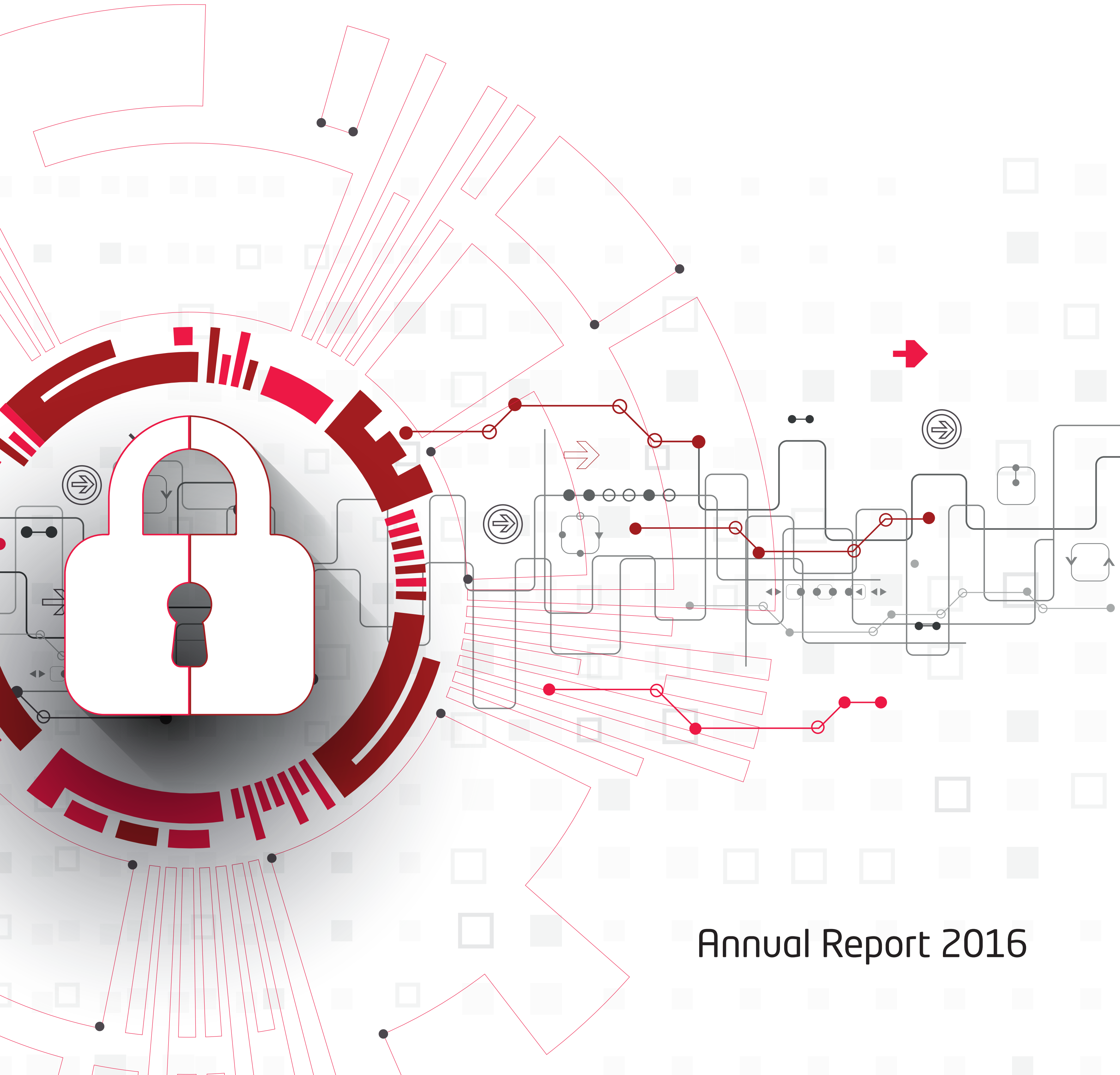
secunet



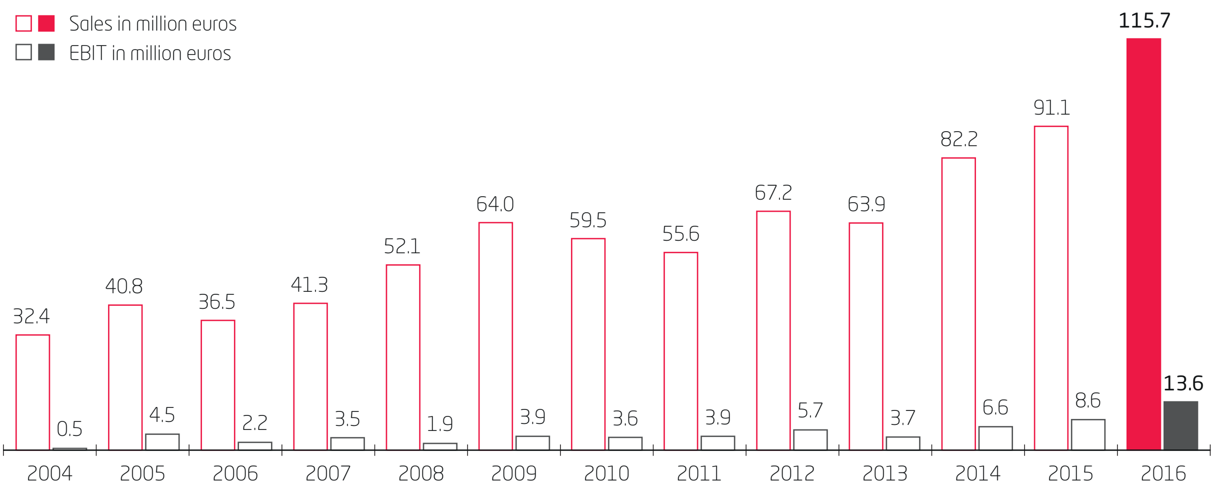
Annual Report 2016

Key Figures

in million euros	2016	2015	Change in %
Sales	115.7	91.1	+27
EBIT	13.6	8.6	+59
EBT	13.6	8.6	+59
Net income for the year	9.2	6.1	+51
Earnings per share (in euros)	1.43	0.94	+51
Balance sheet total	99.2	77.1	+29
Equity	46.9	40.3	+17
Cash and cash equivalents	50.2	38.0	+32
Liabilities	24.8	16.9	+46
Loans	0.0	0.0	–
Cash flow from operating activities	20.5	4.4	+>100
Investments in intangible assets and property, plant and equipment	3.1	1.8	+70
Dividend per share in euros	0.58[1]	0.34	+71
Order book (IFRS)	70.8	45.7	+55
Permanently employed employees as at 31 Dec	429	383	+12

[1] Subject to the resolution of the Annual General Meeting

Long-term development sales and EBIT



Public Sector

Solutions for eGovernment and high security

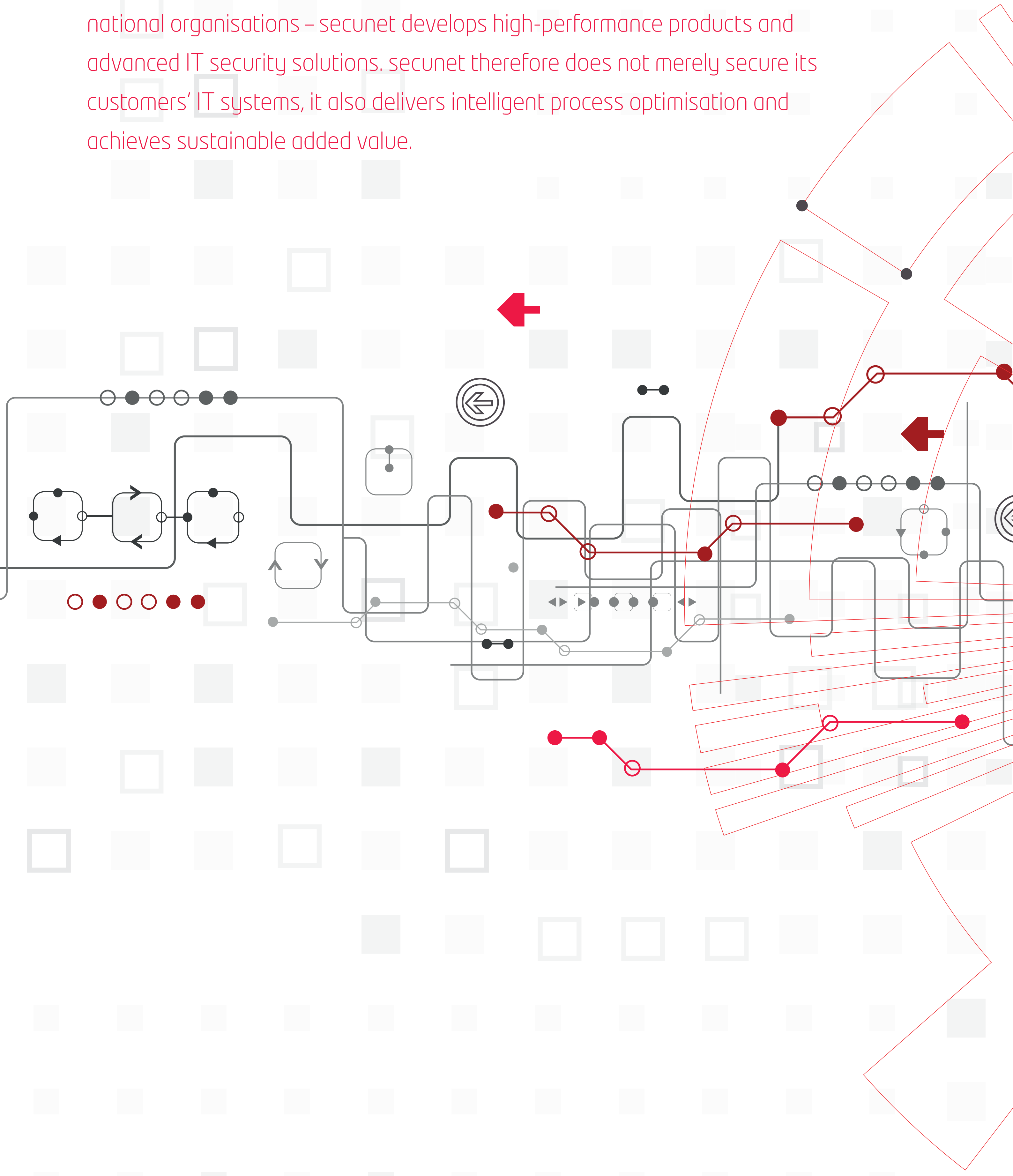
Processes and IT infrastructure for public customers are particularly challenging in terms of information security. The secunet Public Sector division offers advice to national and international public-sector and defence customers, using state-of-the-art products and services that can be tailored to customers' needs, as well as individual security solutions. These meet the requirements of mordern 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 requirements necessitate intelligent IT security solutions. The secunet Business Sector division supports its customers in the safe 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 2016

Dear shareholders, customers, staff and friends of secunet,

2016 was our third record year in a row

secunet Group achieved its third consecutive record year in 2016. At 115.7 million euros, we have achieved a 24.6 million euros rise in Group sales following 91.1 million euros in the previous year, corresponding to an increase of 27%. At the same time, we have boosted our earnings before interest and taxes (EBIT) by 59%, from 8.6 million euros in the 2015 financial year to 13.7 million euros in the 2016 financial year. We have again significantly exceeded our own expectations with the result we have achieved.

Both the Public Sector and Business Sector divisions contributed to the increase in sales revenue. Growth came primarily from the Public Sector division, which achieved a revenue increase of 27%, or 21 million euros, from 79.2 million euros in 2015 to 100.2 million euros in 2016. Customers of the Public Sector division are public utility providers within and outside Germany, as well as international organisations; its products and services include SINA product business, border control solutions, consultancy and development. We are pleased to report that sales have risen in all divisions.

The Business Sector division's products and services are aligned toward commercial companies, with providers of critical infrastructures and the automotive industry as its core target groups; this division has increased sales revenue by 30% or 3.6 million euros in the 2016 financial year, from 11.9 million euros in 2015 to 15.5 million euros. The turnaround in the Business Sector division proves the success of the steps initiated in 2015 to improve the sales situation.

secunet AG generated a net income of 9.4 million euros in the 2016 financial year, following 5.5 million euros in the previous year. The Management Board and Supervisory Board have suggested to the Annual General Meeting that a dividend of 0.58 euros per share is distributed to shareholders in the company, representing an increase of 71% compared to the previous year's dividend (0.34 euros). Our shareholders are therefore directly participating in the company's success. In addition, the share price development – plus 108%, from 22.16 euros at the end of 2015 to 46.00 euros at the end of 2016 – has also made it possible to record asset increases.

We would not have been able to achieve these outstanding positive business results without the tireless efforts of our colleagues across all areas of the company. Thank you for your fantastic performance.

Thomas Pleines Dr Rainer Baumgart

We are starting the 2017 financial year in an excellent position

After great success in the 2016 financial year, secunet is starting 2017 in a fantastic position.

Our customers recognise us as a reliable and high-performing partner. secunet has become a key player in German IT security through decades of experience in the development and integration of trustworthy and high-quality solutions for cyber security, in projects connected with large-scale and complex infrastructures, focusing on the specific needs of our demanding customers.

The products offered by secunet Group provide formidable proof of this. Alongside the well-known and proven components in the SINA family, which are in consistently high demand both within and outside Germany, the business is continuing to enjoy positive growth with border control and homeland security products (eID, PKI and eGates). We can achieve the largest increases in sales through product business.

Our service portfolio comprises development and consultancy services. Demand has increased significantly both in the Public Sector and Business Sector divisions. In addition to traditional analysis services (penetration tests), this also applies to the creation of security concepts and the design of security management systems. Our success is reflected in consistently high levels of staff utilisation. The highly qualified employees deployed within service projects are the anchor of our customer relationships, and secure our business in the long-term with respect to both existing and new customers.

We will also continue to expand our range of products and services, not only through improvements to existing solutions, but also through innovations for needs-oriented products. In this process, we work with both our customers and leading scientific and technical institutions. Where it makes sense to do so, we seek out collaboration with other providers in the IT and IT security sector.

High-quality, reliable and trustworthy products and services are the result of effective organisation; to this end, we rely on continuing optimisation of existing structures as well as appointing new, highly-qualified staff, enabling us to constantly develop the quality of our products and advisory expertise. As was also the case in previous years, we have strengthened our team with valuable new employees in the 2016 financial year.

Our key objective continues to be sustainable, profitable growth

secunet Group is to continue to grow. The primary driver of this is the continuing rise in demand. It remains the case that IT security and cyber security are hot topics in the public sphere – they are part of every discussion about technical, societal and political developments. We have set ourselves the target of reducing the threat of cyber security as much as possible for our customers. We will also continue to align our range of products, services and solutions to this goal. The development of secunet Group to date shows support for this strategic approach.

Germany and neighbouring EU countries continue to comprise the geographical focus of our business activity. International growth is a task that requires a long-term approach and plenty of patience: opening up new markets outside Germany as well as developing existing business relationships continue to be part of our strategy for growth.

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

We continue to apply for many projects connected with 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. The dependence on the budgetary situation should be highlighted in particular in 2017, when, following parliamentary (Bundestag) elections, preliminary budget management may initially restrict acquisitions.

2016 was a record year, particularly for the Public Sector division. Reproducing or increasing these results cannot be considered a certainty, particularly in the context of the pending elections. For this reason, at the time of creating this report, we are taking a rather conservative approach to our expectations for the current financial year: We expect revenue slightly below the level of the previous year and a moderate decrease in the earnings before interest and taxes (EBIT).

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

Dr Rainer Baumgart

Thomas Pleines

Supervisory Board Report

Dear Shareholders,

During the financial year 2016, the Supervisory Board of secunet Security Networks AG again performed the supervisory and advisory duties assigned to it by law and by the Company's Articles of Association in a constant, careful and diligent manner. It advised the Management Board regularly on the management of the Company, continuously monitored the Management Board's leadership and in the course of fulfilling its role, ensured the legality, fitness for purpose and compliance of the work of the Management Board. Cooperation within the Supervisory Board and with the Management Board was constructive and was characterised by open communication with a high level of trust. The Management Board fulfilled its obligations in relation to the provision of information and provided the Supervisory Board with regular, prompt and comprehensive information, both in writing and verbally. It furthermore involved 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. The members of the Supervisory Board always had the opportunity 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 consent. 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.

The Chairman of the Supervisory Board and the Management Board also remained in close and regular contact in the periods between the committee meetings. In the process, the Chairman of the Supervisory Board was kept up to date by the Management Board on the current business situation and on any key business events. The Chairman of the Supervisory Board also discussed questions of strategy, planning, business performance, the risk situation, risk management and compliance in separate meetings held with the Management Board on a regular basis.

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.


Dr Peter Zattler

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 the decision. During the financial year 2016, 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 2016 financial year; on 10 March, 12 May, 14 September and 30 November. One member of the Supervisory Board, Mr Wolf-Rüdiger Moritz, gave his apologies for two of these meetings. However, with the exception of one vote, Mr Moritz took part in all the votes at these meetings by giving voting instructions. Apart from Mr Moritz, none of the members of the Supervisory Board took part in only half or fewer of the meetings of the Supervisory Board during the past financial year.

The members of the Management Board took part in the meetings of the Supervisory Board.

As required, the Supervisory Board also made resolutions between the meetings, circulated in writing. 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.

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 as well as earnings and liquidity planning. Furthermore, the Supervisory Board dealt in detail with the Management Board's estimates 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 10 March 2016, the Supervisory Board paid particular attention to the Annual Financial Statements, the Consolidated Financial Statements and the compiled Management Report for the Group and the Company for the financial year 2015, as well as the auditors' report. The Supervisory Board checked and approved the aforementioned documents after they were discussed in detail with the auditor present, who reported on the key results of his examination.

In its meeting on 10 March 2016, the Supervisory Board also approved the Supervisory Board Report for the financial year 2015 and the proposed resolutions by the Supervisory Board for the Annual General Meeting on 12 May 2016. Furthermore, the Supervisory Board undertook a self-evaluation of its activities with the aim of further improving the efficiency of the latter (examination of efficiency). Moreover, the Supervisory Board dealt with any issues regarding the Management Board.

In the meeting on 12 May 2016, the Supervisory Board heard reports on the current business situation. The Supervisory Board also examined a report by the Management Board concerning possible options for strategic acquisitions.

During its meeting on 14 September 2016, the Supervisory Board addressed the current business situation in detail. Moreover, at its meeting on 14 September 2016, the Supervisory Board examined a planned commissioning of the department of Professor Günter Schäfer by TU Ilmenau Service GmbH for a major research project and a smaller consulting project. The Supervisory Board agreed to these projects without the involvement of Professor Schäfer. The potential conflict of interest resulting from the cooperation of Professor Schäfer's department with secunet Security Networks AG had already been disclosed to the Supervisory Board by Professor Schäfer during the financial year 2014 and it was also presented in the report of the Supervisory Board for the financial years 2014 and 2015.

At the meeting on 30 November 2016, the Supervisory Board focussed in particular on the current business situation and the future strategic and operative development of secunet Security Networks AG. In addition, the Supervisory Board discussed the annual and budget planning for the year 2017 and the three-year budget plan, and approved them. Moreover, the Corporate Compliance report was examined by the Supervisory Board, and the declaration of conformity in accordance with Article 161 of the German Stock Corporation Act (Aktiengesetz, AktG) was discussed and passed.

Corporate Governance

The Supervisory Board is continually and thoroughly examining the application and further development of Corporate Governance standards in the Company and particularly the implementation of the recommendations of the German Corporate Governance Code. The Supervisory Board deems the implementation of the German Corporate Governance Code to be of key importance. In the reporting year, secunet Security Networks AG complied with the recommendations of the German Corporate Governance Code with few exceptions. On 30 November 2016, the Management Board and Supervisory Board submitted their Declaration of Conformity for the financial year 2016 regarding the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with Article 161 AktG. The Declaration of Conformity was made permanently available to the shareholders on the Company's website. The Declaration of Conformity for the financial year 2016, approved on 30 November 2016, can also be found in the Corporate Governance report, which is part of this Annual Report 2016.

In addition, the Supervisory Board has also implemented the requirements of the legislation regarding the equal participation of women and men in management positions that came into force on 1 May 2015 and has determined target figures for the proportion of Supervisory Board and Management Board positions held by women.

The Supervisory Board has set specific hiring goals for its own composition, the details of which can be found in the Corporate Governance report.

