secunet

2018

Annual Report 2018

Key Figures

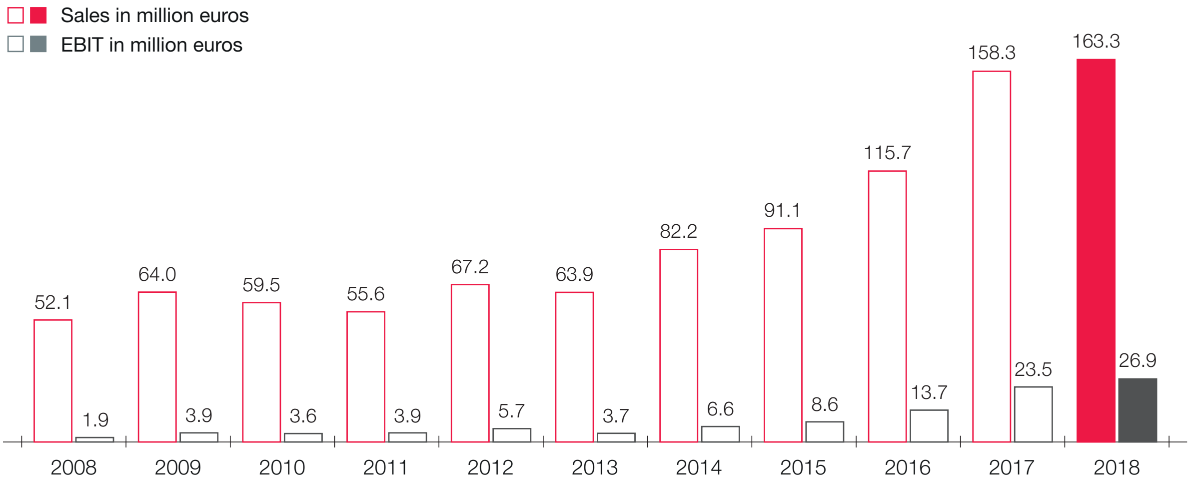
of secunet Group (according to IFRS)

in million euros	2018	2017	Change in %
Sales	163.3	158.3	+3
EBIT	26.9	23.5	+15
EBT	26.6	23.5	+13
Net income for the year	17.8	15.9	+12
Earnings per share (in euros)	2.77	2.45	+12
Balance sheet total	145.2	133.4	+9
Equity	69.5[1]	59.1	+18
Cash and cash equivalents	56.1	62.9	–11
Liabilities	34.5	40.1	–14
Loans	–	–	–
Cash flow from operating activities	7.7	20.4	–62
Investments in intangible assets and property, plant and equipment	6.6	3.4	+94
Dividend per share in euros[2]	2.04	1.20	+70
Order book (IFRS)	79.7	57.7	+38
Permanent employees as at 31 Dec	525	479	+10

1 Including non-controlling interests

2 Subject to the resolution of the Annual General Meeting

Long-term development of sales and EBIT



Public Sector

Solutions for e-government and high security

Processes and IT infrastructure for public customers are particularly challenging in terms of information security. The secunet Public Sector division offers advice to national and international public-sector and defence customers, using state-of-the-art products and services that can be tailored to customers' needs, as well as individual security solutions. These meet the requirements of modern administration, allow sovereign tasks to be performed and correspond to the high-security requirements for the protection of classified information.

Business Sector

IT security for companies and industry solutions

Attacks on company networks, industrial espionage, cyber crime and data protection necessitate intelligent IT security solutions. The secunet Business Sector division supports its customers in the secure use of Information and Communication Technologies in internal IT, in core business and "embedded" in products and services. The core competence of the Business Sector division is in the development and production of flexible security solutions, which can be integrated into existing IT landscapes without influencing ongoing business processes and can be adjusted to technical development.

secunet is one of the leading German providers of high-quality IT security. In close dialogue with its customers – companies, public authorities and international organisations – secunet develops high-performance products and advanced IT security solutions. secunet therefore does not merely secure its customers' IT systems, it also delivers intelligent process optimisation and achieves sustainable added value.

CONTENT

Annual Report 2018

secunet once again achieved very good results in 2018

Dear shareholders, customers, staff and friends of secunet,

In 2018, we surpassed the record results of the previous year:

secunet Group once again achieved outstanding results in the past financial year. Starting from an already very high base – 2017 closed with record results – we were able to increase sales revenues by 3 percent from 158.3 million euros in the previous year to 163.3 million euros in 2018. Capacity utilisation in the service business remained high and growth was generated predominantly in the product business. Parallel to the increase in sales revenue, the earnings before interest and taxes (EBIT) increased significantly from 23.5 million euros in 2017 to 26.9 million euros.

Our expectations at the start of the year were for revenues and EBIT to be slightly below the level of the previous year. The results we have actually achieved significantly exceeded our own expectations. We are more than satisfied with these results.

The growth in revenue in 2018 is attributable to the increase in sales revenues in the Public Sector division, while sales revenues in the Business Sector division fell in the same period. The Public Sector division gears its products and services towards public utility providers within and outside Germany, as well as international organisations. The Public Sector portfolio comprises the SINA product business, solutions for automated border control systems (e. g. eGates), consultancy and development. Revenue in the Public Sector division increased by 4 percent or 6.1 million euros from 141.1 million euros in the previous year to 147.2 million euros in the 2018 financial year. The key driver of this growth in 2018 was the product business, with individual major orders and deliveries in the fourth quarter playing a decisive role.

The Business Sector division's products and services are aligned towards commercial companies, with providers of critical infrastructures and the automotive industry as its core target groups. At the end of the 2018 financial year and following certification of the secunet konnektor, the healthcare sector has been added as a further target market. In the 2018 financial year, extensive capacities were tied up in developing the secunet konnektor for integration into the telematics infrastructure for electronic health cards. For this reason, the Business Sector could not match the results of the previous year. Sales revenues in the Business Sector changed by -1.2 million euros or -7 percent from 17.3 million euros in 2017 to 16.1 million euros.

At the same time, secunet Group's foreign sales increased by 9 percent from 16.3 million euros in the 2017 financial year to 17.8 million euros in the past financial year. The main revenue generators are SINA products and eGates.

Our shareholders are also benefitting from our good results

secunet AG generated a net income of 14.7 million euros in the 2018 financial year, as against 15.5 million euros in the previous year. The Management Board and Supervisory Board will propose to the Annual General Meeting that a standard dividend of 1.13 euros per share and a special dividend of 0.91 euros per share, and thus a total of 2.04 euros per share, be distributed to shareholders in the company, representing an increase of 70 percent on the previous year's dividend (1.20 euros). This corresponds to a standard distribution of 50 percent, a special distribution of 40 percent and thus a total distribution of 90 percent of net income for the year. The payout ratio in the previous year was 50 percent of net income. The reason for payment of the special dividend is the very successful business performance in the 2018 financial year. The high level of liquid assets of 51.0 million euros at year-end 2018 and secunet's cash-generative business model allow the special dividend to be distributed without changing the Company's growth-oriented business strategy.

Thomas Pleines Dr Rainer Baumgart Axel Deininger

In 2018, the investment focus of many shareholders on the major index stocks led to a loss of wealth. The share price of secunet Security Networks AG was not able to escape fully from the general downward trend in the second half of the year. Consequently, our shareholders had a portfolio position that was largely stable in value in 2018 while yielding a high income. Taking a period of several years into consideration, e.g. starting from the share price at the beginning of 2016, their assets had more than quadrupled.

Our success is due to our employees

The persistently high revenues in secunet Group's service business, i.e. in the areas of consultancy and development, are associated with high utilisation of the employee capacities in this area. With great dedication and motivation, highly qualified staff provide our customers with trustworthy solutions and intelligent concepts.

Equally, the fast-growing product business would not be possible without the dedicated employees in the areas of sales and back office, as well as logistics, who perform their tasks with great commitment.

In no small part, it is the employees in the areas of administration and services who ensure that the secunet organisation functions well and smoothly in the long term.

Without the untiring dedication of the entire workforce, we could not have achieved the exceptionally good business results in 2018. We would thus like to offer our staff our express thanks for this outstanding performance.

secunet is in an excellent position – also with regard to the future

At the beginning of 2019, secunet has an excellent market position based on a number of different strengths – we want to use this starting position for continued growth:

First and foremost, we benefit from the special trust of our customers, particularly those in the public sector. This relationship, which is also reflected in the fact that secunet is one of the few IT security partners of the Federal Republic of Germany, and the associated partnership-based dialogue, constantly yields impulses for the further development of our product range. This ensures that our spectrum of products and services remains secure and, at the same time, innovative. We also aim to continue implementing developments in close coordination with our customers. Our thorough market knowledge and our cooperation with other providers, research institutions and similar organisations support new developments.

Our partnership with our customers has given rise to the products that form the basis of our current economic strength.

At present, these primarily comprise the SINA products and solutions developed together with the German Federal Office for Information Security (BSI). SINA is part of the standard IT equipment in large parts of the federal administration, meanwhile also in the federal states, and contributes to trustworthy information processing. One of our largest customers is the German armed forces, which use high-security solutions from SINA to operate various infrastructures and secure their information. The SINA product range is being continually expanded and adapted to the growing and changing requirements of users. We expect demand for SINA products to remain high.

Our products and solutions for automatic border control systems are enjoying strong growth and becoming increasingly established on the European market. In addition to German airports that we are equipping with eGates, our customers meanwhile also include the border control authorities at the airports in Prague, Vienna and Reykjavik. We have been tasked with installing easygates at the international airports in Lithuania, Hungary and Poland. secunet has long experience and a growing list of good references in the field of automated border control systems. The market outlook is good: the Entry/Exit System (EES) is to be introduced throughout Europe by the year 2021. We anticipate good growth opportunities in this context.

Long-term revenue generators are development and consultancy in eGovernment. These include further developments in the security infrastructure of the ELSTER electronic tax return as well as various consultancy projects in the field of information security management systems (ISMS) at German authorities.

Following extensive development work over the past few years, we have opened up a new field of business in the healthcare sector: the secunet konnektor has been officially certified by Gematik since the end of 2018. The secunet konnektor serves as a central element for service providers, such as doctors' surgeries, for connection to the telematics infrastructure (TI) in healthcare. The roll out was able to commence upon successful certification at the end of December. From the 2019 financial year onwards, we expect significant sales revenues from this line of business, which we are allocating to our Business Sector.

We also want to continue growing internationally. Until now, secunet Group's international business has largely grown at the same rate as its national business. The subsidiary secunet International GmbH & Co. KG, which has been operating since the beginning of 2018, will continue to drive growth in foreign business, also in cooperation with local units of the parent company G+D. Our current target markets are the countries and bodies of the European Union as well as the Middle East. We expect additional growth in the Far East and with the NATO organisations.

Where there are worthwhile candidates, we will supplement our organic growth through targeted acquisitions, and we are working continuously on M&A activities in this area.

Together with another company, secunet Security Networks AG is founding secustack GmbH, Dresden, on 26 March 2019. The purpose of secustack GmbH is the development and marketing of software solutions in connection with a security-hardened cloud infrastructure.

secunet AG is taking over 51% of the shares in secustack GmbH at the time of foundation and paying the consideration in cash.

Upon foundation, the new company will become an affiliated company of secunet AG, Giesecke + Devrient GmbH and MC Familiengesellschaft mbH and will be fully consolidated in their consolidated financial statements.

secunet Group will continue to be led by a strong management team

secunet Group is growing and is set to grow further. The demands on management are thus also increasing.

The Chairman of the Management Board of secunet Security Networks AG, Dr Rainer Baumgart, is retiring with effect from 31 May 2019 on reaching the age of 65. After 18 years at the helm of secunet, he will be handing over the chair to Axel Deininger. Long-standing senior secunet executives Torsten Henn and Dr Kai Martius will be moving from the extended management team to the Management Board. In the future, Mr Henn will be in charge of secunet's operational business on the Management Board; Dr Martius will be responsible for the areas of product management and technology development. Thomas Pleines is confirmed in his position as CFO. With effect from 1 June 2019, the Management Board of secunet Security Networks AG will thus comprise the four members Axel Deininger, Torsten Henn, Dr Kai Martius and Thomas Pleines.

At the management level below the Management Board, secunet has a well-trained and experienced group of senior managers as division and department heads. They contribute to ensuring that the strategic management impulses are effectively translated into business success.

secunet Group is thus well prepared for its increasing tasks.

We want to continue to grow profitably

The topics of IT security or cyber security, information security and data protection remain in the public spotlight. They accompany every discussion on technical and socio-political developments. We are working on the assumption that the digital transformation of society will not be successful without supporting measures to secure and protect data. We therefore expect both government agencies and companies to invest extensively in technical infrastructures and organisation. Accordingly, we continue to expect a high volume of demand for trusted IT security. This directly addresses secunet.

Our strategy remains based on the three pillars of securing and expanding our good market position with German authorities, expanding business in the private sector and internationalisation.

secunet Group starts the year in an excellent position. At the end of December 2018, the order book totalled 79.7 million euros, a gratifying 38 percent more than in the previous year (57.7 million euros).

At the same time, the current 2019 financial year also presents us with challenges:

The 2018 financial year was once again a record year. The record figures for revenues and EBIT in recent years were attributable to a small number of extraordinary major projects. At the time of preparing this report, therefore, such projects are naturally not yet in sight.

As previously, many of the projects for which we tender concern large-scale infrastructures in the public sector. The often lengthy decision-making processes associated with these tenders, as well as the dependence on budget decisions, make targeted planning difficult.

For the current financial year 2019, we expect a slight rise in sales revenues. Earnings before interest and taxes (EBIT) are now strongly linked to the product business. Since we are not at present able to estimate how procurement prices in particular will develop, we anticipate EBIT being slightly lower than in the previous year.

All of our efforts continue to be aimed at successfully developing secunet Group further, in the interest of all stakeholders.

Dr Rainer Baumgart | Axel Deininger | Thomas Pleines

Supervisory Board Report

Dear Shareholders,

secunet Security Networks AG once again achieved outstanding business results in the 2018 financial year. With its excellent market position, the Company is well-equipped to tackle the challenges of the future and enjoy further growth. The Company's strategic orientation, focusing on high-quality, trustworthy cyber security solutions, is fully supported by its Supervisory Board.

In the 2018 financial year, the Supervisory Board once again regularly advised the management of secunet Security Networks AG, continuously monitored the business conduct of the Management Board and, as part of the execution of its duties, confirmed that the work of the Management Board was carried out in a lawful, appropriate and correct manner. It performed the supervisory and consultation duties assigned to it by law and by the Company's Articles of Association conscientiously, meticulously and on an ongoing basis.

Cooperation within the Supervisory Board and with the Management Board was constructive and characterised by open communication with a high level of trust. The Management Board always fulfilled its obligations in relation to the provision of information. It provided the Supervisory Board with regular, prompt and comprehensive information, both in writing and verbally. It furthermore included the Supervisory Board in all decisions fundamental to the Company without delay. The Supervisory Board received information from the Management Board on the business performance of secunet Security Networks AG and the consolidated group of companies, as well as regarding strategy, planning, business performance, the risk situation, risk management and compliance and all other occurrences and measures important for the Company. All members of the Supervisory Board had the opportunity at all times to attend to the Management Board's suggestions and reports in detail and to make their own proposals.

In the context of its supervisory and advisory function, the Supervisory Board dealt in detail with all measures that required that the Supervisory Board be informed or give its approval. In this way it provided the Management Board with advice and support in relation to the implementation of the Company strategy and related measures. Wherever this was required by the provisions of law, the Articles of Association or the rules of procedure of the Management Board, the Supervisory Board voted, after thorough examination and consultation, on the reports and proposed decisions of the Management Board.

In between board meetings, the Chairman of the Supervisory Board and the Management Board were also in regular, close contact. The Chairman of the Supervisory Board was kept constantly up to date on the current business situation and on all key business events by the Management Board. The Chairman of the Supervisory Board also discussed matters relating to strategy, planning, business performance, risk exposure, risk management and compliance in separate meetings held regularly with the Management Board.

Supervision and examination methods

The Supervisory Board has mainly based its examination on

- the regular reports of the Management Board as provided for by law and the Management Board's rules of procedure,
- the separate reports submitted by the Management Board on occasion and
- the supplementary explanations provided by the Management Board and the auditors.

Ralf Wintergerst

Each of the reports was submitted to all members of the Supervisory Board. Where the Management Board submitted business measures to the Supervisory Board for approval, the Supervisory Board's copy was in each case accompanied by a presentation of the main points to be considered in taking a decision. During the 2018 financial year, the Supervisory Board saw no occasion for individual members of the Supervisory Board or particular experts to inspect or examine the books or records of the Company.

Meetings of the Supervisory Board

Four ordinary meetings of the Supervisory Board were held in the 2018 financial year, taking place on 21 March, 9 May, 13 September and 28 November respectively. A further meeting was held by telephone on 16 May 2018. No member of the Supervisory Board attended only half, or fewer than half, of the meetings of the Supervisory Board during the past financial year.

In addition, the Supervisory Board passed written circular resolutions between the meetings as required. The Management Board also kept the Supervisory Board informed about projects and plans of particular importance to the Company in the periods between the meetings, by means of detailed written reports. The Supervisory Board discussed with the Management Board any financial information arising over the course of the year, before its publication.

In all of the meetings, the Supervisory Board addressed the current business performance of secunet Security Networks AG. It also dealt with all relevant issues concerning business planning, investment planning, earnings and liquidity, the risk situation, risk management and compliance. Furthermore, it dealt in detail with the Management Board's assessments regarding market events and the further development and long-term strategy focus of the Company, and critically and constructively discussed these topics with the Management Board. In addition, it focused on the key organisational and personnel changes. In all its meetings, the Supervisory Board also requested information about the Company's risk situation and risk management and about the Company's compliance.

At the financial statements review meeting on 21 March 2018, the Supervisory Board paid particular attention to the Annual Financial Statements, the Consolidated Financial Statements and the combined Management Report for the Group and the Company for the 2017 financial year, as well as the auditors' reports. The Supervisory Board checked and approved the aforementioned documents after discussing them in detail with the auditor present, who reported on the key results of his examination.

In its meeting on 21 March 2018, the Supervisory Board also approved the Supervisory Board Report for the 2017 financial year and the proposed resolutions by the Supervisory Board for the Annual General Meeting on 9 May 2018. The Supervisory Board additionally addressed matters pertaining to the Management Board. Furthermore, the Supervisory Board undertook a self-evaluation of its activities with the aim of further improving the efficiency of the latter (efficiency review).

In the meeting on 9 May 2018, the Supervisory Board dealt with the current business situation and the strategic goals of the Company. Furthermore, the Supervisory Board discussed with the Management Board any ongoing M&A projects.

In the meeting held by telephone on 16 May 2018, the Supervisory Board addressed the current business performance of one Group company of secunet Security Networks AG.

The current business situation, the strategic goals of the Company and ongoing M&A projects were once again the main focus of the meeting on 13 September 2018.

In the meeting on 28 November 2018, the Supervisory Board focused in particular on the current business situation and the future strategic and operational development of the Company, including potential opportunities for an internationalisation of business activities. Perspectives for external growth were also discussed. In addition, the Supervisory Board discussed the annual and budget planning for 2019, as well as the three-year budget plan, and approved them. Furthermore, the Supervisory Board examined the Corporate Compliance Report and discussed and approved the Declaration of Conformity under Article 161 of the German Stock Corporation Act (AktG). The Supervisory Board additionally addressed matters pertaining to the Management Board.

In its meeting on 28 November 2018, the Supervisory Board also dealt with the targets for its composition. Item 5.4.1, Para. 2 of the German Corporate Governance Code stipulates that the Supervisory Board shall state specific targets for its composition and that, in addition to various other factors, the number of independent members of the Supervisory Board pursuant to Item 5.4.2 of the German Corporate Governance Code shall be given due consideration within the framework of the company-specific situation. On the basis of previous resolutions, the Supervisory Board had specified the target of having at least two independent members in the sense of Item 5.4.2 of the German Corporate Governance Code. On 28 November 2018, the Supervisory Board decided to adapt this target to the effect that there should in any case be one independent member of the Supervisory Board.

Item 5.5.3, sentence 1 of the German Corporate Governance Code recommends that the Supervisory Board, in its report to the Annual General Meeting, should provide information on any conflicts of interest that have arisen and how they have been dealt with. On 18 December 2018, by means of a circular resolution, the Supervisory Board approved the acquisition by secunet Security Networks AG of certain assets from a sole subsidiary of Giesecke+Devrient GmbH, the majority shareholder of secunet Security Networks AG. Mr Wintergerst, the Chairman of the Supervisory Board, and Dr Zattler and Mr Kunz, members of the Supervisory Board, abstained from voting on the relevant resolution of the Supervisory Board due to their respective positions in the management of Giesecke+Devrient GmbH or, in the case of Mr Kunz, of another Group company of Giesecke+Devrient GmbH.

Corporate Governance

The Supervisory Board is continually examining and closely following the application and the further development of Corporate Governance standards in the Company, and in particular the implementation of the recommendations of the German Corporate Governance Code. The Supervisory Board places great importance on the implementation of the German Corporate Governance Code. In the reporting year, secunet Security Networks AG complied with the recommendations of the version of the German Corporate Governance Code currently in force, with a few exceptions. On 28 November 2018, the Management Board and Supervisory Board submitted their Declaration of Conformity for the 2018 financial year regarding the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with Article 161 of the German Stock Corporation Act (AktG). The Declaration of Conformity was made permanently available to the shareholders on the Company's website. The Declaration of Conformity for the 2018 financial year, which was approved on 28 November 2018, can also be found in the Corporate Governance Report, which is part of this Annual Report 2018.

The Supervisory Board has established concrete appointment targets for its own composition and has approved a skills profile for the full Supervisory Board; both are described in further detail in the Corporate Governance Report.

The Supervisory Board strives to continually improve the efficiency of its activities. On an annual basis, the review of the Supervisory Board's efficiency is also included as a separate item on the agenda for the meetings of the Supervisory Board.

Personnel changes on the Management Board

There was a personnel change on the Management Board in the 2018 financial year: Mr Axel Deininger was appointed as a member of the secunet Security Networks AG Management Board with effect from 1 January 2018.

As announced in the press release issued by secunet Security Networks AG on 19 December 2018, several personnel changes are planned for the 2019 financial year.

The Chairman of the Management Board of secunet Security Networks AG, Dr Rainer Baumgart, is retiring, as planned, with effect from 31 May 2019 on reaching the age of 65. The Supervisory Board would like to take this opportunity to thank Dr Baumgart for his important contribution to the development of secunet.

It is intended that Mr Axel Deininger will succeed him as Chairman of the Management Board. At the same time, two new members of the Management Board are to be appointed with effect from 1 June 2019: Mr Torsten Henn and Dr Kai Martius. Both are long-serving managers of secunet. They will move from the extended management team to the Management Board. In the future, Mr Henn will be in charge of secunet's operational business on the Management Board. Dr Martius will be responsible for the areas of product management and technology development. Mr Thomas Pleines is confirmed in his position as CFO.

Provided the aforementioned personnel measures are conclusively implemented, the Management Board of secunet Security Networks AG would thus comprise the four members Axel Deininger, Torsten Henn, Dr Kai Martius and Thomas Pleines as of 1 June 2019.

Supervisory Board status proceedings; elections of the employee representatives

The Management Board informed the Supervisory Board at its meeting on 13 September 2018 that it intends to initiate status proceedings in accordance with stock corporation law to adapt the composition of the Supervisory Board. It was of the opinion that, due to the employment of generally more than 500 but not more than 2,000 employees, one third of the members of the Supervisory Board must be employee representatives in accordance with the One-Third Participation Act pertaining to employees on the Supervisory Board (Drittelbeteiligungsgesetz – DrittelbG). The Supervisory Board discussed this step and endorsed the intention of the Management Board. The status proceedings were initiated with publication of the corresponding announcement of the Management Board in the Federal Gazette on 31 October 2018. On 10 December 2018, following expiration of the statutory period for appealing to the competent court, the Management Board informed the employees that two employee representatives were to be elected to the Supervisory Board for the coming term of office. The Supervisory Board is still to comprise six members, i. e. two employee representatives and four members elected by the Annual General Meeting.

On 13 March 2019, the electoral process was completed with the election of Mrs Gesa-Maria Rustemeyer and Mr Jörg Marx as employee representatives. The Management Board reported regularly to the Supervisory Board on the progress of the proceedings. The Supervisory Board regularly discussed the proceedings.

Annual Financial Statements and Consolidated Financial Statements for 2018

The Annual Financial Statements prepared by the Management Board in accordance with the German Commercial Code (Handelsgesetzbuch, HGB) and the Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS) for the 2018 financial year, and the combined Management Report for the Group and the Company, including the accounting system, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf branch. As part of this audit, the auditors also determined whether the Management Board has set up an appropriate monitoring system, the design and handling of which is suitable for early identification of any developments endangering the continued existence of the Company. The Supervisory Board awarded the audit mandate in accordance with the resolution passed by the Annual General Meeting on 9 May 2018. The auditors issued an unqualified opinion in each case.

The auditors also examined the report on relations with affiliated companies prepared by the Management Board for the 2018 financial year in accordance with Article 312 AktG and relating to the existing majority shareholding of Giesecke + Devrient GmbH, Munich, and issued the following unqualified opinion: "Based on our audit and evaluation conducted in accordance with our professional duties, we hereby confirm that 1. the factual information contained in this report is correct, 2. the consideration provided by the Company in respect of the legal transactions mentioned in the report was not inappropriately high."

The financial statement documents, the proposed appropriation of balance sheet profits, the report on relationships with affiliated companies and the auditors' reports were distributed to all members of the Supervisory Board without delay following their preparation. At the financial statements review meeting on 27 March 2019, the aforementioned financial statements and reports, as well as the proposed profit appropriation, were discussed and examined in detail by the Supervisory Board in the presence of the auditors, who gave a report on the main findings of their audit.

Based on the final results of its own examination, the Supervisory Board had no objections to the Financial Statements, the combined Management Report for the Group and the Company, the report on relationships with affiliated companies, including the final statement of the Management Board contained therein, or the auditors' reports. The Supervisory Board therefore endorsed the findings of the audit of the financial statements and approved the financial statements of secunet Security Networks AG and the consolidated Group as compiled by the Management Board as at 31 December 2018; the Annual Financial Statements of secunet Security Networks AG were thus adopted on 27 March 2019.

The Supervisory Board also reviewed the Management Board's proposed profit appropriation, which envisages a dividend of 2.04 euros for each eligible share, with regard to the liquidity of the Company as well as its financial and investment planning. The proposed appropriation of profits is in line with the Company's interests and takes into account the interests of the shareholders. After having examined and weighed up all the arguments, the Supervisory Board approves the profit appropriation proposal of the Management Board.

The very good result of secunet Security Networks AG for the 2018 financial year is due to the outstanding performance of the Management Board and the employees of the Company and the Group. The Supervisory Board expresses its particular thanks to the Management Board and the employees.

Essen, 27 March 2019

The Supervisory Board

Ralf Wintergerst

The secunet Share

Trading year 2018: volatile markets depress stock market sentiment

Following the pronounced upswing of international markets in recent years, global stock markets were characterised by high volatility and uncertainty in 2018. The trade conflict between the USA and China, the ongoing Brexit negotiations and also the concern about Italy's national debt were the main topics dominating the financial markets. The less expansionary monetary policy of the US central bank and rising interest rates in the USA also created headwinds for the stock markets. These factors led to a trend reversal in the second half of the year and thus to a sustained downturn across national and industry borders.

At the end of the year, the leading German index DAX was down by 18 percent. The MDAX too lost around 18 percent in the course of 2018, the SDAX fell by 20 percent and the TecDAX declined slightly by 3 percent.

secunet share with small overall losses

The volatile markets worldwide meant that it was not possible for secunet Security Networks AG to continue the positive share price development of the previous year. The price of the share fell by 8 percent from 95.20 euros on 1 January 2018 to 87.60 euros on 28 December 2018.

In terms of long-term performance, the secunet share nevertheless remains a worthwhile investment. Anyone who bought shares at the beginning of 2014 at a Xetra closing price of 19.86 euros, for example, registered a tremendous increase in value of 441 percent at the end of 2018.

secunet Security Networks AG again continued its dividend policy of recent years in 2018. With the payment of a dividend of 1.20 euros per share for 2017, the Company's shareholders participated more strongly in the Company's success than ever before. The Management Board is thus consistently remaining true to its dividend policy focused on the long term.

It will propose to the 2019 Annual General Meeting that a dividend of 2.04 euros per share be distributed to the shareholders out of the 2018 balance sheet profit.

Shareholder structure remains stable

Munich-based Giesecke + Devrient (G + D) GmbH has held a direct stake of 78.96 percent in secunet since 2009. A significant stake in secunet Security Networks AG is also held by Ingrid and Christiane Weispfenning, who together have a 3.95 percent share of the voting rights in secunet Security Networks AG, alongside Axxion S. A. (3.18 percent) and Frankfurter Investmentgesellschaft mit variablem Kapital (SICAV), which holds a 2.81 percent stake.

secunet itself holds a further 0.47 percent of the shares (30,498 individual shares), while the remaining 10.63 percent are in free float.

Lower trading volume

The average daily trading volume of secunet shares on Xetra fell to 1,699 shares in the past financial year, compared with a daily average of 5,172 secunet shares traded in the previous year. The decline is primarily attributable to the volatility of global markets.

High attendance at Annual General Meeting

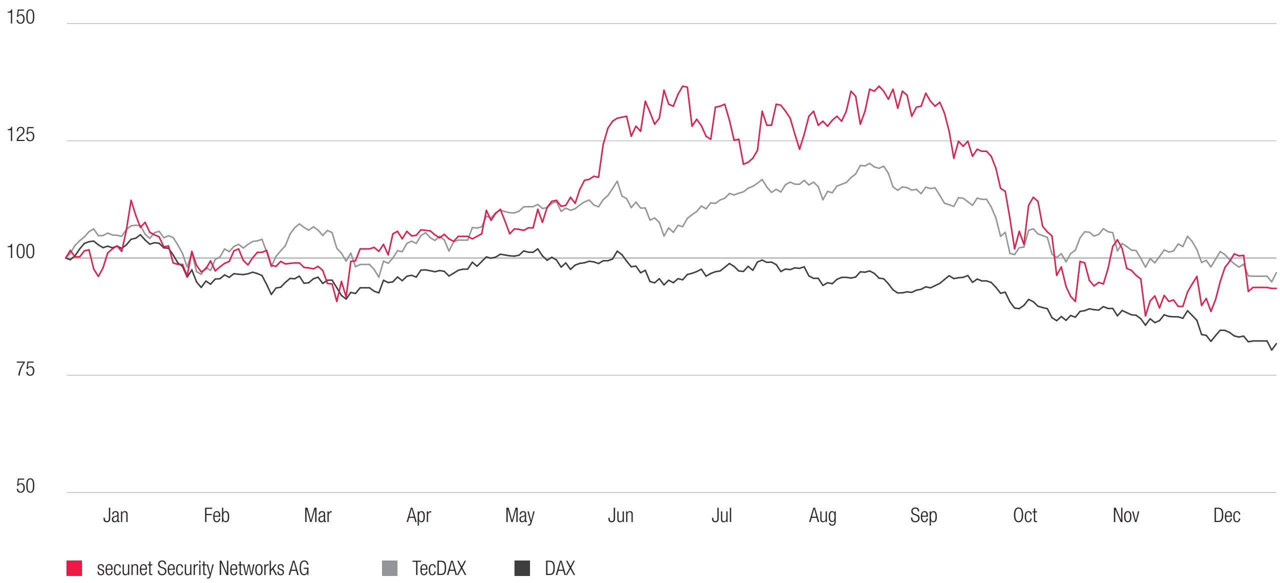
Attendance at the 2018 Annual General Meeting corresponded to 87% of the share capital. Each of the items on the agenda received more than 99% approval. The resolution on the appropriation of profit, which provided for the distribution of a dividend of 1.20 euros per dividend-bearing share (previous year: 0.58 euros), was adopted with 99.9% of the votes.

Shareholders receive comprehensive information

The cultivation of investor relations plays an important role at secunet. Great emphasis is placed on keeping the public promptly supplied with transparent, comprehensive and consistent information.

secunet provides its shareholders with comprehensive information on secunet Security Networks AG and its business performance. All information published by secunet is made available to shareholders in a timely manner on the Company's website (www.secunet.com). The website also contains financial reports and presentations in addition to the current financial calendar. Furthermore, shareholders and other interested parties can contact Investor Relations by phone on +49 201 54 54-12 27 or via e-mail at investor.relations@secunet.com to clarify any questions they may have.

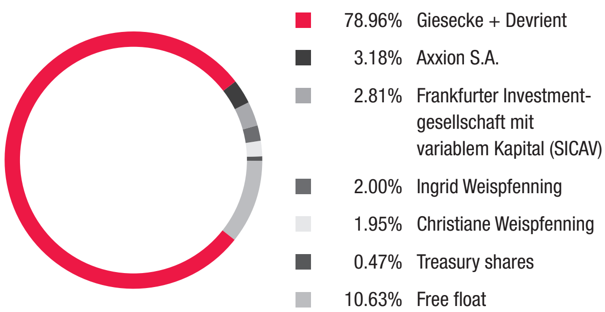
Share price performance 1 January – 31 December 2018
Index, price 1 January 2018 = 100



secunet stock information

Reuters ticker symbol	YSNG.DE
Bloomberg ticker symbol	YSN
WKN (German security identification number)	727650
ISIN	DE0007276503
Class of share	Ordinary bearer shares with no par value
Share capital in euros	6,500,000
Share capital in units	6,500,000

Shareholder structure 2018



Corporate Governance Report

Declaration of Corporate Governance

An effective and transparent organisation, as well as responsible and reliable Corporate Governance are of great importance to secunet Security Networks AG. The Company's Management Board and Supervisory Board firmly believe that good Corporate Governance is key to the continued success of the Company on the market.

The term Corporate Governance describes the regulatory framework for the management and supervision of companies. In a general sense, this framework must be designed in such a way that the Management Board and Supervisory Board work to ensure that the company continues to exist and creates value sustainably. Recommendations and proposals for how this requirement can be implemented in the management and supervision of companies are summarised in the German Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK). The Code serves the purpose of increasing trust in companies listed on the German stock exchange.

The Management Board and Supervisory Board of secunet Security Networks AG therefore regularly check the implementation of the German Corporate Governance Code at secunet Security Networks AG. In the 2018 financial year, the Management Board and Supervisory Board of secunet Security Networks AG once again carefully deliberated on the recommendations and proposals of the German Corporate Governance Code, in the version as amended on 7 February 2017. The Declaration of Conformity set out below regarding the German Corporate Governance Code was agreed on the basis of these deliberations. This declaration is permanently available on our website and constantly updated to reflect any amendments.

In accordance with Item 3.10 of the German Corporate Governance Code and Article 289a of the German Commercial Code (Handelsgesetzbuch, HGB), the Management Board and Supervisory Board give the following report:

Management and supervisory structure

secunet Security Networks AG is subject to German stock corporation law. As a German public limited company, it has a dual management and supervisory structure consisting of a Management Board and a Supervisory Board. The Management Board consisted of three members in the 2018 financial year. The Supervisory Board is made up of six members. The Management Board and Supervisory Board work together closely and on the basis of mutual trust in their management and supervision of the Company.

Supervisory Board

The Supervisory Board performs the tasks assigned to it by law and by the Company's Articles of Association. It supervises and advises the Management Board with regard to the management of the Company. At regular intervals, the Supervisory Board discusses business performance and planning, as well as the strategy and its implementation. It discusses the 6-month financial reports and quarterly updates with the Management Board before their publication, and approves the Annual Financial Statements of secunet Security Networks AG and the Group, taking into consideration the audit reports prepared by the auditors and its own examination. The Supervisory Board monitors the accounting process, the effectiveness of the internal control system, risk management and internal audit, as well as the auditing of the financial statements. Its tasks and responsibilities also include appointing members to the Management Board. Management Board decisions of fundamental importance, such as major acquisitions, disposals and financial measures, require the consent of the Supervisory Board. An extraordinary meeting of the Supervisory Board is convened as and when necessary should significant events arise. The Supervisory Board has drawn up rules of procedure for its work. Its Chairman coordinates the work carried out within the Supervisory Board, chairs its meetings and represents its interests externally.

