1 January 2015	**19,957**	**-2,530**	**17,427**
Current service costs	1,584	21	1,606
Interest income/cost	387	-103	284
Remeasurement (gains)/losses:			
Return on plan asset (excluding amounts included in net interests)	0	54	54
Actuarial gains and losses arising from changes in demographic assumptions	-45	0	-45
Actuarial gains and losses arising from changes in financial assumptions	248	0	248
Actuarial gains and losses arising from experience adjustments	668	7	676
Past service cost, including losses/(gains) on curtailments	72	4	76
Payment of debts/disposal of assets by plan settlement	0	0	0
Liabilities assumed in a business combination	-50	0	-50
Liabilities assumed in mergers and transfers	-179	0	-179
Exchange rate differences on foreign pension plans	0	0	0
Benefits paid	-1,063	270	-793
Contributions from the employer	136	-454	-317
Contributions from plan participant	54	-210	-156
Balance as at 31 December 2015	**21,770**	**-2,940**	**18,830**
Balance as at 1 January 2016	**21,770**	**-2,940**	**18,830**
Current service costs	1,963	0	1,963
Interest income/cost	411	-93	317
Remeasurement (gains)/losses:	0	0	0
Return on plan asset (excluding amounts included in net interests)	0	-85	-85
Actuarial gains and losses arising from changes in demographic assumptions	-1,011	0	-1,011
Actuarial gains and losses arising from changes in financial assumptions	1,538	0	1,538
Actuarial gains and losses arising from experience adjustments	-190	0	-190
Past service cost, including losses/(gains) on curtailments	-51	0	-51
Payment of debts/disposal of assets by plan settlement	186	0	186
Liabilities assumed in a business combination	0	0	0
Liabilities assumed in mergers and transfers	0	0	0
Exchange rate differences on foreign pension plans	90	-63	27
Benefits paid	-1,689	766	-923
Contributions from the employer	0	-464	-464
Contributions from plan participant	214	-214	0
Balance as at 31 December 2016	**23,231**	**-3,094**	**20,136**

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The fair values of plan assets (defined benefit obligations for Germany and the Netherlands) are entirely attributable to the asset class "reinsurance". The existing "reinsurance" assets are "qualifying insurance policies" and therefore plan assets not traded in an active market.

The average weighted duration of the pension obligation is 10 years for Germany, 29 years for the Netherlands, 18 years for Austria, 15 years for Italy, 22 years for France and 19 years for Switzerland and for Turkey 9 years.

Changes in provisions for post-employment benefits in the last five years are shown in the following table:

	31.12.2011 EUR '000	31.12.2012 EUR '000	Adjusted 31.12.2013 EUR '000	31.12.2014 EUR '000	31.12.2015 EUR '000	**31.12.2016 EUR '000**
Present value of pension commitment	8,432	14,805	11,490	19,982	21,770	**23,231**
Fair value of plan assets	-2,667	-3,925	-990	-2,555	-2,940	**-3,094**
Shortfall	5,765	10,880	10,500	17,427	18,830	**20,136**

A total EUR 643 thousand (previous year: EUR 797 thousand) is expected to be paid into pension plans in the 2017 financial year. These contributions will be recognized as expenses in the income statement.

Sensitivity analysis
The primary actuarial assumptions used to determine the defined benefit obligation in CGM Group are the discount rate, expected salary increases, and inflation expectations. The sensitivity analyses presented below are based on the best estimate of potential changes in the assumptions as of the balance sheet date, 31 December 2016. When presenting the effect of a change in one actuarial assumption in the sensitivity analysis, other actuarial assumptions remain unchanged.

	Increase		Decrease	
	in %	EUR '000	in %	EUR '000
Impact of the discount rate on pension commitment	1.00%	-3,790	1.00%	4,926
Impact of future salary increases on pension commitment	0.50%	479	0.50%	-445
Impact of future pension development on pension commitment	0.50%	757	0.50%	-678

For the above sensitivity analysis, it is unlikely that the scenario in question will occur in reality because it is likely that a change in one actuarial parameter assumption will correlate with others. The sensitivity analysis of the defined benefit obligations applies the same method used to calculate pension provisions recognized in the balance sheet.

c) Anniversary provision
The anniversary provision for the German companies (EUR 3,395 thousand; previous year: EUR 3,115 thousand) are calculated with a discount rate of 1.1 percent (previous year: 1.6 percent). In accordance with the option in IAS 19, the interest component is not presented as part of the interest income but as part of the operating cost and includes a change of interest of effectively 0.3 percent. The social security payments were considered with a 19.325 percent of the anniversary provision. The calculation is based on the "Richttafel 2005 G" from Prof. Dr. Klaus Heubeck.

An anniversary provision amounting to EUR 219 thousand was calculated for the Netherlands with a discount rate of 1.7 percent. The calculation was based on the "Prognosetafel AG2016".

13. Financial liabilities (current and non-current)
The financial liabilities of CGM Group comprise the following:

	31.12.2016		31.12.2015	
	Current EUR '000	**Non-current EUR '000**	Current EUR '000	Non-current EUR '000
Liabilities to banks	**42,073**	**316,122**	41,934	310,158
Other loans	**3,911**	**12,104**	3,799	14,603
Total	**45,984**	**328,226**	**45,733**	**324,761**

Compared to the previous year, all liabilities classified as finance leases are reported as other loans and therefore part of the financial liabilities.

In the financial year 2016, new liabilities to banks and other loans amounting to EUR 70,140 thousand were obtained and existing liabilities to banks and other loans amounting to EUR 68,398 thousand were redeemed.

a) Liabilities to banks
Liabilities to banks comprise the following:

	Book value 31.12.2015 EUR '000	**Book value 31.12.2016 EUR '000**	Thereof in Euro EUR '000	**Interest rate as at 31.12.2016 in %**	**Fair value as at 31.12.2016 EUR '000**
Konsortialkredit	312,789	**308,475**	308,475	**1.938**	**308,475**
IKB 5	14,935	**13,068**	13,068	**2.85**	**13,636**
Saar LB	–	**15,000**	15,000	**0.85**	**14,409**
SEB	4,147	**3,751**	3,751	**–**	**3,751**
Sparkasse Koblenz	3,946	**3,351**	3,351	**3.3**	**3,582**
Saar LB	1,315	**1,127**	1,127	**2.75**	**1,171**
Kreissparkasse Biberach	969	**844**	844	**2.75**	**873**
Saar LB	8,000	**7,000**	7,000	**2.85**	**7,305**
Commerzbank	3,631	**3,600**	3,600	**–**	**3,600**
Mediocredito Italiano SpA	915	**308**	308	**1.6**	**306**
Centrobanca Banco di Credito Finanziario e Mobiliare	144	**0**	0	**–**	**–**
MPS	386	**258**	258	**0.74**	**255**
Rabobank	682	**0**	0	**–**	**–**
Other	233	**1,413**	311	**–**	**1,413**
Total	**352,092**	**358,195**	**357,093**		**358,776**

As of 31 December 2016, the Group had gross debt of EUR 358.2 million and held EUR 27.8 million in cash.

On 23 September 2014, CGM entered into a new syndicated loan agreement for a total loan amount of EUR 400.0 million. The syndicated loan consists of a "term loan facility" (hereinafter "TLF") of EUR 225.0 million and a "revolving credit facility" (hereinafter referred to as "RLF") of EUR 175.0 million. The syndicated loan has a maturity of 5 years. The TLF is payable on a pro rata basis in equal payments of EUR 15.0 million on 31 January and 31 July of each year, beginning from 31 July 2015. Outstanding loan amounts at maturity of the TLF will be settled through a one-off payment. The RLF must be repaid at the end of each interest period, but can be obtained again immediately thereafter. The interest period for the RLF can be chosen arbitrarily by the CompuGroup Medical SE. The interest rate is based on the appropriate EURIBOR rate for the chosen interest period plus a margin based on the relation between the consolidated net debt and an adjusted consolidated EBITDA. The margin was 2 percent for the first six months.

As of 31 December 2016, EUR 180.0 million of the TLF and EUR 130.0 million of the RLF were utilized. Furthermore, loan origination fees with an amount of EUR 3.2 million were incurred, which are expensed over the term of the loan agreement. There is no interest rate hedge for the syndicated loan. The loan is granted on the condition of complying with contractually agreed financial covenants. The loan agreement is secured by a joint payment guarantee of a number of Group subsidiaries (i.e., a liability contingent on non-payment of CompuGroup Medical SE). In the current financial year 2016, CompuGroup Medical fully complied with all financial covenants in the existing credit agreements.

In December 2016, CompuGroup Medical SE entered into a loan agreement with Landesbank Saar, Saarbrücken, amounting to EUR 15.0 million. The loan term is 3.75 years and the interest rate is based on the EURIBOR dated two bank working days before pay-out or expiration of the respective fixed interest period plus a fixed margin of 0.85 percent until 30 September 2020. The loan value as of 31 December 2016 amounts to EUR 15 million.

In December 2013, a loan amounting to EUR 14.9 million, which was refinanced through KfW, was obtained from IKB Deutsche Industriebank, Düsseldorf (IKB No. 5). As of 31 December 2016, the loan value is EUR 13.1 million. The loan IKB No. 5 has a fixed interest rate of 2.85 percent. The interest is payable at the end of each financial quarter. The principal repayment is done quarterly at an amount of EUR 467 thousand; the first repayment was due on 31 March 2016. The loan term is 10 years.

In December 2013, CompuGroup Medical Deutschland AG entered into a mortgage loan agreement with Landesbank Saar, Saarbrücken, with the amount of EUR 10.0 million to finance the office buildings at "Maria Trost 25" and "Carl-Mand-Strasse". This loan has a term of ten years and has a fixed interest rate of 2.85 percent. The loan value as of 31 December 2016 was EUR 7.0 million.

In 2012, CompuGroup Medical Deutschland AG entered into a mortgage loan agreement with Sparkasse Koblenz with the amount of EUR 6.1 million to finance the acquisition of the office building "Maria Trost 21". This loan has a term of ten years and a fixed interest of 3.3 percent. The loan value as of 31 December 2016 is EUR 3.4 million.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Other liabilities to banks include:
- Overdraft facilities amounting to EUR 3.8 million (from SEB) and in the amount of EUR 3.6 million (from Commerzbank).
- A loan of CompuGroup Medical Deutschland AG with a mortgage amounting to EUR 3.0 million and a payment guarantee by the parent company was granted as collateral. The loan value as of 31 December 2016 is EUR 1.1 million.
- A loan of CGM Clinical Deutschland GmbH with a mortgage of EUR 3.0 million was granted. The loan values as of 31 December 2016 was EUR 0.8 million.
- Two loans of Italian subsidiaries. The loan values as of 31 December 2016 were EUR 0.6 million.

b) Other loans
As of 31 December 2016 other loans amounted to EUR 16,015 thousand (previous year: EUR 18,401 thousand). These mainly comprise the funding of the "OneGroup Project", which is classified under the position other financial liabilities as "sale-and-lease-back" finance lease agreement.

c) Expected payments for financial liabilities

In EUR '000	Total financial debt	Thereof: liabilities to banks
2017	46,084	42,172
2018	37,381	33,506
2019	257,457	253,577
2020	22,602	18,860
2021	3,989	3,882
2022	3,352	3,238
2023	3,081	2,961
2024	128	0
2025 and after	136	0
Total	**374,210**	**358,195**

14. Purchase price liabilities (current and non-current)

	31.12.2016			31.12.2015		
Resulting from business combination	Current EUR '000	Non-current EUR '000	Total EUR '000	Curent EUR '000	Non-current EUR '000	Total EUR '000
Innomed GmbH	7,288	0	7,288	6,471	0	6,471
CGM Netherlands	0	0	0	1,100	0	1,100
EBM AG (formerly: Dr. Ralle/ÄND)	0	0	0	500	0	500
LMZ AG	90	0	90	90	0	90
Puntofarma	129	0	129	130	0	130
BS Concept Realization BV	125	0	125	125	0	125
Opas Sozial	100	0	100	61	0	61
Turbomed Vertriebs- und Service	0	0	0	50	0	50
KoCo Konnektor AG	1,098	0	1,098	23	0	23
Medicitalia	315	445	760	630	760	1,390
FARMA3TEC	0	1,651	1,651	0	1,610	1,610
Meditec GmbH	0	0	0	0	951	951
Xdent (formerly: Tekne)	494	470	964	0	940	940
Qualita in Farmacia	0	0	0	0	361	361
CGM Poland	0	9	9	0	9	9
Compufit	150	0	150	0	0	0
Vega	413	894	1,307	0	0	0
CSI	83	43	127	0	0	0
Micromedic	250	0	250	0	0	0
Total	**10,535**	**3,512**	**14,047**	**9,180**	**4,632**	**13,812**

Changes to previous year
CGM Netherlands: Due to a court settlement between the two parties, the short-term purchase price liability of EUR 1,100 thousand as of 31 December 2015 no longer exists in 2016.

Meditec GmbH: In January 2013 CGM Deutschland AG acquired 70 percent of the shares of Meditec GmbH. The total purchase price of these shares amounted to EUR 1,562 thousand and was paid in 2013. For the additional 30 percent of the shares a call-option and two put-options were agreed. The resulting purchase price liability as of 31 December 2015 was EUR 951 thousand.

With a notarial share purchase agreement dated on 5 August 2016, CGM Deutschland AG acquired the remaining 30 percent of the Meditec GmbH shares for a price of EUR 300 thousand. At the same time both sides waived their rights of exercising the call-option and put-options respectively.

Turbomed Vertriebs- und Service: According to the contractual agreement signed in 2014, CGM was obliged to pay out the provision for a legal case that was pending at the time of the acquisition. After successful settlement of the legal case in 2015 the provision was derecognized. The purchase price liability relating to the provision amounting to EUR 50 thousand was paid in 2016.

EBM AG (formerly Dr. Ralle/ÄND): The outstanding purchase price relating to the acquisition of 100 percent of the shares of EBM AG (formerly Dr. Ralle Medienholding GmbH) in 2013 has been recognized as a purchase price liability with an amount of EUR 500 thousand under the position purchase price liabilities as of 31 December 2015 and has been completely paid in 2016.

Qualità in Farmacia: In June 2016 CompuGroup Medical Italia Holding S.r.l. exercised the call option to acquire the outstanding 5 percent of the shares of Qualità in Farmacia. The call option had a fixed exercise price of EUR 375 thousand, which was paid out in full. CompuGroup Medical Holding S.r.l. now owns 100 percent of the shares of Qualità in Farmacia.