The Supervisory Board strives to continually improve the efficiency of its activities. On an annual basis, the examination of efficiency of the Supervisory Board is also taken as an item on the agenda of the Supervisory Board meetings.

Annual Financial Statements and Consolidated Financial Statements for 2016

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) (as applicable in the European Union) for the financial year 2016, and the compiled Management Report for the Group and the Company, including the bookkeeping system, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Essen. As part of this audit, the auditors also determined whether the Management Board has a suitable monitoring system, the design and handling of which is suited to identify any developments endangering the continued existence of the Company early on. The Supervisory Board awarded the audit mandate in accordance with the resolution passed by the Annual General Meeting on 12 May 2016. The auditors issued an unqualified opinion in each case.

The auditors also examined the report on relationships with affiliated companies prepared by the Management Board for the financial year 2016 in accordance with Article 312 AktG and relating to the existing majority shareholding by Giesecke & Devrient GmbH, Munich, and issued an unqualified opinion.

The financial statement documents, the proposed appropriation of balance sheet profits, the report on relationships with affiliated companies and the auditors' report were distributed to all members of the Supervisory Board without delay following their preparation. At the financial statements review meeting on 15 March 2017, the financial statements and reports, as well as the suggested profit appropriation, stated above 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 compiled Management Report for the Group and the Company, the report on relationships with affiliated companies, including the final statement of the Management Board contained herein, or the auditors' report. The Supervisory Board therefore endorsed the findings of the auditing of the financial statements and approved the financial statements of secunet Security Networks AG and the consolidated Group as at 31 December 2016 compiled by the Management Board; the Annual Financial Statements of secunet Security Networks AG were thus adopted on 15 March 2017.

The Supervisory Board also checked the Management Board's suggested profit appropriation, which envisages a dividend of 0.58 euros for each eligible share, in reference to the liquidity of the Company as well as its financial and investment planning. The suggested profit appropriation is in line with the Company's interests and takes into account the interests of the shareholders. After having checked and weighed up all the arguments, the Supervisory Board approves the suggested profit appropriation of the Management Board.

The excellent result of secunet Security Networks AG for the financial year 2016 is due to the extraordinary achievements of the Management Board and employees of the Company and Group. The Supervisory Board expressed particular thanks to the Management Board and the employees for what they have achieved.

Essen, 15 March 2017

The Supervisory Board

Dr Peter Zattler

The secunet Share

Stock-market year 2016: good result despite surprises and a high level of volatility

In 2016, the financial markets all over the world were still characterised by a performance brought about by the low interest rates. As investing in bonds became unattractive, equities and other instruments benefited from the investment bottleneck. At the same time, a series of unexpected economic events (weak economic data from China, collapse of the oil price) and political events (Brexit decision, Trump election victory) caused surprises that led to a high level of volatility on the global financial markets. Overall, the glut of money from the major central banks brought about an upturn in global share prices.

In Germany, too, the markets largely achieved a positive result. The DAX closed at 11,481.06 points, which was a gain of 6.87%. The MDAX managed to register a price gain of 6.81% with an annual closing price of 22,188.94 points; meanwhile, the SDAX also climbed by 4.63% to reach 9,519.43 points. Only the TecDAX failed to fight its way into the black, registering a loss of 1.04% at 1,811.72 points.

For 2017, this turbulence is not expected to subside, meaning that fluctuations on the stock markets are likely to persist. In this respect, investors will continue to require strong nerves.

secunet share posts good performance

In the period from 30 December 2015 to 30 December 2016, the price of the secunet Security Networks AG share more than doubled from 22.16 euros to 46.00 euros (a gain of 108%). This led to an increase in the value of the Company from 144.0 million euros to 299.0 million euros. Mirroring developments in the previous year, at the time of issuing this report the good figures for the 2016 financial year were taking effect on the stock exchange: during the period until 16 January 2017 the price grew by a further 18% to 54.20 euros.

Since 2014, the shareholders of secunet Security Networks AG have been reaping sustainable rewards from the success of their company through dividends, with the first being paid out from the 2013 balance sheet profit. The Management Board is following a dividend policy focussed on the long term. The value of the dividend has grown from 0.15 euros per share paid out from the 2013 balance sheet profit to 0.27 euros from the 2014 balance sheet profit, and on to 0.34 euros (2015 balance sheet profit). It will be recommended to the Annual General Meeting 2017 to pay out a dividend to the shareholders to the value of 0.58 euros per share from the 2016 balance sheet profit.

Shareholder structure remains stable

Munich-based Giesecke & Devrient (G&D) GmbH has held a direct stake of 78.96% in secunet since 2009. A considerable share in secunet Security Networks AG is also held by Ingrid and Christiane Weispfenning, who together hold a 3.95% share in the voting rights of secunet Security Networks AG, along with Axxion S.A. (3.18%) and BNY Mellon Service KAG with 3.06%.

secunet itself holds a further 0.47% of the shares (30,498 individual shares), while the remaining 10.38% are in free float.

Trading volume increases slightly

In 2016, the average number of secunet shares traded on the Frankfurt stock exchange and on Xetra was 1,444 shares per day. The previous year's figure was 1,066. Since the beginning of 2017, the average trading volume has increased to 6,696 shares as a daily average in the period from 2 to 16 January 2017. Despite this pleasing increase in the trading volume, there remains a risk of the share becoming more volatile, i.e. major price fluctuation as soon as the demand for or supply of the secunet share increases.

High attendance at Annual General Meeting

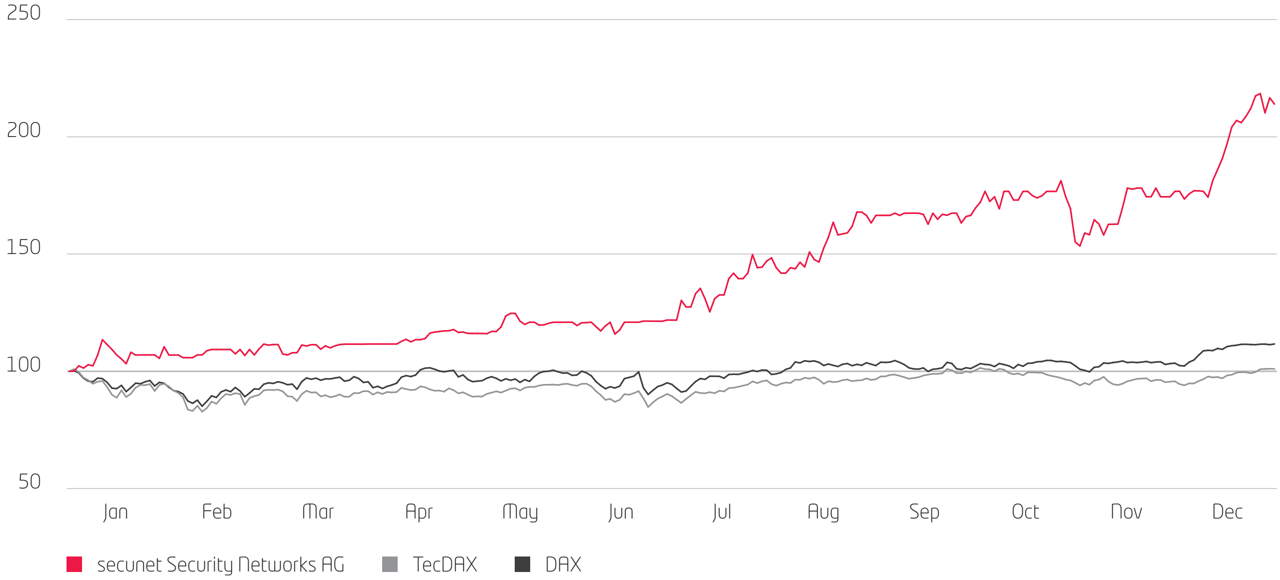
The Ordinary General Meeting of secunet Security Networks AG was held on 12 May 2016 in Essen, where nearly 90% of the share capital was represented. Each of the agenda items received more than 99% approval.

Shareholders receive comprehensive information

secunet Security Networks AG places great emphasis on providing the public with up-to-date, comprehensive and consistent information. Transparency is a watchword. The cultivation of investor relations therefore plays an important role at secunet.

secunet is synonymous with regular and open reporting that is designed to provide our shareholders with comprehensive information on secunet Security Networks AG and its business performance. All information published by secunet is also posted on the Company's website (www.secunet.com) as quickly as possible. The website also contains financial reports and presentations in addition to the current financial calendar. Shareholders and other interested parties can also contact Investor Relations by phone on +49 201 54 54-12 27 or via email at investor.relations@secunet.com with any questions.

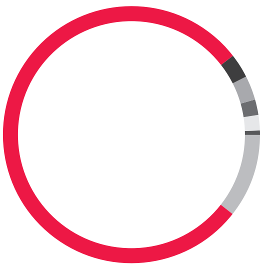
Share price performance 1 January 2016 – 31 December 2016
Index, price 1 January 2016 = 100



secunet stock information

Reuters	YSNG.DE
Bloomberg	YSN
WKN	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 2016



78.96%	Giesecke & Devrient
3.18%	Axxion S.A.
3.06%	BNY Mellon Service KAG
2.00%	Ingrid Weispfenning
1.95%	Christiane Weispfenning
0.47%	secunet-owned shares
10.38%	Free float

Corporate Governance Report

Declaration of Corporate Governance

An effective and transparent organisation, as well as responsible and reliable Corporate Governance is very important at 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 control and management of companies are summarised in the German Corporate Governance Code. The Code serves the purpose of increasing trust in companies listed on the German stock exchange among investors, customers, employees and the general public.

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 financial year 2016, 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 dated 5 May 2015. 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 the 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 has two members. 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 quarterly reports 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 their 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 their work. The Chairman coordinates the work carried out within the Supervisory Board, chairs their meetings and represents their 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 Ordinary General Meeting 2019, in which the next Supervisory Board elections are due to take place. 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 defined concrete targets for its composition according to Item 5.4.1 of the German Corporate Governance Code. 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 qualities. Among suitable candidates, the Supervisory Board will look for international experience, independence and an appropriate proportion of female members. At least one position on the Supervisory Board is reserved for a female member in the elections to be held in 2019, in accordance with the recommendation in Item 5.4.1 of the German Corporate Governance Code. 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 have at least two independent members in the sense of Item 5.4.2 of the German Corporate Governance Code. Furthermore, Supervisory Board members should not be older than 70 years of age. The Supervisory Board will take the above-mentioned objectives into account in their suggestions for appointments, which it will submit to the Annual General Meeting 2019 for Supervisory Board elections.

The Supervisory Board has no committees. In the opinion of the Supervisory Board, this is not necessary, as the Supervisory Board comprises only six members. In a panel 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 its 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 divisions and business units. 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 financial statements and Half-Year Report, 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 regarding the equal participation of women and men in management positions that came into force on 1 May 2015. For the implementation period ending June 30, 2017, the Supervisory Board agreed a target figure of 0% for the proportion of women in the Supervisory Board and in the Management Board; the Management Board also set 0% for the subordinate management levels. This is explained in greater detail in the Corporate Governance report for the 2015 financial year. During the 2016 financial year, the proportion of women on the Supervisory Board, the Management Board and at subordinated management levels did not increase, in compliance with 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

The 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 regarding key changes to the Company's business.

secunet Security Networks AG reports to its shareholders four times within a financial 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 the regular financial reporting are listed in the financial calendar. If circumstances arise that might significantly influence the stock market price of secunet Security Networks AG, this will be disclosed through ad-hoc announcements. The financial calendar and ad-hoc announcements are available to view on the website of secunet Security Networks AG under Company / Investor Relations / News and Publications.

Shareholders and the 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 right at the Annual General Meeting themselves or choose an agent or company proxy bound by their instructions to exercise the voting right. 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. In the Annual General Meeting on 12 May 2016, KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, was appointed as the auditors, including of the Consolidated Financial Statements, for the financial year 2016.

Shareholders are notified about important dates by means of a financial calendar published in the Annual Report, in the quarterly reports 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 / Compliance and Corporate Governance.

In 2008, the Management Board 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 is a set of standards for dealing with all the economic, legal and moral challenges that we face in our day-to-day business activities and is intended as a benchmark and guide when working with customers, suppliers and other business partners, and 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.

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 of the 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 Company bodies or members of the Company.

Notification of transactions under Article 19 of the EU Market Abuse Regulation (Directors' Dealings)

Article 19 of the Market Abuse Regulation (EU) No. 596 / 2014 requires members of Company bodies (Supervisory / Management Boards) 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 financial year 2016.

No member of the Management Board or Supervisory Board owns more than 1% of the shares, or financial instruments related to the shares, of the Company. The members of the Management Board and Supervisory Board jointly own no more than 1% of the shares of the Company.

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. Group quarterly reports 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, Essen branch, the auditors appointed by the 2016 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 Institut der Wirtschaftsprüfer (IDW). The undersigned auditors for the Annual Financial Statements and Consolidated Financial Statements of secunet Security Networks AG are Ms Charlotte Salzmann and Mr Marcel Mertens.

It was also contractually agreed with the auditors that they would 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 2016 were subjected to an auditor's review by KPMG AG Wirtschaftsprüfungsgesellschaft.

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

The Management Board and Supervisory Board 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 / Compliance and Corporate Governance. Declarations of Conformity issued in the last nine years are permanently available on the website.

secunet Security Networks AG complies with the recommendations of the Government Commission on the German Corporate Governance Code as amended in the version dated 5 May 2015 and published by the German Federal Ministry of Justice in the official part of the Federal Gazette, with the following exceptions:

3.8 Para. 3
An excess should be agreed in D&O insurance for the Supervisory Board.

Explanation: The secunet Supervisory Board conducts its business with the utmost sense of responsibility. An excess would not give rise to any additional improvement or incentive.

5.1.2 Para. 2 Clause 3
An age limit should be set for Management Board members.

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 company and the number of its members, the Supervisory Board shall form professionally qualified committees.

Explanation: Since the dissolution of the Chairman's Committee on 14 May 2014, the Supervisory Board no longer has any committees. In the opinion of the Supervisory Board, this is not in fact necessary, as the Supervisory Board comprises only six members. In a panel of this size, efficient operation of the Supervisory Board can be guaranteed without the formation of committees.

5.3.2
The Supervisory Board should 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 should 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 Clause 1
The Supervisory Board should stipulate specific targets with regard to its composition, which, taking into account the Company's specific situation, take into consideration its international operations, potential conflicts of interest, the number of independent Supervisory Board members as defined in Number 5.4.2, an age limit to be determined for Supervisory Board members and a regular limit to be determined for the length of membership in the Supervisory Board 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 panel, especially since the panel's work can benefit from the experience of long-standing members.

5.4.6 Para. 1 Clause 2
When setting the remuneration of Supervisory Board members, chairmanship and committee memberships are to be taken into account.

Explanation: Since the dissolution of the Chairman's Committee on 14 May 2014, the Supervisory Board has had no other committees; there is therefore currently no question of a special chairmanship and committee membership remuneration.

secunet Security Networks AG

Essen, 15 March 2017

The Management Board　　The Supervisory Board

Management Report

Summarised Management Report – report on the position of the Company and the Group for the 2016 financial year

1. Principles of the Group

1.1. Business model and Group structure

1.1.1. Business model of the Group

secunet Security Networks Aktiengesellschaft, Essen, (hereafter referred to as "secunet AG" or "secunet") offers products and solutions as well as consulting services in the field of IT security. secunet has developed a specialism in complex solutions and IT high security, working on demanding projects in which technologies and processes are consolidated. These are IT security areas, 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 customised solutions tailored to their individual requirements, even if they are based on standard applications.

1.1.2. Group and organisational structure

The secunet Group includes secunet Security Networks AG in Germany and the subsidiaries secunet SwissIT AG in Switzerland, secunet s.r.o. in the Czech Republic and secunet Inc., USA. The subsidiaries secunet s.r.o. in the Czech Republic and secunet SwissIT in Switzerland are in liquidation.

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

secunet Germany has a target group-oriented organisational structure. There are two divisions – Public Sector and Business Sector – offering consultancy services, products and solutions, the former geared towards the needs of the target groups of public clients and international organisations and the latter those of private companies.

The offering in the Public Sector division comprises high security encryption technology with the main product SINA as well as extensive (consulting) services and products for governmental consumers. It also includes services and IT solutions for automated border control systems (eGates, electronic official documents, etc.). The Business Sector division provides private companies with IT security consulting and solutions, with its special competences Automotive Security and IT Security for critical infrastructures (e.g. energy and water suppliers). Within these divisions, the organisation has a process-oriented design and is targeted at an optimal use of 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 Security Networks AG. Giesecke & Devrient (hereafter 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 payment, secure communication and the management of identities. G&D has a leading competitive and technology position in these markets. The Group's customers above all include central banks and commercial banks, wireless service providers, companies as well as governments and authorities.

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

The Company's geographical key sales area is in Germany. secunet distribution activities abroad focus on EU countries, NATO member states and the Middle East.

1.2. Corporate management

The secunet Group is managed by the secunet Security Networks AG Management Board in reference to financial key figures, namely the Group revenue and the Group EBIT. The Management Board obtains comprehensive information about the state of business and these key figures at its twice-monthly meetings. The Management Board liaises regularly with the 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 Security Networks AG aim at improving and innovating processes, products and solutions. secunet thus 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 research and development activities are strictly designed to minimise risks. secunet does not develop products unless there is specific demand for them. Special solutions are virtually always developed on behalf of customers: this is common practice for suppliers to government bodies and in the high-security area.

secunet strategically bases its innovation efforts on three pillars:

» Promoting an innovation culture by offering incentives for new developments as well as regular and intensive internal specialist exchange and setting up a knowledge management infrastructure. This is supported by the fact that, in addition to a career in management, the personnel development plan also includes a career as a technical specialist;

» Cooperation and partnerships with customers, universities and associations in order to achieve synergies in research and development;

» Organisational bundling of competences in the form of product managers, who support the developments of innovation management up to the creation of market-ready products.

In addition, secunet employees are members of many national and international standardisation bodies and committees and therefore actively participate in reviewing, approving and implementing innovations in the field of IT. Firstly, this allows a valuable exchange of expertise to take place, which continually adds to the qualifications of employees. Secondly, work on committees contributes to secunet extensively participating in technological developments early on.

2. Economic report

2.1. Framework conditions for the overall economy and for relevant sectors

The secunet Group is predominantly active in the German market and is therefore primarily affected by the framework conditions of the overall economy in Germany. Both the Federal Ministry for Economic Affairs and Energy and the Deutsche Bundesbank estimate that the German economy will grow by 1.4 to 1.5% in 2017 (previous year 1.9%). The growth is primarily driven by domestic demand. The current overall economic environment can accordingly be evaluated as good. The commercial situation of the secunet Group will be positively influenced by these framework conditions.

The prospects for the IT sector are analysed and measured by the BITKOM industry association (German Association for Information Technology, Telecommunications and New Media).

The market for information technology is a growing market. Over the last three years, it was characterised by the following developments:

» The market for hardware has been characterised to a greater extent by fluctuations: following surprising growth of more than 6% in 2014 due to replacement purchases of desktop PCs and notebooks, growth for 2015 was 4.7% and growth for 2016 was 2.8%.

» The market for software grew continuously by far more than 5% each year, most recently by 6.2% in 2016.

» Growth in IT services continued to increase, reaching 2.7% in 2016.

Security continues to be an important topic for the IT market. This is attributable in particular due 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 topical.

As a result, the German government has set itself dedicated targets for IT security in the context of maintaining and expanding their IT infrastructures. Large public infrastructure projects, such as the introduction of electronic identity documents, electronic health cards, the use of biometrics and the increase in eGovernment applications across the board, are as a whole increasing the relevance of IT security and the associated demand for concepts, solutions and products.

There is also an increasing awareness of this topic among companies. Recent survey results show that German companies consider attacks on their IT security (for example, through cyber criminality and hacker attacks) as the number-one risk they will face in 2017. In the previous year, they still viewed this risk as being in third place. The prominent incidents in 2016 played a part in heightening the fear of cyber attacks (for example, hacking of Internet companies and accusations of tampering concerning the US election).

Additional support in this area has come from the German IT Security Law (IT-Sicherheitsgesetz, ITSiG). This legislation demands critical infrastructure for providers and operators, requiring them to use the latest technology to appropriately secure their IT systems and to report IT security incidents.

Despite this development, it can be observed that IT security still remains the result of a cost-benefit calculation in many companies. Although the fundamental threat from cyber criminality remains as high as ever or is even increasing, many companies continue to underestimate the risks and are therefore reluctant to invest in their IT (security) infrastructure.

