secunet

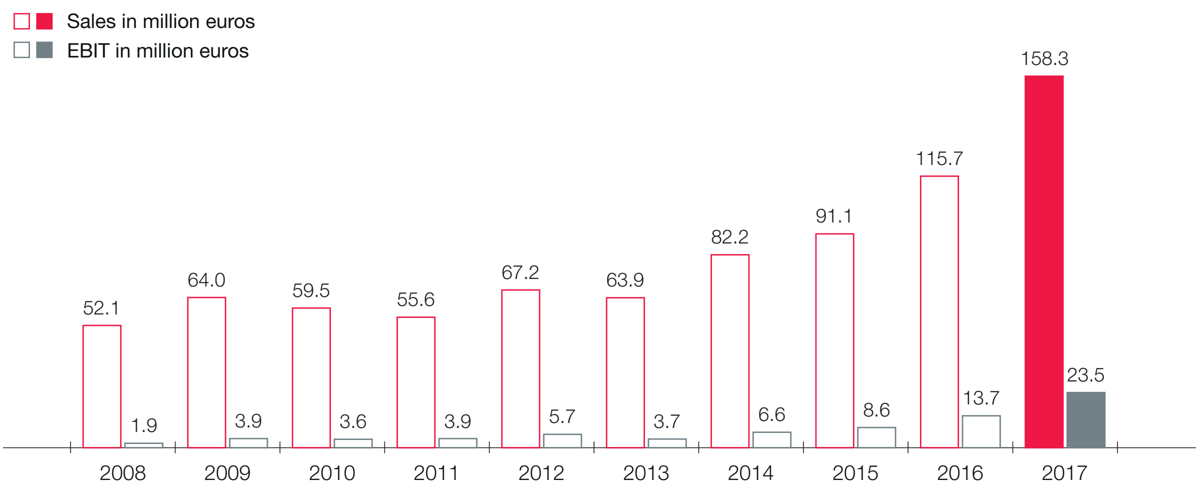
Annual Report 2017

Key Figures

in million euros	2017	2016	Change in %
Sales	158.3	115.7	+37
EBIT	23.5	13.7	+72
EBT	23.5	13.7	+72
Net income for the year	15.9	9.2	+72
Earnings per share (in euros)	2.45	1.43	+72
Balance sheet total	133.4	99.2	+35
Equity	59.1	46.9	+26
Cash and cash equivalents	62.9	50.2	+25
Liabilities	40.1	24.8	+62
Loans	0.0	0.0	–
Cash flow from operating activities	20.4	20.5	-1
Investments in intangible assets and property, plant and equipment	3.4	3.1	+9
Dividend per share in euros [1]	1.20	0.58	+107
Order book (IFRS)	57.7	70.8	-19
Permanently employed employees as at 31 Dec	479	429	+12

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

Long-term development sales and EBIT



Public Sector

Solutions for e-government and high security

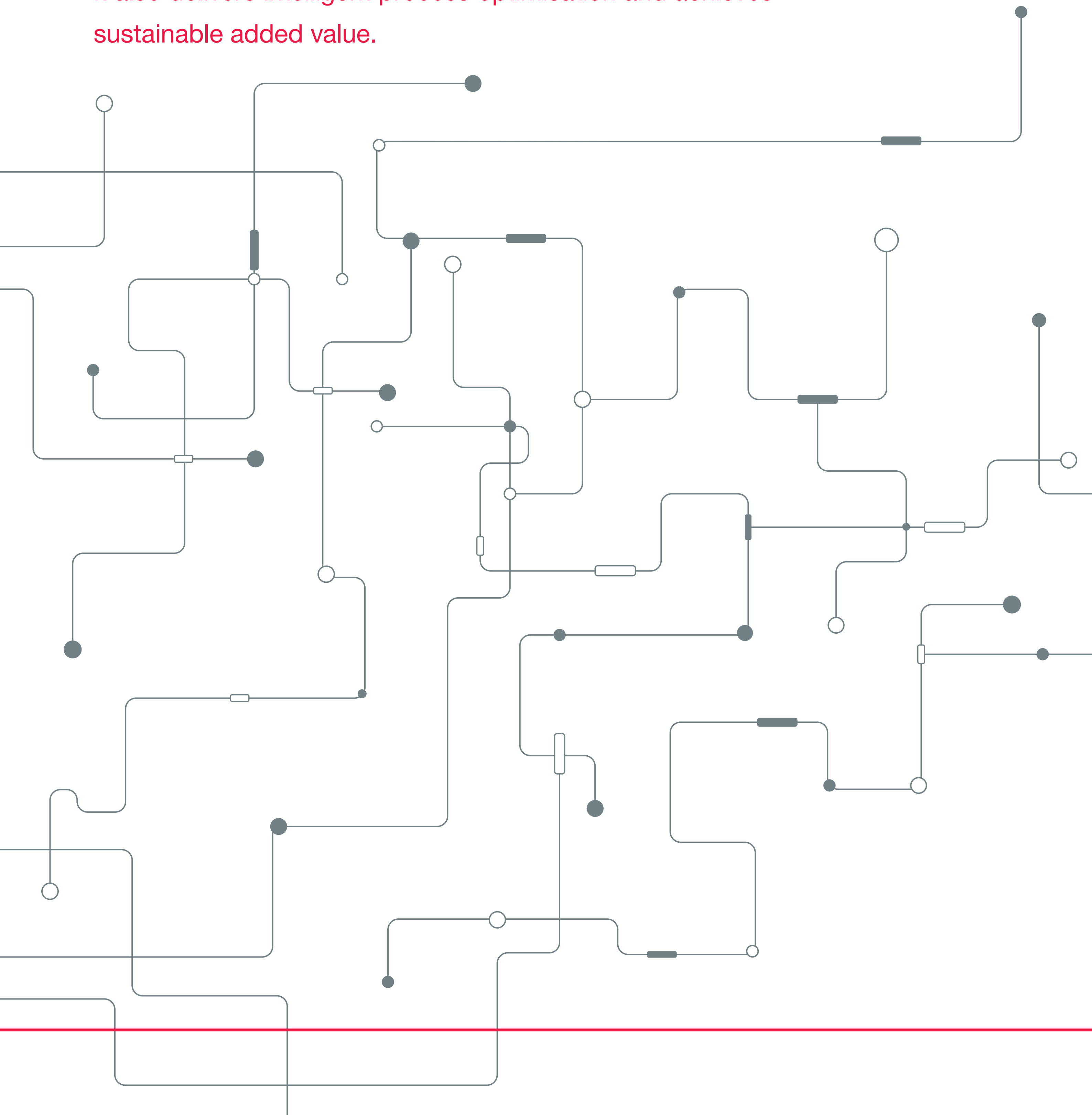
Processes and IT infrastructure for public customers are particularly challenging in terms of information security. The secunet Public Sector division offers advice to national and international public-sector and defence customers, using state-of-the-art products and services that can be tailored to customers' needs, as well as individual security solutions. These meet the requirements of 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 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 2017

2017 was our fourth record year in a row

Dear shareholders, customers, staff and friends of secunet,

secunet Group achieved fourth consecutive record year in 2017.

With a total of 158.3 million euros, we achieved a 42.6 million euros rise in Group sales following our 115.7 million euros result in the previous year – corresponding to an increase of 37 percent. At the same time, we have boosted our earnings before interest and taxes (EBIT) by 72 percent, from 13.7 million euros in the 2016 financial year to 23.5 million euros in the 2017 financial year. The results we have achieved have, once again, significantly exceeded our own expectations.

Both the Public Sector and Business Sector divisions contributed to the increase in sales revenue. The Business Sector division's products and services are aligned towards commercial companies, with providers of critical infrastructures and the automotive industry as its core target groups. This division increased sales revenue by 11 percent or 1.8 million euros in the 2017 financial year, from 15.5 million euros in 2016 to 17.3 million euros. The growth was primarily focussed in the Public Sector, whose sales revenue rose from 100.2 million euros in the previous year to 141.1 million euros in the 2017 financial year, representing an increase of 41 percent, or 40.9 million euros. The Public Sector division's customers are public utility providers within and outside Germany, as well as international organisations; the products and services it offers include the SINA product business, border control solutions, consultancy and development. The significant increase recorded in the 2017 financial year is a result of further growth in the product business, in particular. The key drivers of this were some very large individual orders, for example from the area of defence.

secunet AG generated a net income of 15.5 million euros in the 2017 financial year, as against 9.4 million euros in the previous year. The Management Board and Supervisory Board have proposed to the Annual General Meeting that a dividend of 1.20 euros per share is distributed to shareholders in the company, representing an increase of 107 percent compared to the previous year's dividend (0.58 euros). Our shareholders are therefore directly participating in the company's success. In addition, share price development – having risen by 104 percent from 46.00 euros at the end of 2016 to 93.67 euros at the end of 2017 – has also resulted in positive asset increases.

We owe our success to our employees: these extraordinarily positive business results would not have been possible without the tireless efforts of the entire workforce. Thank you so much for your fantastic performance.

secunet is extremely well-positioned for the future

secunet is starting 2018 in an excellent position, and there is plenty to indicate that the company's success model is sustainable:

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 with enhanced security requirements, while always focusing on the specific needs of our demanding customers.

Thomas Pleines Dr Rainer Baumgart Axel Deininger

Our customers recognise us as a reliable and high-performing technology partner. 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 also continuing to enjoy positive growth with border control and homeland security products (eID, PKI and eGates).

Our service portfolio comprises development and consultancy services. Demand in the Public Sector and Business Sector divisions remains high. This is true for traditional analysis services (penetration tests), and 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 who are deployed within service projects are the anchor of our customer relationships, and secure our long-term business 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 innovation for needs-oriented products. In approaching this process, we work with both our customers and leading scientific and technical institutions; where it makes sense to do so, we also pursue collaboration opportunities with other providers in the IT and IT security sector.

Our advanced, high-performance and flexible solutions and products are the result of effective organisation, among other aspects. In succeeding at this, we rely on the continuing optimisation of existing structures, as well as on appointing new, highly qualified staff to enable us to constantly develop the quality of our products and advisory expertise. As has also been the case in previous years, we have strengthened our team with valuable new employees in the 2017 financial year.

To prepare for further growth, a number of new subsidiaries commenced business operations at the beginning of 2018: Internal services such as bookkeeping, financial controlling and HR have been transferred to the newly founded company: secunet Service GmbH. International SINA sales activities are performed by secunet International GmbH & Co. KG on a pooled basis.

The management team for the growing secunet Group is well prepared for rising responsibilities, including outside Germany. The appointment of Axel Deininger to the Management Board of secunet Security Networks AG brings a valuable addition to the team. Axel Deininger's strong technical background and bold entrepreneurial thinking will make him a real asset to secunet.

Our key objective continues to be sustainable, profitable growth

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

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

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

The 2018 financial year presents us with challenges

However, the ongoing 2018 financial year presents us with a series of significant challenges: the 2017 financial year was a record year. We owe the achievement of record figures for sales and EBIT to a few major projects, which were also commissioned at the same time. At the time that this report was created, there are not yet any prospects for individual orders of a similar volume.

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.

Following the parliamentary elections in 2017, the task of forming a government took a long time. As a result, budget management is currently only provisional. This means that new projects can only be commissioned if the funds for them have already been approved. We are currently expecting a weaker first half-year.

Due to these considerations, at the time of creating this report we are taking a rather conservative approach to our expectations for the current financial year: we expect sales revenue and earnings before interest and taxes (EBIT) to be slightly below those of the previous year.

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

Dr Rainer Baumgart | Axel Deininger | Thomas Pleines

Supervisory Board Report

Dear Shareholders,

The 2017 financial year has been another highly successful year for secunet Security Networks AG, yielding outstanding business results. 20 years after its founding, the company enjoys an excellent market position and is well-equipped to tackle the challenges of the future. The company's strategic orientation, focusing on high-quality, trustworthy cyber security solutions, is fully supported by its Supervisory Board.

During the 2017 financial year, the Supervisory Board of secunet Security Networks AG once again performed the supervisory and consultation duties assigned to it by law and by the Company's Articles of Association conscientiously, meticulously and on an ongoing basis. The Supervisory Board regularly advised the management of the company, continuously monitored the business conduct of the Management Board and, as part of the execution of its duties, confirmed that the work of the Management Board was carried out in a lawful, appropriate and correct manner. 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 included the Supervisory Board in all decisions fundamental to the company without delay. The Supervisory Board received information from the Management Board on the business performance of secunet Security Networks AG and the consolidated group of companies, as well as regarding strategy, planning, business performance, the risk situation, risk management and compliance and all other occurrences and measures important for the Company. 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.

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

Supervision and examination methods

The Supervisory Board has mainly based its examination on

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

Ralf Wintergerst

Each of the reports was submitted to all members of the Supervisory Board. Where the Management Board submitted business measures to the Supervisory Board for approval, the Supervisory Board's copy was in each case accompanied by a presentation of the main points to be considered in taking a decision. During the financial year 2017, 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 2017 financial year, taking place on 15 March, 4 May, 13 September and 16 November respectively. No member of the Supervisory Board participated in half, or fewer than half, of the meetings of the Supervisory Board during the past financial year.

The members of the Management Board attended the meetings of the Supervisory Board.

The Supervisory Board also made resolutions between the meetings as required, and circulated these 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. The Supervisory Board discussed with the Management Board any financial information arising over the course of the year, before its publication.

In all of the meetings, the Supervisory Board addressed the current business performance of secunet Security Networks AG. It also dealt with all relevant issues concerning business planning, investment planning, earnings and liquidity, the risk situation and risk management, and compliance. Furthermore, it 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 15 March 2017, 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 2016, as well as the auditor's 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 15 March 2017, the Supervisory Board also approved the Supervisory Board Report for the financial year 2016 and the proposed resolutions by the Supervisory Board for the Annual General Meeting on 4 May 2017. 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). In addition, the Supervisory Board addressed matters pertaining to the Management Board.

In the meeting on 4 May 2017, the Management Board reported on the current business situation, the strategic goals of the company and any ongoing M&A projects. The Supervisory Board also discussed the company's collaboration, as part of a research project, with the faculty headed by Professor Günter Schäfer at the Technical University of Ilmenau. The Supervisory Board agreed to this plan without the involvement of Professor Schäfer. The potential conflict of interest resulting from the collaboration 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 was also presented in the report of the Supervisory Board for the previous financial year.

The current business situation and the strategic goals of the company were once again the main focus of the meeting on 13 September 2017. As part of its discussion of the business events requiring approval, the Supervisory Board examined the founding of the subsidiary "secunet International Sales GmbH & Co. KG" and any transfer of assets to the subsidiary in particular detail.

In the meeting on 16 November 2017, the Supervisory Board focused in particular on the current business situation and the future strategic and operational development of the company. In addition, the Supervisory Board discussed the annual and budget planning for 2018, as well as the three-year budget plan, and approved them. Furthermore, the Supervisory Board examined the Corporate Compliance Report and discussed and approved the Declaration of Conformity under Article 161 of German Stock Corporation Law (AktG). The Supervisory Board also addressed matters pertaining to the Management Board and approved the founding of the subsidiary "secunet Services GmbH" and the transfer of assets to the subsidiary.

Corporate Governance

The Supervisory Board is continually examining and closely following the application and the further development of Corporate Governance standards in the Company, and in particular the implementation of the recommendations of the German Corporate Governance Code. The Supervisory Board 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 version of the German Corporate Governance Code currently in force, with a few exceptions. On 16 November 2017, the Management Board and Supervisory Board submitted their Declaration of Conformity for the financial year 2017 regarding the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with Article 161 of the AktG (German Stock Corporation Act). The Declaration of Conformity was made permanently available to the shareholders on the Company's website. The Declaration of Conformity for the financial year 2017, which was approved on 16 November 2017, can also be found in the Corporate Governance report, which is part of this Annual Report 2017.

In accordance with the requirements of the legislation regarding the equal participation of women and men in management positions that came into force on 1 May 2015, the Supervisory Board determined target figures for the proportion of Supervisory Board and Management Board positions to be held by women with effect from 1 July 2017.

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

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

Personnel changes on the Supervisory Board and the Management Board

Axel Deininger resigned from the Supervisory Board with effect from the end of the Annual General Meeting on 4 May 2017. At the Annual General Meeting, Ralf Wintergerst, Chairman of the Management Board of Giesecke & Devrient GmbH, was elected to the Supervisory Board of secunet Security Networks AG for a term of two years up to the 2019 Annual General Meeting. The previous Chairman of the Supervisory Board, Dr Peter Zattler, resigned from his position with effect from 4 May 2017. Ralf Wintergerst was elected as his successor and Dr Peter Zattler was elected as Vice Chairman.

Axel Deininger was elected as a member of the secunet Security Networks AG Management Board with effect from 1 January 2018.

Annual Financial Statements and Consolidated Financial Statements for 2017

The Annual Financial Statements prepared by the Management Board in accordance with the German Commercial Code (Handelsgesetzbuch, HGB) and the Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS) for the financial year 2017, and the summarised Management Report for the Group and the Company, including the bookkeeping system, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Essen branch. 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 4 May 2017. 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 financial year 2017 in accordance with Section 312 AktG and relating to the existing majority shareholding by Giesecke & Devrient GmbH, Munich, and issued the following unqualified opinion: "Based on our audit and evaluation conducted in accordance with our professional duties, we hereby confirm that 1. the factual information contained in this report is correct, 2. the consideration provided by the Company in respect of the legal transactions mentioned in the report was not inappropriately high."

The financial statement documents, the proposed appropriation of balance sheet profits, the report on relationships with affiliated companies and the auditors' report were distributed to all members of the Supervisory Board without delay following their preparation. At the financial statements review meeting on 21 March 2018, 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 summarised 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 compiled by the Management Board at 31 December 2017; the Annual Financial Statements of secunet Security Networks AG were thus adopted on 21 March 2018.

The Supervisory Board also checked the Management Board's suggested profit appropriation, which envisages a dividend of 1.20 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 2017 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, 21 March 2018

The Supervisory Board

Ralf Wintergerst

The secunet Share

The 2017 stock market year: positive development despite uncertainty

Global financial markets saw positive development in 2017. The US stock markets were driven, in particular, by anticipation of the structural reforms announced by President Donald Trump in the USA – which were enthusiastically celebrated – and were not even affected by doubts in the fundamental data in the corporate sector. At the same time, investors looked to Europe with mixed feelings. On the one hand, the still-ongoing Brexit negotiations and resulting uncertainty were stress factors, while on the other hand voices on the capital market started to multiply from the beginning of May, expressing doubts about the possibility of sustainable positive development in corporate profits with respect to the second half of the year. However, overall, the markets finished with gains across the board, and also achieved a positive result in Germany. DAX finished the stock market year with an increase of 13 percent at 12,917 points, MDAX ultimately rose by a good 18 percent to 26,200 points, and TecDAX recorded a rate increase of almost 40 percent, closing at 2,529 points. Smaller companies in the SDAX achieved a total jump of around 25 percent, and ended the year at 11,886 points.

Sustainable positive performance for the secunet share

The positive development in the secunet Security Networks AG share price from 2016 (plus 108 percent) continued almost without restriction in the period from 30 December 2016 to 29 December 2017. The share price rose from 46.00 euros at the end of 2016 to 93.67 euros on 29 December 2017, meaning that it more than doubled (plus 104 percent) once again. This led to an increase in the value of the Company from 299 million euros to 609 million euros.

secunet stock continues to be an investment offering good performance from a long-term perspective too: investors who joined at the beginning of 2013, at 12.62 euros, were able to see a value increase across a period of five years of 642 percent by the end of 2017.