Medicitalia: In August 2015, CompuGroup Medical Italia SpA, a wholly-owned subsidiary of CompuGroup Medical SE, acquired 90 percent of the shares of Medicitalia S.r.l., Italy. The purchase price amounted to EUR 3,150 thousand, of which EUR 2,205 thousand were paid in 2015. The remaining short-term share of the purchase price as of 31 December 2015 amounting to EUR 630 thousand was paid in the financial year 2016. The remaining purchase price is recognized as a purchase price liability.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Current purchase price liabilities (due in less than a year)
Innomed GmbH: Purchase price liability from the put option of non-controlling shareholders for the remaining 29.7 percent of Innomed shares. The purchase price is based on the estimated average EBITDA in 2014 and 2015 multiplied by six. Furthermore, undistributed profits of EUR 3,673 thousand since the financial year 2010 are proportionately (at 29.7 percent) recognized as a purchase price liability (EUR 7,288 thousand). The put options may be exercised from 1 January 2014 until 31 December 2018.

LMZ AG: In the course of the acquisition of LMZ AG in 2015, EUR 90 thousand were retained as security which corresponds to 10 percent of the purchase price. Due to a pending lawsuit regarding the amount of the outstanding purchase price liabilities, the payment, lowered by a potential reduction of the purchase price, will likely take place in 2017.

KoCo Konnektor AG: As a result of an out-of-court settlement in January 2017 the parties agreed on an acquisition price with two components: reseller contract and a fixed purchase price component. These are recognized as a short-term purchase price liability amounting to EUR 1,098 thousand. The liability amount is derived from the out-of-court settlement price of the call-options exercised as of November 2014 to acquire 45 percent of the shares of KoCo Konnektor AG.

Medicitalia: In accordance with the signed share purchase agreement the agreed purchase price is due in several installments. At of the fiscal year end, the share of the purchase price amount due in 2017 amounting to EUR 315 thousand is presented as a current purchase price liability.

Puntofarma: The current share of the outstanding purchase price payment to acquire the assets of "Puntofarma". The amount of EUR 129 thousand is presented as purchase price liability and is retained as security. The payment is expected in the financial year 2017.

CompuGroup Medical Nederland B.V./BS Concept Realization BV: An earn-out clause was agreed upon in the contract that stipulates an additional purchase price payment of 15 percent of the revenues that will occur in the second year after the date of acquisition ("Second Year Realized Revenue"). The expected payment from this earn-out agreement amounts to EUR 125 thousand.

"Opas Sozial": Contractual earn-out agreement securing 20 percent of the revenue from software maintenance and service contracts as well as license sales from the "OPAS Sozial" business segment for the past three financial years. The amount to be paid from the earn-out agreement is recognized by CGM as a purchase price liability with the amount of EUR 100 thousand. The payment will occur in the financial year 2017.

XDent (formerly Tekne): A put and call option for the acquisition of the remaining 20 percent of shares were agreed upon. The option volume is based on Tekne's annual software maintenance revenue in the year the option is exercised. The exercise period of the call option for the first 10 percent will run from 1 January 2017 to 30 June 2017. The exercise period of the agreed put option for the first 10 percent will run from 1 July 2017 to 31 December 2017. The expected payout relating to the put option for acquiring the first 10 percent of the outstanding shares amounts to EUR 500 thousand and is accounted for as a discounted purchase price liability as of the balance sheet date. The options for the second 10 percent are explained in the section non-current purchase price liabilities.

Compufit: The contractual earn-out clause with a yearly earn-out of EUR 50 thousand and a duration of four years.

Vega: According to the signed share purchase agreement, the agreed purchase price is due in several tranches. As of the balance sheet date, the short-term share of the contractually outstanding purchase price payment with the amount of EUR 413 thousand, which is due in 2017, is presented as purchase price liability.

CSI: Short-term part of the outstanding purchase price payment to acquire the assets "CSI". The payment will be occur in financial year 2017.

Micromedic: Outstanding contractually agreed purchase price amounting to EUR 250 thousand. The amount is currently kept as a security.

Non-current purchase price liabilities (due in more than one year)
Medicitalia: A call option concerning the acquisition of the outstanding 10 percent of the Company shares was agreed upon. It is based on the EBITDA of the last annual balance sheet prior to the exercising of the option times six. The purchase price amounts to 10 percent of the value of the call option. The expected payment from the call option for the remaining 10 percent of the Medicitalia shares amounts to EUR 445 thousand at the balance sheet date.

Farma3Tec: A put and call option for the acquisition of the remaining 20.02 percent of shares has been agreed upon. The holder of the put option has the right, for a period of one to five years after the acquisition, to sell to CGM Group all of the remaining 20.02 percent of the shares at the following, fixed conditions:
- One year after the acquisition: EUR 1,620 thousand
- Two years after the acquisition: EUR 1,640 thousand
- Three years after the acquisition: EUR 1,680 thousand
- Four years after the acquisition: EUR 1,720 thousand

A discount rate of 2.5 percent is used for the purchase price liabilities.

XDent (formerly Tekne): The exercise period of the call option for the second 10 percent will run from 1 January 2019 to 30 June 2019. The exercise period of the put option for the second 10 percent will run from 1 July 2019 to 31 December 2019. The amount of the expected payment resulting from the put option for the transfer of the second tranche of 10 percent of the outstanding shares amounts to EUR 500 thousand. A discount rate of 2.5 percent is used for the purchase price liability.

Vega: The outstanding purchase price payment has been discounted with 2.5 percent as of the balance sheet date and has been presented as part of the non-current purchase price liabilities with the amount of EUR 396 thousand.

Additionally, a call/put option concerning the acquisition of the outstanding 10 percent of the company shares was agreed upon, which has a value of EUR 498 thousand as of the balance sheet date and was disclosed as a non-current purchase price liability.

CSI: The long-term part of the outstanding purchase price payment to acquire the assets "CSI". The payment will occur 24 months after acquisition date.

15. Trade payables

	31.12.2016 EUR '000	31.12.2015 EUR '000
Trade payables	**31,381**	**27,349**

Trade payables amounting to EUR 31,381 thousand (previous year: EUR 27,349 thousand) have a maturity of up to one year. Liabilities from trade payables pertaining to companies acquired in the financial year 2016 amounted to EUR 677 thousand as of 31 December 2016.

16. Other provisions
The development of current provisions for personnel and other provisions for the financial year 2016 is as follows:

in EUR '000	Personnel expenses	Guarantee and sales commitments	External year-end accounting costs	Legal charges	Others	Total
Balance as at 1 January 2016	20,974	393	1,447	1,613	4,655	29,083
Changes in exchange rates	-18	1	-1	-31	-4	-53
Addition from first time consolidation	64	0	0	0	114	178
Additions	20,549	70	1,397	1,094	6,326	29,435
Utilization	-15,227	-130	-1,103	-664	-7,056	-24,181
Reversal	-2,879	-10	-160	-312	-1,305	-4,667
Balance as at 31 December 2016	23,462	324	1,581	1,699	2,729	29,795

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The development of current provisions for personnel and other provisions for the prior-year period 2015 is as follows:

in EUR '000	Personnel expenses	Guarantee and sales commitments	External year-end accounting costs	Legal charges	Others	Total
Balance as at 1 January 2015	**22,053**	**709**	**1,443**	**1,624**	**5,005**	**30,834**
Changes in exchange rates	30	18	0	-20	160	189
Addition from first time consolidation	282	28	22	28	107	467
Additions	13,305	192	1,494	379	5,597	20,967
Utilization	-11,908	-24	-1,477	-373	-6,071	-19,854
Reversal	-2,786	-531	-34	-25	-143	-3,520
Balance as at 31 December 2015	**20,974**	**393**	**1,447**	**1,613**	**4,655**	**29,083**

Provisions for personnel expenses result primarily from provisions for wages and salaries (2016: EUR 12,741 thousand; previous year: EUR 12,066 thousand). In addition the position includes bonuses and commissions (2016: EUR 3,115 thousand; previous year: EUR 4,077 thousand), vacation provisions (2016: EUR 5,615 thousand, previous year: EUR 3,232 thousand), and overtime provisions (2016: EUR 923 thousand, previous year: EUR 1,022 thousand). These are calculated on the basis of the underlying hourly rates and social security deductions.

The provisions for guarantees relate to contractual commitments in connection with the installation of hospital software solutions.

The provisions formed for legal charges in the 2016 financial year largely stem from the subsidiaries CGM Solutions France (EUR 579 thousand), CGM France (EUR 221 thousand), CGM Italy (EUR 205 thousand), CGM Turkey (EUR 190 thousand), Intermedix France (EUR 174 thousand), Imagine Editions SAS France (EUR 103 thousand). They generally pertain to legal disputes with former employees and customers.

Provisions for guarantees and legal charges are, by their very nature, subject to higher levels of uncertainty. The other provisions mainly relate to current provisions. Only the provisions for guarantees and warranty include a portion that would be expected at a later date than 12 months after the reporting date. Expenses resulting from unwinding discounted amounts are not separately disclosed for reasons of materiality.

17. Other financial and non-financial liabilities and derivative instruments

a) Other financial liabilities

Other financial liabilities are broken down as follows:

	31.12.2016		31.12.2015	
	Current EUR '000	Non-current EUR '000	Current EUR '000	Non-current EUR '000
Leasing liabilities	**95**	**902**	127	1,003
Loans	**42**	**0**	14	0
Received partial payments PoC	**–**	**–**	1,449	0
Liability from PoC	**442**	**0**	2,058	0
Liabilities for wages and salary	**2,846**	**0**	3,242	0
Liabilities for social security cost	**–**	**–**	2,485	0
Debtors with credit balances	**538**	**0**	1,499	0
Prepayment for projects	**–**	**–**	2,244	0
Financing of SAP "OneGroup Project"	**3,785**	**11,213**	3,785	14,603
Liability for purchase land and building	**2,800**	**0**	0	0
Other financial liabilities	**881**	**353**	1,515	317
Total	**11,429**	**12,468**	**18,418**	**15,923**

Compared to the previous year, liabilities from social insurance costs of EUR 2,307 thousand (previous year: EUR 2,485 thousand), advance payments received of EUR 1,599 thousand (previous year: 2,244) as well as partial payments for projects valued according to the PoC method of EUR 1,013 thousand (previous year: EUR 1,449 thousand) are presented under the non-financial liabilities and not under the other financial liabilities.

Liabilities from finance leases are as follows, whereby – differing from the previous year – the "OneGroup Project" is included in the presentation.

	31.12.2016			31.12.2015		
Financial lease liabilities	Future minimum lease payments EUR '000	Interest component EUR '000	Present value of future leasing receivables EUR '000	Future minimum lease payments EUR '000	Interest component EUR '000	Present value of future leasing receivables EUR '000
< 1 year	**4,253**	**373**	**3,880**	195	68	127
1-5 years	**12,216**	**600**	**11,616**	589	192	397
> 5 years	**560**	**61**	**499**	699	93	606
Total	**17,029**	**1,034**	**15,995**	**1,483**	**353**	**1,130**

Of the present value of the lease liabilities in the amount of EUR 15,995 thousand, EUR 14,998 thousand are attributable to the "OneGroup Project". These liabilities correspond to assets with a book value of EUR 16,793 thousand (previous year: EUR 15,114 thousand), which are reported under intangible assets.

The sale-and-lease-back agreement with the lease company includes the following points:
– The leasing company acquires all rights of use and other rights arising in the development of the system solution against payment of the project costs and commits to leave the leased object of CompuGroup Medical SE during the term of the contract.
– The maximum purchase price (maximum project costs) is EUR 17.0 million
– The term of the agreement is undetermined and can be terminated for the first time after 36 months.
– The monthly rate is 1.654% of the purchase cost. The calculation of the installments is based on an assumed contract term of at least 60 months.
– In the case of ordinary termination, CompuGroup Medical SE is obliged to pay the lease company the following amount:
  At the end of the 36th month 39.23%
  At the end of the 54th month 9.9%
  At the end of the 60th month 0.0%
  Thereafter 0%.

The contract with the lease company was based on the same obligations to maintain certain financial covenants as for syndicated loans. In the case of an infringement, the lease company has the right to withdraw from the contract in whole or in part.

CGM Clinical Austria entered into a sale-and-lease-back agreement for a building in cooperation with a lease company in 2009. The resulting lease liabilities are disclosed in other liabilities at their present value of EUR 975 thousand as of 31 December 2016.

b) Other non-financial liabilities

Other non-financial liabilities are broken down as follows:

	31.12.2016		31.12.2015	
	Current EUR '000	Non-current EUR '000	Current EUR '000	Non-current EUR '000
Deferred income	**19,946**	**0**	18,730	0
VAT, payroll tax	**13,737**	**0**	12,517	0
Investment grants	**0**	**1,384**	0	1,475
Guarantees	**0**	**1,437**	0	1,720
Advanced payments	**2,612**	**0**	–	–
Liabilities for social security cost	**2,307**	**0**	–	–
Other non-financial liabilities	**945**	**18**	1,730	720
Total	**39,547**	**2,839**	**32,977**	**3,915**

Compared to the previous year, liabilities from social insurance costs of EUR 2,307 thousand, advance payments of EUR 1,599 thousand and partial invoices for projects valued according to the PoC method of EUR 1,013 thousand are reported under the other non-financial liabilities and not under the other financial liabilities.

c) Derivative financial instruments

As in the previous year, CGM Group does not disclose a derivative financial instrument classified as liability at the reporting date.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

18. Sales revenues
Sales revenues can be broken down as follows:

	2016 EUR '000	2015 EUR '000
Software licenses	45,983	39,265
Software maintenance and other recurring revenue	374,901	361,194
Services	64,363	67,000
Hardware	35,449	36,293
Advertising, eDetailing and data	30,005	30,062
Software Assisted Medicine	5,600	1,487
Other revenue	3,894	7,765
Total	560,195	543,066
Thereof construction contracts (PoC-revenue)	14,642	15,569

The "Gematik" project contributes in 2016 revenues with the amount of EUR 6,421 thousand (previous year: EUR 4,990 thousand) to the group. To evaluate the percentage of completion the cost-to-cost-method was applied.

19. Research and development expenses and capitalized in-house services
a) Research and development expenses
Research and development expenses include all costs arising in the course of software research and development activities. Exceptions to this are development costs incurred due to statutory or contractually mandated ongoing development work (updates, maintenance etc.), which cannot be predetermined or controlled by the CGM Group.

Total expenses for research and development, which were recognized in the income statement, amounted to EUR 21,501 thousand (previous year: EUR 16,554 thousand).

b) Capitalized in-house services
Capitalized in-house services within the CGM Group pertains to the capitalization of expenses for in-house software and the applicable expenses of its own employees for Group-wide implementation of the new Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) software. The ERP and CRM software was introduced as part of the "One Group" project that meets the criteria set forth by IAS 38.

In the financial year 2016, approximately 237,931 working hours were performed (previous year: approximately 269,000 hours) and capitalized along with their applicable cost rates. Depending on the country, the hourly rate for capitalization fluctuates between EUR 18 and EUR 55.