Specific market statistics for the IT security sector are not continuously collected. As a general rule it can be said that security spending is directly dependent on the general level of spending on IT infrastructures. A number of studies have shown that the market for IT security is growing more quickly than the total market for software and IT services: Estimates for the growth of investment in IT security in the years 2017 to 2019 fluctuate between 8% and 15%.

The secunet Group is therefore operating within a conducive environment, both in the overall economy and its own sector.

Particularly in the recent past, the good commercial framework conditions in the German market for IT security have attracted new competitors. The associated changing competitive intensity is monitored and evaluated by secunet on a continuous basis. At the present time, there are no signs of negative effects on the market position of secunet.

2.2. Assessment of business performance 2016

At the time of publication of the 2015 Annual Report, the secunet Management Board anticipated Group revenue for the 2016 financial year of a similar magnitude with Group EBIT of approximately the same level as the previous year, assuming a basis adjusted for the special effects of the 2015 financial year. After the business results in just the first half of 2016 developed much better than expected, the Management Board raised its forecast for revenue by 94 million euros and its forecast for EBIT by 9 million euros on 19 July 2016. The excellent business performance in the first half of the year continued in the quarters three and four of 2016. As a result, the Company published two further notifications of raised forecasts on 15 November and 12 December 2016. Most recently, the Management Board raised the expectations for revenue to around 114 million euros and those for EBIT to around 13 million euros.

The actual business performance significantly exceeded the revenue and EBIT forecast published with the 2015 Annual Report. In the 2016 financial year, the secunet Group achieved revenue of 115.7 million euros (previous year 91.1 million euros) and EBIT of 13.7 million euros (previous year 8.6 million euros). This was a record result.

The Management Board regards the business performance in 2016 as outstanding.

2.3. Situation

2.3.1. Results of operations of the Group

The profit and loss account for the secunet Group in accordance with IFRS is presented according to the cost of sales method.

2.3.1.1. Revenue performance

In the 2016 financial year, the revenue of the secunet Group grew by 24.6 million euros or 27%, from 91.1 million euros in the previous year to 115.7 million euros. Both a strong increase in the product business (sales of merchandise, licences, maintenance and support) and also growing sales of services (consulting business) contributed to this positive development.

The revenue increased in both divisions at secunet – Public Sector and Business Sector – with the majority of the growth occurring in the Public Sector division.

The Public Sector division firstly offers its customers the SINA product family, i.e. solutions (software, hardware and management) for highly secure, cryptographic processing, transmission and storage of data of different confidentiality levels. Secondly, it offers public customers a wide range of IT security products and services, from IT security consulting and training to products and consulting for electronic passports, automated (biometric) border controls, electronic tax advice ELSTER and the equipment of large infrastructures with high security technology and public key infrastructures. Compared to the previous year, revenue in the Public Sector rose by 27%, or 21 million euros, from 79.2 million euros to 100.2 million euros. The proportion of the revenue of the secunet Group for the 2016 financial year attributable to the Public Sector division therefore equated to 87% (previous year: 87%). Customers from the public sector in Germany and abroad, as well as from international organisations, therefore continue to constitute the focus target group of secunet.

Revenue in the Business Sector increased by 30% or 3.6 million euros, from 11.9 million euros in the previous year to 15.5 million euros. The Business Sector offers (consulting) services and solutions for the specific requirements of companies in the private sector. The consulting services range from security assessments (so-called penetration tests) to security consulting, such as for security guidelines and their implementation, to support for certification projects. The customer-specific solutions in the Business Sector are primarily focused on providers and operators of critical infrastructures such as telecommunications companies and providers, as well as demanding industries such as automotive and machine construction. The measures introduced in the Business Sector division over the past year to improve the sales situation are therefore beginning to bear fruit. As a result of the simultaneously significantly higher revenues in the Public Sector, the contribution of the Business Sector to the Group revenues remained unchanged in the completed 2016 financial year from the previous year, at 13%.

At 1.1 million euros, the revenue from projects with the Giesecke & Devrient Group in the 2016 financial year was above the previous year's figure of 0.9 million euros.

Sales of secunet products and services outside Germany increased by 39% from 9.9 million euros in 2015 to 13.8 million euros in the year under review. At 12%, the contribution of foreign revenues to the Group revenue remained virtually unaltered.

2.3.1.2. Earnings performance

The earnings before interest and taxes (EBIT) of the secunet Group increased by 59% compared to the previous year, rising from 8.6 million euros to 13.7 million euros. This improvement in EBIT essentially resulted from the significant increase in revenue in the product business. Expenses only grew by a disproportionately low amount compared to revenues. At the same time, the excellent capacity utilisation in the consulting business is having positive effects.

Key cost items in the secunet Group

in thousand euros	2016	2015
Cost of sales	86,143	68,303
Distribution costs	11,594	9,997
General administrative costs	4,307	4,226

The following individual developments in terms of costs occurred:

In the reporting year, the cost of sales increased by 17.8 million euros or 26% from 68.3 million euros in the 2015 financial year to a total of 86.1 million euros. The increase is directly linked to the development of revenue in the product business: materials expenses have increased correspondingly strongly. Materials expenses include the purchase of merchandise for use in products as well as third-party services received. Moreover, this figure also includes increased personnel expenses, mainly due to the increase in the addition to provisions for variable remuneration elements and the growth of the workforce.

Compared with the previous year, distribution costs increased by 1.6 million euros or 16% from 10.0 million euros to 11.6 million euros. The increase is mainly due to the expansion of sales activities and the associated increase in personnel expenditure.

Compared to the previous year's value, the general administrative costs in the amount of 4.3 million euros have remained essentially unchanged.

The increase in EBIT was almost exclusively down to the Public Sector division. While the Business Sector division registered a slight improvement in EBIT from -0.7 million euros to -0.5 million euros, EBIT in the Public Sector division rose disproportionately in relation to the revenue increase (+27%) by 55% from 9.2 million euros in the previous year to 14.3 million euros in the 2016 financial year. The reason for this improved result is the growth in revenue in the product business accompanied by costs only increasing at a disproportionately low rate.

The interest income in the secunet Group decreased slightly from 221 thousand euros in the 2015 financial year to 173 thousand euros in the 2016 financial year. The income is a result in 2016 of short-term loans made by secunet Security Networks AG to the parent company Giesecke & Devrient GmbH, Munich during the financial year, and loans to the associate finally safe GmbH. Interest expenses rose slightly from 138 thousand euros to 143 thousand euros. This predominantly concerns interest expenses for pensions. Overall, the interest result fell from 83 thousand euros to 31 thousand euros.

The earnings before tax were 13.6 million euros in the 2016 financial year after amounting to 8.6 million euros in the 2015 financial year, which corresponds to an increase of 5.0 million euros or 58%. Tax on the result increased from 2.5 million euros in the 2015 financial year to 4.4 million euros in the 2016 financial year. The increase in taxes of 1.9 million euros is attributable to the increased tax burden due to the improved result. In the 2016 year under review, the tax quota stood at 32%.

As a result, the secunet Group generated a Group net income of 9.2 million euros in the 2016 financial year, which corresponds to an increase of 3.1 million euros or 51% compared to the previous year (6.1 million euros). Diluted and undiluted earnings per share in 2016 stood at 1.43 euros, compared with 0.94 euros in the previous year.

2.3.2. Results of operations of secunet Security Networks AG

In the separate accounts of secunet Security Networks AG issued pursuant to commercial law, the profit and loss account is presented using the nature of expense method.

In the 2016 financial year, secunet generated revenue of 115.8 million euros following 90.6 million euros in the previous year, an increase of 25.2 million euros or 28%. The inventory of unfinished services increased slightly in the 2016 financial year compared to the previous year, going up by 0.1 million euros. The other business income in the amount of 1.3 million euros in the 2016 financial year matched the level of the previous year.

According to the nature of expense method, the development of the expenditure items (materials expenses, personnel expenditure, depreciations / amortisations and other operating expenses) as a whole also corresponds to the development within the secunet Group.

The following specific developments can be identified in reference to the expenditure items:

Key expenditure items of secunet Security Networks AG

in thousand euros	2016	2015
Materials expenses	47,502	35,775
Personnel expenditure	38,411	31,673
Depreciation and amortisation	1,690	1,437
Other operating expenses	15,778	14,945

Materials expenses increased by 11.7 million euros or 33% from 35.8 million euros in the previous year to 47.5 million euros. This is linked to the increase in the product business compared to the previous year, which has necessitated an increase in the use of merchandise and increased expenses for outsourced services compared to the previous year.

Personnel expenditure increased in 2016 by 21% or 6.7 million euros, from 31.7 million euros in the previous year to 38.4 million euros. This increase is mainly based on three causes: The first is the increase in the addition to provisions for variable remuneration elements due to the improved result. Secondly, the number of permanently employed personnel at secunet Security Networks AG has increased: at the end of 2016, the Company employed 46 more permanent employees than the previous year, which corresponds to a 12% increase. Thirdly, the general increase in the salary level has made an impact.

Write-offs increased by 0.3 million euros or 21% from 1.4 million euros in the previous year to 1.7 million euros in the 2016 financial year. This increase resulted from the acquisition of property, plant and equipment in the 2016 financial year in connection with the move to the new company headquarters in Essen and the related expansion of the technical infrastructure.

Other business expenses stood at 15.8 million euros in 2016, a slight increase compared to the previous year (14.9 million euros). The essential drivers were commission payments and legal and consulting costs.

The overall expenses of secunet Security Networks AG were therefore 103.4 million euros in the 2016 financial year, compared with 83.8 million euros in the previous year.

Overall, the above-mentioned effect led to an improvement in the earnings before interest and taxes (EBIT) in the 2016 financial year of 64%, from 8.4 million euros in 2015 to 13.8 million euros in the past reporting period. The 2016 financial result totalled 0.1 million euros, compared with -0.4 million euros in the 2015 financial year. As a result, the earnings before income taxes of secunet Security Networks AG in the 2016 financial year were 13.9 million euros compared with 8.0 million euros in the previous year. Net income increased from 5.5 million euros in 2015 to 9.4 million euros in the 2016 financial year.

2.3.3. Financial and net asset situation of the Group

The balance sheet total of the secunet Group rose from 77.1 million euros on 31 December 2015 to 99.2 million euros on 31 December 2016.

Balance sheet of secunet Group, assets

in euros	2016	2015
Current assets		
Cash and cash equivalents	50,213,287.76	37,953,836.75
Trade receivables	25,368,458.16	17,148,062.21
Intercompany financial assets	52,468.59	314,021.01
Inventories	8,385,779.36	11,619,235.74
Other current assets	555,853.92	296,175.11
Total current assets	**84,575,847.79**	**67,331,330.82**
Non-current assets		
Property, plant and equipment	3,712,740.00	2,337,440.00
Intangible assets	312,561.00	185,445.00
Goodwill	3,027,300.00	2,950,000.00
Non-current financial assets	5,412,940.00	2,942,932.00
Financial assets shown in the balance sheet according to the equity method	177,641.87	1,671.64
Loans	635,666.67	300,000.00
Deferred taxes	1,356,722.49	1,043,397.42
Total non-current assets	**14,635,572.03**	**9,760,886.06**
Assets, total	**99,211,419.82**	**77,092,216.88**

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

The amount of cash and cash equivalents increased by 12.2 million euros or 32% from 38.0 million euros to 50.2 million euros.

Trade receivables increased by 8.3 million euros or 48% from 17.1 million euros to 25.4 million euros. This was caused by the extremely strong revenue in the fourth quarter of 2016; the receivables invoiced for this period had not been fully settled as at the reference date.

Due to the increased product business, the inventory level fell by 3.2 million euros or 28%, from 11.6 to 8.4 million euros.

Due to the relocation of the company headquarters and the related expansion of the technical infrastructure, the property, plant and equipment of secunet AG increased by 1.4 million euros or 59% from 2.3 million euros to 3.7 million euros.

Due to a one-off deposit in the actuarial reserve based on reinsurance paid in the year under review for the pension commitments issued by the Company, the non-current financial assets increased by 2.5 million euros or 84% from 2.9 million euros to 5.4 million euros.

Loans increased by 336 thousand euros or 112% from 300 thousand euros to 636 thousand euros. This was due to the granting of a further loan to the associate finally safe GmbH.

Deferred taxes increased by 0.3 million euros or 30%, from 1.0 million euros to 1.3 million euros. This was essentially due to differences between the tax balance sheet and the IFRS balance sheet with regard to the evaluation of pension provisions.

Balance sheet of secunet Group, liabilities

in euros	2016	2015
Current liabilities		
Trade accounts payable	16,145,811.85	11,801,485.67
Intercompany payables	3,658.99	9,915.43
Other provisions	12,399,742.03	8,475,325.15
Income tax liabilities	3,326,291.98	2,311,120.09
Other current liabilities	5,285,982.50	2,823,051.37
Deferred income	8,890,832.00	6,042,257.58
Total current liabilities	**46,052,319.35**	**31,463,155.29**
Non-current liabilities		
Deferred taxes	234,470.00	169,235.65
Provisions for pensions	5,847,806.00	5,088,555.00
Other provisions	136,246.00	123,306.00
Total non-current liabilities	**6,218,522.00**	**5,381,096.65**
Equity		
Subscribed capital	6,500,000.00	6,500,000.00
Capital reserves	21,922,005.80	21,922,005.80
Other reserves	-1,580,433.20	-1,253,299.98
Revenue reserves	20,099,005.87	13,079,259.12
Total equity	**46,940,578.47**	**40,247,964.94**
Total liabilities	**99,211,419.82**	**77,092,216.88**

The liabilities side of the secunet Group balance sheet indicates the following significant changes when comparing between 31 December 2015 and 31 December 2016:

Trade accounts payable increased by 4.3 million euros or 37% from 11.8 million euros at 31 December 2015 to 16.1 million euros at 31 December 2016. This increase can be directly attributed to the good year-end business of the secunet Group, which was largely due to the product business. Liabilities regarding suppliers have increased correspondingly. The secunet Group remains in a position to fulfil its payment obligations at all times.

The remaining short-term provisions have increased compared to the level at 31 December 2015 (8.5 million euros), by 3.9 million euros or 46% to 12.4 million euros. The main cause for this is the increase in provisions for variable remuneration to the secunet employees for the successful 2016 financial year.

Income tax liabilities increased by 1.0 million euros, from 2.3 million euros on 31 December 2015 to 3.3 million euros on the 2016 balance sheet date. The main reason for this is the improvement in the earnings before tax. At the same time, the remaining short-term liabilities, which largely relate to VAT liabilities, increased by 2.5 million euros, from 2.8 million euros to 5.3 million euros.

Prepaid and deferred items increased from 6.0 million euros at 31 December 2015 by 47% or 2.9 million euros to 8.9 million euros. The increase in the prepaid and deferred items is directly linked to the growing product business: the number of maintenance and support contracts is also growing accordingly. The revenue from this source is allocated to the relevant period via the prepaid and deferred items.

The pension provisions of the secunet Group increased by 759 thousand euros, essentially because of a further fall in the interest rates.

Compared to the previous year, the revenue reserves increased from 13,079 thousand euros to 20,099 thousand euros. This change was based on the Group profit or loss for the period of 9,219 thousand euros and the dividend payments of 2,199 thousand euros paid during the reporting year.

The positive result for the secunet Group for the 2016 financial year contributes to the equity increase, which increased by 6.7 million euros or 17% to 46.9 million euros compared to the previous year's reporting date 31 December 2016.

secunet did not take out any loans in either the 2015 or the 2016 financial year; all spending was financed with cash. There were also no other outstanding loans, so the debt ratio was at 0%. Guarantee credits are available to secunet Security Networks AG at its key relationship banks as a security for customers within the framework of larger projects and for guarantees, for example for lessors of office space, in the amount of 12.0 million euros. As at 31 December 2016, the amount of these credits was 3.6 million euros (previous year: 3.6 million euros).

2.3.4. Financial and net asset situation of secunet Security Networks AG

The balance sheet structure of secunet Security Networks AG is not commented on separately, because in terms of the key items it is largely the same as that of the secunet Group as a whole.

The accounting measurement methods in the Annual Financial Statements of secunet Security Networks AG are different to those for the secunet Group, which reports in accordance with IFRS, largely when it comes 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 linearly over 10 to 15 years, while IFRS only provides for unscheduled depreciations / amortisations after an impairment test.

The annual financial statements in accordance with the German Commercial Code (HGB) post trade receivables of 23.1 million euros and inventories of 10.3 million euros; in the Consolidated Financial Statements, these are 25.4 million euros and 8.4 million euros respectively. The differences mainly result from the different accounting rules of IAS 18.

In addition, the annual financial statements in accordance with the German Commercial Code (HGB) include provisions for pensions of 3.3 million euros (these are 5.8 million euros in the Consolidated Financial Statements). The reason for this are mainly different interest rates on which the defined benefit obligations are based. In particular, the amended regulations of the BilRUG were applied to the Annual Financial Statements under commercial law in the 2016 financial year. A corresponding explanation can be found in the Notes to the Annual Financial Statements of secunet Security Networks AG.

An amount of 4.7 million euros was deposited in the other profit reserves from the net income generated in the 2016 financial year in the amount of 9.4 million euros. In connection with the balance sheet profit from the previous year of 7.9 million euros, this resulted in a total balance-sheet profit to be carried forward for the coming financial year of 12.6 million euros. At the Annual General Meeting, the Management Board and the Supervisory Board of secunet Security Networks AG proposed the distribution of 3.8 million euros to the shareholders through the payment of a dividend of 0.58 euros per no-par value share and to deposit a further 8.9 million euros in the other profit reserves.

2.3.5. Cash flow of the Group

The cash flow from operations increased from 4.4 million euros in the previous year to 20.5 million euros in the 2016 financial year. The operative cash flow was heavily and positively influenced by the improvement of 5.0 million euros in the results for the period before tax. This was coupled with changes in the working capital (receivables and other assets, provisions, liabilities and prepaid and deferred items), which contributed a further sum of about 13.0 million euros to the improvement of the cash flow from business activities. This was countered to some extent by higher tax payments.

Funds amounting to 6.2 million euros (2.3 million euros in the previous year) were spent on investment activity. This corresponds to an increase of 3.9 million euros compared to the previous year. Investments in intangible assets and property, plant and equipment increased by 1.3 million euros. Investments in financial assets increased by 2.3 million euros, from 0.2 million euros to 2.5 million euros. Disbursements for investments in long-term financial assets also increased.

The cash flow from financial activity declined by 0.5 million euros in the 2016 financial year as compared with the previous year, showing a cash outflow of 2.1 million euros. The increased cash outflow is largely attributable to the fact that in the 2016 financial year a dividend in the amount of around 2.2 million euros was paid for the previous financial year of 2015 to the shareholders of secunet Security Networks AG, compared with 1.7 million euros in 2015 for the 2014 financial year.

Cash and cash equivalents at the end of 2016 are therefore 50.2 million euros, compared with 38.0 million euros at the end of 2015.

2.3.6. Investments of the Group

The capital expenditure of 6.2 million euros in the 2016 financial year (previous year: 2.3 million euros) consisted largely of the purchase of intangible assets and of property, plant and equipment. Spending was mainly on the procurement of new, and replacement of existing, hardware, software and other business and operating equipment. In the 2016 financial year, expenditure for this type of investment amounted to 3.1 million euros and increased by 72% compared to the previous year (1.8 million euros). A key reason for this increase was the relocation to the new company headquarters and the related expansion of the technical infrastructure of the company.

In addition, investments in financial assets increased by 2.3 million euros in the 2016 financial year to 2.5 million euros, up from 0.2 million euros the previous year. This increase was due to the above-mentioned one-off deposit in the actuarial reserve based on reinsurance for the pension commitments issued by the Company.

The investments were made from liquid funds.

2.3.7. Order book of the Group

The order book of the secunet Group in accordance with IFRS is 70.8 million euros at the end of 2016 and has therefore increased by 55% or 25.1 million euros compared to the amount of 45.7 million euros as at 31 December 2015.

A relatively high proportion of services (consulting and development) in the order book will continue to ensure the good utilisation of employee capacities.

2.4. Employees

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

As at the end of the 2016 financial year, the secunet Group had 429 employees, which is 46 individuals or around 12% more than at the end of 2015. There are also 66 temporary workers (previous year 62). This increase in employees primarily took place in the productive areas of development and consulting, as well as in distribution.

The employees of secunet are highly qualified and exceptionally well trained. Our experts have comprehensive practical experience in project and development work. In addition, secunet places considerable emphasis on the further training of its employees, so that their level of knowledge is in line with the latest developments in the relevant field. In addition, secunet is also active in training.