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 seen consistent average annual growth of 57 percent, from 0.15 euros per share paid out from the 2013 balance sheet profit, to 0.58 euros from the 2016 balance sheet profit. It will be recommended to the Annual General Meeting 2018 to pay out a dividend to the shareholders to the value of 1.20 euros per share from the 2017 balance sheet profit.

Shareholder structure remains stable

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

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

Significant increase in trading volume

In 2017, the average number of secunet shares traded on the Frankfurt stock exchange and on Xetra was 5,172 stocks per day. The previous year's figure was 1,444. Despite the welcome increase in trading volume, the risk of increased stock volatility remains, i.e. major price fluctuations as soon as demand for or supply of secunet stock increases.

High attendance at Annual General Meeting

The Annual General Meeting of secunet Security Networks AG was held on 4 May 2017 in Essen, with around 87 percent of the share capital represented. Each of the agenda items received more than 99 percent 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 for us. The cultivation of investor relations therefore plays an important role at secunet.

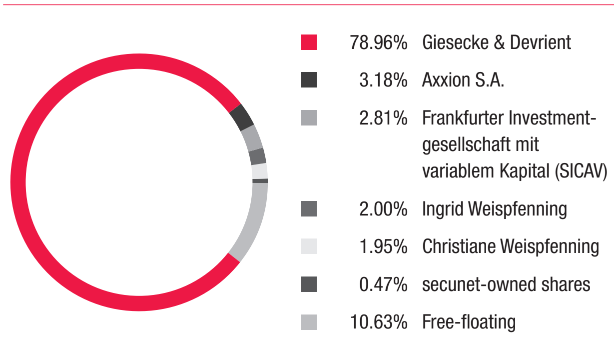
secunet is synonymous with regular and open reporting that is designed to provide our shareholders with comprehensive information on secunet Security Networks AG and its business performance. All information published by secunet is also posted on the Company's website (www.secunet.com) as quickly as 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 (0) 201 54 54-12 27 or via e-mail at investor.relations@secunet.com with questions.

Share price performance 1 January – 31 December 2017
Index, price 1 January 2017 = 100

secunet stock information

Ticker symbol Reuters	YSNG.DE
Ticker symbol 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 2017



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.

The Management Board and Supervisory Board of secunet Security Networks AG therefore regularly check the implementation of the German Corporate Governance Code at secunet Security Networks AG. In the financial year 2017, 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 respective versions as amended on 5 May 2015 and 7 February 2017. The Declaration of Conformity set out below regarding the German Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK) was agreed on the basis of these deliberations. This declaration is permanently available on our website and constantly updated to reflect any amendments.

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

Management and supervisory structure

secunet Security Networks AG is subject to German stock corporation law. As a German public limited company, it has a dual management and supervisory structure consisting of a Management Board and a Supervisory Board. The Management Board consisted of two members in the 2017 financial year, but was expanded to include an additional member from 1 January 2018. The Supervisory Board is made up of six members. The Management Board and Supervisory Board work together closely and on the basis of mutual trust in their management and supervision of the Company.

Supervisory Board

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

In accordance with the Articles of Association, the Supervisory Board of secunet Security Networks AG comprises six members. The current terms of the members of the Supervisory Board end with the Annual 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 has defined specific targets for its composition in accordance with Item 5.4.1 of the German Corporate Governance Code, and has drawn up a skills profile for the panel as a whole. The purpose of the skills profile is to ensure that the members of the Supervisory Board possess all the knowledge and experience considered essential in light of the activities of the secunet Group.

Taking into account the Company's specific situation, at the next election of its members, the Supervisory Board will strive to achieve diversity among candidates with the requisite professional and personal qualities. Among suitable candidates, the Supervisory Board will look for international experience, independence and an appropriate proportion of female members. At least one Supervisory Board position in the elections due to take place in 2019 is reserved for a female member 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.

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

In any event, in the opinion of the Supervisory Board, two members of the Supervisory Board at present are independent in the meaning of Item 5.4.2 of the German Corporate Governance Code. They are Dr Elmar Legge and Wolf-Rüdiger Moritz. At least one member of the Supervisory Board possesses many years of international experience.

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

The Supervisory Board 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 business divisions and divisions. Specific measures described in the Management Board's rules of procedure require the approval of the Supervisory Board. The Management Board is responsible for preparing the Company's quarterly updates, the Annual Financial Statements of secunet Security Networks AG, and the Consolidated Financial Statements.

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

Targets for the appointment of women

In addition, the Supervisory Board has also implemented the requirements of the legislation that came into force on 1 May 2015, regarding the equal participation of women and men in management positions. A target of 0% was set for the proportion of women on the Management Board and the Supervisory Board, and at management level directly under the Management Board, for the implementation period up to 30 June 2017. A target of 9% was applied for the second level of management under the Management Board. Further details on this topic can be found in the Corporate Governance Report for the 2015 financial year. The determined targets were met.

In its meeting on 4 May 2017, the Supervisory Board established a target of 17% for the Supervisory Board, relating to the implementation period from 1 July 2017 to 30 June 2022, with the goal of electing at least one woman to the Supervisory Board in the next rotational Supervisory Board Elections at the Annual General Meeting 2019. In the same meeting, the Supervisory Board also maintained the previously determined target of 0% for the Management Board relating to the implementation period up to 31 May 2019, because no expansion of the Management Board was intended at the time of the decision.

With regard to the two management levels below the Management Board, the Management Board set the following targets for the period from 1 July 2017 to 30 June 2022: 0% for the first level and 11% for the second level. In view of the small size of the Company, the limited number of management positions and the associated low level of fluctuation, the Management Board is of the opinion that more ambitious targets would not currently be realistic. The Management Board would, however, like to reiterate its intention to move towards a higher proportion of management positions being held by women (as far as possible).

In the 2017 financial year, the proportion of women at the second management level below the Management Board increased to 10.5%, thereby exceeding the target.

Responsible risk management

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

Transparent Corporate Governance

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

secunet Security Networks AG reports to its shareholders four times a year on business performance and on the financial and earnings situation, and makes all reports and information permanently available to shareholders on the Company's website at www.secunet.com. The dates for the regular financial reporting are listed in the financial calendar. If any circumstances arise at secunet Security Networks AG that might significantly influence the stock market price of secunet Security Networks AG, this will be disclosed via ad hoc notifications. The financial calendar and ad-hoc announcements are available to view on the website of secunet Security Networks AG under >> 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. At the Annual General Meeting on 4 May 2017, the Essen branch of the auditing firm KPMG AG was appointed as auditors for secunet Security Networks AG and Group auditors for the secunet Group for the 2017 financial year, and was therefore selected to perform an auditor's review of the Condensed Financial Statement and the Interim Management Report of secunet Security Networks AG and the secunet Group by 30 June 2017.

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

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

Corporate Governance Guidelines

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

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

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

Management Board and Supervisory Board remuneration

secunet Security Networks AG complies with statutory regulations and the recommendations of the German Corporate Governance Code and discloses the remuneration of each individual member of the Management Board. In this Annual Report (more specifically, in the remuneration report, which forms part of the Management Report), we detail the remuneration of the members of the Management Board and 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 European Market Abuse Directive Securities Trading Law (Directors' Dealings)

Article 19 of the European Market Abuse Directive (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 2017.

Accounting and auditing of the financial statements

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

secunet Security Networks AG's Consolidated and Annual Financial Statements have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Essen branch, the auditors appointed by the 2017 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 Mr Martin C. Bornhofen and Dr Dominic Sommerhoff.

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

The Condensed Consolidated Interim Financial Statements and the Interim Group Management Report as at 30 June 2017 were subjected to an auditor's review by KPMG AG Wirtschaftsprüfungsgesellschaft.

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

The management and supervisory boards of companies listed on the German stock exchange are legally obliged, in accordance with Article 161 of the German Stock Corporation Law (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 five years are permanently available on the website.

secunet Security Networks AG complies with, and will continue to comply with, the recommendations of the Government Commission on the German Corporate Governance Code, as amended in the respective versions in force on 5 May 2015 and 7 February 2017 and published by the German 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: The Supervisory Board of secunet Security Networks AG has no committees. In the opinion of the Supervisory Board, this is not in fact necessary, as the Supervisory Board comprises only six members. 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 Section 2 Clause 1
The Supervisory Board should stipulate specific targets with regard to its composition and draw up a skills profile for the overall panel. With regard to its composition, taking into account the Company's specific situation, it should adequately 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 Supervisory Board has no committees, there is currently no question of a special chairmanship and committee membership remuneration.

secunet Security Networks AG

Essen, 21 March 2018

The Management Board The Supervisory Board

Management Report

Summarised Management Report on the position of the company and the Group for financial year 2017

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, solutions and 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 in those 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

Until the end of financial year 2017, secunet Group included 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 secunet s.r.o. (Czech Republic) and secunet SwissIT (Switzerland) subsidiaries are in liquidation.

As part of the further development of the organisation in 2017, secunet founded three new companies: secunet Service GmbH, secunet International GmbH & Co. KG and secunet International Management GmbH, all headquartered in Essen, Germany, all having commenced operation on 1 January 2018. All three companies are 100% subsidiaries of secunet Security Networks AG.

International SINA marketing activities will in future be combined in secunet International GmbH & Co. KG. The aim is to further strengthen business outside Germany, and at the same time to enable the new company to be more flexible and more agile in engaging with the requirements of individual target markets, as well as opening up new markets. secunet International Management GmbH acts as a partner to secunet International GmbH & Co. KG and has no operational activities.

secunet Service GmbH facilitates the separation of the operational business from the administrative divisions within the secunet Group. Almost all functions that support operational units of secunet Security Networks AG will in future be centralised within the new service business. As an internal service provider, this company takes responsibility for services such as accounting, controlling and staff.

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

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

The Public Sector division offering comprises high security encryption technology with the main product SINA, as well as extensive (consulting) services and products for governmental consumers. It also offers services and IT solutions for automated border control systems (eGates, electronic official documents, etc.). The international marketing business results had been attributed to the Public Sector division by the end of 2017. Similarly, the figures for the newly founded secunet International GmbH & Co. KG will be attributed to the Public Sector division from the start of 2018.

The Business Sector division provides private companies with IT security consulting and solutions, and has the special competencies of 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 aims to optimise operations for the relevant markets and customers.

Giesecke & Devrient GmbH, Munich, is the majority shareholder with a direct holding of 78.96%, and is the parent company of secunet Security Networks AG. The Giesecke & Devrient Group (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 security for payment processes as well as identity, connectivity and data security.

1.1.3 Products and services

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

1.1.4 Key sales markets

The target markets for secunet's products and services are public 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, utilities, telecommunications and manufacturing / production industries, as well as automotive manufacturers and suppliers.

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

1.2 Corporate management

Management of secunet Group by the secunet Security Networks AG Management Board is based on key financial figures, namely the Group sales 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 regularly liaises with senior executives who have operational responsibility to discuss any distribution, product management and project management measures that may be required.

1.3 Research and development – innovation report

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

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

During the last financial year, secunet undertook a significant amount of self-financed Research and Development activities for the first time, spending a total of 2.1 million euros. Of this sum, 1.8 million euros was spent on developing the secunet konnektor for integration into the telematics infrastructure for electronic health cards. A further 0.3 million euros was invested in a development project for security upgrades for cloud infrastructures.

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

- » Promoting a culture of innovation by offering incentives for new developments, alongside regular and intensive internal specialist exchange and establishing a knowledge management infrastructure. This approach is also supported by the fact that the Personnel Development Plan doesn't just relate to a career in management, but also outlines a career path for technical specialists.
- » Undertaking collaboration and partnerships with customers, universities and associations in order to achieve synergies in Research and Development.
- » The organisational bundling of competences, in the form of product managers who support the development of innovation management, right up to the creation of market-ready products.

In addition, secunet employees are members of many national and international standardisation bodies and committees, thereby actively participating in the reviewing, approving and implementing of innovations in the field of IT. This allows a valuable exchange of expertise to take place, continually building up employees' skills. Additionally, working 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

secunet Group is predominantly active in the German market and is therefore primarily affected by the framework conditions of the overall economy in Germany. The German economy continued to boom in 2017. Adjusted for price, Gross Domestic Product (GDP) increased by 2.2%, following a 1.9% rise in 2016. This has resulted in the sustained favourable development of public budgets. The commercial situation of secunet Group is being 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 growing. Over the last three years it has been characterised by the following developments:

» The hardware market has been rather volatile, because of (replacement) procurement cycles: growth of 4.8% in 2015 was followed by a slight decline of 0.5% in 2016. The hardware market went on to grow by 2.6% in 2017.

» The market for software has grown continuously by well over 6% each year – most recently by 6.3% in 2017.

» Growth in IT services continues running at a level of 2.5%. The IT services market grew by 2.3% in 2017.

Security continues to be an important topic for the IT market. This is attributable in particular to the fact that a number of cyber attacks and scandals relating to data have made a very strong impression in the public realm, and therefore the topic of cyber security, i.e. the protection of IT systems from threats arising from espionage and sabotage, has become highly 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 general increase in e-government applications are increasing the relevance of IT security and the associated demand for concepts, solutions and products. The German Federal Government's overarching cyber security strategy reflects these efforts.

There is also an increasing awareness of this topic among companies. Recent survey results (Allianz Risk Barometer) show that attacks on IT security (e.g. through cyber crime and hacker attacks) rank among the top three risks for companies. In 2016 material losses resulting from cyber crime were estimated at 55 billion euros.

The topic has also been additionally boosted by the German IT Security Law (IT-Sicherheitsgesetz, ITSiG). This legislation demands that providers and operators implement critical infrastructure, requiring them to use the latest technology to appropriately secure their IT systems and to report IT security incidents.

Despite this development, in many companies it is evident that IT security implementation still remains dependent on a cost-benefit calculation. Although the fundamental threat from cyber criminality remains as high as ever – or may even be increasing – many companies, particularly in the mid-size sector, 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: In terms of expenditure on IT security between now and 2019, estimates (in summaries by IDG, for example,) assume average growth in excess of 7.5%.

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

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

2.2 Assessment of business performance 2017

At the time of publishing the Annual Report 2016, the secunet Management Board expected Group sales revenue for the 2017 financial year to be slightly slower than in the previous year. This outlook was based on the assumption that provisional budget management measures would be taken following the 2017 parliamentary elections. Since this dampening effect only affected the Public Sector, the Business Sector division was expected to make a slightly higher contribution to total Group sales revenue. Based on these expectations and the related assumption that product business would decline slightly, the Management Board anticipated a moderate decrease in the Group EBIT as compared with the previous year, with a slight drop in the EBIT margin. In parallel to the expected positive sales revenue development in the Business Sector division, a perceptible improvement in EBIT was also expected for this division. However, dampening effects on business results, expected by the Management Board to arise from the provisional budget management measures, did not materialise.

In light of the positive business results achieved by the end of May 2017 and the good order book at that time, the Management Board increased its forecast for the first time to 130 million euros with an EBIT of 18 million euros, issuing an ad hoc announcement on 14 June 2017. With the publication of the Group Quarterly Statement as at 30 September 2017 (9-month report) on 7 November 2017, the Management Board slightly increased the forecast to a sales revenue of 140 million euros and an EBIT of 19 million euros. Procurements by public clients – which had been uncertain prospects at the time of publishing the 9-month report – led the Management Board to increase expectations once again, by means of an ad hoc announcement on 30 November 2017, to sales revenue of 155 million euros and an EBIT of 22 million euros.

The business development that was actually achieved significantly exceeded the sales revenue and EBIT forecast published with the 2016 Annual Report. In financial year 2017, secunet Group achieved sales revenue of 158.3 million euros (previous year 115.7 million euros) and EBIT of 23.5 million euros (previous year 13.7 million euros). This marked yet another record result.

The Management Board sees 2017's business development as outstanding.

2.3 Situation

2.3.1 Results of operations of the Group

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

2.3.1.1 Sales revenue performance

In the 2017 financial year, the sales revenue of secunet Group grew by 42.6 million euros or 37%, from 115.7 million euros in the previous year to 158.3 million euros. This positive development was mainly achieved through a substantial increase in the product business (sales revenue from commodities, licences, maintenance and support). Sales revenue from services (consultancy business) only increased slightly on the level achieved in the previous year.

Sales revenue for both secunet divisions (Public Sector and Business Sector) rose, with the clear majority of growth achieved in the Public Sector division.

One aspect of the Public Sector division offering to its customers is the SINA product family, i.e. solutions (software, hardware and management) for highly secure, cryptographic processing, transmission and storage of data with different confidentiality levels. Additionally it offers public customers a wide range of IT security products and services, from IT security consulting and training to products and consulting for electronic passports, automated (biometric) border controls, ELSTER electronic tax advice and the equipment of large infrastructures with high security technology and public key infrastructures. Compared to the previous year, sales revenue in the Public Sector division rose by 41%, or 40.9 million euros, from 100.2 million euros to 141.1 million euros. The proportion of the 2017 financial year secunet Group sales revenue which was attributable to the Public Sector division therefore equated to 89% (previous year: 87%). secunet's focus on its target group, which consists of customers from the public sector in Germany and abroad as well as international organisations, has become stronger as a result.

The Business Sector division offers (consulting) services and solutions to meet the specific requirements of companies in the private sector. The consulting services range from security assessments (known as penetration tests) via security consulting, such as those for security guidelines and their implementation, up 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. Activities in the area of electronic health services, which have previously been limited mainly to consultancy services, are set to be expanded. As a result, around 1.8 million euros was invested in the development of the secunet Konnektor for integration into the telematics infrastructure for electronic health cards in 2017. Although substantial capacities were involved in the development of the health connector and were therefore unavailable for the realisation of (consultancy and development) sales revenue, sales revenue in the Business Sector division increased by 11%, or 1.8 million euros, from 15.5 million euros in the previous year to 17.3 million euros. Because of the simultaneous significant increase in sales revenue that the Public Sector experienced, the contribution made to Group sales revenues by the Business Sector decreased on the previous year (13%), falling to 11% in financial year 2017.

At 0.8 million euros, the sales revenue from projects with Giesecke & Devrient Group in the 2017 financial year remains at a comparatively low level in relation to the previous year's figure of 1.1 million euros.

Sales of secunet products and services outside Germany increased by 19%, or 2.5 million euros, from 13.8 million euros in 2016 to 16.3 million euros in the year under review. However, the increase in sales revenue was smaller in Germany: the contribution of foreign sales revenues to Group sales revenue dropped from 12% the previous year to 10%.

2.3.1.2 Earnings performance

The earnings before interest and taxes (EBIT) of secunet Group increased by 72% compared to the previous year, rising from 13.7 million euros to 23.5 million euros. This improvement in EBIT resulted primarily from significantly increased sales revenue in the product business. Expenses grew only by a disproportionately low amount compared to sales revenue. At the same time, good capacity utilisation in the consultancy sector continued to have a positive effect.