In accordance with the Articles of Association, the Supervisory Board of secunet Security Networks AG comprises six members. The current terms of the members of the Supervisory Board end with the 2019 Annual General Meeting. Previously, the Supervisory Board consisted solely of shareholder representatives. Since secunet Security Networks AG normally employed more than 500 but not more than 2,000 employees for the first time in the 2018 financial year and is therefore subject to the One-Third Participation Act pertaining to employees on the Supervisory Board (Drittelbeteiligungsgesetz – DrittelbG), one third of the Supervisory Board must now consist of employee representatives. The Management Board of the Company therefore instigated the change in the composition of the Supervisory Board by initiating status proceedings in October 2018 and the procedure for election of employee representatives to the Supervisory Board in December. The latter procedure was concluded on 13 March 2019 with the election of two employee representatives. At the 2019 Annual General Meeting, four shareholder representatives will be elected to the Supervisory Board.

The knowledge, skills and professional experience required to fulfil the remit are taken into account when drawing up the nominations for election to the Supervisory Board. In addition, the Supervisory Board has defined specific targets for its composition in accordance with Item 5.4.1 of the German Corporate Governance Code, and has drawn up a skills profile for the entire Board. The purpose of the skills profile is to ensure that the members of the Supervisory Board possess all the knowledge and experience considered essential in light of the activities of secunet Group.

Taking into account the Company's specific situation, at the next election of its members, the Supervisory Board will strive to achieve diversity among candidates with the requisite professional and personal qualifications. Among suitable candidates, the Supervisory Board will look for international experience, independence and an appropriate proportion of female members. In accordance with the recommendation in Item 5.4.1 of the German Corporate Governance Code, at least one seat on the full Supervisory Board is reserved for a female member in the Supervisory Board elections to be held in 2019 in connection with the reconstitution of the Supervisory Board as a result of the One-Third Participation Act coming into effect.

One or more Supervisory Board members should also have many years of special experience abroad, acquired as a result of working abroad or due to a foreign country of origin. In addition, the Supervisory Board should include what it considers an appropriate number of independent members within the meaning of Item 5.4.2 of the German Corporate Governance Code. On the basis of a Supervisory Board resolution dated 16 November 2017, the Supervisory Board had specified the target of having at least two independent members within the meaning of Item 5.4.2 of the German Corporate Governance Code. In any event, in the opinion of the Supervisory Board, two members of the Supervisory Board at present are independent as defined by Item 5.4.2 of the German Corporate Governance Code. They are Dr Elmar Legge and Wolf-Rüdiger Moritz. At least one member of the Supervisory Board possesses many years of international experience.

At its meeting on 28 November 2018, the Supervisory Board again dealt with the specific targets for its composition and decided to adjust its previous objectives to the extent that there should now be at least one independent Supervisory Board member within the meaning of Item 5.4.2 of the German Corporate Governance Code.

The Supervisory Board will take the above-mentioned objectives into account in its suggestions for appointments, which it will submit to the 2019 Annual General Meeting for the Supervisory Board elections, and will also strive to fulfil the skills profile for the entire Board.

Furthermore, the current composition of the Supervisory Board complies with the specifications of the skills profile. The members of the Supervisory Board possess the professional and personal qualifications deemed necessary. They are all familiar with the sector in which the company is active and have the essential knowledge, skills and experience for the Company.

The Supervisory Board does not have any committees. In the opinion of the Supervisory Board, this is not in fact necessary, as the Supervisory Board comprises only six members. Given a board of this size, efficient operation of the Supervisory Board can be guaranteed without the formation of committees.

Management Board

The Management Board, as the body responsible for managing the Company, conducts the Company's business under its own responsibility and in the Company's interests. Its aim is to increase the enterprise value on a sustainable basis. In particular, it determines the principles of the Company's policy and is also responsible for developing the Company's strategy, for planning and setting the Company's budget, for allocating resources, and for controlling and managing the Company's corporate and business divisions. Specific measures described in the Management Board's rules of procedure require the approval of the Supervisory Board. The Management Board is responsible for preparing the Company's quarterly updates, the Annual Financial Statements of secunet Security Networks AG, and the Consolidated Financial Statements.

The Management Board works closely with the Supervisory Board. It informs the Supervisory Board regularly, comprehensively and without delay – by means of written and verbal reports – of all issues important to the Company as a whole with regard to strategy and strategy implementation, planning, business performance, the financial and earnings situation, and entrepreneurial risks. The Supervisory Board is involved without delay in all decisions fundamental to the Company.

Targets for the appointment of women

In addition, the Supervisory Board has also implemented the requirements of the legislation that came into force on 1 May 2015, regarding the equal participation of women and men in management positions. For the implementation period up to 30 June 2017, a target of zero percent was set for the proportion of women on the Management Board and the Supervisory Board, and at the management level directly below the Management Board. A target of nine percent was applied for the second level of management below the Management Board. Further details on this topic can be found in the Corporate Governance Report for the 2015 financial year. The determined targets were met.

In its meeting on 4 May 2017, the Supervisory Board established a target of 17 percent for the Supervisory Board, relating to the implementation period from 1 July 2017 to 30 June 2022, with the goal of electing at least one woman to the Supervisory Board in the next regular Supervisory Board elections at the 2019 Annual General Meeting. This target applies to the reconstitution of the full Supervisory Board, which will take place through the elections to the Supervisory Board at the 2019 Annual General Meeting and in connection with the One-Third Participation Act taking effect.

In the same meeting on 4 May 2017, the Supervisory Board also maintained the previously determined target of zero percent for the Management Board relating to the implementation period up to 31 May 2019, because no expansion of the Management Board was intended at the time of the decision. Against the background of the expansion of the Management Board as of 1 January 2018 through the appointment of Mr Axel Deininger and the planned appointment of two further new Management Board members in the 2019 financial year announced in secunet Security Networks AG's press release of 19 December 2018, the Supervisory Board again addressed the targets for composition of the Management Board at its meeting on 27 March 2019, in particular the targets for the participation of women, and decided to retain the target of zero percent with regard to the proportion of women on the Management Board for the implementation period up to 31 May 2019 and beyond that up to 31 May 2020. This is essentially due to the fact that the search for suitable female candidates remains challenging in the current market environment and in secunet Security Networks AG's areas of business, and therefore a higher target cannot at present be regarded as realistic from the point of view of the Supervisory Board.

With regard to the two management levels below the Management Board, the Management Board set the following targets for the period from 1 July 2017 to 30 June 2022: zero percent for the first level and eleven percent for the second level. In view of the small size of the Company, the limited number of management positions and the associated low level of fluctuation, the Management Board is of the opinion that more ambitious targets would not currently be realistic. However, the Management Board reiterates its intention to move towards a higher proportion of management positions being held by women to the greatest extent possible.

In the 2018 financial year, the proportion of women at the second management level below the Management Board increased to 10.5 percent, thereby exceeding the target.

Responsible risk management

Good Corporate Governance also means that the Company must take a responsible approach to risk. Systematic risk management as part of our value-oriented Group management ensures that risks are identified and evaluated at an early stage, and that risk positions are optimised. The Management Board reports regularly to the Supervisory Board on the current development of key risks. Details of risk management at secunet Security Networks AG can be found in the Management Report. It also contains the report on the key characteristics of the internal control and risk management system relating to accounting.

Transparent Corporate Governance

Transparency in Corporate Governance is very important to the Management Board and Supervisory Board of secunet Security Networks AG. Shareholders, all participants in the capital market, financial analysts, shareholder associations and the media are provided with comprehensive, regular and up-to-date information regarding the Company's position and key changes to the Company's business.

secunet Security Networks AG reports to its shareholders four times a year on business performance and on the financial and earnings situation, and makes all reports and information permanently available to shareholders on the Company's website at www.secunet.com. The dates for regular financial reporting are listed in the financial calendar. If any circumstances arise at secunet Security Networks AG that might significantly influence the stock market price of secunet Security Networks AG, this will be disclosed via ad hoc notifications. The financial calendar and ad-hoc announcements are available to view on the website of secunet Security Networks AG under >> The Company >> Investor Relations >> Financial Reports and News.

Shareholders and Annual General Meeting

The shareholders of secunet Security Networks AG may exercise their rights, including voting rights, at the Annual General Meeting. Shareholders can exercise their voting rights at the Annual General Meeting themselves or choose an agent or Company proxy bound by their instructions to exercise the voting rights. The Annual General Meeting takes place in the first eight months of the financial year. The Chairman of the Supervisory Board normally chairs the Annual General Meeting. Ahead of the Annual General Meeting, shareholders receive comprehensive information about the past financial year and about the individual items on the agenda of the upcoming meeting by way of the Annual Report and invitation to the meeting. All relevant documents and information on the Annual General Meeting, together with the Annual Report, are also available on our website.

In accordance with the provisions of law, the auditors are appointed by the Annual General Meeting. At the Annual General Meeting on 9 May 2018, the Düsseldorf branch of the auditing firm KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditors for secunet Security Networks AG and Group auditors for secunet Group for the 2018 financial year, and was therefore selected to perform an audit review of the Condensed Financial Statements and the Interim Management Report of secunet Security Networks AG and secunet Group as at 30 June 2018.

Shareholders are notified of important dates by means of a financial calendar published in the Annual Report, in the quarterly updates and on the Company's website.

Further detailed information about secunet Security Networks AG is available on our website at www.secunet.com.

Corporate Governance guidelines

The Articles of Association of secunet Security Networks AG form the basis of our Company. The Company's Articles of Association, the current Declaration of Conformity, the Declarations of Conformity for previous years and further Corporate Governance documents can be found online at www.secunet.com under >> The Company >> Investor Relations >> Corporate Governance.

The Management Board has introduced a Code of Conduct for the Company and its employees, summarising the business principles of secunet Security Networks AG. These principles are a crucial part of how secunet Security Networks AG sees itself, and of the expectations that it strives to meet. The Code of Conduct sets down standards of conduct for dealing with all the economic, legal and moral challenges that we face in our day-to-day business activities, and is intended to serve as a benchmark and guide when working with customers, suppliers and other business partners, as well as for our conduct towards our competitors. It also governs our conduct in financial matters and trading in secunet shares, their derivatives and other financial instruments. The Company has set up a compliance unit to handle questions arising in connection with the Code of Conduct.

In accordance with the provisions of Item 4.1.3, sentence 3 of the German Corporate Governance Code, the Company has provided its employees with an opportunity to report, under protection, legal violations within the Company by means of an electronic whistleblower system. This option is also available to third parties.

Management Board and Supervisory Board remuneration

secunet Security Networks AG complies with statutory regulations and the recommendations of the German Corporate Governance Code and discloses the remuneration of each individual member of the Management Board. In this Annual Report (more specifically, in the remuneration report, which forms part of the Management Report), we detail the remuneration of the members of the Management Board and Supervisory Board.

Information on stock option programmes and similar securities-based incentive systems

No stock option programmes or similar securities-based incentive systems exist for members of corporate bodies or employees of the Company.

Notification of transactions under Article 19 of the European Market Abuse Directive (Directors' Dealings)

Article 19 of the European Market Abuse Directive (EU) No. 596/2014 requires members of corporate bodies (Supervisory Board/Management Board) and certain executives, as well as closely related parties, to disclose transactions in secunet shares or related financial instruments where the sum total of such transactions reaches 5,000 euros within a single calendar year. Directors' Dealings disclosures are also published on our website under Investor Relations. No Directors' Dealings were reported in the 2018 financial year.

Accounting and auditing of the financial statements

secunet Security Networks AG prepares its Consolidated Financial Statements and Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standards (IFRS). The Annual Financial Statements of secunet Security Networks AG are prepared in accordance with German commercial law (HGB). The Annual and Consolidated Financial Statements are compiled by the Management Board and audited by the auditors and the Supervisory Board. Quarterly updates and the 6-month report are discussed by the Management Board and Supervisory Board prior to their publication.

secunet Security Networks AG's Consolidated and Annual Financial Statements have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf branch, the auditors appointed by the 2018 Annual General Meeting. The audits were performed in accordance with Article 317 HGB and with due consideration for the generally accepted standards for the audit of financial statements in Germany promulgated by the Institute of Public Auditors in Germany (IDW). The undersigned auditors for the Annual Financial Statements and Consolidated Financial Statements of secunet Security Networks AG are Mr Martin C Bornhofen and Dr Dominic Sommerhoff.

It was also contractually agreed with the auditors that they inform the Supervisory Board without delay of any potential grounds for exclusion or bias and of any findings or occurrences of significance to the Supervisory Board's remit that came to light during the auditing of the financial statements.

The Condensed Consolidated Interim Financial Statements and the Interim Group Management Report as at 30 June 2018 were subjected to an audit review by KPMG AG Wirtschaftsprüfungsgesellschaft.

Declaration of Conformity under Article 161 of the German Stock Corporation Act

The management and supervisory boards of companies listed on the German stock exchange are legally obliged, in accordance with Article 161 of the German Stock Corporation Act (Aktiengesetz, AktG), to annually declare whether the official recommendations of the Government Commission on the German Corporate Governance Code applicable at the time of making the declaration have been fulfilled and will be fulfilled. The Company is furthermore required to disclose which recommendations of the Code have not been applied or will not be applied and to explain the reasons for this. This Declaration of Conformity is printed in full below, with explanations. The Declaration of Conformity can also be found on secunet Security Networks AG's website under >> The Company >> Investor Relations >> Corporate Governance. The Declarations of Conformity issued in the last five years are permanently available on the website.

The Company complies with, and will continue to comply with, the recommendations of the Government Commission on the German Corporate Governance Code, as amended in the version in force on 7 February 2017 and published by the German Ministry of Justice in the official part of the Federal Gazette on 24 April 2017, with the following exceptions:

3.8, Para. 3
A similar deductible shall be agreed upon in any D&O policy for the Supervisory Board.
Explanation: The secunet Supervisory Board conducts its business with the utmost sense of responsibility. A deductible would not give rise to any additional improvement or incentive.

5.1.2, Para. 2, sentence 3
An age limit for members of the Management Board shall be specified.
Explanation: secunet Security Networks AG does not stipulate an age limit for Management Board members, as the age of the particular Management Board member is not a blanket criterion for suitability to hold a position on the Management Board. An age limit would therefore generally limit the selection of suitable candidates to an unreasonable degree.

5.3.1
Depending on the specifics of the enterprise and the number of its members, the Supervisory Board shall form committees with sufficient expertise.
Explanation: The Supervisory Board of secunet Security Networks AG has no committees. In the opinion of the Supervisory Board, this is not in fact necessary, as the Supervisory Board comprises only six members. Given a board of this size, efficient operation of the Supervisory Board can be guaranteed without the formation of committees.

5.3.2

The Supervisory Board shall set up an Audit Committee.

Explanation: The Supervisory Board consists of six members. Due to the number of Supervisory Board members and the composition of the Supervisory Board, setting up a separate Audit Committee would not increase the efficiency of the work performed by the Supervisory Board in relation to accounting, risk management, compliance and the auditing of the financial statements.

5.3.3

The Supervisory Board shall form a Nomination Committee.

Explanation: The Supervisory Board of secunet Security Networks AG consists of only six members. All members are elected by the shareholders. An additional Nomination Committee has therefore not been set up.

5.4.1, Para. 2, sentence 1

The Supervisory Board shall determine concrete objectives regarding its composition, and shall prepare a profile of skills and expertise for the entire Board. Within the company-specific situation the composition of the Supervisory Board shall reflect appropriately the international activities of the company, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of number 5.4.2, an age limit and a regular limit to Supervisory Board members' term of office, both to be specified, as well as diversity.

Explanation: The Supervisory Board of secunet Security Networks AG has not determined a regular limit for the length of membership in the Supervisory Board. In the view of the Supervisory Board such a restriction is not necessary with regard to efficient operation of the Board, especially since the Board's work may benefit from the experience of long-standing members.

5.4.6, Para. 1, sentence 2

The status as Chair or membership of a committee shall also be taken into consideration when specifying the remuneration of Supervisory Board members.

Explanation: Since the Supervisory Board has no committees, there is currently no question of a special chairmanship and committee membership remuneration.

secunet Security Networks AG

Essen, 27 March 2019

The Executive Board The Supervisory Board

Management Report

Summarised Management Report on the position of the Company and the Group for the 2018 financial year

1. Principles of the Group

1.1 Business model and Group structure

1.1.1 Business model of the Group

secunet Group (hereinafter referred to as “secunet”) and secunet Security Networks Aktiengesellschaft, Essen (hereinafter referred to as “secunet AG”) offers products, solutions and consulting services in the field of IT security. secunet has specialised in IT high security, complex solutions and demanding projects in which technologies and processes are combined. These are the areas of IT security where applications are developed and offered for professional use, e.g. high-security cryptographic systems, public key infrastructures (PKI) and secure electronic identities (eID). The range of solutions is mainly geared towards large-scale infrastructures. Customers usually receive tailored solutions matching their individual requirements, even if they are based on standard applications.

1.1.2 Group and organisational structure

In Germany, secunet Group comprises secunet AG and the subsidiaries secunet Service GmbH (100%), secunet International GmbH & Co. KG (100%) as well as secunet International Management GmbH (100%) and also, since its initial consolidation due to the attainment of control on 1 October 2018, finally safe GmbH (63% shareholding as at 31 December 2018), all headquartered in Essen. Furthermore, secunet Group also includes the subsidiaries secunet SwissIT AG in Solothurn / Switzerland, secunet s.r.o. in Prague / Czech Republic and secunet Inc. in Austin, Texas / USA. The subsidiaries secunet s.r.o. and secunet SwissIT AG are in liquidation.

The subsidiaries secunet Service GmbH, secunet International GmbH & Co. KG and secunet International Management GmbH commenced business operations at the beginning of 2018. International marketing activities for the SINA product family are bundled in secunet International GmbH & Co. KG. As the general partner of secunet International GmbH & Co. KG, secunet International Management GmbH is responsible for the management of secunet International GmbH & Co. KG. secunet Service GmbH incorporates the administrative activities of secunet Group. Almost all functions supporting the operational units of secunet AG are centralised in the service company. As an internal service provider, the company takes responsibility for services such as accounting, controlling and staff.

finally safe GmbH is an innovative German technology company and manufacturer of the Advanced Security Analytics Platform (ASAP). Its purpose is to visualise network communication, to achieve higher network resistance and faster recognition of advanced forms of cyber threats and attacks. The range of services extends from analysis, consulting, conception, development and integration of software solutions to workshops and support.

secunet has eleven locations in Germany: Berlin, Bonn, Borchen, Dresden, Essen (headquarters), Frankfurt, Hamburg, Ilmenau, Munich, Siegen and Stuttgart. Consulting and development projects are handled at these sites in close collaboration with our customers. In Dresden, secunet also runs a training centre which is principally used for training users and administrators on the SINA secure inter-network architecture.

secunet has a target group-oriented organisational structure: two divisions – Public Sector and Business Sector – are respectively geared towards the needs of public clients and international organisations on the one hand, and to the target group of private companies on the other hand, offering consultancy services, products and solutions.

One aspect of the Public Sector division’s offering to its customers is the SINA product family, encompassing solutions (software, hardware and management) for highly secure, cryptographic processing, transmission and storage of classified information with different confidentiality levels. Additionally it offers public customers a wide range of IT security products and services, from IT security consulting and training to products for electronic passports, automated (biometric) border control systems, the ELSTER electronic tax return system and the equipment of large infrastructures with high-security technology and public key infrastructures.

The Business Sector division offers (consulting) services and solutions to meet the specific requirements of companies in the private sector. The consulting services range from security assessments (known as penetration tests) via security consulting (for security guidelines and their implementation, for example) up to support for certification projects. The customer-specific solutions in the Business Sector are focused on providers and operators of critical infrastructures, such as telecommunications companies, energy and utility companies, as well as on the automotive industry. Following its approval for integration into the telematics infrastructure (TI) in the healthcare sector at the end of 2018, the secunet konnektor is intended to open up this market segment as a new target group.

The international marketing business results in secunet Group are allocated to the Public Sector segment. Until the end of 2017, the business results were incorporated in secunet AG. Through the spin-off of international marketing activities from secunet AG with effect from 1 January 2018, these business results have now been assigned to the newly founded secunet International GmbH & Co. KG.

Within the divisions, the organisation has a process-oriented design and aims to optimise operations for the relevant markets and customers.

Giesecke + Devrient GmbH, Munich, is the majority shareholder with a direct holding of 78.96%, and is the parent company of secunet AG. The Giesecke + Devrient Group (hereinafter referred to as “G+D”) is a leading international technology group based in Munich. The company, which was founded in 1852, develops, produces and sells products and solutions that deal with security for payment processes as well as identity, connectivity and data security.

1.1.3 Products and services

The secunet product portfolio comprises hardware, software and services. The services include specialist consulting on IT security, software development and the development and implementation of comprehensive security solutions. When it comes to hardware and software, secunet operates across the entire value chain, from design and development through to integration, operations, maintenance and support of products. The Company's core competence is the application of cryptographic procedures in system solutions.

1.1.4 Key sales markets

The target markets for secunet's products and services are public clients and the private sector. The target group for public clients served by the Public Sector division includes governmental organisations, organisations in the defence sector (including organisations such as NATO), EU organisations, security authorities and border police. In the private sector, secunet's Business Sector targets the customer segments of finance, insurance and energy, utilities, telecommunications and manufacturing / production industries, the healthcare sector as well as automotive manufacturers and suppliers.

The Company's main geographical sales area is Germany. To date, secunet's distribution activities abroad have focused on EU countries, NATO member states and the Middle East.

1.2 Corporate management

Management of secunet Group and secunet AG by the secunet AG Management Board is based on key financial performance indicators, namely sales revenue and EBIT in each case. The Management Board obtains comprehensive information about the state of business and these key performance indicators at its twice-monthly meetings. The Management Board regularly liaises with senior executives who have operational responsibility to discuss any distribution, product management and project management measures that may be required.

1.3 Research and development – innovation report

The research and development activities of secunet Group and secunet AG aim at improving and innovating processes, products and solutions. In this way secunet stays abreast of the growing need of its customers for higher security in existing infrastructures as well as for solutions dealing with threats in new technical environments.

secunet's innovation efforts are built on three supporting strategic approaches:

- Promoting a culture of innovation,
- Collaboration and partnerships with customers and suppliers, universities and associations, and
- Bundling of competences with product managers who support developments from innovation management through to the creation of market-ready products.

In addition, secunet employees are members of many national and international standardisation bodies and committees, where a valuable exchange of expertise takes place, continually building up employees' skills and ensuring that secunet participates extensively in technological developments at an early stage.

In the past, secunet's operational research and development activities were almost exclusively conducted on behalf of customers, which meant that the resultant costs could largely be invoiced to customers.

In contrast to the previous trend, the research and development costs recognised as expenses were a little higher in 2017 (2.1 million euros) and 2018 (1.0 million euros). The expenditure was largely incurred in connection with the development of the secunet konnektor for integration into the telematics infrastructure for electronic health cards, which tied up extensive capacities throughout the year. In February 2018, the development project met the criteria for mandatory capitalisation in accordance with IAS 38. Since that time, an intangible asset amounting to the development costs incurred of 4 million euros has been capitalised in secunet's consolidated financial statements. Altogether, secunet invested 4.5 million euros in developing the secunet konnektor in the 2018 financial year, of which 0.5 million euros was still recognised as an expense in January 2018. A further 0.5 million euros was invested in a development project related to security upgrades for cloud infrastructures.

In secunet AG's Annual Financial Statements under commercial law, the development costs were recognised in full as expenses.

2. Economic Report

2.1 Framework conditions for the overall economy and for relevant sectors

secunet Group is predominantly active in the German market and is therefore primarily affected by the framework conditions of the overall economy in Germany. Real gross domestic product (GDP) grew by 1.5% in 2018. Following strong growth of 2.5% in the previous year, overall economic output thus grew noticeably less strongly. At the same time, the German government turned to an expansive fiscal policy to stimulate the economy. This goes hand in hand with stable development of public budgets. The commercial situation of secunet Group is being positively influenced by these framework conditions.

Market statistics for the IT sector are compiled by the Bitkom industry association (German Association for Information Technology, Telecommunications and New Media).

The market for information technology is growing. In 2017 and 2018, the sector grew by 5.3% and 3.1% respectively (source: Bitkom). The following developments in the sector can be observed:

- The hardware market has been rather volatile, because of (replacement) procurement cycles: strong growth of 9.5% in 2017 was followed by a relatively low growth rate of 1.5% in 2018.

- The market for software is consistently expanding by well over 6%.

- Growth in IT services is lower and continues running at a level of 2.3%.

Security remains an important topic for the IT market. This is attributable in particular to the fact that a number of cyber attacks and scandals relating to data have made a very strong impression in the public realm, and therefore the topic of cyber security, i. e. the protection of IT systems from threats arising from espionage and sabotage, has become highly significant.

Consequently, the German federal government has developed a cyber security strategy, the guidelines of which aim to render the risks associated with digital transformation manageable. Government agencies and companies are to work together in various fields of action. Among other things, IT security research is to be promoted, certifications and approvals strengthened and a platform created for the reliable exchange of confidential information.

There is also an increasing awareness of this topic among companies. Current surveys (Allianz Risk Barometer 2019) show that cyber incidents are considered to be the greatest risk for companies worldwide. The material damage resulting from cyber crimes in Germany in 2016 and 2017 is estimated at 43 billion euros (source: Bitkom), while worldwide the damage over the same period is quantified at 500 billion dollars. The topic has also been additionally boosted by the German IT Security Act (IT-Sicherheitsgesetz, ITSiG). This legislation demands that providers and operators of critical infrastructure appropriately safeguard their IT systems using the latest technology and report IT security incidents.

Specific market statistics for IT security conclude that the market for IT security is growing faster than the overall market for software and IT services. Estimates for the growth in spending on IT security in the years 2017 to 2018 assume global market growth of more than 12%, with a market volume of 114 billion dollars in 2018 (source: Gartner). Growth in the German IT security market is not quite as strong, but the growth rate of 9% is also higher than that of the overall market (source: Bitkom).

secunet Group is therefore operating within an environment that is conducive to corporate growth, both in the overall economy and its own sector.

Positive commercial framework conditions in the German market for IT security have attracted new competitors, particularly in recent years. The changing intensity of the competition that this entails is continually monitored and evaluated by secunet. Currently, there are no signs of a negative impact on secunet's market position.

2.2 Assessment of business performance in 2018

2.2.1 Business performance of secunet Group

At the time of publishing the 2017 Annual Report, the secunet Management Board expected Group sales revenue for the 2018 financial year to be slightly lower than in the previous year. This outlook was based on the provisional budget management measures due to the protracted process of forming a government following the 2017 parliamentary elections. At the same time, since this dampening effect only impacted the Public Sector, the Business Sector division was expected to make a slightly higher contribution to total Group sales revenue.

In this context and based on the related assumption that product business would decline slightly, the Management Board anticipated a Group EBIT that would also be slightly lower than that of the previous year. Since the Business Sector division was expected to incur further expenses for the development of the healthcare connector, the Management Board did not expect this division to make a higher contribution to earnings.

However, the dampening effects on business results anticipated by the Management Board on account of the provisional budget management measures did not materialise. In fact, secunet Group exceeded the previous year's results in the 2018 financial year. Only the fourth quarter closed with results slightly down on the previous year's record levels. Contrary to the original forecast, sales in the Business Sector division did not increase, but declined. The development of the healthcare connector tied up extensive capacities which were therefore not available for generating consulting and development revenues.

In light of the results achieved by the end of September 2018 and the sales opportunities available for the fourth quarter of 2018, the Management Board slightly raised its forecast for 2018 in parallel with the publication in November 2018 of the figures for the first nine months: revenues and EBIT for the 2018 financial year were now expected to be roughly at the same level as the previous year.

On 14 December 2018, the Management Board of secunet AG again raised its outlook for the 2018 financial year. The increased forecast was now for sales revenue of 166 million euros with an EBIT of around 27 million euros. The reason for the increase was short-term procurements of public-sector clients, the realisation of which in the current financial year was still uncertain at the time the last forecast was published.

The actual business performance significantly exceeded the sales revenue and EBIT forecast published with the 2017 Annual Report. In the 2018 financial year, secunet Group achieved sales revenue of 163.3 million euros (previous year: 158.3 million euros) and an EBIT of 26.9 million euros (previous year: 23.5 million euros). This marked yet another record result.

The Management Board assesses secunet Group's business performance in 2018 as excellent.

2.2.2 Business performance of secunet AG

The forecast by the Management Board for secunet AG following the commencement of operations by the new companies secunet International GmbH & Co. KG and secunet Service GmbH was based on the following assumptions: secunet AG would account for around 90% of sales revenue and around 75% of the EBIT of secunet Group. Because no significant change is to be expected in the weighting of both companies for the time being, and therefore no substantial alterations are anticipated in these ratios, the forecast for secunet AG is computationally derived from the Group forecast on the basis of these ratios. There is no need to consider the foreign subsidiaries secunet SwissIT AG in Switzerland and secunet s. r. o. in the Czech Republic separately, since both companies have ceased operations and are in liquidation. Accordingly, the Management Board expected a slight decline in sales revenue and a moderate decrease in EBIT for secunet AG – adjusted for the effect of the spin-offs.

The business performance of secunet AG in the 2018 financial year featured a slight increase in sales revenue to 161.2 million euros (previous year: 158.3 million euros) and a moderate drop in EBIT to 22.6 million euros (previous year: 23.3 million euros).

The Management Board assesses secunet AG's business performance in 2018 as excellent.

2.3 Situation

2.3.1 Results of operations of the Group

The income statement for secunet Group in accordance with IFRS, as applicable in the EU, is presented according to the cost-of-sales method.

2.3.1.1 Sales revenue performance

In the 2018 financial year, the sales revenue of secunet Group grew by 5.0 million euros or 3%, from 158.3 million euros in the previous year to 163.3 million euros. While utilisation of consulting capacities remained high, the corresponding service revenues were down on the previous year's level. Tangible growth was primarily achieved in the product business (sales revenue from trade goods, licences, maintenance and support).

While sales revenue in the Public Sector division increased, it showed a decline in the Business Sector division.

Compared to the previous year, sales revenue in the Public Sector division rose by 4%, or 6.1 million euros, from 141.1 million euros to 147.2 million euros. The proportion of secunet Group's sales revenue which was attributable to the Public Sector division in the 2018 financial year therefore equated to 90% (previous year: 89%).

In the Business Sector division, which has so far concentrated on providers and operators of critical infrastructures as well as the automotive industry, activities in the area of electronic health services are to be expanded. For this reason, around 4.5 million euros was invested in the development of the secunet konnektor for integration into the telematics infrastructure for electronic health cards in 2018. As a result, extensive capacities were tied up in the development of the healthcare connector and were therefore not available for generating (consulting and development) revenues. Accordingly, sales revenue in the Business Sector was down from 17.3 million euros in the previous year to 16.1 million euros in the 2018 financial year. The contribution made to Group sales revenue by the Business Sector decreased on the previous year (11%), falling to 10% in the 2018 financial year.

At 0.8 million euros, the sales revenue from projects with Giesecke + Devrient Group in the 2018 financial year remains unchanged at a comparatively low level (prior-year figure: 0.8 million euros).

Sales of secunet products and services outside Germany increased by 9%, or 1.5 million euros, from 16.3 million euros in 2017 to 17.8 million euros in the year under review. Since sales revenue grew more strongly outside Germany than on the domestic market, the contribution of foreign sales revenue to Group sales revenue increased from 10% in the previous year to 11%.

2.3.1.2 Earnings performance

The earnings before interest and taxes (EBIT) of secunet Group increased by 15% compared to the previous year, rising from 23.5 million euros to 26.9 million euros. This improvement in EBIT resulted primarily from increased sales revenue in the product business combined with a disproportionately low increase in expenditure.

Key cost items in secunet Group

in thousand euros	2018	2017
Cost of sales	115,567	113,722
Selling expenses	14,088	14,127
General administrative costs	5,779	5,060

The following individual developments arose, in terms of costs:

In the reporting year, the cost of sales increased by 1.9 million euros, or 2%, from 113.7 million euros in the 2017 financial year to a total of 115.6 million euros. The increase is directly linked to the development of sales revenue in the product business: materials expenses have seen a corresponding increase. Materials expenses include the purchase of commodities for use in products, as well as third-party services received. Furthermore, increased personnel expenditure, arising mainly from expansion of the workforce, has also had an effect in this area.

At 14.1 million euros, selling expenses were at the same level as in the previous year.

General administrative costs increased by 0.7 million euros, or 14%, to 5.8 million euros compared to the prior-year figure of 5.1 million euros. This growth was due mainly to higher personnel expenditure and increased consultancy costs.

The EBIT in the Public Sector division rose disproportionately to the increase in sales revenue (+3%), growing by 11% from 23.7 million euros in the previous year to 26.2 million euros in the 2018 financial year. The reason for this improved result is growth in sales revenue in the product business accompanied by costs rising only at a disproportionately low rate.

The EBIT in the Business Sector division improved from -0.2 million euros in the previous year to 0.7 million euros in the 2018 financial year. The main factor here is the capitalised investment in the development of the secunet konnektor in the year under review, which in the previous year had to be recognised exclusively as an expense and thus had a negative impact of 1.8 million euros on the prior-year result. The corresponding expenses in the 2018 financial year only amounted to 0.5 million euros, as from February 2018 onwards 4.0 million euros was capitalised due to mandatory capitalisation in accordance with IAS 38.

Income from interest in secunet Group fell by 69%, or 204 thousand euros, from 296 thousand euros in the 2017 financial year to 92 thousand euros in the 2018 financial year. This income resulted from short-term loans provided during the year by secunet AG to its parent company Giesecke+Devrient GmbH, Munich, as well as loans to its associated company (until 30 September 2018) finally safe GmbH. Fewer loans were issued in the 2018 financial year than in the previous year. Interest expenses increased slightly from 131 thousand euros to 135 thousand euros. This predominantly relates to interest expenses for pensions. Overall, the interest result changed from 164 thousand euros to -43 thousand euros.

The earnings before taxes were 26.6 million euros in the 2018 financial year, having totalled 23.5 million euros in the 2017 financial year, corresponding to an increase of 3.1 million euros or 13%. Tax on the earnings increased from 7.7 million euros in the 2017 financial year to 8.8 million euros in the 2018 financial year. The increase of 1.1 million euros in tax expenditure was due to deferred tax effects. The tax ratio was 33% in the year under review (previous year: 33%).

As a result, secunet Group generated consolidated net income of 17.8 million euros in the 2018 financial year, corresponding to an increase of 1.9 million euros, or 12%, compared to the previous year (15.9 million euros). Of this amount, 17.9 million euros is attributable to the shareholders of secunet AG and -0.1 million euros to non-controlling interests (minority shareholders of finally safe GmbH). Diluted and undiluted earnings per share in 2018 stood at 2.77 euros, compared with 2.45 euros in the previous year.

2.3.2 Results of operations of secunet AG

In the separate accounts of secunet AG issued pursuant to commercial law, the income statement is presented using the total expenditure format.

Due to the spin-off of the business and corporate divisions International Sales and Central Services, Central Sales Coordination and Central Project Management Coordination with effect from 1 January 2018 into the wholly-owned subsidiaries secunet International GmbH & Co. KG, Essen, and secunet Service GmbH, Essen, founded in October 2017, the figures for the current financial year are comparable only to a limited extent with the corresponding figures for the previous year.

In the 2018 financial year, secunet AG generated sales revenue of 161.2 million euros, having achieved 158.3 million euros in the previous year, an increase of 2.9 million euros or 2%. Other operating income decreased from 1.8 million euros in the 2017 financial year to 1.5 million euros in the year under review.

The change in inventories in the 2018 financial year amounted to 348 thousand euros (previous year: 219 thousand euros), of which, in contrast to the past, 322 thousand euros resulted from the in-house production of hardware products commenced in the 2018 financial year. In previous years, changes in inventories resulted exclusively from work in progress on service contracts.

The following developments in the expenditure items can be observed:

Key expenditure items of secunet AG

in thousand euros	2018	2017
Materials expenses	74,562	71,903
Personnel expenses	39,073	42,703
Depreciation and amortisation	2,294	2,056
Other operating expenses	24,916	20,316

Materials expenses increased by 2.7 million euros, or 4%, from 71.9 million euros in the previous year to 74.6 million euros. This is associated with the increase in product business in the previous year, which necessitated an increase in the use of commodities and also raised expenditure on purchased services as compared with the previous year.