20. Other income

	2016 EUR '000	2015 EUR '000
Income from services performed	622	1,315
thereof rental income	123	301
thereof services related income	422	669
thereof investment grants	77	345
Remaining other operating income	7,308	2,544
thereof compensation received from damages	198	208
thereof gain on sale of fixed assets	717	176
thereof revenues from valuation allowances/reversals	1,618	91
thereof revenues from reversals of purchase price liabilities	700	227
thereof revenues from out-of-court settlements	1,718	0
thereof other	2,357	1,842
Total	7,930	3,859

Rental income is derived primarily from renting out office, warehouse and training spaces in Koblenz to related parties. Investment grants have been primarily granted to the subsidiary CGM Clinical Austria in accordance with the Austrian research premium decree (Forschungsprämienverordnung). The income from services performed relates to operating the company cafeteria and providing management services to partners.

In the financial year 2016, settlements of litigation in Switzerland and Netherlands resulted in other income with the amount of EUR 1.7 million.

21. Expenses for goods and services purchases

	2016 EUR '000	2015 EUR '000
Software licenses	7,006	6,264
Software license and other recurring revenue	48,684	48,470
Services	17,225	17,727
Hardware	24,138	22,092
Advertising, eDetailing and data	1,896	1,648
Software Assisted Medicine	1,003	1,043
Other cost of goods	4,409	3,267
Total	104,361	100,511

The position "Software maintenance and other recurring revenue" primarily relates to external service providers operating the customer service hotline as well as sales activities.

22. Personnel expenses and employees
a) Personnel expenses

	2016 EUR '000	2015 EUR '000
Wages and salaries	207,145	200,460
Employer social security costs	42,031	41,072
of which net pension expenses – Benefits	2,128	1,966
of which net pension expenses – Contribution	11,407	11,255
Termination benefits	3,307	3,304
Other personnel expenses	7,600	5,790
Total	260,083	250,626

In 2016, contributions to domestic statutory health insurance organizations amounted to EUR 7,474 thousand (previous year: EUR 8,086 thousand).

b) Employees
The average number of CGM Group employees for the financial years 2016/2015 were as follows:

	2016	2015
Group employees (FTE)	4,293	3,582
Apprentices	96	102
Part time	572	573
Total	4,961	4,257

The average number of employees in a managerial role in CGM Group amounts to 75 (previous year: 67). The Management Board of CompuGroup Medical SE was not counted.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

23. Other expenses
Other expenses can be broken down as follows:

	2016 EUR '000	2015 EUR '000
Losses on disposal of fixed assets	37	3
Bad-debt adjustments	2,918	3,438
Administrative and sales expense	85,377	89,643
Total	**88,332**	**93,084**
Administrative and sales expenses:		
Legal and consulting fees	12,485	13,148
Occupancy	16,037	15,697
Outsourcing	12,740	11,280
Company cars	10,165	9,871
Travel	8,740	8,949
IT (software maintenance etc.)	2,380	2,978
Advertising/Entertainment	6,260	5,766
Telephone	4,855	4,778
Trade fairs	2,840	3,045
Postage	1,418	1,491
Office and business equipment	4,128	3,112
Insurances/Fees/Contributions	1,482	1,678
Other	1,847	7,851
Total	**85,377**	**89,643**

The significant decrease of the other expenses in comparison to the previous year mainly results from the recognition of expenses for one-time effects in the previous year with the amount of EUR 4,621 thousand from an increase of provision for contingent losses and contractual penalties. The other operating expenses include a purchase price liability of EUR 1,076 thousand, which resulted due to a settlement out of court with the former shareholder of the KoCo Konnektor AG from January 2017.

24. Depreciation and amortization
Depreciation of property, plant and equipment is comprised as follows:

	2016 EUR '000	2015 EUR '000
Land and buildings	1,854	2,222
Other facilities, furniture and office equipment	6,569	5,576
Total	**8,423**	**7,798**

Amortization of intangible assets is comprised as follows:

	2016 EUR '000	2015 EUR '000
Goodwill/Business value	4,386	1,352
Software	12,019	16,526
Customer relationships	12,562	12,882
Brands	2,972	3,228
Order backlog	289	255
Capitalized in-house services	3,172	2,504
Total	**35,400**	**36,747**

25. Results from associated companies at equity
The results from associated companies in the financial year 2016 amounted to EUR -1,409 thousand (previous year: EUR -911 thousand). The increase mainly results from the at equity valuation of MGS GmbH.

26. Financial income and financial expenses
a) Financial income
Financial income is broken down as follows:

	2016 EUR '000	2015 EUR '000
Interest on loans	73	57
Currency gain or loss	7,081	12,885
Other	932	1,194
Total	**8,086**	**14,136**

Other financial income also includes interests on tax credits.

b) Financial expense
Financial expenses are broken down as follows:

	2016 EUR '000	2015 EUR '000
Interest on loans	9,486	13,217
Capitalized borrowing costs on qualified assets	-783	-2,578
Loan origination fees	1,068	871
Increases/Changes in purchase price liabilities	1,760	1,451
Currency loss on loans	2,777	5,785
Other interest	0	50
Total	**14,308**	**18,795**

The capitalized borrowing costs on qualified assets decreased particularly due to a significant lower interest rate and one-time effects in the previous year.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

27. Income taxes

Income taxes are comprised as follows:

	2016 EUR '000	2015 EUR '000
Income tax paid or owed	**30,311**	**35,136**
Germany	**15,508**	**18,433**
Current tax expense	16,384	12,801
Tax adjustments from prior years	-876	5,632
Other countries	**14,803**	**16,703**
Current tax expense	15,193	16,328
Tax adjustments from prior years	-390	375
Deferred taxes	**-568**	**-11,554**
from temporary differences	1,976	-11,490
from tax adjustments from prior years	1,429	-55
from changes in tax rate	-215	-9
from recognition of tax losses from previous periods	-3,758	0
Total	**29,743**	**23,582**

(Deferred) income taxes, which are recognized directly in other comprehensive income, are broken down as follows:

	2016 EUR '000	2015 EUR '000
Current taxes	**0**	**0**
Deferred taxes	**-154**	**-120**
Arising in combination with income and expenses recognized in other comprehensive income	**-154**	**-120**
Conversion of foreign operations	0	0
Fair value revaluation of financial instruments classified as "available for sale"	0	0
Fair value revaluation of hedging instruments entered into for cash flow hedges	0	0
Property revaluations	0	0
Revaluation of defined benefit obligation	-154	-120
Arising from income and expenses reclassified from equity to profit or loss	**0**	**0**
Relating to cash-flow hedges	0	0
Relating to financial instruments classified as "available for sale"	0	0
On divestiture of a foreign operation	0	0
Arising from gains/losses of hedging instruments in cash flow hedges transferred to the initial carrying amounts of hedged items	**0**	**0**
Deferred tax recognized in other operating income	**-154**	**-120**

The consolidated tax rate serves as the basis for corporation tax and legal structure planning. Hence, the Group tax rate is held to be a figure that contains information about the Company's (income) tax burden. In accounting terms, the ratio of the reported income tax expense and profit before tax will give rise to the Group tax rate.

Consequently, the consolidated tax charge is the sum of current and deferred tax whereby the utilization of losses brought forward, the use of tax credits, tax allowances and the book value of deferred tax assets have a favorable impact on the final consolidated tax rate.

The weighted average tax rate was unchanged compared to the previous year and amounts to 30 percent, which corresponds to the corporate tax rate borne by CompuGroup Medical SE in Germany on taxable profits. Under German tax regulations, taxes on income include the "Körperschaftssteuer" (corporation tax), "Gewerbesteuer" (local business tax) and the "Solidaritätszuschlag" (solidarity surcharge for the former East Germany). For domestic legal entities of the CGM Group the corporation tax amounts to 15 percent (previous year 15 percent), the solidary surcharge for the former East Germany amounts to 5.5 percent on corporation tax (previous year 5.5 percent on corporation tax) as well as the local business tax amounting to 14 percent (previous year 14 percent). For foreign subsidiaries their respective national tax rates are applied for the financial year.

The reconciliation between the statutory tax rate (nominal) and the actual tax rate is shown below:

	2016 EUR '000	2016 in %	2015 EUR '000	2015 in %
Earnings before taxes (EBT)	**74,213**		**62,204**	
Nominal tax rate – theoretical tax expense	**22,264**	**30%**	**18,661**	**30%**
Effect of differing domestic tax rates	-659	-0.9%	-425	-0.7%
Effects of tax rate changes on deferred taxes (balanced)	-199	-0.3%	-11	0.0%
Expense from tax audit	435	0.6%	1,824	2.9%
Tax reimbursement for prior years	-867	-1.2%	-129	-0.2%
Tax expense for prior years	654	0.9%	550	0.9%
Effects from unrecognized deferred tax assets from loss carry forward and temporary differences	4,383	5.9%	-388	-0.6%
Effects of non-tax-deductible expenses	1,835	2.5%	828	1.3%
Effects of non-tax-deductible amortization of goodwill	1407	1.9%	329	0.5%
Tax expense from permanent differences	-76	-0.1%	2,358	3.8%
Other differences	565	0.8%	-16	0.0%
Effective tax expense	**29,743**	**40%**	**23,582**	**38%**

The impact of changes in tax rates on deferred taxes is primarily related to the Italian subsidiaries.

Deferred tax assets referring to benefits from as yet unused losses carried forward that were not capitalized in reference to German group companies concern the subsidiaries CGM LAB International GmbH, as well as CGM LAB Deutschland GmbH. In reference to group companies abroad, deferred tax assets referring to benefits from as yet unused losses carried forward that were not capitalized, concern the subsidiaries CompuGroup Medical Inc. (USA), CompuGroup Medical Schweiz AG (Switzerland), CGM Lab France, CGM Poland and the CompuGroup Medical Malaysia Sdn Bhd (Malaysia).

The effects on deferred tax assets that are not recognized, concerning temporary differences as well as unused losses carried forward, consider the reduction of income tax expense due to the usage of deferred tax assets on losses carried forward as well as temporary differences.

Furthermore, the deferred tax expense decreases due to the recognition of deferred tax assets on losses carried forward and temporary differences of an earlier period.

The other effects on deferred tax assets that are not calculated, concern substantially losses carried forward for which no deferred tax assets were recognized.

The actual tax expense recognizes tax expenses for other accounting periods concerning German and non-German subsidiaries.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

28. Earnings per share from continuing operations

	31.12.2016	31.12.2015
Consolidated net income for the period allocated to the parent company in EUR '000	**44,530**	**38,494**
Number of ordinary shares (#)	**53,219,350**	53,219,350
Treasury shares (#)	**3,495,731**	3,495,731
Outstanding ordinary shares at closing date (#)	**49,723,619**	**49,723,619**
Earnings per share (in EUR)		
– undiluted	**0.90**	0.77
– diluted	**0.90**	0.77

F. Segment reporting

For the definition of the business segments, the Management Board draws on reports that are also available to the Supervisory Board and analysts for their strategic decisions. In order to reflect regional differences of the healthcare industry with regard to organization and regulation, the reporting covers product and service-related financial data as well as regional information. For management purposes as well as resource allocation, the product and service-related structure is a decisive parameter and is divided into a total of six business segments.

CompuGroup Medical SE is active in the following business segments:
- Ambulatory Information Systems (AIS) is focused on practice management software and electronic medical records for office-based physicians, dentists, laboratories, medical care centers and physician's networks.
- Pharmacy Information Systems (PCS) is focused on integrated clinical, administrative and financial software applications for pharmacies and mail order pharmacies.
- Hospital Information Systems (HIS): Hospital, laboratory and special care information systems.
- Communication & Data (C&D): Targeted at pharmaceutical and medical equipment manufacturers, enabling them to provide information to physicians through software interfaces.
- Workflow & Decision Support (WDS): Targeted at healthcare payers (health insurers, managed care companies and public sector organizations) and physicians by providing an information channel via software interfaces to optimize decision-making.
- Internet Service Provider (ISP): targeted at healthcare providers (physicians, dentists, pharmacists and hospitals), providing internet/intranet networks for information exchange.

The Company has defined EBITDA (earnings before interest, tax, depreciation and amortization) as a key financial indicator for the evaluation and assessment of segment performance. EBITDA represents the segment result.

The reporting segments can be described and summarized as follows:

The reporting segment Health Provider Services I (HPS I) contains the business segments Ambulatory Information Systems (AIS) and Pharmacy Information Systems (PCS) The reporting segment Health Connectivity Services (HCS) encompasses the business segments Communication & Data (C&D), Workflow & Decision Support (WDS) and Internet Service Providers (ISP). For the external reporting the business segment Hospital Information Systems (HIS) is presented in the reporting segment Health Provider Services II (HCS II).

The Ambulatory and Pharmacy Information Systems business segments are tailored to smaller service providers and laboratories, in which customers are usually both buyers and decision-makers, as well as daily software users. The sales cycles and decision-making processes are generally short and the installation and provision of the software solutions can generally be completed within a few days to a few weeks. Software maintenance and other recurring revenues represent the main source of income. In recent years, the share of recurring income remained constant at about 75 percent. Other revenue is revenue from license sales as well as training, consulting and implementation services and other income from third-party software licenses, as well as related hardware, equipment, etc. The customer relationships are generally experienced as long-term. In accordance with IFRS 8.12, the Ambulatory and Pharmacy Information Systems business segments were combined into a single reporting segment as the segments have similar economic characteristics and are similar in various other aspects, such as the business model and the customer and product portfolio.

The Hospital Information Systems business segment is pursuing a project-oriented business model in which our customer is generally a buyer and decision-maker but not a daily software user. In this segment, customers are mostly hospital administrations (IT department or procurement department), the operating company of a hospital chain or other operators of hospital networks, regional nursing organizations or regional public organizations. In Europe, hospitals and nursing homes are predominantly governed by public law and are therefore subject to regulatory requirements for public tenders. The lead times for the receipt of a project order and decision-making cycles are long. Project duration can be several months or even several years from the installation to go-live of the software solution by the customer. Compared to the business segments Ambulatory and Pharmacy Information Systems, sales from consulting, training and other services are significantly higher. Software maintenance and other recurring revenues currently account for approximately 56 percent of total revenues.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

In accordance with IFRS 8.12, the business segments Communication & Data, Workflow & Decision Support and Internet Service Providers were combined into a single reporting segment, as these business segments are intended to provide product solutions for all health care providers in order to interconnect and provide effective communication and workflow processes. The business model of the Communication & Data business segment is based on cooperation agreements with pharmaceutical companies (usually with a duration of six to twelve months), occasional advertising (continuous) and revenue from contracts for the collection and procurement of clinical data. Revenues from the Workflow & Decision Support segment are based on project business (license sales and services), software maintenance and technical support, and performance-related revenues (based on cost and quality of service for patients). The business model of the Internet Service Provider segment is based on subscription contracts, which generates almost all revenue in this segment and ensures a secure exchange of data between the service providers and health care payers in the current target markets.

The “Other segments” category (IFRS 8.16) mainly comprises income and expenses from software development located at headquarters in Koblenz.

“Reconciliation” comprises corporate functions managed from Koblenz headquarters (e.g. IT, Human Resources, Legal) and consolidation measures between the segments. Transactions between business divisions were generally carried out in the same way as those between external third parties.