Key cost items in secunet Group

in thousand euros	2017	2016
Cost of sales	113,722	86,143
Selling expenses	14,127	11,594
General administrative costs	5,060	4,307

The following individual developments arose, in terms of costs:

In the reporting year, the cost of sales increased by 27.6 million euros, or 32%, from 86.1 million euros in the 2016 financial year to a total of 113.7 million euros. The increase is directly linked to the development of sales revenue in the product business: materials expenses have seen a corresponding strong increase. Materials expenses include the purchase of commodities for use in products, as well as third-party services received. Furthermore, increased personnel expenditure, arising mainly from the increase in employee numbers, has also had an effect in this area.

Compared with the previous year, selling expenses increased by 22%, or 2.5 million euros, from 11.6 million euros to 14.1 million euros. This increase is mainly due to the expansion of sales and marketing activities and the associated increase in personnel expenditure.

General administrative costs increased by 0.8 million euros, or 17%, compared to the previous year's figure of 4.3 million euros to 5.1 million euros. This growth was due mainly to increased legal and consultancy costs as well as higher personnel expenditure.

In the 2017 financial year, the apportionment of any expenditure which is not directly allocable to reportable segments (e.g. overhead costs) was changed. In the past, all non-allocable expenditure was apportioned according to the relative number of employees. Because of the growth in product business, an allocation table is now used for most cost items. The previous year's segment report has been amended to allow for comparison. Due to the adjustment of the distribution formula, EBIT for the division changed from -0.5 million euros to 0.7 million euros on the previous year 2016, while the corresponding value for the Public Sector division declined from 14.3 million euros to 13.0 million euros.

As in the previous year, only the Public Sector division contributed to the increase in the Group EBIT. Here, the EBIT increased disproportionately to the increase in sales revenue (+41%), growing by 82% from 13.0 million euros in the previous year to 23.7 million euros in the 2017 financial year. The reason for this improved result is growth in sales revenue in the product business accompanied by costs only increasing at a disproportionately low rate.

At the same time, the EBIT in the Business Sector division changed from 0.7 million euros in the previous year to -0.2 million euros in the 2017 financial year. The main factor behind this development is the realisation of planned investments in the development of the secunet Konnektor during the year under review.

Income from interest in secunet Group grew by 71%, or 123 thousand euros, from 173 thousand euros in the 2016 financial year to 296 thousand euros in the 2017 financial year. As in the previous year, this income resulted from short-term loans provided during the year by secunet Security Networks AG to its parent company Giesecke & Devrient GmbH Munich, as well as loans to its associated company finally safe GmbH. Interest expenses decreased slightly from 143 thousand euros to 131 thousand euros: this predominantly relates to interest expenses for pensions. Overall, the interest result changed from 31 thousand euros to 164 thousand euros.

The earnings before tax were 23.5 million euros in the 2017 financial year, having totalled 13.6 million euros in the 2016 financial year, corresponding to an increase of 9.9 million euros or 72%. Tax on the result increased from 4.4 million euros in the 2016 financial year to 7.7 million euros in the 2017 financial year. The increase of 3.3 million euros in tax expenditure was due to the growing tax burden which comes with the improved result. The tax ratio was 33% in 2017 (compared to 32%).

As a result, secunet Group generated a Group net income of 15.9 million euros in the 2017 financial year, which corresponds to an increase of 6.7 million euros, or 72%, compared to the previous year (9.2 million euros). Diluted and undiluted earnings per share in 2017 stood at 2.45 euros, compared with 1.43 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 2017 financial year, secunet generated sales revenue of 158.3 million euros, having achieved 115.8 million euros in the previous year, an increase of 42.5 million euros or 37%. Other operating income increased from 1.3 million euros in the 2016 financial year to 1.8 million euros in the year under review.

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

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

Key expenditure items of secunet Security Networks AG

in thousand euros	**2017**	**2016**
Materials expenses	71,903	47,502
Personnel expenditure	42,703	38,411
Depreciation and amortisation	2,056	1,690
Other operating expenses	20,316	15,778

Materials expenses increased by 24.4 million euros, or 51%, from 47.5 million euros in the previous year to 71.9 million euros. This is connected with the increase in product business in the previous year, which necessitated an increase in the use of commodities and also raised expenditure on the related services as compared with the previous year.

In 2017, personnel expenditure increased by 11%, or 4.3 million euros, from 38.4 million euros in the previous year to 42.7 million euros. The increase is mainly based on three factors: It is firstly attributable to the increase in the allocation to provisions for variable remuneration elements resulting from the improved earnings. Secondly, the number of secunet Security Networks AG personnel has increased: At the end of 2017, the Company employed 50 more personnel than the previous year, which corresponds to a 12% increase. Thirdly, a general increase in the salary level has made an impact.

Write-offs increased by 0.4 million euros, or 22%, from 1.7 million euros in the previous year to 2.1 million euros in the 2017 financial year. This increase was the result of the 2016 acquisition of tangible assets in connection with the move to new company headquarters in Essen, and the resultant expansion of the technical infrastructure as well as the subsequent continued growth in the company's tangible assets.

Other operating expenses increased by 4.6 million euros, or 29%, from 15.8 million euros in the previous year to 20.4 million euros. This increase was mainly due to legal and consultancy costs, the payment of commissions and increases in provisions.

The overall expenses of secunet Security Networks AG were therefore 137.0 million euros in the 2017 financial year, compared with 103.4 million euros in the previous year.

As a result, the earnings before interest and taxes (EBIT) improved by 69%, from 13.8 million euros in the 2016 financial year to 23.3 million euros in the last reporting period. The 2017 financial result totalled -131 thousand euros, compared with 88 thousand euros in the 2016 financial year. As a result, the earnings before income taxes of secunet Security Networks AG in the 2017 financial year were 23.2 million euros compared with 13.9 million euros in the previous year. Net income increased from 9.4 million euros in 2016 to 15.5 million euros in the 2017 financial year.

2.3.3 Financial and net asset situation of the Group

The balance sheet total of secunet Group rose from 99.2 million euros on 31 December 2016 to 133.4 million euros on 31 December 2017.

Balance sheet of secunet Group, assets

in euros	31 Dec 2017	31 Dec 2016
Current assets		
Cash and cash equivalents	62,922,886.67	50,213,287.76
Trade receivables	40,925,634.56	25,368,458.16
Intercompany financial assets	85,481.04	52,468.59
Inventories	11,427,628.95	8,385,779.36
Other current assets	1,164,076.06	555,853.92
Total current assets	**116,525,707.28**	**84,575,847.79**
Non-current assets		
Property, plant and equipment	4,424,652.83	3,712,740.00
Intangible assets	470,349.00	312,561.00
Goodwill	3,607,331.00	3,027,300.00
Non-current financial assets	5,646,493.00	5,412,940.00
Financial assets shown in the balance sheet according to the equity method	93,346.08	177,641.87
Loans	1,307,444.44	635,666.67
Deferred taxes	1,360,653.26	1,356,722.49
Total non-current assets	**16,910,269.61**	**14,635,572.03**
Total assets	**133,435,976.89**	**99,211,419.82**

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 12.7 million euros, or 25%, from 50.2 million euros to 62.9 million euros.

Trade receivables increased by 15.5 million euros, or 61%, from 25.4 million euros to 40.9 million euros. As in previous years, this was due to the strong sales revenue achieved in the fourth quarter – the receivables invoiced for this had not been settled fully by the balance sheet date.

In order to ensure delivery capability for the product business, which has seen sustained growth, the inventory level increased by 3.0 million euros, or 36%, from 8.4 million euros to 11.4 million euros.

As a result of investment in business and operating equipment in connection with the further growth of the company, the tangible assets of secunet AG have increased by 0.7 million euros, or 19%, from 3.7 million euros to 4.4 million euros.

Loans increased by 0.7 million euros, or 106%, from 0.6 million euros to 1.3 million euros. The reason for this is the granting of an additional loan to the associated company finally safe GmbH.

Balance sheet of secunet Group, liabilities

in euros	31 Dec 2017	31 Dec 2016
Current liabilities		
Trade accounts payables	26,629,285.89	16,145,811.85
Intercompany payables	463,669.89	3,658.99
Other provisions	14,990,960.98	12,399,742.03
Income tax liabilities	6,720,100.39	3,326,291.98
Other current liabilities	6,292,019.10	5,285,982.50
Deferred income	6,459,411.99	4,870,715.00
Total current liabilities	**61,555,448.24**	**42,032,202.35**
Non-current liabilities		
Deferred taxes	192,404.86	234,470.00
Provisions for pensions	6,029,924.67	5,847,806.00
Other provisions	133,977.00	136,246.00
Deferred income	6,436,887.85	4,020,117.00
Total non-current liabilities	**12,793,194.38**	**10,238,639.00**
Equity		
Share capital	6,500,000.00	6,500,000.00
Capital reserves	21,922,005.80	21,922,005.80
Other reserves	-1,547,460.56	-1,580,433.20
Revenue reserves	32,212,789.03	20,099,005.87
Total equity	**59,087,334.27**	**46,940,578.47**
Total equity and liabilities	**133,435,976.89**	**99,211,419.82**

The liabilities side of the secunet Group balance sheet indicates the following significant changes when comparing between 31 December 2016 and 31 December 2017:

Trade accounts payable increased by 10.5 million euros or 65% from 16.1 million euros at 31 December 2016 to 26.6 million euros at 31 December 2017. This increase can be directly attributed to the good year-end business of secunet Group, largely arising from the product business. Liabilities regarding suppliers have increased correspondingly. secunet Group is still in a position to fulfil its payment obligations at all times.

The remaining short-term provisions have increased significantly compared to the level at 31 December 2016 (12.4 million euros), by 2.6 million euros, or 21%, to 15.0 million euros. This increase is mainly due to provisions for guarantees in large-scale infrastructure projects and the increase in provisions for variable remuneration to secunet employees for the successful 2017 financial year.

Income tax liabilities increased by 3.4 million euros, from 3.3 million euros on 31 December 2016 to 6.7 million euros on the 2017 balance sheet date. The main reason for this is the improvement in the earnings before taxes. At the same time, the remaining short-term liabilities, which largely relate to VAT liabilities, increased by 1.0 million euros, from 5.3 million euros to 6.3 million euros.

The passive short-and long-term prepaid and deferred items increased by 45%, or 4.0 million euros, from 8.9 million euros on 31 December 2016 to 12.9 million euros. The increase in prepaid and deferred items is directly linked to the growing product business. The number of maintenance and support contracts is growing accordingly. The resultant sales revenue will be assigned to the appropriate period through the consolidated accounts.

Revenue reserves increased by 20.1 million euros to 32.2 million euros compared to the previous year's figure. This change was based on the Group consolidated profit for the period of 15.9 million euros, and the dividend payment of 3.8 million euros paid during the reporting year.

secunet Group's positive result for the 2017 financial year contributes to the equity increase, which amounted to 12.2 million euros, or 26%, to 59.1 million euros compared to the previous year's reporting date 31 December 2017.

secunet did not take out any loans in either the 2016 or the 2017 financial year; all spending was financed with cash. There were also no other outstanding loans, so the debt ratio was at 0%. Guaranteed credit is available to secunet Security Networks AG from 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 2017, the amount of this credit was 3.0 million euros (previous year: 3.6 million euros).

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

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 secunet Group as a whole.

The accounting measurement methods in the Annual Financial Statements of secunet Security Networks AG are different to those for secunet Group – which reports in accordance with IFRS – largely with reference to the presentation of receivables, inventories and provisions for pensions. A different measurement method is also used for goodwill, which according to the German Commercial Code (HGB) is amortised on a straight-line basis over 9 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 38.4 million euros and inventories of 13.6 million euros; in the consolidated financial statements, these are 40.9 million euros and 11.4 million euros respectively. The differences result mainly 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 3.8 million euros (these provisions total 6.0 million euros in the consolidated financial statements). The main reason for this is the different interest rates on which the defined benefit obligations are based.

An amount of 16.6 million euros was transferred to other revenue reserves from the annual net profit of 15.5 million euros for 2017 in conjunction with the balance sheet profit of 12.6 million euros for the previous year. Taking into account the dividends paid in 2017, in the amount of 3.8 million euros from the balance sheet profit for 2016, the result is a balance sheet profit of 7.8 million euros.

The Management Board and the Supervisory Board of secunet Security Networks AG propose the distribution of 7.8 million euros to shareholders through the payment of a dividend of 1.20 euros per no-par value share at the Annual General Meeting.

2.3.5 Cash flow of the Group

At 20.4 million euros, cash flow from operational business activities for the 2017 financial year has hardly changed compared with the previous year (20.5 million euros). The positive liquidity effect from the improvement in the earnings before taxes is compensated for through the change in working capital (receivables and other assets, provisions, liabilities and prepaid and deferred items) as well as higher tax payments.

Funds amounting to 4.1 million euros (6.2 million euros in the previous year) were spent on investment activity. This corresponds to a decline of 2.1 million euros compared to the previous year. Investments in intangible assets and property, plant and equipment increased by 0.3 million euros. Investments in financial assets decreased by 2.2 million euros, from 2.5 million euros to 0.2 million euros. Payments for investments in investment assets remain unchanged at 0.6 million euros.

Cash flow from financial activity declined by 1.5 million euros in the 2017 financial year as compared with the 2016 financial year. The increased cash outflow is largely attributable to the fact that in the 2017 financial year, a dividend in the amount of around 3.8 million euros was paid to shareholders of secunet Security Networks AG for the previous financial year 2016, compared with 2.2 million euros in the previous year.

Cash and cash equivalents at the end of 2017 therefore total 62.9 million euros, compared with 50.2 million euros at the end of 2016.

2.3.6 Investments of the Group

The increase in capital expenditures of 4.1 million euros in the 2017 financial year (previous year: 6.2 million euros) is made up of the purchase of intangible assets and of property, plant and equipment in one aspect. Spending was mainly on the procurement of new and replacement hardware, software and other business and operating equipment. In the 2017 financial year, expenditure for this type of investment amounted to 3.4 million euros and was therefore slightly higher than the figure for the previous year (3.1 million euros).

On the other hand, in the 2017 financial year, investments in financial assets decreased by 2.3 million euros, from the previous year's value of 2.5 million euros to 0.2 million euros. The reason for this decrease from the high figure for the previous year is a one-off contribution in 2016 to the covering funds from reinsurance for the pension commitments pledged by the company.

The investments were made from liquid funds.

2.3.7 Order book of the Group

Due to the high sales revenue in the fourth quarter of the 2017 financial year, the secunet Group order book in accordance with IFRS amounted to 57.7 million euros at the end of 2017 and has therefore increased by 19%, or 13.1 million euros, as compared with the figure of 70.8 million euros at 31 December 2016.

The majority of the order book at 31 December 2017 was composed of services (consultancy and development). This ensures that employee capacity will continue to be utilised effectively.

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 2017 financial year, secunet Group had 479 permanent employees, which represents 50 more individuals, or around a 12% increase compared to the end of 2016. The company also employs 60 temporary workers (previous year: 66). The 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.

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 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 for employees.

3. Forecast, Opportunities and Risk Report

3.1 Risk report

3.1.1 Risk management objectives and methods

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

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

The Company-specific risks surveyed in this manner are then discussed, implementing 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 pure documentation where the value is not critical (the probability-weighted damage value in the 2017 financial year was up to 0.5 million euros in EBIT losses) and further observation (monitoring – for a risk value of up to 1.2 million euros in the 2017 financial year) to the need to take immediate action (warning limit – at a probability-weighted damage value of over 1.2 million euros in the 2017 financial year). The value limits defined above are re-determined annually based on the planned annual result. Insofar as the identified risks are quantifiable, the corresponding risk values (relating to the reporting date) are adopted in the reporting system.

Proposals for countermeasures are then drawn up, if required. The Management Board examines these measures and implements them promptly. During the course of the 2017 financial year, several instances of risk were identified and necessitated measures. For the main part, these related to the areas of distribution and production. Operation damage management implemented in each of these cases was able to contribute to reducing the relevant risk value to significantly below the warning threshold in all cases.

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

3.1.2 Individual risks

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

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

As in previous years, risks in the 2017 financial year were primarily focused on the areas of distribution (acquisition of orders) and production (project processing).

3.1.2.1 Competitive environment (distribution risk)

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

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

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

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

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

As a result of increasing attention on the topic of IT security, an increasing demand for products and solutions in the field of IT security is expected. 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 competitive intensity and could endanger the market position of secunet – particularly in the Business Sector. This is of particular concern to certified consultants, IT companies and the consulting areas of auditing companies. The assessment that the risk of increased competitive intensity is in balance with the opportunity for market growth due to increasing awareness in the public realm is still valid.

3.1.2.2 Customer structure (distribution risk)

Customer structure risk exists to the extent that secunet conducts the majority of its business with public sector authorities and organisations. The loss of segments of demand from this customer group can have very negative effects on sales revenue and results. This risk has been discussed in depth by the risk committee. Investments in IT, and notably in IT security, are seen as particularly important for the smooth delivery of projects for the public sector, particularly in a world where information technologies play an increasingly important role. The risk of a downturn in demand from public sector customers is therefore constantly monitored, although it is currently considered to be relatively low. At the same time, a temporary shift in expected orders is a possibility, for example during "provisional" budget management, during which federal authorities are only able to use limited expenditure. This can cause a significant shift in sales revenue for an individual year; service revenues can even be completely missing because these cannot be repeated if capacities are fully utilised. Another risky area regarding the foreseeability of sales revenues relates to the often long-term decision-making processes for major projects. Measures for risk limitation in this case include the use of key account managers in distribution as well as 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 event 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 sales 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 sales 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. One strategic measure is the pooling of international distribution activities in the company founded for this purpose.

3.1.2.3 Product development risks (production risk)

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

As part of the development of new products, the following risks are discussed and evaluated regularly:

» Risk of a possible decline in demand: the product fails to prove itself on the market.

» Risk of undesirable technical developments: the product contains defects that lead to warranty claims.

» Risk of failure to complete the product in time: the development project takes considerably more time than estimated.

To date, the risks associated with developing new products that subsequently prove unsuccessful on the market have not been of primary significance for secunet. Its high-security IT 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 business division. Even when it comes to biometrics and sovereign documents, product innovations such as the secunet biomiddle biometric middleware, or the Golden Reader Tool platinum edition were developed as a result of issues raised during consulting activities. Therefore, no development risks exist in terms of potentially waning demand.

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

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

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

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

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

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

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

As part of the risk inventory in the fourth quarter of 2017, risks arising from major projects were valued at 1.0 million euros. secunet counters these risks with strict risk monitoring by project managers and the timely implementation of measures. Examples of these measures could include the securing of rights to solutions considered to be critical, or accounting precautions for provisions.

3.1.2.5 Product technical safety risk (product management and production risk)

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

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

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

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

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

3.1.2.6 Warehousing risk (distribution risk)

Warehousing risks are also increasing alongside the growth in product business for secunet Security Networks AG. On the one hand, this is due to the risk associated with the ability to deliver at short notice, which can be countered by suitably networked material planning. At the same time, hardware components in particular are becoming obsolete because of accelerating technical progress. Where applicable, inventories lose their value because of this technical ageing process. As part of the risk inventory in the fourth quarter of 2017, the warehousing risk is valued at 0.9 million euros. secunet stays abreast of these risks through professional inventory optimisation.