In 2018, personnel expenditure fell by 8%, or 3.6 million euros, from 42.7 million euros in the previous year to 39.1 million euros. One reason for this was the decline in the number of employees, as significant parts of the workforce were transferred to secunet International GmbH & Co. KG and secunet Service GmbH. Additionally, a lower performance-related variable remuneration was calculated and deferred for 2018. Salary increases had a contrary effect.

Depreciation and amortisation increased by 0.2 million euros, or 10%, from 2.1 million euros in the previous year to 2.3 million euros in the 2018 financial year. The increase results from the further expansion of the Company's property, plant and equipment, mainly office equipment and IT infrastructure.

Other operating expenses increased by 4.6 million euros, or 23%, from 20.3 million euros in the previous year to 24.9 million euros. The increase is mainly attributable to expenses charged to secunet AG by secunet Service GmbH with an appropriate margin on the original costs of secunet Service GmbH. These are expenses of the Central Services, Central Sales Coordination and Central Project Management Coordination divisions, which were spun off to secunet Service GmbH with effect from 1 January 2018. In the previous year, these expenses were mainly allocated to personnel expenses.

In the 2018 financial year, secunet AG for the first time reported income from equity investments totalling 0.5 million euros. This income results from the earnings of secunet International GmbH & Co. KG in the same period.

As a result, the earnings before interest and taxes (EBIT) changed by -3%, from 23.3 million euros in the 2017 financial year to 22.6 million euros in the past reporting period. The 2018 financial result totalled -467 thousand euros, compared with -131 thousand euros in the 2017 financial year. Accordingly, the earnings before income taxes of secunet AG in the 2018 financial year were 22.2 million euros compared with 23.2 million euros in the previous year. Net income fell from 15.5 million euros in 2017 to 14.7 million euros in the 2018 financial year.

2.3.3 Financial and net asset situation of the Group

The balance sheet is presented in accordance with IFRS, as applicable in the EU. The balance sheet total rose from 133.4 million euros as at 31 December 2017 to 145.2 million euros as at 31 December 2018.

Balance sheet of secunet Group, assets

in euros	31 Dec 2018	31 Dec 2017
Current assets		
Cash and cash equivalents	56,084,381.70	62,922,886.67
Trade receivables	41,776,937.04	40,925,634.56
Intercompany financial assets	452,438.07	85,481.04
Contract assets	2,648,354.51	–
Inventories	19,348,793.59	11,427,628.95
Other current assets	1,132,135.08	1,164,076.06
Total current assets	**121,443,039.99**	**116,525,707.28**
Non-current assets		
Property, plant and equipment	4,555,737.00	4,424,652.83
Intangible assets	5,990,220.00	470,349.00
Goodwill	4,625,031.00	3,607,331.00
Non-current financial assets	5,860,888.00	5,646,493.00
Financial assets shown in the balance sheet according to the equity method	0.00	93,346.08
Loans	0.00	1,307,444.44
Deferred taxes	1,592,036.82	1,360,653.26
Other non-current assets	1,142,447.60	0.00
Total non-current assets	**23,766,360.42**	**16,910,269.61**
Total assets	**145,209,400.41**	**133,435,976.89**

On the assets side of the balance sheet, the following significant changes can be seen between the two balance sheet dates.

Cash and cash equivalents decreased by 11% or 6.8 million euros from 62.9 million euros to 56.1 million euros due to the change in working capital (inventories, receivables and liabilities).

Contract assets amounted to 2.6 million euros as at 31 December 2018. In the previous year, this balance sheet item was not yet reported; it results from the first-time application of IFRS 15. The prior-year figures have not been adjusted and are included under trade receivables. The contract assets are completed contracts not yet invoiced.

In order to ensure delivery capability for the continually growing product business, the inventory level increased by 7.9 million euros, or 69%, from 11.4 million euros to 19.3 million euros.

The value of intangible assets increased by 5.5 million euros from 0.5 million euros to 6.0 million euros. The reasons for this are the capitalisation of intangible assets associated with the secunet konnektor in the amount of the development expenses of 4.0 million euros and the capitalisation of the acquired intangible assets (software) of finally safe GmbH totalling 1.3 million euros, which were identified in the initial consolidation of finally safe GmbH.

Goodwill increased by 1.0 million euros from 3.6 million euros to 4.6 million euros due to the goodwill of finally safe GmbH identified in the initial consolidation.

The loans of 1.3 million euros granted to finally safe GmbH in the previous year have become subscribed capital and capital reserves of finally safe GmbH as a result of conversion of the loans and have been forfeited in full in the context of the capital consolidation. The company has been fully consolidated since 1 October 2018.

Balance sheet of secunet Group, liabilities

in euros	31 Dec 2018	31 Dec 2017
Current liabilities		
Trade accounts payable	22,797,180.71	26,629,285.89
Intercompany payables	283,951.48	463,669.89
Other provisions	12,577,879.75	14,990,960.98
Income tax liabilities	6,695,131.05	6,720,100.39
Other current liabilities	4,739,511.25	6,292,019.10
Contract liabilities	8,682,677.88	–
Deferred income	–	6,459,411.99
Total current liabilities	**55,776,332.12**	**61,555,448.24**
Non-current liabilities		
Deferred taxes	1,886,488.94	192,404.86
Provisions for pensions	6,781,816.00	6,029,924.67
Other provisions	321,152.00	133,977.00
Contract liabilities	10,927,251.63	–
Deferred income	–	6,436,887.85
Total non-current liabilities	**19,916,708.57**	**12,793,194.38**
Equity		
Share capital	6,500,000.00	6,500,000.00
Capital reserves	21,922,005.80	21,922,005.80
Other reserves	-1,627,934.01	-1,547,460.56
Revenue reserves	42,363,484.81	32,212,789.03
Equity attributable to parent company shareholders	**69,157,556.60**	**59,087,334.27**
Non-controlling interests	**358,803.12**	**0.00**
Total equity	**69,516,359.72**	**59,087,334.27**
Total liabilities	**145,209,400.41**	**133,435,976.89**

The liabilities side of the secunet Group balance sheet indicates the following significant changes when comparing between 31 December 2017 and 31 December 2018:

Trade accounts payable decreased by 3.8 million euros or 15% from 26.6 million euros at 31 December 2017 to 22.8 million euros at 31 December 2018. The decline can be explained both by the volume of secunet Group's year-end business, which declined slightly compared to the previous year, and by the staggered timing of shipments and related procurements in this quarter. If the Q4 orders are processed earlier, the liabilities to suppliers decrease as at the balance sheet date. secunet Group remains in a position to meet its payment obligations at all times.

Other current provisions decreased by 2.4 million euros, or 16%, from 15.0 million euros to 12.6 million euros. The main reason for this is the lower recognition of provisions for variable remuneration components, as the amount by which targets were exceeded in the 2018 financial year was lower than in the previous year.

Current and non-current deferred income, which each totalled 6.5 million euros as at 31 December 2017, are replaced by current and non-current contract liabilities totalling 19.6 million euros as at 31 December 2018, as a result of the first-time application of IFRS 15. The increase in this amount is related to the growing product business. The number of maintenance and support contracts is rising accordingly. The resulting revenues are allocated on an accrual basis to current and non-current contract liabilities.

Revenue reserves increased from 32.2 million euros in the previous year to 42.4 million euros. This change was mainly based on the Group consolidated profit for the period of 17.8 million euros, and the dividend payment of 7.8 million euros for 2017 paid during the reporting year.

secunet Group's positive result for the 2018 financial year contributes to the increase in equity, compared to the previous year's reporting date, by 10.4 million euros, or 18%, to 69.5 million euros as at 31 December 2018.

secunet did not take out any loans in either the 2017 or the 2018 financial year; all spending was financed with liquid assets. The debt ratio is thus 0%. Guaranteed credit lines concluded by secunet AG with its key relationship banks and totalling 12.0 million euros are available to secunet Group as security for customers within the framework of larger projects and for guarantees, for example for lessors of office space, and remain unchanged from the previous year. As at 31 December 2018, these had been utilised to the amount of 2.1 million euros (previous year: 3.0 million euros).

At 7.7 million euros, cash flow from operating activities for the 2018 financial year has fallen significantly compared with the figure for the previous year (20.4 million euros). The positive liquidity effect from the improvement in the earnings before taxes is essentially more than offset by the liquidity outflows due to higher tax payments (adjusted advance payments) and the further increase in inventories.

Cash outflow for investing activities amounted to 6.8 million euros (previous year: 4.1 million euros). The increase in outflow is mainly attributable to investments in intangible assets and property, plant and equipment, which rose by 3.2 million euros.

Cash outflow for financing activities increased by 2,7 million euros in the 2018 financial year as compared with the 2017 financial year. The change is largely attributable to the fact that in the 2018 financial year, a dividend in the amount of around 7.8 million euros was paid to shareholders of secunet AG for the preceding financial year 2017, compared with 3.8 million euros in the previous year.

2.3.4 Financial and net asset situation of secunet AG

The accounting measurement methods in the Annual Financial Statements of secunet AG pursuant to commercial law differ from those for secunet Group – which reports in accordance with IFRS, as applicable in the EU – largely with regard to the presentation of receivables, inventories and provisions for pensions. A different measurement method is also used for goodwill, which according to the German Commercial Code (HGB) is amortised on a straight-line basis over nine to 15 years, while IFRS only provides for unscheduled impairments following an annual impairment test.

Balance sheet of secunet AG, assets

in euros	31 Dec 2018	31 Dec 2017
A. Fixed assets		
I. Intangible fixed assets	1,586,970.00	1,499,120.00
II. Tangible fixed assets	4,258,680.00	4,205,995.83
III. Long-term financial assets	8,269,415.21	7,414,100.31
Total fixed assets	**14,115,065.21**	**13,119,216.14**
B. Current assets		
I. Inventories	20,118,541.00	13,543,845.71
II. Receivables and other assets	45,605,200.53	38,956,297.03
III. Cash in hand and balances with credit institutions	51,070,220.29	62,580,946.40
Total current assets	**116,793,961.82**	**115,081,089.14**
C. Prepaid expenses and accrued income	1,728,399.46	678,613.16
Total assets	**132,637,426.49**	**128,878,918.44**

On the assets side of the balance sheet of secunet AG, the following significant changes can be seen between the two balance sheet dates 31 December 2017 and 31 December 2018:

Of the increase of 0.9 million euros in financial assets, 0.6 million euros results from further share acquisitions in finally safe GmbH.

The increase in inventories is the result of an expansion of merchandise inventories to ensure that delivery obligations from the growing product business can be better met.

Receivables and other assets increased by 6.6 million euros or 17%. This is due to the increase in receivables from affiliated companies of secunet Group from clearing transactions totalling 6.5 million euros, which were reported for the first time in the current financial year due to commencement of their business activities on 1 January 2018.

Cash and cash equivalents decreased by 18%, or 11.5 million euros, from 62.6 million euros to 51.1 million euros due to the change in working capital (inventories, receivables and liabilities).

Balance sheet of secunet AG, liabilities

in euros	31 Dec 2018	31 Dec 2017
A. Equity		
Subscribed capital	6,500,000.00	6,500,000.00
Nominal value of treasury shares	-30,498.00	-30,498.00
I. Issued capital	6,469,502.00	6,469,502.00
II. Capital reserves	21,656,305.42	21,656,305.42
III. Revenue reserves		
1. Reserve due to treasury shares	30,498.00	30,498.00
2. Other reserves	22,786,735.42	21,305,658.14
IV. Net accumulated profit	13,197,784.08	7,763,402.40
Total equity	**64,140,824.92**	**57,225,365.96**
B. Provisions	**24,760,215.27**	**27,291,440.35**
C. Liabilities	**26,480,780.23**	**31,465,812.29**
D. Deferred income and accrued expenses	**17,255,606.07**	**12,896,299.84**
Total liabilities	**132,637,426.49**	**128,878,918.44**

The liabilities side of the balance sheet indicates the following significant changes:

The main reason for the decline in provisions is the lower allocation to the provision for variable remuneration components.

Liabilities decreased by 5.0 million euros, or 16%, from 31.5 million euros to 26.5 million euros, mainly due to lower trade payables.

Deferred income rose by 34%, or 4.4 million euros, from 12.9 million euros to 17.3 million euros. The reason for this is the growing product business and the associated increase in revenue from licenses and maintenance, which is recognised on an accrual basis.

An amount of 1.5 million euros was transferred to the other revenue reserves from the net income of 14.7 million euros for 2018 in conjunction with the balance sheet profit of 7.8 million euros for the previous year. Taking into account the dividends paid in 2018, in the amount of 7.8 million euros from the balance sheet profit for 2017, the result is a balance sheet profit of 13.2 million euros.

The Management Board and the Supervisory Board of secunet AG will propose to the Annual General Meeting the distribution of 13.2 million euros to shareholders through the payment of a dividend of 2.04 euros per dividend-bearing no-par share.

Finally, the Management Board views the earnings, financial and net assets positions of secunet Group and secunet AG as excellent.

2.3.5 Investments of the Group

The capital expenditure of 6.8 million euros in the 2018 financial year (previous year: 4.1 million euros) mainly consists of the purchase of intangible assets and of property, plant and equipment. In the 2018 financial year, expenditure for this type of investment amounted to 6.6 million euros and thus significantly surpassed the figure for the previous year (3.4 million euros). Of the total amount, 4.0 million euros was accounted for by expenditure on the development of the secunet konnektor and additionally by the procurement of new and replacement hardware, software and other business and operating equipment.

The investments were made from liquid funds.

2.3.6 Investments of secunet AG

The capital expenditure of secunet AG totalled 3.3 million euros in 2018. Of this amount, 2.5 million euros was invested in intangible assets and property, plant and equipment. 0.6 million euros was invested in the acquisition of shares in affiliated companies and 0.2 million euros in reinsurance. In the previous year, capital expenditure amounted to 4.1 million euros, as for the Group.

2.3.7 Order book of the Group

The secunet Group order book in accordance with IFRS amounted to 79.7 million euros at the end of 2018 and has therefore grown by 38%, or 22 million euros, as compared with the figure of 57.7 million euros at 31 December 2017.

2.3.8 Order book of secunet AG

The secunet AG order book (also in accordance with IFRS) amounted to 75.2 million euros at the end of 2018 and has therefore increased by 30%, or 17.5 million euros, as compared with the figure of 57.7 million euros at 31 December 2017.

2.4 Employees

The creativity, motivation and integrity of our employees are decisive factors for the success of our Company. Their commitment, flexibility and expertise are part and parcel of the strengths our Company has been shown to possess.

At the end of the 2018 financial year, secunet Group had 525 permanent employees, 46 more than at the end of 2017, corresponding to an increase of around 10%. The Company also employs 69 temporary workers (previous year: 60). The increase in employees primarily took place in the productive areas of development and consulting as well as in distribution.

At year-end 2018, secunet AG employed 437 permanent employees and 57 temporary workers.

The employees of secunet are highly qualified and exceptionally well trained. Our experts have extensive practical experience in project and development work. Furthermore, secunet places considerable emphasis on the further training of its employees to keep their level of knowledge in line with the latest developments in the relevant field.

secunet attaches great importance to cooperative management that takes the needs and qualifications of employees into account. secunet abides by the management principle of "management by objectives" (MBO). MBO is a technique where personnel management is carried out on the basis of agreed objectives. It involves both top-down and bottom-up objectives. The top-down objectives are set by corporate management. Bottom-up objectives are derived from these and agreed between division heads and individual employees. Implementation and assessment of the agreed objectives are monitored annually. The results are then used as a basis for calculating a portion of the variable remuneration for employees.

3. Forecast, Opportunities and Risk Report

3.1 Risk report

3.1.1 Risk management objectives and methods

Risk management within secunet Group is conducted by a risk committee. This is composed of the Management Board, the COO (Chief Operating Officer) and the CTO (Chief Technical Officer), the head of the corporate strategy department, the commercial manager and the head of service and process management. It meets regularly, once every quarter. Any developments that could jeopardise the fulfilment of objectives, or which may even threaten the survival of the Company, are subjected to intense analysis, scrutiny and assessment by the risk committee. The aim of doing this is to ensure that information about risks, and the associated financial implications, is detected as early as possible in order to implement suitable measures. The existing opportunities and associated potential for results can also be detected and leveraged within the planning and controlling process.

As part of the preparation for meetings of the risk committee, a comprehensive risk inventory takes place in each area of the Company. Following a bottom-up approach, the risks are identified and aggregated, then assessed according to their damage extent and probability of occurrence.

The Company-specific risks surveyed in this manner are then discussed at the risk committee meetings, implementing a top-down approach. The effects of risks and opportunities are not offset against each other. A net presentation is shown when evaluating the effects of risks, i. e. the effects of any risk minimisation measures already taken are considered as part of the evaluation. Depending on the probability-weighted damage value of the risks (risk value), the further treatment of the risks is then determined. This ranges from pure documentation where the value is not critical (the probability-weighted damage value in the 2018 financial year was up to 0.5 million euros in EBIT losses) and further observation (monitoring – for a risk value of up to 1.2 million euros in the 2018 financial year) to the need to take immediate action (warning limit – at a probability-weighted damage value of over 1.2 million euros in the 2018 financial year). The value limits defined above are re-determined annually based on the planned annual result. Insofar as the identified risks are quantifiable, the corresponding risk values (relating to the reporting date) are adopted in the reporting system.

Proposals for countermeasures are then drawn up, if required. The Management Board examines these measures and implements them promptly. During the course of the 2018 financial year, several instances of risk were identified and necessitated measures. For the main part, these related to the areas of distribution and production. Operative damage management implemented in each of these cases was able to contribute to reducing the relevant risk value to significantly below the warning threshold in all cases.

The early risk detection and risk management system of secunet AG is being continuously developed and improved.

3.1.2 Individual risks

The risks for secunet Group, and therefore also for secunet AG as the Group parent company, are divided into the following main categories according to their effects on value creation levels.

- Risks to the company infrastructure: these are risks arising from the framework conditions of the Company's development, such as strategy and organisation, as well as supporting functions, e. g. finance and controlling, legal and HR.
- Product management risks: these are risks from the divisions responsible for planning and coordinating the market-readiness of products and solutions from secunet Group.
- Distribution risks: these are risks in all areas connected with distribution.
- Risks in production: these are risks which arise in connection with the provision of products and solutions, as part of consultancy and development projects and in the supply of hardware, for example.

As in previous years, risks in the 2018 financial year were primarily focused on the areas of distribution (acquisition of orders) and production (project processing).

3.1.2.1 Competitive environment (distribution risk)

secunet Group generates a large part of its sales revenues with the SINA product family. These products bring competitive advantages to secunet in several ways: firstly by representing an area of technological leadership, and also because of the wide range of approvals and certifications awarded to individual products. Risks that endanger this competitive advantage are regularly assessed, but not currently apparent.

The risk committee keeps itself up-to-date on any risks that could endanger secunet's technological edge in the market. To this end, the status of technological development of secunet's products is reviewed and the opinion of expert employees sought on whether, and to what extent, the Company's technological advantage is threatened by competitors' product developments. If necessary, risk reduction measures are triggered. These may take the form of accelerated development cycles, for example, or the inclusion of new application scenarios for secunet solutions.

The competitive national environment also means there is a risk that rival businesses will attempt to challenge secunet's privileged market position in terms of business with German government agencies. If this were to happen, secunet would be exposed to much greater competitive pressure in this target customer segment. This risk is also regularly assessed and evaluated by the risk committee and the Management Board.

In the recent past in particular, the competitive environment that secunet operates in has been consolidated through increased concentration. New competitors have also emerged. A market that was once split into many providers, including smaller providers, has developed a structure with larger market participants. These trends are closely monitored and their potential consequences evaluated as part of ongoing risk management and secunet's strategic management.

As a result of increasing attention on the topic of IT security, an increasing demand for products and solutions in the field of IT security is expected. The market for IT security is thus also becoming more attractive for suppliers who have not previously been active in it. These potential new suppliers are increasing competitive intensity and could endanger secunet's market position – particularly in the private business sector. This sector primarily includes certified consultants, IT companies and the consulting departments of auditing companies. The assessment that the risk of increased competitive intensity is in balance with the opportunity for market growth due to increasing awareness in the public realm is still valid.

Overall, the stated risks arising from the competitive environment at the time of creating this report are deemed to be manageable and therefore not critical.

3.1.2.2 Customer structure (distribution risk)

Customer structure risk exists to the extent that secunet conducts the majority of its business with public sector authorities and organisations. The loss of segments of demand from this customer group can have very negative effects on sales revenue and results. This risk has been discussed in depth by the risk committee. Investments in IT, and notably in IT security, are seen as particularly important for the smooth delivery of projects for the public sector, particularly in a world where information technologies play an increasingly important role. The risk of a downturn in demand from public sector customers is therefore constantly monitored, although it is currently considered to be relatively low. Another high-risk area with regard to the foreseeability of sales revenues relates to the often long-term decision-making processes for major projects. Measures for risk limitation in this case include the use of key account managers in distribution as well as continuous dialogue with major customers.

In order to be better placed in the medium term to react to the potential risk of a decline in demand from public sector customers, and in order to reduce and compensate for any resulting decline in sales revenue and results, secunet will continue to devote intensive efforts to the expansion of its activities for the private sector target group.

A further risk can be seen in the fact that a large part of the sales revenue is concentrated on a small number of public clients and companies. If one of these major customers is absent for even a short period of time, and the corresponding expected orders are delayed, secunet's attainment of annual objectives may be endangered at the very least. In this case too, the use of key account managers in distribution can help towards risk reduction. Thanks to their close contact with the customer, they can ensure a timely reaction to changes in demand.

Furthermore, the fact that the business results are still heavily influenced by domestic demand is seen as a risk for the further growth of secunet. As a result, the expansion of high-performance international distribution, tapping of new markets and the acquisition of additional customers abroad will remain a focus of efforts for the future development of the Company. One strategic measure is the pooling of international distribution activities in the marketing company founded for this purpose.

The distribution risk resulting from the customer structure at the time of creating this report is classified as low.

3.1.2.3 Product development risks (production risk)

Various ongoing projects are being carried out to ensure the technological enhancement of the SINA product family, a number of them having a significant volume. The development project for the secunet konnektor also has a substantial scope. To this extent, it is justifiable to consider the risks for secunet arising from such development projects.

In conjunction with the development of new products, the following risks are discussed and evaluated regularly:

- Risk of a possible decline in demand: the product fails to prove itself on the market.
- Risk of undesirable technical developments: the product contains defects that lead to warranty claims.
- Risk of failure to complete the product in time: the development project takes considerably more time than estimated.

To date, the risks associated with developing new products that subsequently prove unsuccessful on the market have not been of primary significance for secunet in most product areas.

Due to the volume of the associated investments, the development of the secunet konnektor was the subject of ongoing risk evaluation in the 2018 financial year. The focus here was less on the sales prospects associated with the secunet konnektor than on the duration of development and certification. At the end of 2018, the development process was completed upon successful certification and rollout of the first konnektors commenced. The risk was thus eliminated again at the end of the year.

The development risks for secunet Group's other products are lower. Its high-security IT solutions are tailored precisely to customers' needs; secunet products are generally not designed without a specific requirement in mind. Most of the products developed by secunet are made to order and are accordingly financed by the customer. This largely relates to the SINA product family in the High Security business division. Product innovations in the areas of biometrics and sovereign documents, such as the secunet biomiddle biometric middleware, or the Golden Reader Tool platinum edition, were also developed as a result of issues raised during consulting activities. Therefore, no development risks exist in terms of potentially waning demand.

Potential warranty claims are taken into account by creating appropriate risk provisions.

The greatest risk for development projects is underestimation of the time required before new solutions are ready for acceptance. This can lead to expenditure of time and personnel, which limits the profitability of these projects. In order to keep these risks as low as possible, secunet uses extensive project planning and control mechanisms in different locations, paired with a dedicated reporting line. This part of the risk analysis and risk management is identical to the activities that apply for major projects. In the area of development projects, the risk at the time of creating this report is classified as low.

3.1.2.4 Major projects: distribution and project management (distribution and production risk)

secunet is primarily active in the project business. Many projects relate to infrastructures and solutions that have been designed on an individual basis. In addition, IT security infrastructures are often associated with high investment volumes. There are two main risks for such major projects: the distribution risk and the project management risk. In addition, there are specific risks for very long-term major projects.

Distribution risk is a result of the costly, and often protracted, tendering and decision-making procedures to meet customer requirements. This places great limitations on the ability to plan for sales revenues, leading to a potential associated volatility in secunet's business. This distribution risk is continuously monitored as part of risk management and in the ongoing Management Board meetings and, if necessary, it is countered with suitable measures. These measures for reducing the distribution risk also often consist of establishing close contact, and thus ongoing cooperation with the customer, through the use of dedicated key account managers, for example.

The project management risk arises after the commissioning of major projects: these projects are characterised by multiple uncertainties in their implementation due to the sheer fact of their size. The risk may then consist of a failure to maintain schedules and project budgets. secunet takes these risks into account by means of a comprehensive project management system, which is used to create regular management reports for project managers, division heads and the Management Board. The risks arising from major projects are continuously monitored – in the same way as development risks – with comprehensive project planning and control mechanisms, in conjunction with a risk-oriented reporting system. In the event of deviation from the set targets, measures to reduce the risk are resolved and implemented immediately. These can consist of making additional capacity available for processing the project or discussing deviations with the customer in order to bring expectations into line with the altered framework conditions.

In very long-term projects that extend over periods of more than five years, there may be additional risks, for example because the solutions implemented reach the end of their technological service life (update problems, problems with outdated technology). Furthermore, a replacement risk may be posed by suppliers who disappear from the market over the course of such projects.

Amounting to 0.3 million euros at the end of December 2018, risks from major projects were classified as low.

3.1.2.5 Technical product security risk (product management and production risk)

The secunet AG product portfolio is concentrated on solutions in the area of cyber security. In the case of the SINA product family in particular, these solutions are protected and approved at a high level in cryptographic terms.

One risk that is evaluated on an ongoing basis in connection with the technical properties of these products is the effect of any possible – as yet undetected – security weaknesses in these solutions. In this context, the focus is on the question of whether and to what extent the security promise made to its customers by secunet in connection with the solution as a whole might be compromised as a result of security holes in individual components.

A comprehensive process of ongoing risk identification and assessment takes place in this area for the purposes of risk minimisation. As part of this process, secunet collects and evaluates findings about potential security risks from a wide range of sources. Even if potential vulnerability of the systems merely seems possible as a result of this evaluation, customers are informed immediately and supported in closing the potential security hole.

This process of monitoring and solving potential technical security risks is implemented in close collaboration with the Company's development and certification partner, the German Federal Office for Information Security (BSI).

In view of the risk minimisation measures in use, the economic risk connected with technical product security is believed to be low.

3.1.2.6 Distribution risk associated with warehousing

As secunet AG's product business grows, warehousing risks are also increasing. On the one hand, this is due to the risk associated with the ability to deliver at short notice, which can be countered by suitably networked material planning. At the same time, hardware components in particular are becoming obsolete because of accelerating technical progress. Where applicable, inventories lose their value because of this technical ageing process. As part of the risk inventory in the fourth quarter of 2018, the warehousing risk was valued at 0.1 million euros. secunet stays abreast of these risks through professional inventory optimisation.

3.2 Opportunities

The driving factors outlined below continue to have a positive effect on the future growth of secunet:

3.2.1 Growth through increasing awareness

Increasing sensitivity to IT security issues in recent years has received strong support as a result of reporting in the media on cyber security threats (such as wiretapping cases, attempted and successful hacking of the networks of authorities and companies, attacks on critical infrastructures) over the same time period. Investigation into the medium to long-term assessment of risk among companies and decision-makers reveals that much greater importance will be placed on cyber security going forward. The topic of cyber security is the focus for a wide range of investigations and seminars, as well as publications derived from them. Cyber incidents are increasingly at the centre of risk assessments – no longer just those conducted on behalf of authorities, but also by private companies. Over the past three years, for example, cyber risks have consistently been included in the top three risks on the Allianz Risk Barometer of the Top Business Risks in Germany. A positive trend in the demand for high-quality, trustworthy solutions "made in Germany" can be inferred from this. This applies both to authorities, which are adding IT system and infrastructure security to their existing efforts, and to companies, which are countering the now-specific risks of economic / industrial espionage with appropriate safeguards. An additional group is made up of providers of critical infrastructures for which IT security is becoming ever more important (see also "Growth through increasing regulation"). With the relevant distribution activities aimed at authorities and companies, secunet intends to participate in this positive development of demand.

The increasing interest in IT security, driven also by media attention, and the subsequent growth in demand are also resulting in increasing competition. This must be taken into account when evaluating opportunities.

3.2.2 Growth through increasing regulation

The German federal government wants to increase the protection of critical infrastructures such as energy and telecommunications networks as well as that of IT systems. To this end, the German IT Security Act (IT-Sicherheitsgesetz, ITSiG) was passed in July 2015. This results in growth opportunities at different levels:

» The legislation particularly affects operators of critical infrastructures – i. e. facilities that are of central importance to the community – such as energy supply, for example. They are to meet specific IT security requirements. This will result in potential demand for implementation concepts to meet these requirements.

- Furthermore, the role of the BSI has been strengthened by this law and takes into account its growing importance as a central body for IT security. Among other things, the BSI has been empowered to inspect and evaluate IT products and systems on the market with regard to their IT security, and to publish the results if necessary. This could give rise to positive stimulus in the product business.

A further development of the laws regulating critical infrastructures is expected for the future. Both the specific targets and the sectors covered are to be extended, for example.

3.2.3 Growth through new markets

IT security solutions "made in Germany" enjoy a good reputation around the world due to their quality and trustworthiness. There is rising international demand for corresponding high-quality solutions such as those offered by secunet. Under the pressure of wiretapping cases and cyber attacks coming to light, demand is likely to stimulate even greater differentiation between producer countries, from which secunet also benefits. In addition, many secunet products are approved for use in an international context, for example by the EU and NATO.

The expansion of foreign activities via secunet's own distribution and via local multipliers will contribute to leveraging these potentials.

3.2.4 Growth through acquisitions

In addition to organic growth on domestic and foreign markets, secunet has for years pursued the objective of triggering additional growth through M&A activities. Growth in the product area through acquisition of the relevant solution providers is promising. The market for companies with high-quality, reliable IT security solutions for processing classified information – in which secunet is an active player – is split into many small to medium-sized providers. In addition, the M&A business is currently characterised by very high price expectations on the part of sellers. The process of identifying promising targets at acceptable prices is time-consuming as a result, but is nonetheless being pursued on an ongoing basis.

3.3 Overview of risks and opportunities

An overview of opportunities and risks which could impact on the further development of secunet Group shows a promising evaluation overall.

The assessment revealed that the risks at the time of creating the report can generally be kept at bay and controlled, and the identified risks, both individually and as a whole, do not threaten the continued existence of the Company in terms of illiquidity or excessive debts in the reporting period of at least one year. In the operational management of the Group, measures are continuously being taken to prevent a worsening of the risk situation. At the same time, the utilisation of the opportunities described above is being driven forward by a number of activities. No key risks are present as at the balance sheet date.

The business development of secunet AG is subject to the same risks and opportunities as those of the Group. The presentation and evaluation of risks and opportunities thus also apply in the same way for secunet AG.

3.4 Forecast

The framework conditions for the 2019 financial year give reason for optimism.

- The macroeconomic growth forecast of the German federal government is positive: growth of 1.0% in the price-adjusted gross domestic product for the current year.
- For the domestic market, we are still expecting growing demand for IT security. This affects both the Public Sector, i. e. business with public customers, and the Business Sector, which serves companies in the private sector.
- The foreign market holds significant growth potential; secunet is generally well-positioned to leverage this potential. The secunet International GmbH & Co. KG employees in international distribution have many years of experience in the Group and in dealing with international customers.
- During the course of the year, secunet Group again increased its number of productive employees and can therefore convert increasing demand and high capacity utilisation into good business results.
- The market for IT security is growing; dynamic technological development in IT continually creates new applications and demands, thereby opening up great opportunities, especially in the area of IT security. secunet will be able to meet this demand well in future, with optimised and new services, products and solutions.
- The efforts to expand national and international defence budgets and the focus on cyber defence justify positive growth expectations.

Nevertheless, risks might also be encountered in the coming year:

- secunet is still largely dependent on the procurement activities of the German federal authorities. At the present time, the effects of changing budgetary policy cannot yet be assessed. Negative implications for secunet could include the postponement or cancellation of planned projects.
- Project business also holds both opportunities and risks: the scope of investment decisions for major projects, especially if these are part of a political process, can significantly delay the start of expected procurements. In addition, ongoing major projects always face the potential risk of incalculable delays or budget overruns.

- The attention focused on the topic of IT security is driving the expectation of increasing demand. However, driven by the same attention, increasing competition is also apparent, with consequences that cannot yet be foreseen.

At the time of issuing this report, the Company and the Group are in a good position in the opinion of the Management Board:

- The economic and financial situation of secunet Group and secunet AG is good; previous growth was achieved without declines in profitability, there are no loans, and liquid funds are high.

- secunet has high-performing, motivated and highly qualified employees – providing an excellent basis of expertise.

- The Company's existing product and service portfolio has done well in terms of standing up to competition, and is continuing to expand in close cooperation with customers and their needs. Of particular importance with regard to the outlook for 2019 is the secunet konnektor, which is expected to generate significant growth impulses. Further additions to the product range will also support future growth.

- secunet's products and solutions have an excellent reputation, the Company is well-known as a provider of high-quality and trustworthy IT security to meet the highest demands and therefore has a stable and reliable (existing) customer structure.

At the time this report was prepared, secunet Group and secunet AG were in a good position. During the past financial year, sales revenue and EBIT increased sharply once again, and 2018 consequently ended with excellent results. The Management Board of secunet AG is generally optimistic about business development for the coming year 2019.

The outstanding business results already achieved in the 2018 financial year represent a challenge for further growth – surpassing record results is becoming increasingly difficult. For this reason, the company's Management Board is formulating its expectations for secunet Group for the coming 2019 financial year as follows: a slight increase in sales revenue is anticipated. Due to price and wage developments, the Management Board expects the EBIT margin to be slightly below the previous year's level. Accordingly, EBIT for secunet Group is expected to be slightly lower than that of the previous year. Due to the rollout of the secunet konnektor in doctors' practices, a disproportionately high increase in sales revenue is anticipated in the Business Sector division – as a result, the contribution to consolidated sales revenues in this segment is expected to increase. How great this change will be depends substantially on the sales success of the secunet konnektor. In line with the increase of the revenue share in the Business Sector, a higher EBIT is also expected in this division.

The forecast for secunet AG is subject to the same risks and opportunities as those of secunet Group. Accordingly, the Management Board is expecting a slight increase in sales revenue and a moderate decrease in EBIT for secunet AG.

4. Risk Reporting with regard to the Use of Financial Instruments

The financial management of the Company and the Group has a clear focus on the regulations and requirements applicable under corporate law. The aim is to ensure that all Group companies can operate as going concerns. The Group and its associated companies were in a position to fulfil their payment obligations at all times. The investment of liquid funds occurs on a strictly risk-minimising basis. The ongoing monitoring of liquid funds and the coordination with liquidity demands serve to ensure the ongoing ability to pay. This is also the main objective of financial management.

5. Description of the Key Features of the Accounting-related Internal Control and Risk Management System (Article 289, Para. 4 and Article 315, Para. 4 HGB)

5.1 Elements of the internal control and risk management system

secunet Group's internal control system includes all principles, procedures and measures for ensuring the effectiveness, efficiency and correctness of the accounting system and for ensuring compliance with the applicable legal provisions.

secunet Group's internal control system consists of an internal steering system and an internal monitoring system. The Management Board of secunet AG – in its function as the managing body of the Company – has appointed managers responsible for secunet Group's internal steerling system, in particular in the areas of controlling, finance and human resources that are run by secunet Service GmbH.

Process-integrated and process-independent monitoring measures are the cornerstone of secunet Group's internal monitoring system. In addition to manual process controls – such as the dual control principle – automatic IT process controls are also a key feature of the process-integrated measures. Process-integrated monitoring continues to be assured by means of committees such as the risk committee and by specific functions within the Group such as the legal unit.