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 whereby 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 the corporate management. Bottom-up objectives are derived from these and agreed between division heads and individual employees. Monitoring of implementation and assessment of the agreed objectives occurs on a yearly basis: The results are then used as a basis for calculating a portion of the variable remuneration of the employees.

3. Forecast, Opportunities and Risk Report

3.1. Risk report

3.1.1. Risk management objectives and methods

Risk management at secunet Security Networks AG 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 corporate strategy, 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 even threaten the survival of the Company are subjected to intense analysis, scrutiny and assessment by the risk committee. The aim is to thereby 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 are also to be detected and taken advantage of as part of 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, and assessed according to their damage extent and probability of occurrence.

The Company-specific risks surveyed in this manner are then discussed following a top-down approach as part of the risk committee meetings. The effects of risks and opportunities are not netted. 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 documentation only for uncritical values via further observation (monitoring) to the need to take measures immediately (warning threshold). 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 2016 financial year, various risks were identified which necessitated measures. For the main part, these related to the areas of distribution and production. The operative damage management implemented in these cases was able to contribute to moving the relevant risk value to significantly below the warning threshold in all cases.

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

3.1.2. Individual risks

The risks for the secunet Group, and therefore also for secunet Security Networks AG, are primarily focused on the areas of distribution (acquisition of orders) and production (project processing).

3.1.2.1. Competitive environment

The secunet Group generates a large part of its revenues with the SINA product family. With these products, secunet holds competitive advantages on several different levels. This is partly due to its technological leadership and partly thanks to the wide range of approvals and certifications that have been gained for the individual products. Risks that endanger this competitive advantage are assessed regularly, but are not in evidence.

The risk committee keeps itself up to date regularly about any risks that could endanger secunet's technological superiority in the market. To this end, the status of technological development of secunet's products is checked and the opinion of expert employees is asked 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 can 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 are risks that rival businesses will attempt to challenge secunet's privileged market position in terms of business with German government agencies. In this case, secunet would be exposed to much greater competitive pressure in this target customer segment. These risks, too, are assessed and evaluated regularly by the risk committee and the Management Board.

Particularly in the recent past, the competitive environment of secunet has consolidated itself through an increasing level of 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 are evaluated as part of ongoing risk management and secunet's strategic management.

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

As a result of the increasing attention given to the topic of IT security, an increasing demand for products and solutions in the field of IT security is expected. As a result, the market for IT security is also becoming more attractive for suppliers who have not previously been active in it. These potential new suppliers are increasing the competitive intensity and could endanger the market position of secunet – particularly in the Business Sector. In particular, this concerns certified consultants, IT companies and the consulting areas of auditing companies. The assessment that the risk of increased competitive intensity and the opportunity of market growth due to increasing awareness in the public realm are in balance is still valid.

3.1.2.2. Customer structure

Customer structure risk is present to the extent that secunet conducts the majority of its business with public sector authorities and organisations. The loss of sections of demand from this customer group can have very negative effects on 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. At the same time, a temporary shift of expected orders is a possibility, such as during so-called provisional budget management, during which the federal authorities are only able to use limited expenditure. During one year, this can cause a significant shift in the year's revenues; service revenues can even be missing completely because these cannot be repeated if capacities are fully utilised. Another risky area regarding the foreseeability of 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 regular coordination in partnership with major customers.

The fact that a significant proportion of procurements from public customers take place on the basis of framework agreements can present itself as a risk in the case that these framework agreements are re-tendered. The associated distribution risk is taken into account by secunet's operational units and is reduced to an acceptable level through risk-reducing measures.

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 revenue and results, secunet will continue to devote intensive efforts to the development of its activities for the private-sector target group.

A further risk can be seen in the fact that a large part of the revenue is concentrated on a few public consumers and companies. If one of these major customers is absent for even a short period of time and the corresponding expected orders are shifted, 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.

In addition, it is seen as a risk area for the further growth of secunet that the business results are still heavily influenced by the demand from the national environment. 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.

3.1.2.3. Product development risks

Various ongoing projects are being carried out to ensure the technological enhancement of the SINA product family, and a number of them have a significant volume. To this extent, it is justifiable to consider the risks for secunet arising from such development projects.

To date, the risks associated with developing new products that subsequently prove unsuccessful on the market have not been of primary significance for secunet. Its IT high security solutions are tailored precisely to customers' requirements; secunet products are generally not designed without a specific need 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 area. Even when it comes to biometrics and sovereign documents, product innovations such as the biometric middleware, secunet biomiddle, or the Golden Reader Tool platinum edition were developed as a result of issues raised during consulting activities. Therefore, development risks do not exist with regard to potentially waning demand.

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

The greatest risk for development projects is the underestimation of the time required until the new solutions are ready for acceptance. This can cause time and personnel expenditure, 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, combined with a dedicated reporting line. This part of the risk analysis and the risk management is identical to the activities that apply to major projects. For the area of development projects, the risk at the time of creating this report is classified as low.

3.1.2.4. Major projects: sales and project management

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 a large investment volume. 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.

The distribution risk is the 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 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 the failure to maintain schedules and project budgets. secunet takes account of these risks by means of a comprehensive project management system, which is used to regularly create management reports for project managers, division heads and the Management Board. The risks arising from major projects are monitored continuously – 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 deviations 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 in line with the altered framework conditions.

In light of this extensive project management and controlling, the risk arising from major projects as at the reporting date is deemed to be low.

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. secunet counters these risks with strict risk monitoring by the project managers and the timely implementation of measures. Examples of these measures can be the securing of rights to solutions considered to be critical or accounting precautions for provisions.

3.1.2.5. Risk of technical product security

The product portfolio of secunet Security Networks AG focusses on solutions in the field of cyber security: in the case of the SINA product family in particular, they involve approved solutions that are cryptographically secured at a high level.

One risk that is continuously assessed in relation to the technical characteristics of these products is the impact of possible – as yet undiscovered – security weaknesses in these solutions. In this area, the question is considered whether and to what extent the security pledges relating to the overall solution made by secunet to its customers may possibly be compromised due to security loopholes in individual components.

In order to minimise the risk, a comprehensive process of continuous risk identification and evaluation is applied in this area. In this process, findings from a wide range of sources about potential security risks are gathered and evaluated by secunet. Insofar as even just a potential vulnerability of the systems appears possible based on the results of this evaluation, the customers are informed immediately and supported in closing such a potential security loophole.

This process of monitoring and solving potential technical security risks is implemented in close coordination with the development and approval partner, the German Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik, BSI).

In light of the implemented risk-minimisation measures, the economic risk relating to technical product security is currently considered to be low.

3.2. Opportunities

Various drivers have a positive effect on the future growth of secunet:

3.2.1. Growth via increasing awareness

The recent increasing awareness of issues relating to IT security has been strongly supported in the media over the last few years, partly by various reports on cyber-security threats (such as eavesdropping affairs, for example, the attempted and successful hacking of state and corporate networks and attacks on critical infrastructures). Investigations into the medium- to long-term assessment of risks among companies and decision-makers reveal that much greater importance will be placed on cyber security going forward. The issue of cyber security will remain in the spotlight in an extremely wide range of investigations and conferences, as well as any ensuing publications. Cyber incidents are increasingly becoming a priority in risk assessments – and not only for public authorities but also for companies in the private sector. For example, in the Allianz Risk Barometer of Top Business Risks 2017 in Germany, cyber risks have now moved up from third place in the previous year to first place. The topic of resistance to cyber risks is also in the spotlight, for example in the discussions at the World Economic Forum. This may result in a positive trend in the demand for high-quality, trustworthy solutions "made in Germany". This relates both to the authorities, which are adding IT system and infrastructure security to their previous efforts, and to companies, which are countering the now specific risk of economic / industrial espionage with corresponding safeguards. An additional group is made up of providers of critical infrastructures, for which IT security is becoming ever more important (see also "Growth via increasing regulation"). With the relevant distribution activities aimed at the authorities and companies, secunet intends to participate in this positive development of demand.

The increasing interest in IT security, which is also driven 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 via 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. They passed the ITSiG to this end in July 2015. This results in growth opportunities on a variety of levels:

- The legislation will particularly affect operators of critical infrastructures, i.e. facilities that are of central importance to the community, such as the energy supply, for example. In the future, they will need to meet specific IT security requirements. This will result in potential demand for implementation concepts for these requirements.

- Furthermore, the draft legislation further extends the role of the German Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik, BSI) and takes its growing significance as the focal point for IT security into account. Among other things, the BSI should be empowered to inspect and evaluate sensitive 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.

3.2.3. Growth through new markets

IT security solutions "made in Germany" enjoy a good reputation across the world due to their quality and trustworthiness. The international demand for correspondingly high-quality solutions as offered by secunet is on the rise. Following the impact of eavesdropping affairs and cyber attacks, demand is likely to cause even greater differences by manufacturer countries of origin, from which secunet is also benefiting. In addition, there are the approvals of secunet products 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 is to contribute to realizing 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, on which secunet is active, is split into many small to medium-sized providers. But the M&A business is currently characterised by extremely high price expectations on the part of the sellers. The process of identifying promising targets at an acceptable price is therefore correspondingly laborious.

3.3. Overview of risks and opportunities

An overview of opportunities and risks, which could impact on the further development of the 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 represent risks that threaten the continued existence of the Company with regard to illiquidity or excessive debts in the reporting period of at least one year. In the operative management of the Group, measures are taken continuously to prevent an increase of the risk situation. At the same time, the realisation of the opportunities described above is driven forward with a number of activities. No key risks are present as at the balance sheet date.

The presentation and evaluation of risks and opportunities also apply in the same way for secunet Security Networks AG.

3.4. Forecast

The framework conditions for the 2017 financial year give reason for optimism.

» For the domestic market, we are still expecting increasing demand. 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 potentials. secunet is generally in a good position to realize these. The employees in international (direct) distribution have many years of experience in the Company and in dealing with international customers.

» During the course of the year, secunet again increased the number of productive employees and can therefore convert increasing demand and high capacity utilisation into good business results.

» secunet's products and solutions have an excellent reputation and enjoy a growing demand both in Germany and abroad.

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 domestic policy cannot yet be assessed. Negative implications for secunet could include the postponement or cancellation of planned projects.

» A particular risk relating to budget policy could arise in 2017 from the probable provisional budget management following the parliamentary elections in September 2017. It is difficult to predict the impact on the business results in the fourth quarter of 2017 and the beginning of 2018. Based on experiences from past phases of provisional budget management, we anticipate a rather muted performance.

» 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 commissions in the consulting business of secunet Security Networks AG mainly arise from long-term, comprehensive framework agreements. In the event of new invitations to tender for such framework agreements, there is therefore a certain degree of uncertainty in terms of the future capacity utilisation.

» The attention focusing on IT security as a topic is driving the expectation of increasing demand. But attracted by this, increasing competition is also apparent, whose consequences 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 Company's economic and financial situation 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 know-how.

» The Company's existing product and service portfolio stood up well to competition and is continuing to expand in close cooperation with the customers and their needs.

» The Company is well-known as a provider of high-quality and trustworthy IT security for the highest demands, and therefore has a stable and reliable (existing) customer structure.

» The market for IT security is growing; the dynamic technological development in IT continually creates new applications and demands. This opens up great opportunities, including and 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.

At the time this report was prepared, the secunet Group was in a good position. In the past financial year, revenue and EBIT increased sharply once again and 2016 consequently ended with excellent results. The Management Board of the Company is essentially optimistic about the business performance for the coming year of 2017. At the time of production of this Report, the most significant element of unpredictability is the possible provisional budget management following the parliamentary elections in 2017. In consideration of this potentially damping factor and the already extremely high business results achieved in the 2016 financial year, the Management Board of the Company anticipates revenues for the 2017 financial year slightly below the level of the previous year. As the possible provisional budget management only relates to the Public Sector division, it is expected that the Business Sector's contribution to the overall revenues will be slightly on the increase. The EBIT is significantly influenced by the share of the product business, in addition to the capacity utilisation. The overall expectation of the Management Board of secunet Security Networks AG regarding revenue performance within the divisions for the financial year 2017 is therefore that there will be a moderate reduction in EBIT as compared to the previous year's figure, coupled with a slightly declining EBIT margin. A noticeable improvement in EBIT in the Business Sector division is anticipated, in parallel with the expected revenue performance in this division.

Our foreign subsidiaries secunet SwissIT AG in Switzerland and secunet s.r.o. in the Czech Republic have ceased operations and are in liquidation. Therefore, the forecast for the coming financial year applies to both secunet Security Networks AG and the secunet Group.

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. 5 and Article 315 Para. 2 Clause 5 HGB)

5.1. Elements of the internal control and risk management system

The 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.

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

Process-integrated and process-independent monitoring measures are the cornerstone of the secunet Group's internal monitoring system. In addition to manual process controls – such as the "four-eyes 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 of secunet Security Networks AG is involved in the secunet Group's internal monitoring system through process-independent auditing functions.

5.2. Use of IT systems

At secunet Security Networks 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 arise, for example, from the conclusion of unusual or complex transactions or from business events that are not handled on a routine basis.

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

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 key ratio analyses. The allocation of administrative, management, billing and approval functions and their implementation by separate people reduce the possibility of fraud. The organisational measures also focus on recording restructuring or changes in the business activities of individual divisions properly and in good time in the Group accounting. They also ensure, for example, that in the event of changes to the IT systems for the underlying accounting in the affiliated companies, 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 the 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 Security Networks AG follow consistent accounting and measurement policies.

The internal control system measures, focussing 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, evaluated 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 mentioned internal organisation, control and monitoring structures, individual discretionary decisions, defective controls, criminal actions or 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. Information relevant to acceptance: Information and Explanatory Report provided by the Management Board in line with Article 289 Para. 4 and Article 315 Para. 4 HGB

The Management Board of secunet Security Networks AG provides the following information for the 2016 financial year in line with Article 289 Para. 4 and Article 315 Para. 4 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 particularly be imposed with reference to the acquisition of domestic companies or shares in such companies by foreigners in order to guarantee 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 IT Security Agency." 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 do not require the approval of the Company's executive bodies or other shareholders in order to be valid. The voting rights of shareholders are not subject to any restrictions arising from either 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, up to 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 in secunet Security Networks AG via its 79.43% holding in Giesecke & Devrient GmbH (including secunet Security Networks AG treasury shares). In turn, Verena von Mitschke-Collande, Germany, has an indirect holding in secunet Security Networks AG via her majority holding in MC Familiengesellschaft mbH of 79.43%.

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 of either individual members or the entire Management Board. The Supervisory Board has sole responsibility for their appointment and dismissal. It appoints members of the Management Board for a maximum 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 can 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 decisions 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 entitled to issue new shares. The Articles of Association of secunet Security Networks AG do not provide for a provisory capital increase, nor do they include any entitlement 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 entitlement to purchase treasury stock. As at 31 December 2016, the Company held 30,498 bearer shares, which it purchased on the basis of an authorisation issued during the Annual General Meeting held on 29 May 2001. As per the resolution of the Annual General Meeting of 27 May 2009, the Management Board is entitled to divest these shares on a stock exchange with the agreement of the Supervisory Board. The Management Board of secunet Security Networks AG had not made use of this authorisation as at 31 December 2016.

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 remuneration 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 289a (1) HGB

As a German public company limited by shares, secunet Security Networks 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 conducting of business. A detailed explanation of the management of the secunet Group can be found in the Corporate Governance Report of secunet AG. This section also contains the Declaration of Corporate Governance in accordance with Article 289a, Para. 1 HGB. The Corporate Governance Report is permanently available via the secunet Security Networks AG website, at www.secunet.com.

8. Other Notes

8.1. Remuneration report

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

8.1.1. Remuneration of the Management Board

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

In the 2016 financial year, the remuneration package was made up of four components: a fixed annual salary, a variable 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 one short-term component and one long-term component. The short-term component is measured on the basis of revenue and EBIT for the current financial year (2016 in this case), while the long-term component is measured based on the average EBIT of the past three financial years (2014-2016 in this case).

» 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 terminated prematurely. In addition, Management Board contracts do not include any specific regulations that apply in the event that a "change of control" occurs – that is when one or several shareholders acting jointly obtain the majority voting rights of secunet Security Networks AG and exert a dominating influence, causing secunet Security Networks AG to become a dependent company by means of the conclusion of an intercompany agreement within the meaning of Article 291 AktG, or in the event of the merger of secunet Security Networks 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 Security Networks AG Management Board is constituted as follows:

Contributions granted

	Dr Rainer Baumgart Chairman				Thomas Pleines Management Board			
in euros	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)
Fixed remuneration	230,004	260,004	260,004	260,004	195,000	220,008	220,008	220,008
Ancillary benefits	26,911	31,113	31,113	31,113	26,506	26,799	26,799	26,799
Total	**256,915**	**291,117**	**291,117**	**291,117**	**221,506**	**246,807**	**246,807**	**246,807**
One-year variable remuneration	36,000	60,000	0	120,000	32,000	50,000	0	100,000
Multi-year variable remuneration								
Profit Sharing 2015	72,778				72,778			
Profit Sharing 2016		100,000	0	100,000		100,000	0	100,000
Total	**108,778**	**160,000**	**0**	**220,000**	**104,778**	**150,000**	**0**	**200,000**
Pension expense (IFRS)	29,696	31,967	31,967	31,967	25,300	28,770	28,770	28,770
Total remuneration	**395,389**	**483,084**	**323,084**	**543,084**	**351,584**	**425,577**	**275,577**	**475,577**

Contribution

in euros	Dr Rainer Baumgart Chairman 2015	Dr Rainer Baumgart Chairman 2016	Thomas Pleines Management Board 2015	Thomas Pleines Management Board 2016
Fixed remuneration	230,004	260,004	195,000	220,008
Ancillary benefits	26,911	31,113	26,506	26,799
Total	256,915	291,117	221,506	246,807
One-year variable remuneration	50,301	120,000	44,712	100,000
Multi-year variable remuneration				
Profit Sharing 2015	85,702		85,702	
Profit Sharing 2016		100,000		100,000
Total	136,003	220,000	130,414	200,000
Pension expense (IFRS)	29,696	31,967	25,300	28,770
Total remuneration	**422,614**	**543,084**	**377,220**	**475,577**

Total remuneration of the members of the Management Board in the 2016 financial year was 958 thousand euros (previous year: 745 thousand euros).

Total remuneration

in euros	Dr Rainer Baumgart Chairman 2015	Dr Rainer Baumgart Chairman 2016	Thomas Pleines Management Board 2015	Thomas Pleines Management Board 2016
Not performance-based components	256,915	291,117	221,506	246,807
Performance-based components	50,301	120,000	44,712	100,000
Components entailing long-term incentive	85,702	100,000	85,702	100,000
Total remuneration	**392,918**	**511,117**	**351,920**	**446,807**

The pension entitlements of the Management Board members were as follows as at 31 December 2016:

Pension entitlements 2016

	In accordance with IFRS			In accordance with HGB		
in euros	Present value	Ongoing service costs	Past-service costs	Scope of obligations	Provision	Bonus
Dr Baumgart	979,259	31,967	0	704,189	649,252	29,703
Pleines	745,745	28,770	0	445,272	404,078	20,585

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 scope of HGB obligation and provision set aside, amounting to a total of 96 thousand euros.

As at 31 December 2016, as on the same day of the previous year, no Management Board members held any secunet shares.

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

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

8.1.2. Remuneration of the Supervisory Board

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

Since the Annual General Meeting of 14 May 2014, the Supervisory Board remuneration has been structured 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 amounting to 16 thousand euros, and the Deputy 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 refunded separately after being invoiced.

For the 2016 financial year, the Supervisory Board salaries totalled 60.0 thousand euros (previous year: 60.0 thousand euros).

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

Remuneration of the Supervisory Board

in euros	2016	2015
Zattler	16,000.00	16,000.00
Kunz	12,000.00	12,000.00
Deininger	8,000.00	8,000.00
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**

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

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

8.2. Management Board report in line with 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 2016 financial year. The report contains the following closing statement: "It is hereby declared that our Company receives an appropriate consideration for each of the legal transactions listed. This assessment has been made on the basis of the circumstances known of at the time of the reportable proceedings. There were no further reportable legal transactions, measures or omissions in addition to the activities reported."