The segment information is based on the same disclosure and evaluation methods as the consolidated financial statements. Transactions among the Group’s segment companies are always agreed at arm’s length.

G. Other disclosures

Notes on the cash flow statement and cash equivalents
CGM Group creates the consolidated cash flow statement pursuant to International Accounting Standard (IAS) 7 “Statement of Cash Flows”. CGM Group discloses its cash flows in order to reveal the sources and uses of cash and cash equivalents. It distinguishes between cash flows from operating activities, investing activities and financing activities.

Cash funds include cash on hand, checks, balances at banks and other financial assets with a maturity of no more than three months and equal the cash and cash equivalents balance sheet amount as of reporting date. In cash and cash equivalents, securities are therefore recognized to the extent they are short-term and not subject to a significant risk of price fluctuations. In addition, the cash and cash equivalents includes bank deposits (EUR 2,405 thousand), which are mainly classified as restricted cash due to capital export restrictions (see also section “E. 9. Cash and cash equivalents”). The effects of currency conversion are adjusted for in the calculation and shown separately in the cash flow statement.

Cash flows from operating activities are determined by first adjusting consolidated net income for non-cash items such as depreciation, impairment, write-ups of intangible assets and property, plant and equipment while including changes in provisions and changes in other assets and liabilities as well as in net current assets.

Cash flows from investing activities partly pertain to cash outflows for investments in intangible assets, property, plant and equipment, subsidiaries and other business units as well as investments accounted for under the at equity method and jointly controlled entities. In addition, this is where we document the proceeds from the sale of intangible assets and property, plant and equipment and subsidiaries and other business units.

The outflows for acquisitions of subsidiaries and other business units relate to acquisitions and sales shown in the section “Company acquisitions”.

With regard to cash flows from financing activities, we report both paid and received dividends, the repayment of debt and new borrowing, payments for the acquisition of non-controlling interests and other financing transactions, as well as re-payments of liabilities from finance leases. The change in financial liabilities during the year was marked by the additional borrowing. Furthermore, loans as well as liabilities from finance leases have been settled according to schedule.

Payments for income taxes are already included in the consolidated net income, which is the basis for the calculation of cash flows from operating activities. The actual amount of income tax payments during the reporting period is reported as additional information below the cash flow statement. The same applies to the reporting of interest paid and received.

Capital management
CGM Group aims to strengthen its equity base in the long term and to achieve an adequate return on capital invested. However, the Group’s accounting capital is only a passive risk control criterion, while revenue and EBITDA are active control elements.

CGM Group’s capital structure consists of net debt (incurred borrowings less cash and cash equivalents) and the Group’s equity. Group equity includes issued shares less treasury shares, capital and revenue reserves, other reserves as well as shares of non-controlling shareholders. A detailed breakdown of the Group’s equity can be found in the “Changes in equity” or “Equity” sections.

It is both the target and the strategy of capital management to comply with or to optimize the financial covenants set out in credit agreements so as to continue further funding with unchanged or improved terms and conditions.

The consolidated equity ratio as disclosed in the consolidated financial statements as of 31 December 2016 amounted to 27.06 percent (previous year: 24.33 percent) and is particularly affected by:
– the consolidated net profit (EUR 44,530 thousand; previous year: EUR 38,494 thousand);
– dividend payments (EUR -17,403 thousand; previous year: EUR -17,403 thousand);
– exchange rate gains and losses (EUR -1,473 thousand; previous year: EUR -3,284 thousand); and
– actuarial gains and losses (EUR -115 thousand; previous year: EUR -773 thousand).

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

CGM Group's debt ratio as of the balance sheet date, 31 December 2016 is calculated as follows:

Gearing ratio	31.12.2016 EUR '000	31.12.2015 EUR '000
Debt[1]	**374,210**	370,493
Cash and cash equivalents	**27,756**	25,057
Net Debts	**346,454**	**345,436**
Equity[2]	**218,653**	192,610
Net debt to equity ratio	**158%**	179%

1 Debt is defined as long- and short-term borrowing (excluding derivatives and financial guarantee contracts).
2 Equity includes all capital and reserves of the Group that are managed as capital (including minority).

Dynamic gearing ratio	31.12.2016 EUR '000	31.12.2015 EUR '000
Debt[1]	**358,195**	352,092
Cash and cash equivalents	**27,756**	25,057
Net Debts	**330,439**	**327,035**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**125,667**	112,319
Net debt to EBITDA ratio	**263%**	291%

1 Debt is defined as current and non-current.

Financial instruments

A financial instrument is a contract that simultaneously gives rise to a financial asset at one company and a financial liability or equity instrument at another entity.

CGM Group's financial instruments to be classified as financial assets consist of "cash and cash equivalents", "trade receivables", "receivables from construction contracts", "other receivables", "finance leasing receivables", "other financial assets", "securities" and "stock options – held for trading". Financial instruments to be classified as financial liabilities were composed of "liabilities to banks", "purchase price liabilities", "trade payables", "other financial liabilities", "leasing liabilities", "interest rate swaps", and "interest rate swaps – cash flow hedges".

Financial instruments are recognized when CGM becomes party to the financial instrument contract. All financial instruments are initially recognized at fair value. Costs are capitalized only when the subsequent valuation of financial instruments is not measured at fair value in the income statement. For subsequent measurements, financial instruments are broken down into the following classes under IAS 39:
- Financial instruments carried at amortized cost;
- Financial instruments measured at fair value.

These two classes are assigned to different valuation categories. Financial instruments assigned to the categories "financial assets recognized at fair value in the income statement", "available for sale" and "held for trading" are generally measured at fair value.

For financial instruments to be measured at fair value, the determination was based on the market information available on the balance sheet date using the following methods and assumptions:

The measurement category **"financial assets recognized at fair value in the income statement (FVtPL)"** comprises financial assets which are to be measured at fair value. The fair value of securities is based on quoted market prices in an active market on the balance sheet date. On the balance sheet date there were no financial assets recognized at fair value in the income statement.

The measurement category **"assets available for sale (AfS)"** comprises investments with an ownership interest of less than 20 percent that are reported as "other financial assets". The financial instruments in the category "available for sale" pertain to non-derivative financial assets which are, to the extent a reliable determination can be made, recognized at fair value. If their fair value cannot be reliably measured, they will be carried at cost. In the financial year all assets available for sale are carried at cost.

Fluctuations in value between reporting dates are recognized directly in the statement of comprehensive income (revaluation reserve), unless there is permanent impairment, which is then recognized in the income statement. When disposing of assets, the amounts recognized in the revaluation reserve are included in the income statement. In the absence of sufficient measurements, due to the fact that it is not possible to reliably determine cash flows, shares of less than 20 percent held by CGM Group are carried at cost. There are no other financial instruments available in the category "assets available for sale". On 31 December 2016, management did not intend to sell any assets classified as "available for sale".

All financial assets classified as **"loans and receivables (LaR)"** are carried at cost using the effective interest method. Financial instruments classified as "loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

CGM Group recognizes "cash and cash equivalents", "trade receivables", "receivables from construction contracts" and "other financial assets" under this category. On account of the mostly short maturities, the book values of financial instruments that are classified as "loans and receivables" correspond approximately to their fair values. The fair values of the loans granted by CGM Group loan are derived from the present value of expected future payments.

The fair value of loans granted by CGM Group results from the discounted value of the future cash flows. For discounting purposes, the appropriate interest rates on the balance sheet date are used. The fair value of the loans granted by CGM Group on the balance sheet date roughly corresponds to the book value. If the recoverability of these financial instruments is in doubt, they are stated at cost appropriate less value adjustments.

All financial liabilities – except for derivative financial instruments – are generally measured at cost using the effective interest method. With regard to financial instruments that are classified as "trade payables" and "other financial liabilities", the book value almost corresponds to the fair value. The **"liabilities to banks (oL)"** item in financial liabilities is divided into fixed-rate liabilities and variable liabilities.

For fixed-rate liabilities, fair value is measured as the present value of expected future cash flows while the appropriate interest rates on the balance sheet date (including a market consistent spread for CGM) are used for discounting purposes. The fair value of variable liabilities is not different to the book values.

Financial instruments classified as "held to maturity" are not used by CGM Group.

The following table provides information on the classification of financial assets and liabilities pursuant to the measurement categories of IAS 39.

The financial assets of **"finance lease receivables"** and financial liabilities from **"leasing liabilities"** are not covered by the measurement categories under IAS 39 but are reported in the table below under financial instruments. The valuation of financial assets from "financial leasing receivables" and financial liabilities from "leasing liabilities" are measured at cost in accordance with the provisions of IAS 17. In order to determine the fair value appropriate interest rates and an average maturity of the leasing contracts is assumed.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

As of 31 December 2016, the financial instruments by valuation category were as follows:

Categories of financial instruments in accordance with IAS 39	Category according to IAS 39	**Book value as at 31.12.2016**	IAS 39 valuation Acquisition costs (continued)	 Fair value through profit and loss	 Fair value through equity	IAS 17 Acquisition costs valuation (continued)	**Fair value as at 31.12.2016**
Financial assets							
Cash and cash equivalents	LaR	**27,756**	27,756	0	0	0	**27,756**
Trade receivables	LaR	**80,128**	80,128	0	0	0	**80,128**
Receivables from construction contracts (PoC)	LaR	**31,926**	31,926	0	0	0	**31,926**
Other receivables	LaR	**2,683**	2,683	0	0	0	**2,683**
Finance lease receivables	–	**16,858**	0	0	0	16,858	**17,886**
Other financial assets	AfS	**167**	–	–	–	–	**–**
Total financial assets	0	**159,518**	**142,493**	**0**	**0**	**16,858**	**160,379**
Financial liabilities							
Liabilities to banks	oL	**358,195**	358,195	0	0	0	**358,776**
Purchase price liabilities	oL	**14,047**	14,047	0	0	0	**14,047**
Trade payables	oL	**31,381**	31,381	0	0	0	**31,381**
Other financial liabilities	oL	**7,902**	7,902	0	0	0	**7,902**
Financial lease obligations	–	**15,995**	0	0	0	15,995	**15,896**
Total financial liabilities	0	**427,520**	**411,525**	**0**	**0**	**15,995**	**428,002**
Total per category							
Assets held for sale	AfS	**167**	0	0	0	0	**0**
Liabilities to banks and receivables	LaR	**142,493**	142,493	0	0	0	**142,493**
Financial assets at fair value assets	FVtPL	**0**	0	0	0	0	**0**
Other financial liabilities	oL	**411,525**	411,525	0	0	0	**412,105**

The financial instruments by valuation category for the prior-year period as of 31 December 2015 are as follows:

Categories of financial instruments in accordance with IAS 39	Category according to IAS 39	Book value as at 31.12.2015	IAS 39 valuation Acquisition costs (continued)	 Fair value through profit and loss	 Fair value through equity	IAS 17 Acquisition costs valuation (continued)	Fair value as at 31.12.2015
Financial assets							
Cash and cash equivalents	LaR	25,057	25,057	0	0	0	25,057
Trade receivables	LaR	85,959	85,959	0	0	0	85,959
Receivables from construction contracts (PoC)	LaR	20,994	20,994	0	0	0	20,994
Other receivables	LaR	3,358	3,358	0	0	0	3,634
Finance lease receivables	–	14,409	0	0	0	14,409	15,288
Other financial assets	AfS	261	–	–	–	–	–
Securities	FVtPL	150	0	150	0	0	150
Total financial assets		**150,188**	**135,368**	**150**	**0**	**14,409**	**151,082**
Liabilities to banks	oL	352,092	352,092	0	0	0	353,337
Purchase price liabilities	oL	13,812	13,812	0	0	0	18,812
Trade payables	oL	27,349	27,349	0	0	0	27,349
Other financial liabilities	oL	33,211	33,211	0	0	0	33,211
Financial lease obligations	–	1,130	0	0	0	1,130	1,173
Total financial liabilities		**427,595**	**426,465**	**0**	**0**	**1,130**	**428,883**
Total per category							
Assets held for sale	AfS	261	261	0	0	0	261
Liabilities to banks and receivables	LaR	135,368	135,368	0	0	0	135,643
Financial assets at fair value assets	FVtPL	150	0	150	0	0	150
Other financial liabilities	DufH	426,465	426,465	0	0	0	427,710

Fair value measurement

Fair value is not always available as a market value, which often necessitates a determination based on various measurement parameters. Depending on the availability of observable parameters and the relevance of these parameters for determining fair value as a whole, fair value is assigned to Level 1, 2 or 3. Assignment to these levels is effected under consideration of the following factors:

- Level 1 parameters: Here, the market value of assets and liabilities is calculated based on quoted, unadjusted prices like those that arise for similar or identical assets and liabilities in active markets.
- Level 2 parameters: Here, the market value of assets and liabilities is calculated on the basis of parameters for which either directly or indirectly quoted prices are also made available to an active market.
- Level 3 parameters: Here, the market value of assets and liabilities is calculated on the basis of parameters for which there are no observable market data.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

a) Fair value of financial assets and liabilities that are regularly measured at fair value according to valuation hierarchies
On December 31, 2016, none of the financial assets and liabilities of CGM Group were regularly measured at fair value as of the balance sheet date.

Assessed valuation hierarchies at fair value – financial instruments	31.12.2016	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss	**0**	**0**	**0**	**0**
thereof securities	**0**	0	0	0
thereof stock options held for trading	**0**	0	0	0
Financial assets at fair value through equity	**0**	**0**	**0**	**0**
Total	**0**	**0**	**0**	**0**
Liabilities at fair value through profit and loss	**0**	**0**	**0**	**0**
Liabilities at fair value through equity	**0**	0	0	0
thereof interest rate swaps	**0**	**0**	**0**	**0**
Total	**0**	**0**	**0**	**0**

CGM Group's financial assets and liabilities, which were to be regularly measured at fair value on 31 December 2015 for the previous year's period, are presented as follows by assigning their fair values to Levels 1, 2 or 3:

Assessed valuation hierarchies at fair value – financial instruments	31.12.2015	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss	**150**	**150**	**0**	**0**
thereof securities	150	150	0	0
thereof stock options held for trading	0	0	0	0
Financial assets at fair value through equity	**0**	**0**	**0**	**0**
Total	**150**	**150**	**0**	**0**
Liabilities at fair value through profit and loss	**0**	**0**	**0**	**0**
Liabilities at fair value through equity	0	0	0	0
thereof interest rate swaps	**0**	**0**	**0**	**0**
Total	**0**	**0**	**0**	**0**

The fair value of securities (Level 1) in the amount of EUR 150 thousand in the previous year is based on quoted market prices in an active market at the balance sheet date. Significant unobservable input parameters are not available which is why there is no ratio of unobservable input parameters to the fair value of the securities.