3.2 Opportunities

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

3.2.1 Growth via increasing awareness

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

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

3.2.2 Growth 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. To this end, ITSiG was passed in July 2015. This results in growth opportunities at many different levels:

- » The legislation will particularly affect operators of critical infrastructures – i.e. facilities that are of central importance to the community – such as 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 to meet 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 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. There is rising international demand for solutions offered at the level of quality provided by secunet. Under the pressure of interception cases and cyber attacks coming to light, demand is likely to stimulate even greater differentiation between producer countries, from which secunet also benefits. In addition, many secunet products are approved for use in an international context, for example by the EU and NATO.

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

3.2.4 Growth through acquisitions

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

3.3 Overview of risks and opportunities

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

The 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 2018 financial year give reason for optimism.

» The macroeconomic prospects for growth are positive: The German Federal Government expects growth of 2.4% in the price-adjusted gross domestic product for the current year.

» For the domestic market, we are still expecting growing 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 well-positioned to realise these. The secunet International GmbH & Co. KG employees in international distribution have many years of experience in the Group and in dealing with international customers.

» During the course of the year, the secunet Group again increased its 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 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.

» The provisional budget management measures – taken by the Federal Authorities as a result of the protracted process to form a government that followed the parliamentary elections in September 2017 – continue to be seen as a particular risk in 2018. Although this budgetary risk had not yet had any effect at the end of the 2017 financial year, the possible effects on business results in the first few months of the 2018 financial year are difficult to predict. The Management Board expects development to be rather muted.

» 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.

» Commissions in the consultancy business of secunet Security Networks AG were largely the result of long-term, comprehensive framework agreements. Therefore, there is a degree of uncertainty in respect of future capacity utilisation in the case of new tendering processes arising from such framework agreements.

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

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

- The 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 expertise.
- The Company's existing product and service portfolio has done well in terms of standing up to competition, and is continuing to expand in close cooperation with customers and their needs.
- The Company is well-known as a provider of high-quality and trustworthy IT security to meet the highest demands, and therefore has a stable and reliable (existing) customer structure.
- The market for IT security is growing; dynamic technological development in IT continually creates new applications and demands, which opens up great opportunities, especially in the area of IT security. secunet will be able to meet this demand well in future, with optimised and new services, products and solutions.

At the time this report was prepared, secunet Group was in a good position. During the past financial year, sales revenue and the EBIT increased sharply once again, and 2017 consequently ended with excellent results. The company's Management Board is generally optimistic about business development for the coming year 2018. The aforementioned provisional budget management measures – arising as a consequence of protracted government formation processes in Germany – are considered the most significant uncertainty at the time of creating this report. Taking into account this potentially detrimental factor, and in view of the very good business results already achieved in 2017, the Management Board expects that sales revenue for the coming 2018 financial year will be slightly lower than that of the previous year. Because the effects of the provisional budget management measures are limited to the Public Sector, the Business Sector division is expected to make a slightly higher contribution to total Group sales revenue.

In line with expected sales revenue development, the Management Board is expecting the Group EBIT for 2018 to be slightly lower than in the previous year. Due to expenditure relating to the continued development of the secunet health Konnektor, the Business Sector division is not expected to make a significantly higher contribution to the overall sales revenue in 2018.

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

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 ongoing ability to pay. This is also the main objective of financial management.

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

5.1 Elements of the internal control and risk management system

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

secunet Group's internal control system consists of an internal 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 – appointed managers responsible for secunet Group's internal control system in the 2017 financial year, in particular in the areas of controlling, finance and human resources that are run by secunet Security Networks AG. From the 2018 financial year onwards, the corresponding tasks will be performed by secunet Service GmbH.

Process-integrated and process-independent monitoring measures are the cornerstone of secunet Group's internal monitoring system. In addition to manual process controls – such as the "two-pairs-of-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 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 Group accounting-related risks may result, for example, from the conclusion of unusual or complex transactions that are not routinely performed.

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

The controlling activities for assuring the correctness and reliability of the accounting system include tasks such as the analysis of circumstances and developments using specific 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 change in the business activities of individual divisions, properly and in good time in the Group accounting. They also ensure that in the event of changes to the IT systems for the underlying accounting in the affiliated companies, for example, the accounting processes are recorded in their entirety for the relevant periods. The internal control system also ensures the mapping of changes in the economic or legal environment of secunet Group and ensures that the Group accounting is adjusted in line with new legal provisions or amendments to such provisions.

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

The internal control system measures, which focus on the correctness and reliability of Group accounting, ensure that business transactions are recorded in good time and in accordance with the law and the Articles of Association. It is also ensured that inventories are carried out correctly and that assets and debts are reported, 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 internal organisation, control and monitoring structures mentioned, individual discretionary decisions, defective controls, criminal actions and other circumstances cannot be ruled out. This may lead to limited effectiveness and reliability of the internal control and risk management system used, to the extent that the Group-wide application of the system cannot absolutely guarantee security regarding the correct, complete and timely recording of facts in the Group accounting.

6. Information relevant to acceptance: Information and Explanatory Report provided by the Management Board in line with Article 289a Para. 1 and Article 315a Para. 1 HGB

The Management Board of secunet Security Networks AG provides the following information for the 2017 financial year in line with Article 289a Para. 1 and Article 315a Para. 1 HGB:

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

2. A restriction on the transfer of secunet shares may apply pursuant to the Foreign Trade and Payments Act (Außenwirtschaftsgesetz, AWG), owing to the products supplied by secunet Security Networks AG. Article 5 (3) Item 2 AWG stipulates that “Restrictions … can in particular be imposed with reference to the acquisition of domestic companies or shares in such companies by foreigners in order to guarantee the essential security interests of the Federal Republic of Germany if the domestic companies … manufacture products with IT security functions to process classified state material or components essential to the IT security function of such products, or have manufactured such products, and still dispose of the technology if the overall product was licensed with the knowledge of the company by the Federal 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 does 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 either from legislation or the Articles of Association of the Company. The Management Board is not aware of any agreements between shareholders that give rise to restrictions on the transfer of the Company’s shares.

3. To the knowledge of the Management Board, 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 Law (Aktiengesetz, AktG). The Articles of Association do not contain any special provisions governing the appointment and dismissal either of individual members or the entire Management Board. The Supervisory Board has sole responsibility for its / their appointment and dismissal. It appoints members of the Management Board for a maximum 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 2017, 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. As at 31 December 2017, the Management Board of secunet Security Networks AG had not taken advantage of this entitlement.

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 conduct 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 under >> The Company >> Investor Relations >> Corporate Governance

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 sets out the principles behind, and amount of, the remuneration received by the Supervisory Board, and also provides information on the shareholdings of Management Board and Supervisory Board members.

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 2017 financial year, the remuneration package for the members of the Management Board who were active in the 2017 financial year was made up of five components: a fixed annual salary, a variable bonus, a special bonus, ancillary non-cash benefits and a contribution to the retirement pension. During the 2017 financial year, the Supervisory Board decided to conclude ancillary agreements to the contracts of employment for the acting members of the Management Board in 2017 with regard to the payment of a special bonus. Hereinafter, the Supervisory Board may, at its discretion, decide to pay a special bonus in the amount of up to 100 thousand euros per financial year in recognition of special developments or burdens, or if the members of the Management Board have made exceptional contributions.

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 sales revenue and EBIT for the current financial year (2017 in this case), while the long-term component is measured based on the average EBIT of the past three financial years (2015–2017 in this case).

- At its discretion, the Supervisory Board has awarded each of the members of the Management Board a special bonus in the amount of 100 thousand euros for its extraordinary contributions in the 2017 financial years.

- Non-cash and other benefits essentially comprise the taxable values of company car usage.

- The retirement pension contributions paid to members of the Management Board are set out in their individual contracts of employment. These pension commitments provide for a life annuity with provision for dependants.

Management Board contracts do not expressly provide for any severance payment in the event that the employment relationship is prematurely terminated. In addition, Management Board contracts do not include any specific regulations to govern the event that a "change of control" occurs – that is when one or several shareholders acting jointly obtain the majority voting rights of secunet 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 of the German Stock Corporation Law (Aktiengesetz, 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	2016	2017	2017 (min)	2017 (max)	2016	2017	2017 (min)	2017 (max)
Fixed remuneration	260,004	260,004	260,004	260,004	220,008	220,008	220,008	220,008
Ancillary benefits	31,113	31,434	31,434	31,434	26,799	27,163	27,163	27,163
Total	**291,117**	**291,438**	**291,438**	**291,438**	**246,807**	**247,171**	**247,171**	**247,171**
One-year variable remuneration	60,000	60,000	0	120,000	50,000	50,000	0	100,000
Multi-year variable remuneration								
Profit Sharing 2016	100,000				100,000			
Profit Sharing 2017		100,000	0	100,000		100,000	0	100,000
Special bonus	0	0	0	100,000	0	0	0	100,000
Total	**160,000**	**160,000**	**0**	**320,000**	**150,000**	**150,000**	**0**	**300,000**
Pension expense (IFRS)	31,967	32,447	32,447	32,447	28,770	29,325	29,325	29,325
Total remuneration	**483,084**	**483,885**	**323,885**	**643,885**	**425,577**	**426,496**	**276,496**	**576,496**

The following payments were made for the remuneration of the members of the Management Board in the 2017 financial year:

Contribution

	Dr Rainer Baumgart Chairman		Thomas Pleines Management Board	
in euros	2016	2017	2016	2017
Fixed remuneration	260,004	260,004	220,008	220,008
Ancillary benefits	31,113	31,434	26,799	27,163
Total	**291,117**	**291,438**	**246,807**	**247,171**
One-year variable remuneration	120,000	120,000	100,000	100,000
Multi-year variable remuneration				
Profit Sharing 2016	100,000		100,000	
Profit Sharing 2017		100,000		100,000
Special bonus	0	100,000	0	100,000
Total	**220,000**	**320,000**	**200,000**	**300,000**
Pension expense (IFRS)	31,967	32,447	28,770	29,325
Total remuneration	**543,084**	**643,885**	**475,577**	**576,496**

Total remuneration of the members of the Management Board in financial year 2017 was 1,159 thousand euros (previous year: 958 thousand euros).

	Dr Rainer Baumgart Chairman		Thomas Pleines Management Board	
in euros	2016	2017	2016	2017
Not performance-based components	291,117	291,438	246,807	247,171
Performance-based components	120,000	220,000	100,000	200,000
Components entailing long-term incentive	100,000	100,000	100,000	100,000
Total remuneration	**511,117**	**611,438**	**446,807**	**547,171**

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

	In accordance with IFRS			In accordance with HGB		
in euros	Present value	Ongoing service costs	Past-service costs	Scope of obligations	Provision	Premium
Dr Baumgart	1,031,424	32,447	0	791,614	743,544	94,292
Pleines	790,108	29,325	0	517,334	481,289	77,211

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

	In accordance with IFRS			In accordance with HGB		
in euros	Present value	Ongoing service costs	Past-service costs	Scope of obligations	Provision	Premium
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 84 thousand euros.

At 31 December 2017, as on the same day of the previous year, no Management Board members held any secunet shares.

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

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

8.1.2 Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is laid down in Section 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.

The remuneration of the Supervisory Board is regulated as follows: The members of the Supervisory Board receive a fixed payment amounting to 8 thousand euros. The Chairman of the Supervisory Board receives a payment 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 2017 financial year, Supervisory Board salaries totalled 60.0 thousand euros (previous year: 60.0 thousand euros).

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

Remuneration of the Supervisory Board

in euros	2017	2016
Wintergerst [1]	10,564.38	0.00
Zattler [2]	13,358.91	16,000.00
Kunz	9,358.90	12,000.00
Deininger [3]	2,717.81	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**

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

[2] until 4 May 2017 Chairman and after Deputy Chairman of the Supervisory Board

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

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

As at 31 December 2017, as on the same day of the previous year, no Supervisory Board members held any secunet shares.

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

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 2017 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 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, 20 March 2018

Dr Rainer Baumgart Axel Deininger Thomas Pleines

Consolidated Financial Statements

of secunet Security Networks Aktiengesellschaft, Essen

Consolidated Balance Sheet

(in accordance with IFRS) as at 31 December 2017

Assets

in euros	Note	31 Dec 2017	31 Dec 2016
Current assets			
Cash and cash equivalents	1	62,922,886.67	50,213,287.76
Trade receiveables	2	40,925,634.56	25,368,458.16
Intercompany financial assets	2	85,481.04	52,468.59
Inventories	4	11,427,628.95	8,385,779.36
Other current assets	2	1,164,076.06	555,853.92
Total current assets		**116,525,707.28**	**84,575,847.79**
Non-current assets			
Property, plant and equipment	3	4,424,652.83	3,712,740.00
Intangible assets	3	470,349.00	312,561.00
Goodwill	3	3,607,331.00	3,027,300.00
Non-current financial assets	5	5,646,493.00	5,412,940.00
Long-term financial assets shown in balance sheet in accordance with the equity method	6	93,346.08	177,641.87
Loans	6	1,307,444.44	635,666.67
Deferred taxes	7	1,360,653.26	1,356,722.49
Total non-current assets		**16,910,269.61**	**14,635,572.03**
Total assets		**133,435,976.89**	**99,211,419.82**

Liabilities

in euros	Note	31 Dec 2017	31 Dec 2016
Current liabilities			
Trade accounts payable	8	26,629,285.89	16,145,811.85
Intercompany payables	8	463,669.89	3,658.99
Other provisions	11	14,990,960.98	12,399,742.03
Income tax payable		6,720,100.39	3,326,291.98
Other current liabilities	8	6,292,019.10	5,285,982.50
Deferred income [1]	9	6,459,411.99	4,870,715.00
Total current liabilities		**61,555,448.24**	**42,032,202.35**
Non-current liabilities			
Deferred taxes	7	192,404.86	234,470.00
Provisions for pensions	10	6,029,924.67	5,847,806.00
Other provisions	11	133,977.00	136,246.00
Deferred income [1]	9	6,436,887.85	4,020,117.00
Total non-current liabilities		**12,793,194.38**	**10,238,639.00**
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	12	-1,547,460.56	-1,580,433.20
Revenue reserves	12	32,212,789.03	20,099,005.87
Total equity		**59,087,334.27**	**46,940,578.47**
Total liabilities		**133,435,976.89**	**99,211,419.82**

[1] In the interests of clarity and simplicity, the prepaid and deferred items were divided into short- and long-term items and the values from the previous year were adjusted.

Consolidated income statement

(according to IFRS) for the period from 1 January 2017 to 31 December 2017

in euros	Note	1 Jan – 31 Dec 2017	1 Jan – 31 Dec 2016
Sales revenue	13	158,322,241.02	115,708,033.36
Cost of sales		-113,721,720.49	-86,143,170.19
Gross profit on sales		**44,600,520.53**	**29,564,863.17**
Selling expenses		-14,127,166.87	-11,594,016.93
Research and development costs	15	-2,109,324.48	-50,737.27
General administration costs		-5,059,602.21	-4,306,873.90
Other operating income		147,831.30	134,088.36
Other operating expenses		-961.00	-6,581.00
Earnings before income and interest tax (EBIT)		**23,451,297.27**	**13,740,742.43**
Interest income	16	295,627.16	173,075.40
Interest expenses	16	-131,213.47	-142,516.79
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	6	-84,295.79	-124,029.77
Earnings before tax (EBT)		**23,531,415.17**	**13,647,271.27**
Income taxes	17	-7,665,320.85	-4,427,893.84
Group profit		**15,866,094.32**	**9,219,377.43**
Earnings per share (diluted / undiluted)		2.45	1.43
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 2017 to 31 December 2017

in euros	Note	1 Jan – 31 Dec 2017	1 Jan – 31 Dec 2016
Group profit		15,866,094.32	9,219,377.43
Items that cannot be transferred in the income statement			
Revaluation of performance-based pension schemes		46,506.00	-480,381.20
Income tax attributable to components of the other income / loss		-14,840.06	152,713.44
		31,665.94	**-327,667.76**
Items that can be transferred in the income statement			
Currency conversion differences (change not affecting income)	12	1,306.70	534.54
Other comprehensive income / loss		**32,972.64**	**-327,133.22**
Consolidated comprehensive income / loss		**15,899,066.96**	**8,892,244.21**

Consolidated cash-flow statement

(according to IFRS) for the period from 1 January 2017 to 31 December 2017

in euros	1 Jan – 31 Dec 2017	1 Jan – 31 Dec 2016
Cash flow from operating activities		
Earnings before tax (EBT)	23,531,415.17	13,647,271.27
Depreciation and amortisation of tangible and intangible fixed assets	1,830,940.00	1,502,017.80
Change in provisions	2,686,361.15	4,094,330.68
Book losses on the sale of intangible assets and of property, plant and equipment	133.98	4,454.95
Interest result	-164,413.69	-30,558.61
Change in receivables and other assets and prepaid expenses	-19,240,994.23	-4,985,085.42
Change in liabilities and deferred income	15,954,255.74	9,649,555.83
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	84,295.79	124,029.77
Tax paid	-4,331,041.71	-3,508,099.23
Cash from operating activities	**20,350,952.20**	**20,497,917.04**
Cash flow from investing activities		
Purchase of intangible assets and of property, plant and equipment	-3,357,609.83	-3,094,385.80
Proceeds from the sale of intangible assets and of property, plant and equipment	76,804.02	8,197.05
Purchase of financial assets	-233,553.00	-2,470,008.00
Disbursements for investments in long-term financial assets	-600,000.00	-600,000.00
Cash from investing activities	**-4,114,358.81**	**-6,156,196.75**
Cash flow from financing activities		
Dividend payment	-3,752,311.16	-2,199,630.68
Interest received	223,849.39	137,408.73
Interest paid	0.00	-20,620.79
Cash flow from financing activities	**-3,528,461.77**	**-2,082,842.74**
Effects of exchange rate changes on cash and cash equivalents	1,467.29	573.46
Change in cash and cash equivalents	**12,709,598.91**	**12,259,451.01**
Cash and cash equivalents at the beginning of the period	50,213,287.76	37,953,836.75
Cash and cash equivalents at the end of the period	**62,922,886.67**	**50,213,287.76**

For further explanations, see Note 18.

Consolidated statement of changes in equity

(according to IFRS) for the period from 1 January 2017 to 31 December 2017

in euros	Share capital	Capital reserves
Equity as at 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 / 1 Jan 2017	6,500,000.00	21,922,005.80
Group profit 1 Jan – 31 Dec 2017		
Other comprehensive income / loss 1 Jan – 31 Dec 2017		
Consolidated comprehensive income 1 Jan – 31 Dec 2017		
Dividend payment		
Equity as at 31 Dec 2017	6,500,000.00	21,922,005.80

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	Total Other reserves	Revenue reserves	Total
	-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	0.00	9,219,377.43	9,219,377.43
	0.00	534.54	-480,381.20	152,713.44	-327,133.22	0.00	-327,133.22
	0.00	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	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
	0.00	0.00	0.00	0.00	0.00	15,866,094.32	15,866,094.32
	0.00	1,306.70	46,506.00	-14,840.06	32,972.64	0.00	32,972.64
	0.00	1,306.70	46,506.00	-14,840.06	32,972.64	15,866,094.32	15,899,066.96
	0.00	0.00	0.00	0.00	0.00	-3,752,311.16	-3,752,311.16
	-103,739.83	-5,490.41	-2,120,568.20	682,337.88	-1,547,460.56	32,212,789.03	59,087,334.27

Notes to the Consolidated Financial Statements

(according to IFRS) for the 2017 financial year

General principles

Reporting company

secunet Security Networks Aktiengesellschaft (hereinafter 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.