8.3. Forward-looking statements

This report contains forward-looking statements pertaining to the future development of secunet Security Networks 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, 14 March 2017

Dr Rainer Baumgart　　Thomas Pleines

Consolidated Financial Statements

of secunet Security Networks Aktiengesellschaft, Essen

Consolidated Balance Sheet

(according to IFRS) as at 31 December 2016

Assets

in euros	Note	31 Dec 2016	31 Dec 2015
Current assets			
Cash and cash equivalents	1	50,213,287.76	37,953,836.75
Trade receiveables	2	25,368,458.16	17,148,062.21
Intercompany financial assets	2	52,468.59	314,021.01
Inventories	4	8,385,779.36	11,619,235.74
Other current assets	2	555,853.92	296,175.11
Total current assets		**84,575,847.79**	**67,331,330.82**
Non-current assets			
Property, plant and equipment	3	3,712,740.00	2,337,440.00
Intangible assets	3	312,561.00	185,445.00
Goodwill	3	3,027,300.00	2,950,000.00
Non-current financial assets	5	5,412,940.00	2,942,932.00
Long-term financial assets shown in balance sheet in accordance with the equity method	6	177,641.87	1,671.64
Loans	6	635,666.67	300,000.00
Deferred taxes	7	1,356,722.49	1,043,397.42
Total non-current assets		**14,635,572.03**	**9,760,886.06**
Total assets		**99,211,419.82**	**77,092,216.88**

Liabilities

in euros	Note	31 Dec 2016	31 Dec 2015
Current liabilities			
Trade accounts payable	8	16,145,811.85	11,801,485.67
Intercompany payables	8	3,658.99	9,915.43
Other provisions	11	12,399,742.03	8,475,325.15
Income tax payable		3,326,291.98	2,311,120.09
Other current liabilities	8	5,285,982.50	2,823,051.37
Deferred income	9	8,890,832.00	6,042,257.58
Total current liabilities		**46,052,319.35**	**31,463,155.29**
Non-current liabilities			
Deferred taxes	7	234,470.00	169,235.65
Provisions for pensions	10	5,847,806.00	5,088,555.00
Other provisions	11	136,246.00	123,306.00
Total non-current liabilities		**6,218,522.00**	**5,381,096.65**
Equity			
Share capital	12	6,500,000.00	6,500,000.00
Capital reserves	12	21,922,005.80	21,922,005.80
Other reserves[1]	12	-1,580,433.20	-1,253,299.98
Revenue reserves[1]	12	20,099,005.87	13,079,259.12
Total equity	**12**	**46,940,578.47**	**40,247,964.94**
Total liabilities		**99,211,419.82**	**77,092,216.88**

[1] In order to make the report clearer and more concise, the representation of equity has been amended, and the previous year's data has been adapted.

Consolidated Income Statement

(according to IFRS) for the period from 1 January 2016 to 31 December 2016

in euros	Note	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Revenue	13	115,708,033.36	91,094,132.96
Cost of sales		-86,143,170.19	-68,302,591.75
Gross profit on sales		**29,564,863.17**	**22,791,541.21**
Selling expenses		-11,594,016.93	-9,997,402.00
Research and development costs		-50,737.27	11,462.74
General administration costs		-4,306,873.90	-4,225,793.45
Other operating income		134,088.36	0.00
Other operating expenses		-6,581.00	-13,671.35
Earnings before income and interest tax		**13,740,742.43**	**8,566,137.15**
Interest income	15	173,075.40	220,748.37
Interest expenses	15	-142,516.79	-137,531.91
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	6	-124,029.77	-8,491.23
Earnings before tax		**13,647,271.27**	**8,640,862.38**
Income taxes	16	-4,427,893.84	-2,541,947.76
Group profit		**9,219,377.43**	**6,098,914.62**
Earnings per share (diluted / undiluted)		1.43	0.94
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 2016 to 31 December 2016

in euros	Note	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Group profit		9,219,377.43	6,098,914.62
Items that cannot be transferred in the income statement			
Revaluation of defined benefit pension plans		-480,381.20	322,540.00
Income tax on items that are not reclassified into the income statement		152,713.44	-104,115.91
		-327,667.76	**218,424.09**
Items that can be transferred in the income statement			
Currency conversion differences (change not affecting income)	12	534.54	10,499.85
Other comprehensive income / loss		**-327,133.22**	**228,923.94**
Consolidated comprehensive income / loss		**8,892,244.21**	**6,327,838.56**

Consolidated Cash Flow Statement

(according to IFRS) for the period from 1 January 2016 to 31 December 2016

in euros	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Cash flow from operating activities		
Earnings before tax	13,647,271.27	8,640,862.38
Depreciation and amortisation of tangible and intangible fixed assets	1,502,017.80	1,239,927.37
Change in provisions	4,094,330.68	1,262,700.75
Book gains / losses (net) on the sale of intangible assets and of property, plant and equipment	4,454.95	28,339.55
Interest result	-30,558.61	-83,216.46
Change in receivables and other assets and prepaid expenses	-4,985,085.42	-6,949,817.91
Change in liabilities and deferred income	9,649,555.83	1,397,868.22
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	124,029.77	8,491.23
Tax paid	-3,508,099.23	-1,108,283.31
Cash from operating activities	**20,497,917.04**	**4,436,871.82**
Cash flow from investing activities		
Purchase of intangible assets and of property, plant and equipment	-3,094,385.80	-1,816,282.92
Proceeds from the sale of intangible assets and of property, plant and equipment	8,197.05	0.00
Purchase of financial assets	-2,470,008.00	-177,863.00
Disbursements for investments in long-term financial assets	-600,000.00	-310,162.87
Cash from investing activities	**-6,156,196.75**	**-2,304,308.79**
Cash flow from financing activities		
Dividend payment	-2,199,630.68	-1,746,765.54
Interest received	137,408.73	220,748.37
Interest paid	-20,620.79	-18,330.91
Cash flow from financing activities	**-2,082,842.74**	**-1,544,348.08**
Effects of exchange rate changes on cash and cash equivalents	573.46	10,723.25
Change in cash and cash equivalents	**12,259,451.01**	**598,938.20**
Cash and cash equivalents at the beginning of the period	37,953,836.75	37,354,898.55
Cash and cash equivalents at the end of the period	**50,213,287.76**	**37,953,836.75**

For further explanations, see Note 17.

Consolidated Statement of Changes in Equity

(according to IFRS) for the period from 1 January 2016 to 31 December 2016

in euros	Share capital	Capital reserves	
Equity as at 1 Jan 2015	6,500,000.00	21,922,005.80	
Group profit 1 Jan – 31 Dec 2015			
Other comprehensive income / loss 1 Jan – 31 Dec 2015			
Consolidated comprehensive income 1 Jan - 31 Dec 2015			
Dividend payment			
Equity as at 31 Dec 2015 / 1 Jan 2016	6,500,000.00	21,922,005.80	
Group profit 1 Jan – 31 Dec 2016			
Other comprehensive income / loss 1 Jan – 31 Dec 2016			
Consolidated comprehensive income 1 Jan - 31 Dec 2016			
Dividend payment			
Equity as at 31 Dec 2016	6,500,000.00	21,922,005.80	

[1] In order to make the report clearer and more concise, the representation of equity has been amended, and the previous year's data has been adapted.

For further information on the development of the Group's equity, see Note 12.

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 taxes allocated to components of the other income / loss	Total[1]	Revenue reserves[1]	Total
-103,739.83	-17,831.50	-2,009,233.00	648,580.41	-1,482,223.92	8,727,110.04	35,666,891.92
	0.00	0.00	0.00	0.00	6,098,914.62	6,098,914.62
	10,499.85	322,540.00	-104,115.91	228,923.94	0.00	228,923.94
	10,499.85	322,540.00	-104,115.91	228,923.94	6,098,914.62	6,327,838.56
	0.00	0.00	0.00	0.00	-1,746,765.54	-1,746,765.54
-103,739.83	-7,331.65	-1,686,693.00	544,464.50	-1,253,299.98	13,079,259.12	40,247,964.94
	0.00	0.00	0.00	0.00	9,219,377.43	9,219,377.43
	534.54	-480,381.20	152,713.44	-327,133.22	0.00	-327,133.22
	534.54	-480,381.20	152,713.44	-327,133.22	9,219,377.43	8,892,244.21
	0.00	0.00	0.00	0.00	-2,199,630.68	-2,199,630.68
-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

Notes to the Consolidated Financial Statements

(according to IFRS) for the 2016 financial year

General principles

Reporting company

secunet Security Networks Aktiengesellschaft (hereafter referred to as “secunet AG” or “secunet”) is registered with the district court in Essen, 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.

The 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, 315a Para. 1 of the German Commercial Code (Handelsgesetzbuch, HGB) have been met. The IFRS 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 the 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 Company and Group Management Report were released by the Management Board on 14 March 2017 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 are filed with the operator of the electronic Federal Gazette.

First-time adoption of new and modified standards and interpretations

Compared with the Consolidated Financial Statements as at 31 December 2015, the following new and modified 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:
Modified standards		
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities, application of the consolidation exception	1 January 2016
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 1	Disclosure Initiative	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants	1 January 2016
Amendment to IAS 27	Equity method in individual financial statements	1 January 2016
Improvements to IFRS 2012 – 2014	Amendment to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016

The application of the modified standards 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 14	Regulatory Deferral Accounts	Cannot yet be foreseen
IFRS 16	Leases	FY 2019
Modified standards (not yet endorsed by the EU)		
Amendments to IFRS 2	Classification and measurement of share-based payments	FY 2018
Amendments to IFRS 4	Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts	FY 2018
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	Cannot yet be foreseen
Amendments to IFRS 15	Clarification on IFRS 15	FY 2018
Amendments to IAS 7	Disclosure Initiative	FY 2017
Amendments to IAS 12	Factoring in of deferred tax assets for unrealised losses	FY 2017
Amendments to IAS 40	Transfers of real estate held as financial investments	FY 2018
Improvements to IFRS 2014 – 2016	Amendments to IFRS 12	FY 2017
Improvements to IFRS 2014 – 2016	Amendments to IFRS 1 and IAS 28	FY 2018
Modified standards (EU endorsement completed by 31 December 2016)		
IFRS 9	Financial Instruments	FY 2018
IFRS 15	Revenue from Contracts with Customers	FY 2018
Modified interpretations (not yet endorsed by the EU)		
IFRIC 22	Transactions in foreign currency and consideration paid in advance	FY 2018
IFRS 15	Revenue from Contracts with Customers	FY 2018

An early adoption of these standards and interpretations is not planned. The adoption of IFRS 16 (Leasing) will lead to material effects (balance sheet extension), which cannot currently be reliably predicted; no significant effects on the EBIT are expected.

The effects due to the application of the new IFRS 15 are currently being meticulously analysed and assessed. However, a conclusive statement with a sufficient degree of certainty will not yet be possible on the balance sheet date.

No material effects on the secunet Consolidated Financial Statements are expected as a result of adopting the other new and modified standards and interpretations.

Amended statement

In order to make the report clearer and more concise, the representation of equity has been amended. The Reserve for treasury shares, and Accumulated other comprehensive income / loss items are summarised in the Other reserves balance sheet item. The Consolidated profit brought forward and Consolidated result for the period items stated in the previous year will in future be summarised together with other retained income in the Retained income balance sheet item.

Accounting principles

The present Consolidated Financial Statements as at 31 December 2016, with the exception of the amendments due to the first adoption of new or amended IAS / IFRS 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 2016 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 Group balance sheet and Group 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 exist if secunet has the authority to dispose of the associate company, has a right to variable returns from the participation and has the opportunity to use the authority to dispose of the associate company in a way that can influence the variable returns. In the reporting year and in the previous year, there were no non-controlling interests (minority interests) in equity or in profit or loss for the period.

As at 31 December 2016, the consolidated Group consisted of the parent company secunet AG and two fully consolidated subsidiaries, as in the previous year. In accordance with IFRS, the subsidiaries report the following figures:

» secunet SwissIT AG, Switzerland, Solothurn, 100% participation, equity of the Company as of 31 December 2016 69 thousand Swiss francs, net income for 2016 -1 thousand Swiss francs.

» secunet s.r.o., Czech Republic, Prague, 100% participation, equity of the Company as at 31 December 2016 3,266 thousand Czech crowns, net income for 2016 -238 thousand Czech crowns.

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 financial year 2002 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 of the foreign subsidiaries and the associated companies included in the consolidated financial statements. The reporting date for secunet AG and for all consolidated companies is 31 December 2016.

After this year's deposit of the loan granted in the previous year, secunet AG holds 18% (previous year: 10%) of the shares in finally safe GmbH, Essen. Due to the significant influence on the company, the latter is an associated company as a result of the participation, which means that the shares are reported and measured in accordance with the equity method.

Basis of consolidation

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

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

Write-downs 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 amounts of the companies are updated with the pro-rata results, 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:

	2016		2015	
1 euro =	CHF	CZK	CHF	CZK
31 Dec	1.0738	27.0213	1.0828	27.0250
Average	1.0899	27.0406	1.0637	27.2791

Financial instruments

Financial assets and financial liabilities are recognised if a Group company is party to the agreement on the financial instrument.

Financial assets or liabilities are initially recognised at the cost of acquisition, which corresponds to their fair value plus transaction costs.

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

» Loans and receivables

» Financial liabilities measured at amortised cost

» Financial assets measured at fair value through profit or loss

Loans and receivables and financial liabilities measured at amortised cost

Loans and receivables will be reported from the time at which they arose.

These are non-derivative financial assets or liabilities with fixed or determinable payments that are not listed on an active market. They are measured at amortised cost minus any required impairments using the effective interest method.

Loans and receivables encompass trade receivables, cash and other current assets.

Financial liabilities measured at amortised cost encompass trade accounts payable and other current liabilities.

Financial assets measured at fair value through profit or loss

Financial assets are measured at fair value through profit or loss if the financial asset is either held for trading purposes or is designated as being measured at fair value through profit or loss.

Financial assets are not currently held for trading purposes.

A financial asset is designated as being measured at fair value through profit or loss if this approach substantially reduces or removes any inconsistencies with regard to measurement and disclosure that would otherwise arise.

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, fair value hierarchy level 2 classification has been applied.

Financial assets measured at fair value through profit or loss are measured at fair value. Any profit or loss resulting from the measurement is recognised in the income statement. The net profit or loss recorded includes any dividend or interest from the financial asset and is reported under "General administrative costs" in the Consolidated Income Statement.

Loans and receivables and financial assets are derecognised when the Company gives up control of the contractual rights that comprise the financial asset. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Details of the type of financial instruments including material contractual agreements on maturities and other terms and conditions that may affect the amount, timing and probability of occurrence of future cash flows are given elsewhere in these notes (Note 2).

If, in the case of financial assets measured at amortised cost, there are objective and substantial grounds for impairment, a test is carried out to determine whether the carrying amount exceeds the present value of the expected future cash flows. Indications of impairment include a material deterioration in credit rating, significant delays in payment or the insolvency of the borrower.

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.

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.

Property, plant and equipment

Property, plant and equipment consists not only of office and operating equipment but also of assets under construction and is measured at historical 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 item will flow to the Group and the cost of the item can be measured reliably. 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 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.

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 into account deferred taxes. In accordance with IAS 12 (Income Taxes), deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the IFRS financial statements 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 on 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 income / loss.

Leases

Leases of property, plant and equipment where the Group has substantially borne all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property 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 are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis 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 and where the amount can be reliably estimated, and where an outflow of economic benefits is likely to perform this 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 provision is 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 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 in which the employee provides the related services.

Prepaid and deferred items

Expenditure and earnings prior to the balance sheet date are accrued provided that they lead to expenses or income after this 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.

secunet AG's capital reserves were at 1,902,005.80 euros resulting from payments by the shareholder before the transformation of secunet AG into a public 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 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.

Revenue recognition

Revenues are recognised when it is probable that the future economic benefits associated with the corresponding transaction will flow to the Company and when the amount of revenue can be reliably measured.

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.

Proceeds from the sale of goods are recorded according to IAS 18.14, if control and the main risks and opportunities are transferred to the buyer.

According to IAS 18, revenue from services is recognised with reference to the estimated stage of completion, provided that the criteria under IAS 18.20 are met. Work already done for clients as at the balance sheet date but not yet invoiced is recognised as revenues in the amount of the work already carried out in relation to the overall service to be performed. The stage of completion is subject to an estimate to the extent that the total costs incurred can only be estimated at the time of measurement. Loss-free valuation is used. The resulting balance sheet entry is recognised under trade receivables.

Revenue recognition for separately identifiable components of a single transaction follows IAS 18.13. Transactions with separately identifiable components are contracts where the buyer receives a service in addition to a good. The existing recognition criteria are to be applied separately to each component of the transaction.

Revenue from contractual services that are to be performed in a period subsequent to the balance sheet date and have already been invoiced is deferred and then recognised in the income statement over the agreed term.

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 (Note 3), the value of receivables (Note 2), the recognition and measurement of provisions (Notes 10 and 11) and the recognition of revenue in the case of services (see section on Revenue recognition). 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 3, Goodwill).

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 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 3) and when categorising financial assets and liabilities (see Notes 2 and 5).

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

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

Trade receivables in the amount of 25,368,458.16 euros (previous year: 17,148,062.21 euros) include an accrued amount for services to customers not yet charged on 31 December 2016 of 2,260,896.39 euros (previous year: 2,248,275.37 euros), of which 0 euros were intercompany payables (previous year: 384,051 euros). All intercompany financial assets also result from trade receivables.

The maturities of all trade receivables are as follows:

Days overdue

in euros	31 Dec 2016	31 Dec 2015
Not due	20,928,365.84	15,219,922.22
1 – 30	3,874,141.00	1,904,717.00
31 – 90	300,294.00	148,988.00
91 – 180	48,093.00	113,489.00
181 – 360	175,015.00	74,967.00
>360	165,017.91	354,999.67
Total	**25,490,926.75**	**17,817,082.89**

The valuation allowances for trade receivables and intercompany financial assets were as follows:

in euros	2016	2015
As at 1 Jan	**354,999.67**	**0.00**
Added	70,000.00	354,999.67
Released	-354,999.67	0.00
As at 31 Dec	**70,000.00**	**354,999.67**

A 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.

As at the balance sheet date, unimpaired receivables not yet due and other assets are assessed as being of value by the Management Board. This assessment is based on past experiences, the customer structure and long-term corporate relationships.

Additions to and reversal of valuation allowances are recorded in the income statement under sales and marketing expenses.

The other current assets to the amount of 555,853.92 euros (previous year: 296,175.11 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 and intangible assets

Property, plant and equipment

The movement in property, plant and equipment, which in addition to office and operating equipment also includes assets under construction, may be summarised as follows:

	2016			2015		
in euros	Assets under construction	Office and operating equipment	Property, plant and equipment	Assets under construction	Office and operating equipment	Property, plant and equipment
Accumulated historical cost as at 1 Jan	240,000.00	9,696,495.11	9,936,495.11	0.00	9,210,243.53	9,210,243.53
Additions	0.00	2,773,929.96	2,773,929.96	240,000.00	1,410,094.01	1,650,094.01
Reclassifications	-240,000.00	240,000.00	0.00	0.00	0.00	0.00
Disposals	0.00	-689,216.28	-689,216.28	0.00	-923,842.43	-923,842.43
As at 31 Dec	0.00	12,021,208.79	12,021,208.79	240,000.00	9,696,495.11	9,936,495.11
Accumulated depreciation as at 1 Jan	0.00	7,599,055.11	7,599,055.11	0.00	7,337,067.53	7,337,067.53
Additions	0.00	1,385,977.96	1,385,977.96	0.00	1,157,490.46	1,157,490.46
Disposals	0.00	-676,564.28	-676,564.28	0.00	-895,502.88	-895,502.88
As at 31 Dec	0.00	8,308,468.79	8,308,468.79	0.00	7,599,055.11	7,599,055.11
Carrying amount as at 31 Dec	**0.00**	**3,712,740.00**	**3,712,740.00**	**240,000.00**	**2,097,440.00**	**2,337,440.00**

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

Intangible assets

The movement in intangible assets may be summarised as follows:

	2016		2015	
in euros	Goodwill	Intangible assets	Goodwill	Intangible assets
Accumulated historical cost as at 1 Jan	2,950,000.00	1,360,475.12	2,950,000.00	1,354,423.31
Additions	77,300.00	243,155.84	0.00	166,188.91
Disposals	0.00	-36,662.61	0.00	-160,137.10
As at 31 Dec	3,027,300.00	1,566,968.35	2,950,000.00	1,360,475.12
Accumulated depreciation as at 1 Jan	0.00	1,175,030.12	0.00	1,252,730.31
Additions	0.00	116,039.84	0.00	82,436.91
Disposals	0.00	-36,662.61	0.00	-160,137.10
As at 31 Dec	0.00	1,254,407.35	0.00	1,175,030.12
Carrying amount as at 31 Dec	**3,027,300.00**	**312,561.00**	**2,950,000.00**	**185,445.00**

Regular depreciations are recorded under the area of activity associated with the asset. There were no unscheduled depreciations in the year under review.