There were no transfers between individual levels of the hierarchy pursuant to IFRS 7 during the financial year.

b) Distribution by valuation hierarchies of financial assets and liabilities that are not regularly measured at fair value

The financial assets and liabilities that are not regularly measured at fair value as at 31 December 2016 are as follows:

	31.12.2016	Level 1	Level 2	Level 3
Fair value of financial assets valuated at (continued) acquisition costs				
Trade receivables	**80,128**	0	80,128	0
Receivables from construction contracts (PoC)	**31,926**	0	31,926	0
Other receivables	**2,683**	0	1,171	1,512
Finance lease receivables	**17,886**	0	17,886	0
Total	**132,623**	**0**	**131,111**	**1,512**
Fair value of financial liabilities valuated at (continued) acquisition costs				
Liabilities to banks	**358,776**	0	0	358,776
Purchase price liabilities	**14,047**	0	0	14,047
Trade payables	**31,381**	0	31,381	0
Other financial liabilities	**7,902**	0	7,860	42
Financial lease obligations	**15,896**	0	15,896	0
Total	**428,002**	**0**	**55,137**	**372,865**

The financial assets and liabilities that are not regularly measured at fair value as at 31 December 2015 are as follows:

	31.12.2015	Level 1	Level 2	Level 3
Fair value of financial assets valuated at (continued) acquisition costs				
Trade receivables	85,959	0	85,959	0
Receivables from construction contracts (PoC)	20,994	0	20,994	0
Other receivables	3,634	0	169	3,465
Finance lease receivables	15,288	0	15,288	0
Total	**126,136**	**0**	**122,409**	**3,727**
Fair value of financial liabilities valuated at (continued) acquisition costs				
Liabilities to banks	353,337	0	0	353,337
Purchase price liabilities	13,812	0	0	13,812
Trade payables	27,349	0	27,349	0
Other financial liabilities	33,211	0	27,427	5,784
Financial lease obligations	1,173	0	1,173	0
Total	**428,883**	**0**	**55,949**	**372,933**

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Write-downs of financial assets
There were no impairments of financial assets during the reporting period. With regard to the impairment of trade receivables and financial assets, please refer to the respective valuation allowance schedule.

Net profits and losses on financial assets and liabilities

	31.12.2016 EUR '000	31.12.2015 EUR '000
Net profit/loss from currency conversion differences (LaR)	-4,303	-7,100
Net profit/loss from purchase price liabilities (oL)	-1,576	-1,451
Total	**-5,879**	**-8,551**

The net gain/loss from the foreign currency translation is recognized according to the origin in other income and other expenses or financial income and financial expenses.

Furthermore, allowances for doubtful accounts are stated under other operating expenses in the amount of EUR -2,918 thousand (previous year: EUR 3,438 thousand), which are included as instruments of the category loans and receivables (LaR). With respect to trade receivables, please see the valuation adjustment schedule.

Credit risk
The financial assets of the Group primarily comprise bank deposits, trade receivables, other receivables and securities. The book value of those financial assets represents the maximum credit risk exposure for the Company. The credit risk to the Group results primarily from trade receivables. The amounts indicated in the balance sheet are understood to include a valuation adjustment for receivables that probably cannot be collected, reflecting the senior management's judgment based on previous experience and the current economic environment. In addition, the age of the receivables can be classified as non-doubtful (see trade receivables).

The default risk to liquid assets is limited because these are held at banks which were assigned a high credit rating by rating agencies.

CGM Group does not have any significant concentration of credit risks because these risks are distributed across a large number of contractual parties and customers.

The loss of major customers in the hospitals, Laboratories, and pharmaceuticals business can have a detrimental effect on the Group's liquidity. The tendering procedures for major customers and project business are closely monitored to detect and address changes in the market.

The maximum credit risk from financial assets available for sale at the reporting date corresponds to the carrying value of all investments under 20 percent that are classified as available for sale.

The maximum credit risk of securities and stock options held for trading at the balance sheet date is the fair value of the assets reported on the balance sheet.

The maximum exposure to credit risk from trade and other receivables and leasing receivables at the balance sheet date is the carrying amount of these receivables. The Group has received no guarantees.

Currency risk
Fluctuating exchange rates influence the market success and gross revenues of exporting companies. In 2016, about 78 percent of revenue was generated in Euros (previous year: 75 percent) and around 22 percent of revenue in other currencies (previous year: 25 percent). During the year, hedges of possible exchange rate risks were effectuated in the form of forward exchange contracts. All such instruments are completely expired as of the balance sheet date.

The book value of Group monetary assets and liabilities denominated in a foreign currency is as follows:

	Assets		Liabilities	
Carrying amount of monetary assets and liabilities in foreign currencies	31.12.2016 EUR '000	31.12.2015 EUR '000	31.12.2016 EUR '000	31.12.2015 EUR '000
US Dollar	10,834	9,455	3,750	4,983
Norwegian Crowns	918	858	463	521
Swedish Crowns	9,097	8,982	581	448
Polish Zloty	4,683	7,512	1,789	2,324
New Lira Turkey	1,526	3,246	164	619
Czech Crowns	2,747	2,960	461	646
Franc Switzerland	4,153	4,859	319	513
Danish Crowns	1,096	723	285	256
Malaysian Ringgit	2,687	812	84	175
Canadian Dollar	138	124	4	6
South African Rand	3,108	1,321	164	212
Singapore Dollar	55	0	31	0
Romanian Leu	115	0	143	0

a) Sensitivity analysis: impact on net income in the case of a 10 percent rise or fall of the Euro against the respective foreign currency:

The following table details the Group's sensitivity to a 10 percent rise or fall in the Euro against the respective foreign currency. The adoption of the 10 percent change represents management's best estimate regarding a possible change in exchange rates from a rational perspective. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency adjusting their conversion based on a 10 percent change in exchange rates.

	Currency impact net income					
	31.12.2016			31.12.2015		
Sensitivity analysis	Net income	+10 percent	-10 percent	Net income	+10 percent	-10 percent
US Dollar	-68	-75	-62	5,672	6,239	5,104
Norwegian Crowns	6,090	6,699	5,481	7,341	8,075	6,607
Swedish Crowns	4,688	5,157	4,220	5,467	6,014	4,920
Polish Zloty	-1,086	-1,195	-978	-2,970	-3,266	-2,673
New Lira Turkey	-3,298	-3,628	-2,968	-2,395	-2,634	-2,155
Czech Crowns	2,170	2,387	1,953	2,352	2,587	2,117
Franc Switzerland	423	466	381	-4,143	-4,558	-3,729
Danish Crowns	2,258	2,483	2,032	1,387	1,526	1,248
Malaysian Ringgit	-46	-51	-42	-410	-451	-369
Canadian Dollar	4	5	4	4	4	3
South African Rand	3,173	3,491	2,856	-2,183	-2,402	-1,965
Singapore Dollar	-157	-172	-141	0	0	0
Romanian Leu	-2	-3	-2	0	0	0

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

b) Sensitivity analysis: impact on equity in the case of a 10 percent rise or fall of the euro against the respective foreign currency:

	Currency impact net income					
	31.12.2016			31.12.2015		
Sensitivity analysis	Equity	+10 percent	-10 percent	Equity	+10 percent	-10 percent
US Dollar	**9,676**	**10,644**	**8,708**	11,487	12,636	10,338
Norwegian Crowns	**38,559**	**42,415**	**34,703**	39,644	43,608	35,680
Swedish Crowns	**15,406**	**16,946**	**13,865**	16,387	18,026	14,748
Polish Zloty	**2,163**	**2,380**	**1,947**	3,349	3,684	3,014
New Lira Turkey	**-5,938**	**-6,532**	**-5,344**	-3,459	-3,805	-3,113
Czech Crowns	**3,762**	**4,138**	**3,386**	4,274	4,702	3,847
Franc Switzerland	**-1,743**	**-1,917**	**-1,568**	-3,164	-3,480	-2,848
Danish Crowns	**4,290**	**4,719**	**3,861**	3,093	3,402	2,784
Malaysian Ringgit	**-3,627**	**-3,990**	**-3,265**	-3,608	-3,968	-3,247
Canadian Dollar	**122**	**134**	**110**	110	121	99
South African Rand	**2,078**	**2,286**	**1,870**	463	509	416
Singapore Dollar	**-58**	**-64**	**-53**	0	0	0
Romanian Leu	**-2**	**-3**	**-2**	0	0	0

In light of the highly scalable nature of revenue and general business activity of CGM Group, management considers the sensitivity analysis to be an effective method for discerning currency risks.

Interest rate risk

CGM Group's interest rate risk arises from long-term loans with variable interest rates. Liabilities to banks as of 31 December 2016 totaled EUR 358.2 million. Given the prevailing interest rate environment and interest rate expectations since then the Group does not foresee any significant interest rate fluctuations and therefore currently sees no necessity for interest rate hedging transactions.

Yet the Group prospectively considers to hedge against interest rate hikes through interest rate CAP transactions. The impact of interest rate fluctuations is described in more detail in the following. Borrowings that bear fixed interest rates are excluded from the analysis.

If market interest rates on 31 December 2016 had been 20 basis points higher or lower, the financial result would have been EUR 632 thousand higher or EUR 0 lower. In addition, it must be noted that due to contractual agreements the base interest rate for loans linked to EURIBOR has been at zero percent all year long even if a drop of 20 basis points in interest rates is modelled. Hence, the interest paid is calculated on the basis of the fixed margin only, which is not subject to any fluctuations of the market interest rate. Consequently, a drop in the market interest rate had no effect on the financial result.

Expected future interest payments to be made by CGM Group are shown below:

	Book value 31.12.2016 EUR '000	Interest payments 2017 EUR '000	Interest payments 2018 EUR '000	Interest payments 2019 EUR '000	Interest payments after 2020 EUR '000
Liabilities to banks	**358,195**	6,394	6,002	4,129	869
Finance lease obligations	**15,995**	373	282	192	187
Other financial debt	**7,902**	43	0	0	0
Trade payables	**31,381**	0	0	0	0
Purchase price liabilities	**14,047**	0	0	0	0

	Book value 31.12.2015 EUR '000	Interest payments 2016 EUR '000	Interest payments 2017 EUR '000	Interest payments 2018 EUR '000	Interest payments after 2019 EUR '000
Liabilities to banks	352,092	**9,041**	8,666	8,466	6,141
Finance lease obligations	1,130	**62**	57	96	132
Other financial debt	33,211	**476**	314	232	202
Trade payables	27,349	**156**	0	0	0
Purchase price liabilities	13,812	**500**	0	0	0

Due to the current low interest rate environment, an interest rate sensitivity analysis in which the variable interest (here 3-month Euribor) is changed by + 20bp/-20bp shows only immaterial effects on CGM Group's effective interest payments.

Liquidity risk

To ensure that financial obligations can be complied with throughout the Group, CompuGroup Medical SE has negotiated adequate syndicated loans and overdraft facilities.

Liquidity risk differs between the countries in which CGM Group operates. Companies operating in Germany usually receive revenue from customers via direct debit agreements, whereby liquidity risk is minimized. The same applies for companies that operate in countries where direct debit is the predominant payment method (e.g. Austria, Norway, Sweden and France).

Parts of the Group cooperate in cash pooling arrangements. These agreements provide a needs-based cash management that ensures sufficient liquidity to individual companies to meet their operational needs. Control of the cash pooling is handled centrally through the Group's headquarters in Koblenz. For those operating entities that do not participate in cash pooling arrangements, control of cash holdings is accomplished through medium-term cash planning methods.

Group companies exceeding the level of working capital requirements usually have their cash transferred to the Group's cash management department on a quarterly basis.

CGM Group considers any limitation on debt and capital absorption capacity a liquidity risk. Restrictions place a significant risk on the achievement of corporate goals and affect overall financial flexibility.

CGM Group understands liquidity risk management as performing regular risk analysis involving the use of financial instruments to ensure that potential risks can be adequately addressed.

Around 90% of the financing is related to the syndicated loan. Through continuous monitoring and reporting critical concentration of risk with regard to refinancing is identified in a timely manner.

The following tables show CGM Group's remaining contractual maturities of financial liabilities, including derivative financial instruments. The tables examine the undiscounted cash flows of financial liabilities including both interest and principal repayments. To the extent that interest payments are based on variable parameters, the undiscounted amount was determined on the basis of yield curves at the end of the reporting period. The contractual maturities are based on the earliest date on which the Group can be required to pay.

Expected future payments as of 31 December 2016:

Future payments not discounted	Book value 31.12.2016 EUR '000	Payments 2017 EUR '000	Payments 2018 EUR '000	Payments 2019 EUR '000	Payments after 2020 EUR '000
Liabilities to banks	**358,195**	42,172	33,505	253,577	28,941
Finance lease obligations	**15,995**	3,881	3,886	3,880	4,348
Other financial debt	**7,902**	7,549	353	0	0
Trade payables	**31,381**	31,837	0	0	0
Purchase price liabilities	**14,047**	10,535	2,544	470	498

Expected future payments as of 31 December 2015:

Future payments not discounted	Book value 31.12.2015 EUR '000	Payments 2016 EUR '000	Payments 2017 EUR '000	Payments 2018 EUR '000	Payments after 2019 EUR '000
Liabilities to banks	**352,092**	42,680	33,467	35,317	240,170
Finance lease obligations	**1,130**	105	108	93	1,059
Other financial debt	**33,211**	18,889	4,370	4,085	11,390
Trade payables	**27,349**	27,349	0	0	0
Purchase price liabilities	**13,812**	9,555	3,471	445	500

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Operating leases, other financial obligations and contingent liabilities
a) Payments stemming from operating leases recognized in the income statement
Payments stemming from operating leases are recognized in the income statement as follows:

	31.12.2016 EUR '000	31.12.2015 EUR '000
Minimum lease payments	13,100	12,641
Sub-lease payments received	345	200
	12,755	12,441

Operating lease payments that are recognized in other expenses primarily relate to the rental and lease agreements concluded for office and training facilities, office equipment, hardware, and motor vehicles. Contingent payments (lease payments that are not fixed in amount but depend on factors other than the passage of time (e.g. price indices, market interest rates) were not used. Payments received from sub-lease arrangements mainly stem from the sub-leasing of office and training facilities as well as motor vehicles. Operating lease contracts are recognized as expenses in the income statement on a pro rata basis.

b) Leased assets (operating leases)

	31.12.2016 EUR '000	31.12.2015 EUR '000
Minimum leasing income		
< 1 year	253	236
1-5 years	0	177
> 5 years	0	0
Total	253	413

Income from the lease of assets under operating leases results primarily from the leasing of office, storage and training facilities. Other income from operating leases results from the renting out of Workshop premises at the Company headquarters in Koblenz and the rental of vehicle parking lots. Almost all contracts concluded are due within one year or within five years at the latest.