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, 315 e Para. 1 of the German Commercial Code (Handelsgesetzbuch, HGB) have been met. The IFRS standards used consist of the IFRS as newly issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC). All standards and interpretations issued by the IASB and applicable at the time of 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 the summarised Management Report – Company and Group Management Report were released by the Management Board on 20 March 2018 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 Gesellschaft mit beschränkter Haftung, Munich, the Consolidated Financial Statements of secunet AG are included in the Consolidated Financial Statements of MC Familiengesellschaft mbH, Tutzing, which prepares the Consolidated Financial Statements for the largest group of companies. The Consolidated Financial Statements of MC Familiengesellschaft mbH and Giesecke & Devrient Gesellschaft mit beschränkter Haftung 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 2016, 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 IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Deferred tax assets for non-realised losses	1 January 2017
Improvements to IFRS 2014 – 2016	Changes of IFRS 12	1 January 2017

The requirements of the modified IAS 7 were not relevant for the secunet Group in the 2017 financial year and the previous year.

The application of the further 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	EU endorsement is not expected.
IFRS 17	Insurance policies	FY 2021
Modified standards (not yet endorsed by the EU)		
Amendments to IFRS 2	Classification and evaluation of share-based payments	FY 2018
Amendments to IFRS 9	Financial assets with a negative prepayment penalty	FY 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	Postponed indefinitely
Amendments to IAS 28	Long-term shares in associate companies and jointly controlled entities	FY 2019
Amendments to IAS 40	Transfer of property held as financial investments	FY 2018
Improvements to IFRS 2015 – 2017	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	FY 2019
Amended standards (EU endorsement completed by 31 December 2017)		
IFRS 9	Financial Instruments	FY 2018
IFRS 15	Income from contracts with customers	FY 2018
IFRS 16	Leases	FY 2019

Standard / interpretation	Key amendment	First-time adoption
Amendments to IFRS 4	Applications of IFRS 9 Financial Instruments together with IFRS 4 Insurance Policies	FY 2018
Amendments to IFRS 15	Clarifications concerning IFRS 15	FY 2018
Improvements to IFRS 2014–2016	Amendments to IFRS 1 and IAS 28	FY 2018
Modified interpretations (not yet endorsed by the EU)		
IFRIC 22	Foreign currency transactions and compensations paid for in advance	FY 2018
IFRIC 23	Uncertainty with regard to income tax handling	FY 2019

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

IFRS 9 Financial Instruments

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

The Group is obliged to apply IFRS 9 Financial Instruments by 1 January 2018.

The use of the IFRS 9 standard will not affect the Other Reserves or Revenue Reserves.

i. Classification – Financial Assets

IFRS 9 includes a new recognition and measurement approach for financial ass- ets, which reflects the business, model within the scope of which the assets are held, as well as the properties of its cash flow.

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

In accordance with IFRS 9, derivates that are embedded in contracts which are based on financial assets within the area of application of the standard are never accounted for separately. Instead, the hybrid overall financial instrument is accounted for with regard to the classification.

Based on its assessment, the Group believes that the new classification requirements will not have any significant effects on the presentation of its trade receivables and loans, which are taxed based on the existing fair value. On 31 December 2017, the Group had non-current financial assets (reinsurance contracts) not held for trading purposes with an existing fair value of 5.6 million euros. These are being held for the long-term to cover future liabilities for pension provisions. Pursuant to IFRS 9, the Group has classified this as FVTPL, although these reinsurance policies do not fall within the scope of IAS 19. As a result, all changes to the fair value are presented in the income statement. This corresponds to the process used to date.

ii. Impairment – Financial assets and contractual assets

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

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

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

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

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

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

The Group has analysed the valuation allowances and defaults on trade receivables from the past 10 years and has separated credit risks from other reasons for value adjustment. Because the business model of secunet AG primarily generates sales revenue with German and international authorities and large companies, it is clear that the risk of default in relation to credit risks is very low (in the $1/1000^{ths}$). Given the assumption that this rate in the thousandths range will also be applicable in the future, this leads to a value that is not materially different from the previously formed value adjustments.

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

The estimated value adjustments to cash and cash equivalents were calculated within twelve months based on expected losses, and reflect these short durations. The Group assumes that its cash and cash equivalents display a very low risk of default given the external ratings of the banks and financial institutions. No further value adjustments will be made.

Loans to an associated company amounted to 1.3 million euros as at 31 December 2017. These loans were intended to be used against the granting of new shares in the Company for the purposes of the further development of the associated company. At the start of 2018, an initial partial amount was provided against the granting of additional shares in the Company. The remainder will follow over the course of the financial year. As the associated company is currently developing as planned, it is assumed that the receivables will reach their full value. No impairment as per IFRS 9 will take place in the future.

iii. Classification – Financial liabilities
IFRS 9 largely retains the existing requirements of IAS 39 for the measurement of financial liabilities.

Under IAS 39, however, all changes in the fair value of liabilities designated as affecting the net income with regard to the fair value are recognised in the income statement, whereas under IFRS 9 these changes to the fair value are generally presented as follows:

- » The change in the fair value that is due to changes in the credit risk of the liability is recognised in other income / loss.

- » The remaining change in the fair value is recognised in the income statement.

The Group has determined no financial liabilities as affecting the net income with regard to the fair value and currently also does not intend to do so. The Group assessment revealed no significant effects with regard to the classification of financial liabilities as at 1 January 2018.

Hedge accounting is also not relevant for the Group.

iv. Disclosures
IFRS 9 requires extensive new disclosures, particularly relating to the recognition of hedging transactions, the credit risk and expected credit losses. The Group will also be able to establish the required disclosures using its existing systems in the future.

v. Transition
The changes are implemented with the modified retrospective method. In the process, the cumulative effect from the initial application of IFRS 9 is registered in the sales revenue reserves as at 1 January 2018. We expect a value between 10 thousand euros and 15 thousand euros.

IFRS 15 Income from contracts with customers

IFRS 15 establishes an extensive framework for determining whether, to what extent, and at what point in time sales revenue has been realised. It replaces existing guidelines for the measurement of sales revenue, including IAS 18 Sales revenue, IAS 11 Production Contractsand IFRIC 13 Customer Loyalty Programmes.

The Group is obliged to apply IFRS 15 income from contracts with customers by 1 January 2018.

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

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

ii. Sale of product bundles
The sale of product bundles (when goods are delivered with additional services) to a consumer, in the context of a contract, is currently handled in accordance with the rules set out in IAS 18.13 Transactions involving multiple components. The realisation criteria for each component are assessed separately as part of this process.

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

For the services included in the product bundle (e.g. software subscription, Service Level Agreements or support services), discretionary decisions must be used to determine whether these are separate respective contractual obligations or whether these services form a service bundle in combination with another contractual obligation from the product bundle. However, similar considerations were already required under IAS 18. In this respect, there is no substantially different handling of sales revenue recognition here.

The analysis of the Company has revealed that the handling of transactions involving multiple components under IAS 18.13 does not give rise to any difference in sales revenue recognition other than the handling of such transactions under the new rules set forth in the IFRS 15 standard.

iii. Provision of services

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

Service contracts

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

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

Work contracts

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

In the case of these work contracts, the sales revenue must be recognised in the amount of the completion status (IFRS 15.39). To date, these contracts were handled on the basis of IAS 18.21, which also requires that sales revenue be recognised depending on the completion status.

In the case of licence sales with extensive customising, there may be a difference in the sales revenue realisation between IAS 18 and IFRS 15, depending on the nature of the contract. In such cases, IFRS 15 requires the identification of the service obligation. Here, secunet assumes that, from the customer's perspective, the software adapted to the customer systems and requirements represents the service expectation. In this sense, a service bundle is present. In such cases, IFRS 15.39 also provides for sales revenue realisation according to the degree of completion. In the customer project in this category that is ongoing as at the balance sheet date, the conversion from IAS 18 to IFRS 15 does not cause any material changes in the sales revenue realisation due to particular details in the nature of the contract.

iv. Result of analysis

The analysis of business activities with respect to IFRS 15 has revealed that the redefinition of the handling of income from contracts with customers will not have any significant effects on the recognition of sales revenue for the Group.

v. Transition

In transitioning to IFRS 15, the Group intends to apply the modified retrospective method used to prepare the cumulative adjustment amounts as at 1 January 2018 in its Consolidated Financial Statements. Accordingly, the Group will not apply the requirements set forth in the IFRS 15 standard to every comparative period.

IFRS 16 Leases

IFRS 16 will replace the existing regulations on leases, including IAS 17 Leasing, IFRIC 4 Determining, whether an arrangement contains a lease, SIC 15 Operating Leases and SIC 27 Evaluating the substance of transactions in the legal form of a lease.

The standard will first be used for financial years beginning on or after 1 January 2019.

IFRS 16 will introduce a uniform accounting model, according to which leases are to be recognised in the balance sheet of the lessee. A lessee records a right-of-use asset, which represents his / her right to the use of the underlying asset, as well as a debt from the lease, which represents his / her obligation to make lease payments. There are exceptional regulations for short-term leases and leases for low-value assets. The accounting of the lessor is comparable with the current standard – this means that lessors will continue to classify leases as financialor operating leases.

The Group has completed an initial assessment of the possible effects on its Consolidated Financial Statements; a detailed assessment has not yet been completed. The actual effects of the application of IFRS 16 to the Consolidated Financial Statements at the time of the first application will depend on future economic conditions, such as the Group interest rate as at 1 January 2019, the composition of the leasing portfolio at this time, the assessment of the Group with regard to the exercising of extension options and the extent to which the Group avails itself of exemptions and dispensations.

The most significant effect identified to date is that the Group will record new assets and liabilities for its operating leases via rented office spaces and leased vehicles. As at 31 December 2017, the future minimum lease payments for non-terminable operating leases (on a non-discounted basis) amounted to 10,026 thousand EUR (see note on Leases / other financial liabilities).

In addition, the nature of the expenditure that is connected with these leases will now change, since IFRS 16 is replacing the linear expensesfor operating leases with a depreciation expense for right-of-use assets and interest expenses for debts arising from the lease. This will not lead to any major change in EBIT.

As the lessee, the Group can apply the standard based on one of the following approaches:

» retrospective approach or

» modified retrospective approach with optional practical simplification rules.

The lessee always applies the selected method to all of its leases.

The Group intends to apply IFRS 16 for the first time on 1 January 2019 using the modified retrospective method. Therefore, the cumulative effect arising from the application of IFRS 16 as an adjustment to the opening balance values from the retained earnings as at 1 January 2019 will be determined without adjusting the comparative information.

In applying the modified retrospective method to leases that have been classified as operating leases under IAS 17, the lessee can choose, for each lease, whether exceptions should be used in the transition. The Group is currently determining the potential effects of using these exceptions.

Based on its current plans and knowledge, the Group is not active as a lessor at the time at which IFRS 16 will be applied.

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

Changes in reporting

In the interests of clarity and simplicity, the prepaid and deferred items were divided into short- and long-term items in the balance sheet as well as in the notes. The values from the previous year have been adjusted.

Accounting principles

The present Consolidated Financial Statements as at 31 December 2017, with the exception of the amendments due to the first adoption of new or amended IAS/IFRS provisions above, have been prepared using the same accounting and measurement methods and the same methods of computation as in the previous year. Items in the balance sheet as at 31 December 2017 are classified by maturity. The income statement is based on the cost-of-sales method. In order to improve the clarity of presentation, various items in the consolidated balance sheet and consolidated income statement have been summarised and are explained in the notes.

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

Consolidated Group

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

The consolidated Group has expanded compared to the previous year. As at 31 December 2017, the consolidated Group consisted of the parent company secunet AG and five fully consolidated subsidiaries. In accordance with IFRS, the subsidiaries report the following figures:

» secunet Service GmbH, Essen, 100% participation, equity of the Company as at 31 December 2017 24 thousand euros, net income for 2017 –1 thousand euros.

» secunet International GmbH & Co. KG, Essen, 100% participation, equity of the Company as at 31 December 2017 98 thousand euros, net income for 2017 –2 thousand euros.

» secunet International Management GmbH, Essen, 100% participation, equity of the Company as at 31 December 2017 25 thousand euros, net income for 2017 0 thousand euros.

» secunet SwissIT AG, Switzerland, Solothurn, 100% participation, equity of the Company as of 31 December 2017 72 thousand Swiss francs, net income for 2017 3 thousand Swiss francs.

» secunet s.r.o., Czech Republic, Prague, 100% participation, equity of the Company as at 31 December 2017 2,847 thousand Czech korunas, net income for 2017 -419 thousand Czech korunas.

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

The consolidated subsidiaries secunet Service GmbH, secunet International GmbH & Co. KG and secunet International Management GmbH were founded in November 2017 and began operations on 1 January 2018.

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 subsidiaries and the associated Company included in the consolidated financial statements. The reporting date for secunet AG and for all consolidated companies is 31 December 2017.

secunet AG holds 18% (previous year: 18%) 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.

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

With the equity method, the carrying amount of the Company is updated with the pro-rata result, the distributed dividends and other changes in equity.

Reporting currency

The Group's reporting currency is euros.

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

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

	2017		2016	
1 euro =	CHF	CZK	CHF	CZK
31 Dec	1.1695	25.5628	1.0738	27.0213
Average	1.1233	26.2534	1.0899	27.0406

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 are accounted for from the point in 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 generally also of assets under construction and is measured at historical cost or production cost less regular depreciation. When items of property, plant and equipment are disposed of or retired, their historical costs or production costs, accumulated depreciation and impairment are eliminated from the balance sheet and the gain or loss resulting from their sale is recognised in the income statement. Historical costs also include individually attributable additional and subsequent costs of acquisition. Purchase price reductions are offset.

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

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

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

Intangible assets

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

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

Internally produced intangible assets are not capitalised, as the relevant criteria in IAS 38.57 are not fulfilled.

Goodwill

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

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

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

Impairment of assets

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

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

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

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

Income tax

Income tax expense is calculated on the basis of the result for the year and takes deferred taxes into account. In accordance with IAS 12 (Income Taxes), deferred 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 on commencement of the lease 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 during 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. The amount was divided into short-term and long-term, depending on when the consideration was provided.

Equity

The share 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 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 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 sales revenue reserves.

Sales revenue recognition

Sales 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 sales revenue can be reliably measured.

Sales revenue is shown less value-added tax and any discounts when the sale of goods or services has taken place and the risks and rewards associated with ownership have been substantially transferred.

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, sales revenue from services is recognised with reference to the estimated stage of completion, provided that the criteria under IAS 18.20 are met. Work for clients which has already been done as at the balance sheet date but has not yet been invoiced is recognised as sales revenue 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.

Sales 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.

Sales revenue from contractual services that are to be performed in a period subsequent to the balance sheet date and which 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 Sales revenue recognition in this Chapter). For the purposes of calculating the value in use of the cash-generating units, as part of the impairment test for the goodwill, estimates and assumptions are required for determining the future cash flows from the cash-generating unit and for calculating the discounting rate (see Note 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 40,925,634.56 euros (previous year: 25,368,458.16 euros) include an accrued amount for services to customers not yet charged on 31 December 2017 of 2,385,743.94 euros (previous year: 2,260,896.39 euros), of which 0 euros were intercompany payables (previous year: 0 euros). All intercompany financial assets also result from trade receivables.

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

Days overdue

in euros	31 Dec 2017	31 Dec 2016
Not due	36,143,085.70	20,928,365.84
1 – 30	4,482,728.37	3,874,141.00
31 – 90	272,992.68	300,294.00
91 – 180	38,184.27	48,093.00
181 – 360	74,124.58	175,015.00
>360	5,557.50	165,017.91
Total	**41,016,673.10**	**25,490,926.75**

The valuation allowance for trade receivables was as follows:

in euros	2017	2016
As at 1 Jan	70,000.00	354,999.67
Added	5,557.50	70,000.00
Released	-70,000.00	-354,999.67
As at 31 Dec	**5,557.50**	**70,000.00**

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.

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

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

The other current assets in the amount of 1,164,076.06 euros (previous year: 555,853.92 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 generally includes assets under construction, may be summarised as follows:

	2017			2016		
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	0.00	12,021,208.79	12,021,208.79	240,000.00	9,696,495.11	9,936,495.11
Additions	0.00	2,484,237.10	2,484,237.10	0.00	2,773,929.96	2,773,929.96
Reclassifications	0.00	0.00	0.00	-240,000.00	240,000.00	0.00
Disposals	0.00	-587,843.34	-587,843.34	0.00	-689,216.28	-689,216.28
As at 31 Dec	**0.00**	**13,917,602.55**	**13,917,602.55**	**0.00**	**12,021,208.79**	**12,021,208.79**
Accumulated depreciation as at 1 Jan	0.00	8,308,468.79	8,308,468.79	0.00	7,599,055.11	7,599,055.11
Additions	0.00	1,695,386.27	1,695,386.27	0.00	1,385,977.96	1,385,977.96
Disposals	0.00	-510,905.34	-510,905.34	0.00	-676,564.28	-676,564.28
As at 31 Dec	**0.00**	**9,492,949.72**	**9,492,949.72**	**0.00**	**8,308,468.79**	**8,308,468.79**
Carrying amount as at 31 Dec	**0.00**	**4,424,652.83**	**4,424,652.83**	**0.00**	**3,712,740.00**	**3,712,740.00**

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

Intangible assets

The movement in intangible assets may be summarised as follows:

	2017		2016	
in euros	Goodwill	Intangible assets	Goodwill	Intangible assets
Accumulated historical cost as at 1 Jan	3,027,300.00	1,566,968.35	2,950,000.00	1,360,475.12
Additions	580,031.00	293,341.73	77,300.00	243,155.84
Disposals	0.00	-142,457.03	0.00	-36,662.61
As at 31 Dec	**3,607,331.00**	**1,717,853.05**	**3,027,300.00**	**1,566,968.35**
Accumulated depreciation as at 1 Jan	0.00	1,254,407.35	0.00	1,175,030.12
Additions	0.00	135,553.73	0.00	116,039.84
Disposals	0.00	-142,457.03	0.00	-36,662.61
As at 31 Dec	**0.00**	**1,247,504.05**	**0.00**	**1,254,407.35**
Carrying amount as at 31 Dec	**3,607,331.00**	**470,349.00**	**3,027,300.00**	**312,561.00**

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

As in the previous year, in the 2017 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 2017	31 Dec 2016
Public Sector	3,325	2,745
Business Sector	282	282
	3,607	**3,027**

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

An operative division of bintec elmeg security GmbH, Nuremberg was fully taken over with effect from 1 July 2017, in order to reinforce the team of experts, and to continue the development and expansion of the packetalarm product family and the secunet snort solution based on it. The transaction volume amounted to 800 thousand euros in cash and the takeover of immaterial negative net assets (6 thousand euros of tangible fixed assets; 13 thousand euros of employee reserves; the carrying amounts were considered to be an appropriate indicator of the fair values). Costs of approx. 70 thousand euros were incurred for legal consulting and the performance of due diligence in the context of the business combination.

secunet has already purchased services from bintec elmeg security GmbH in the past. However, this existing relationship did not lead to any separate recognition of an intangible asset in the context of the purchase-price allocation. The Group sales revenue was not influenced by the reduction of the supply chain, and the Group profit was increased by 0.1 million euros. Given an assumed execution on 1 January 2017, the impact on the Group profit would have been 0.2 million euros.