The risk management system presented here primarily focuses on avoiding the occurrence of damage through risks.

The internal audit department of secunet AG is involved in secunet Group's internal monitoring system through process-independent auditing functions.

5.2 Use of IT systems

At secunet AG, accounting processes are mainly recorded by the ERP system provided by the manufacturer SAP.

5.3 Specific Group accounting-related risks

Specific risks related to Group accounting may result, for example, from the conclusion of unusual or complex transactions that are not routinely performed.

5.4 Key regulatory and controlling activities for ensuring the correctness and reliability of accounting within the Group

The controlling activities for assuring the correctness and reliability of the accounting system include tasks such as the analysis of circumstances and developments using specific analyses of key indicators. The separation of administrative, executive, billing and approval functions, and their performance by different individuals, reduce the possibility of fraudulent actions. The organisational measures also focus on recording restructuring or changes in the business activities of individual divisions in the Group accounting promptly and properly. They also ensure that in the event of changes to the IT systems for the underlying accounting in the affiliated companies, for example, the accounting processes are recorded in their entirety for the relevant periods. The internal control system also ensures the mapping of changes in the economic or legal environment of secunet Group and ensures that the Group accounting is adjusted in line with new legal provisions or amendments to such provisions.

The secunet Group accounting principles, which include compliance with International Financial Reporting Standards (IFRS), ensure that the companies included in the Consolidated Financial Statements of secunet AG follow consistent accounting and measurement policies.

The internal control system measures, which focus on the correctness and reliability of Group accounting, ensure that business transactions are recorded in good time and in accordance with the law and the Articles of Association. It is also ensured that inventories are carried out correctly and that assets and debts are reported, measured and declared appropriately in the Consolidated Financial Statements. Regulatory activities also ensure that reliable and transparent information is made available in the accounting documents.

5.5 Restrictive details

In spite of the aforementioned internal organisation, control and monitoring structures, individual discretionary decisions, defective controls, criminal actions and other circumstances cannot be ruled out. This may lead to limited effectiveness and reliability of the internal control and risk management system used, to the extent that the Group-wide application of the system cannot absolutely guarantee security regarding the correct, complete and timely recording of facts in the Group accounting.

6. Takeover-related Information: Information and Explanatory Report provided by the Management Board in line with Article 289a, Para. 1 and Article 315a, Para. 1 HGB

The Management Board of secunet Security Networks AG provides the following information for the 2018 financial year in line with Article 289a, Para. 1 and Article 315a, Para. 1 HGB:

1. The share capital of secunet Security Networks AG remains unchanged at 6,500,000 euros and is divided into 6,500,000 bearer shares with no par value. Each share entitles the holder to one vote at the Annual General Meeting of secunet Security Networks AG.

2. A restriction on the transfer of secunet shares may apply pursuant to the Foreign Trade and Payments Act (Außenwirtschaftsgesetz, AWG), owing to the products supplied by secunet Security Networks AG. Article 5 (3) item 2 AWG stipulates that "Restrictions … can in particular be imposed with reference to the acquisition of domestic companies or shares in such companies by foreigners in order to guarantee the essential security interests of the Federal Republic of Germany if the domestic companies … manufacture products with IT security functions to process classified state material or components essential to the IT security function of such products, or have manufactured such products, and still dispose of the technology if the overall product was licensed with the knowledge of the company by the Federal Office for Information Security." Apart from the restrictions under the AWG, the shareholders of secunet Security Networks AG are not restricted either by German law or by the Company's Articles of Association in their decisions on the acquisition or disposal of the Company's shares. In particular, the acquisition and disposal of shares does not require the approval of the Company's corporate bodies or other shareholders in order to be valid. The voting rights of shareholders are not subject to any restrictions arising either from legislation or the Articles of Association of the Company. The Management Board is not aware of any agreements between shareholders that give rise to restrictions on the transfer of the Company's shares.

3. To the knowledge of the Management Board, approx. 10.38% of the Company shares are free floating. To the Management Board's knowledge, direct and indirect capital holdings exceeding 10% of voting rights are held by Giesecke + Devrient GmbH, Munich, Germany, which has a direct stake of 78.96%. MC Familiengesellschaft mbH, Tutzing, Germany, has an indirect holding of 79.43% in secunet Security Networks AG (including the treasury shares held by secunet Security Networks AG) via its participation in Giesecke + Devrient GmbH. In turn, Verena von Mitschke-Collande, Germany, likewise has an indirect holding of 79.43% in secunet Security Networks AG via her majority holding in MC Familiengesellschaft mbH.

4. secunet Security Networks AG has not issued any shares that grant special rights.

5. Like the rest of the Company's shareholders, employees who hold some of its capital also make their own decisions on the exercise of their voting and control rights and therefore exercise their control rights directly.

6. The Management Board of secunet Security Networks AG is appointed and dismissed in accordance with the applicable legal provisions, in particular Articles 84 and 85 of the German Stock Corporation Act (Aktiengesetz, AktG). The Articles of Association do not contain any special provisions governing the appointment and dismissal either of individual members or of the entire Management Board. The Supervisory Board has sole responsibility for its/their appointment and dismissal. It appoints members of the Management Board for a maximum term of five years. Members may be reappointed or have their term of office extended, in each case for a maximum of five years. In accordance with Article 179 AktG, changes to the Articles of Association require a decision by the Annual General Meeting; changes that only affect the wording may also be conferred to the Supervisory Board. The amendment becomes effective upon entry in the Commercial Register. In accordance with Article 22 of the Articles of Association, the resolutions of the Annual General Meeting require a simple majority of the votes cast, insofar as the Articles of Association or statutory legal provisions do not specify anything to the contrary. Article 10, Para. 5 of the Articles of Association entitles the Supervisory Board to decide on amendments to the Articles of Association that only affect the wording.

7. The Management Board is not authorised to issue new shares. The Articles of Association of secunet Security Networks AG do not provide for a contingent capital increase, nor do they include any authorisation for the Management Board to increase the share capital by issuing new shares in return for capital contribution (approved capital). Furthermore, as set out in Article 71, Para. 1, no. 8 AktG, there is no authorisation to purchase treasury stock. As at 31 December 2018, the Company held 30,498 bearer shares, which it purchased on the basis of an authorisation issued at the Annual General Meeting held on 29 May 2001. As per resolution of the Annual General Meeting on 27 May 2009, the Management Board is entitled to divest these shares on a stock exchange with the agreement of the Supervisory Board. As at 31 December 2018, the Management Board of secunet Security Networks AG had not made use of this authorisation.

8. The Company has no significant agreements that are contingent upon a change of control due to a takeover bid.

9. The Company has concluded no compensation agreements with any members of the Management Board or employees in the event of a takeover bid.

7. Management and Control – Reference to the Declaration of Corporate Governance pursuant to Article 289f, Para. 1 HGB and Article 315d HGB

As a German public company limited by shares, secunet AG has a dual management and control structure. The Company and the Group are managed by the Management Board, whose members are appointed by the Supervisory Board. The Supervisory Board advises the Management Board and monitors its conduct of business. A detailed explanation of the management of secunet Group can be found in the Corporate Governance Report of secunet AG. The Declaration of Corporate Governance in accordance with Article 289f, Para. 1 HGB and Article 315d HGB can also be found there. The Corporate Governance Report is permanently available via the secunet AG website, at www.secunet.com under >> The Company >> Investor Relations >> Corporate Governance.

8. Combined Non-financial Statement by the Company and the Group

8.1 About this statement

With this combined non-financial statement of the Company and the Group, secunet is meeting its obligation to disclose non-financial information for the 2018 financial year as set forth in the “Act to strengthen non-financial reporting by companies in their management reports and group management reports (CSR Directive Implementation Act, CSR-RUG)” pursuant to Articles 315b, 315c in conjunction with 289c – 289e of the German Commercial Code (HGB). For secunet AG, the non-financial statement is prepared on a voluntary basis and combined with the statement for the Group. The present statement is accessible to the public together with the combined Management Report on the position of the Company and the Group on the secunet website under >> Investor Relations >> Financial Reports and News.

The combined non-financial statement of the Company and the Group has been audited with "Limited Assurance" by KPMG AG Wirtschaftsprüfungsgesellschaft in accordance with the requirements of the auditing standard ISAE 3000.

When preparing the combined non-financial statement of the Company and the Group, we adhere to the classification of pertinent matters pursuant to the CSR-RUG (Article 289c HGB) in the selection of relevant aspects and the description of concepts. When choosing the individual topics within these matters, we are guided by the comprehensive lists in the Sustainability Reporting Standards (SRS) framework for non-financial reporting issued by the Global Reporting Initiative (GRI). For the purpose of preparing the combined non-financial statement of the Company and the Group, a dedicated internal process was established in order to analyse and evaluate the sustainability topics with respect to the requirements of the law.

In accordance with the minimum requirements of Article 289c (2), the process of drafting the statement focused on the five aspects “employee matters”, “social matters”, “anti-corruption and bribery matters”, “environmental matters” and “respect for human rights”. The basis for selecting the respective content of the statement was a materiality analysis conducted in 2018. This analysis was performed through a dialogue with key stakeholders with regard to these matters within the Company: this involved the Compliance, Purchasing, HR and Quality and Environmental Management departments. On the basis of the materiality analysis, those topics were selected that were deemed relevant to the impact of the Company and the Group on the respective aspects and on the business performance, the operating result and the position of secunet AG and secunet Group.

secunet AG and secunet Group strive to generate a positive impact on the individual aspects and to minimise negative consequences to the greatest extent possible. For this reason, the materiality analysis was followed by a risk analysis of the matters under consideration. To this end, the risks potentially associated with the aspects of the matters were evaluated: the method of evaluating the risk scenarios related to the individual non-financial aspects is consistent with the method used for evaluating corporate risks, which is described in the “Risk management objectives and methods” section of this Management Report. In doing so, net risk values were likewise applied, i. e. the actions taken to minimise risk were also taken into consideration. Principal risks are defined in Article 289c para. 3, no. 3 and 4 as risks that are associated with the business activity and business relationships of the Company and the Group and are highly likely to have a serious impact on the aspects of the matters. The risk assessment did not identify any significant non-financial risks. The risk analysis was also carried out in collaboration with the stakeholders within the Company.

The report preparation process for the combined non-financial statement of the Company and the Group was concluded by describing the (management) concepts pursued in relation to the material topics.

In accordance with the requirements of the law, the following topics were deemed to be relevant to the combined non-financial statement of the Company and the Group for the 2018 financial year:

Matters pursuant to CSR-RUG	Material topics
Employee matters	Occupational health and safety
	Training and further education
	Life phase-oriented working models (working hours and locations)
	Employer appeal, recruiting and junior staff development
Social matters	Information security
	Data protection
Combating corruption and bribery	Compliance
Environmental matters	Environmental management

We came to the conclusion that the aspect of human rights is not material to the content presented in the combined non-financial statement of the Company and the Group. This is due to the fact that, with regard to compliance with human rights and the value chain, our Company and the Group have a significant influence on development and consulting activities only. Furthermore, the majority of our direct suppliers also have their headquarters in Germany or operate in Germany, once again meaning that human rights violations can essentially be precluded by adhering to existing laws.

The Management Board of secunet AG discussed the results of the materiality and risk analyses, the concepts described, and also this combined non-financial statement of the Company and the Group and passed it on to the Supervisory Board for review.

8.2 Business model

The business model of secunet Group and secunet AG is described in detail in the “Principles of the Group” section of this combined Management Report for 2018. Responsible conduct, social acceptance and a high degree of integrity are essential preconditions for the economic success of our Company. With this in mind, secunet Group and secunet AG, as one of the leading German providers of sophisticated IT security, have set themselves the goal of contributing to sustainable economic, environmental and societal development.

When decisions are made on measures and management concepts relating to sustainability, relevant non-financial topics are reported to and discussed by the Management Board of secunet AG.

8.3 Employee matters

The staff members at secunet Group and secunet AG are permanent salaried employees working in Consulting, Development, Sales, Product Management, Administration and Services. They are joined by student trainees and interns and, in rare case where there is a specific need for stand-in personnel in administration departments, external staff (e. g. temporary workers). On account of the relative uniformity of these groups, the measures described below apply to all employees.

In addition to the permanent employees, secunet Group and secunet AG also engage freelancers in certain productive areas in order to overcome any capacity bottlenecks or if highly specific expertise is required. Considering that the number of freelancers is low in relation to the permanent employees, the following statements concerning measures or key indicators apply exclusively to the employees defined at the outset.

The creativity, motivation and integrity of our employees are decisive factors for the success of our Company. Their commitment, flexibility and expertise are part and parcel of the strengths our Company has been shown to possess. secunet Group and secunet AG implement various measures with the aim of providing employees with a working environment that promotes these strengths.

The IT sector is growing at a far greater rate than the number of qualified workers available. Competition for the recruitment of experienced employees and junior staff talent is therefore fierce. In light of this, recruiting and junior staff development are becoming critical success factors in the long-term positive development of the Company.

For this reason, secunet Group and secunet AG are intent on being an appealing employer and maintaining an attractive image. To achieve this goal, secunet Group and secunet AG are pursuing a number of measures under the leadership of the HR department.

Firstly, this takes place through a continuous exchange with the individual employees and the workforce as a whole. Annual review meetings are held in order to assess the performance and level of satisfaction of individual employees. The review meetings are standardised, structured conversations during which the employee and the supervisor assess each other in a form of performance evaluation. At the same time, questions are asked about the employee's level of satisfaction with their work situation, any potential work overload and the desire for personal development. From the information provided it is possible to deduce, amongst other things, whether the employees require training.

Another method used to gauge the satisfaction of the workforce is to have the employees complete a questionnaire on a regular basis. This last took place in 2015 and is due to be repeated in the current financial year 2019. Specific measures have been established on the basis of the questionnaire results, for example, the so-called Mobile Office arrangement. By evaluating the employee questionnaires, it has also been possible to develop skills profiles for employees. These provide transparency about requirements and attributes that are required in order to reach certain career stages.

Secondly, various measures that have an impact on the occupational health and safety of the workforce are in place. These include statutory occupational health and safety provisions. The occupational health and safety officers and the HR department of secunet Group and secunet AG, supported by the occupational physician service, carry out a number of measures aimed at minimising work-related physical and mental stress. It is inherent in secunet's business model that most of the employees' tasks are carried out within office buildings and at the employees' desks. The occupational accidents recorded by secunet Group and secunet AG are mainly accidents that occur when travelling to and from the workplace.

secunet also enables its employees to have a free health check with the occupational physician service.

Furthermore, secunet offers its employees the opportunity to structure and develop their own working hours to meet their individual needs. Within the framework of what is operationally possible, this allows all staff to organise their working hours to meet the work-life balance requirements prevalent in each stage of life. This is supplemented by the Mobile Office arrangement (originating from the employee questionnaire), which allows employees the complete freedom to determine their work environment on a dynamic basis. This arrangement can be used on 36 days a year.

Other measures are aimed at junior staff recruitment and continuous development of the existing workforce. This includes the ongoing qualification of permanent employees. Individual training requirements are ascertained and suitable measures put in place within the framework of the annual review meetings.

In 2018, an average of about 960 euros was invested in training measures for each employee, compared to a corresponding figure of about 820 euros in the previous year. The training measures address technical (content-related) topics and methodological topics (project management, communication, presentation). Management staff at secunet Group and at secunet AG also receive special-purpose training on leadership topics.

In order to create an attractive work environment and pleasant working conditions, fringe benefits such as free drinks and fruit, assistance in individual workplace design and the opportunity to lease company bicycles are offered.

Junior staff development and recruiting are also important factors in developing the workforce of secunet Group and secunet AG. secunet AG operates sites in the vicinity of universities, providing opportunities for regular contact with potential employees of the future. secunet Group and secunet AG are able to secure employees for the coming years by offering students work placements during their studies, supporting them in writing their final dissertations and much more. Cooperation projects with universities are a further means of establishing networks and expanding the qualified workforce of secunet Group and secunet AG.

8.4 Social matters: information security and data protection

We make our contribution to societal issues in the fields of information security and data protection (informational self-determination).

secunet Group and secunet AG are one of the leading German providers of sophisticated IT security. Our products and services are designed to assure information security, in particular by using cryptographic methods. Information security is, in itself, an essential precondition for digital transformation based on trust. Moreover, information security lays the foundation for effective data protection. The applicable technical requirements, as set out in the EU GDPR for example, are supplemented by consultative approaches and coupled with organisational measures.

We have structured our internal processes to ensure a high level of data security and data protection. To this end, we have integrated comprehensive measures in our business processes and implemented due diligence processes. We pursue our objectives with the assistance of the IT security officer and data protection officer of secunet Group and secunet AG. secunet AG is certified according to ISO/IEC 27001:2013 and thus meets stringent quality standards with regard to in-house information security. The continuous refinement of associated technical and organisational security measures is indicative of our commitment to providing the greatest possible data protection.

We also require our suppliers to meet the same data security and data protection standards.

Information security and data protection are of paramount importance in all our dealings with customers. Our IT security partnership with the Federal Republic of Germany as well as the extensive number of secunet products and solutions that have been approved and certified by the Federal Office for Information Security are representative of our excellent services. secunet also works towards ensuring data security and data protection by providing consultative services in the fields of information security systems and data protection. The increase in revenue and the growing proliferation of secunet solutions from year to year, particularly in the public sector, are proof that the number of customers who place their trust in secunet in this regard is rising. One example of how the product portfolio can help assure information security and promote trust in the digital transformation is secunet's contribution to the ELSTER electronic tax return system. On behalf of the Bavarian State Taxation Office, secunet AG has implemented a new security platform for the ElsterOnline portal, which meets stringent security requirements. The solution supports authentication, encryption and electronic signatures for web applications by means of certificate-based methods. Using these methods paves the way for new, convenient online procedures for virtually all tax-related areas such as, for example, tax returns, income tax cards, income tax and tax account queries.

Another example is the development, integration and technical support of automatic border control systems (eGates). Given the fact that airline passenger numbers are growing, passenger aircraft are getting bigger and the level of security awareness is increasing, the challenges facing personnel, technology and infrastructure at airports around the world are severe. secunet solutions provide the greatest possible comprehensive protection of electronic identities while ensuring reliable verification and identification. They modernise, automate and mobilise ID management.

8.5 Combating corruption and bribery

At secunet Group and secunet AG, integrity is of paramount importance. The effective prevention of corruption and bribery is an essential aspect of this. To this end, secunet has implemented a comprehensive compliance management system. The compliance management system is currently geared towards the internal structures of secunet AG and secunet Group. We intend to make these regulations binding for our suppliers too.

Various measures are derived from the management team's unwavering commitment to integrity ("tone from the top").

Two examples are training and consultancy services. secunet employees are regularly made aware of and trained in compliance issues. It is mandatory for all employees to take part in classroom training sessions every two years. These are held at least once a year at all major secunet sites.

Compliance officers and the Chief Compliance Officer can be consulted for advice on any compliance issues that go beyond this scope.

Furthermore, there are clear and explicit guidelines on how to deal with conflicts of interest and corruption. At compliance training sessions, attendees are always made aware of the importance of adhering to the guidelines and regulations stipulated by secunet's business partners.

Moreover, in the year under review 2018, a whistleblower system was implemented, giving customers, suppliers, employees and any other parties involved in the business operations the opportunity to report internal grievances and risks anonymously.

In 2018, the Compliance department received no information about possible cases of corruption.

8.6 Environmental matters

secunet Group and secunet AG are fully aware that resources are not available in endless quantities. secunet Group and secunet AG therefore regard an appropriate environmental policy as desirable.

secunet does not operate any production sites with machinery in a conventional sense. The IT equipment of employees, the in-house computer centres, company vehicles and facilities thus make up what is referred to as the "necessary business equipment" that is required in order to perform our activities. Additionally, packaging material is used when hardware is sold and, at the end of the product life cycle, there is electronic scrap to dispose of. These impacts on the environment are therefore directly linked to our business operations.

Up to now, environmental protection guidelines of a general nature have been in place as part of the Code of Conduct that applies to the entire secunet Group. The first blueprint of an environmental management system is planned in the coming year.

Findings on individual concepts and measures currently relate to the use of (company) vehicles and energy audits. For example, company vehicles with lower CO_2 emissions are promoted by means of lower leasing rates.

secunet AG is obliged to perform an energy audit pursuant to DIN EN 16247-1. The most recent audit was carried out in December 2015. The next audit will take place in December 2019 in accordance with the specified four-year cycle.

At secunet Group, we also systematically track amendments to the current statutory framework conditions, particularly in the fields of energy and environmental law, which enables us to respond to changing circumstances at any time. Initiating this process was an important milestone on the path to establishing a sustainable environmental management concept.

9. Other Notes

9.1 Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Management Board of secunet AG and sets out the amount and structure of the income received by its members. It sets out the principles behind, and amount of, the remuneration received by the Supervisory Board, and also provides information on the shareholdings of Management Board and Supervisory Board members.

9.1.1 Remuneration of the Management Board

The Supervisory Board of secunet AG is responsible for determining the remuneration of the Management Board.

In the 2018 financial year, the remuneration package for the members of the Management Board who were active in the 2018 financial year was made up of five components: a fixed annual salary, a variable bonus, a special bonus, ancillary non-cash benefits and a contribution to the retirement pension.

The Management Board remuneration package is broken down as follows:

- The fixed component is paid monthly in the form of a salary.
- The variable component is based on the Company's results. It consists of a short-term component and a long-term component. The short-term component is measured on the basis of sales revenue and EBIT for the current financial year (2018 in this case), while the long-term component is measured based on the average EBIT of the past three financial years (2016–2018 in this case).
- At its discretion, the Supervisory Board has awarded each of the members of the Management Board a special bonus for its exceptional contributions in the 2018 financial year. This amounts to 100 thousand euros for the Chairman of the Management Board Dr Baumgart and to 50 thousand euros for the Management Board members Mr Deininger and Mr Pleines.
- Non-cash and other benefits essentially comprise the taxable values of company car usage.
- The retirement pension contributions paid to members of the Management Board are set out in their individual contracts of employment. These pension commitments provide for a life annuity with provision for dependants.

Management Board contracts do not expressly provide for any severance payment in the event that the employment relationship is prematurely terminated. In addition, Management Board contracts do not include any specific regulations to govern the event that a "change of control" occurs – that is when one or several shareholders acting jointly obtain the majority voting rights of secunet AG and exert a dominating influence, causing secunet AG to become a dependent company by means of the conclusion of an intercompany agreement within the meaning of Article 291 of the German Stock Corporation Act (Aktiengesetz, AktG), or in the event of the merger of secunet AG with other companies.

The Management Board members do not receive any additional remuneration for the performance of their duties in the subsidiaries.

Following the recommendations of the German Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK), the remuneration of the secunet AG Management Board is constituted as follows:

Benefits granted

	Dr Rainer Baumgart Chairman			
in euros	2017	2018	2018 (min)	2018 (max)
Fixed remuneration	260,004	260,000	260,000	260,000
Ancillary benefits	31,434	31,683	31,683	31,683
Total	**291,438**	**291,683**	**291,683**	**291,683**
One-year variable remuneration	60,000	60,000	0	120,000
Multi-year variable remuneration				
Profit sharing 2017	100,000			
Profit sharing 2018		100,000	0	100,000
Special bonus	0	0	0	100,000
Total	**160,000**	**160,000**	**0**	**320,000**
Pension expense (IFRS)	32,447	8,896	8,896	8,896
Total remuneration	**483,885**	**460,579**	**300,579**	**620,579**

	Axel Deininger[1] Management Board			
in euros	2017	2018	2018 (min)	2018 (max)
Fixed remuneration	–	220,020	220,020	220,020
Ancillary benefits	–	26,552	26,552	26,552
Total	**–**	**246,572**	**246,572**	**246,572**
One-year variable remuneration	–	50,000	0	100,000
Multi-year variable remuneration				
Profit sharing 2017	–	0	0	0
Profit sharing 2018	–	100,000	0	100,000
Special bonus	–	0	0	200,000
Total	**–**	**150,000**	**0**	**400,000**
Pension expense (IFRS)	–	14,626	14,626	14,626
Total remuneration	**–**	**411,198**	**261,198**	**661,198**

[1] Appointed with effect from 1 Jan 2018

	Thomas Pleines Management Board			
in euros	2017	2018	2018 (min)	2018 (max)
Fixed remuneration	220,008	220,001	220,001	220,001
Ancillary benefits	27,163	28,148	28,148	28,148
Total	**247,171**	**248,149**	**248,149**	**248,149**
One-year variable remuneration	50,000	50,000	0	100,000
Multi-year variable remuneration				
Profit sharing 2017	100,000			
Profit sharing 2018		100,000	0	100,000
Special bonus	0	0	0	100,000
Total	**150,000**	**150,000**	**0**	**300,000**
Pension expense (IFRS)	29,325	30,041	30,041	30,041
Total remuneration	**426,496**	**428,190**	**278,190**	**578,190**

The following payments were made for the remuneration of the members of the Management Board in the 2018 financial year:

Inflow

	Dr Rainer Baumgart Chairman		Axel Deininger [1] Management Board		Thomas Pleines Management Board	
in euros	2017	2018	2017	2018	2017	2018
Fixed remuneration	260,004	260,000	–	220,020	220,008	220,001
Ancillary benefits	31,434	31,683	–	26,552	27,163	28,148
Total	**291,438**	**291,683**	**–**	**246,572**	**247,171**	**248,149**
One-year variable remuneration	120,000	50,010	–	41,675	100,000	41,675
Multi-year variable remuneration						
Profit sharing 2017	100,000		–	–	100,000	
Profit sharing 2018		100,000	–	100,000		100,000
Special bonus	100,000	100,000	–	50,000	100,000	50,000
Total	**320,000**	**250,010**	**–**	**191,675**	**300,000**	**191,675**
Pension expense (IFRS)	32,447	8,896	–	14,626	29,325	30,041
Total remuneration	**643,885**	**550,589**	**–**	**452,873**	**576,496**	**469,865**

[1] Appointed with effect from 1 Jan 2018

Total remuneration of the members of the Management Board in the 2018 financial year was 1,420 thousand euros (previous year: 1,159 thousand euros).

	Dr Rainer Baumgart Chairman		Axel Deininger Management Board		Thomas Pleines Management Board	
in euros	2017	2018	2017	2018	2017	2018
Not performance-based components	291,438	291,683	–	246,572	247,171	248,149
Performance-based components	220,000	150,010	–	91,675	200,000	91,675
Components entailing long-term incentive	100,000	100,000	–	100,000	100,000	100,000
Total remuneration	**611,438**	**541,693**	**–**	**438,247**	**547,171**	**439,824**

The pension entitlements of the Management Board members were as follows as at 31 December 2018:

	In accordance with IFRS			In accordance with HGB		
in euros	Present value	Current service cost	Past service cost	Obligation amount	Provision	Premium
Dr Baumgart	1,106,083	8,896	0	910,616	869,413	125,869
Deininger	428,166	14,626	0	290,348	290,348	290,348
Pleines	837,920	30,041	0	608,138	577,242	95,953

As at 31 December 2017, the pension entitlements of the Management Board members were as follows:

	In accordance with IFRS			In accordance with HGB		
in euros	Present value	Current service cost	Past service cost	Obligation amount	Provision	Premium
Dr Baumgart	1,031,424	32,447	0	791,614	743,544	94,292
Pleines	790,108	29,325	0	517,334	481,289	77,211

Owing to the right, in accordance with Article 67, Para. 1 and 2 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch, EGHGB), to choose to annually add 1/15 to the difference resulting from the change in valuation under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG), there is a shortfall between the amount of the HGB obligation and the provision set aside, amounting to a total of 72 thousand euros.

As on the same reporting date in the previous year, no Management Board members held any secunet shares as at 31 December 2018.

The members of the Management Board of the Company were not granted any loans during the reporting period.

Furthermore, in the past financial year no member of the Management Board was promised or granted any benefits by a third party in respect of his activity as a member of the Management Board.

9.1.2 Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is laid down in Article 17 of the Articles of Association of secunet AG. It is based on the tasks and responsibilities of the members of the Supervisory Board.

The remuneration of the Supervisory Board is regulated as follows: the members of the Supervisory Board receive a fixed payment amounting to 8 thousand euros. The Chairman of the Supervisory Board receives a payment of 16 thousand euros, and the Vice Chairman of the Supervisory Board receives 12 thousand euros. If changes are made within the Supervisory Board during the year, remuneration is granted on a pro-rata basis. Travel expenses associated with Supervisory Board activities are reimbursed separately according to travel expense reports.

For the 2018 financial year, Supervisory Board remuneration totalled 60.0 thousand euros (previous year: 60.0 thousand euros).

For the individual members of the Supervisory Board, the entitlements can be presented as follows:

Remuneration of the Supervisory Board

in euros	2018	2017
Wintergerst [1]	16,000.00	10,564.38
Zattler [2]	12,000.00	13,358.91
Kunz	8,000.00	9,358.90
Deininger [3]	0.00	2,717.81
Legge	8,000.00	8,000.00
Moritz	8,000.00	8,000.00
Schäfer	8,000.00	8,000.00
	60,000.00	**60,000.00**

[1] Elected as member of the Supervisory Board as well as Chairman of the Supervisory Board as of 4 May 2017

[2] Chairman of the Supervisory Board until 4 May 2017, then Vice Chairman

[3] Member of the Supervisory Board until 4 May 2017

The members of the Supervisory Board do not receive any loans from the Company.

As on the same reporting date in the previous year, no Supervisory Board members held any secunet shares as at 31 December 2018.

In the year under review, members of the Supervisory Board did not receive any other remuneration or benefits for services provided personally, in particular consulting and agency services.

9.2 Management Board report pursuant to Article 312, Para. 3 AktG

Pursuant to Article 312, Para. 3 AktG, the Management Board has issued a report on the relations with affiliated companies for the 2018 financial year. The report contains the following closing statement: “It is hereby declared that our Company received an appropriate consideration for each of the legal transactions listed. This assessment has been made on the basis of the circumstances known at the time of the reportable proceedings. There were no further reportable legal transactions, measures or omissions in addition to the activities reported.”

9.3 Forward-looking statements

This report contains forward-looking statements pertaining to the future development of secunet Group and secunet AG and to economic and political developments. These statements are opinions that we have formed based on the information currently available to us. Should the assumptions on which these statements are based not be applicable or should further risks arise, the actual results may deviate from the results currently expected. We cannot therefore offer any guarantee as to the accuracy of these statements.

Essen, 26 March 2019

Dr Rainer Baumgart   Axel Deininger   Thomas Pleines

Consolidated Financial Statements

of secunet Security Networks Aktiengesellschaft, Essen

Consolidated balance sheet

(according to IFRS) as at 31 December 2018

Assets

in euros	Note	31 Dec 2018	31 Dec 2017[1]
Current assets			
Cash and cash equivalents	1	56,084,381.70	62,922,886.67
Trade receivables	2	41,776,937.04	40,925,634.56
Intercompany financial assets	2	452,438.07	85,481.04
Contract assets	2, 12	2,648,354.51	–
Inventories	7	19,348,793.59	11,427,628.95
Other current assets	2	1,132,135.08	1,164,076.06
Total current assets		**121,443,039.99**	**116,525,707.28**
Non-current assets			
Property, plant and equipment	3	4,555,737.00	4,424,652.83
Intangible assets	4	5,990,220.00	470,349.00
Goodwill	6	4,625,031.00	3,607,331.00
Non-current financial assets	8	5,860,888.00	5,646,493.00
Financial assets shown in the balance sheet according to the equity method	9	0.00	93,346.08
Loans	5, 9	0.00	1,307,444.44
Deferred taxes	10	1,592,036.82	1,360,653.26
Other non-current assets	2	1,142,447.60	0.00
Total non-current assets		**23,766,360.42**	**16,910,269.61**
Total assets		**145,209,400.41**	**133,435,976.89**

[1] The Group adopted IFRS 15 and IFRS 9 for the first time as at 1 January 2018. Due to the transitional provision applied, the comparative figures have not been restated.

Liabilities

in euros	Note	31 Dec 2018	31 Dec 2017 [1]
Current liabilities			
Trade accounts payable	11	22,797,180.71	26,629,285.89
Intercompany payables	11	283,951.48	463,669.89
Other provisions	14	12,577,879.75	14,990,960.98
Income tax liabilities		6,695,131.05	6,720,100.39
Other current liabilities	11	4,739,511.25	6,292,019.10
Contract liabilities	12	8,682,677.88	–
Deferred income	12	–	6,459,411.99
Total current liabilities		**55,776,332.12**	**61,555,448.24**
Non-current liabilities			
Deferred taxes	10	1,886,488.94	192,404.86
Provisions for pensions	13	6,781,816.00	6,029,924.67
Other provisions	14	321,152.00	133,977.00
Contract liabilities	12	10,927,251.63	–
Deferred income	9	–	6,436,887.85
Total non-current liabilities		**19,916,708.57**	**12,793,194.38**
Equity			
Share capital	15	6,500,000.00	6,500,000.00
Capital reserves	15	21,922,005.80	21,922,005.80
Other reserves	15	-1,627,934.01	-1,547,460.56
Revenue reserves	15	42,363,484.81	32,212,789.03
Equity attributable to parent company shareholders		**69,157,556.60**	**59,087,334.27**
Non-controlling interests	**15**	**358,803.12**	**0.00**
Total equity		**69,516,359.72**	**59,087,334.27**
Total liabilities		**145,209,400.41**	**133,435,976.89**

[1] The Group adopted IFRS 15 and IFRS 9 for the first time as at 1 January 2018. Due to the transitional provision applied, the comparative figures have not been restated.

Consolidated income statement

(according to IFRS) for the period from 1 January 2018 to 31 December 2018

in euros	Note	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017 [1]
Sales revenue	16	163,286,560.91	158,322,241.02
Cost of sales		-115,567,445.80	-113,721,720.49
Gross profit on sales		**47,719,115.11**	**44,600,520.53**
Selling expenses		-14,087,648.26	-14,127,166.87
Research and development costs	18	-1,017,187.94	-2,109,324.48
General administrative costs		-5,779,399.10	-5,059,602.21
Impairment losses on trade receivables and contract assets	2	-75,621.07	–
Other operating income		161,340.68	147,831.30
Other operating expenses		-11,511.00	-961.00
Earnings before interest and tax (EBIT)		**26,909,088.42**	**23,451,297.27**
Interest income	19	91,803.53	295,627.16
Interest expenses	19	-135,110.74	-131,213.47
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	9	-226,875.04	-84,295.79
Earnings before tax (EBT)		**26,638,906.17**	**23,531,415.17**
Income taxes	20	-8,815,687.35	-7,665,320.85
Group profit for the period		**17,823,218.82**	**15,866,094.32**
of which attributable to shareholders of secunet AG		17,923,374.06	15,866,094.32
of which attributable to non-controlling interests	15	-100,155.24	–
Earnings per share (diluted / undiluted)		2.77	2.45
Average number of shares outstanding (diluted / undiluted), units		6,469,502	6,469,502

Consolidated statement of comprehensive income

(according to IFRS) for the period from 1 January 2018 to 31 December 2018

in euros	Note	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017 [1]
Group profit for the period		17,823,218.82	15,866,094.32
Items that cannot be transferred to the income statement			
Revaluation of defined benefit pension plans		-106,060.00	46,506.00
Income taxes attributable to components of the other income / loss		33,843.75	-14,840.06
		-72,216.25	**31,665.94**
Income tax attributable to components of the other income / loss			
Currency conversion differences (change not affecting income)	15	-8,257.20	1,306.70
Other comprehensive income / loss		**-80,473.45**	**32,972.64**
Consolidated comprehensive income / loss		**17,742,745.37**	**15,899,066.96**
of which attributable to shareholders of secunet AG		17,842,900.61	15,899,066.96
of which attributable to not-controlling interests		-100,155.24	–

[1] The Group adopted IFRS 15 and IFRS 9 for the first time as at 1 January 2018. Due to the transitional provision applied, the comparative figures have not been restated.