Disclosures resulting from IAS 17.57 have been omitted due to reasons of materiality.

c) Open commitments from operating leases that cannot be cancelled
On the balance sheet date, the Group's open commitments from operating leases that cannot be cancelled, matured as follows:

	Rental and lease agreements for a plant or administration building		Carpool leasing		Other leasing contracts		Total	
	31.12.2016 EUR '000	31.12.2015 EUR '000	31.12.2016 EUR '000	31.12.2015 EUR '000	31.12.2016 EUR '000	31.12.2015 EUR '000	31.12.2016 EUR '000	31.12.2015 EUR '000
< 1 year	8,072	8,803	3,954	4,048	1,319	1,078	13,345	13,929
1-5 years	17,929	20,678	4,545	4,605	803	1,669	23,277	26,952
> 5 years	5,384	7,183	0	0	4	9	5,389	7,192
Total	31,385	36,664	8,498	8,653	2,127	2,756	42,011	48,073

Leases are concluded for on average term of three years. The rents are fixed for three to six years. CGM Group did not enter into any off-balance sheet transactions in the form of capital commitments.

Contingent liabilities
The following table provides information on the existing contingent liabilities of CGM Group:

	Maximum liability		Liability reserves	
	31.12.2016 EUR '000	31.12.2015 EUR '000	31.12.2016 EUR '000	31.12.2015 EUR '000
Guarantees for warranty obligations and contract execution	8,308	9,260	135	495
Pledges	1,492	1,162	0	0
Other liability risks	605	761	7	466
Total	10,405	11,183	142	961

The Group's operating activities did not include any large-scale purchase commitments. As part of a project contract concluded in November 2008 with the Vienna Hospital Group (KAV), CGM Clinical Österreich GmbH (formerly Systema HIS GmbH), gave a performance guarantee of EUR 3.6 million to KAV. In addition to that there are performance guarantees of EUR 1.3 million for CGM Poland. Furthermore, CGM SE reports credit guarantees for its Norwegian and American subsidiaries to the amount of EUR 3 million and additional letters of comfort for domestic and foreign subsidiaries of EUR 917 thousand. Disclosures resulting from IAS 37.86 have been omitted due to reasons of practicality. In addition, penalties to federal agencies may arise which based on current assessment have the character of a contingent liability. However, at this point it is not possible to provide a reliable estimate of the amount and probability of occurrence, because the legal assessment has been just started in December 2016.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

Disclosures on related parties
During the financial year, Group companies entered into the following transactions with related parties outside the consolidated group.

These were conducted under conditions which are equivalent to those applied to external third parties to stay in accordance with the arm's length principle.

In addition, the following balances were outstanding at the end of the reporting period:

	Sale of goods		Purchase of goods		Receivables		Liabilities	
in EUR '000	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Related persons	**39**	**86**	**353**	**293**	**0**	**1**	**48**	**95**
thereof								
Frank Gotthardt	17	42	0	0	0	0	0	0
Dr. Brigitte Gotthardt	18	43	0	0	0	1	0	0
Prof. Dr. Daniel Gotthardt	2	0	125	70	0	0	0	48
Dr. Klaus Esser	0	0	60	60	0	0	0	0
Dr. Manuela Stahlknecht	0	0	0	1	0	0	0	0
Lothar Wild	0	0	7	40	0	0	0	0
Dr. h.c. Ulrike Flach	0	0	40	40	0	0	48	48
Karl Grüner	0	0	7	40	0	0	0	0
Peter Rodorff	2	2	0	0	0	0	0	0
Felicitias Rodorff	0	0	0	8	0	0	0	0
Maik Pagenkopf	0	0	37	0	0	0	0	0
Klaus Schrod	0	0	37	0	0	0	0	0
Renè Obermann	0	0	40	33	0	0	0	0
Related companies	**2,623**	**3,266**	**9,502**	**8,480**	**679**	**1,157**	**192**	**145**
thereof								
Gotthardt Informationssysteme GmbH	1,982	1,492	5,167	3,906	492	782	37	21
INFOSOFT Informations- und Dokumentationssysteme GmbH	1	25	233	34	0	6	7	5
mps public solution GmbH	366	1,540	3,725	4,193	90	309	139	106
KEC Kölner Eishockey-Gesellschaft "Die Haie" mbH	5	0	155	154	25	0	0	0
KEC Vertriebs GmbH & Co. KG	50	50	50	50	0	0	0	0
GTS Praxisshop GmbH	0	4	0	3	0	50	0	0
Citywerk GmbH	0	1	0	0	0	0	0	0
RheinMassiv Verwaltung AG	0	0	1	0	0	0	0	0
GT 3 Software und Beteiligung GmbH	0	0	0	0	0	0	0	0
Dagui Beteiligungen GmbH	0	0	0	0	0	0	0	0
Hotel am Moselstausee Immobilien GmbH & Co. KG	4	4	0	0	0	0	0	0
XL Health Aktiengesellschaft	0	0	67	45	0	0	0	5
DATA.med Praxiscomputer GmbH	0	47	0	0	0	4	0	0
diens/t/ag Medizinsysteme GmbH	0	17	0	0	0	0	0	0
DRF Deutschland Fernsehen Produktions GmbH & Co. KG	0	3	0	20	0	0	0	8
DRF Deutschland Fernsehen GmbH	76	0	23	0	61	0	9	0
C.I.P. GmbH	12	19	0	0	0	5	0	0
APV Ärztliche Privatverrechnungsstelle GmbH	28	62	0	0	2	0	0	0
Gotthardt Healthgroup Holding GmbH	30	2	0	18	9	1	0	0
Gotthardt Healthgroup AG	4	0	14	0	0	0	0	0
GHG Services GmbH	65	0	0	0	0	0	0	0
Gotthardt Bürotechnik GmbH	0	0	67	0	0	0	0	0
Zahnärztlicher Fach-Verlag GmbH	0	0	0	54	0	0	0	0
Associated companies	**3,543**	**2,616**	**15**	**62**	**1,467**	**462**	**6**	**9**
thereof								
Medigest Consultores S.L.	0	13	0	0	0	13	0	0
AxiService Nice S.a.r.l.	38	16	10	7	43	27	0	2
Wikipharm S.r.L.	23	0	0	0	2	0	0	0
Farmatica S.r.l.	0	20	0	37	0	0	0	0
Technosante Nord-Picardie SAS	32	16	5	18	38	3	6	6
MGS Meine Gesundheit Services GmbH	3,450	2,551	0	0	1,384	419	0	0
Total	**6,205**	**5,968**	**9,870**	**8,834**	**2,146**	**1,619**	**246**	**249**

Related persons
As of 31 December 2016 Frank Gotthardt holds direct and indirect interests of 36.02 percent in CompuGroup Medical SE through GT 1 Asset Management GmbH. In addition to that the voting rights of all pool members from two investment pools in which Mr. Gotthardt is a member have to be attributed to him. The contracts for these pools from the 2007 financial year with initial terms until 31 December 2015, were prolonged until 31 December 2025.Combined with these voting rights, Frank Gotthardt's share of voting right shares in CompuGroup Medical SE amounts to more than 45 percent since the 2007 financial year.

As a result, in addition to all of the associated companies listed in the report on equity, all investments are associated with CompuGroup Medical SE where a corporate relationship exists with Frank, Dr. Brigitte or Dr. Daniel Gotthardt.

Private flights as well as software maintenance were invoiced for account of Frank and Dr. Brigitte Gotthardt.

In their function as a part of the Supervisory Board, remunerations were paid to Prof. Dr. Daniel Gotthardt, Dr. Klaus Esser, Dr. h.c. Ulrike Flach, René Obermann, Lothar Wild, Karl Grüner, Klaus Schrod und Maik Pagenkopf. In addition to that costs for deliveries and services from Prof. Dr. Daniel Gotthardt were incurred for the rent of a parking lot for CGM Group employees.

Related companies
Due to the extension of the business activities of Gotthardt Informationssysteme GmbH as CGM's distribution and service partner there has been an increase in the revenues from deliveries and services provided for related parties. The increase in costs for received deliveries and services is also due to the allocation of a respective software maintenance share for existing activities as distribution and service partner – that is, provided customer support, hotline, and training.

The expenditures pertaining to INFOSOFT Informations- und Dokumentationssysteme GmbH has increased due to a subsequent adjustment for the financial year 2015 and the purchase of further licenses and software products.

Due to the change in the billing conditions between CGM Clinical Deutschland GmbH and MPS Public Solution GmbH introduced in the previous year, there was no cost of goods sold invoiced to the partner in 2016. The reported delivery and service mainly consist of rents and canteen services.

KEC Kölner Eishockey-Gesellschaft "Die Haie" mbH received remuneration of EUR 150 thousand on account of the advertising agreement with CompuGroup Medical SE. An agreement regarding advertising services in Kölnarena 2 ("Naming-Right Köln Arena 2") has also been concluded with KEC Vertriebs GmbH & Co. KG. In return, CompuGroup Medical SE renders services (payroll accounting, controlling, etc.) for the company. The transaction is considered to be based on market terms and conditions.

The XL Health AG rents offices to CGM Group in Berlin. The rent is considered to be agreed at arm's length.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The provided delivery and service for DRF Deutschland Fernsehen GmbH in the reporting period mainly consist of services like supply of the car pool. Received services involved the creation of advertisement films commissioned by CGM.

Provided delivery and service for Gotthardt Healthgroup Holding GmbH mainly consists of software maintenance and hosting service.

CGM obtained leasing services for its copying machines from Gotthardt Bürotechnik GmbH.

In line with the cooperation agreement, which has been concluded in 2016 between CGM Deutschland AG and GHG Services GmbH, services regarding the development and use of the "GHG-Praxisdienst" software and its integration into the CGM AIS were invoiced.

Joint ventures:
The difference between the reporting period and the comparison period is mainly due to the services provided by MGS – Meine Gesundheit Services GmbH.

Associated companies
Associated companies recorded no material changes in the reporting period.

Declaration of conformity with the German Corporate Governance Codex
The declaration of conformity pursuant to Section 161 AktG was issued by the Management Board and the Supervisory Board and is publicly accessible on the Company's website (http://www.cgm.com/corp/investor_relations/coporate_governance/Uebersicht_CG.de.jsp).

Auditing fees according to Section 314 (1) No. 9 HGB
The following table depicts the total fees payable, including expenses and all incidental expenses of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, for the 2016 financial year.

The item "Auditing financial statements" includes the fees for auditing the single-entity financial statements, the consolidated statements, and the dependent company report of CompuGroup Medical SE, as well as the fees for auditing various subsidiaries.

EUR '000	31.12.2016	31.12.2015
Auditing financial statements	628	627
Other confirmatory services	6	6
Tax advisory	122	0
Other services	169	3
Total	**925**	636

In addition to the listed auditing fees prior-period expenses in the amount of EUR 87 thousand accrued (previous year: EUR 85 thousand).

Significant post balance sheet events
Acquisition of K-LINE Praxislösungen GmbH, Germany
In early January 2017 CompuGroup Medical Deutschland AG, a wholly-owned subsidiary of CompuGroup Medical SE, acquired 95 percent of the shares of K-LINE Praxislösungen GmbH, located in Kiel, Germany.

K-LINE Praxislösungen GmbH has been a distribution and service partner for the Ambulatory Information System Medistar for a long time and thereby secures the customer service in the regions Hamburg and Kiel. This important distribution and service partner has been acquired in the course of building an own distribution and service structure held by CompuGroup Medical Deutschland AG.

The date of initial consolidation was 1 January 2017. In 2016, K-LINE Praxislösungen GmbH generated revenues of approximately EUR 3,226 thousand and an EBITDA of EUR 211 thousand. On 13 January 2017, EUR 1,978 thousand of the total purchase price of EUR 2,328 thousand was paid. The remaining part of the purchase price, EUR 349 thousand, is due until 30 June 2017 the latest.

The preliminary goodwill estimate is EUR 1,079 thousand, resulting primarily from the synergies within the Group as a result of the integration of K-LINE Praxislösungen GmbH in the Group. No recognized goodwill will be deductible for tax purposes.

The fair value of the acquired intangible assets excluding goodwill amounts to EUR 1,788 thousand and is related to customer relationships and trademark rights. The receivables and payables associated with the acquisition, which essentially consist of trade receivables and payables, are recorded at book value at the date of acquisition of control, which corresponds to fair value based on the expected collection period and the best estimate of access to contractual cash flows. Uncollectable receivables were not identified at the time of initial recognition.

Deferred tax liabilities of EUR 540 thousand were applied to the fair value of the acquired intangible assets excluding goodwill. There were no contingent liabilities or contingent claims identified during the initial accounting.

The initial accounting of K-Line Praxislösungen GmbH was carried out in provisional form as at 1 January 2017. Since the effective date balance sheet as of 31 December 2016 has not been finalized by the time of writing especially the valuation of the acquired customer relationships and trademarks are only preliminary.

Management Board and Supervisory Board
Members of the Management Board

Surname	Name	Occupation held/Membership in Supervisory Boards and other controlling bodies
Management Board Gotthardt	Frank (Chairman)	Chief Executive Officer Chairman of the Supervisory Board of Rhein Massiv Verwaltung AG, Koblenz Chairman of the Supervisory Board of CompuGroup Medical Deutschland AG, Koblenz Member of the Supervisory Board of XLHEALTH AG, Berlin
Teig	Christian B.	Chief Financial Officer Member of the Supervisory Board of CompuGroup Medica Deutschland AG, Koblenz
Brecher	Frank	Chief Process Officer Chairman of the Supervisory Board of EBM eHealth Business Media AG, Hamburg
Eibich	Uwe (from 31.08.2016)	Executive Vice-President D-A-CH Chairman of the Supervisory Board of KoCo Connector AG, Berlin

Members of the Supervisory Board

Surname	Name	Occupation held/membership in supervisory boards and other controlling bodies
Supervisory Board Esser	Dr. Klaus (Chairman)	Director, Klaus Esser Verwaltungs GmbH, Düsseldorf
Flach	Dr. h.c. Ulrike	Parliamentary State Secretary, retired
Obermann	René	Partner at Warburg Pincus LLC, New York, USA Chairman of the Supervisory Board of inexio Informationstechnologie und Telekommunikation KGaA (starting from 12.01.2017) Member of the Supervisory Board of ThyssenKrupp AG, Essen
Gotthardt	Prof. Dr. Daniel (assisting chairman)	Physician at Universitätsklinikum Heidelberg (until 31.01.2017) Director Mediteo GmbH, Heidelberg (starting from 20.02.2017) Chairman of the Supervisory Board of Gotthardt Healthgroup AG, Heidelberg Chairman of the Supervisory Board of XL HEALTH AG, Berlin
Wild	Lothar (Employee-representative until 05.02.2016)	Senior Consultant at CGM SYSTEMA Deutschland GmbH, Koblenz
Grüner	Karl (Employee-representative until 05.02.2016)	Department head at CGM subsidiary LAUER-FISCHER GmbH, Fürth
Pagenkopf	Maik (Employee-representative until 05.02.2016)	Qualified IT specialist for application development at CGM Clinical Deutschland GmbH, Koblenz
Schrod	Klaus (Employee-representative until 05.02.2016)	Department head at CGM subsidiary AESCU DATA Gesellschaft for data processing mbH, Winsen

Remuneration of the Management Board
The total remuneration of Management Board members is comprised of fixed and performance-related components. The level of compensation is mainly dependent on the responsibilities of the particular Management Board member, his or her personal performance, and the economic situation of the Company. In addition, the Company's success and future outlook amidst relevant peers are important criteria in determining the remuneration. The components of fixed remuneration are fixed salary and fringe benefits while performance-based remuneration components consist of variable bonus payments.