As in the previous year, in the 2016 financial year there were no development costs subject to mandatory capitalisation.

Goodwill

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

Carrying amount of the goodwill

in thousand euros	31 Dec 2016	31 Dec 2015
Public Sector	2,745	2,668
Business Sector	282	282
	3,027	**2,950**

Goodwill was allocated to the cash-generating units in accordance with the Group's management structure. 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.

The eID Testing division of HJP Consulting GmbH was acquired in September 2016. This transaction led to goodwill in the amount of 77 thousand euros.

secunet Group is split into two divisions, the Public Sector and the Business Sector.

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. This value is calculated from the discounted cash flow of the relevant unit. Cash flows are determined based on the EBIT determined as part of annual planning. This is forwarded to Noplat (net-operating-profit less adjusted taxes) and adjusted for depreciation and investments. A discount rate (WACC) of 7.33% was used for these calculations (previous year: 8.21%). A risk-free interest rate (taken from the analyst estimate) of 0.5% (previous year: 1.5%), a risk premium of 6.5% (previous year: 5.5%) and a beta factor of 1.05 (previous year: 1.22) 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 with 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.

4. Inventories

in thousand euros	31 Dec 2016	31 Dec 2015
Trade goods	8,385,779.36	11,619,235.74
Total	**8,385,779.36**	**11,619,235.74**

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

The strong increase in the product business led to a decline in the merchandise stocks as at the balance sheet date.

During the reporting year, value adjustments for merchandise resulted in an expense in the amount of 186 thousand euros (previous year: no value adjustments).

5. Non-current financial assets

The premium reserve shares from reinsurance contracts shown under non-current financial assets amount to 5,412,940.00 euros (previous year: 2,942,932.00 euros). Due to a one-off deposit into the premium reserve shares from reinsurance contracts made during the reporting year, the non-current financial assets increased by the amount of 2.5 million euros to 5.4 million euros.

These reinsurance contracts are for the reinsurance of the existing defined benefit obligations related to 23 (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.

6. Long-term financial assets shown in the balance sheet according to the equity method

Participation calculated at equity consists of the shares in finally safe GmbH, Essen. Although secunet holds just 18% (previous year: 10%) of the voting rights on the balance sheet date, it nonetheless holds a significant influence thanks to the arrangements in the Articles of Association of finally safe GmbH.

It is planned that the participation in finally safe GmbH will be gradually extended. This, combined with the granting of loans, will provide support for the company to bring the technologies it has developed (the internet analysis system) to market. In the 2016 financial year, the loan granted in the previous year in return for awarding further shares in the business was deposited in the company. secunet AG, in its role as shareholder, granted a further loan to finally safe GmbH of 600 thousand euros during the 2016 financial year.

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

in euros	2016	2015
Carrying amount 1 Jan	1,671.64	0.00
Additions	300,000.00	10,162.87
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method.	-124,029.77	-8,491.23
Carrying amount 31 Dec	**177,641.87**	**1,671.64**

The essential financial information of the Company is as follows:

in thousand euros	31 Dec 2016	31 Dec 2015
Current assets	204	288
Non-current assets	62	14
Current liabilities	57	60
Non-current liabilities	635	301
	2016	2015
Revenue	46	0
Group profit	-689	-94
Total result	-689	-94

7. Deferred taxes

There are no domestic loss carryforwards as at the balance sheet date.

In addition, there were loss carryforwards at the foreign companies of 538 thousand euros (previous year: 833 thousand euros) for which no deferred taxes were recognised. Deferred tax claims not recognised totalled 114 thousand euros (previous year: 170 thousand euros). The losses carried forward relate to five (secunet s.r.o) and seven (secunet SwissIT AG) years.

A tax rate of 31.79% was used to calculate deferred taxes (previous year: 32.28%). This tax rate includes trade tax and corporate tax and also the solidarity surcharge.

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

Balance sheet entry

in euros	31 Dec 2016	31 Dec 2015
Deferred tax assets		
from provisions for pensions	1,183,741.98	1,009,097.98
from goodwill	41,914.16	0.00
from other items	131,066.35	34,299.44
	1,356,722.49	**1,043,397.42**
Deferred tax liabilities		
from trade receivables	-149,908.92	-164,048.25
from other items	-84,561.08	-5,187.40
	-234,470.00	**-169,235.65**
Total	**1,122,252.49**	**874,161.77**

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

Income statement for expenses / income

in euros	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Deferred tax assets		
from provisions for pensions	21,930.56	40,882.62
from goodwill	914.16	0.00
from other items	96,766.91	5,251.30
	119,611.63	**46,133.92**
Deferred tax liabilities		
from trade receivables	14,139.33	-40,843.56
from other items	-79,373.68	-5,187.40
	-65,234.35	**-46,030.96**
Total from deferred taxes	**54,377.28**	**102.96**

In the 2016 financial year, deferred tax income of 152,713.44 euros was recorded under other income / loss (deferred tax expense in the previous year: 104,115.91 euros).

8. 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 2016	31 Dec 2015
Payable value-added tax	4,253,709.34	1,495,924.84
Down payments and advances received	555,230.12	919,356.09
Payable wage income tax and church tax	467,972.32	401,753.38
Payable social security contributions	3,319.02	3,469.81
Other liabilities	5,751.70	2,547.25
Total	**5,285,982.50**	**2,823,051.37**

The maturities of the liabilities are as shown below:

	Total		Remaining term up to 1 year		Remaining term of 1 to 5 years		Remaining term of over 5 years	
in euros	2016	2015	2016	2015	2016	2015	2016	2015
Trade accounts payable	16,145,811.85	11,801,485.67	16,145,811.85	11,801,485.67	0.00	0.00	0.00	0.00
Intercompany payables	3,658.99	9,915.43	3,658.99	9,915.43	0.00	0.00	0.00	0.00
Income tax liabilities	3,326,291.98	2,311,120.09	3,326,291.98	2,311,120.09	0.00	0.00	0.00	0.00
Other current liabilities	5,285,982.50	2,823,051.37	5,285,982.50	2,823,051.37	0.00	0.00	0.00	0.00
Deferred income	8,890,832.00	6,042,257.58	4,870,715.00	3,349,305.19	3,992,970.83	2,692,952.39	27,146.17	0.00

9. Prepaid and deferred items

Earnings prior to the balance sheet date that represent income for a certain period of time after this day are reported under prepaid and deferred liabilities. This item contains transactions where secunet AG has generated income attained in advance due to multiple-year maintenance and support contracts, but where the revenue has to be recognised over the full term of the contract. The increase compared to the previous year was related to the strong increase in the product business.

10. Pension provisions

in euros	2016	2015
Opening balance as at 1 Jan	5,088,555.00	5,191,728.00
Benefits paid	-14,326.20	-14,326.00
Additions	293,196.00	233,693.00
Addition / reversal not affecting profit / loss in other income	480,381.20	-322,540.00
Closing balance as at 31 Dec	**5,847,806.00**	**5,088,555.00**

Provisions for pensions and similar liabilities are formed on the basis of the Company's individual contract commitments towards its employees. 24 present and former employees at secunet AG who were employed at other companies in the past are entitled to a pension (previous year: 23 employees). New employees of secunet AG are not eligible for pensions. The 24 pensionable persons consist of 23 candidates and one pension beneficiary.

As a result of company mergers 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 benefits each year of service as an old-age pension. In the second type of plan, the beneficiary is granted a fixed component for old-age pension.

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

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

The certificate for the eligible employees of secunet AG as at 31 December 2016 is 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: 2.4% p.a.). Prof Klaus Heubeck's 2005 G mortality tables were used as the basis for the calculation.

To determine the actuarial interest rate, a yield curve as of 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 obligation.

The parameters were set based on the data from December 2016.

Sensitivity analysis

Valuation parameter	Baseline value	Sensitivity	Effect on provisions (in thousand euros)
Actuarial interest	1.90%	+ 1.00%	-1,143
Actuarial interest	1.90%	- 1.00%	1,534
Salary growth	2.50%	+ 0.50%	163
Salary growth	2.50%	- 0.50%	-155
Pension growth	2.00%	+ 0.50%	418
Pension growth	2.00%	- 0.50%	-377
Life expectancy	Heubeck 2005 G	+ 1 year	200
Life expectancy	Heubeck 2005 G	- 1 year	-193

The sensitivity calculations are based on the average terms of commitments as at 31 December 2016. Separate calculations were performed for all actuarial parameters considered to be material, so as to show the effects on the present value of defined benefit obligations as at 31 December 2016 separately. Since the sensitivity analyses are based on the average duration of expected commitments, 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	2016	2015
As at 1 Jan	5,088,555.00	5,191,728.00
Current service cost	171,297.00	114,492.00
Interest expense	121,899.00	119,201.00
Actuarial gains and losses from		
experience-based adjustments	-132,078.00	-205,958.00
changes to financial assumptions	612,459.20	-116,582.00
Benefits paid	-14,326.20	-14,326.00
As at 31 Dec	**5,847,806.00**	**5,088,555.00**

Of the defined benefit obligations, 81.4% (previous year: 80.5%) relate to active claimants. 12.6% (previous year: 13.0%) relate to claimants who have left and 6.0% (previous year: 6.5%) relate to pension beneficiaries. Pension commitments do not expire.

The weighted average duration of the defined benefit obligations up to 31 December 2016 is 23.0 years (previous year: 24.0 years).

Costs arising from the defined benefit obligations and included in the income statement were comprised of the following:

in euros	2016	2015
Current service cost	171,297.00	114,492.00
Interest expense	121,899.00	119,201.00
Cost for the year	**293,196.00**	**233,693.00**

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 provisions of 14,326 euros (previous year: 14,326 euros), were paid directly by the employer.

Against the defined benefit obligation were premium reserve shares from reinsurance contracts in the amount of 5,412,940.00 euros (previous year: 2,942,932.00 euros), which do not represent plan assets under IAS 19.

Pension provision of 6,131,023 euros is expected as at 31 December 2017, based on an annual expense of 300,326 euros and planned pension payments of 17,109 euros.

In the reporting year, secunet AG paid contributions of 2,246 thousand euros (previous year: 2,024 thousand euros) into the statutory pension insurance plan, which is regarded as a defined contribution plan. In the case of defined contribution pension plans, the Company has no further obligations beyond the payment of contributions.

11. Other provisions

Developments in other provisions are shown in the table below:

in euros	1 Jan 2016	Utilisation	Released	Additions	31 Dec 2016
Non-current provisions					
Provisions for anniversary bonuses	123,306.00	0.00	0.00	12,940.00	136,246.00
Current provisions					
Annual employee bonuses	6,023,300.00	-6,023,300.00	0.00	9,821,524.00	9,821,524.00
Accrued holidays	513,921.00	-513,921.00	0.00	610,816.00	610,816.00
Dismantling and maintenance work	463,000.00	-170,000.00	-200,000.00	426,642.17	519,642.17
Warranties	303,590.00	0.00	-103,590.00	272,000.00	472,000.00
Deferred costs	463,376.51	-451,421.46	0.00	394,884.67	406,839.72
Professional association contributions	117,000.00	-117,000.00	0.00	125,100.00	125,100.00
Risks of litigation	129,562.40	-48,470.00	-50,000.00	0.00	31,092.40
Others	461,575.24	-388,977.78	-20,764.46	360,894.74	412,727.74
	8,475,325.15	-7,713,090.24	-374,354.46	12,011,861.58	12,399,742.03
Total	**8,598,631.15**	**-7,713,090.24**	**-374,354.46**	**12,024,801.58**	**12,535,988.03**

In 2010, a provision of 225 thousand euros was formed for litigation risks relating to a case in which the Company is the defendant, to which provision a further amount of 100 thousand euros was added in 2012. The value in dispute is 450 thousand euros. The provision was formed to cover defence costs and the creation of expert reports to be submitted in court. Another 49 thousand euros of the closing balance as at 31 December 2015 of 80 thousand euros were used up during 2016. This was mainly used to pay for legal advice.

Thanks to the excellent annual result, the provision for employees' annual bonuses increased against the previous year.

The Company won a court case in which it was the defendant, for which a provision of 54 thousand euros had been formed in the previous year. The provision was therefore liquidated.

The expected realisation arising from the warranty for a project did not take place. This section of the provisions could therefore be liquidated again within the financial year.

The provisions for dismantling and maintenance work for the most part include dismantling and maintenance work to be carried out by the Company for the rented properties in Essen and Dresden.

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

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

12. Equity

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

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

The subscribed capital has remained 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 a net income of 9,219,377.43 euros, diluted and undiluted earnings per share were 1.43 euros (6,469,502 shares), compared with 0.94 euros (6,469,502 shares) in the previous year.

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 company limited by shares. 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 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 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.

Compared to the previous year, the revenue reserve increased from 13,079 thousand euros to 20,099 thousand euros. This change was based on the Group profit or loss for the period of 9,219 thousand euros and the dividend payments of 2,199 thousand euros paid during the reporting year.

Use of the balance sheet profit

From the balance sheet profit of 10,121,264.34 euros reported for the 2015 financial year in the Annual Financial Statements in accordance with the HGB, dividends of 0.34 euros per share (amounting to a total of 2,199,630.68 euros) were distributed in the 2016 financial year in accordance with the resolution of the Annual General Meeting of 12 May 2016. The remaining sum, amounting to 7,921,633.66 euros, was carried over to the next statement as profit.

The Annual Financial Statements in accordance with the HGB of secunet AG for the 2016 financial year show net income for the year of 9,421,920.71 euros. The Management Board and the Supervisory Board decided to deposit an amount of 4,710,960.35 euros from this sum into other revenue reserves. Together with the profit carryforward after dividend payments of 7,921,633.66 euros, this led to a balance-sheet profit of 12,632,594.02 euros as at 31 December 2016.

The Management Board suggested to the Annual General Meeting to distribute 0.58 euros per share to the 6,469,502.00 euros of share capital entitled to a dividend and to deposit the remaining amount of 8,880,282.86 euros in other revenue reserves. When determining the share capital entitled to a dividend, the total of 30,498 treasury shares was deducted.

in euros	2016
Carryforward as at 1 Jan 2016	10,121,264.34
Net income for the year 2016	9,421,920.71
Deposit into other revenue reserves	-4,710,960.35
Dividend payment in 2016	-2,199,630.68
Net accumulated profit / loss as at 31 Dec 2016	**12,632,594.02**
Proposal for the appropriation of distributable earnings	
Dividend payment in 2017	-3,752,311.16
Deposit into other revenue reserves	-8,880,282.86
Carryforward	0.00

Notes to the income statement

13. Revenues

Domestic revenues totalled 101,941,025.18 euros (previous year: 81,156,684.68 euros). Revenues generated abroad amounted to 13,767,008.18 euros (previous year: 9,937,448.28 euros). Revenues are divided up by customer location.

Approximately 58.6 million euros of the revenue is related to the Group's major customer as defined in IFRS 8.34. This revenue was generated in the Public Sector division. No other individual customer accounted for 10% or more of the Group's revenues in 2016.

The revenues include 12,954,691.26 euros of sales for support and maintenance services (previous year: 10,753,637.09 euros).

14. 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	2016	2015
Expenses for raw materials, consumables and operating materials	42,211,511.38	31,468,833.49
Cost of purchased services	5,295,166.34	4,373,190.70
Material expenses	**47,506,677.72**	**35,842,024.19**
Wages and salaries	33,733,791.81	27,643,985.56
Social security costs	4,659,502.44	4,089,541.76
Old age pension costs	171,300.00	101,473.20
Personnell expenditure	**38,564,594.25**	**31,835,000.52**
Depreciations (scheduled)	**1,502,017.80**	**1,239,927.37**

15. Interest income / expense

In the 2016 financial year, lease payments of 173,075.40 euros (previous year: 220,748.37 euros) were generated. Of this amount, 132,673.60 euros (previous year: 163.748,53 euros) relates to interest income from short-term loans to shareholders Giesecke & Devrient GmbH. The remaining amount (40,401.80 euros, previous year: 56,999.84 euros) is mainly attributed to interest income on loans to affiliated companies (previous year: interest on tax rebates).

The interest expense of 2016 of 142,516.79 euros (previous year: 137,531.99 euros), in addition to the interest on pensions (121,896.00 euros, previous year: 119,201.00 euros), essentially comprises the interest on other provisions.

16. Income taxes

In the reporting year, current taxes of 4,482,271.12 euros were incurred (previous year: 2,542,050.72 euros). This includes taxes for previous years in the amount of 63,289.00 euros (previous year: 324,683.12 euros). For deferred taxes see Notes under 7.

The income tax expense is derived from the theoretical tax expense, applying a tax rate of 31.79% (previous year: 32.28%) 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	2016	2015
Group profit before tax	13,647,271.27	8,640,862.38
Expected tax expense	-4,338,467.54	-2,789,270.38
Trade tax adjustments	-47,412.53	-48,868.18
Tax rate differences, international	-1,215.04	-2,137.13
Previous year's taxes	63,289.00	324,683.12
Permanent differences	39,429.06	0.00
Temporary differences	41,000.00	0.00
Non-deductible expenses	-23,099.73	-18,375.39
Other items	-1,558.94	-7,979.80
Effective tax expense	**-4,427,893.84**	**-2,541,947.76**

As at 31 December 2016, 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 32.4% (previous year: 29.4%).

17. 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, 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.

18. Segment reporting

At the beginning of the 2013 financial year, the secunet Group carried out an organisational restructuring and since then has been divided into two divisions, the Public Sector and the 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 2016

in thousand euros	Public Sector	Business Sector	secunet 2016
Segment income	100,186	15,522	115,708
Cost of sales	-73,585	-12,558	-86,143
Selling expenses	-9,186	-2,408	-11,591
Research and development expenses	-51	0	-51
Administrative costs	-3,106	-1,074	-4,180
Segment result (EBIT)	14,259	-517	13,740
Interest result			30
Income from investments			-124
Group profit before tax			13,646
Goodwill	2,745	282	3,027

Segment report 2015

in thousand euros	Public Sector	Business Sector	secunet 2015
Segment income	79,153	11,941	91,094
Cost of sales	-58,966	-9,337	-68,303
Selling expenses	-7,897	-2,100	-9,997
Research and development expenses	11	0	11
Administrative costs	-3,080	-1,160	-4,240
Segment result (EBIT)	9,221	-656	8,565
Interest result			83
Income from investments			-8
Group profit before tax			8,640
Goodwill	2,668	282	2,950

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 the Secure Inter-Network Architecture, SINA, 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 official documents, the electronic health card (eHealth), security validation and secure web solutions. This division operates a BSI-certified evaluation laboratory for IT conformity.

The staff of 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 result.

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 information on the revenues can be found in Note 13.

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

19. Other disclosures

Capital management

The capital management of the 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 as at 31 December 2016 was 46.940.578,47 euros (previous year: 40.247.964,94 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 level of cash holdings at all times.

Given the high level of available funds, the Group has to date never needed to make use of credit lines.

At the end of the year, the Group had cash and cash equivalents amounting to 50.213.287,76 euros at its disposal (previous year: 37.953.836,75 euros). Current financial liabilities stood at 33.652.577,32 euros (previous year: 22.987.830,14 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 revenues in the eurozone. 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 IAS 39. With the exception of premium reserves from reinsurance contracts, no financial assets or liabilities were measured at fair value.

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. These developed as follows:

in euros	2016	2015
Carrying amount as at 1 Jan	2,942,932.00	2,765,069.00
Incoming payments	2,359,514.92	105,005.90
Outgoing payments	-13,379.28	0.00
Income recorded in the income statement	123,872.36	72,857.10
Carrying amount as at 31 Dec	**5,412,940.00**	**2,942,932.00**

During the 2016 financial year, expenses amounting to 73 thousand euros (previous year: 357 thousand euros) arose from impairments for financial instruments measured at amortised cost.