This transaction resulted in goodwill in the amount of 580 thousand euros and an intangible asset in the amount of approx. 200 thousand euros. The goodwill was assigned to the Public Sector division, since this division is benefiting from the synergies within the business acquired.

The tax-relevant goodwill was approx. 50 thousand euros higher due to different evaluation regulations.

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

In testing goodwill for impairment in accordance with IAS 36, the recoverable amount of the individual cash-generating unit is determined by its value in use. This value is calculated from the discounted cash flow of the relevant unit. Cash flows are calculated from the EBIT determined as part of the annual planning adopted by the Management Board and approved by the Supervisory Board. This is forwarded to Noplat (net-operating-profit less adjusted taxes) and adjusted for depreciation and investments. A discount rate (WACC) of 8.10% was used for these calculations (previous year: 7.33%). A risk-free interest rate (taken from the analyst estimate) of 1.5% (previous year: 0.5%), a market risk premium of 6.5% (previous year: 6.5%) and a beta factor of 1.2 (previous year: 1.05) 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 of 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 2017	31 Dec 2016
Trade goods	11,427,628.95	8,385,779.36
Total	**11,427,628.95**	**8,385,779.36**

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

In order to safeguard the sustained growth in the product business, the inventory level has increased by 3 million euros.

During the reporting year, value adjustments for merchandise resulted in an expense in the amount of 235 thousand euros (previous year: 186 thousand euros).

5. Non-current financial assets

The premium reserve shares from reinsurance contracts shown under non-current financial assets amount to 5,646,493.00 euros (previous year: 5,412,940.00 euros). This increase is a result of the regular contributions and credit notes issued on income by the insurance companies.

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

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: 18%) of the voting rights on the balance sheet date, it nonetheless has a significant influence thanks to the arrangements in the Articles of Association of finally safe GmbH.

It is planned that 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. secunet AG, in its role as shareholder, granted a further loan to finally safe GmbH of 600 thousand euros during the 2017 financial year.

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

in euros	2017	2016
Carrying amount 1 Jan	177,641.87	1,671.64
Additions	0.00	300,000.00
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method.	-84,295.79	-124,029.77
Carrying amount 31 Dec	**93,346.08**	**177,641.87**

The essential financial information of the Company is as follows:

in thousand euros	31 Dec 2017	31 Dec 2016
Current assets	448	204
Non-current assets	73	62
Current liabilities	121	57
Non-current liabilities	1,307	635
	2017	2016
Sales revenue	520	46
Group loss	-468	-689
Total result	-468	-689

7. Deferred taxes

As at the balance sheet date, there were loss carryforwards of just 3 thousand euros within the German companies in the new subsidiaries founded in 2017. Deferred taxes were not charged on this amount.

In addition, there were loss carryforwards at the foreign companies of 145 thousand euros (previous year: 538 thousand euros) for which no deferred taxes were recognised. Deferred tax claims not recognised totalled 30 thousand euros (previous year: 114 thousand euros). These losses carried forward relate to five (secunet s.r.o) and seven (secunet SwissIT AG) years after the development of the losses.

A tax rate of 31.91% was used to calculate deferred taxes (previous year: 31.79%). The average trade income tax rate changed slightly due to the acquisition of new sites and the difference in the weighting of wage payments. The tax rate for deferred taxes includes trade tax and corporate tax plus solidarity surcharge.

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

Balance sheet entry

in euros	31 Dec 2017	31 Dec 2016
Deferred tax assets		
from provisions for pensions	1,202,252.65	1,183,741.98
from goodwill	47,403.26	41,914.16
from other items	110,997.35	131,066.35
	1,360,653.26	**1,356,722.49**
Deferred tax liabilities		
from trade receivables	-114,106.02	-149,908.92
from other items	-78,298.84	-84,561.08
	-192,404.86	**-234,470.00**
Total	**1,168,248.40**	**1,122,252.49**

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 2017	1 Jan–31 Dec 2016
Deferred tax assets		
from provisions for pensions	33,350.73	21,930.56
from goodwill	-10,410.90	914.16
from other items	-20,069.00	96,766.91
	2,870.83	**119,611.63**
Deferred tax liabilities		
from trade receivables	35,802.90	14,139.33
from other items	6,262.24	-79,373.68
	42,065.14	**-65,234.35**
Total from deferred taxes	**44,935.97**	**54,377.28**

In the 2017 financial year, a deferred tax expense of 14,840.06 euros was recorded under other income/loss (deferred tax expense in the previous year: 152,713.44 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 2017	31 Dec 2016
Payable value-added tax	5,167,816.30	4,253,709.34
Down payments and advances received	519,789.36	555,230.12
Payable wage income tax and church tax	586,796.36	467,972.32
Payable social security contributions	10,705.81	3,319.02
Other liabilities	6,911.27	5,751.70
Total	**6,292,019.10**	**5,285,982.50**

The maturities of the liabilities are as shown below:

	Total		Remaining term up to 1 year		Remaining term of 1 year to 5 years		Remaining term of over 5 years	
in euros	2017	2016	2017	2016	2017	2016	2017	2016
Trade accounts payable	26,629,285.89	16,145,811.85	26,629,285.89	16,145,811.85	0.00	0.00	0.00	0.00
Intercompany payables	463,669.89	3,658.99	463,669.89	3,658.99	0.00	0.00	0.00	0.00
Income tax payable	6,720,100.39	3,326,291.98	6,720,100.39	3,326,291.98	0.00	0.00	0.00	0.00
Other current liabilities	6,292,019.10	5,285,982.50	6,292,019.10	5,285,982.50	0.00	0.00	0.00	0.00
Deferred income	12,896,299.84	8,890,832.00	6,459,411.99	4,870,715.00	6,410,054.64	3,992,970.83	26,833.21	27,146.17

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 paid in advance due to multiple-year maintenance and support contracts, but where the sales revenue has to be recognised over the full term of the contract. The increase compared to the previous year is linked with the strong increase in the product business.

10. Pension provisions

in euros	2017	2016
Opening balance as at 1 Jan	5,847,806.00	5,088,555.00
Benefits paid	-14,599.33	-14,326.20
Additions	243,224.00	293,196.00
Addition/reversal not affecting profit/loss in other income	-46,506.00	480,381.20
Closing balance as at 31 Dec	**6,029,924.67**	**5,847,806.00**

Provisions for pensions and similar liabilities are formed on the basis of the Company's individual contract commitments towards its employees. 24 current and former employees at secunet AG who were employed at other companies in the past are entitled to a pension (previous year: 24 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 remuneration as an old-age pension, for each year of service. In the second type of plan, the beneficiary is granted a fixed component for the old-age pension. Both types of plan allow for early retirement taking reductions in benefits into account.

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

The certificate for the eligible employees of secunet AG as at 31 December 2017 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: 1.9% 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 2017.

Sensitivity analysis

Valuation parameter	Baseline value	Sensitivity	Effect on provisions (in thousand euros)
Actuarial interest	1.90%	+ 1.00%	-1,138
Actuarial interest	1.90%	- 1.00%	1,517
Salary growth	2.50%	+ 0.50%	152
Salary growth	2.50%	- 0.50%	-145
Pension growth	2.00%	+ 0.50%	426
Pension growth	2.00%	- 0.50%	-384
Life expectancy	Heubeck 2005 G	+ 1 year	207
Life expectancy	Heubeck 2005 G	- 1 year	-199

The sensitivity calculations are based on the average terms of commitments as at 31 December 2017. Separate calculations were performed for all actuarial parameters considered to be material, so as to separately show the effects on the present value of defined benefit obligations as at 31 December 2017. 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	2017	2016
As at 1 Jan	5,847,806.00	5,088,555.00
Current service cos	189,380.00	171,297.00
Past service cost	-57,102.00	0.00
Interest expense	110,946.00	121,899.00
Actuarial gains and losses from		
experience-based adjustments	-46,506.00	-132,078.00
changes to financial assumptions	0.00	612,459.20
Benefits paid	-14,599.33	-14,326.20
As at 31 Dec	**6,029,924.67**	**5,847,806.00**

Of the defined benefit obligations, 80.5% (previous year: 81.4%) relate to active claimants. 14.0% (previous year: 12.6%) relate to claimants who have left and 5.5% (previous year: 6.0%) relate to pension beneficiaries. Pension commitments do not expire.

The weighted average duration of the defined benefit obligations up to 31 December 2017 is 22.0 years (previous year: 23.0 years).

Costs arising from the defined benefit obligations and included in profit and loss comprised of the following:

in euros	2017	2016
Current service cos	189,380.00	171,297.00
Past service cost	-57,102.00	0.00
Interest expense	110,946.00	121,899.00
Cost for the year	**243,224.00**	**293,196.00**

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

In the reporting year, pension payments of 14,599.33 euros (previous year: 14,326.20 euros) were paid directly by the employer.

Against the defined benefit obligation were premium reserve shares from reinsurance contracts in the amount of 5,646,493.00 euros (previous year: 5,412,940.00 euros), which do not represent plan assets under IAS 19.

Pension provision of 6,311,281 euros is expected as at 31 December 2018, based on an annual expense of 298,585 euros and planned pension payments of 17,229 euros.

In the reporting year, secunet AG paid contributions of 2,612 thousand euros (previous year: 2,246 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 2017
Non-current provisions					
Provisions for anniversary bonuses	136,246.00	-2,269.00	0.00	0.00	133,977.00
Current provisions					
Annual employee bonuses	9,821,524.00	-9,544,014.00	-277,510.00	10,930,277.00	10,930,277.00
Warranties	472,000.00	0.00	0.00	1,077,110.00	1,549,110.00
Accrued holidays	610,816.00	-610,816.00	0.00	670,731.00	670,731.00
Dismantling and maintenance work	519,642.17	-25,000.00	0.00	0.00	494,642.17
Deferred costs	406,839.72	-406,839.72	0.00	467,093.90	467,093.90
Pending contractual penalty	0.00	0.00	0.00	175,700.00	175,700.00
Professional association contributions	125,100.00	-125,100.00	0.00	132,000.00	132,000.00
Risks of litigation	31,092.40	-31,092.40	0.00	0.00	0.00
Others	412,727.74	-339,208.03	-16,868.71	514,755.91	571,406.91
	12,399,742.03	-11,082,070.15	-294,378.71	13,967,667.81	14,990,960.98
Total	**12,535,988.03**	**-11,084,339.15**	**-294,378.71**	**13,967,667.81**	**15,124,937.98**

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 provision was formed to cover defence costs and the creation of expert reports to be submitted in court. The provision in the amount of 31 thousand euros arising as at 31 December 2016 was used fully for legal fees in 2017. The proceedings were ruled in favour of secunet AG.

The 71% increase in EBIT led to an increase in employee annual bonuses.

A provision of 1.5 million euros in total was established during the financial year for expected warranty claims and goodwill payments in the product and project business.

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, Munich and Dresden.

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

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

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 share 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 Group profit or loss for the period of 15,866,094.32 euros, diluted and undiluted earnings per share were 2.45 euros per share (6,469,502 shares), compared with 1.43 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.

Revenue reserves increased by 20,099,005.87 euros to 32,212,789.03 euros compared to the previous year's figure. This increase was based on the Group profit or loss for the period of 15,866,094.32 euros, less the dividend payments of 3,752,311.16 euros paid during the reporting year.

Use of the balance sheet profit

From the balance sheet profit of 12,632,594.02 euros reported for the 2016 financial year in the Annual Financial Statements in accordance with the HGB, a dividend of 0.58 euros per share (amounting to a total of 3,752,311.16 euros) were distributed in the 2017 financial year in accordance with the resolution of the Annual General Meeting of 4 May 2017. The remaining sum, amounting to 8,880,282.86 euros, was transferred to other revenue reserves.

The Annual Financial Statements in accordance with the HGB of secunet AG for the 2017 financial year show net income for the year of 15,477,817.33 euros. The Management Board and the Supervisory Board decided to deposit an amount of 7,714,414.93 euros from this sum into other revenue reserves. There is a balance sheet profit of 7,763,402.40 under commercial law for 31 December 2017.

The Management Board will suggest at the Annual General Meeting that a dividend of 1.20 euros per share (total: 7,763,402.40 euros) be paid out on the share capital entitled to a dividend of 6,469,502.00 euros. When determining the share capital entitled to a dividend, the total of 30,498 treasury shares was deducted.

in euros	**2017**
Carryforward as at 1 Jan 2017	12,632,594.02
Net income for the year 2017	15,477,817.33
Dividend payment in 2017 for 2016	-3,752,311.16
Deposit into other revenue reserves	-16,594,697.79
Net accumulated profit/loss as at 31 Dec 2017	**7,763,402.40**
Proposal for the appropriation of distributable earnings	
Dividend payment in 2018	-7,763,402.40
Carryforward	**0.00**

Notes on the income statement

13. Sales revenues

Domestic sales revenues totalled 141,999,369.81 euros (previous year: 101,941,025.18 euros), while sales revenue generated abroad was 16,322,871.21 euros (previous year: 13,767,008.18 euros). Sales revenues are divided up by customer location.

Approximately 90.2 million euros of this sales revenue is related to the Group's major customer as defined in IFRS 8.34. This sales revenue was generated in the Public Sector division. No other individual customer accounted for 10% or more of the Group's sales revenues in 2017.

The sales revenues include 17,995,831.48 euros of sales for support and maintenance services (previous year: 15,256,915.44 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	2017	2016
Expenses for raw materials, consumables and operating materials	65,145,541.92	42,211,511.38
Cost of purchased services	5,795,399.84	5,295,166.34
Material expenses	**70,940,941.76**	**47,506,677.72**
Wages and salaries	37,357,440.47	33,733,791.81
Social security costs	5,285,463.23	4,659,502.44
Old age pension costs	132,278.00	171,300.00
Personnell expenditure	**42,775,181.70**	**38,564,594.25**
Depreciations (scheduled)	**1,830,940.00**	**1,502,017.80**

15. Research and development costs

Research and development costs for the financial year amounted to 2,109,324.48 euros (previous year: 50,737.27 euros). Of this sum, 1.8 million euros was spent on developing the secunet konnektor for integration into the telematics infrastructure for electronic health cards. A further 0.3 million euros was invested in a cloud infrastructures development project.

Although these projects are currently in the development phase according to IAS 38, the criteria set forth in IAS 38.57 for the justification of mandatory capitalisation were not completely fulfilled in both cases. Consequently, the expenses incurred were not capitalised.

16. Interest income / expense

In the 2017 financial year, interest payments of 295,627.16 euros (previous year: 173,075.40 euros) were generated. Of this amount, 222,395.84 euros (previous year: 132,673.60 euros) relates to interest income from short-term loans to shareholders Giesecke & Devrient GmbH. The remaining amount (73,231.32 euros, previous year: 40,401.80 euros) is mainly attributed to interest income on loans to affiliated companies.

The 2017 interest expense of 131,213.47 euros (previous year: 142,516.79 euros), in addition to the interest on pensions (110,946.00 euros, previous year: 121,899.00 euros), also includes interest on other provisions as well as the expected payment of tax arrears arising from the tax audit.

17. Income taxes

In the reporting year, current taxes of 7,710,256.82 euros were incurred (previous year: 4,482,271.12 euros). This includes taxes for previous years in the amount of 90,894.00 euros (previous year: tax income for previous years in the amount of 63,289.00 euros. For deferred taxes see Notes under (7).

The income tax expense is derived from the theoretical tax expense, applying a tax rate of 31.91% (previous year: 31.79%) 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	2017	2016
Group profit before tax	23,531,415.17	13,647,271.27
Expected tax expense	-7,508,874.58	-4,338,467.54
Trade tax adjustments	-45,407.83	-47,412.53
Tax rate differences, international	-761.87	-1,215.04
Previous year's taxes	-90,894.00	63,289.00
Permanent differences	-26,898.79	-39,429.06
Temporary differences	0.00	-41,000.00
Non-deductible expenses	-21,606.87	-23,099.73
Other items	29,123.09	-558.94
Effective tax expense	**-7,665,320.85**	**-4,427,893.84**

As at 31 December 2017, 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 32.6% (previous year: 32.4%).

18. Cash flow statement

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

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

19. Segment reporting

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

Segment report 2017

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

Segment report 2016

in thousand euros	Public Sector	Business Sector	secunet 2016
Segment income	100,186	15,522	115,708
Cost of sales	-73,962	-12,181	-86,143
Selling expenses	-9,505	-2,089	-11,594
Research and development expenses	-51	0	-51
Administrative costs	-3,620	-560	-4,180
Segment result (EBIT)	13,048	692	13,740
Interest result			30
Income from investments			-124
Group profit before tax			13,646
Goodwill	2,745	282	3,027

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

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

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

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

The accounting principles for the segments are identical to those used for the Consolidated Financial Statements. Using apportionments, expenses (e.g. overhead costs) that are not directly allocable to the reportable segments are allocated to the reportable segments. In the 2017 financial year, the apportionment of any expenditure which is not directly allocable was changed. In the past, all non-allocable expenditure was apportioned according to the relative number of employees. Due to the growth in product business, an allocation table is now used for most cost items. The previous year's segment report has been amended to allow for comparison. 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 details on sales revenue can be found in Note 13.

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

20. 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 2017 was 59,087,334.27 euros (previous year: 46,940,578.47 euros).

Financial Instruments

Risks from financial instruments

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

Liquidity risks

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

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

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

At the end of the year, the Group had cash and cash equivalents amounting to 62,922,886.67 euros at its disposal (previous year: 50,213,287.76 euros). Current financial liabilities stood at 53,001,375.11 euros (previous year: 33,652,577.32 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 their sales 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	2017	2016
Carrying amount as at 1 Jan	5,412,940.00	2,942,932.00
Incoming payments	105,005.90	2,359,514.92
Outgoing payments	-13,379.28	-13,379.28
Income recorded in the income statement	141,926.38	123,872.36
Carrying amount as at 31 Dec	**5,646,493.00**	**5,412,940.00**

During the 2017 financial year, expenses amounting to 10 thousand euros (previous year: 73 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	
in euros	Financial instrument classes as defined in IFRS 7.6 Carrying amount 31 Dec 2017	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
Assets						
Current assets						
Cash and cash equivalents	62,922,886.67		62,922,886.67			0.00
Trade receiveables	40,925,634.56	2,385,743.94	38,539,890.62			0.00
Intercompany financial assets	85,481.04		85,481.04			0.00
Inventories	11,427,628.95					11,427,628.95
Other current assets	1,164,076.06		1,164,076.06			0.00
Non-current assets						
Property, plant and equipment	4,424,652.83					4,424,652.83
Intangible assets	470,349.00					470,349.00
Goodwill	3,607,331.00					3,607,331.00
Non-current financial assets	5,646,493.00				5,646,493.00	0.00
Long-term financial assets shown in balance sheet acc. equity method	93,346.08					93,346.08
Loans	1,307,444.44		1,307,444.44			
Deferred taxes	1,360,653.26					1,360,653.26
Total assets	**133,435,976.89**	**2,385,743.94**	**104,019,778.83**	**0.00**	**5,646,493.00**	**21,383,961.12**
Liabilities						
Current liabilities						
Trade accounts payable	26,629,285.89			26,629,285.89		0.00
Intercompany payables	463,669.89			463,669.89		0.00
Other provisions	14,990,960.98					14,990,960.98
Income tax payable	6,720,100.39					6,720,100.39
Other current liabilities	6,292,019.10			6,292,019.10		0.00
Deferred income	6,459,411.99					6,459,411.99
Non-current liabilities						
Deferred taxes	192,404.86					192,404.86
Provisions for pensions	6,029,924.67					6,029,924.67
Other provisions	133,977.00					133,977.00
Deferred income	6,436,887.85					6,436,887.85
Total non-current liabilities	**74,348,642.62**	**0.00**	**0.00**	**33,384,974.88**	**0.00**	**40,963,667.74**

	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	
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
Assets						
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	4,870,715.00					4,870,715.00
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
Deferred income	4,020,117.00					4,020,117.00
Total non-current liabilities	**52,270,841.35**	**0.00**	**0.00**	**21,435,453.34**	**0.00**	**30,835,388.01**

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

in euros	2017	2016
Loans and receivables		
Interest result	295,627.16	163,843.79
Value reductions (–) / value increases (+)	-9,812.01	-72,600.00
	285,815.15	**91,243.79**
Financial assets measured at fair value through profit or loss		
Interest result	141,926.38	123,872.36
Total	**427,741.53**	**215,116.15**

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 2,890,000.19 euros were incurred (previous year: 2,840,766.41 euros).