Fixed salary, basic, non-performance-related remuneration, is paid monthly. In addition, members of the Management Board receive benefits in the form of benefits in kind, consisting mainly of the use of Company cars. The use of Company cars is taxed as a result of its designation as a remuneration component for the respective Management Board member.

The performance-related compensation depends on goals agreed individually with each Management Board member, including goals measured over a multi-year period (long-term incentive). For all members of the Management Board, the multi-annual period goals are based on organic growth and EBITA. The (quantitative and qualitative) goals and their weighting provide the basis for the bonus scheme and are in line with sustainable corporate management pursuant to Section 87 AktG.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

No loans were granted to members of the Management Board during the financial year. The amount of performance-related remuneration is linked to individually agreed goals. During the financial year, no member of the Management Board received payments or benefits from third parties in respect of their duties as members of the Management Board. No pension commitments exist for any members of the Management Board.

On 14 December 2011, the Supervisory Board of CompuGroup Medical SE appointed **Christian B. Teig** for a second four-year term starting 1 October 2012 and ending 30 September 2016 to the Management Board as Chief Financial Officer (CFO). In addition to annual fixed remuneration in the amount of EUR 300,000, Christian B. Teig was promised a performance fee of up to EUR 300,000 per year composed of two equally weighted components, each with a maximum of EUR 150,000 per year. The first performance-based remuneration component was linked to the achievement of individually defined performance targets for the financial year which were agreed annually. The second performance-based compensation component was based on the average EBITA and the average organic growth in the financial year and the previous period. As a non-performance-related benefit, Christian B. Teig was provided with a company car, its net acquisition price amounts to a maximum of EUR 120,000. At the same Supervisory Board meeting, the exercise period for Christian B. Teig's 375,000 share options with an exercise price of EUR 5.50 per share was extended to 31 December 2016. The stock options could have been exercised without any further conditions at any time before this date (American options). If Christian B. Teig would become permanently disabled, the service contract would have concluded six months after the determination of his incapacity to work. In the event of termination by the Company, Christian B. Teig would have received a severance payment of up to EUR 1,200,000 or the amount of the total remuneration that would have been payable for the remaining term of the employment contract after early termination. The employment contract also included a change of control clause according to which Christian B. Teig was entitled to resign in the event of a change of control within one month at the end of the month and receive the aforementioned severance payment in full.

On 17 March 2016, the Supervisory Board of CompuGroup Medical SE appointed **Christian B. Teig** for a third four-year term starting 1 October 2016 and ending 30 September 2020 to the Management Board as CFO. In addition to an annual fixed remuneration in the amount of EUR 400,000, Christian B. Teig has been promised a performance fee of up to EUR 200,000 per year. Furthermore, Christian B. Teig has been promised a sustainable bonus in the amount of EUR 200,000 per year in line with a separate long-term incentive agreement. The first performance-related remuneration component depends on the achievement of the individually agreed annual targets for the financial year. The second performance-related remuneration component is based on the average EBITA and average organic growth in the financial year and the previous period.

As a non-performance-related benefit, Christian B. Teig is provided with a Company car, which net acquisition price amounts to a maximum of EUR 120,000. At the Supervisory Board meeting on 17 March 2016, the exercise period for Christian B. Teig's 375,000 share options with an exercise price of EUR 5.50 per share was extended to 31 December 2020. The stock options may be exercised without any further conditions at any time before this date (American options).

If Christian B. Teig were to become permanently disabled during the contract period, the service contract will conclude six months after determination of his incapacity to work. In the event of termination by the Company, Christian B. Teig would receive a severance payment up to an amount EUR 1,800,000 or the amount of the total remuneration that would have been payable for the remaining term of the employment contract after early termination. The employment contract also includes a change of control clause according to which Christian B. Teig is entitled to resign in the event of a change of control within one month at the end of the month and receive the aforementioned severance payment in full.

On 17 August 2016 a performance-related remuneration up to a maximum amount of EUR 162,500 was agreed for the period 1 January until 31 December 2016. This remuneration is composed of three equally weighted components, each with a maximum of EUR 54,167 per year. All three components are linked to the achievement of individually defined performance targets agreed upon for the above mentioned period.

On 7 March 2012, the Supervisory Board of CompuGroup Medical SE appointed **Uwe Eibich** for an additional four-year term from 1 January 2013 to 31 December 2016 as member of the Management Board and "Executive Vice President D-A-CH". In addition to an annual fixed remuneration of EUR 300,000, Uwe Eibich has been promised a performance fee of up to EUR 200,000 per year. The performance-related component of remuneration depends on the achievement of individually defined performance targets for the financial year which are agreed annually. Furthermore, Uwe Eibich has been promised a performance-based remuneration of up to EUR 400,000 which is staggered over the duration of the contract. The second performance-based compensation component is measured by the average organic growth in the region "Central Europe – CER" over the period of appointment, which must amount to at least 4 percent per annum. If average organic growth reaches 8 percent, it is considered equal to a target achievement of 100 percent. As a non-performance-related benefit, Uwe Eibich is provided with a company car whit a net acquisition price up to a maximum of EUR 120,000. If Uwe Eibich were to be permanently incapacitated or pass away during the contract period, the fixed annual salary and the variable portion of his compensation will be paid for a period of three months (death benefits will be paid to surviving dependents). In the event of termination by the Company, Uwe Eibich will receive a severance payment equal to the pro rata amount of his total remuneration until the end of his term. The payment is limited to a maximum amount of EUR 600,000.

On 8 September 2016, the Supervisory Board of CompuGroup Medical SE appointed **Uwe Eibich** for an additional four-year term from 1 January 2017 to 31 December 2020 as "Executive Vice President Central Europe". In addition to an annual fixed remuneration of EUR 400,000, Uwe Eibich has been promised a performance fee of up to EUR 100,000 per year. The performance-related component of remuneration depends on the achievement of individually defined performance targets for the financial year which are agreed annually. Furthermore, Uwe Eibich has been promised a performance-based remuneration of up to EUR 600,000 which is staggered over the duration of the contract. The second performance-based compensation component is measured firstly from the revenues generated by the transactions within the scope of the nationwide roll-out of the Telematik Infrastructure in Germany and secondly on recurring revenues achieved with eHealth services, CGM is offering based on Telematik Infrastructure. As a non-performance-related benefit, Uwe Eibich is provided with a company car. If Uwe Eibich were to be permanently incapacitated or pass away during the contract period, the fixed annual salary and the variable portion of his compensation will be paid for a period of three months (death benefits will be paid to surviving dependents). In the event of termination by the Company, Uwe Eibich will receive a severance payment equal to the pro rata amount of his total remuneration until the end of his term. The payment is limited to a maximum amount of EUR 600,000.

On 14 December 2012, the Supervisory Board of CompuGroup Medical SE appointed **Frank Gotthardt** as Chief Executive Officer (CEO) for an additional term of 4.5 years from 1 July 2013 to 31 December 2017. In addition to an annual fixed remuneration of EUR 660,000, Frank Gotthardt has been promised a performance fee linked to the average EBITA and the average organic growth in the financial year and the following two years. Because the contract term is limited to the end of 2017, the period of averaging is reduced from the 2016 financial year. In the last year of his term (the 2017 financial year), the amount of the bonus depends also on the level of recurring revenues, which must be higher in the 2018 financial year than in the 2017 financial year. Otherwise, the bonus for the 2017 financial year is reduced proportionally. If Frank Gotthardt were to be permanently incapacitated or pass away during the contract period, the fixed annual salary and the variable portion of compensation will be paid (death benefits will be paid to surviving dependents) for a period of three months.

On its meeting on 19 March 2015, the Supervisory Board of CompuGroup Medical SE decided to expand the Executive Board with the department "Process and Efficiency Management" and appointed **Frank Brecher** with effect from 1 April 2015 for this new position as "Chief Process Officer".

In addition to an annual fixed remuneration of EUR 300,000, Frank Brecher has been promised a performance fee of up to EUR 200,000 per year. The performance-related component of remuneration depends on the achievement of individually defined performance targets for the financial year which are agreed to annually. Furthermore, Frank Brecher has been promised a maximum performance fee of EUR 400,000 which has been promised over the contract term. The second performance-based compensation component is measured by the EBITA and by the organic growth in the financial year. As a non-performance benefit, Frank Brecher will be provided with a company car whose net acquisition price amounts to a maximum of EUR 120,000. If Frank Brecher becomes permanently incapacitated or passes away during the contract period, the fixed annual salary and the variable portion of his compensation will be paid for a period of three months (death benefits will be paid to surviving dependents). In the event of termination by the Company, Frank Brecher will receive a severance payment equal to the pro rata amount of his total remuneration until the end of his term. The payment is limited to a maximum amount of EUR 900,000.

CONSOLIDATED NOTES
FOR THE 2016 FINANCIAL YEAR CONTINUED

The total remuneration of the Management Board and Supervisory Board is as follows:

Management Board remuneration 2016 pursuant to IAS 24.17

Name	Short-term benefits EUR	Other long-term benefits EUR	Total compensation EUR
Gotthardt, Frank	660,000	1,963,990	2,623,990
Eibich, Uwe	519,739	100,000	619,739
Teig, Christian B.	585,612	48,137	633,749
Brecher, Frank	452,189	70,206	522,395
Total	**2,217,540**	**2,182,333**	**4,399,873**

Management Board remuneration 2015 pursuant to IAS 24.17

Name	Short-term benefits EUR	Other long-term benefits EUR	Total compensation EUR
Gotthardt, Frank	661,300	1,705,000	2,366,300
Eibich, Uwe	476,329	40,000	516,329
Teig, Christian B.	593,415	0	593,415
Brecher, Frank	374,221	75,000	449,221
Total	**2,105,265**	**1,820,000**	**3,925,265**

Remuneration information pursuant to Section 314 (1) No. 6 HGB
Management Board remuneration 2016

Name	Fixed compensation (non-performance based) EUR	Variable bonus (performance based) EUR	Fringe benefits EUR	Total compensation EUR
Gotthardt, Frank	660,000	535,315	0	1,195,315
Eibich, Uwe	300,000	557,991	36,329	894,320
Teig, Christian B.	325,000	231,670	37,596	594,266
Brecher, Frank	300,000	122,311	25,628	447,939
Total	**1,585,000**	**1,447,287**	**99,553**	**3,131,840**

Management Board remuneration 2015

Name	Fixed compensation (non-performance based) EUR	Variable bonus (performance based) EUR	Fringe benefits EUR	Total compensation EUR
Gotthardt, Frank	660,000	0	1,300	661,300
Eibich, Uwe	300,000	190,000	36,329	526,329
Teig, Christian B.	300,000	230,545	38,415	568,960
Brecher, Frank	225,000	130,000	19,221	374,221
Total	**1,485,000**	**550,545**	**95,265**	**2,130,810**

Remuneration of the Supervisory Board

Supervisory Board remuneration is based on an annual fixed amount. In the past financial year, there were no changes from the previous year in the amount of remuneration for members of the Supervisory Board. Employee representatives on the Supervisory Board receive additional remuneration for activities outside the Supervisory Board which are compensated at market rates. Total payments to the Supervisory Board amounted to EUR 317 thousand in the 2016 fiscal year (previous year: EUR 260 thousand). Details on individual members have been omitted for reasons of materiality.

Release from disclosure requirement

All companies incorporated in Germany with profit transfer agreements claim the right of exception under Section 264 (3) HGB not to publish annual financial statements. This concerns the following companies:
- CGM Clinical Deutschland GmbH, Koblenz
- CompuGroup Medical Dentalsysteme GmbH, Koblenz
- CompuGroup Medical Deutschland AG, Koblenz
- CompuGroup Medical Software GmbH, Koblenz
- IfAp Service-Institut für Ärzte und Apotheker GmbH, Martinsried
- Intermedix Deutschland GmbH, Koblenz
- LAUER-FISCHER GmbH, Fürth
- CGM IT Solutions and Services GmbH, Koblenz
- CompuGroup Medical Mobile GmbH, Koblenz
- LAUER-FISCHER ApothekenService GmbH, Koblenz

CHANGES IN INTANGIBLE AND TANGIBLE ASSETS
IN THE 2016 FINANCIAL YEAR

	Purchase or manufacturing costs						
	01.01.2016 EUR '000	Initial consolidation additions EUR '000	Other additions EUR '000	Transfers EUR '000	Disposals EUR '000	Currency differences EUR '000	**31.12.2016 EUR '000**
Intangible assets							
Goodwill	**273,860**	2,464	153	0	0	907	**277,384**
Acquired software	**242,987**	125	1,793	4,267	-20,319	-509	**228,344**
Customer relationships	**225,157**	8,074	25	-131	61	1,835	**235,021**
Brands	**31,007**	489	13	131	0	120	**31,760**
Order backlogs	**9,834**	0	0	0	-719	0	**9,115**
Prepayments on software	**6,683**	0	3,643	-4,373	-97	-23	**5,833**
Capitalized in-house services	**80,630**	0	11,093	0	0	73	**91,796**
	870,158	**11,152**	**16,720**	**-106**	**-21,074**	**2,403**	**879,253**
Tangible assets							
Land and buildings	**52,416**	0	6,696	104	-1,168	-64	**57,985**
Other assets, plant and office equipment	**49,865**	150	13,465	1,104	-7,102	163	**57,645**
Assets under construction	**1,151**	0	2,951	-1,102	-65	0	**2,935**
	103,433	**150**	**23,112**	**106**	**-8,335**	**99**	**118,565**
	973,590	**11,302**	**39,832**	**0**	**-29,409**	**2,502**	**997,818**
Assets held for sale	**1,222**	0	0	0	0	0	**1,222**
	974,812	**11,302**	**39,832**	**0**	**-29,409**	**2,502**	**999,040**

	Amortization/Depreciation					Book value	
	01.01.2016 EUR '000	Additions EUR '000	Disposal EUR '000	Currency differences EUR '000	**31.12.2016 EUR '000**	**31.12.2016 EUR '000**	31.12.2015 EUR '000
Intangible assets							
Goodwill	**10,999**	4,386	0	0	**15,385**	**261,999**	261,861
Acquired software	**195,362**	12,019	-20,314	-233	**186,834**	**41,510**	47,624
Customer relationships	**64,586**	12,562	61	540	**77,749**	**157,272**	160,571
Brands	**17,836**	2,972	0	145	**20,953**	**10,807**	13,171
Order backlogs	**9,169**	289	-720	0	**8,738**	**377**	665
Prepayments on software	**250**	0	0	0	**250**	**5,583**	6,433
Capitalized in-house services	**27,988**	3,172	0	-7	**31,153**	**60,643**	52,641
	326,190	**35,400**	**-20,973**	**445**	**341,062**	**538,191**	543,967
Tangible assets							
Land and buildings	**10,601**	1,854	-1,164	3	**11,294**	**46,691**	41,816
Other assets, plant and office equipment	**32,382**	6,569	-5,704	117	**33,364**	**24,281**	17,483
Assets under construction	**56**	0	0	0	**56**	**2,879**	1,096
	43,039	**8,423**	**-6,868**	**120**	**44,714**	**73,851**	60,394
	369,229	**43,823**	**-27,841**	**565**	**385,776**	**612,042**	604,361
Assets held for sale	**0**	0	0	0	**0**	**1,222**	1,222
	369,229	**43,823**	**-27,841**	**565**	**385,776**	**613,264**	605,583

The other additions include adjustments, which arise from the finalization of purchase price allocations from the previous year by EUR 219 thousand.