Additional notes on financial instruments

Measurement method pursuant to IAS 39

	Measurement categories as defined in IAS 39.9	Loans and receivables		Financial liabilities measured at amortised cost	Financial assets measured at fair value through profit or loss	
Assets in euros	Financial instrument classes as defined in IFRS 7.6 Carrying amount 31 Dec 2016	Assignments with assetside balance vis-á-vis customers	Financial instruments measured at amortised cost		Financial instruments measured at fair value	Not financial instruments as IAS 39 and IFRS 7
Current assets						
Cash and cash equivalents	50,213,287.76		50,213,287.76			0.00
Trade receiveables	25,368,458.16	2,260,896.39	23,107,561.77			0.00
Intercompany financial assets	52,468.59		52,468.59			0.00
Inventories	8,385,779.36					8,385,779.36
Other current assets	555,853.92		555,853.92			0.00
Non-current assets						
Property, plant and equipment	3,712,740.00					3,712,740.00
Intangible assets	312,561.00					312,561.00
Goodwill	3,027,300.00					3,027,300.00
Non-current financial assets	5,412,940.00				5,412,940.00	0.00
Long-term financial assets shown in balance sheet acc. equity method	177,641.87					177,641.87
Loans	635,666.67		635,666.67			0.00
Deferred taxes	1,356,722.49					1,356,722.49
Total assets	**99,211,419.82**	**2,260,896.39**	**74,564,838.71**	**0.00**	**5,412,940.00**	**16,972,744.72**
Liabilities						
Current liabilities						
Trade accounts payable	16,145,811.85			16,145,811.85		0.00
Intercompany payables	3,658.99			3,658.99		0.00
Other provisions	12,399,742.03					12,399,742.03
Income tax payable	3,326,291.98					3,326,291.98
Other current liabilities	5,285,982.50			5,285,982.50		0.00
Deferred income	8,890,832.00					8,890,832.00
Non-current liabilities						
Deferred taxes	234,470.00					234,470.00
Provisions for pensions	5,847,806.00					5,847,806.00
Other provisions	136,246.00					136,246.00
Total non-current liabilities	**52,270,841.35**	**0.00**	**0.00**	**21,435,453.34**	**0.00**	**30,835,388.01**

	Measurement categories as defined in IAS 39.9	Loans and receivables		Financial liabilities measured at amortised cost	Financial assets measured at fair value through profit or loss	
	Financial instrument classes as defined in IFRS 7.6					
Assets in euros	Carrying amount 31 Dec 2015	Assignments with assetside balance vis-á-vis customers	Financial instruments measured at amortised cost		Financial instruments measured at fair value	Not financial instruments as IAS 39 and IFRS 7
Current assets						
Cash and cash equivalents	37,953,836.75		37,953,836.75			0.00
Trade receiveables	17,148,062.21	2,248,275.37	14,899,786.84			0.00
Intercompany financial assets	314,021.01		314,021.01			0.00
Inventories	11,619,235.74					11,619,235.74
Other current assets	296,175.11		296,175.11			0.00
Non-current assets						
Property, plant and equipment	2,337,440.00					2,337,440.00
Intangible assets	185,445.00					185,445.00
Goodwill	2,950,000.00					2,950,000.00
Non-current financial assets	2,942,932.00				2,942,932.00	0.00
Long-term financial assets shown in balance sheet acc. equity method	1,671.64					1,671.64
Loans	300,000.00		300,000.00			
Deferred taxes	1,043,397.42					1,043,397.42
Total assets	**77,092,216.88**	**2,248,275.37**	**53,763,819.71**	**0.00**	**2,942,932.00**	**18,137,189.80**
Liabilities						
Current liabilities						
Trade accounts payable	11,801,485.67			11,801,485.67		0.00
Intercompany payables	9,915.43			9,915.43		0.00
Other provisions	8,475,325.15					8,475,325.15
Income tax payable	2,311,120.09					2,311,120.09
Other current liabilities	2,823,051.37			2,823,051.37		0.00
Deferred income	6,042,257.58					6,042,257.58
Non-current liabilities						
Deferred taxes	169,235.65					169,235.65
Provisions for pensions	5,088,555.00					5,088,555.00
Other provisions	123,306.00					123,306.00
Total non-current liabilities	**36,844,251.94**	**0.00**	**0.00**	**14,634,452.47**	**0.00**	**22,209,799.47**

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

in euros	2016	2015
Loans and receivables		
Interest result	163,843.79	202,641.40
Value reductions (–) / value increases (+)	-72,600.00	-357,279.17
	91,243.79	**-154,637.77**
Financial assets measured at fair value through profit or loss		
Interest result	123,872.36	72,857.10
Total	**215,116.15**	**-81,780.67**

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 2.840.766,41 euros were incurred (previous year: 2.918.955,96 euros).

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

Nominal / in euros	31 Dec 2016	31 Dec 2015
Long-term rental commitments for various office premises	6,458,906.87	8,837,101.79
Lease commitments for office and operating equipment	1,762,540.24	1,207,907.34
Total	**8,221,447.11**	**10,045,009.13**

The maturities of the liabilities are as follows:

Nominal / in euros	31 Dec 2016	31 Dec 2015
Up to 1 year	2,907,860.58	2,289,145.85
More than 1 year but less than 5 years	5,313,586.53	7,683,700.28
More than 5 years	–	72,163.00
Total	**8,221,447.11**	**10,045,009.13**

The liabilities for the next five years will be offset by minimum payments from subleases that cannot be terminated amounting to 66,300 euros (previous year: 6,644.40 euros).

Corporate Governance

With regard to secunet AG, the Management Board and Supervisory Board issued the declaration required pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG). This is permanently available to shareholders on the Company's website (www.secunet.com).

Executive bodies

The members of the Management Board during the reporting year were:

Dr Rainer Baumgart, Chairman
Qualified business economist (FH) Thomas Pleines

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	2016	2015
Audit services	76	75
of which relating to audit of the previous year	(6)	(3)
Other certification services	12	12
Tax advisor services	20	44
Other services	0	45
	108	**176**

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	2016	2015
Management Board		
Short-term employee benefits	757.9	573.4
Post-employment benefits	60.7	55.0
Other long-term employee benefits	200.0	171.4
Total	**1,018.6**	**799.8**
Supervisory Board		
Short-term employee benefits	60.0	60.0

The remuneration of members of the Management Board active during the reporting year totalled 958 thousand euros for the reporting year (previous year: 745 thousand euros). Provisions for pensions for former members of the Management Board are recognised in the amount of 324 thousand euros (previous year: 415 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 company bodies, can be found in the remuneration report that forms part of the 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.

The following transactions were carried out in the specified period with companies in the MC Familiengesellschaft mbH Group on the usual market terms:

1. Revenues resulting from services performed for related companies in the MC Familiengesellschaft mbH Group

in euros	2016	2015
Parent company		
Giesecke & Devrient GmbH, Munich	356,049.45	616,085.27
Other affiliated companies		
Veridos GmbH, Berlin	744,788.61	261,807.85
GyD Ibérica S.A., Barcelona	2,375.00	0.00
Total	**1,103,213.06**	**877,893.12**

For projects with related companies in the MC Familiengesellschaft mbH Group, provisions for deferred costs of 0 thousand euros (previous year: 17 thousand euros) were created.

2. Financial result for services performed for related companies in the MC Familiengesellschaft mbH Group

Interest income of 132.673,60 euros (previous year: 163.748,53 euros) was earned from the provision of short-term loans to Giesecke & Devrient GmbH, Munich.

3. Services purchased from related companies in the MC Familiengesellschaft Group

in euros	2016	2015
Parent company		
Giesecke & Devrient GmbH, Munich	176,916.14	301,121.12
Other affiliated companies		
Veridos GmbH, Berlin	28,397.60	32,400.00
Total	**205,313.74**	**333,521.12**

4. Receivables from related companies in the MC Familiengesellschaft Group

in euros	2016	2015
Parent company		
Giesecke & Devrient GmbH, Munich	8,771.79	100,399.51
Other affiliated companies		
Veridos GmbH, Berlin	43,696.80	213,621.50
Total	**52,468.59**	**314,021.01**

Receivables from Group companies were recorded in the amount of 52,468.59 euros (previous year: 314,021.01 euros) from trade receivables.

5. Payables to related companies in the MC Familiengesellschaft Group

As at 31 December 2016, trade accounts payable of 3,658.99 euros were recorded for Giesecke & Devrient GmbH, Munich (previous year: 9,915.43 euros).

6. Other income from companies that have a participating interest in MC Familiengesellschaft mbH

Other income amounting to 131,962.31 euros was earned from finally safe GmbH, Essen for the takeover of administrative tasks and the letting of office space (previous year: 21,557.76 euros).

7. Receivables from companies that have a participating interest in MC Familiengesellschaft mbH

As at 31 December 2016, trade receivables of 27,688.15 euros from finally safe GmbH are recorded (previous year: 32,705.03 euros). The Company was also provided with a loan for 600,000.00 euros (previous year: 300,000.00 euros). In the 2016 financial year, these loans generated interest income in the amount of 35,666.67 euros (previous year: 0.00 euros).

8. Other obligations with respect to companies that have a participating interest in MC Familiengesellschaft mbH

Pursuant to contractually agreed conditions, secunet AG was obliged to make a further loan to finally safe GmbH of a maximum of 600 thousand euros in the 2016 financial year. A contractual obligation for the year 2017 no longer exists.

Events since the balance sheet date

There were no significant events after the balance sheet date.

The Management Board

Essen, 14 March 2017

Dr Rainer Baumgart Thomas Pleines

Auditor's Report: Consolidated Financial Statements

We have audited the Consolidated Financial Statements – comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the Consolidated Financial Statements – of secunet Security Networks Aktiengesellschaft, Essen, and the Company and Group Management Report for the financial year from 1 January to 31 December 2016. The Company's legal representatives are responsible for the preparation of the Consolidated Financial Statements and Company and Group Management Report in accordance with IFRS as applicable in the EU, and the provisions of commercial law additionally applicable under Article 315a Para. 1 of the German Commercial Code (Handelsgesetzbuch, HGB). Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Company and Group Management Report, based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Article 317 HGB and the generally accepted standards for the audit of financial statements in Germany promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements, with due regard to the applicable accounting principles, and the Company and Group Management Report are free of material misstatements in their presentation of the assets, liabilities, financial position and results of operations. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and evidence supporting the disclosures in the Consolidated Financial Statements and Company and Group Management Report are examined primarily on a test basis within the framework of the audit. The audit also includes evaluating the Annual Financial Statements of the companies included in the Consolidated Financial Statements, the determination of the companies to be included in consolidation, the appropriateness of the accounting and consolidation principles used and the reasonableness of accounting estimates made by the legal representatives, as well as evaluating the overall presentation of the Consolidated Financial Statements and of the Company and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS as applicable in the EU, and the provisions of German commercial law additionally applicable under Article 315a Para. 1 HGB and give a true and fair view of the assets, liabilities, financial position and results of operations of the Group in accordance with these provisions. The Company and Group Management Report is consistent with the Consolidated Financial Statements, as a whole provides a suitable view of the Group's position, and suitably presents the opportunities and risks of future development.

Essen, 15 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Salzmann Auditor	Mertens 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 situation and results of operations of the Group, and the Group Management Report includes a true and fair review 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, 14 March 2017

Dr Rainer Baumgart Thomas Pleines

Annual Financial Statements

of secunet Security Networks Aktiengesellschaft, Essen

Balance Sheet

(according to HGB) as at 31 December 2016

Assets

in euros	Note	31 Dec 2016	31 Dec 2015
A. Fixed assets			
I. Intangible fixed assets		962,391.00	825,125.00
II. Tangible fixed assets		3,440,614.00	2,337,398.00
III. Long-term financial assets		6,358,769.54	3,253,094.87
Total fixed assets	1	10,761,774.54	6,415,617.87
B. Current assets			
I. Inventories	2	10,282,952.25	13,434,236.17
II. Receivables and other assets	3	23,202,781.65	15,260,823.17
III. Cash in hand and balances with credit institutions	4	50,026,939.39	37,758,362.95
Total current assets		83,512,673.29	66,453,422.29
C. Prepaid and deferred items		376,278.74	126,313.74
D. Active difference resulting from asset offsetting	5	25,913.19	24,750.97
Total assets		**94,676,639.76**	**73,020,104.87**

Liabilities

in euros	Note	31 Dec 2016	31 Dec 2015
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		4,710,960.35	0.00
IV. Net accumulated profit/loss		12,632,594.02	10,121,264.34
Total equity	6	45,499,859.79	38,277,569.76
B. Provisions	7	20,862,054.40	14,479,015.31
C. Liabilities	8	19,423,893.57	14,221,262.22
D. Prepaid and deferred items	9	8,890,832.00	6,042,257.58
Total liabilities		**94,676,639.76**	**73,020,104.87**

Income Statement

(according to HGB) for the period from 1 January 2016 to 31 December 2016

		New structure		Old structure
in euros	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2015
Revenue	10	115,825,555.87	90,637,240.00	90,615,682.24
Increase of work in progress		82,172.46	340,235.61	340,235.61
Other operating income	11	1,314,292.96	1,257,019.16	1,278,576.92
Cost of materials	12	-47,501,966.47	-35,775,262.67	-35,775,262.67
Personnel expenses	13	-38,410,556.23	-31,673,475.52	-31,673,475.52
Depreciation and amortisation of intangible fixed assets and tangible fixed assets	14	-1,689,761.80	-1,436,589.37	-1,436,589.37
Other operating expenses	15	-15,777,726.67	-14,945,481.97	-14,945,481.97
Financial result	16	88,105.79	-359,755.60	-359,755.60
Income taxes	17	-4,481,852.00	-2,541,608.88	-2,541,608.88
Earnings after tax		**9,448,263.91**	**5,502,320.76**	**5,502,320.76**
Other taxes	17	-26,343.20	-27,597.67	-27,597.67
Net income for the year		**9,421,920.71**	**5,474,723.09**	**5,474,723.09**
Deposit into other revenue reserves		-4,710,960.35	0.00	0.00
Accumulated profit carryforward		10,121,264.34	6,393,306.79	6,393,306.79
Dividend payment		-2,199,630.68	-1,746,765.54	-1,746,765.54
Net accumulated profit/loss	**18**	**12,632,594.02**	**10,121,264.34**	**10,121,264.34**

Notes

regarding secunet Security Networks Aktiengesellschaft
for the 2016 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 limited liability company in the meaning of Article 267 Para. 3 Clauses 1 and 2 of the German Commercial Code (Handelsgesetzbuch, HGB) and is entered in the Commercial Register at the Essen Local Court (Reg. No. 13615).

The Annual Financial Statements of secunet AG are prepared in accordance with the regulations HGB in the version of the German Balance-Sheet Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG), 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 in accordance with the HGB, the item "Premium reserve shares from reinsurance contracts" was added to the item "Long-term financial assets" in the "Changes in the fixed assets" overview (Appendix to the Notes).

The income statement is based on the total expenditure format. To ensure the comparability of the previous year's figures, the decision was made to present the income statement for the 2016 financial year in a three-column format, in order to show the changes that arose from the first application of the BilRUG. In the explanation of the income statement in the Notes, the reported figures are shown for the 2015 financial year. In addition, the amount for the previous year that would have been achieved if the provisions of the BilRUG had been applied in the previous year is specified and explained.

Recognition and measurement methods

Recognition and measurement are performed according to the principles set out below:

Assets

Fixed assets

Tangible and intangible fixed assets
The purchased intangible fixed assets are capitalised upon receipt at their historical costs 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 2016 financial year would have been 197 thousand euros higher.

An additional goodwill purchased during the 2016 financial year is depreciated on a straight-line basis over a useful life of ten years in accordance with Article 253 Para. 3 Clause 4, as the expected useful life cannot be estimated reliably.

Property, plant and equipment are measured at the lower of historical cost or cost of production or fair value for an expected long-term impairment and are depreciated on a straight-line basis over the expected useful life.

Since 2008, new acquisitions 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. Assets with historical costs of up to 150 euros are written off to their full amount in the year of purchase. Assets with historical costs between 150 and 1,000 euros are placed in a so-called "collective item" and written off in the year of purchase as well as in the next four years on a straight-line basis.

Long-term 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. Long-term financial assets are written down to the fair value where permanent impairment has taken place. Lower valuations are retained, provided that a higher value is not required up to the original historical cost.

Reinsurance contracts are measured at taxable 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 work in progress includes not only the directly allocable costs, but also the costs of the necessary materials and production and general administrative costs. 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. General credit risk is taken into account through general loan loss provisions, based on past experience.

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 and deferred assets.

In accordance with Article 246, Para. 2, Clause 3 HGB, the assets arising from the over-funding of pension obligations result from the excess amount from the offsetting of assets calculated at fair value within the meaning of Article 246, Para 2, Clause 2 HGB, including the corresponding accounts payable. The fair value of the asset corresponds to the historical costs.

Liabilities

Provisions

Provisions for pensions and similar liabilities are determined in accordance with the expert opinion of an actuary, based on the projected one-off contribution method ("Projected Unit Credit Method"), using Prof. Klaus Heubeck's 2005G mortality tables. For this valuation, an actuarial interest rate of 4.11% (previous year: 4.00%) was used, which was determined in accordance with the provisions of Article 253 Para. 2 Clause 1 HGB in December 2016 on the basis of the average market interest rate from the previous ten (previous year: seven) financial years given an assumed residual term of 20 (previous year: 21) years, forecast to 31 December 2016.

Applying an average market interest rate from the previous seven financial years (3.36%), this would lead to an obligation in the amount of 3,879,258 euros as at 31 December 2016. The difference in relation to the pension provisions evaluated with an average market interest rate from the past ten financial years (4.11%) stood at 592,067 euros as at 31 December 2016; this amount must be taken into account in determining the amount blocked for distribution purposes (Article 253 Para. 6 Clause 2 HGB).

The impact on income from the change to the actuarial interest rate is recorded in the financial result. Furthermore, the valuation uses the actual benefit obligations, assuming that the benefits will grow by 2.5% (previous year: 2.5%) and a fluctuation of 5.5% (previous year: 5.5%) on average.

In accordance with the valuation rules of Article 253 Paragraph 1 Clause 2 HGB as amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG), 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, Clause 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch, EGHGB), secunet AG allocated the amount of 49,762 euros (1/15 minimum extraordinary allocation p.a.). Due to the first application of the provisions of the BilRUG, the allocation amount in accordance with Article 75, Para. 5 EGHGB is recognised under Other business expenses. In the previous year, the amount was still recognised under Extraordinary expenses. Due to the provisions of the BilRUG, the previous year was adjusted to ensure comparability. The resulting coverage shortfall as at 31 December 2016 is therefore 398,091 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 value expected. Provided that provisions with a residual term of longer than one year exist, these are discounted with the average market interest rate from the past seven financial years that corresponds 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 of time after this day are reported under prepaid and deferred liabilities.

Assets and liabilities denominated in foreign currency with a remaining term of up to one year are converted on the basis of the mean cash exchange rate on the reporting date.

Deferred taxes

in euros	Assets	Liabilities
Fixed assets	1,947.83	0.00
Goodwill	755.54	0.00
Provisions for pensions	369,722.47	0.00
Other provisions	37,490.58	0.00
Total	**409,916.42**	**0.00**

A tax rate of 31.97% is applied. Using the option permitted under Article 274, Para. 1, Clause 2 HGB, deferred tax assets were not posted in the balance sheet.

Income statement

Revenue is recognised when it is probable that the future economic benefits associated with the corresponding transaction will flow to the Company and when the amount of revenue can be reliably measured. The service handover in project-based business is always defined by acceptance reports.

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, Solothurn, Switzerland
  100% participation, equity of the company as at 31 December 2016 69 thousand CHF, annual net income 2016 -1 thousand CHF.

- secunet s.r.o., Prague, Czech Republic
  100% participation, equity of the company as at 31 December 2016 3,266 thousand CZK, annual net income 2016 -238 thousand CZK.

- secunet Inc., Austin, Texas, USA
  100% participation; a disclosure of the equity and the annual net income was waived due to the secondary importance of the company.

secunet AG also owns a participation in finally safe GmbH, Essen, Germany, owning 18% (previous year: 10%) of the shares as at the balance sheet date. This increase in the shares of the company was due to the deposit of the loan granted in the previous year in the amount of 300 thousand euros. secunet AG granted finally safe GmbH a further loan in the amount of 600 thousand euros during the 2016 financial year.

2. Inventories

in euros	31 Dec 2016	31 Dec 2015
Work in progress	1,897,172.89	1,815,000.43
Trading goods	8,385,779.36	11,619,235.74
Total	**10,282,952.25**	**13,434,236.17**

The strong demand for secunet products led to a decrease in the stocks of merchandise as at the balance sheet date.