Consolidated cash flow statement

(according to IFRS) for the period from 1 January 2018 to 31 December 2018

in euros	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Cash flow from operating activities		
Earnings before tax (EBT)	26,638,906.17	23,531,415.17
Depreciation and amortisation of tangible and intangible fixed assets	2,204,621.90	1,830,940.00
Change in provisions	-1,760,565.30	2,686,361.15
Book losses on the sale of intangible assets and of property, plant and equipment	11,511.00	133.98
Interest result	43,307.21	-164,413.69
Change in receivables, contract assets, inventories and other assets	-12,872,194.06	-19,240,994.23
Change in liabilities, contract liabilities and deferred income	926,296.53	15,954,255.74
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	226,875.04	84,295.79
Tax paid	-7,752,839.23	-4,331,041.71
Cash from operating activities	**7,665,919.26**	**20,350,952.20**
Cash flow from investing activities		
Purchase of intangible assets and of property, plant and equipment	-6,584,208.07	-3,357,609.83
Proceeds from the sale of intangible assets and of property, plant and equipment	14,769.00	76,804.02
Purchase of financial assets	-214,395.00	-233,553.00
Disbursements for investments in long-term financial assets	0.00	-600,000.00
Acquisition of subsidiaries less cash and cash equivalents acquired	5,537.36	0.00
Cash outflow from investing activities	**-6,778,296.71**	**-4,114,358.81**
Cash flow from financing activities		
Dividend payment	-7,763,402.40	-3,752,311.16
Interest received	59,114.63	223,849.39
Interest paid	-20,705.74	0.00
Cash outflow from financing activities	**-7,724,993.51**	**-3,528,461.77**
Effects of exchange rate changes on cash and cash equivalents	-1,134.01	1,467.29
Change in cash and cash equivalents	**-6,838,504.97**	**12,709,598.91**
Cash and cash equivalents at the beginning of the period	62,922,886.67	50,213,287.76
Cash and cash equivalents at the end of the period	**56,084,381.70**	**62,922,886.67**

For further explanations, see Note 21

Consolidated statement of changes in equity

(according to IFRS) for the period from 1 January 2018 to 31 December 2018

in euros	Share capital	Capital reserves
Equity as at 31 Dec 2016 / 1 Jan 2017	6,500,000.00	21,922,005.80
Group profit 1 Jan – 31 Dec 2017		
Other comprehensive income / loss 1 Jan – 31 Dec 2017		
Consolidated comprehensive income 1 Jan – 31 Dec 2017		
Dividend payment		
Equity as at 31 Dec 2017 / 1 Jan 2018	6,500,000.00	21,922,005.80
Adjustment amount due to first-time adoption of IFRS 9		
Adjusted as at 1 Jan 2018	6,500,000.00	21,922,005.80
Change in the consolidated Group		
Group profit 1 Jan – 31 Dec 2018		
Other comprehensive income / loss 1 Jan – 31 Dec 2018		
Consolidated comprehensive income 1 Jan – 31 Dec 2018		
Dividend payment		
Equity as at 31 Dec 2018	6,500,000.00	21,922,005.80

For further information on the development of the Group's equity, see Note 15

Other reserves								
Reserve for treasury shares	Currency conversion differences from the currency conversion of financial statements of foreign subsidiaries	Revaluation of defined benefit pension plans	Income tax attributable to components of the other income / loss	Total other reserves	Revenue reserves	Equity of secunet AG shareholders	Non-controlling interests	Total
-103,739.83	-6,797.11	-2,167,074.20	697,177.94	-1,580,433.20	20,099,005.87	46,940,578.47	0.00	46,940,578.47
0.00	0.00	0.00	0.00	0.00	15,866,094.32	15,866,094.32	0.00	15,866,094.32
0.00	1,306.70	46,506.00	-14,840.06	32,972.64	0.00	32,972.64	0.00	32,972.64
0.00	1,306.70	46,506.00	-14,840.06	32,972.64	15,866,094.32	15,899,066.96	0.00	15,899,066.96
0.00	0.00	0.00	0.00	0.00	-3,752,311.16	-3,752,311.16	0.00	-3,752,311.16
-103,739.83	-5,490.41	-2,120,568.20	682,337.88	-1,547,460.56	32,212,789.03	59,087,334.27	0.00	59,087,334.27
0.00	0.00	0.00	0.00	0.00	-11,300.00	-11,300.00	0.00	-11,300.00
-103,739.83	-5,490.41	-2,120,568.20	682,337.88	-1,547,460.06	32,201,489.03	59,076,034.27	0.00	59,076,034.27
0.00	0.00	0.00	0.00	0.00	2,024.12	2,024.12	458,958.36	460,982.48
0.00	0.00	0.00	0.00	0.00	17,923,374.06	17,923,374.06	-100,155.24	17,823,218.82
0.00	-8,257.20	-106,060.00	33,843.75	-80,473.45	0.00	-80,473.45	0.00	-80,473.45
0.00	-8,257.20	-106,060.00	33,843.75	-80,473.45	17,914,098.18	17,833,624.73	358,803.12	18,192,427.85
0.00	0.00	0.00	0.00	0.00	-7,763,402.40	-7,763,402.40	0.00	-7,763,402.40
-103,739.83	-13,747.61	-2,226,628.20	716,181.63	-1,627,934.01	42,363,484.81	69,157,556.60	358,803.12	69,516,359.72

Notes to the Consolidated Financial Statements

for the 2018 financial year (according to IFRS)

General principles

Reporting company

secunet Security Networks Aktiengesellschaft (hereinafter referred to as “secunet AG” or “secunet”) is registered with Essen Local Court, Germany (under HRB 13615). It is a listed company in the Prime Standard segment of the regulated market in Frankfurt. The address of the company’s registered office is: secunet Security Networks Aktiengesellschaft, Kurfürstenstrasse 58, 45138 Essen, Germany.

secunet Group (hereinafter referred to as “the Group”) provides telecommunications and information technology security services, in particular consultancy and systems solutions for information security and related activities.

Declaration of compliance with IFRS

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The requirements of Articles 315, 315e, Para. 1 of the German Commercial Code (Handelsgesetzbuch, HGB) have been met. The IFRS standards used consist of the IFRS as newly issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). All standards and interpretations issued by the IASB and applicable at the time of preparation of the Consolidated Financial Statements have been implemented, provided that they have been endorsed by the EU. In this respect the Consolidated Financial Statements of secunet AG comply with IFRS.

The Consolidated Financial Statements and the combined Management Report – Company and Group Management Report – were released by the Management Board on 26 March 2019 following their preparation.

Disclosure

The Consolidated Financial Statements – as well as the Annual Financial Statements of secunet AG – are filed with the operator of the electronic Federal Gazette and subsequently announced there. They are available for download on the website www.secunet.com. They may also be requested from secunet AG at the above address or inspected at the Company’s business premises.

Parent company

The parent company is Giesecke+Devrient GmbH based in Munich, Germany. It holds a direct share of 78.96% in secunet AG.

Via the Consolidated Financial Statements of Giesecke+Devrient GmbH, Munich, the Consolidated Financial Statements of secunet AG are included in the Consolidated Financial Statements of MC Familiengesellschaft mbH, Tutzing, which prepares the Consolidated Financial Statements for the largest group of companies. The Consolidated Financial Statements of MC Familiengesellschaft mbH and Giesecke+Devrient GmbH are filed with the operator of the electronic Federal Gazette.

First-time adoption of new and revised standards and interpretations

Compared with the Consolidated Financial Statements as at 31 December 2017, the following new and revised standards and interpretations were to be applied for the first time following the EU endorsement or entry into force of the standard / interpretation:

Standard / interpretation	Key amendment	Entry into force for financial years commencing on or after:
Revised standards		
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Income from Contracts with Customers	1 January 2018
Amendments to IFRS 15	Clarifications concerning IFRS 15	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4	Adoption of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
Improvements to IFRS 2014 – 2016	Amendments to IFRS 1 and IAS 28	1 January 2018
Revised interpretations		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

IFRS 9

IFRS 9 defines the requirements for the recognition and measurement of financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. This standard replaces IAS 39 Financial Instruments.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 includes three important classification categories for financial assets: items measured at amortised cost, items measured at fair value through profit or loss (FVTPL) and items measured at fair value through other comprehensive income (FVOCI). The standard eliminates the existing categories of the IAS 39 standard: held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold financial assets for the purpose of collecting the contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Additionally, the option of measuring a financial asset at fair value with changes in fair value reported in profit or loss (FVTPL) is not exercised.

A financial asset is to be measured at fair value through other comprehensive income (FVOCI) if it is held within a business model whose objective is both to collect the contractual cash flows and to sell financial assets, and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Additionally, the option of measuring a financial asset at fair value with changes in fair value reported in profit or loss (FVTPL) is not exercised.

All financial assets that are not measured at amortised cost or FVOCI under these rules must be measured at FVTPL.

In terms of the classification of financial liabilities, there are no changes for the Group in comparison with IAS 39. All financial liabilities are classified as measured at amortised cost.

The following table shows the amended classification and the effect of the new measurement in accordance with IFRS 9 as at 1 January 2018 for each group of financial assets.

Financial asset in thousand euros	Previous classification according to IAS 39	Classification according to IFRS 9	Carrying amount according to IAS 39	Carrying amount according to IFRS 9	Effect of first-time adoption of IFRS 9
Trade receivables	Loans and receivables	at amortised cost	40,926	40,915	-11
Cash and cash equivalents	Loans and receivables	at amortised cost	62,923	62,923	0
Intercompany financial assets	Loans and receivables	at amortised cost	85	85	0
Other current assets	Loans and receivables	at amortised cost	1,164	1,164	0
Non-current financial assets	Financial assets measured at fair value through profit or loss	FVTPL	5,646	5,646	0
Loans	Loans and receivables	at amortised cost	1,307	1,307	0

In the case of trade receivables from third parties that are not subject to a specific valuation allowance, an allowance is calculated on a collective basis for the amount of the expected credit losses on the residual amount over the term of the receivables. Calculation of the expected losses on a collective basis is based on an impairment matrix containing an analysis of historical data over the last five years. The collective allowance is already to be recognised on the basis of historical data when the trade receivable from third parties is initially recognised and is to be adjusted at each reporting date on the basis of current information and expectations.

Cash and cash equivalents are lodged with banks or financial institutions that had received ratings of between A- and A-2 from the S&P rating agency by 31 December 2017. Cash was fully lodged as short-term deposits (current account and money market account) as at 31 December 2017.

The estimated value adjustments to cash and cash equivalents were calculated based on expected losses within twelve months, and reflect these short maturities. The Group assumes that its cash and cash equivalents have a very low risk of default given the external ratings of the banks and financial institutions. Due to the immateriality of the required value adjustment determined, no allowance has been recorded.

ii. Impairment of financial assets

IFRS 9 replaces the incurred loss model from the IAS 39 standard with a future-oriented model based on expected credit losses. This requires significant discretionary decisions to be made with respect to the extent to which the expected credit losses are influenced by changes in the economic factors. This assessment is determined on the basis of weighted probabilities.

The new impairment model is to be applied to financial assets which are measured at amortised cost or FVOCI – with the exception of equity securities held as long-term financial assets – and also to contractual assets.

In accordance with IFRS 9, valuation allowances are measured based on one of the following principles:

12-month expected credit losses: This refers to expected credit losses resulting from possible cases of default within twelve months after the reporting date.

Lifetime expected credit losses: This refers to expected credit losses resulting from all possible cases of default during the expected life of a financial instrument.

Measurement based on the concept of lifetime expected credit losses should be used if the credit risk of a financial asset on the reporting date has increased significantly since its initial recognition; otherwise measurement based on the concept of 12-month expected credit losses should be used. A company may establish that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk on the reporting date. However, measurement based on the concept of lifetime expected credit losses must always be applied with regard to trade receivables and contractual assets without a significant financing component.

As a result of the introduction of IFRS 9, the Group has implemented consequential amendments to IAS 1 Presentation of Financial Statements. These require impairments of financial assets to be reported in a separate item of the income statement. The Group had previously recognised the impairments of trade receivables within selling expenses.

iii. Transition

The adoption of IFRS 9 has not had any material impact. In accordance with the modified retrospective method, an effect of 11.3 thousand euros was recognised in the revenue reserves as at 1 January 2018. Comparative information for prior periods has not been adjusted.

IFRS 15

IFRS 15 establishes an extensive framework for determining whether, to what extent, and at what point in time sales revenue is to be recognised. It replaces existing guidelines for the measurement of sales revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

secunet Group realises its revenue through the sale of hardware, licences, service and maintenance, both separately and in product bundles, and through the provision of services as part of service and work contracts.

i. Separate sale of hardware or licences

For the separate sale of hardware or licences, the breakdown into contractual obligations is unnecessary, since each respective individual sale represents a contractual obligation. With regard to the sale of hardware, revenue is recognised in line with IFRS 15 at the time at which the customer takes control of the asset. In the case of licence transfers, IFRS 15 necessitates an assessment as to whether the customer receives access or a right of use as a result. This shall determine whether sales revenue is recognised over time or at a point in time. Licences issued for a fixed term may be treated differently under IFRS 15 than they are under IAS 18. Such cases are the exception within the Group, however: no licensing of this nature took place during the transitional period.

ii. Sale of product bundles

The sale of product bundles is a transaction involving multiple elements according to IFRS 15. IFRS 15 requires the separable, independent contractual obligations within a product bundle to be identified in the case of multiple-element transactions. Subsequently, it must be determined whether the revenue is recognised over time or at a point in time for each of these contractual obligations. When doing so, the focus should be on the general principles for sales revenue recognition, as outlined above.

For the services included in the product bundle (e. g. software subscription, Service Level Agreements, support services or extended warranties), discretionary decisions must be used to determine whether these are separate respective contractual obligations or whether these services form a service bundle in combination with another contractual obligation from the product bundle.

Such considerations were already made under IAS 18, however. Accordingly, the sale of product bundles (when goods are delivered with additional services) to a consumer, in the context of a contract, was handled in accordance with the rules set out in IAS 18.13 Multiple-Element Arrangements. The realisation criteria for each element were assessed separately as part of this process.

In connection with the extension of warranties for the hardware included in the bundle, a reassessment was made under IFRS 15. If a customer orders a warranty period (four or five years) extending beyond the basic warranty period (three years), this is a service-type warranty under the terms of IFRS 15. It must be classified as an independent contractual obligation and thus subjected to a separate assessment as to whether revenue is to be recognised over time or at a point in time.

The revenue related to this service-type warranty will be recognised over the warranty period in future. The expenses associated with this revenue will also be recognised over the warranty period in the context of the accrual-based calculation of earnings.

However, this only had an insignificant impact on the Group profit for the period.

iii. Provision of services

The provision of services occurs both on the basis of service contracts and on the basis of work contracts within the Group.

Service contracts

For the most part, consulting services involving the temporal coincidence of service provision and service consumption are provided in the form of service contracts. According to the nature of a service contract, it is the provision of the service that is owed, rather than the result.

Pursuant to IFRS 15.35, the service in these cases is registered over the period during which the service is provided. This does not give rise to an assessment that differs from the way similar contracts have been handled to date under IAS 18.

Work contracts

With respect to the work contracts, the result is owed, which constitutes a distinguishing characteristic between these and the service contracts. This means that in the wider sense, an asset is created for the customer. The Group has no alternative way to use this asset. The Group uses this type of contract to cover mainly customer-specific software developments, but also licence sales with extensive customisation.

In the case of these work contracts, the sales revenue must be recognised in relation to the percentage of completion (IFRS 15.39). To date, these contracts were handled on the basis of IAS 18.21, which also requires sales revenue to be recognised according to the percentage of completion.

In the case of licence sales with extensive customisation, there may be a difference in revenue recognition between IAS 18 and IFRS 15, depending on the nature of the contract. In such cases, IFRS 15 requires identification of the contractual obligation. Here, secunet assumes that, from the customer's perspective, the software adapted to the customer systems and requirements represents the service expectation. In this sense, a service bundle is present. IFRS 15.39 also provides for revenue recognition according to the percentage of completion in such cases. In the case of the customer project in this category that was ongoing as at the balance sheet date of 31 December 2017, the changeover from IAS 18 to IFRS 15 did not cause any material changes in revenue recognition due to particular details in the nature of the contract. No adjustment was required as at 1 January 2018.

iv. Transition

The amended revenue recognition associated with the recognition of revenue from extended warranty commitments only relates to items recognised since 1 January 2018. Therefore, no adjustment to 1 January 2018 had to be recorded.

In 2018, no new projects with extensive customisation and no licence sales with fixed terms were initiated that were not completed within the financial year. It is consequently not necessary to carry out a comparative calculation between revenue recognition according to IFRS 15 and IAS 18.

The application of the further modified standards that have not been explained in detail did not have any material impact on the Consolidated Financial Statements.

New accounting rules

The following standards and interpretations had been published at the time the Financial Statements were prepared but were either not yet required to be applied in accordance with the provisions of the respective standard or interpretation, or had not yet been endorsed by the EU.

Standard / interpretation	Key amendment	First-time adoption
New standards (not yet endorsed by the EU)		
IFRS 17	Insurance Contracts	FY 2021
Modified standards (not yet endorsed by the EU)		
Amendments to IFRS 3	Definition of a Business	FY 2020
Amendments to IAS 1 and 8	Definition of Material	FY 2020
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	Postponed indefinitely
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	FY 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	FY 2019
Conceptual Framework	Amendments to References to the Conceptual Framework	FY 2020
Improvements to IFRS 2015–2017	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	FY 2019
Amended standards (EU endorsement completed by 31 December 2018)		
IFRS 16	Leases	FY 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	FY 2019
Amended interpretations (EU endorsement completed by 31 December 2018)		
IFRIC 23	Uncertainty over Income Tax Treatments	FY 2019

An early adoption of these standards and interpretations is not planned.

IFRS 16 Leases

IFRS 16 replaces the existing regulations on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group is obliged to apply IFRS 16 as of 1 January 2019.

IFRS 16 introduces a uniform accounting model, according to which leases are to be recognised in the balance sheet of the lessee. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are exceptions for short-term leases and leases for low-value assets. The accounting of the lessor is comparable with the current standard – this means that lessors will continue to classify leases as finance or operating leases.

i. Leases in which the Group is the lessee

To date, the Group has classified all leases in which it was the lessee as operating leases, with the result that no asset or liability items had to be recognised in the balance sheet. The lease payments were recognised as expenses in the income statement.

In future, the Group will report new assets and liabilities for these leases. The nature of the expenses associated with these leases will change as the Group now recognises depreciation on right-of-use assets and interest expense on lease liabilities.

Based on the information currently available, the Group estimates that it will recognise lease liabilities of 10.2 million euros and right-of-use assets amounting to 10.2 million euros. The actual effects may differ.

ii. Leases in which the Group is the lessor

The Group is not currently active as a lessor.

iii. Transition
The Group will apply IFRS 16 for the first time as at 1 January 2019 using the modified retrospective method. The cumulative effect arising from the application of IFRS 16 will be reported as an adjustment to the opening balance of revenue reserves as at 1 January 2019: comparative information will not be adjusted.

In the changeover, the Group intends to make use of the simplification rules in terms of retaining the definition of a lease. This means that the Group will apply IFRS 16 to all contracts concluded before 1 January 2019 that have been identified as leases in accordance with IAS 17 or IFRIC 4.

No material effects on the secunet Consolidated Financial Statements are expected to result from adopting the other new and revised standards and interpretations.

Accounting principles

The present Consolidated Financial Statements as at 31 December 2018, with the exception of the amendments due to the first-time adoption of new or amended IAS/IFRS provisions above, have been prepared using the same accounting and measurement methods and the same methods of computation as in the previous year. Items in the balance sheet as at 31 December 2018 are classified by maturity. The income statement is based on the cost-of-sales method. In order to improve the clarity of presentation, various items in the consolidated balance sheet and consolidated income statement have been summarised and are explained in the notes.

The Consolidated Financial Statements of secunet AG are presented in euros. All amounts are stated in euros, unless indicated otherwise.

Consolidated Group

In addition to secunet Security Networks Aktiengesellschaft, the Consolidated Financial Statements include all associate companies that are controlled by secunet AG. Control is considered to be in place if secunet has the authority to dispose of the associate company, has a right to variable returns from participation and has the opportunity to use the authority to dispose of the associate company in a way that can influence the variable returns.

The consolidated Group has expanded compared to the previous year. As at 31 December 2018, the consolidated Group consisted of the parent company secunet AG and six (previous year: five) fully consolidated subsidiaries.

In the course of the financial year, further shares in finally safe GmbH were acquired through loan conversions and capital increases. As a result, the stake was increased from 18% as at 31 December 2017 to a total of 63.28%. With effect from 1 October, the company has been fully consolidated in secunet Group. In the previous year, the company was included as an associated company on account of the significant influence and accounted for and measured using the equity method.

In accordance with IFRS, the subsidiaries report the following figures:

Company	Registered office	Equity holding	Non-controlling interests	Equity as at 31 Dec 2018	Net income for 2018
secunet Service GmbH	Essen	100%	0.00%	288 kEUR	362 kEUR
secunet International GmbH & Co. KG	Essen	100%	0.00%	570 kEUR	463 kEUR
secunet International Management GmbH	Essen	100%	0.00%	30 kEUR	5 kEUR
finally safe GmbH	Essen	63.28%	36.72%	176 kEUR	-837 kEUR
secunet SwissIT AG	Solothurn / Switzerland	100%	0.00%	71 kCHF	-1 kCHF
secunet s. r. o.	Prague / Czech Republic	100%	0.00%	2,585 kCZK	-10 kCZK

The two consolidated subsidiaries secunet s. r. o., Prague (Czech Republic) and secunet SwissIT AG, Solothurn (Switzerland) are in liquidation.

Secunet Inc., Austin, Texas (USA), 100% participation, is no longer operational and has not been consolidated since the 2002 financial year on the grounds that it is not material.

The Group's accounting and measurement policies are applied consistently to the financial statements of secunet AG and its subsidiaries included in the Consolidated Financial Statements. The reporting date for secunet AG and for all consolidated companies is 31 December 2018.

Basis of consolidation

Capital consolidation is carried out in accordance with the purchase method. When consolidated for the first time, the acquisition cost of the shareholdings acquired are offset against the proportionate remeasured equity. The assets and liabilities of the acquired subsidiary are recognised at their fair values. Any remaining positive differences are capitalised as goodwill in accordance with IFRS 3 and subjected to an annual impairment test.

Non-controlling interests are initially measured at their proportionate share of the identifiable net assets of the acquired company at the time of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Both expenses and income, and receivables and payables between the consolidated companies are eliminated. Intercompany profits are eliminated unless they are immaterial.

Writedowns of shares in consolidated companies that have been carried out in individual financial statements as well as intercompany receivables are reversed within the framework of consolidation.

With the equity method, the carrying amount of the company is adjusted to take into account the pro-rata result, the distributed dividends and other changes in equity.

Reporting currency

The Group's reporting currency is euros.

Following IAS 21 (Effects of Changes in Foreign Exchange Rates), foreign subsidiaries' Annual Financial Statements prepared in foreign currency are converted into euros in accordance with the functional currency concept. The functional currency in this context is the currency of the primary economic environment in which the subsidiary is active. In the Consolidated Financial Statements, the balance sheet items of all foreign companies are converted from the local currency into euros at the average exchange rates prevailing on the balance sheet date, as the functional currencies of the foreign subsidiaries are their local currencies; the income statement items are converted using the average exchange rate for the financial year. Differences arising from the conversion of Annual Financial Statements of foreign subsidiaries are treated without affecting the operating result and are recorded in the currency conversion reserve.

For the currency conversion, the following exchange rates were used in respect of currencies of countries not belonging to the European Monetary Union:

	2018		2017	
1 EUR =	CHF	CZK	CHF	CZK
31 Dec	1.1262	25.7448	1.1695	25.5628
Average	1.1696	25.6754	1.1233	26.2534

Financial instruments

Recognition and initial measurement

Trade receivables are recognised at the time they arise. They are measured at the transaction price.

Financial assets and financial liabilities are recognised if a Group company is party to the agreement on the financial instrument. Financial assets or financial liabilities are initially recognised at the fair value. If the change in fair value is not recognised in the income statement (FVTPL), the transaction costs are added.

Classification and subsequent measurement

They are grouped into one of the following categories at the time of acquisition:

- at amortised cost;
- FVOCI debt instruments (investments in debt instruments carried at fair value with changes in other comprehensive income)
- FVOCI equity instruments (equity investments carried at fair value with changes in other comprehensive income)
- FVTPL (at fair value with changes in fair value reported in profit or loss)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets. In this case, all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured at amortised cost if the following cumulative conditions are met and it has not been designated as FVTPL:

- It is held within a business model whose objective is to hold financial assets for the purpose of collecting the contractual cash flows, and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is designated as FVOCI if both of the following conditions are met and it has not been designated as FVTPL:

- It is held within a business model whose objective is both to hold financial assets for the purpose of collecting the contractual cash flows and to sell financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading purposes, the Group may irrevocably elect to report subsequent changes in the fair value of the investment in other comprehensive income. This choice is made on a case-by-case basis for each investment.

All financial assets that are not measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Group may irrevocably decide to designate financial assets that otherwise qualify for measurement at amortised cost or at FVOCI as FVTPL if this serves to eliminate or significantly reduce accounting mismatches.

The Group makes an assessment of the objectives of the business model in which the financial asset is held at a portfolio level. In the past, secunet Group acquired all financial instruments exclusively for the purpose of holding them to collect interest and principal payments. On this basis, it is assumed that this will also apply in the future.

For the purpose of assessing the cash flow criterion, i. e. whether the contractual cash flows are exclusively interest and principal payments on the principal amount (fair value at initial recognition), the Group considers the contractual agreements relating to the instrument. This includes an assessment of whether the financial asset contains a contractual agreement that could change the timing or amount of the contractual cash flows with the effect that they no longer meet these conditions.

When making this assessment, the Group takes into account:

- specific events that would change the amount or timing of the cash flows
- conditions that would affect the interest rate, including variable interest rates
- early repayment and extension options, and
- conditions that restrict the Group’s entitlement to cash flows from a particular asset (for example, no right of recourse).

An early repayment option is consistent with the criterion of exclusive interest and principal payments if the early repayment amount substantially represents unpaid amounts of principal and interest on the outstanding principal; this may include reasonable additional compensation for early termination of the contract.

In addition, a condition for a financial asset acquired at a premium or discount on the contractual nominal amount that permits or requires early repayment at an amount that substantially represents the contractual nominal amount plus accrued (but unpaid) contractual interest (which may include reasonable additional compensation for early termination of the contract) is treated as consistent with the criterion, provided the fair value of the early repayment option at the beginning is not significant.

Subsequent measurement and recognition of gains and losses

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Based on the measurement hierarchy levels stated in IFRS 13, financial assets and liabilities are measured subject to the availability of relevant information. For the first level, listed (unadjusted) market prices for identical assets and liabilities can be directly observed on active markets. On the second level, they are measured based on measurement models that assess variables that can be observed on the market. The third level does not permit the use of measurement models which rely on input factors that cannot be observed on the market.

If the input factors used to determine the fair value of an asset or a liability can be allocated to different levels of the fair value hierarchy, measurement at fair value is allocated in its entirety to the fair value hierarchy level that corresponds to the lowest input factor which is overall essential to measurement.

Financial assets that are measured at fair value through profit or loss include long-term financial instruments. These include the premium reserve shares from reinsurance contracts. Fair value of the premium reserve is measured by the insurance company and, for the vast majority of reinsurance capital, recognised actuarial processes are followed in this respect (cash method using swap interest rates plus issuer-specific risk premiums). Due to the composition of the reinsurance capital, classification at level 2 of the fair value hierarchy has been applied.

Financial assets at amortised cost
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairments are recognised in profit or loss. A gain or loss resulting from derecognition is reported in profit or loss.

Debt investments at FVOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairments are recognised in profit or loss. Other net gains and losses are recorded under other comprehensive income / loss. On derecognition, the accumulated other comprehensive income is reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly serves to cover part of the investment cost. Other net gains and losses are recorded under other comprehensive income / loss and never reclassified to profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights with regard to the cash flows from the financial asset expire or when it transfers the rights to receive the cash flows in a transaction in which all significant risks and rewards incidental to ownership of the financial asset are transferred.

Derecognition also takes place if the Group neither transfers nor retains all significant risks and rewards incidental to ownership and does not retain control of the transferred asset.

The Group derecognises a financial liability when the contractual obligations have been fulfilled, cancelled or have expired. Furthermore, the Group also derecognises a financial liability if its contractual terms are changed and the cash flows of the modified liability are significantly different. In this case, a new financial liability is recognised at fair value based on the revised terms.

When a financial liability is derecognised, the difference between the carrying amount of the extinguished liability and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Cash and cash equivalents

The Group regards all highly liquid assets for which withdrawal or usage is not restricted as cash and cash equivalents. Alongside cash in hand and deposits held at call with banks, these also include short-term bank deposits with original maturities of three months or less. The measurement takes place based on the relevant nominal value.

Contract assets

Services already rendered in connection with customer projects but not yet invoiced to the customer are recorded under contract assets.

Inventories

Inventories, which consist almost exclusively of trade goods, are measured at the lower of historical cost or cost of production, or net realisable value less costs not yet incurred. Historical cost is calculated in accordance with the weighted average cost method.

Finished goods and work in progress are valued at the cost of acquisition of the materials used and the cost of production.

Property, plant and equipment

Property, plant and equipment consist not only of office and operating equipment, but generally also of assets under construction and are measured at historical cost or production cost less regular depreciation. When items of property, plant and equipment are disposed of or retired, their historical costs or production costs, accumulated depreciation and impairment are eliminated from the balance sheet and the gain or loss resulting from their sale is recognised in the income statement. Historical costs also include individually attributable additional and subsequent costs of acquisition. Purchase price reductions are offset.

Subsequent costs are only included in the asset's carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured. Repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

The depreciation period is based on the useful economic life and is between three and ten years. Depreciation is on a straight-line basis.

The assets' carrying amounts and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets

Intangible assets with a finite useful life acquired for a consideration are measured at historical cost plus additional costs of acquisition less accumulated amortisation calculated using the straight-line method. Acquired software is amortised over three to seven years on a straight-line basis.

Costs incurred in preserving the original economic benefits of existing software systems are recognised as an expense when the maintenance work is carried out.

Internally produced intangible assets are capitalised if the criteria in IAS 38.57 are fulfilled. Amortisation of the intangible asset begins at the time of its operational readiness.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired company at the date of the acquisition.

Under IFRS 3 in conjunction with IAS 36 and IAS 38, goodwill is not subject to scheduled amortisation. It is instead subjected to an annual impairment test and carried at original historical cost less accumulated impairment losses.

Where a cash-generating unit is sold, the relevant share of goodwill attributable to that unit is taken into account when calculating the profit from the sale.

Impairment of assets

Assets that are subject to scheduled amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of the impairment test, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Where there is an indication that the impairment no longer exists or has decreased, the impairment reversal is recognised as income in the income statement for the asset in question. There were no unscheduled impairments or impairment reversals in the reporting year.

In impairment testing, goodwill acquired in a business combination is allocated to those cash-generating units that are expected to benefit from the synergies arising from the business combination. Impairment testing is carried out on an annual basis and additionally whenever there are indications of impairment in the respective cash-generating unit.

If the carrying amount of the cash-generating unit exceeds its recoverable amount, the carrying amount of the goodwill allocated to this cash-generating unit must be reduced by the amount of the difference. Impairment losses already recognised are not reversed in this process. If the impairment of the cash-generating unit exceeds the carrying amount of the goodwill allocated to it, the remaining impairment loss is recognised by reducing, on a pro-rata basis, the carrying amounts of the cash-generating unit's identifiable assets.

Income tax

Income tax expense is calculated on the basis of the result for the year and takes deferred taxes into account. In accordance with IAS 12 (Income Taxes), deferred taxes are recognised, using the liability method, for all temporary differences arising between the carrying amounts of assets and liabilities for IFRS accounting purposes and the amounts used for tax purposes. Deferred tax assets may also comprise tax reduction claims that arise from the expected use of existing loss carryforwards in subsequent years. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is calculated using the tax rates that are expected to apply at the time of realisation in accordance with the legal regulations valid at the balance sheet date. Deferred tax is recognised in the income statement as tax income or expense, except to the extent that it is directly linked to equity or items included in other comprehensive income / loss.

Leases

Leases of property, plant and equipment where the Group has substantially borne all the risks and rewards of ownership of the leased asset are classified as finance leases. Finance leases are capitalised on commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. After first recognition, assets are shown in accordance with the accounting methods to be applied to this asset. The lease instalments are divided into a financing element and a repayment element.

Leases in which a significant portion of the risks and rewards of ownership of the leased asset are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement over the period of the lease.

Other provisions

Other provisions comprise all legal and constructive obligations towards third parties identifiable at the balance sheet date that are based on past events, where the amount can be reliably estimated, and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The provisions are recognised in the amount of the best estimate of the expected settlement value. Possible claims for reimbursement are not offset against the provisions.

Provisions for pensions

In accordance with IAS 19, pension provisions are measured using the projected unit credit method for defined benefit plans. This means that future obligations are measured using actuarial methods to estimate the relevant variables and to determine their present value.

All actuarial gains and losses are recorded in the other comprehensive income/loss as they arise and without affecting the operating result. Reported pension provisions are based on actuarial certificates issued by an independent actuary.

Pension commitments under defined contribution plans are recognised in the relevant functional areas as expenses for employee services in the period during which the employee provides the related services.

Contract liabilities

Income received before the balance sheet date is deferred as a contract liability to the extent that it results in revenue after that date.

Equity

The subscribed capital is 6,500,000.00 euros. It is divided into 6,500,000 bearer shares without par value. All shares are fully paid.

Of secunet AG's capital reserves, 1,902,005.80 euros results from payments by the shareholder before the transformation of secunet AG into a public limited company. The price premium paid in the initial public offering accounts for 20,020,000.00 euros of the total. The capital reserves are available – subject to statutory regulations – for the purposes of offsetting any losses incurred and for capital increases from the Company's own funds.

The other reserves include the reserve for treasury shares and the other comprehensive income/loss.

Treasury shares are shares in secunet AG held by the Company itself. The acquisition of treasury shares is shown in the Consolidated Financial Statements as a change in equity (reserve for treasury shares). No gain or loss is shown in the income statement for the sale, issue or recalling of treasury shares. The consideration in such transactions is recognised in the Consolidated Financial Statements as a change in equity.

Profits from the current financial year and the previous years that are not paid out to shareholders are recognised in the revenue reserves.

Non-controlling interests

Non-controlling interests are initially measured at their proportionate share of the identifiable net assets of the acquired company at the time of acquisition.

The non-controlling interests' share of the Group profit or loss leads to an increase or decrease in the non-controlling interests.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Sales revenue recognition

secunet Group realises its revenue through the sale of hardware, licences, service and maintenance, both separately and in product bundles, and through the provision of services as part of service and work contracts.

i. Separate sale of hardware or licences

For the separate sale of hardware or licences, the breakdown into contractual obligations is unnecessary, since each respective individual sale represents a contractual obligation. With regard to the sale of hardware, revenue is recognised in line with IFRS 15 at the time at which the customer takes control of the asset. In the case of licence transfers, IFRS 15 necessitates an assessment as to whether the customer receives access or a right of use as a result. This shall determine whether sales revenue is recognised over time or at a point in time.

ii. Sale of product bundles

The sale of product bundles is a transaction involving multiple elements according to IFRS 15. IFRS 15 requires the separable, independent contractual obligations within a product bundle to be identified in the case of multiple-element transactions. Subsequently, it must be determined whether the revenue is recognised over time or at a point in time for each of these contractual obligations. When doing so, the focus should be on the general principles for sales revenue recognition, as outlined above.

For the services included in the product bundle (e. g. software subscription, Service Level Agreements, support services or extended warranties), discretionary decisions must be used to determine whether these are separate respective contractual obligations or whether these services form a service bundle in combination with another contractual obligation from the product bundle.

iii. Provision of services

The provision of services occurs both on the basis of service contracts and on the basis of work contracts within the Group.

Service contracts

For the most part, consulting services involving the temporal coincidence of service provision and service consumption are provided in the form of service contracts. According to the nature of a service contract, it is the provision of the service that is owed, rather than the result.

Pursuant to IFRS 15.35, the service in these cases is registered over the period during which the service is provided in accordance with the share of the total service provided (output-oriented).