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

Nominal / in euros	31 Dec 2017	31 Dec 2016
Long-term rental commitments for various office premises	8,928,923.00	6,458,906.87
Lease commitments for office and operating equipment	1,097,476.05	1,762,540.24
Total	**10,026,399.05**	**8,221,447.11**

The maturities of the liabilities are as follows:

Nominal / in euros	31 Dec 2017	31 Dec 2016
Up to 1 year	3,181,401.98	2,907,860.58
More than 1 year but less than 5 years	6,844,997.07	5,313,586.53
More than 5 years	0.00	0.00
Total	**10,026,399.05**	**8,221,447.11**

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: 66,300 euros).

Corporate Governance

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

Executive bodies

The members of the Management Board are:

Dr Rainer Baumgart, Chairman
Qualified business economist (FH) Thomas Pleines
Qualified industrial engineer Axel Deininger (since 1 January 2018)

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	**2017**	**2016**
Audit services		
Auditing of consolidated financial statements and annual financial statements, auditor's review of 6-month report[1]	122	76
of which relating to audit of the previous year	12	6
Other certification services		
Auditor's review of 6-month report	0	12
Tax advisor services		
Auditing of tax assessments for tax returns prepared in previous years	1	20
Other services		
Training of Supervisory Board	8	0
	131	**108**

[1] In the previous year "Other assurance services"; Change in reporting methods results from IDW RS HFA 36 new version (As at: 8 September 2016)

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	2017	2016
Management Board		
Short-term employee benefits	958.6	757.9
Post-employment benefits	61.8	60.7
Other long-term employee benefits	200.0	200.0
Total	**1,220.4**	**1,018.6**
Supervisory Board		
Short-term employee benefits	60.0	60.0

The remuneration of members of the Management Board active during the reporting year totalled 1.159 thousand euros for the reporting year (previous year: 958 thousand euros). Provisions for pensions for former members of the Management Board are recognised in the amount of 331 thousand euros (previous year: 324 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 combined Management Report of secunet AG.

Transactions with related companies of MC Familiengesellschaft mbH

secunet AG is a majority holding of Giesecke & Devrient GmbH, Munich, which has a 78.96% stake in the Company. secunet AG is included in the Consolidated Financial Statements of MC Familiengesellschaft mbH, Tutzing.

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

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

in euros	2017	2016
Parent company		
Giesecke & Devrient GmbH, Munich	32,101.06	356,049.45
Other affiliated companies		
G+D Mobile Security GmbH, Munich	485,001.16	0.00
Veridos GmbH, Berlin	186,344.72	744,788.61
G+D Currency Technologies GmbH, Munich	66,062.50	0.00
GyD Ibérica S.A., Barcelona	2,487.94	2,375.00
Total	**771,997.38**	**1,103,213.06**

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

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

Interest income of 222,395.84 euros (previous year: 132,673.60 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	2017	2016
Parent company		
Giesecke & Devrient GmbH, Munich	39,085.54	176,916.14
Other affiliated companies		
G+D Mobile Security GmbH, Munich	469,693.06	0.00
Veridos GmbH, Berlin	34,103.00	28,397.60
Giesecke & Devrient Currency Technology FZE, Dubai / VAE	8,000.00	0.00
Total	**550,881.60**	**205,313.74**

4. Receivables from related companies in the MC Familiengesellschaft Group

in euros	2017	2016
Parent company		
Giesecke & Devrient GmbH, Munich	1,933.75	8,771.79
Other affiliated companies		
Veridos GmbH, Berlin	51,446.08	43,696.80
G+D Mobile Security GmbH, Munich	32,101.21	0.00
Total	**85,481.04**	**52,468.59**

Receivables with respect to Group companies were recorded in the amount of 85,481.04 euros (previous year: 52,468.59 euros) from trade receivables.

5. Payables with respect to related companies in the MC Familiengesellschaft Group

in euros	2017	2016
Parent company		
Giesecke & Devrient GmbH, Munich	4,197.98	3,658.99
Other affiliated companies		
Veridos GmbH, Berlin	13,111.42	0.00
Giesecke & Devrient Currency Technology FZE, Dubai / VAE	8,000.00	0.00
G+D Mobile Security GmbH, Munich	438,360.49	0.00
Total	**463,669.89**	**3,658.99**

Payables to Group companies consist entirely of trade accounts payable.

6. Sales revenue with companies that have a participating interest in MC Familiengesellschaft mbH

In 2017, sales revenue in the amount of 177,238.74 euros (previous year: 0.00 euros) was earned with Emirates German Security Printing L.L.C., Abu Dhabi.

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

Other income amounting to 147,004.28 euros was earned from finally safe GmbH, Essen for the takeover of administrative tasks and the letting of office space (previous year: 131,962.31 euros).

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

As at 31 December 2017, trade receivables of 24,769.31 euros from finally safe GmbH are recorded (previous year: 27,688.15 euros). The Company was also provided with a loan for 1,200,000.00 euros (previous year: 600,000.00 euros). In the 2017 financial year, these loans generated interest income in the amount of 71,777.77 euros (previous year: 35,666.67 euros). A partial amount of these receivables (671,667.67 euros) was transferred to finally safe GmbH at the start of January 2018 in return for the granting of new shares, meaning that secunet AG now holds approx. 36% of the shares.

Events since the balance sheet date

There were no significant events after the balance sheet date.

The Management Board

Essen, 20 March 2018

Dr Rainer Baumgart   Axel Deininger   Thomas Pleines

Independent Auditor’s Report

To secunet Security Networks Aktiengesellschaft, Essen

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of secunet Security Networks Aktiengesellschaft, Essen, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report – report on the position of the company and the group (hereinafter referred to as ‘group management report’) of secunet Security Networks Aktiengesellschaft, Essen, for the financial year from January 1 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

» the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

» the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition on an accrual basis (revenue recognition cut-off)

For the accounting policies applied, we refer to the explanatory notes to the consolidated financial statements under 'General information' and Section 13 'Revenue'. The Company's revenue performance is presented in Section 2.3.1.1 of the group management report.

Financial Statement Risk

As presented in the consolidated financial statements, secunet Security Networks Aktiengesellschaft generated revenue in the amount of EUR 158.3 million in financial year 2017. The main contributors to revenue besides the sale of products and provision of services are multiple-element contracts. Multiple-element contracts are concluded for the supply of hardware, the granting of software licenses (including updates) and support and maintenance services (servicing and other services).

secunet Security Networks Aktiengesellschaft recognizes revenue from the sale of products when the requirements of IAS 18 are satisfied. This requires that the Company has transferred to the buyer the significant risks and rewards of ownership of the goods sold. Services are invoiced primarily on the basis of hours worked. In the case of multiple-element arrangements, the criteria for recognition must be applied separately for each component.

Most of secunet Security Networks Aktiengesellschaft's revenue is generated from public contracts. Other customers include automobile manufacturers among others. These place a disproportionately large number of orders at the end of the year, resulting in a large number of contracts and therefore considerable transfer of goods and services at year-end.

Due to the large number of transactions in the last few weeks prior to the reporting date, discrepancies in progress with delivery as of the reporting date, and the large share of multiple-element contracts, there is the risk for the financial statements that revenue recognized for the year under review is too high and therefore not allocated to the period in which it is incurred.

Our audit approach

In order to audit whether revenue is recognized in the period in which it is incurred, we assessed the design, setup and effectiveness of internal controls relating to order acceptance, outgoing goods or acceptance of services, and invoices.

Furthermore, we assessed revenue recognition cut-off by reconciling invoices to the related orders, contracts, external proof of delivery, acceptance protocols or time sheets. This was based on revenue recognized in December 2017 and selected using a mathematical / statistical procedure.

In addition, balance confirmations were obtained for trade receivables not yet settled as of the reporting date, which were entered in the accounts prior to December 1, 2017 and consequently not covered by the above-mentioned sample. These were also selected on the basis of a mathematical / statistical procedure. In cases where obtaining balance confirmations remained unsuccessful, we conducted alternative audit procedures by reconciling revenue to the underlying orders, contracts, internal invoice release, invoices, proof of delivery and acceptance protocols or time sheets as well as payment received.

For multiple-element contracts contained in the two samples, the break-down into individual transactions and the related recognition of revenue was assessed based on the underlying contracts.

Our Observations

secunet Security Networks Aktiengesellschaft's procedure for revenue recognition cut-off is appropriate.

Other Information

Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the annual financial statements and group management report and our auditor's reports.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- » is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- » otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

» Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

» Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

» Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

» Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

» Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

» Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on May 4, 2017. We were engaged by the supervisory board on November 16, 2017. We have been the group auditor of secunet Security Networks Aktiengesellschaft, Essen, without interruption since financial year 2010.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Martin C. Bornhofen.

Essen, March 21, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

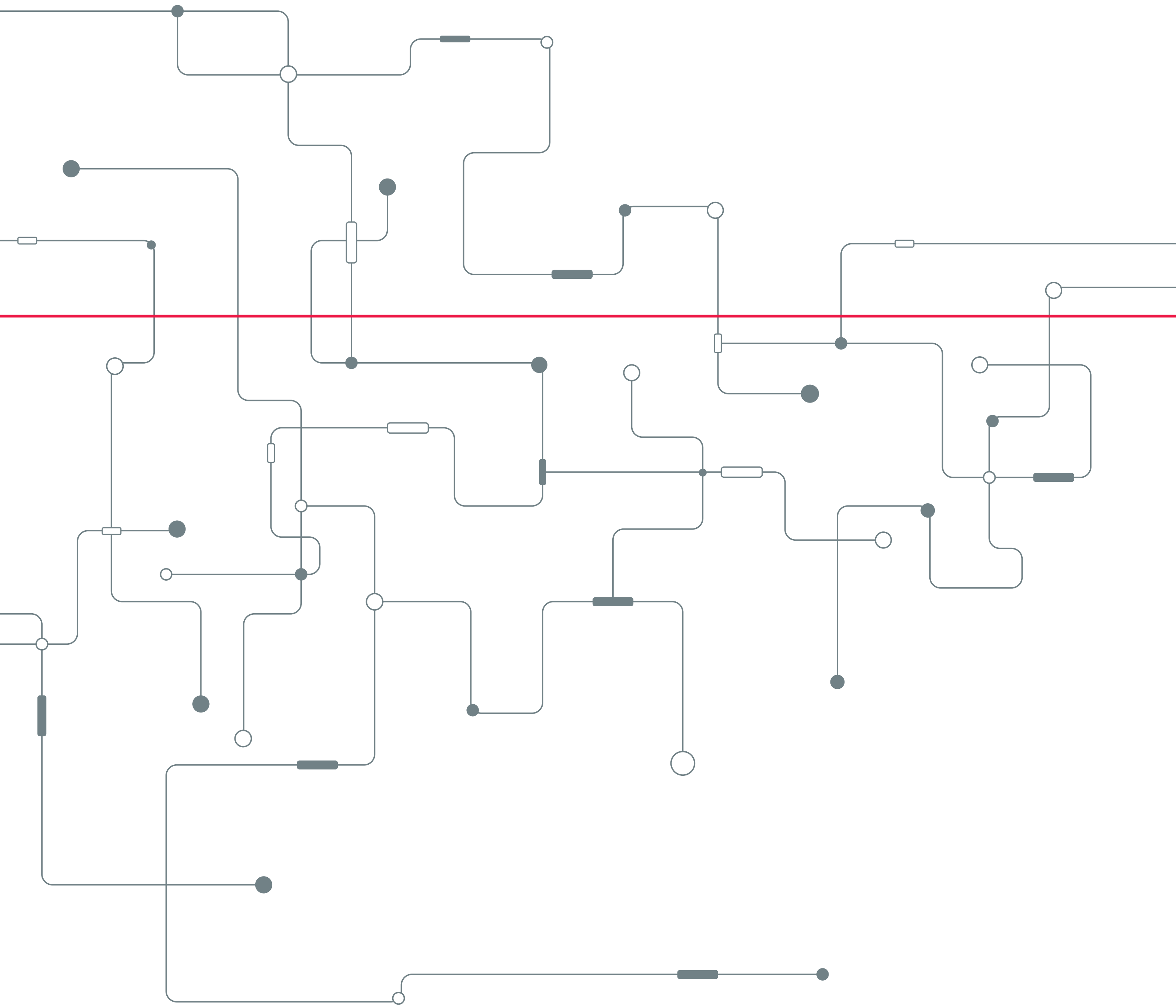
Bornhofen Wirtschaftsprüfer [German Public Auditor]	Dr Sommerhoff Wirtschaftsprüfer [German Public Auditor]

Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the Group Management Report includes a true and fair 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, 20 March 2018

Dr Rainer Baumgart Axel Deininger Thomas Pleines



Annual Financial Statements

of secunet Security Networks Aktiengesellschaft, Essen

Balance Sheet

(according to HGB) as at 31 December 2017

Asset

in euros	Note	31 Dec 2017	31 Dec 2016
A. Fixed assets			
I. Intangible fixed assets		1,499,120.00	962,391.00
II. Tangible fixed assets		4,205,995.83	3,440,614.00
III. Long-term financial assets		7,414,100.31	6,358,769.54
Total fixed assets	1	**13,119,216.14**	**10,761,774.54**
B. Current assets			
I. Inventories	2	13,543,845.71	10,282,952.25
II. Receivables and other assets	3	38,956,297.03	23,202,781.65
III. Cash in hand and balances with credit institutions	4	62,580,946.40	50,026,939.39
Total current assets		**115,081,089.14**	**83,512,673.29**
C. Prepaid and deferred items		678,613.16	376,278.74
D. Active difference resulting from asset offsetting		0.00	25,913.19
Total assets		**128,878,918.44**	**94,676,639.76**

Liabilities

in euros	Note	31 Dec 2017	31 Dec 2016
A. Equity			
Share 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		21,305,658.14	4,710,960.35
IV. Net accumulated profit		7,763,402.40	12,632,594.02
Total equity	5	**57,225,365.96**	**45,499,859.79**
B. Provisions	6	27,291,440.35	20,862,054.40
C. Liabilities	7	31,465,812.29	19,423,893.57
D. Prepaid and deferred items	8	12,896,299.84	8,890,832.00
Total liabilities		**128,878,918.44**	**94,676,639.76**

Income Statement

(according to HGB) for the period from 1 January 2017 to 31 December 2017

in euros	Note	1 Jan – 31 Dec 2017	1 Jan – 31 Dec 2016
Sales Revenue	9	158,344,397.75	115,825,555.87
Increase of work in progress		219,043.87	82,172.46
Other operating income	10	1,758,749.92	1,314,292.96
Cost of materials	11	-71,903,187.12	-47,501,966.47
Personnel expenses	12	-42,703,076.70	-38,410,556.23
Depreciation and amortisation of intangible fixed assets and tangible fixed assets	13	-2,055,990.00	-1,689,761.80
Other operating expenses	14	-20,315,595.55	-15,777,726.67
Financial result	15	-130,579.84	88,105.79
Income taxes	16	-7,709,858.00	-4,481,852.00
Earnings after tax		**15,503,904.33**	**9,448,263.91**
Other taxes	16	-26,087.00	-26,343.20
Net income for the year		**15,477,817.33**	**9,421,920.71**
Accumulated profit carryforward		12,632,594.02	10,121,264.34
Dividend payment		-3,752,311.16	-2,199,630.68
Deposit into other revenue reserves		-16,594,697.79	-4,710,960.35
Net accumulated profit / loss	**17**	**7,763,402.40**	**12,632,594.02**

Notes

regarding secunet Security Networks Aktiengesellschaft, Essen for Financial Year 2017 (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 of the HGB and taking the supplementary provisions of the German Stock Corporation Act (Aktiengesetz, AktG) into account.

In order to enhance the clarity and transparency of the reporting, the balance sheet and the income statement combine certain individual items, which are reported in depth and explained in the Notes. In addition to the standard breakdown in accordance with the HGB, the item “Premium reserve shares from reinsurance contracts” was added to the “Long-term financial assets” item in the “Changes in the fixed assets” overview (Appendix to the Notes).

The income statement is based on the total expenditure format.

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 2017 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 of the German Commercial Code (Handelsgesetzbuch, HGB), as the expected useful life cannot be estimated reliably.

Assets were acquired as part of an asset deal as of 1 July 2017. The assets and liabilities acquired are recognised at the fair value, and the purchase price in excess of this value has been reported as goodwill. This goodwill will be depreciated on a straight-line basis over an average remaining useful life of 9 years, since the software purchased as part of the asset deal must be retained for a customer project with an average lifetime of 9 years.

Tangible fixed assets are measured at the lower of historical cost or fair value for an expected long-term impairment and are depreciated on a straight-line basis over the expected useful life.

Since 2008, newly acquired assets have been depreciated exclusively on a straight-line basis. Fixed assets with historical costs of less than 1,000 euros (low-value fixed assets) are divided into two groups. 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 will be 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 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.

The semi-retirement issue underlying the active difference arising from the offsetting of asset pursuant to Article 246 Para. 2 Clause 3 of the German Commercial Code (Handelsgesetzbuch, HGB) expired during the 2017 financial year, so the pledged balance was credited to the liquid assets of the Company once more.

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 2005 G mortality tables. For this valuation, an actuarial interest rate of 3.77% (previous year: 4.11%) was used, which was determined in accordance with the provisions of Article 253 Para. 2 Clause 2 HGB in December 2017 on the basis of the average market interest rate from the previous ten (previous year: ten) financial years given an assumed residual term of 19 (previous year: 20) years, forecast to 31 December 2017.