CHANGES IN INTANGIBLE AND TANGIBLE ASSETS
IN THE 2015 FINANCIAL YEAR

	Purchase or manufacturing costs						
	01.01.2015 EUR '000	Initial consolidation additions EUR '000	Other additions EUR '000	Transfers EUR '000	Disposals EUR '000	Currency differences EUR '000	31.12.2015 EUR '000
Intangible assets							
Goodwill	254,385	17,375	348	0	0	1,751	273,860
Acquired software	227,533	4,253	1,905	7,684	-315	1,927	242,987
Customer relationships	206,006	17,441	0	-86	0	1,796	225,157
Brands	29,691	822	1	86	0	407	31,007
Order backlogs	8,866	849	0	0	0	119	9,834
Prepayments on software	10,727	0	3,431	-7,420	0	-55	6,683
Capitalized in-house services	68,842	0	12,208	-264	0	-156	80,630
	806,050	**40,740**	**17,894**	**0**	**-315**	**5,789**	**870,158**
Tangible assets							
Land and buildings	53,532	350	303	-1,129	-712	72	52,416
Other assets, plant and office equipment	44,865	623	5,517	-134	-1,634	628	49,865
Assets under construction	229	0	1,016	0	-94	0	1,151
	98,626	**973**	**6,836**	**-1,262**	**-2,440**	**700**	**103,433**
	904,676	**41,713**	**24,730**	**-1,263**	**-2,755**	**6,489**	**973,590**

	Amortization/Depreciation					Book value	
	01.01.2015 EUR '000	Additions EUR '000	Disposal EUR '000	Currency differences EUR '000	31.12.2015 EUR '000	31.12.2015 EUR '000	31.12.2014 EUR '000
Intangible assets							
Goodwill	9,929	1,352	0	-282	10,999	262,861	244,456
Acquired software	178,069	16,526	-233	1,000	195,363	47,624	49,464
Customer relationships	51,520	12,882	0	184	64,586	160,571	154,486
Brands	14,445	3,228	0	162	17,836	13,171	15,245
Order backlogs	8,782	268	0	119	9,169	665	84
Prepayments on software	264	-13	0	0	250	6,433	10,463
Capitalized in-house services	25,498	2,504	0	-15	27,988	52,641	43,344
	288,507	**36,747**	**-233**	**1,168**	**326,190**	**543,967**	**517,542**
Tangible assets							
Land and buildings	8,797	2,222	-443	25	10,601	41,816	44,735
Other assets, plant and office equipment	27,776	5,574	-1,468	501	32,382	17,483	17,089
Assets under construction	0	2	53	1	56	1,096	229
	36,573	**7,797**	**-1,858**	**526**	**43,039**	**60,394**	**62,053**
	325,081	**44,545**	**-2,091**	**1,695**	**369,229**	**604,361**	**579,595**

SEGMENT REPORT
FOR THE 2016 FINANCIAL YEAR

EUR '000	Segment I: Health Provider Services I (HPS I) 2016 Jan-Dec	Segment I: 2015 Jan-Dec	Segment II: Health Provider Services II (HPS II) 2016 Jan-Dec	Segment II: 2015 Jan-Dec	Segment III: Health Connectivity Services (HCS) 2016 Jan-Dec	Segment III: 2015 Jan-Dec
Sales to third parties	**422,801**	406,612	**74,512**	72,801	**62,764**	63,587
Sales between segments	**7,202**	6,146	**11,624**	9,976	**6,717**	5,817
Segment sales	**430,003**	412,758	**86,136**	82,777	**69,480**	69,404
thereof recurring sales	**314,271**	303,033	**41,538**	38,570	**18,842**	19,289
Capitalized inhouse services	**3,648**	2,438	**200**	915	**559**	1,272
Other income	**3,702**	2,205	**2,885**	1,678	**2,443**	1,564
Expenses for goods and services purchased	**-78,009**	-74,476	**-19,662**	-18,133	**-24,401**	-23,411
Personnel costs	**-161,409**	-151,240	**-48,829**	-47,764	**-21,292**	-24,216
Other expense	**-74,691**	-74,577	**-13,738**	-15,936	**-11,184**	-9,894
EBITDA	**123,245**	117,107	**6,991**	3,537	**15,605**	14,719
in % of sales	**28.7%**	28.8%	**8.1%**	4.9%	**22.5%**	23.1%
Depreciation of property, plants and tangible assets						
Amortization of intangible assets						
EBIT						
Results from associates recognised at equity						
Financial income						
Financial expense						
EBT						
Taxes on income for the period						
Profit for the period from discontinued operations						
Consolidated net income for the period						
in % of sales						
CASH NET INCOME*						

EUR '000	All other Segments 2016 Jan-Dec	All other Segments 2015 Jan-Dec	Sum Segments 2016 Jan-Dec	Sum Segments 2015 Jan-Dec	Conslidation 2016 Jan-Dec	Conslidation 2015 Jan-Dec	CGM Group 2016 Jan-Dec	CGM Group 2015 Jan-Dec
Sales to third parties	**118**	67	**560,195**	543,066	**0**	0	**560,195**	543,066
Sales between segments	**3,130**	3,104	**28,673**	25,043	**-28,673**	-25,043	**0**	0
Segment sales	**3,248**	3,171	**588,868**	568,109	**-28,673**	-25,043	**560,195**	543,066
thereof recurring sales	**12**	12	**374,662**	360,905	**0**	0	**374,662**	360,905
Capitalized inhouse services	**5,514**	4,775	**9,922**	9,401	**397**	215	**10,318**	9,615
Other income	**4,826**	4,888	**13,855**	10,334	**-5,925**	-6,475	**7,930**	3,859
Expenses for goods and services purchased	**-73**	-71	**-122,145**	-116,090	**17,784**	15,579	**-104,361**	-100,511
Personnel costs	**-9,853**	-9,758	**-241,384**	-232,979	**-18,699**	-17,647	**-260,083**	-250,626
Other expense	**-14,600**	-12,190	**-114,213**	-112,597	**25,881**	19,513	**-88,332**	-93,084
EBITDA	**-10,938**	-9,185	**134,903**	126,178	**-9,236**	-13,859	**125,667**	112,319
in % of sales	**0.0%**	0.0%	**22.9%**	23.2%	**0.0%**	0.0%	**22.4%**	20.7%
Depreciation of property, plants and tangible assets							**-8,424**	-7,798
Amortization of intangible assets							**-35,399**	-36,747
EBIT							**81,844**	67,774
Results from associates recognised at equity							**-1,409**	-911
Financial income							**8,086**	14,136
Financial expense							**-14,308**	-18,795
EBT							**74,213**	62,204
Taxes on income for the period							**-29,743**	-23,582
Profit for the period from discontinued operations							**0**	0
Consolidated net income for the period							**44,470**	38,622
in % of sales							**7.9%**	7.1%
CASH NET INCOME*							**76,698**	72,865

* Cash net income: net income before minority interests plus amortization on intangible assets except amortization on in-house capitalized software.

SEGMENT REPORT BY REGIONS
FOR THE 2016 FINANCIAL YEAR

	CER		CEE		NER		SER	
EUR '000	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Sales to third parties	**272,063**	251,382	**84,595**	89,082	**83,182**	84,410	**93,661**	87,301
Non current assets without deferred taxes	**296,641**	284,554	**88,273**	83,671	**89,091**	86,798	**58,407**	55,247

	USC		Sum regions		All other regions		Consolidation		CGM Group	
EUR '000	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Sales to third parties	**39,737**	40,158	**573,238**	552,333	**7,599**	7,857	**-20,643**	-17,124	**560,195**	543,066
Non current assets without deferred taxes	**110,185**	111,666	**642,598**	621,936	**479,255**	472,976	**-492,057**	-476,073	**629,797**	618,839

The CER (Central Europe region) region comprises the domestic market only (Germany).

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

We hereby certify to the best of our knowledge based on applicable accounting policies, the financial statements give a true and fair view of the Group's actual assets, financial situation, and earnings. We furthermore certify that the Group management report gives a true and fair view of the business activities including the annual results and the condition of the Group, and that the material opportunities and risks for future development are explained.

Koblenz, 16 March 2017

CompuGroup Medical Societas Europaea
The Management Board

Frank Gotthardt **Frank Brecher** **Uwe Eibich** **Christian B. Teig**

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the CompuGroup Medical SE, Koblenz comprising the balance sheet, the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the parent company, for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and/or the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 16 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Bernd Roese
Wirtschaftsprüfer
(German Public Auditor)

ppa. Stefan Sigmann
Wirtschaftsprüfer
(German Public Auditor)

Essence of 2016
To Our Shareholders
Combined Management Report
Financial Statements
Additional Information

SHARE INFORMATION

The CompuGroup Medical share is listed on the Frankfurt Stock Exchange, Prime Standard, under the ticker COP (FRA: COP). The shares are traded inter alia through the world-wide electronic trading system XETRA. As at 31 December 2016, there were 53.2 million shares outstanding, each with a calculated value of EUR 1.00.

Key data per share

		2016	2015	2014
Year-end price	€	**38.95**	33.80	19.90
Year high	€	**42.94**	36.40	21.65
Year low	€	**31.65**	19.79	16.86
Year average	€	**37.50**	28.41	19.18
Yearly trade	€m	**396.1**	329.1	119.2
	Shares m	**10.7**	11.4	6.2
Number of shares	Shares m	**53.2**	53.2	53.2
Market capitalization[1]	€m	**2,072.9**	1,798.8	1,059.1
Earnings per share	€	**1.00**	0.77	0.53
Dividend per share	€	**0.35[2]**	0.35	0.35
Dividend payout	€m	**17.4[2,4]**	17.4	17.4
Dividend yield[1]	%	**0.90[2]**	1.04	1.76

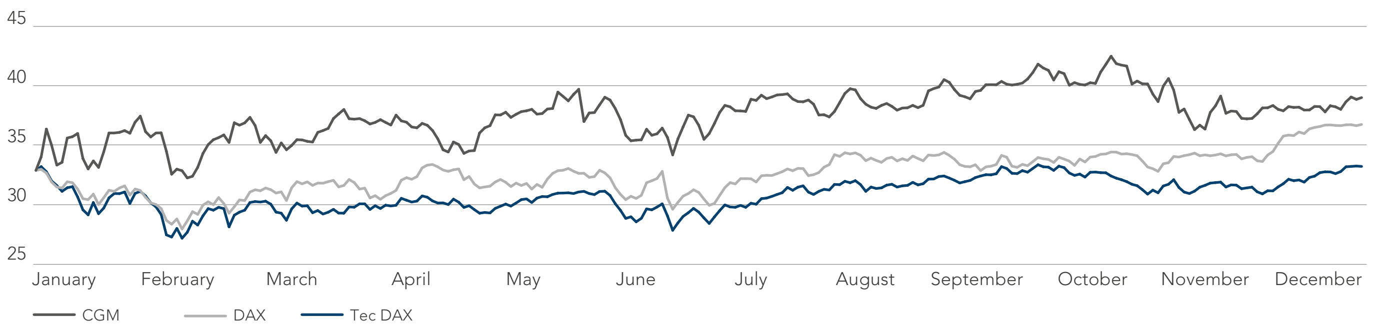
1 As of 31 December.
2 Proposal to the Annual General Meeting.
3 Related to net income of CGM SE.
4 As of date of approval of 2016 financial statements.

Share development

The CGM share began 2016 with a share price of EUR 33.44. The high for the year was reached on 24 October 2016 with EUR 42.94. The share ended 2016 at EUR 38.95. This represents an increase of 15 percent, bringing the total market capitalization up EUR 274 million to a total of EUR 2.1 billion at the end of the year 2016.

The yearly trading volume reached 10.7 million in 2016. The average daily trading volume in 2016 was approx. 42,000 shares (previous year: approx. 45,000).

The share price development during 2016 can be seen below:



Dividend

In the 2016 financial year EUR 17.4 million were paid out corresponding to a dividend per share of EUR 0.35. In 2017, the Management and Supervisory Board will propose the payment of a dividend of EUR 0.35 per share to the Annual General Meeting held on 10 May 2017. Subject to the shareholder's approval, the dividend amount would total EUR 17.4. Based on the 2016 closing share price (EUR 38.95), this would equate to a dividend yield of 0.90 percent.

Share data

Listing	Börse Frankfurt, Germany, Prime Standard
ISIN	DE0005437305
WKN	543730
Xetra Trading Parameters Symbol	COP

INVESTOR RELATIONS

The Management Board and the Supervisory Board of CompuGroup Medical SE identify with the objectives of the German Corporate Governance Code of promoting responsible and transparent management and control-oriented to a sustainable increase in shareholder value.

Investors and capital market participants are to be provided consistent, timely and precise information simultaneously. CompuGroup Medical, as an international Company with investors across the globe, publishes all news and press releases in English as well as German.

The Investor Relations section of the Company's corporate website www.cgm.com is an important tool containing up-to-date information on the Company's financial performance and stock market information. User may also find financial reports, an updated financial calendar, detailed Company information and other important data for the financial markets. In conjunction with the release of its interim and full year financial results, CGM gives public presentations to investors, analysts and press.

During the year, CompuGroup Medical held numerous physical meetings and phone calls with German and international investors and analysts and participated in international capital market conferences and roadshows in Europe and the United States. CGM also held telephone conferences and analyst meetings when publishing quarterly results. In October 2016, CGM held an investor and analyst conference at its Company headquarter in Koblenz. The presentations covered the most important growth topics in the Group currently, specifically growth initiatives in the HCS segment and the opportunities around the eGK and Telematics Infrastructure in Germany.

At the end of the year, the number of analysts that regularly follow CompuGroup Medical amounted to eight, all of them based in Germany. With five buy, three hold recommendations, the analysts presented a positive view of the CompuGroup Medical share. The forecast price targets ranged from EUR 35.00 to EUR 47.00 at the end of 2016.

FINANCIAL CALENDAR 2017

Date	Event
31 March 2017	Annual Report 2016
04 May 2017	Interim Report Q1 2017
10 May 2017	Annual General Shareholder Meeting
03 August 2017	Interim Report Q2 2017
12 October 2017	Investor and Analyst conference
09 November 2017	Interim Report Q3 2017

IMPRINT

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