Work contracts

With respect to the work contracts, the result is owed, which constitutes a distinguishing characteristic between these and the service contracts. This means that in the wider sense, an asset is created for the customer. The Group has no alternative way to use this asset. The Group uses this type of contract to cover mainly customer-specific software developments, but also licence sales with extensive customisation.

In the case of these work contracts, the sales revenue must be recognised in relation to the percentage of completion (IFRS 15.39). The percentage of completion is estimated on the basis of the costs incurred in relation to the expected total costs (input-oriented).

Assumptions and estimates

In the preparation of the Consolidated Financial Statements, assumptions and estimates were made that affected the reported amounts of assets, liabilities, income and expenses. These assumptions and estimates relate primarily to an estimate of the useful life for depreciable tangible and intangible assets (Notes 3 and 4), the impairment of receivables (Note 2), the recognition and measurement of provisions (Notes 13 and 14) and the recognition of revenue in the case of services (see section on sales revenue recognition in this Chapter). For the purposes of calculating the value in use of the cash-generating units, as part of the impairment test for the goodwill, estimates and assumptions are required for determining the future cash flows from the cash-generating unit and for calculating the discounting rate (see Note 6).

In some cases, actual results may differ from these estimates and assumptions. Changes are taken into account in the income statement at the time when better knowledge becomes available. Actuarial gains and losses from the pension provision calculation are recorded in other comprehensive income / loss without affecting the operating result.

Discretionary decisions

Discretionary decisions largely result when determining cash-generating units for the purpose of goodwill impairment testing (see Note 6) and when categorising financial assets and liabilities (see Notes 2 and 8).

Notes to the balance sheet

The balance sheet is classified into non-current and current assets and liabilities. Assets and liabilities due within one year are recognised as current.

In accordance with IAS 12, deferred tax balances are recognised as non-current assets and liabilities.

1. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank balances.

The movement in cash and cash equivalents is shown in the consolidated cash flow statement.

2. Receivables and other assets, contract assets

The residual term of all receivables is less than one year.

The trade receivables amount to 41,776,937.04 euros (previous year: 40,925,634.56 euros). The prior-year figure included an accrued amount of 2,385,743.94 euros for services to customers not yet invoiced as at 31 December 2017 (thereof to affiliated companies: 0 euros).

In the year under review, contract assets of 2,648,354.51 euros were reported for services already rendered in connection with customer projects but not yet invoiced (thereof to affiliated companies: 795 euros).

Of the intercompany financial assets totalling 452,438.07 euros (previous year: 85,481.04 euros), 86,630.07 euros (previous year: 85,481.04 euros) results from trade receivables and 365,808.00 euros (previous year: 0.00 euros) from other receivables.

The maturities of the trade receivables and the intercompany financial assets are as follows:

Days overdue

in euros	31 Dec 2018	31 Dec 2017
Not due	35,084,405.18	36,143,085.70
1 – 30	6,918,717.00	4,482,728.37
31 – 90	161,276.00	272,992.68
91 – 180	80,653.00	38,184.27
181 – 360	27,434.00	74,124.58
>360	43,811.00	5,557.50
Total	**42,316,296.18**	**41,016,673.10**

The following value adjustments were made for trade receivables and contract assets (the comparative figures for 2017 represent the valuation allowance account in accordance with IAS 39):

in euros	2018	2017
As at 1 Jan according to IAS 39	5,557.50	70,000.00
Adjustment due to first-time adoption of IFRS 9	11,300.00	–
As at 1 Jan according to IFRS 9	16,857.50	–
Amounts written off	-5,557.50	-70,000.00
Revaluation of allowances	75,621.07	5,557.50
As at 31 Dec	**86,921.07**	**5,557.50**

A specific valuation allowance is posted to a separate valuation allowance account in cases where receivables are clearly overdue (>180 days) and owed from non-public-sector clients or in the event of special information in individual cases. The receivable is derecognised in the income statement in the event of established insolvency or in cases where the receivable is estimated to be irrecoverable for other reasons.

In the case of trade receivables from third parties that are not subject to a specific valuation allowance, an allowance is calculated on a collective basis for the amount of the expected credit losses over the term of the receivables. Calculation of the expected losses on a collective basis is based on an impairment matrix containing an analysis of historical data over the last five years. The collective allowance is already to be recognised on the basis of historical data when the trade receivables from third parties are initially recognised and is to be adjusted at each reporting date on the basis of current information and expectations.

Unimpaired receivables not yet due and other assets are assessed by the Management Board as being of value. This assessment is based on past experience, the customer structure and long-term business relationships.

Additions to and reversal of valuation allowances are disclosed separately in the income statement under the impairment losses on trade receivables and contract assets (in the previous year under selling expenses).

The other current and non-current assets totalling 2,274,582.68 euros (previous year: 1,164,076.06 euros) predominantly concern other receivables from suppliers, advance payments for travel expenses, prepayments for future services and other receivables. No impairments were made.

3. Property, plant and equipment

The changes in property, plant and equipment may be summarised as follows:

	2018		2017	
in euros	Office and operating equipment	Property, plant and equipment	Office and operating equipment	Property, plant and equipment
Accumulated historical cost as at 1 Jan	13,917,602.55	13,917,602.55	12,021,208.79	12,021,208.79
Change in the consolidated Group	141,663.09	141,663.09	0.00	0.00
Additions	2,030,795.04	2,030,795.04	2,484,237.10	2,484,237.10
Disposals	-1,043,590.64	-1,043,590.64	-587,843.34	-587,843.34
As at 31 Dec	**15,046,470.04**	**15,046,470.04**	**13,917,602.55**	**13,917,602.55**
Accumulated depreciation as at 1 Jan	9,492,949.72	9,492,949.72	8,308,468.79	8,308,468.79
Change in the consolidated Group	98,654.09	98,654.09	0.00	0.00
Additions	1,918,376.87	1,918,376.87	1,695,386.27	1,695,386.27
Disposals	-1,019,247.64	-1,019,247.64	-510,905.34	-510,905.34
As at 31 Dec	**10,490,733.04**	**10,490,733.04**	**9,492,949.72**	**9,492,949.72**
Carrying amount as at 31 Dec	**4,555,737.00**	**4,555,737.00**	**4,424,652.83**	**4,424,652.83**

There were no restrictions on disposal or fixed assets pledged to lenders.

4. Intangible assets

The changes in intangible assets may be summarised as follows:

	2018				2017	
in euros	Internally generated software	Purchased intangible assets	Advance payments for intangible assets	Total intangible assets	Purchased intangible assets	Total intangible assets
Accumulated historical cost as at 1 Jan	0.00	1,717,853.05	0.00	1,717,853.05	1,566,968.35	1,566,968.35
Change in the consolidated Group	0.00	1,255,000.00	0.00	1,255,000.00	0.00	0.00
Additions	4,013,694.00	240,359.03	299,000.00	4,553,053.03	293,341.73	293,341.73
Disposals	0.00	-203,531.36	0.00	-203,531.36	-142,457.03	-142,457.03
As at 31 Dec	**4,013,694.00**	**3,009,680.72**	**299,000.00**	**7,322,374.72**	**1,717,853.05**	**1,717,853.05**
Accumulated depreciation as at 1 Jan	0.00	1,247,504.05	0.00	1,247,504.05	1,254,407.35	1,254,407.35
Additions	66,900.00	219,345.03	0.00	286,245.03	135,553.73	135,553.73
Disposals	0.00	-201,594.36	0.00	-201,594.36	-142,457.03	-142,457.03
As at 31 Dec	**66,900.00**	**1,265,254.72**	**0.00**	**1,332,154.72**	**1,247,504.05**	**1,247,504.05**
Carrying amount as at 31 Dec	**3,946,794.00**	**1,744,426.00**	**299,000.00**	**5,990,220.00**	**470,349.00**	**470,349.00**

Regular depreciations are recorded under the area of activity associated with the asset. As in the previous year, there were no unscheduled depreciations in the year under review.

In connection with the development of the secunet konnektor for integration into the telematics infrastructure for electronic health cards, development costs totalling 4,013,694 euros were capitalised as internally generated software in the financial year, as the requirements of IAS 38.57 were met in full. In the previous year, no development costs were capitalised. A useful life of five years is assumed.

In the course of initial consolidation of finally safe GmbH, the “Advanced Security Analytics Platform” solution developed there was revalued and the resulting value recorded under purchased intangible assets. A useful life of four years is assumed.

5. Business combination

With effect from 1 October 2018, finally safe GmbH, which had previously been recognised as an associated company, was fully consolidated by secunet AG on account of the control exercised as of this date (63.28% of the shares and thus the majority of voting rights). In this connection, the loan existing in the previous year was contributed to the company in exchange for new shares.

For the new shares amounting to 1,268 thousand euros, a loan including interest totalling 668 thousand euros and two cash deposits of 600 thousand euros were contributed. The fair value of the consideration accordingly totals 1,808 thousand euros. No significant transaction costs were incurred. The existing shares (36.68%) already held by secunet AG immediately prior to the acquisition date had a carrying value of 538 thousand euros and a fair value of 540 thousand euros. This resulted in an insignificant gain from the revaluation of the share in equity at the acquisition date.

The non-controlling interests were valued at 459 thousand euros at the acquisition date.

The following assets and liabilities were acquired at the date of acquisition:

in thousand euros	
Cash	306
Trade receivables	25
Property, plant and equipment	43
Intangible assets	1,255
Other assets	311
Deferred tax liabilities	-400
Liabilities and provisions	-289
	1,251

When determining the fair values, it was assumed for all items except the intangible assets and deferred tax liabilities that the carrying amounts for finally safe GmbH are appropriate indicators of the fair values. For the intangible assets, hidden reserves of 1,255 thousand euros were disclosed on the basis of a valuation at the cost of production. Deferred tax liabilities of 400 thousand euros were recognised on these differences arising from the revaluation.

The value of trade receivables stated above corresponds to the gross amount, as all receivables are regarded as recoverable.

The transaction resulted in goodwill of 1,018 thousand euros. This is derived from the consideration of 1,808 thousand euros less the revalued pro-rata equity of 790 thousand euros, corresponding to 63.28% of 1,251 thousand euros. This was calculated using the partial goodwill method (i. e. without taking into account the amounts attributable to non-controlling interests). The goodwill was assigned to the Business Sector division, since this division is benefiting from the synergies within the business acquired. No tax-relevant goodwill resulted from this transaction.

There were minor business relationships between finally safe GmbH and secunet AG within the framework of agency agreements, subleases and supply and service relationships. However, these existing relationships did not lead to any separate recognition of an intangible asset in the context of the purchase-price allocation.

Overall, the full consolidation had only an insignificant impact on the income statement of secunet Group. Sales revenue increased by 26 thousand euros, while profit was negatively impacted by -80 thousand euros.

Given an assumed execution on 1 January 2018, there would have been an impact of 218 thousand euros on the sales revenue and -525 thousand euros on the Group profit.

6. Goodwill

The breakdown of the goodwill carrying amount by segment is as follows:

	2018			2017		
in euros	Public Sector	Business Sector	Total	Public Sector	Business Sector	Total
Accumulated historical cost as at 1 Jan	3,325,331.00	282,000.00	3,607,331.00	2,745,300.00	282,000.00	3,027,300.00
Change in the consolidated Group		1,017,700.00	1,017,700.00	0.00	0.00	0.00
Additions	0.00	0.00	0.00	580,031.00	0.00	580,031.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
As at 31 Dec	3,325,331.00	1,299,700.00	4,625,031.00	3,325,331.00	282,000.00	3,607,331.00
Accumulated depreciation as at 1 Jan	0.00	0.00	0.00	0.00	0.00	0.00
Additions	0.00	0.00	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
As at 31 Dec	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Carrying amount as at 31 Dec	**3,325,331.00**	**1,299,700.00**	**4,625,031.00**	**3,325,331.00**	**282,000.00**	**3,607,331.00**

Goodwill was allocated to the cash-generating units based on expected synergies from the respective business combination. These cash-generating units represent the lowest reporting level in the Group at which goodwill can be monitored by the management for internal management purposes. Cash-generating units correspond to segments.

secunet Group is split into two business units: the Public Sector division and the Business Sector division.

In testing goodwill for impairment in accordance with IAS 36, the recoverable amount of the individual cash-generating unit is determined by its value in use. The test has taken place annually on 30 September. Based on past experience that significant transactions with an impact on goodwill may also occur in the fourth quarter, the reporting date in the 2018 financial year was changed to 31 December 2018. The value in use is calculated from the discounted cash flows of the relevant unit. Cash flows are calculated from the EBIT determined as part of the annual planning adopted by the Management Board and approved by the Supervisory Board. This is reconciled to Noplat (net operating profit less adjusted taxes) and adjusted for depreciation and investments. A discount rate (WACC) of 8.10% was used for these calculations (previous year: 8.10%). A risk-free interest rate (taken from the analyst estimate) of 1.5% (previous year: 1.5%), a market risk premium of 5.5% (previous year: 5.5%) and a beta factor of 1.2 (previous year: 1.2) are used to calculate the discount rate. Since the Company largely operates in the European Economic Area, standardised parameters are used for all cash-generating units. The underlying projections employed for the test are based on a period of three years and take into account past experience and the management's expectations regarding the future development of the market, while also considering growth in the detailed planning period. Projections further into the future are made by extrapolating cash flows in perpetuity, while factoring in a growth rate of 0.5% (previous year: 0.5%) for value in use.

As the discounted cash flows exceeded the carrying amounts of the goodwill, no impairment of goodwill was necessary. As part of a sensitivity analysis, the risk premium was increased by 1% and flat-rate discounts of 10% were applied to the expected cash flows from the individual cash-generating units. Even under these conditions there was no need for impairment with regard to any of the goodwill allocated to the cash-generating units.

7. Inventories

in thousand euros	31 Dec 2018	31 Dec 2017
Trade goods	18,945,240.76	11,427,628.95
Finished goods	41,717.04	0.00
Work in progress	280,672.00	0.00
Advance payments	81,163.79	0.00
Total	**19,348,793.59**	**11,427,628.95**

Trade goods are measured at historical cost calculated using a sliding average.

The production costs of finished goods and work in progress are valued at the cost of acquisition of the materials used and the cost of production.

In order to safeguard the sustained growth in the product business and shipment of the secunet konnektor, the inventory level has increased by 7.9 million euros.

During the reporting year, value adjustments for trade goods resulted in an expense in the amount of 150 thousand euros (previous year: 235 thousand euros).

8. Non-current financial assets

The premium reserve shares from reinsurance contracts shown under non-current financial assets amount to 5,860,888.00 euros (previous year: 5,646,493.00 euros). This increase is a result of the regular contributions and credit notes issued on income by the insurance companies.

These reinsurance contracts deal with the reinsurance of the existing defined benefit obligations related to current and former secunet employees from pension commitments assumed from previous employers. The existing reinsurance contracts are not plan assets as defined under IAS 19.

9. Financial assets shown in the balance sheet according to the equity method

The participation calculated at equity in the previous year consisted of the shares in finally safe GmbH, Essen. Although secunet held just 18% of the voting rights as at the balance sheet date of 31 December 2017, it nonetheless had a significant influence thanks to the arrangements in the Articles of Association of finally safe GmbH.

In January 2018, a loan including interest in the amount of 671 thousand euros was contributed to the company in exchange for new shares. secunet AG accordingly held 36.68% of the shares in finally safe GmbH, Essen.

secunet gained control over finally safe GmbH as at 1 October 2018. The status has thus changed from a financial asset accounted for using the equity method to a fully consolidated subsidiary.

The carrying amount of the shares and the share in the results are presented below:

in thousand euros	2018	2017
Carrying amount as at 1 Jan	93,346.08	177,641.87
Additions	1,940,133.34	0.00
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	-226,875.04	-84,295.79
Result associated with the change in consolidation method	2,024.12	0.00
Disposals and reclassifications	-1,808,628.50	0.00
Carrying amount as at 31 Dec	0.00	93,346.08

The loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method are attributable to the period up to full consolidation.

10. Deferred taxes

The Group has loss carryforwards amounting to 2,115 thousand euros (previous year: 148 thousand euros). Deferred tax assets were not recognised for this amount.

In addition, there were loss carryforwards at the foreign companies of 38 thousand euros (previous year: 145 thousand euros) for which no deferred taxes were recognised. Deferred tax claims not recognised totalled 8 thousand euros (previous year: 27 thousand euros). These losses carried forward expire five years (secunet s. r. o.) and seven years (secunet SwissIT AG) after the losses were incurred.

The domestic companies have loss carryforwards of 2,077 thousand euros (previous year: 3 thousand euros). No deferred tax assets were recognised for this, as it is not expected that these loss carryforwards will be realised in the short to medium term. They do not expire.

A tax rate of 31.93% was used to calculate deferred taxes (previous year: 31.91%). The average trade income tax rate changed slightly due to the acquisition of new sites and companies and the difference in the weighting of wage payments. The tax rate for deferred taxes includes trade tax and corporate tax plus solidarity surcharge.

The breakdown of deferred taxes recognised in the balance sheet is as follows:

Balance sheet entry

in euros	31 Dec 2018	31 Dec 2017
Deferred tax assets		
from provisions for pensions	1,318,346.59	1,202,252.65
from goodwill	32,992.31	47,403.26
from intangible assets	59,729.22	0.00
from other items	180,968.70	110,997.35
	1,592,036.82	**1,360,653.26**
Deferred tax liabilities		
from trade receivables and contract assets	-179,021.30	-114,106.02
from intangible assets	-1,635,612.33	0.00
from goodwill	-3,610.96	0.00
from other items	-68,244.35	-78,298.84
	-1,886,488.94	**-192,404.86**
Total	**-294,452.12**	**1,168,248.40**

The changes in deferred taxes in the income statement may be summarised as follows:

Income statement for expenses/income

in euros	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Deferred tax assets		
from provisions for pensions	82,250.19	33,350.73
from goodwill	-14,410.95	-10,410.90
from intangible assets	59,729.22	0.00
from other items	69,971.35	-20,069.00
	197,539.81	**2,870.83**
Deferred tax liabilities		
from trade receivables	-64,915.28	35,802.90
from intangible assets	-1,235,141.83	0.00
from goodwill	-3,610.96	0.00
from other items	10,054.49	6,262.24
	-1,293,613.58	**42,065.14**
Expenses/income (previous year) from deferred taxes	**-1,096,073.77**	**44,935.97**

In the 2018 financial year, deferred tax income of 33,843.75 euros was recorded under other comprehensive income/loss (in the previous year deferred tax expense of 14,840.06 euros).

Deferred tax liabilities on differences in intangible assets were recognised in the amount of 400,470.50 euros in connection with the initial consolidation of finally safe GmbH.

11. Liabilities

Intercompany payables are trade accounts payable. The carrying amount of the trade accounts payable corresponds to the nominal value.

Other current liabilities break down as follows:

in euros	31 Dec 2018	31 Dec 2017
Payable value-added tax	4,139,037.65	5,167,816.30
Down payments and advances received [1]	0.00	519,789.36
Payable wage income tax and church tax	562,762.11	586,796.36
Payable social security contributions	1,639.34	10,705.81
Other liabilities	36,072.15	6,911.27
Total	**4,739,511.25**	**6,292,019.10**

[1] Following the first-time application of IFRS 15, the advance payments received are reported under contract liabilities (see Note 12).

The maturities of the liabilities are as shown below:

	Total		Remaining term up to 1 year		Remaining term of 1 year to 5 years		Remaining term of over 5 years	
in euros	2018	2017	2018	2017	2018	2017	2018	2017
Trade accounts payable	22,797,180.71	26,629,285.89	22,797,180.71	26,629,285.89	0.00	0.00	0.00	0.00
Intercompany payables	283,951.48	463,669.89	283,951.48	463,669.89	0.00	0.00	0.00	0.00
Income tax liabilities	6,695,131.05	6,720,100.39	6,695,131.05	6,720,100.39	0.00	0.00	0.00	0.00
Other current liabilities	4,739,511.25	6,292,019.10	4,739,511.25	6,292,019.10	0.00	0.00	0.00	0.00
Contract liabilities	19,609,929.51	–	8,682,677.88	–	10,902,149.46	–	25,102.17	–
Deferred income [1]	–	12,896,299.84	–	6,459,411.99	–	6,410,054.64	–	26,833.21

[1] The Group adopted IFRS 15 and IFRS 9 for the first time as at 1 January 2018. Due to the transitional provision applied, the comparative figures have not been restated.

12. Contract balances

The following table presents information on receivables, contract assets and contract liabilities for customer contracts:

in euros	31 Dec 2018	1 Jan 2018
Trade receivables	41,776,937.04	38,539,890.62
Contract assets	2,648,354.51	2,385,743.94
Contract liabilities	19,609,929.51	13,416,089.20

As at 1 January 2018, the amount of 2,385,743.94 euros recognised as at 31 December 2017 as deferred income for services not yet invoiced to customers was reported under contract assets and trade receivables were reduced accordingly. The current and non-current deferred income of 12,896,299.84 euros as at 31 December 2017 and advance payments received of 519,789.36 euros reported under other liabilities in the previous year were recognised as contract liabilities as at 1 January 2018.

The contract assets include services already rendered under work or service contracts but not yet invoiced to the customer. No value adjustments had to be recognised in this regard in the financial year. There were no changes due to the initial consolidation of finally safe GmbH.

The contract assets are transferred to receivables when the customer is invoiced.

The contract liabilities include customer payments that are recognised as revenue after the balance sheet date. This item contains transactions where the Group has generated income paid in advance due to multiple-year maintenance and support contracts and extended warranties or has received advance payments for later supplies or services. The sales revenue is generated over a period corresponding to the maturities reported in Note 11.

The contract liabilities developed as follows in the financial year:

	2018
As at 1 Jan	13,416,089.20
Recognised in sales revenue	-7,498,990.71
Additions due to initial consolidation	78,728.19
Additions from payments received	13,614,102.83
As at 31 Dec	19,609,929.51

No prior-year figures are provided according to the transition method chosen.

13. Pension provisions

in euros	2018	2017
Opening balance as at 1 Jan	6,029,924.67	5,847,806.00
Benefits paid	-18,562.00	-14,599.33
Additions	664,393.33	243,224.00
Addition / reversal not affecting profit / loss in other income	106,060.00	-46,506.00
Closing balance as at 31 Dec	6,781,816.00	6,029,924.67

Provisions for pensions and similar liabilities are formed on the basis of the Group company's individual contract commitments towards its employees. 25 current and former employees of secunet Group who were employed at other companies in the past are entitled to a pension (previous year: 24 employees). The 25 pensionable persons consist of 23 candidates and two pension beneficiaries.

As a result of business combinations and taking over of employees from other companies, the Company has a variety of pension plans. These can largely be split into two types of plans.

The first type of plan grants the beneficiary a defined percentage (between 0.6% and 1.5%) of remuneration as an old-age pension, for each year of service. In the second type of plan, the beneficiary is granted a fixed component for the old-age pension.

Both types of plan allow for early retirement taking reductions in benefits into account.

Both plans include a disability pension and a widow's and orphans' pension.

The certificates for the eligible employees of secunet Group as at 31 December 2018 are based on trend assumptions of 2.5% for salary growth (previous year: 2.5%), pension growth of 2.0% p. a. (previous year: 2.0% p. a.), a rate of inflation of 2.0% p. a. (previous year: 2.0% p. a.) and an actuarial interest rate of 1.9% p. a. (previous year: 1.9% p. a.). Prof Klaus Heubeck's 2018 G mortality tables were used as the basis for the calculation.

To determine the actuarial interest rate, a yield curve as at the balance sheet date is derived using bootstrapping based on corporate bonds with an AA rating. The actuarial interest rate is calculated by matching the yield curve with the actual term of the obligations.

The parameters were set based on the data from December 2018.

Sensitivity analysis

Valuation parameter	Baseline value	Sensitivity	Effect on provisions (in thousand euros)
Actuarial interest	1.90%	+ 1.00%	-1,256
Actuarial interest	1.90%	– 1.00%	1,673
Salary growth	2.50%	+ 0.50%	140
Salary growth	2.50%	– 0.50%	-133
Pension growth	2.00%	+ 0.50%	561
Pension growth	2.00%	– 0.50%	-385
Life expectancy	Heubeck 2018 G	+ 1 year	241
Life expectancy	Heubeck 2018 G	– 1 year	-226

The sensitivity calculations are based on the average terms of the pension obligations as at 31 December 2018. Separate calculations were performed for all actuarial parameters considered to be material, so as to separately show the effects on the present value of defined benefit obligations as at 31 December 2018. Since the sensitivity analyses are based on the average duration of expected pension obligations, and expected payment deadlines are therefore not considered, they can only provide rough information or statements on trends.

The evaluation and definition of the parameters are at the discretion of the Management Board.

Changes to the defined benefit obligations in the reporting year were as follows:

in euros	2018	2017
As at 1 Jan	6,029,924.67	5,847,806.00
Current service cost [1]	549,988.33	189,380.00
Past service cost	0.00	-57,102.00
Interest expense	114,405.00	110,946.00
Actuarial gains and losses from		
experience-based adjustments	55,634.00	-46,506.00
changes to financial assumptions	50,426.00	0.00
Benefits paid	-18,562.00	-14,599.33
As at 31 Dec	**6,781,816.00**	**6,029,924.67**

[1] A compensation payment of 366 thousand euros was received for the assumption of pension claims from the former employer. The initial recognition of the provision was based on the current service cost.

Of the defined benefit obligations, 75.2% (previous year: 80.5%) relate to active claimants. And 12.8% (previous year: 14.0%) relate to claimants who have left; 12.0% (previous year: 5.5%) relate to pension beneficiaries. Pension commitments do not expire.

The weighted average duration of the defined benefit obligations up to 31 December 2018 is 22.0 years (previous year: 22.0 years).

Costs arising from the defined benefit obligations and included in the income statement are broken down as follows:

in euros	2018	2017
Current service cost	549,988.33	189,380.00
Past service cost	0.00	-57,102.00
Interest expense	114,405.00	110,946.00
Cost for the year	**664,393.33**	**243,224.00**

In line with actuarial certificates, expenses arising from the commitments are distributed over the service life of employees and consist of the interest expenses and the service expenses. Interest expenses are included in the financial result, and the service expenses are shown under personnel expenditure in the respective functional areas.

In the reporting year, pension payments of 18,562.00 euros (previous year: 14,599.33 euros) were paid directly by the employer.

The defined benefit obligation is offset by premium reserve shares from reinsurance contracts in the amount of 5,860,888.00 euros (previous year: 5,646,493.00 euros), which do not represent plan assets under IAS 19.

A pension provision of 7,012,360 euros is expected as at 31 December 2019, based on an annual expense of 293,819 euros and planned pension payments of 63,275 euros.

In the reporting year, secunet Group paid contributions of 2,889 thousand euros (previous year: 2,612 thousand euros) into the statutory pension insurance plan, which is regarded as a defined contribution plan. In the case of defined contribution pension plans, there are no further obligations beyond the payment of contributions.

14. Other provisions

The changes in other provisions are shown in the table below:

in euros	1 Jan 2018	Change in the consolidated Group	Utilisation	Released	Additions	31 Dec 2018
Non-current provisions						
Provisions for anniversary bonuses	133,977.00	0.00	0.00	0.00	187,175.00	321,152.00
Current provisions						
Annual employee bonuses	10,930,277.00	36,000.00	-10,930,277.00	0.00	8,960,362.00	8,996,362.00
Warranties	1,549,110.00	0.00	-382,680.00	-192,381.00	0.00	974,049.00
Accrued holidays	670,731.00	16,104.00	-670,731.00	0.00	774,427.00	790,531.00
Asset retirement and maintenance measures	494,642.17	0.00	0.00	0.00	82,910.00	577,552.17
Pending contractual penalty	175,700.00	0.00	-144,796.16	-30,903.84	244,000.00	244,000.00
Deferred costs	467,093.90	0.00	-445,257.74	0.00	213,923.29	235,759.45
Professional association contributions	132,000.00	0.00	-132,000.00	0.00	132,000.00	132,000.00
Others	571,406.91	0.00	-470,223.41	-17,212.50	543,655.13	627,626.13
	14,990,960.98	52,104.00	-13,175,965.31	-240,497.34	10,951,277.42	12,577,879.75
Total	**15,124,937.98**	**52,104.00**	**-13,175,965.31**	**-240,497.34**	**11,138,452.42**	**12,899,031.75**

The provision formed in the previous year for warranties and goodwill in the product and project business was utilised in the 2018 financial year in the amount of 380 thousand euros. 192 thousand euros could be released to the cost of sales with an effect on income.

The provision for asset retirement and maintenance measures essentially involves asset retirement and maintenance measures to be performed by the Company for the leased properties in Essen, Munich and Dresden.

Overall provisions have been represented at the level of the expected realisation arising from the risks.

The estimation of the probability of occurrence for the expected realisation of the provisions is at the discretion of the Management Board.

15. Equity

The development of the Group's equity is shown in the consolidated statement of changes in equity.

As in the previous year, secunet AG holds 30,498 treasury shares as at the balance sheet date. This corresponds to a share of 0.469% of the subscribed capital.

The subscribed capital remains unchanged at 6,500,000.00 euros. It is divided into 6,500,000 bearer shares without par value. All shares are fully paid. Calculated on Group profit for the period attributable to the shareholders of secunet AG of 17,923,374.06 euros, diluted and undiluted earnings per share were 2.77 euros per share (6,469,502 shares), compared with 2.45 euros (6,469,502 shares) in the previous year.

In connection with the initial consolidation of finally safe GmbH, non-controlling interests amounting to 358,803.12 euros were reported for the first time as at 31 December 2018. This amount is composed of the share of net assets attributable to the non-controlling interests at the time of initial consolidation (458,958.36 euros) and the share of net income for the 2018 financial year (-100,155.24 euros).

The number of shares outstanding remained unchanged, at 6,469,502 shares. Each share grants the holder one voting right and, in the event of a distribution, an equivalent dividend entitlement.

secunet AG's capital reserves were unchanged from the previous year, with 1,902,005.80 euros of the total resulting from payments by the shareholder before the transformation of secunet AG into a public limited company. The price premium paid in the initial public offering accounts for 20,020,000.00 euros of the total. The capital reserves are available – subject to statutory regulations – for the purposes of offsetting any losses incurred and for capital increases from the Company's own funds.

The other reserves consist of the reserve for treasury shares and the other comprehensive income / loss.

The reserve for treasury shares consists of the historical cost of the shares of the Company held by the Group. The Company currently holds 30,498 of its own shares.

Other comprehensive income / loss consists of currency conversion differences from the currency conversion of financial statements of foreign subsidiaries, actuarial gains and losses as part of pension provision calculation as well as deferred taxes.

Revenue reserves increased by 32,212,789.03 euros to 42,363,484.81 euros compared to the previous year's figure. This increase was based on the Group profit for the period attributable to the shareholders of secunet AG of 17,923,374.06 euros, less the dividend payments of 7,763,402.40 euros paid during the reporting year and the adjustment amount due to first-time adoption of IFRS 9. This was counteracted by an effect of 2,024.12 euros from the change in the consolidated Group.

Appropriation of the balance sheet profit

From the balance sheet profit of 7,763,402.40 euros reported for the 2017 financial year in the Annual Financial Statements under commercial law, dividends of 1.20 euros per share (amounting to a total of 7,763,402.40 euros) were distributed in the 2018 financial year in accordance with the resolution of the Annual General Meeting on 9 May 2018.

secunet AG's Annual Financial Statements under commercial law for the 2018 financial year show net income for the year of 14,678,861.36 euros. The Management Board and the Supervisory Board decided to deposit an amount of 1,481,077.28 euros from this sum into other revenue reserves. There is a balance sheet profit of 13,197,784.08 euros under commercial law for 31 December 2018.

The Management Board will propose to the Annual General Meeting that a standard dividend of 1.13 euros per dividend-bearing share (corresponding to a standard distribution of 50% of net income for the year) and a special dividend of 0.91 euros per dividend-bearing share, and thus a total of 2.04 euros per dividend-bearing share (in total: 13,197,784.08 euros), be distributed on the dividend-bearing share capital of 6,469,502.00 euros. When determining the share capital entitled to a dividend, the total of 30,498 treasury shares was deducted.

in euros	2018
Carryforward as at 1 Jan 2018	7,763,402.40
Net income for the year 2018	14,678,861.36
Dividend payment in 2018 for 2017	-7,763,402.40
Transfer to other revenue reserves	-1,481,077.28
Net accumulated profit / loss as at 31 Dec 2018	**13,197,784.08**
Proposal for the appropriation of distributable earnings	
Dividend payment in 2019	-13,197,784.08
Carryforward	**0.00**

Notes on the income statement

16. Sales revenue

secunet Group realises its sales revenue entirely within the framework of contracts with customers.

The following overview breaks down sales by geographical characteristics, main revenue streams and revenue recognition.

	Pubic Sector		Business Sector		Group	
in thousand euros	2018	2017	2018	2017	2018	2017
Geographical allocation						
Domestic	129,692.6	125,049.4	15,745.7	16,950.0	145,438.3	141,999.4
Abroad	17,464.0	16,005.6	384.3	317.2	17,848.3	16,322.8
Total	**147,156.6**	**141,055.0**	**16,130.0**	**17,267.2**	**163,286.6**	**158,322.2**
Revenue generation						
Consultancy business	22,357.3	24,577.6	11,547.5	11,695.6	33,904.8	36,273.2
Product business	124,799.3	116,477.4	4,582.5	5,571.6	129,381.8	122,049.0
Total	**147,156.6**	**141,055.0**	**16,130.0**	**17,267.2**	**163,286.6**	**158,322.2**
Recognition of sales revenue						
Over time	35,804.2	34,835.5	13,728.4	13,551.3	48,532.6	48,386.8
At a point in time	112,352.4	106,219.5	2,401.6	3,715.9	114,754.0	109,935.4
Total	**147,156.6**	**141,055.0**	**16,130.0**	**17,267.2**	**163,286.6**	**158,322.2**

Domestic sales revenue totalled 145,904.2 thousand euros (previous year: 141,999.4 thousand euros), while sales revenue generated abroad was 17,382.4 euros (previous year: 16,322.9 euros). The breakdown of sales revenue is based on the location of the customers.

Approximately 91.4 million euros of this sales revenue is attributable to the Group's major customer as defined in IFRS 8.34. This sales revenue was generated in the Public Sector division. No other individual customer accounted for 10% or more of the Group's sales revenues in 2018.

17. Presentation of selected expenses according to cost types

With the exception of materials expenses, which must always be included under cost of sales, all the cost types are recorded under the cost of sales, the selling expenses and the general administrative costs. The following amounts are recorded for the cost types listed below:

in euros	2018	2017
Expenses for raw materials, consumables and operating materials	65,050,221.85	65,145,541.92
Cost of purchased services	7,477,383.24	5,795,399.84
Materials expenses	**72,527,605.09**	**70,940,941.76**
Wages and salaries	39,248,159.54	37,357,440.47
Social security costs	5,754,678.09	5,285,463.23
Expenses for retirement pensions	546,050.49	132,278.00
Personnel expenses	**45,548,888.12**	**42,775,181.70**
Depreciations (scheduled)	**2,204,621.90**	**1,830,940.00**

18. Research and development costs

Research and development costs for the financial year amounted to 1,017,187.94 euros (previous year: 2,109,324.48 euros). Of this sum, 0.5 million euros (previous year: 1.8 million euros) was spent on developing the secunet konnektor for integration into the telematics infrastructure for electronic health cards. This relates to cost elements that cannot be capitalised. A further 4.0 million euros was capitalised as development costs associated with development of the secunet konnektor as at February 2018 in accordance with IAS 38.

0.5 million euros (previous year: 0.3 million euros) was invested in a development project related to security upgrades for cloud infrastructures. The criteria set forth in IAS 38.57 for the justification of mandatory capitalisation were not completely fulfilled. Consequently, the expenses incurred were not capitalised.

19. Interest income / expense

In the 2018 financial year, interest income of 91,803.53 euros (previous year: 295,627.16 euros) was generated. Of this amount, 59,027.77 euros (previous year: 222,395.84 euros) relates to interest income from short-term loans to the shareholder Giesecke + Devrient GmbH. The remaining amount (32,775.76 euros, previous year: 73,231.32 euros) is mainly attributable to interest income on loans to affiliated companies.