3. Receivables and other assets

in euros	31 Dec 2016	31 Dec 2015
Trade receivables	22,972,036.90	14,792,152.49
Intercompany receivables	48,809.60	304,105.58
of which trade receivables	(48,809.60)	(304,105.58)
Receivables from companies in which there is a participating interest	27,688.15	32,705.03
Other assets	154,247.00	131,860.07
Total	**23,202,781.65**	**15,260,823.17**

As at the balance sheet date, receivables from affiliated companies are due in the amount of 8,771.79 euros from Giesecke & Devrient GmbH, Munich, and in the amount of 43,696.80 euros from Veridos GmbH, Berlin. These receivables consist of 52,468.59 euros (previous year: 314,021.01 euros) as trade receivables. Trade accounts payable to Giesecke & Devrient GmbH, Munich in the amount of 3,658.99 euros (previous year: 9,915.43 euros) were charged.

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 50,026,939.39 euros (previous year 37,758,362.95 euros). Occasionally, the investment is made in the form of call and time deposits over the course of the year, whereby the interest for the deposits lay between 0.05% and 1.25% p.a. in the reporting period.

5. Assets arising from the over-funding of pension obligations

The reported item "Assets arising from the over-funding of pension obligations" in the amount of 25,913.97 euros (previous year 24,750.97 euros) results from the netting of semi-retirement obligations, in accordance with Article 246, Para. 2, Clause 2 HGB, in the amount of 39,374.68 euros (previous year 40,536.90 euros) with assets of 65,287.87 euros (previous year 65,287.87 euros), which exclusively serve to fulfil said obligations (plan assets pursuant to Article 246, Para. 2, Clause 2 HGB).

6. 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) 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 with share capital.

Due to the adjustments made in accordance with the BilMoG, the reserve for treasury shares in the calculated amount of the treasury shares of 30,498 is being placed in the reserves due to 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 period between 2001 and 2002.

4,710,960.35 euros of the net income in the amount of 9,421,920.71 euros (= 50%) will be deposited in the other profit reserves in accordance with Article 58 Para. 2 Clause 1 AktG.

At the Annual General Meeting of 12 May 2016, the payment of a dividend from the balance sheet profit for the financial year 2015 was agreed on. On 13 May 2016, a payment of 0.34 euros per share (6,469,502 individual shares) was paid, making a total of 2,199,630.68 euros.

Balance sheet profits as at 31 December 2016 are therefore 12,632,594.02 euros (previous year: 10,121,264.34 euros).

The majority shareholder, Giesecke & Devrient GmbH, continues, as in the previous year, to hold a share of 78.96% in secunet AG.

7. Provisions

in euros	31 Dec 2016	31 Dec 2015
Provisions for pensions and similar liabilities	3,287,189.80	3,164,314.00
Provisions for taxes	3,326,291.98	1,875,200.89
Other provisions	14,248,572.62	9,439,500.42
Total	**20,862,054.40**	**14,479,015.31**

The breakdown of other provisions is shown in the table below:

in euros	31 Dec 2016	31 Dec 2015
Non-current provisions		
Provision for anniversary bonuses	136,246.00	123,306.00
Current provisions		
Annual employee bonuses	9,821,524.00	6,023,300.00
Outstanding incoming invoices	1,485,305.12	573,089.33
Deferred costs	731,247.20	479,631.00
Accrued holidays	610,816.00	513,921.00
Commissions	472,000.00	303,590.00
Demolition and maintenance measures	406,839.72	463,376.51
Warranty	227,551.18	463,000.00
Litigation risks	200,851.00	249,724.18
Professional association contributions	125,100.00	117,000.00
Others	32,092.40	129,562.40
Total	**14,248,572.62**	**9,439,500.42**

For the 2016 financial year, the provision for commissions comprises payments due for the distribution of SINA licenses.

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

In 2010, a provision for litigation risks in the amount of 225 thousand euros was formed for a passive lawsuit; a further sum in the amount of 100 thousand euros was added in 2012. The value in dispute is 450 thousand euros. The provision was formed to cover defence costs and the creation of expert reports to be submitted in court. Another 49 thousand euros of the closing balance as at 31 December 2015 of 80 thousand euros were used up during 2016. This was mainly used to pay for legal advice.

The other provisions essentially involve provisions for annual financial statement and audit expenses (143 thousand euros) and other personnel expenses (49 thousand euros).

8. Liabilities

in euros	31 Dec 2016	31 Dec 2015
Payments received on account of orders	555,230.12	919,356.09
Trade accounts payable	14,139,059.53	10,958,769.34
Other liabilities	4,729,603.92	2,343,136.79
of which taxes	(4,726,284.90)	(2,333,597.42)
of which relating to social security	(3,319.02)	(3,469.81)
Total	**19,423,893.57**	**14,221,262.22**

All liabilities have a term of less than one year.

9. Prepaid and deferred liabilities

Given the increase in the support business, earnings are increasingly accrued in conjunction with a performance after the balance sheet date.

10. Revenues

The revenues were generated in the following regions:

in euros	2016	2015
Domestic	102,058,547.69	80,678,233.96
Abroad	13,767,008.18	9,937,448.28
Total	**115,825,555.87**	**90,615,682.24**

Due to the first application of the provisions of BilRUG, the revenue from the previous year is not comparable. In order to allow a comparison, we refer to the disclosures in the income statement. In this regard, earnings from the performance of services and for renting and leasing to finally safe GmbH, Essen in the amount of 21,557.76 euros were recognised for the past financial year, and corresponding earnings from the other operating income were reallocated to the revenue.

This revenue can be attributed as follows to the divisions:

in euros	2016	2015
Public	100,488,510.14	79,213,794.62
Business	15,205,083.42	11,401,887.62
Other (previous year: 21,557.76 euros other operating income)	131,962.31	–
Total	**115,825,555.87**	**90,615,682.24**

11. Other operating income

The other operating income in the amount of 1,314,292.96 euros (previous year: 1,278,576.92 euros) primarily comprises an offset item from the utilisation of provisions (417,329.00 euros) formed by other operating expenses in the previous year, income from the release of provisions (521,802.77 euros), actuarial income from the adjustment of AHV premium reserve (123,872.36 euros) and other income (256,288.83 euros).

Approximately 522 thousand euros (40%) of the other operating income relates to other periods and results from the release of provisions.

Due to the first application of the provisions of BilRUG, the other operating income from the previous year has been adjusted. In this regard, we refer to the disclosures in the income statement and the explanations of the revenue.

12. Materials expenses

in euros	2016	2015
Cost of purchased goods	42,159,394.99	31,392,122.07
Cost of purchased services	5,342,571.48	4,383,140.60
Total	**47,501,966.47**	**35,775,262.67**

13. Personnel expenditure

in euros	2016	2015
Wages and salaries	33,715,456.81	27,660,055.56
Social security costs	4,638,763.52	4,077,862.32
Expenses for retirement pensions	25,473.01	-78,517.61
Expenses for support	30,862.89	14,075.25
Total	**38,410,556.23**	**31,673,475.52**

14. 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).

15. Other operating expenses

in euros	2016	2015
Rental costs	2,646,709.43	2,646,682.96
Travel expenses	2,182,837.34	2,166,416.58
Sales commission	1,744,907.37	827,718.44
Advertising costs	1,340,007.99	1,454,255.51
Inspection, consulting, legal protection	1,138,086.91	1,025,647.88
Communication costs	1,092,952.38	1,069,822.72
Ancillary personnel expenses	955,788.69	1,102,096.88
Company car costs	942,912.61	915,057.91
Maintenance costs	709,461.76	956,241.18
Other third-party services	652,667.06	558,099.58
Addition to other provisions	652,000.00	550,000.00
Entertainment and representation	240,798.19	195,720.06
Insurance premiums	174,083.35	168,305.53
Fees	125,681.20	145,934.30
Individual value adjustment of receivables	70,000.00	354,999.67
Extraordinary items arising in relation to BilMoG	49,762.00	49,763.00
Other costs	1,059,070.39	758,719.77
Total	**15,777,726.67**	**14,945,481.97**

Expenses resulting from currency conversion stood at 11,070.40 euros (previous year: 4,579.77 euros).

Expenses for other accounting periods in the amount of 82 thousand euros are included in the sales commissions.

16. Financial result

in euros	2016	2015
Other interest and similar income	173,075.40	220,740,38
of which from affiliated companies	(132,673.60)	(163,748.53)
Interest and similar expenses	-84,969.61	-580,495.98
of which interest on pension provisions	(-64,549.00)	(-562,397.00)
Total	**88,105.79**	**-359,755.60**

17. Taxes

in euros	2016	2015
Income taxes	4,481,852.00	2,541,608.88
Other taxes	26,343.20	27,597.67
Total	**4,508,195.20**	**2,569,206.55**

18. Use of the balance sheet profit

Proposal for the appropriation of distributable earnings

From the balance sheet profit of 10,121,264.34 euros reported for the 2015 financial year, dividends of 0.34 euros per share (amounting to a total of 2,199,630.68 euros) were distributed in the 2016 financial year in accordance with the resolution of the Annual General Meeting of 12 May 2016. The remaining sum, amounting to 7,921,633.66 euros, was carried over to the next statement as profit.

The Annual Financial Statements in accordance with the HGB of secunet AG for the 2016 financial year show net income for the year of 9,421,920.71 euros. Of this amount, 4,710,960.35 euros (= 50%) will be deposited in the other profit reserves in accordance with Article 58 Para. 2 Clause 1 AktG. Taking into account the already existing carryforward of 7,921,633.66 euros, this results in balance sheet profits of 12,632,594.02 euros.

The Management Board suggested to the Annual General Meeting to distribute 0.58 euros per share, equating to a total of 3,752,311.16 euros, to the 6,469,502.00 euros of share capital entitled to a dividend and to deposit the remaining amount of 8,880,282.86 euros in other revenue reserves. When determining the share capital entitled to a dividend, the total of 30,498 treasury shares was deducted.

in euros	2016
Carryforward at 1 Jan 2016	10,121,264.34
Net income for the year 2016	9,421,920.71
Deposit into other revenue reserves	-4,710,960.35
Dividend payment in 2016	-2,199,630.68
Balance sheet profit at 31 Dec 2016	12,632,594.02
Proposal for the appropriation of distributable earnings	
Dividend payment in 2017	-3,752,311.16
Deposit into other revenue reserves	-8,880,282.86
Carryforward	**0.00**

Other notes

Employees

The average headcount over the year, including the two Management Board members, was 402 (previous year: 376, including two Management Board members). In addition, 65 temporary workers (previous year: 53) were also employed, making a total of 467 employees.

Other financial liabilities

As at the balance sheet date, other financial liabilities totalled 8,221,447.11 euros. They consisted mainly of the nominal amount of liabilities arising from office tenancy agreements and lease agreements for company cars, of which 2,907,860.58 euros have less than one year to run and 5,313,586.53 euros have between one and five years to run. There are no liabilities with more than five years of their term left. None of the total liabilities are towards affiliated companies.

Open purchase orders

As at 31 December 2016, there were liabilities with regard to open purchase orders for goods and services in the amount of 12,086,161.84 euros.

Liability arrangements

No declarations were issued that resulted in liability arrangements.

Relationships with affiliated companies

Through Giesecke & Devrient GmbH, Munich, the Company is a related 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, which prepares the Consolidated Financial Statements for the smallest group of companies. secunet AG also produces its own IFRS Consolidated Financial Statements. The Consolidated Financial Statements are published in the Federal Gazette.

Auditors' fees

In 2016, fees were paid to the auditors of the Consolidated Financial Statements, KPMG AG Wirtschaftsprüfungsgesellschaft, which included 76 thousand euros for auditing of the financial statements (of which 6 thousand euros for auditing last year's financial statements), 20 thousand euros for tax consulting services and 12 thousand euros for other assurance services.

Miscellaneous

The remuneration of members of the Management Board active during the reporting year totalled 958 thousand euros for the reporting year (previous year: 745 thousand euros). For former members of the Management Board, liabilities from pension commitments amounted to 219 thousand euros as at the reporting date (previous year: 316 thousand euros).

Supervisory Board remuneration in the financial year totalled 60 thousand euros (previous year: 60 thousand euros).

The members of 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 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 is permanently available to shareholders on the Company's website (www.secunet.com).

Declarations pursuant to Article 160, Para. 1, Clause 8 AktG

No new relevant notices have been given.

The following disclosures are based on those disclosures made most recently for the 2013 financial year by the parties subject to notification obligations in accordance with Article 26 Para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG).

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, was 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 inclusion of the majority shareholding previously held personally by Ms Verena von Mitschke-Collande in Giesecke & Devrient Gesellschaft mit beschränkter Haftung, Munich, 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 your company; Ms Verena von Mitschke-Collande holds the majority of voting rights in MC Familiengesellschaft mbH.

The purpose of the enterprise MC Familiengesellschaft mbH is that of a pure asset-holding company, in particular the administration of the shareholding in Giesecke & Devrient Gesellschaft mit beschränkter Haftung brought by Ms Verena von Mitschke-Collande; the intent of the shareholding held by Giesecke & Devrient Gesellschaft mit beschränkter Haftung 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 organs 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 introducing 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 this date totalled 1.95% (corresponding to 126,626 voting rights). Of these, in accordance with Article 22 Para. 1 Clause 1 No. 1 WpHG, 0.40% are attributable to her (corresponding to 26,234 voting rights).

10 October 2011: Publication of a voting-right notice 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).

Executive Bodies

Management Board

Dr Rainer Baumgart, Chairman
(secunet AG shares held: none)

Graduate business economist (FH) Thomas Pleines
(secunet AG shares held: none)

Supervisory Board

Dr Peter Zattler, Grünwald
Chairman

Member of the Management Board of Giesecke & Devrient GmbH, Munich

Other directorships:
- Giesecke & Devrient International Finance S.A., Luxembourg
- Giesecke & Devrient Matsoukis Security Printing S.A., Athens, Greece (renamed in January 2016 as Veridos Matsoukis S.A., Athens, Greece)

Hans-Wolfgang Kunz, Munich,
Vice-Chairman

Member of the Management Board of Giesecke & Devrient GmbH, Munich
CEO of Veridos GmbH, Berlin

Other directorships:
- Giesecke & Devrient International Finance S.A., Luxembourg
- Giesecke & Devrient Matsoukis Security Printing S.A., Athens, Greece (renamed in January 2016 as Veridos Matsoukis S.A., Athens, Greece)

Axel Deininger, Riemerling, Hohenbrunn municipality
Group Senior Vice President, Head of Division Enterprise Security & OEM,
Mobile Security, Giesecke & Devrient GmbH, Munich

No other directorships.

Dr Elmar Legge, Schermbeck
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 GREIF-Stiftung, Mülheim an der Ruhr

Other directorships:
- TÜV Thüringen e.V., Erfurt
- VAI Van Ameyde International B.V., Rijswijk, Netherlands
- AHV VVAG, Essen
- RWTÜV GmbH, Essen
- CTC advanced GmbH, Saarbrücken (since 1 January 2016)

Wolf-Rüdiger Moritz, Lenggries
Vice President of Business Continuity, Infineon Technologies AG, Neubiberg

Other directorships:
- Cryptomathic A / S, Aahrhus, Denmark
- Cryptomathic Holding Aps, Aahrhus, Denmark

Prof. Günter Schäfer, Berlin
University professor, Technische Universität, Ilmenau

No other directorships.

Supplementary Report

There were no significant events after the balance sheet date.

Essen, 14 March 2017

Dr Rainer Baumgart Thomas Pleines

Changes in fixed assets

of secunet Security Networks Aktiengesellschaft, in the 2016 financial year (appendix to the Notes)

	Historical costs				
in euros	as at 1 Jan 2016	Additions	Disposals	Reclassifications	as at 31 Dec 2016
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	1,240,475.12	243,155.84	-36,662.61	0.00	1,446,968.35
3. Goodwill	2,950,000.00	213,900.00	0.00	0.00	3,163,900.00
Intangible fixed assets, total	4,310,475.12	457,055.84	-36,662.61	0.00	4,730,868.35
II. Tangible fixed assets					
1. Other tangible assets, operating and office equipment	9,457,060.80	2,485,839.96	-689,216.28	240,000.00	11,493,684.48
2. Assets under construction	240,000.00	0.00	0.00	-240,000.00	0.00
Tangible fixed assets, total	9,697,060.80	2,485,839.96	-689,216.28	0.00	11,493,684.48
III. Long-term financial assets					
1. Shares in affiliated companies	556,539.96	0.00	0.00	0.00	556,539.96
2. Loans to affiliated companies	613,550.26	0.00	0.00	0.00	613,550.26
3. Holdings	10,162.87	0.00	0.00	300,000.00	310,162.87
4. Loans to associated companies	300,000.00	635,666.67	0.00	-300,000.00	635,666.67
5. Premium reserve shares from reinsurance contracts	2,942,932.00	2,470,008.00	0.00	0.00	5,412,940.00
Long-term financial assets, total	4,423,185.09	3,105,674.67	0.00	0.00	7,528,859.76
Total fixed assets	**18,430,721.01**	**6,048,570.47**	**-725,878.89**	**0.00**	**23,753,412.59**

Accumulated depreciations				Carrying amounts	
as at 1 Jan 2016	Additions	Disposals	as at 31 Dec 2016	as at 31 Dec 2016	as at 31 Dec 2015
120,000.00	0.00	0.00	120,000.00	0.00	0.00
1,055,030.12	116,039.84	-36,662.61	1,134,407.35	312,561.00	185,445.00
2,310,320.00	203,750.00	0.00	2,514,070.00	649,830.00	639,680.00
3,485,350.12	**319,789.84**	**-36,662.61**	**3,768,477.35**	**962,391.00**	**825,125.00**
7,359,662.80	1,369,971.96	-676,564.28	8,053,070.48	3,440,614.00	2,097,398.00
0.00	0.00	0.00	0.00	0.00	240,000.00
7,359,662.80	**1,369,971.96**	**-676,564.28**	**8,053,070.48**	**3,440,614.00**	**2,337,398.00**
556,539.96	0.00	0.00	556,539.96	0.00	0.00
613,550.26	0.00	0.00	613,550.26	0.00	0.00
0.00	0.00	0.00	0.00	310,162.87	10,162.87
0.00	0.00	0.00	0.00	635,666.67	300,000.00
0.00	0.00	0.00	0.00	5,412,940.00	2,942,932.00
1,170,090.22	**0.00**	**0.00**	**1,170,090.22**	**6,358,769.54**	**3,253,094.87**
12,015,103.14	**1,689,761.80**	**-713,226.89**	**12,991,638.05**	**10,761,774.54**	**6,415,617.87**

Auditor's Report: Annual Financial Statements

We have audited the Annual Financial Statements – comprising the balance sheet, the income statement and the notes to the financial statements – including the bookkeeping system, of secunet Security Networks Aktiengesellschaft, Essen, and the Company and Group Management Report for the financial year from 1 January to 31 December 2016. The Company's Management Board is responsible for the bookkeeping system and for the preparation of the Annual Financial Statements and Company and Group Management Report in accordance with German commercial law. Our responsibility is to express an opinion on the Annual Financial Statements, including the bookkeeping system, and on the Company and Group Management Report, based on our audit.

We conducted our audit of the Annual Financial Statements in accordance with Article 317 of the German Commercial Code (Handelsgesetzbuch, HGB) and the generally accepted standards for the audit of financial statements in Germany promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance whether the Annual Financial Statements, with due regard to the principles of proper accounting generally accepted in Germany, and the Company and Group Management Report are free of material misstatements in their presentation of the assets, liabilities, financial position and results of operations. Knowledge of the business activities and the economic and legal environment of the Company and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and evidence supporting the disclosures in the bookkeeping, Annual Financial Statements and Company and Group Management Report are examined primarily on a test basis within the framework of the audit. The audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the Annual Financial Statements and of the Company and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of our audit, the Annual Financial Statements comply with legal requirements and give a true and fair view of the assets, liabilities, financial situation and results of operations of secunet Security Networks Aktiengesellschaft, Essen, in accordance with German principles of proper accounting. The Company and Group Management Report is consistent with the Annual Financial Statements, as a whole provides a suitable view of the Company's position, and suitably presents the opportunities and risks of future development.

Essen, 15 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Salzmann	Mertens
Auditor	Auditor

Responsibility Statement

" To the best of our knowledge, and in accordance with the applicable accounting principles, the Annual 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 review 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, 14 March 2017

Dr Rainer Baumgart Thomas Pleines

Service

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Financial Calendar 2017

16 March
Annual Report 2016

16 March
Analysts' conference

3 May
Quarterly Group Statement

4 May
Annual general meeting

3 August
Half-year financial report

7 November
Quarterly Group Statement