In addition to the interest on pensions (114,405.00 euros, previous year: 110,946.00 euros), the 2018 interest expense of 135,110.74 euros (previous year: 131,213.47 euros) also includes interest on other provisions (in the previous year also interest on tax arrears arising from the tax audit).

20. Income taxes

In the reporting year, current taxes of 7,719,613.58 euros were incurred (previous year: 7,710,256.82 euros). This includes taxes for previous years in the amount of 128,777.80 euros (previous year: 90,894.00 euros). For deferred taxes see Notes under (10).

The income tax expense is derived from the theoretical tax expense, applying a tax rate of 31.93% (previous year: 31.91%) to the earnings before tax. The tax expense arising from the application of the tax rate for the Group is derived as follows:

in euros	2018	2017
Group profit before tax	26,638,906.17	23,531,415.17
Expected tax expense	-8,505,802.74	-7,508,874.58
Non-recognition of losses	-70,955.08	0.00
Trade tax adjustments	-51,632.70	-45,407.83
Tax rate differences	7,583.56	-761.87
Prior-year taxes	-128,777.80	-90,894.00
Permanent differences	-72,431.37	-26,898.79
Non-deductible expenses	-21,178.84	-21,606.87
Other items	27,507.62	29,123.09
Effective tax expense	**-8,815,687.35**	**-7,665,320.85**

As at 31 December 2018, the tax rates used to calculate deferred tax assets and liabilities were changed only slightly compared with the previous year.

The effective tax rate in the reporting year, based on the Group profit before tax, was 33.1% (previous year: 32.6%).

21. Cash flow statement

The cash flow statement shows the changes in cash over the course of the reporting year, broken down into cash flows from operating, business, investment and financing activities. Cash and cash equivalents comprise cash in hand and bank balances.

The cash flow from operating activities was determined using the indirect method.

22. Segment reporting

At the beginning of the 2013 financial year, secunet Group carried out an organisational restructuring and since then has been divided into two divisions, Public Sector and Business Sector. Both divisions are shown separately for the purposes of segment reporting, as they meet at least one of the quantitative thresholds defined in IFRS 8.13.

Segment report 2018

in thousand euros	Public Sector	Business Sector	secunet 2018
Segment income	147,157	16,130	163,287
Cost of sales	-103,481	-12,087	-115,568
Selling expenses	-11,977	-2,187	-14,164
Research and development expenses	-503	-514	-1,017
Administrative costs	-4,956	-673	-5,629
Segment result (EBIT)	26,240	669	26,909
Interest result			-43
Income from investments			-227
Group profit before tax			26,639
Goodwill	3,325	1,300	4,625

Segment report 2017

in thousand euros	Public Sector	Business Sector	secunet 2017
Segment income	141,055	17,267	158,322
Cost of sales	-101,071	-12,651	-113,722
Selling expenses	-11,722	-2,405	-14,127
Research and development expenses	-291	-1,818	-2,109
Administrative costs	-4,276	-637	-4,913
Segment result (EBIT)	23,695	-244	23,451
Interest result			164
Income from investments			-84
Group profit before tax			23,531
Goodwill	3,325	282	3,607

The Public Sector division addresses the highly complex security requirements of authorities, the armed forces and international organisations. At the core of its offering is SINA, Secure Inter-Network Architecture, developed in conjunction with the German Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik, BSI).

In addition, the division supports authorities in Germany and abroad in all areas relating to e-government and IT security. These include biometric solutions and sovereign documents, security validation and secure web solutions. This division operates a BSI-certified evaluation laboratory for IT conformity.

Staff in the Business Sector division focus on security issues affecting industrial companies. Its product line includes identity management systems, qualified mass signature solutions for electronic invoicing, public key infrastructures and network security. In all areas, analyses, consulting and complete solutions are tailored to each customer's specific requirements.

The division also deals with the IT security issues facing automotive manufacturers. With more and more vehicle functions now being computerised, it is becoming increasingly important for both automotive manufacturers and suppliers to ensure that built-in hardware and software components are protected against unauthorised changes.

The accounting principles for the segments are identical to those used for the Consolidated Financial Statements. Using apportionments, expenses (e. g. overhead costs) that are not directly allocable to the reportable segments are allocated to the reportable segments.

The segments are managed on the basis of the segment results.

With the exception of non-essential components, the segments' assets are focused on the domestic market. There were no significant changes to the segment assets as at the balance sheet date.

Further details on sales revenue can be found in Note 16.

In segment reporting, the general administrative costs as well as other operating expenditure and income from the profit and loss account are summarised under administrative costs.

The selling expenses are combined with the impairment losses on trade receivables and contract assets.

23. Other disclosures

Employees

In the 2018 financial year, the Group had an average of 567 employees (501 permanent employees and 66 temporary workers). The average headcount in the previous year had been 515 (452 permanent employees and 63 temporary workers). Until the date of initial consolidation, an average of nine staff members (eight permanent employees and one temporary worker) were employed at associated companies (previous year: eight permanent employees, one temporary worker).

Capital management

Our capital management of secunet Group is geared primarily to the provisions and requirements of company law. The aim is to ensure that all Group companies can operate as going concerns. Where no special provisions dictate otherwise, the equity for tax purposes is the same as the balance sheet equity. In all other cases the balance sheet equity is adjusted in line with regulatory or contractual requirements. The Group is not subject to any minimum equity requirements.

The Group's equity (including non-controlling interests) as at 31 December 2018 was 69,516,359.72 euros (previous year: 59,087,334.27 euros).

Financial instruments

Risks from financial instruments

The risks arising from financial instruments relate to liquidity, default and market risks.

Liquidity risks

To ensure that it has sufficient funds at its disposal, the Group prepares a liquidity plan as part of its three-year planning. This is then compared against each set of month-end figures and subsequently analysed.

The finance department informs the CFO of the current level of available funds on a daily basis. In conjunction with a permanent reminder function, this ensures a high cash reserve at all times.

Given the high level of available funds, the Group has, to date, not needed to make use of credit lines.

Guarantee facilities totalling 12.0 million euros existed as at the balance sheet date (previous year: 12.0 million euros), of which 2.1 million euros (previous year: 2.2 million euros) has been drawn down.

At the end of the year, the Group had cash and cash equivalents amounting to 56,084,381.70 euros at its disposal (previous year: 62,922,886.67 euros). Current financial liabilities stood at 43,198,452.37 euros (previous year: 46,564,487.26 euros).

Default risks

Default risks, or risks that counterparties cannot meet their payment obligations on time, are addressed with approval and control processes.

The Group also assesses the solvency of its customers on a regular basis.

The maximum amount of the default risks arising for the Group corresponds to its total receivables. The Group is not exposed to any unusual default risks in respect of individual contracting partners or groups of contracting partners. Default risks are recognised through valuation allowances.

There are no concentrations of default risks in respect of individual customers. The overall default risk is estimated to be low.

An analysis of the trade receivables that were overdue can be found in the overview under Note 2.

Market risks

The Group generates the majority of its sales in the European currency area. The risks resulting from exchange rate fluctuations are therefore not significant. Fixed interest rates are agreed for the Company's interest-bearing call deposits and time deposits. Due to the high level of cash and cash equivalents, no financing through loans is required. Risks resulting from changes in interest rates can therefore also be regarded as low.

Other notes on financial instruments

During the reporting year, there were no reclassifications of financial assets between the measurement categories under IFRS 9 (please refer to the notes on first-time adoption of IFRS 9 for information on the changeover effects). With the exception of the premium reserve from reinsurance contracts (non-current financial assets), no financial assets or liabilities were measured at fair value through profit or loss (FVTPL).

The carrying amounts of current financial assets and liabilities represent an appropriate approximation of fair value for the purposes of IFRS.

The fair value of non-current financial instruments – disclosed under non-current assets – corresponds to the carrying amount, which developed as follows:

in euros	2018	2017
Carrying amount as at 1 Jan	5,646,493.00	5,412,940.00
Incoming payments	80,551.85	105,005.90
Outgoing payments	-13,379.28	-13,379.28
Income recorded in the income statement	147,222.43	141,926.38
Carrying amount as at 31 Dec	**5,860,888.00**	**5,646,493.00**

For financial instruments measured at amortised cost, expenses of 89 thousand euros (previous year: 10 thousand euros) due to impairments and write-downs, and income of 1 thousand euros (previous year: 0 thousand euros) due to write-ups were reported in the 2018 financial year.

Additional notes on financial instruments

The carrying amounts and fair values of the financial instruments reported in the balance sheet are as follows:

31 Dec 2018	Carrying amounts			
in euros	Mandatory as FVTPL	At amortised cost	Other financial liabilities	Total carrying amounts
Financial assets measured at fair value				
Non-current financial assets	5,860,888.00	–	–	5,860,888.00
Financial assets not measured at fair value				
Cash and cash equivalents	–	56,084,381.70	–	56,084,381.70
Trade receivables	–	41,776,937.04	–	41,776,937.04
Intercompany financial assets	–	452,438.07	–	452,438.07
Other current assets	–	2,274,582.68	–	2,274,582.68
Loans	–	0.00	–	0.00
	0.00	100,588,339.45	0.00	100,588,339.49
Financial liabilities not measured at fair value				
Trade accounts payable	–	–	22,797,180.71	22,797,180.71
Intercompany payables	–	–	283,951.48	283,951.48
Other current liabilities	–	–	4,739,511.25	4,739,511.25
	0.00	0.00	27,820,643.44	27,820,643.44

31 Dec 2017 [1]	Carrying amounts			
in euros	Measured at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amounts
Financial assets measured at fair value				
Non-current financial assets	5,646,493.00	–	–	5,646,493.00
Financial assets not measured at fair value				
Cash and cash equivalents	–	62,922,886.67	–	62,922,886.67
Trade receivables [2]	–	38,539,890.62	–	38,539,890.62
Intercompany financial assets	–	85,481.04	–	85,481.04
Other current assets	–	1,164,076.06	–	1,164,076.06
Loans	–	1,307,444.44	–	1,307,444.44
	0.00	104,019,778.83	0.00	104,019,778.83
Financial liabilities not measured at fair value				
Trade accounts payable	–	–	26,629,285.89	26,629,285.89
Intercompany payables	–	–	463,669.89	463,669.89
Other current liabilities	–	–	6,292,019.10	6,292,019.10
	0.00	0.00	33,384,974.88	33,384,974.88

[1] The Group adopted IFRS 9 for the first time as at 1 January 2018. In accordance with the modified retrospective method, the comparative figures for the previous year are not adjusted.

[2] Consultancy contracts with a credit balance of 2.4 million euros against customers are not included.

	Fair value			
	Level 1	Level 2	Level 3	Total fair values
	–	5,860,888.00	–	5,860,888.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	0.00	0.00	0.00	0.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	0.00	0.00	0.00	0.00

	Fair value			
	Level 1	Level 2	Level 3	Total fair values
	–	5,646,493.00	–	5,646,493.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	0.00	0.00	0.00	0.00
	–	–	–	0.00
	–	–	–	0.00
	–	–	–	0.00
	0.00	0.00	0.00	0.00

Net profit / loss from financial instruments for the two financial years was as follows:

in euros	2018	2017
Loans and receivables		
Interest result	91,803.53	295,627.16
Losses from derecognised receivables	-18,675.72	-4,254.51
Gains on receivables written off	1,378.90	26.48
Value reductions (-) / value increases (+)	-75,621.07	-5,557.50
	-1,114.36	**285,841.63**
Financial assets measured at fair value through profit or loss		
Interest result	147,222.43	141,926.38
Total	**146,108.07**	**427,768.01**

Leases / other financial liabilities

The Company's other financial liabilities resulted mainly from long-term tenancy agreements for office premises and from leases relating to motor vehicles.

The tenancy agreements for office premises have residual terms of between one and seven years. Options to extend the term of the tenancy have been agreed in some cases.

The car leases have residual terms of between one and four years, with no extension or purchase options.

The terms of the leases contain absolutely no restrictions on those business activities that affect dividends, additional debts or further leases.

In the reporting year, lease payments of 3,319,932.57 euros were incurred (previous year: 2,890,000.19 euros).

Future minimum lease payments based on operating leases that cannot be terminated are as follows:

Nominal / in euros	31 Dec 2018	31 Dec 2017
Long-term rental commitments for various office premises	14,279,922.93	8,928,923.00
Lease commitments for office and operating equipment	1,489,376.33	1,097,476.05
Total	**15,769,299.26**	**10,026,399.05**

The maturities of the liabilities are as follows:

Nominal / in euros	31 Dec 2018	31 Dec 2017
Up to 1 year	3,610,443.43	3,181,401.98
More than 1 year but less than 5 years	9,352,394.66	6,844,997.07
More than 5 years	2,806,461.18	0.00
Total	**15,769,299.26**	**10,026,399.05**

The liabilities for the next five years will be offset by minimum payments from subleases that cannot be terminated amounting to 0.00 euros (previous year: 66,300 euros).

Corporate Governance

The Management Board and Supervisory Board issued the declaration pursuant to Article 161 AktG in respect of secunet AG and made it permanently available to the shareholders on the Company website (www.secunet.com) under The Company >> Investor Relations >> Corporate Governance >> Declaration of Conformity under Article 161 AktG.

Corporate bodies

In the reporting year, the Company's Management Board comprised the following members:

Dr rer nat Rainer Baumgart, Chairman
Qualified business economist (FH) Thomas Pleines
Qualified industrial engineer Axel Deininger

Fees for auditors of Consolidated Financial Statements

In the financial year and in the previous year, the following fees paid to the auditors of the Consolidated Financial Statements, KPMG AG Wirtschaftsprüfungsgesellschaft, were recorded.

in thousand euros	2018	2017
Audit services		
Auditing of consolidated financial statements and annual financial statements, auditor's review of 6-month report, supervision of DPR procedures	260	122
of which relating to audit of the previous year	39	12
Other certification services		
Audit of the non-financial statement	14	0
Tax advisor services		
Value-added tax advice (previous year: auditing of tax assessments for tax returns prepared in previous years)	8	1
Other services		
Training of Supervisory Board	0	8
	282	**131**

Related party disclosures

Transactions with related persons

The remuneration of key management personnel breaks down into the following categories pursuant to IAS 24:

in thousand euros	2018	2017
Management Board		
Short-term employee benefits	1,119.8	958.6
Post-employment benefits	53.6	61.8
Other long-term employee benefits	300.0	200.0
Total	**1,473.4**	**1,220.4**
Supervisory Board		
Short-term employee benefits	60.0	60.0

The remuneration of members of the Management Board active during the reporting year totalled 1,420 thousand euros for the reporting year (previous year: 1,159 thousand euros). Provisions for pensions for former members of the Management Board are recognised in the amount of 343 thousand euros (previous year: 331 thousand euros).

Supervisory Board remuneration for the reporting year totalled 60 thousand euros (previous year: 60 thousand euros).

Disclosure of the individual amounts paid to members of the Management Board and Supervisory Board, along with further details of the remuneration system for the members of corporate bodies, can be found in the remuneration report that forms part of the combined Management Report of secunet AG.

Transactions with related companies of MC Familiengesellschaft mbH

secunet AG is a majority holding of Giesecke + Devrient GmbH, Munich, which has a 78.96% stake in the Company. secunet AG is included in the Consolidated Financial Statements of MC Familiengesellschaft mbH, Tutzing.

The following transactions were carried out in the specified period with companies in the MC Familiengesellschaft mbH Group, Tutzing on the usual market terms:

1. Sales revenues resulting from services performed for affiliated companies in the MC Familiengesellschaft Group

in euros	2018	2017
Parent company		
Giesecke + Devrient GmbH, Munich	55,829.29	32,101.06
Other affiliated companies		
Giesecke + Devrient Mobile Security GmbH, Munich	460,708.77	485,001.16
Veridos GmbH, Berlin	228,414.55	186,344.72
Giesecke + Devrient Currency Technology GmbH, Munich	29,750.00	66,062.50
GyD Ibérica S.A., Barcelona	0.00	2,487.94
Total	**774,702.61**	**771,997.38**

The sales revenues with affiliated companies of the MC Familiengesellschaft Group are generated within the framework of hardware and service projects.

For projects with affiliated companies in the MC Familiengesellschaft Group, provisions for deferred costs of 0 thousand euros (previous year: 0 thousand euros) were created.

2. Financial result for services performed for affiliated companies in the MC Familiengesellschaft Group

Interest income of 59,027.77 euros (previous year: 222,395.84 euros) was generated from the provision of short-term loans to Giesecke + Devrient GmbH, Munich.

3. Other transactions with affiliated companies in the MC Familiengesellschaft Group

Other income of 365,808.00 euros was generated with G+D Mobile Security GmbH, Munich in connection with a compensation payment for the assumption of a defined benefit obligation for a former employee.

In December 2018, secunet AG acquired the “Secure Industrial Visibility” portfolio from Giesecke + Devrient Mobile Security GmbH. An amount of 0.5 million euros was paid for the acquired assets and inventories.

4. Services purchased from affiliated companies in the MC Familiengesellschaft Group

in euros	2018	2017
Parent company		
Giesecke + Devrient GmbH, Munich	160,833.94	39,085.54
Other affiliated companies		
Giesecke + Devrient Mobile Security GmbH, Munich	156,026.00	469,693.06
Veridos GmbH, Berlin	21,850.00	34,103.00
Giesecke + Devrient Currency Technology FZE, Dubai / UAE	11,100.00	8,000.00
Total	**349,809.94**	**550,881.60**

5. Receivables from affiliated companies in the MC Familiengesellschaft Group

in euros	2018	2017
Parent company		
Giesecke + Devrient GmbH, Munich	18,554.93	1,933.75
Other affiliated companies		
Veridos GmbH, Berlin	68,075.14	51,446.08
Giesecke + Devrient Mobile Security GmbH, Munich	365,808.00	32,101.21
Total	**452,438.07**	**85,481.04**

Receivables from Group companies comprise 86,630.07 euros (previous year: 85,481.04 euros) as trade receivables and 365,808.00 euros (previous year: 0.00 euros) as other receivables.

6. Payables to affiliated companies in the MC Familiengesellschaft Group

in euros	2018	2017
Parent company		
Giesecke + Devrient GmbH, Munich	50,142.98	4,197.98
Other affiliated companies		
Veridos GmbH, Berlin	0.00	13,111.42
Giesecke + Devrient Currency Technology FZE, Dubai / UAE	11,100.00	8,000.00
Giesecke + Devrient Mobile Security GmbH, Munich	222,708.50	438,360.49
Total	**283,951.48**	**463,669.89**

Payables to Group companies consist entirely of trade accounts payable.

7. Sales revenue with companies in which MC Familiengesellschaft mbH holds a participating interest

In 2018, sales revenue in the amount of 0.00 euros (previous year: 177,238.74 euros) was earned with Emirates German Security Printing L. L. C., Abu Dhabi.

8. Other income from companies in which MC Familiengesellschaft mbH holds a participating interest

Until it was initially consolidated in secunet Group, other income amounting to 161,340.68 euros was earned from finally safe GmbH, Essen for the performance of administrative tasks and the leasing of office space (previous year: 147,004.28 euros).

Events after the balance sheet date

Together with another company, secunet Security Networks AG is founding secustack GmbH, Dresden, on 26 March 2019. The purpose of secustack GmbH is the development and marketing of software solutions in connection with a security-hardened cloud infrastructure.

secunet AG is taking over 51% of the shares in secustack GmbH at the time of foundation and paying the consideration in cash.

Upon foundation, the new company will become an affiliated company of secunet AG, Giesecke + Devrient GmbH and MC Familiengesellschaft mbH and will be fully consolidated in their consolidated financial statements.

The Management Board

Essen, 26 March 2019

Dr Rainer Baumgart Axel Deininger Thomas Pleines

Independent Auditor’s Report

To secunet Security Networks Aktiengesellschaft, Essen

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of secunet Security Networks Aktiengesellschaft, Essen, and its subsidiaries (the Group or secunet), which comprise the consolidated balance sheet as of 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report – report on the position of the Company and the Group (hereinafter referred to as “Group management report”) of secunet Security Networks Aktiengesellschaft, Essen, for the financial year from 1 January to 31 December 2018. In accordance with German legal requirements, we have not audited the content of the combined non-financial statement of the Company and the Group contained in Section 8 of the Group management report.

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

» the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018, and

» the accompanying Group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not cover the contents of the aforementioned combined non-financial statement of the Company and the Group.

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

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the Group management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the Group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition on an accrual basis (revenue recognition cut-off)

For the accounting policies applied, we refer to the explanatory notes to the consolidated financial statements under "General principles" and Section 16 "Sales revenue". The Company's revenue performance is presented in Section 2.3.1 of the Group management report.

Financial statement risk

As presented in the consolidated financial statements, secunet Security Networks Aktiengesellschaft generated revenue in the amount of EUR 163.3 million in the 2018 financial year. The main contributors to revenue are multiple-element contracts and the provision of services (development and consulting business). Multiple-element contracts are concluded for the supply of hardware, the granting of software licences (including updates) and support and maintenance services.

secunet recognises revenue for the identified performance obligations either at a point in time or over a period of time in accordance with the satisfaction of each obligation. Multiple-element contracts are divided into separate performance obligations. The transaction price is allocated to the individual performance obligations in accordance with the relative individual selling prices, which are based on contractually agreed prices or list prices.

In the case of hardware and software licences, revenue is recognised at the point in time when control is transferred to the customer. Where support and maintenance services, updates and extended warranty commitments are granted, the respective performance obligations are satisfied by the transfer of control over a certain period. The revenue is accordingly recognised over time during the term of the contract. In the case of services, the extent of control transferred as of the reporting date is essentially assessed on the basis of the hours worked or the percentage of completion.

Most of the Group's revenue is generated from public contracts. Other customers include automotive manufacturers among others. These place a disproportionately large number of orders at the end of the year, resulting in an increased number of contracts and therefore considerable transfer of goods and services at year-end.

Due to the large number of transactions in the last few weeks prior to the reporting date, discrepancies in progress with delivery as of the reporting date, and the large share of multiple-element contracts, there is the risk for the financial statements that revenue recognised for the year under review is too high and therefore not allocated to the period in which it is incurred.

Our audit approach

In order to audit whether revenue is recognised in the period in which it is incurred, we assessed the design, setup and effectiveness of internal controls relating to order acceptance, outgoing goods or acceptance of services, and invoices.

Furthermore, we assessed revenue recognition cut-off by reconciling invoices to the related orders, contracts, external proof of delivery, acceptance protocols or time sheets. This was based on revenue recognised in December 2018 and selected using a mathematical / statistical procedure.

In addition, balance confirmations were obtained for trade receivables not yet settled as of the reporting date, which were entered in the accounts prior to 1 December 2018 and consequently not covered by the above-mentioned sample. These were also selected on the basis of a mathematical / statistical procedure. In cases where obtaining balance confirmations remained unsuccessful, we conducted alternative audit procedures by reconciling revenue to the underlying orders, contracts, internal invoice release, invoices, proof of delivery and acceptance protocols or time sheets as well as payment received.

For multiple-element contracts contained in the two samples, the break-down into individual transactions and the related recognition of revenue was assessed based on the underlying contracts.

Our Observations
The Group's procedure for revenue recognition cut-off is appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

- the combined non-financial statement of the Company and the Group, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the annual financial statements and Group management report and our auditor's reports.

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

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

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

In accordance with our engagement, we conducted a separate economic audit of the combined non-financial statement of the Company and the Group. With regard to the nature, scope and results of this economic audit, we refer to our audit report dated 26 March 2019.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the Group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

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

» Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as Group auditor at the Annual General Meeting on 9 May 2018. We were engaged by the Supervisory Board on 21 December 2018. We have been the Group auditor of secunet Security Networks Aktiengesellschaft, Essen, without interruption since the 2010 financial year.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Martin C Bornhofen.

Essen, 26 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bornhofen German Public Auditor	Dr Sommerhoff German Public Auditor

Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the Group Management Report includes a true and fair presentation of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.”

Essen, 26 March 2019

Dr Rainer Baumgart Axel Deininger Thomas Pleines

Annual Financial Statements

of secunet Security Networks Aktiengesellschaft, Essen

Balance sheet

(according to HGB) as at 31 December 2018

Assets

in euros	Note	31 Dec 2018	31 Dec 2017
A. Fixed assets			
I. Intangible fixed assets		1,586,970.00	1,499,120.00
II. Tangible fixed assets		4,258,680.00	4,205,995.83
III. Long-term financial assets		8,269,415.21	7,414,100.31
Total fixed assets	1	**14,115,065.21**	**13,119,216.14**
B. Current assets			
I. Inventories	2	20,118,541.00	13,543,845.71
II. Receivables and other assets	3	45,605,200.53	38,956,297.03
III. Cash in hand and balances with credit institutions	4	51,070,220.29	62,580,946.40
Total current assets		**116,793,961.82**	**115,081,089.14**
C. Prepaid expenses and accrued income		**1,728,399.46**	**678,613.16**
Total assets		**132,637,426.49**	**128,878,918.44**

Liabilities

in euros	Note	31 Dec 2018	31 Dec 2017
A. Equity			
Subscribed capital		6,500,000.00	6,500,000.00
Nominal value of treasury shares		-30,498.00	-30,498.00
I. Issued capital		6,469,502.00	6,469,502.00
II. Capital reserves		21,656,305.42	21,656,305.42
III. Revenue reserves			
1. Reserve due to treasury shares		30,498.00	30,498.00
2. Other reserves		22,786,735.42	21,305,658.14
IV. Net accumulated profit		13,197,784.08	7,763,402.40
Total equity	5	**64,140,824.92**	**57,225,365.96**
B. Provisions	6	**24,760,215.27**	**27,291,440.35**
C. Liabilities	7	**26,480,780.23**	**31,465,812.29**
D. Deferred income and accrued expenses	8	**17,255,606.07**	**12,896,299.84**
Total liabilities		**132,637,426.49**	**128,878,918.44**

Income statement

(according to HGB) for the period from 1 January 2018 to 31 December 2018

in euros	Note	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Sales revenue	9	161,150,933.48	158,344,397.75
Increase of unfinished services, work in progress & finished goods		347,611.98	219,043.87
Other operating income	10	1,548,175.38	1,758,749.92
Materials expenses	11	-74,562,740.30	-71,903,187.12
Personnel expenses	12	-39,072,761.80	-42,703,076.70
Depreciation and amortisation of intangible fixed assets and tangible fixed assets	13	-2,294,150.67	-2,055,990.00
Other operating expenses	14	-24,916,053.26	-20,315,595.55
Income from equity investments	15	447,899.04	0.00
Financial result	16	-466,967.82	-130,579.84
Income taxes	17	-7,459,665.65	-7,709,858.00
Earnings after tax		**14,722,280.38**	**15,503,904.33**
Other taxes	17	-43,419.02	-26,087.00
Net income for the year		**14,678,861.36**	**15,477,817.33**
Accumulated profit carryforward		7,763,402.40	12,632,594.02
Dividend payment		-7,763,402.40	-3,752,311.16
Transfer to other revenue reserves		-1,481,077.28	-16,594,697.79
Net accumulated profit	**18**	**13,197,784.08**	**7,763,402.40**

Notes

regarding secunet Security Networks Aktiengesellschaft, Essen for the 2018 financial year (according to HGB)

General principles

secunet Security Networks Aktiengesellschaft in Essen, Germany (hereinafter referred to as "secunet AG" or the "Company") is a large public liability company within the meaning of Article 267, Para. 3, sentences 1 and 2 of the German Commercial Code (Handelsgesetzbuch, HGB) and is entered in the Commercial Register at Essen Local Court (Reg. No. 13615).

The Annual Financial Statements of secunet AG are prepared in accordance with the regulations of the HGB and taking the supplementary provisions of the German Stock Corporation Act (Aktiengesetz, AktG) into account.

In order to enhance the clarity and transparency of the reporting, the balance sheet and the income statement combine certain individual items, which are reported in depth and explained in the Notes. In addition to the standard breakdown under commercial law, the item "Premium reserve shares from reinsurance contracts" was added to the item "Financial assets" in the "Changes in fixed assets" overview (Appendix to the Notes).

The income statement is based on the total expenditure format.

Due to the spin-off of the business and corporate divisions International Sales and Central Services, Central Sales Coordination and Central Project Management Coordination with effect from 1 January 2018 into the wholly-owned subsidiaries secunet International GmbH & Co. KG, Essen, and secunet Service GmbH, Essen, founded in October 2017, the figures for the current financial year are comparable only to a limited extent with the corresponding figures for the previous year.

Accounting and valuation methods

Recognition and measurement are performed according to the principles set out below:

Assets

Fixed assets

Intangible and tangible fixed assets
The purchased intangible fixed assets are capitalised at their historical costs upon acquisition and are depreciated on a scheduled straight-line basis over their expected useful life.

This item primarily relates to goodwill from the takeover of SECARTIS AG. On the basis of the existing customer structure (public institutions), a customary useful life of 15 years was estimated for the goodwill. Had this goodwill been posted to the accounts immediately in 2004, the earnings from ordinary activities in the 2018 financial year would have been 197 thousand euros higher.

An additional goodwill purchased during the 2016 financial year is being depreciated on a straight-line basis over a useful life of ten years in accordance with Article 253, Para. 3, sentence 4 HGB, as the expected useful life cannot be estimated reliably.

Assets were acquired as part of an asset deal as of 1 July 2017. The assets and liabilities acquired are recognised at the fair value, and the purchase price in excess of this value has been reported as goodwill. This goodwill will be depreciated on a straight-line basis over an average remaining useful life of nine years, since the software purchased as part of the asset deal must be retained for a customer project with an average lifetime of nine years.

Tangible fixed assets are measured at the lower of historical cost or fair value if a long-term impairment is expected and are depreciated on a straight-line basis over the expected useful life.

Since 2008, newly acquired assets have been depreciated exclusively on a straight-line basis. Fixed assets with historical costs of less than 1,000 euros (low-value fixed assets) are divided into two groups. Since the 2018 financial year, assets with historical costs of up to 250 euros (in the previous year up to 150 euros) have been written off to their full amount in the year of purchase. Assets with historical costs between 250 euros (in the previous year 150 euros) and 1,000 euros are placed in a so-called "collective item" and written off in the year of purchase and over the next four years on a straight-line basis.

Financial assets
Shares in affiliated companies and holdings are recognised at historical cost. Loans to affiliated companies and to companies in which there is a participating interest are shown at nominal value. Financial assets are written down to the lower fair value if there is a permanent impairment. Lower valuations are retained unless a higher carrying amount up to the original historical cost is required.

Reinsurance contracts are measured at fair value.

Current assets
Inventories are measured at historical cost or production cost or at the lower fair value on the balance sheet date. The production cost of unfinished services as well as work in progress and finished goods includes not only the directly allocable costs, but also necessary material and production overheads as well as general administrative expenses. Voluntary social security contributions, occupational pension expense and interest on borrowings are not carried as an asset. The principles of loss-free valuation are applied.

Trade goods are measured at the lower of historical cost calculated using a sliding average and fair value.

Receivables and other assets are measured at nominal value less appropriate discounts for identifiable individual risks. The general credit risk is taken into account by means of a general loan loss provision based on empirical values from the past.

Cash in hand and balances with credit institutions are measured at their nominal value.

Expenses prior to the balance sheet date, insofar as they represent expenses for a specific period after the balance sheet date, are reported under prepaid expenses and accrued income.

Liabilities

Provisions

Provisions for pensions and similar liabilities are determined in accordance with the expert opinion of an actuary, based on the projected unit credit method, using Prof Dr Klaus Heubeck's 2018 G mortality tables (previous year: 2005 G mortality tables). For this valuation, an actuarial interest rate of 3.34% (previous year: 3.77%) was used, which was determined in accordance with the provisions of Article 253, Para. 2, sentence 2 HGB in December 2018 on the basis of the average market interest rate from the past ten (previous year: ten) financial years with an assumed residual term of 20 (previous year: 19) years, forecast to 31 December 2018.

Applying an average market interest rate from the past seven financial years (2.47%), this would lead to an obligation in the amount of 5,862,916 euros as at 31 December 2018. The difference in relation to the pension provisions evaluated with an average market interest rate from the past ten financial years (3.34%) stood at 924,442 euros as at 31 December 2018; this amount must be taken into account in determining the amount blocked for distribution purposes (Article 253, Para. 6, sentence 2 HGB).

The impact on income from the change to the actuarial interest rate is recorded in the financial result. Furthermore, the valuation of direct pension obligations is based on the assumption of 2.5% dynamic growth of eligible remuneration (previous year: 2.5%), 2.0% dynamic adjustment of current pensions (previous year: 2.0%) and a fluctuation of 5.5% (previous year: 5.5%) on average.

In accordance with the valuation rules of Article 253, Para. 1, sentence 2 HGB, provisions for pensions must be reported at their settlement value with effect from 2010.

The amount required to be allocated to the pension provisions was calculated as at the transition date of 1 January 2010. The difference at that time from the revaluation of the obligations totalled 746,432 euros. With reference to the option provided for under Article 67, Para. 1, sentence 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch, EGHGB), secunet AG allocated the amount of 49,763 euros (1 / 15 minimum allocation p. a.) to other operating expenditure in the 2018 financial year. The resulting coverage shortfall as at 31 December 2018 is therefore 298,565 euros.

Tax provisions and other provisions are created according to prudent business judgement, taking account of all identifiable and uncertain obligations and the required settlement amount expected. Provided that provisions with a residual term of longer than one year exist, these are discounted at the average market interest rate from the past seven financial years corresponding to their residual term.

The liabilities are recognised at their settlement value.

Earnings prior to the balance sheet date that represent income for a certain period after this date are reported under deferred income and accrued expenses.

Assets and liabilities denominated in foreign currency with a remaining term of up to one year are converted on the basis of the average spot exchange rate on the reporting date.

Deferred taxes

The table below shows asset and liability surpluses, these being only asset surpluses in the case of secunet AG.

in euros	Assets	Liabilities
Fixed assets	68,970.40	0.00
Goodwill	18,722.79	0.00
Provisions for pensions	658,049.84	0.00
Other provisions	92,909.59	0.00
Total	**838,652.62**	**0.00**

A tax rate of 31.93% (previous year: 31.91%) is applied. Using the option permitted under Article 274, Para. 1, sentence 2 HGB, deferred tax assets were not posted in the balance sheet.

Income statement

The sales revenue is recognised once the service has been provided or the risk associated with the products sold has passed to the customer. Services are usually invoiced on the basis of the hours worked. For multiple-element transactions, the recognition criteria must be applied separately for each partial delivery. Satisfaction of a performance obligation in project business is basically defined by means of acceptance protocols.

Sales revenue is shown less value-added tax and any discounts when the sale of goods or services has taken place and the risks and rewards associated with ownership have been substantially transferred.

Notes to the balance sheet and income statement of secunet Security Networks Aktiengesellschaft

1. Fixed assets

The breakdown of and changes in the fixed assets of secunet AG can be found in the statement of fixed assets, included as an Appendix to the Notes.

The ownership of shares can be shown as follows at the balance sheet date:

» secunet SwissIT AG, Switzerland, Solothurn,
100% participation, equity of the company as at 31 December 2018 71 thousand CHF,
net income for 2018 -1 thousand CHF.

» secunet s. r. o., Czech Republic, Prague,
100% participation, equity of the company as at 31 December 2018 2,585 thousand CZK,
net income for 2018 -10 thousand CZK.

» secunet Service GmbH, Essen,
100% participation, equity of the company as at 31 December 2018 294 thousand euros,
net income for 2018 271 thousand euros.

» secunet International GmbH & Co. KG, Essen,
100% participation, equity of the company as at 31 December 2018 108 thousand euros,
net income for 2018 450 thousand euros before appropriation of profit.

» secunet International Management GmbH, Essen,
100% participation, equity of the company as at 31 December 2018 30 thousand euros,
net income for 2018 5 thousand euros.

» finally safe GmbH, Essen,
63.28% participation, equity of the company as at 31 December 2018 171 thousand euros, net income for 2018 -842 thousand euros

In the course of the financial year, further shares in finally safe GmbH were acquired through loan conversions and capital increases for cash. As a result, the stake was increased from 18% as at 31 December 2017 to a total of 63.28% as at 31 December 2018. The book value as at 31 December 2018 is 2,250 thousand euros. A fair value of 1,911 thousand euros was determined. No impairment was recognised. On the basis of business expectations and the generally high level of interest in solutions for identifying network security problems, it is currently assumed that the depreciation in value is only temporary.

» secunet Inc., USA, Austin, Texas,
100% participation; the equity and net income for the year have not been disclosed due to the secondary importance of the company.

2. Inventories

in euros	31 Dec 2018	31 Dec 2017
Unfinished services	2,112,915.11	2,116,216.76
Work in progress	280,672.00	0.00
Finished goods	41,717.04	0.00
Trade goods	17,683,236.85	11,427,628.95
Total	**20,118,541.00**	**13,543,845.71**

The increase in the levels of trade goods at the balance sheet date was due to efforts to ensure the short to medium-term delivery capacity of the product business.

3. Receivables and other assets

in euros	31 Dec 2018	31 Dec 2017
Trade receivables	38,152,162.60	38,427,060.87
Intercompany receivables	6,971,119.19	40,268.41
of which trade receivables	(6,129,713.82)	(40,268.41)
of which transfer of net income	(447,899.04)	(0.00)
of which transfer of pensions	(365,808.00)	(0.00)
of which other services	(27,698.33)	(0.00)
Receivables from companies in which there is a participating interest	0.00	24,769.31
Other assets	481,918.74	464,198.44
Total	**45,605,200.53**	**38,956,297.03**

The residual term of all receivables was less than one year.

4. Cash in hand and balances with credit institutions

The liquid funds comprise cash in hand and bank balances amounting to a total of 51,070,220.29 euros (previous year: 62,580,946.40 euros). Occasionally, investments are made in the form of fixed-term deposits over the course of the year, with the interest on the deposits amounting to 1.25% p.a. in the reporting period.

5. Equity

The share capital is 6,500,000.00 euros. It is divided into 6,500,000 bearer shares without par value.

In all, the Company continued to hold 30,498 treasury shares (previous year: 30,498 shares) at the balance sheet date, equating to 0.469% or 30,498 euros of its share capital (previous year: 0.469%). The nominal value of the treasury shares was openly offset against share capital.

Due to the adjustments made in accordance with the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG), the reserve for treasury shares in the calculated amount of the treasury shares of 30,498 was placed in the reserve for treasury shares and the remaining amount offset against other revenue reserves. The treasury shares were purchased as part of a share option programme for secunet employees in the years from 2001 to 2002.

The Annual General Meeting on 9 May 2018 resolved to appropriate the balance sheet profit of 7,763,402.40 euros for the 2017 financial year to pay out a dividend. On 15 May 2018, a payment of 1.20 euros per share (6,469,502 individual shares) was made, making a total of 7,763,402.40 euros.

1,481,077.28 euros (= 10.08%) of the net income in the amount of 14,678,861.36 euros will be deposited in the other revenue reserves in accordance with Article 58, Para. 2, sentence 1 AktG.

The balance sheet profit as at 31 December 2018 is therefore 13,197,784.08 euros (previous year: 7,738,908.67 euros).

The majority shareholder, Giesecke + Devrient GmbH, continues, as in the previous year, to hold a share of 78.96% in secunet AG.

6. Provisions

in euros	31 Dec 2018	31 Dec 2017
Provisions for pensions and similar liabilities	4,639,909.00	3,777,091.47
Provisions for taxes	6,435,184.42	6,720,100.39
Other provisions	13,685,121.85	16,794,248.49
Total	**24,760,215.27**	**27,291,440.35**

The breakdown of other provisions is shown in the table below:

in euros	31 Dec 2018	31 Dec 2017
Non-current provisions		
Provisions for anniversary bonuses	285,574.00	133,977.00
Current provisions		
Annual employee bonuses	7,930,793.00	10,930,277.00
Commissions	1,568,572.15	1,626,627.41
Warranties	974,049.00	1,549,110.00
Outstanding incoming invoices	1,002,046.53	564,057.67
Accrued holidays	692,259.00	670,731.00
Deferred costs	231,186.99	469,164.23
Asset retirement and maintenance measures	382,051.18	298,883.18
Pending contractual penalties	244,000.00	175,700.00
Accounting and auditing costs	118,500.00	134,500.00
Professional association contributions	132,000.00	132,000.00
Others	124,090.00	109,221.00
Total	**13,685,121.85**	**16,794,248.49**

For the 2018 financial year, the provision for commissions comprises payments due for the distribution of SINA licences, Elster sticks and Oracle licences as well as commercial agent remuneration.

The warranty provisions pertain to a provision for obligations arising from a three-year warranty agreement for specific SINA core modules in the amount of 562 thousand euros and a goodwill provision of 412 thousand euros in the 2017 financial year in connection with a customer complaint.

The provision for asset retirement and maintenance measures essentially involves asset retirement and maintenance measures to be performed by the Company for leased properties in Dresden, Essen and Munich.

7. Liabilities

in euros	31 Dec 2018	31 Dec 2017
Advance payments received on account of orders	1,168,399.27	519,789.36
Trade accounts payable	20,587,375.49	24,753,504.13
Intercompany payables	55,715,73	418,457.26
of which trade payables	(55,715.13)	(418,457.26)
Other liabilities	4,669,289.74	5,774,061.54
of which taxes	(4,637,425.63)	(5,756,444.46)
of which relating to social security	(1,501.98)	(10,705.81)
Total	**26,480,780.23**	**31,465,812.29**

All liabilities have a term of less than one year.

8. Deferred income and accrued expenses

Given the increase in the support business, earnings are increasingly accrued in conjunction with performance after the balance sheet date.

9. Sales revenue

The sales revenue was generated in the following regions:

in euros	2018	2017
Domestic	152,801,687.92	142,021,526.54
Abroad	8,349,245.56	16,322,871.21
Total	**161,150,933.48**	**158,344,397.75**

This sales revenue can be attributed to the divisions as follows:

in euros	2018	2017
Public	144,323,735.57	140,621,591.26
Business	16,619,237.23	17,575,802.21
Others	207,960.68	147,004.28
Total	**161,150,933.48**	**158,344,397.75**

10. Other operating income

The other operating income in the amount of 1,548,175,38 euros (previous year: 1,758,749.92 euros) primarily comprises an offsetting item from the utilisation of provisions (878,458.00 euros) which were formed in the previous year exclusively under other operating expenses as provisions, for outstanding purchase invoices and were allocated to various primary expense types in the past financial year when they arose, income from the reversal of provisions (367,279.85 euros), actuarial income from the adjustment of old-age and survivors' insurance premium reserve (144,698.43 euros) and other income (510,100.88 euros).

Income from currency conversion stood at 13,446.22 euros (previous year: 14,214.69 euros).

Approximately 367 thousand euros (19%) of the other operating income relates to other periods and results from the release of provisions.

11. Materials expenses

in euros	2018	2017
Cost of purchased goods	65,505,213.39	64,941,694.26
Cost of purchased services	9,057,526.91	6,961,492.86
Total	**74,562,740.30**	**71,903,187.12**

12. Personnel expenditure

in euros	2018	2017
Wages and salaries	34,157,458.48	37,359,286.55
Social security costs	4,980,364.86	5,267,589.30
Expenses for retirement pensions	+82,544.44	51,278.51
Expenses for support	17,482.90	24,922.34
Total	**39,072,761.80**	**42,703,076.70**

In the 2018 financial year, various effects (changeover to the 2018 G mortality tables, spin-off of personnel to the subsidiary secunet Service GmbH, assumption of a defined benefit obligation from Giesecke+Devrient Mobile Security GmbH) resulted in income from pension expenses in connection with the calculation of pension provisions.

13. Depreciation and amortisation of intangible fixed assets and tangible fixed assets

Depreciation and amortisation are broken down by individual item in the statement of fixed assets (see Appendix to the Notes).

14. Other operating expenses

in euros	2018	2017
secunet Group services	6,108,587.88	0.00
Rental costs	3,492,240.93	3,073,746.93
Inspection, consulting, legal protection	3,468,049.33	2,387,082.76
Travel expenses	2,407,820.79	2,369,846.57
Sales commission	1,651,436.20	2,270,304.36
Addition to other provisions	760,714.08	1,810,650.00
Advertising costs	725,858.56	1,576,116.63
Ancillary personnel expenses	825,462.73	1,326,886.31
Communication costs	628,626.84	1,008,180.89
Company car costs	970,531.35	980,724.74
Maintenance costs	977,531.30	817,198.84
Other third-party services	698,048.36	699,429.09
Entertainment and representation	216,863.96	257,301.45
Insurance premiums	183,589.10	191,945.57
Fees	144,113.26	112,344.88
Extraordinary items arising in relation to BilMoG Revaluation of pension provisions	49,763.00	49,763.00
Individual value adjustment of receivables	52,127.72	5,557.50
Other costs	1,554,687.87	1,378,516.03
Total	**24,916,053.26**	**20,315,595.55**

Expenses resulting from currency conversion stood at 10,529.49 euros (previous year: 31,894.29 euros).

Expenses for other accounting periods in the amount of 4 thousand euros are included in the sales commissions.

15. Income from equity investments

Income from equity investments includes the net income for the year of the affiliated company secunet International GmbH & Co. KG, Essen, in the amount of 449,628.64 euros less the loss carried forward in 2017 in the amount of 1,729.60 euros.

16. Financial result

in euros	2018	2017
Other interest and similar income	98,687.55	295,627.16
of which from affiliated companies	(65,711.79)	(222,395.84)
Interest and similar expenses	-565,655.37	-426,207.00
of which from accrued interest during the year from provisions for pensions	(-545,587.00)	(-415,881.00)
Total	**-466,967.82**	**-130,579.84**

17. Taxes

in euros	2018	2017
Income taxes	7,459,665.65	7,709,858.00
Other taxes	43,419.02	26,087.00
Total	**7,503,084.67**	**7,735,945.00**

The income taxes relate to the 2018 financial year.

18. Appropriation of the balance sheet profit

Proposal for the appropriation of distributable earnings
From the balance sheet profit of 7,763,402.40 euros reported for the 2017 financial year, dividends of 1.20 euros per share (amounting to a total of 7,763,402.40 euros) were distributed in the 2018 financial year in accordance with the resolution of the Annual General Meeting on 9 May 2018.

secunet AG's Annual Financial Statements under commercial law for the 2018 financial year show net income for the year of 14,678,861.36 euros. Of this sum, 1,481,077.28 euros (10.8%) will be transferred to the other revenue reserves in accordance with Article 58, para. 2, sentence 1 AktG. Taking into account the existing carryforward of 7,763,402.40 euros, this results in a balance sheet profit of 13,197,784.08 euros.

The Management Board will propose to the Annual General Meeting that a standard dividend of 1.13 euros per dividend-bearing share (corresponding to a standard distribution of 50% of net income for the year) and a special dividend of 0.91 euros per dividend-bearing share, and thus a total of 2.04 euros per dividend-bearing share (in total: 13,197,784.08 euros), be distributed on the dividend-bearing share capital of 6,469,502.00 euros. When determining the share capital entitled to a dividend, the total of 30,498 treasury shares was deducted.

in euros	2018
Carryforward as at 1 Jan 2018	7,763,402.40
Net income for the year 2018	14,678,861.36
Dividend payment in 2018	-7,763,402.40
Transfer to other revenue reserves	-1,481,077.28
Net accumulated profit/loss as at 31 Dec 2018	**13,197,784.08**
Proposal for the appropriation of distributable earnings	
Dividend payment in 2019	-13,197,784.08
Carryforward	**0.00**

Other Notes

Employees

The average headcount over the year, including the three Management Board members, was 425 (previous year: 454, including two Management Board members). In addition, 55 temporary workers (previous year: 63) were also employed, making a total of 476 (previous year: 517) employees.

Other financial liabilities

As at the balance sheet date, other financial liabilities totalled 15,578,623.01 euros. They consisted mainly of the nominal amount of liabilities arising from office tenancy agreements and lease agreements for company cars, of which 3,537,940.16 euros have less than one year to run and 9,234,221.67 euros are due within a period of between one year and five years. Liabilities amounting to 2,806,461.18 euros are due after more than five years. None of the total liabilities are towards affiliated companies.

An agency agreement exists with the affiliated company secunet Service GmbH, Essen, for the central provision of services for secunet AG. A flat monthly fee of 595 thousand euros is charged for these services, the balance being settled on a quarterly basis through the allocation of costs. The contract has been concluded for an indefinite period and can be terminated with a notice period of six months to the end of a calendar year.

Open purchase orders

As at 31 December 2018, there were liabilities with regard to open purchase orders for goods and services in the amount of 2,963,782.66 euros.

Contingent liabilities

As at the balance sheet date, contingent liabilities existed from the transfer of pensions of 134,881.00 euros, anniversaries of 35,578.00 euros and death grant commitments of 108.00 euros to secunet Service GmbH, Essen, and secunet International GmbH & Co. KG, Essen. It is currently not expected that these contingent liabilities will be realised due to the economic situation of the companies.

Relations with affiliated companies

Through Giesecke + Devrient GmbH, Munich, the Company is an affiliated company of MC Familiengesellschaft mbH, Tutzing, which prepares the Consolidated Financial Statements for the largest group of companies. Additionally, the Company is included in the Consolidated Financial Statements of Giesecke + Devrient GmbH, Munich. secunet AG also produces its own IFRS Consolidated Financial Statements for the smallest group of companies. The Consolidated Financial Statements are published in the Federal Gazette.

Auditors' fees

In the past financial year and in the previous year, the following fees paid to the auditors of the financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, were recognised as expenses.

in thousand euros	2018	2017
Audit services	227	122
Auditing of consolidated financial statements and annual financial statements, auditors' review of 6-month report, supervision of DPR procedures		
of which relating to audit of the previous year	39	12
Other certification services	14	0
Audit of the non-financial statement		
Tax advisor services	8	1
Value-added tax advice		
Other services	0	8
Training of Supervisory Board		
	249	**131**

Miscellaneous

The remuneration of members of the Management Board active during the reporting year totalled 1,420 thousand euros for the reporting year (previous year: 1,159 thousand euros). For former members of the Management Board, liabilities from pension commitments amounted to 271 thousand euros as at the reporting date (previous year: 241 thousand euros).

Supervisory Board remuneration in the financial year totalled 60 thousand euros (previous year: 60 thousand euros).

The members of the Management Board and the Supervisory Board held no shares in the Company as at the balance sheet date.

Disclosure of the individual amounts paid to members of the Supervisory Board, along with further details of the remuneration system and pensions for members of the Management and Supervisory Boards, can be found in the remuneration report that forms part of the combined Management Report of the Company and the Group.

The Management Board and Supervisory Board issued the declaration pursuant to Article 161 AktG in respect of secunet AG. This has been made permanently accessible to shareholders on the Company website (www.secunet.com) under >> The Company >> Investor Relations >> Corporate Governance >> Declaration of Conformity under Article 161 AktG".

Declarations pursuant to Article 160, Para. 1, clause 8 AktG
Voting rights are held in the Company as at the balance sheet date for 2018. The following disclosures are based on those disclosures made by the parties subject to notification obligations in accordance with Article 26, Para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

13 December 2017: Publication of voting-right notices in accordance with Article 26, Para. 1 WpHG
Frankfurter Investmentgesellschaft mit variablem Kapital (SICAV), Grevenmacher, Luxembourg informed us in accordance with Article 21, Para. 1 WpHG on 12 December 2017 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, fell below the threshold of 3% of the voting rights on 6 December 2017, and on this date totalled 2.81% (corresponding to 182,681 voting rights).

6 October 2017: Publication of voting-right notices in accordance with Article 26, Para. 1 WpHG
BNY Mellon Service Kapitalanlage-Gesellschaft mbH, Germany informed us in accordance with Article 21, Para. 1 WpHG on 5 October 2017 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, fell below the threshold of 3% of the voting rights on 1 October 2017, and on this date totalled 0.00% (corresponding to 0 voting rights).

5 October 2017: Publication of voting-right notices in accordance with Article 26, Para. 1 WpHG
Frankfurter Investmentgesellschaft mit variablem Kapital (SICAV), Grevenmacher, Luxembourg informed us in accordance with Article 21, Para. 1 WpHG on 4 October 2017 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, exceeded the threshold of 3% of the voting rights on 1 October 2017, and on this date totalled 3.07% (corresponding to 199,284 voting rights).

17 June 2013: Publication of voting-right notices in accordance with Article 26, Para. 1 WpHG
BNY Mellon Service Kapitalanlage-Gesellschaft mbH, Germany informed us in accordance with Article 21, Para. 1 WpHG on 10 June 2013 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, exceeded the threshold of 3% of the voting rights on 6 June 2013, and on this date totalled 3.06% (corresponding to 198,930 voting rights).

17 April 2013: Publication of voting-right notices in accordance with Article 26, Para. 1 WpHG
Ms Ingrid Weispfenning, Germany informed us in accordance with Article 21, Para. 1 WpHG on 12 April 2013 that her share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, fell below the threshold of 3% of the voting rights on 11 April 2013, and on that date totalled 2.00% (corresponding to 129,881 voting rights).

1.05% of the voting rights (corresponding to 68,457 voting rights) are allocated to Ms Weispfenning by Felix Beteiligungen AG in accordance with Article 22, Para. 1, clause 1, No. 1 WpHG.

7 November 2012: Publication of notices in accordance with Article 27a, Para. 1 WpHG
With its letter dated 6 November 2012, we were informed by proxy and on behalf of MC Familiengesellschaft mbH, Germany, in accordance with Article 27a, Para. 1 WpHG with reference to the voting-right notice in accordance with Articles 21 and 22 WpHG of MC Familiengesellschaft mbH dated 9 October 2012, of the following:

The threshold specified in Article 27a, Para. 1 WpHG was exceeded by MC Familiengesellschaft mbH due to assignment. This is the incidental legal consequence of the majority shareholding in Giesecke+Devrient Gesellschaft mit beschränkter Haftung, Munich – previously held personally by Ms Verena von Mitschke-Collande – being included in MC Familiengesellschaft mbH within the framework of an increase of non-cash capital. Giesecke+Devrient Gesellschaft mit beschränkter Haftung is the majority shareholder of the company; Ms Verena von Mitschke-Collande holds the majority of voting rights in MC Familiengesellschaft mbH.

The purpose of the MC Familiengesellschaft mbH enterprise is that of a pure asset-holding company, in particular the administration of the shareholding in Giesecke+Devrient Gesellschaft mit beschränkter Haftung contributed by Ms Verena von Mitschke-Collande; the intent of Giesecke+Devrient Gesellschaft mit beschränkter Haftung holding shares in your company remains the implementation of strategic goals. It is not the intention of MC Familiengesellschaft mbH to obtain further voting rights in your company by purchase or other means within the next twelve months. MC Familiengesellschaft mbH has no intention of influencing the appointments to the administrative, managerial or supervisory bodies within your company. Likewise, MC Familiengesellschaft mbH does not seek to significantly change the capital structure of your company, in particular with regard to the ratio of equity financing and outside financing, and the dividend payout policy.

No financial contributions were made in the procurement of the shares in Giesecke + Devrient Gesellschaft mit beschränkter Haftung: in return for contributing the shares in Giesecke + Devrient Gesellschaft mit beschränkter Haftung to MC Familiengesellschaft mbH (with the consequence of assignment of the shares it holds in your company), new shares in MC Familiengesellschaft mbH were issued within the framework of the increase of non-cash capital.

11 October 2012: Publication of voting-right notices in accordance with Article 21, Para. 1 WpHG
MC Familiengesellschaft mbH, headquartered in Tutzing, Germany informed us in accordance with Article 21, Para. 1 WpHG on 9 October 2012 that the MC Familiengesellschaft mbH share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of the voting rights on 8 October 2012, and on this date totalled 79.43% (corresponding to 5,163,102 voting rights).

Of these, in accordance with Article 22, Para. 1, clause 1, No. 1 WpHG, 78.96% are attributable to MC Familiengesellschaft mbH (corresponding to 5,132,604 voting rights) via Giesecke + Devrient Gesellschaft mit beschränkter Haftung, Munich, and 0.47% (corresponding to 30,498 voting rights) via secunet Security Networks AG, Essen.

23 May 2012: Publication of voting-right notices in accordance with Article 21, Para. 1 WpHG
Ms Christiane Weispfenning, Germany informed us in accordance with Article 21, Para. 1 WpHG on 23 May 2012 that her share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, fell below the threshold of 3% of the voting rights on 5 March 2012, and on that date totalled 1.95% (corresponding to 126,626 voting rights). Of these, 0.40% of the voting rights (corresponding to 26,234 voting rights) are allocated to her in accordance with Article 22, Para. 1, clause 1, No. 1 WpHG.

10 October 2011: Publication of voting-right notices in accordance with Article 21, Para. 1 WpHG
Axxion S. A., L-5365 Luxemburg-Munsbach, Luxembourg informed us in accordance with Article 21, Para. 1 WpHG on 6 October 2011 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, exceeded the threshold of 3% of the voting rights on 4 October 2011, and on this date totalled 3.18% (corresponding to 206,766 voting rights).

Corporate bodies

Management Board

Dr rer nat Rainer Baumgart, Chairman
(secunet AG shares held: none)

Qualified business economist (FH) Thomas Pleines
(secunet AG shares held: none)

Qualified industrial engineer Axel Deininger
(secunet AG shares held: none)

Supervisory Board

Ralf Wintergerst, Baldham
Chairman

Chairman of the Management Board and CEO of Giesecke + Devrient GmbH, Munich

Other directorships:
» Cyber Defence research institute, Bundeswehr University Munich

Dr oec Peter Zattler, Grünwald
Vice Chairman (since 4 May 2018)

Member of the Management Board of Giesecke + Devrient GmbH, Munich

Other directorships:
» Giesecke + Devrient International Finance S. A., Luxembourg (until 18 December 2018)
» Veridos Matsoukis S. A., Athens, Greece

Hans-Wolfgang Kunz, Munich
Member of the Supervisory Board

CEO of Veridos GmbH, Berlin

Other directorships:
» Giesecke + Devrient International Finance S. A., Luxembourg (until 18 December 2018)
» Veridos Matsoukis S. A., Athens, Greece

Dr rer pol Elmar Legge, Schermbeck
Member of the Supervisory Board

Member of the Management Board of RWTÜV e. V., Essen
Member of the Management Board of the RWTÜV Foundation, Essen
Member of the Management Board of the GREIF Foundation, Mülheim an der Ruhr

Other directorships:
- TÜV Thüringen e. V., Erfurt
- TÜV NORD AG, Hanover (since 22 March 2018)
- VAI Van Ameyde International B. V., Rijswijk, Netherlands
- AHV VVAG, Essen
- RWTÜV GmbH, Essen
- CTC advanced GmbH, Saarbrücken
- Cetecom GmbH, Essen

Wolf-Rüdiger Moritz, Lenggries
Member of the Supervisory Board

Corporate Vice President Business Continuity, Infineon Technologies AG, Neubiberg

Other directorships:
- Cryptomathic A/S, Aarhus, Denmark
- Cryptomathic Holding Aps, Aarhus, Denmark

Prof Dr-Ing Günter Schäfer, Berlin
Member of the Supervisory Board

University professor, University of Technology, Ilmenau

No other directorships.

Events after the balance sheet date

Together with another company, secunet Security Networks AG is founding secustack GmbH, Dresden, on 26 March 2019. The purpose of secustack GmbH is the development and marketing of software solutions in connection with a security-hardened cloud infrastructure.

secunet AG is taking over 51% of the shares in secustack GmbH at the time of foundation and paying the consideration in cash.

Upon foundation, the new company will become an affiliated company of secunet AG, Giesecke + Devrient GmbH and MC Familiengesellschaft mbH and will be fully consolidated in their consolidated financial statements.

Essen, 26 March 2019

Dr Rainer Baumgart   Axel Deininger   Thomas Pleines

Changes in fixed assets

of secunet Security Networks AG in the 2018 financial year according to HGB

	Historical costs				
in euros	as at 1 Jan 2018	Additions	Reclassifications	Disposals	as at 31 Dec 2018
I. Intangible fixed assets					
1. Acquired concessions, industrial property rights and similar rights and values, and licences to such rights	120,000.00	0.00	0.00	0.00	120,000.00
2. Acquired software	1,597,853.05	202,040.01	17,500.00	-203,531.36	1,613,861.70
3. Goodwill	3,795,966.00	0.00	0.00	0.00	3,795,966.00
4. Advance payments and assets under construction	0.00	299,000.00	0.00	0.00	299,000.00
Intangible fixed assets, total	**5,513,819.05**	**501,040.01**	**17,500.00**	**-203,531.36**	**5,828,827.70**
II. Tangible fixed assets					
1. Other equipment, factory and office equipment	13,390,812.24	1,976,044.66	7,160.00	-1,059,710.47	14,314,306.43
2. Assets under construction	24,660.00	0.00	-24,660.00	0.00	0.00
Tangible fixed assets, total	**13,415,472.24**	**1,976,044.66**	**-17,500.00**	**-1,059,710.47**	**14,314,306.43**
III. Financial assets					
1. Shares in affiliated companies	706,539.96	640,919.90	1,617,607.31	0.00	2,965,067.17
2. Loans to affiliated companies	613,550.26	0.00	0.00	0.00	613,550.26
3. Associated companies	310,162.87	0.00	-310,162.87	0.00	0.00
4. Loans to associated companies	1,307,444.44	0.00	-1,307,444.44	0.00	0.00
5. Premium reserve shares from reinsurance contracts	5,646,493.00	214,395.00	0.00	0.00	5,860,888.00
Long-term financial assets, total	**8,584,190.53**	**855,314.90**	**0.00**	**0.00**	**9,439,505.43**
Total fixed assets	**27,513,481.82**	**3,332,399.57**	**0.00**	**-1,263,241.83**	**29,582,639.56**

	Accumulated depreciations					Carrying amounts	
	as at 1 Jan 2018	Additions	Reclassifications	Disposals	as at 31 Dec 2018	as at 31 Dec 2018	as at 31 Dec 2017
	120,000.00	0.00	0.00	0.00	120,000.00	0.00	0.00
	1,127,504.05	138,082.03	2,430.98	-201,594.36	1,066,422.70	547,439.00	470,349.00
	2,767,195.00	288,240.00	0.00	0.00	3,055,435.00	740,531.00	1,028,771.00
	0.00	0.00	0.00	0.00	0.00	299,000.00	0.00
	4,014,699.05	**426,322.03**	**2,430.98**	**-201,594.36**	**4,241,857.70**	**1,586,970.00**	**1,499,120.00**
	9,209,476.41	1,867,828.64	-2,430.98	-1,019,247.64	10,055,626.43	4,258,680.00	4,181,335.83
	0.00	0.00	0.00	0.00	0.00	0.00	24,660.00
	9,209,476.41	**1,867,828.64**	**-2,430.98**	**-1,019,247.64**	**10,055,626.43**	**4,258,680.00**	**4,205,995.83**
	556,539.96	0.00	0.00	0.00	556,539.96	2,408,527.21	150,000.00
	613,550.26	0.00	0.00	0.00	613,550.26	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	310,162.87
	0.00	0.00	0.00	0.00	0.00	0.00	1,307,444.44
	0.00	0.00	0.00	0.00	0.00	5,860,888.00	5,646,493.00
	1,170,090.22	**0.00**	**0.00**	**0.00**	**1,170,090.22**	**8,269,415.21**	**7,414,100.31**
	14,394,265.68	**2,294,150.67**	**0.00**	**-1,220,842.00**	**15,467,574.35**	**14,115,065.21**	**13,119,216.14**

Independent Auditor’s Report

To secunet Security Networks Aktiengesellschaft, Essen

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of secunet Security Networks Aktiengesellschaft, Essen, which comprise the balance sheet as of 31 December 2018, and the income statement for the financial year from 1 January to 31 December 2018, and notes to the annual financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report – report on the position of the Company and the Group (hereinafter referred to as “management report”) of secunet Security Networks Aktiengesellschaft, Essen, for the financial year from 1 January to 31 December 2018. In accordance with German legal requirements, we have not audited the content of the combined non-financial statement of the Company and the Group contained in Section 8 of the management report.

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

» the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and

» the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the contents of the aforementioned combined non-financial statement of the Company and the Group.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Revenue recognition on an accrual basis (revenue recognition cut-off)

For the accounting policies applied, we refer to the explanatory notes to the financial statements under "Accounting and valuation methods" and Section 9 "Sales revenue". The Company's revenue performance is presented in Section 2.3.2 of the management report.

Financial statement risk

As presented in the financial statements, secunet Security Networks Aktiengesellschaft generated revenue in the amount of EUR 161.2 million in the 2018 financial year. The main contributors to revenue are multiple-element contracts and the provision of services (development and consulting business). Multiple-element contracts are concluded for the supply of hardware, the granting of software licences (including updates) and support and maintenance services.

secunet Security Networks Aktiengesellschaft recognises revenue from the sale of products and services when the services have been rendered or the Company has transferred to the buyer the significant risks and rewards of ownership of the goods sold. Services are usually invoiced on the basis of the hours worked. In the case of multiple-element transactions, the criteria for recognition must be applied separately for each element.

Most of secunet Security Networks Aktiengesellschaft's revenue is generated from public contracts. Other customers include automotive manufacturers among others. These place a disproportionately large number of orders at the end of the year, resulting in an increased number of contracts and therefore considerable transfer of goods and services at year-end.

Due to the large number of transactions in the last few weeks prior to the reporting date, discrepancies in progress with delivery as of the reporting date, and the large share of multiple-element contracts, there is the risk for the financial statements that revenue recognised for the year under review is too high and therefore not allocated to the period in which it is incurred.

Our audit approach

In order to audit whether revenue is recognised in the period in which it is incurred, we assessed the design, setup and effectiveness of internal controls relating to order acceptance, outgoing goods or acceptance of services, and invoices.

Furthermore, we assessed revenue recognition cut-off by reconciling invoices to the related orders, contracts, external proof of delivery, acceptance protocols or time sheets. This was based on revenue recognised in December 2018 and selected using a mathematical / statistical procedure.

In addition, balance confirmations were obtained for trade receivables not yet settled as of the reporting date, which were entered in the accounts prior to 1 December 2018 and consequently not covered by the above-mentioned sample. These were also selected on the basis of a mathematical / statistical procedure. In cases where obtaining balance confirmations remained unsuccessful, we conducted alternative audit procedures by reconciling revenue to the underlying orders, contracts, internal invoice release, invoices, proof of delivery and acceptance protocols or time sheets as well as payment received.

For multiple-element contracts contained in the two samples, the break down into individual transactions and the related recognition of revenue was assessed based on the underlying contracts.

Our observations

secunet Security Networks Aktiengesellschaft's procedure for revenue recognition cut-off is appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

- the combined non-financial statement of the Company and the Group, and
- the remaining parts of the annual report, with the exception of the audited annual financial statements, the consolidated financial statements and management report and our auditor's reports.

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

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

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

In accordance with our engagement, we conducted a separate economic audit of the combined non-financial statement of the Company and the Group. With regard to the nature, scope and results of this economic audit, we refer to our audit report dated 26 March 2019.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

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

» Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

» Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

» Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

» Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

» Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

» Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

» Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the Annual General Meeting on 9 May 2018. We were engaged by the Supervisory Board on 21 December 2018. We have been the auditor of secunet Security Networks Aktiengesellschaft, Essen, without interruption since the 2010 financial year.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Martin C Bornhofen.

Essen, 26 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bornhofen German Public Auditor	Dr Sommerhoff German Public Auditor

Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable accounting principles, the Financial Statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Company, and the Management Report includes a true and fair presentation of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.”

Essen, 26 March 2019

Dr Rainer Baumgart Axel Deininger Thomas Pleines

Limited Assurance Report of the Independent Auditor regarding the Combined Non-Financial Statement

To the Supervisory Board of secunet Security Networks Aktiengesellschaft, Essen

We have performed an independent limited assurance engagement on the Combined Non-Financial Statement of the Company and the Group as well as the by reference qualified part of the Summarised Management Report on the position of the company and the Group “Principles of the Group” and “Risk management objectives and methods” (further the “Report”) of secunet Security Networks Aktiengesellschaft, Essen (further “secunet”) according to §§ 315b, 315c German Commercial Code (HGB) in conjunction with §§ 289b to 289e HGB for the year from January 1 to December 31, 2018.

Management’s Responsibility

The management board of secunet is responsible for the preparation of the Report in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB.

This responsibility of the management board includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements.

Independence and Quality Assurance on the Part of the Auditing Firm

We are independent from the Company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assurance, in particular the professional code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's Responsibility

Our responsibility is to express a conclusion on the Report based on our work performed within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Report for the period from January 1 to December 31, 2018, has not been prepared, in all material respects in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following procedures:

» Inquiries of personnel on group level who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for secunet

» A risk assessment, including a media research, of relevant information about the sustainability performance of secunet in the reporting period

» Evaluation of the design and implementation of systems and processes for the collection, processing and monitoring of disclosures on environmental, employee and social matters, human rights, corruption and bribery, including data consolidation

» Inquiries of personnel on group level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, the conduction of internal controls and consolidation of the disclosures

» Evaluation of selected internal and external documents

» Analytical evaluation of data and trends of quantitative disclosures which are reported by all sites on group level

» Assessment of local data collection and reporting processes and reliability of reported data via a sampling survey in Essen (Germany)

» Assessment of the overall presentation of the disclosures

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Report of secunet for the business year from January 1 to December 31, 2018 is not prepared, in all material respects, in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB.

Restriction of Use / Clause on General Engagement Terms

This assurance report is issued for purposes of the Supervisory Board of secunet Aktiengesellschaft, Essen, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of secunet Aktiengesellschaft, Essen, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Essen, March 26, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Stauder
German Public Auditor

ppa. Dietrich

Service

Locations

Headquarters Essen
secunet Security Networks AG
Kurfürstenstraße 58
45138 Essen
Tel: +49 201 5454-0
Fax: +49 201 5454-1000

Berlin
secunet Security Networks AG
Alt-Moabit 96
10559 Berlin

Bonn
secunet Security Networks AG
Godesberger Allee 127
53175 Bonn

Dresden
secunet Security Networks AG
Ammonstraße 74
01067 Dresden

Frankfurt
secunet Security Networks AG
Mergenthalerallee 77
65760 Eschborn

Hamburg
secunet Security Networks AG
Osterbekstraße 90 b
22083 Hamburg

Ilmenau
secunet Security Networks AG
Werner-von-Siemens-Straße 6
98693 Ilmenau

Munich
secunet Security Networks AG
Konrad-Zuse-Platz 2-4
81829 Munich

Paderborn
secunet Security Networks AG
Hauptstraße 35
33178 Borchen

Siegen
secunet Security Networks AG
Weidenauer Straße 223–225
57076 Siegen

Stuttgart
secunet Security Networks AG
Neue Brücke 3
70173 Stuttgart

Training Center Dresden
secunet Security Networks AG
Ammonstraße 74
01067 Dresden

Financial Calendar 2019

28 March
Annual Report 2018

2 April
Analysts' conference

8 May
Quarterly Group Statement

15 May
Annual General Meeting

7 August
Half-year Financial Report

6 November
Quarterly Group Statement

Information

Annual Report on the Internet
The secunet Security Networks AG Annual Report can be viewed as a PDF file on the Internet at www.secunet.com. This Annual Report is also available in German. In the event of conflicts the German-language version shall prevail.

Brand names
All the brand and trade names or product names mentioned in this Annual Report are the property of the corresponding holder. This applies in particular for DAX, MDAX, SDAX, TecDAX and Xetra as registered trademarks and property of Deutsche Börse AG.

Imprint

Issued by
secunet Security Networks AG
Kurfürstenstraße 58
45138 Essen, Germany

Contact
Investor Relations
secunet Security Networks AG
Kurfürstenstraße 58
45138 Essen, Germany
Tel.: +49 201 54 54-12 27
Fax: +49 201 54 54-12 28
E-mail: investor.relations@secunet.com
Internet: www.secunet.com

Concept, design and setting
sam waikiki, Hamburg, Germany
www.samwaikiki.de

Text
secunet Security Networks AG

Printed by
Woeste Druck + Verlag GmbH & Co. KG,
Essen-Kettwig, Germany
www.woeste.de

secunet

secunet Security Networks AG
Kurfürstenstraße 58
45138 Essen, Germany

Phone: +49 201 54 54-0
Fax: +49 201 54 54-1000

E-mail: info@secunet.com
Internet: www.secunet.com

SecurITy made in Germany

TeleTrusT Quality Seal
www.teletrust.de/itsmig