Applying an average market interest rate from the previous seven financial years (2.91%), this would lead to an obligation in the amount of 4,882,170 euros as at 31 December 2017. The difference in relation to the pension provisions evaluated with an average market interest rate from the past ten financial years (3.77%) stood at 756,749 euros as at 31 December 2017; 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, 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 49,763 euros (1/15 minimum allocation p.a.) to other operating expenditure in the 2017 financial year. The resulting coverage shortfall as at 31 December 2017 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

The table below contains the positive and negative excesses, whereby only positive excesses were determined for secunet AG.

in euros	Assets	Liabilities
Fixed assets	71,246.42	0.00
Goodwill	7,515.66	0.00
Provisions for pensions	483,373.96	0.00
Other provisions	76,957.35	0.00
Total	**639,093.39**	**0.00**

A tax rate of 31.91% (previous year: 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

The sales revenue is recognised once the service has been provided or the risk associated with the products sold has passed to the customer. Services are usually accounted for based on the hours worked. For mixed transactions, the recognition criteria must be applied separately for each partial delivery.

Sales revenue is shown less value-added tax and any discounts when the sale of goods or services has taken place and the risks and rewards associated with ownership have been substantially transferred.

Notes to the balance sheet and income statement of secunet Security Networks Aktiengesellschaft

1. Fixed assets

The breakdown of and changes in the fixed assets of secunet AG can be found in the statement of fixed assets, included as an Appendix to the Notes.

The ownership of shares can be shown as follows at the balance sheet date:

- secunet SwissIT AG, Solothurn, Switzerland
  100% participation, equity of the company as at 31 December 2017 72 thousand Swiss francs, annual net income 2017 3 thousand Swiss francs.

- secunet s.r.o., Prague, Czech Republic
  100% participation, equity of the company as at 31 December 2017 2,847 thousand Czech korunas, annual net income 2017 -419 thousand Czech korunas.

- secunet Service GmbH, Essen, founded 26 October 2017,
  100% participation, equity of the company as at 31 December 2017 24 thousand euros, annual net income 2017 –1 thousand euros.

- secunet International GmbH & Co. KG, Essen, founded 26 October 2017,
  100% participation, equity of the company as at 31 December 2017 98 thousand euros, annual net income 2017 -2 thousand euros.

- secunet International Management GmbH, Essen, founded 26 October 2017,
  100% participation, equity of the company as at 31 December 2017 25 thousand euros, annual net income 2017 0 thousand euros.

- 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: 18%) of the shares as at the balance sheet date. secunet AG granted finally safe GmbH a further loan in the amount of 600 thousand euros during the 2017 financial year.

A partial amount amounting to 671 thousand euros of the loans to companies in which there is a participating interest was transferred to finally safe GmbH at the start of January 2018 in return for the granting of new shares, meaning that secunet AG now holds approx. 36% of the shares.

2. Inventories

in euros	31 Dec 2017	31 Dec 2016
Work in progress	2,116,216.76	1,897,172.89
Merchandise	11,427,628.95	8,385,779.36
Total	**13,543,845.71**	**10,282,952.25**

The increase in merchandise levels at the balance sheet date was due to efforts to ensure the product business' ability to deliver in the short to medium-term.

3. Receivables and other assets

in euros	31 Dec 2017	31 Dec 2016
Trade receivables	38,427,060.87	22,972,036.90
Intercompany receivables	40,268.41	48,809.60
of which trade receivables	(40,268.41)	(48,809.60)
Receivables from companies in which there is a participating interest	24,769.31	27,688.15
Other assets	464,198.44	154,247.00
Total	**38,956,297.03**	**23,202,781.65**

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

4. Cash in hand balances with credit institutions

The liquid funds comprise cash in hand and bank balances amounting to a total of 62,580,946.40 euros (previous year 50,026,939.39 euros). Occasionally the investment is made in the form of time deposits over the course of the year, whereby the interest for the deposits was 1.25% p.a. in the reporting period.

5. Equity

The share capital is 6,500,000.00 euros. It is divided into 6,500,000 bearer shares without par value.

In all, the Company continued to hold 30,498 treasury shares (previous year: 30,498 shares) at the balance sheet date, equating to 0.469% or 30,498 euros of its share capital (previous year: 0.469%). The nominal value of the treasury shares was openly offset 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.

At the Annual General Meeting of 4 May 2017, the payment of a dividend from the balance sheet profit for the financial year 2016 was agreed on. On 9 May 2017, a payment of 0.58 euros per share (6,469,502 individual shares) was made, making a total of 3,752,311.16 euros. Furthermore, a decision was taken to transfer the remaining 8,880,282.86 euros from the 2016 balance sheet profit to other revenue reserves.

7,714,414.93 euros of the net income in the amount of 15,477,817.33 euros will be deposited in the other revenue reserves in accordance with Article 58 Para. 2 Clause 1 AktG.

Balance sheet profits as at 31 December 2017 are therefore 7,763,402.40 euros (previous year: 12,632,594.02 euros).

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

6. Provisions

in euros	31 Dec 2017	31 Dec 2016
Provisions for pensions and similar liabilities	3,777,091.47	3,287,189.80
Provisions for taxes	6,720,100.39	3,326,291.98
Other provisions	16,794,248.49	14,248,572.62
Total	**27,291,440.35**	**20,862,054.40**

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

in euros	31 Dec 2017	31 Dec 2016
Non-current provisions		
Provision for anniversary bonuses	133,977.00	136,246.00
Current provisions		
Annual employee bonuses	10,930,277.00	9,821,524.00
Commissions	1,626,627.41	1,485,305.12
Warranty	1,549,110.00	472,000.00
Accrued holidays	670,731.00	610,816.00
Outstanding incoming invoices	564,057.67	731,247.20
Deferred costs	469,164.23	406,839.72
Demolition and maintenance measures	298,883.18	227,551.18
Pending contractual penalty	175,700.00	0.00
Accounting and auditing costs	134,500.00	132,500.00
Professional association contributions	132,000.00	125,100.00
Litigation risks	0.00	32,092.40
Others	109,221.00	67,351.00
Total	**16,794,248.49**	**14,248,572.62**

For the financial year 2017, the provision for commissions comprises payments due for the distribution of SINA licences, Elster sticks and Oracle licences.

The warranty provisions pertain to a provision for obligations arising from a three-year warranty agreement for specific SINA core modules in the amount of 592 thousand euros and a goodwill provision of 957 thousand euros in the 2017 financial year in connection with a customer complaint.

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.

The provision for defence costs as part of a passive lawsuit recognised in 2010 was used in full in the 2017 financial year to cover legal costs. The case was ruled in favour of secunet Security Networks AG by the courts in the financial year 2017.

7. Liabilities

in euros	31 Dec 2017	31 Dec 2016
Payments received on account of orders	519,789.36	555,230.12
Trade accounts payable	24,753,504.13	14,139,059.53
Intercompany payables	418,457.26	0.00
Other liabilities	5,774,061.54	4,729,603.92
of which taxes	(5,756,444.46)	(4,726,284.90)
of which relating to social security	(10,705.81)	(3,319.02)
Total	**31,465,812.29**	**19,423,893.57**

All liabilities have a term of less than one year.

8. 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.

9. Sales revenue

The sales revenue was generated in the following regions:

in euros	2017	2016
Domestic	142,021,526.54	102,058,547.69
Abroad	16,322,871.21	13,767,008.18
Total	**158,344,397.75**	**115,825,555.87**

This sales revenue can be attributed to the divisions as follows:

in euros	2017	2016
Public	140,621,591.26	100,488,510.14
Business	17,575,802.21	15,205,083.42
Others	147,004.28	131,962.31
Total	**158,344,397.75**	**115,825,555.87**

10. Other operating income

The other operating income in the amount of 1,758,749.92 euros (previous year: 1,314,292.96 euros) primarily comprises an offset item from the utilisation of provisions (634,679.00 euros) formed by other operating expenses in the previous year, income from the release of provisions (468,187.63 euros), actuarial income from the adjustment of AHV premium reserve (141,926.38 euros) and other income (513,956.61 euros).

Income from currency conversion stood at 14,214.69 euros (previous year: 3,079.62 euros).

Approximately 468 thousand euros (27%) of the other operating income relates to other periods, and results exclusively from the release of provisions.

11. Materials expenses

in euros	2017	2016
Cost of purchased goods	64,941,694.26	42,159,394.99
Cost of purchased services	6,961,492.86	5,342,571.48
Total	**71,903,187.12**	**47,501,966.47**

12. Personnel expenditure

in euros	2017	2016
Wages and salaries	37,359,286.55	33,715,456.81
Social security costs	5,267,589.30	4,638,763.52
Expenses for retirement pensions	51,278.51	25,473.01
Expenses for support	24,922.34	30,862.89
Total	**42,703,076.70**	**38,410,556.23**

13. Depreciation and amortisation of intangible fixed assets and tangible fixed assets

Depreciation and amortisation are broken down by individual item in the statement of fixed assets (see Appendix to the Notes).

14. Other operating expenses

in euros	2017	2016
Rental costs	3,073,746.93	2,646,709.43
Inspection, consulting, legal protection	2,387,082.76	1,138,086.91
Travel expenses	2,369,846.57	2,182,837.34
Sales commission	2,270,304.36	1,744,907.37
Addition to other provisions	1,810,650.00	652,000.00
Advertising costs	1,576,116.63	1,340,007.99
Ancillary personnel expenses	1,326,886.31	955,788.69
Communication costs	1,008,180.89	1,092,952.38
Company car costs	980,724.74	942,912.61
Maintenance costs	817,198.84	709,461.76
Other third-party services	699,429.09	652,667.06
Entertainment and representation	257,301.45	240,798.19
Insurance premiums	191,945.57	174,083.35
Fees	112,344.88	125,681.20
Extraordinary items arising in relation to BilMoG New evaluation of pension provisions	49,763.00	49,762.00
Individual value adjustment of receivables	5,557.50	70,000.00
Other costs	1,378,516.03	1,059,070.39
Total	**20,315,595.55**	**15,777,726.67**

Expenses resulting from currency conversion stood at 31,894.29 euros (previous year: 11,070.40 euros).

Expenses for other accounting periods in the amount of 18 thousand euros are included in the sales commissions.

15. Financial result

in euros	2017	2016
Other interest and similar income	295,627.16	173,075.40
of which from affiliated companies	(222,395.84)	(132,673.60)
Interest and similar expenses	-426,207.00	-84,969.61
of which interest on long-term provisions	(-415,881.00)	(-73,780.61)
Total	**-130,579.84**	**88,105.79**

16. Taxes

in euros	2017	2016
Income taxes	7,709,858.00	4,481,852.00
Other taxes	26,087.00	26,343.20
Total	**7,735,945.00**	**4,508,195.20**

The income taxes relate predominantly to the 2017 financial year. The tax expense arising from the tax audit for the years 2012 to 2015 is approximately 91 thousand euros.

17. Use of the balance sheet profit

Proposal for the appropriation of distributable earnings
From the balance sheet profit of 12,632,594.02 euros reported for the 2016 financial year, dividends of 0.58 euros per share (amounting to a total of 3,752,311.16 euros) were distributed in the 2017 financial year in accordance with the resolution of the Annual General Meeting of 4 May 2017. The remaining sum, amounting to 8,880,282.86 euros, was transferred to other revenue reserves.

The Annual Financial Statements in accordance with the HGB of secunet AG for the 2017 financial year show net income for the year of 15,477,817.33 euros. Of these, 7,714,414.93 euros will be deposited in the other revenue reserves in accordance with Article 58 Para. 2 Clause 1 AktG. Taking into account the existing carryforward of 12,632,594.02 euros, this results in balance sheet profits of 7,763,402.40 euros.

The Management Board will suggest at the Annual General Meeting that a dividend of 1.20 euros per share is distributed on the dividend-bearing share capital of 6,469,502.00 (i.e. a total of 7,763,402.40 euros). When determining the share capital entitled to a dividend, the total of 30,498 treasury shares was deducted.

in euros	2017
Carryforward at 1 Jan 2017	12,632,594.02
Net income for the year 2017	15,477,817.33
Dividend payment in 2017	-3,752,311.16
Deposit in other profit reserves	-16,594,697.79
Balance sheet profit at 31 Dec 2017	**7,763,402.40**
Proposal for the appropriation of distributable earnings	
Dividend payment in 2018	-7,763,402.40
Carryforward	**0.00**

Other notes

Employees

The average headcount over the year, including the two Management Board members, was 454 (previous year: 402, including two Management Board members). In addition, 63 temporary workers (previous year: 65) were also employed, making a total of 517 employees.

Other financial liabilities

As at the balance sheet date, other financial liabilities totalled 10,026,399.05 euros. They consisted mainly of the nominal amount of liabilities arising from office tenancy agreements and lease agreements for company cars, of which 3,181,401.98 euros have less than one year to run and 6,844,997.07 euros have between one year 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 2017, there were liabilities with regard to open purchase orders for goods and services in the amount of 3,888,700.32 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 the financial year and in the previous year, the following fees paid to the auditors of the financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, were recorded.

in thousand euros	2017	2016
Audit services		
Auditing of consolidated financial statements and annual financial statements, auditor's review of 6-month report[1]	122	76
of which relating to audit of the previous year	12	6
Other certification services	0	12
Tax advisor services		
Auditing of tax assessments for tax returns prepared in previous years	1	20
Other services		
Training of Supervisory Board	8	0
	131	**108**

[1] in the previous year "Other assurance services"; Change in reporting methods results from IDW RS HFA 36 new version (As at: 8 September 2016)

Miscellaneous

The remuneration of members of the Management Board active during the reporting year totalled 1,159 thousand euros for the reporting year (previous year: 958 thousand euros). For former members of the Management Board, liabilities from pension commitments amounted to 241 thousand euros as at the reporting date (previous year: 219 thousand euros).

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

The members of the Management Board and the Supervisory Board held no shares in the Company as at the balance sheet date.

Disclosure of the individual amounts paid to members of the Supervisory Board, along with further details of the remuneration system and pensions for members of the Management and Supervisory Boards, can be found in the remuneration report that forms part of the combined Management Report of the Company and the Group.

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

Declarations pursuant to Article 160, Para. 1, Clause 8 AktG
Voting rights are held in the Company as at the balance sheet date for 2017. The following disclosures are based on those disclosures made by the parties subject to notification obligations in accordance with Article 26 Para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). The latter are printed notes in this Appendix to the Notes rather than in the Appendix to the document.

13 December 2017: Publication of voting-right notices in accordance with Article 26 Para. 1 WpHG
Frankfurter Investmentgesellschaft mit variablem Kapital (SICAV), Grevenmacher, Luxembourg informed us in accordance with Article 21 Para. 1 WpHG on 12 December 2017 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN 727650, had fallen below the threshold of 3% of the voting rights on 6 December 2017, and on this date totalled 2.81% (corresponding to 182,681 voting rights).

6 October 2017: Publication of voting-right notices in accordance with Article 26 Para. 1 WpHG
BNY Mellon Service Kapitalanlage-Gesellschaft mbH, Germany informed us in accordance with Article 21 Para. 1 WpHG on 5 October 2017 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN 727650, had fallen below the threshold of 3% of the voting rights on 1 October 2017, and on this date totalled 0.00% (corresponding to 0 voting rights).

5 October 2017: Publication of voting-right notices in accordance with Article 26 Para. 1 WpHG
Frankfurter Investmentgesellschaft mit variablem Kapital (SICAV), Grevenmacher, Luxembourg informed us in accordance with Article 21 Para. 1 WpHG on 4 October 2017 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, exceeded the threshold of 3% of the voting rights on 1 October 2017, and on this date totalled 3.07% (corresponding to 199,284 voting rights).

17 June 2013: Publication of voting-right notices in accordance with Article 26 Para. 1 WpHG
BNY Mellon Service Kapitalanlage-Gesellschaft mbH, Germany informed us in accordance with Article 21 Para. 1 WpHG on 10 June 2013 that its share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, exceeded the threshold of 3% of the voting rights on 6 June 2013, and on this date totalled 3.06% (corresponding to 198,930 voting rights).

17 April 2013: Publication of voting-right notices in accordance with Article 26 Para. 1 WpHG
Ms Ingrid Weispfenning, Germany informed us in accordance with Article 21 Para. 1 WpHG on 12 April 2013 that her share of the voting rights in secunet Security Networks AG, Essen, Germany, ISIN: DE0007276503, WKN: 727650, 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 majority shareholding in Giesecke & Devrient Gesellschaft mit beschränkter Haftung, Munich – previously held personally by Ms Verena von Mitschke-Collande – being included in MC Familiengesellschaft mbH within the framework of an increase of non-cash capital. Giesecke & Devrient Gesellschaft mit beschränkter Haftung is the majority shareholder of the company; Ms Verena von Mitschke-Collande holds the majority of voting rights in MC Familiengesellschaft mbH.

The purpose of the MC Familiengesellschaft mbH enterprise is that of a pure asset-holding company, in particular the administration of the shareholding in Giesecke & Devrient Gesellschaft mit beschränkter Haftung brought by Ms Verena von Mitschke-Collande; the intent of Giesecke & Devrient Gesellschaft mit beschränkter Haftung holding shares in your company remains the implementation of strategic goals. It is not the intention of MC Familiengesellschaft mbH to obtain further voting rights in your company by purchase or other means within the next twelve months. MC Familiengesellschaft mbH has no intention of influencing the appointments to the administrative, managerial or supervisory 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)

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

Qualified industrial engineer Axel Deininger (since 1 January 2018)
(secunet AG shares held: none)

Supervisory Board

Ralf Wintergerst, Vaterstetten
Chairman (since 4 May 2017)

Chairman of the Management Board and CEO of Giesecke & Devrient GmbH, Munich

Other directorships:
- Giesecke & Devrient Schweiz AG, Switzerland (until 28 February 2017)
- Shenzhen G + D Currency Automation Systems Co. Ltd., China (until 24 April 2017)
- Cyber Defence research institute, Bundeswehr University Munich (since 23 June 2017)

Dr Peter Zattler, Grünwald
Chairman (until 4 May 2017)
Acting Chairman (since 4 May 2017)

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

Other directorships:
- Giesecke & Devrient International Finance S. A., Luxembourg
- Veridos Matsoukis S. A., Athens, Greece

Hans-Wolfgang Kunz, Munich
Acting Chairman (until 4 May 2017)
Member of the Supervisory Board (since 4 May 2017)

Member of the Management Board of Giesecke & Devrient GmbH, Munich (until 30 June 2017)
CEO of Veridos GmbH, Berlin

Other directorships:
- Giesecke & Devrient International Finance S. A., Luxembourg
- Veridos Matsoukis S. A., Athens, Greece

Axel Deininger, Riemerling, Hohenbrunn municipality
Member of the Supervisory Board (until 4 May 2017)

Group Senior Vice President, Head of Division Enterprise Security & OEM, Mobile Security, Giesecke & Devrient GmbH, Munich (until 30 June 2017)
Group Senior Vice President, Head of Division Connectivity & Device Solutions, Mobile Security, Giesecke & Devrient GmbH, Munich (since 1 July 2017)

No other directorships.

Dr Elmar Legge, Schermbeck
Member of the Supervisory Board

Member of the Management Board of RWTÜV e.V., Essen
Member of the Management Board of the RWTÜV Foundation, Essen
Member of the Management Board of 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
» Cetecom GmbH, Essen (since 23 March 2017)

Wolf-Rüdiger Moritz, Lenggries
Member of the Supervisory Board

Corporate Vice President of Business Continuity, Infineon Technologies AG, Neubiberg

Other directorships:
» Cryptomathic A/S, Aarhus, Denmark
» Cryptomathic Holding Aps, Aarhus, Denmark

Prof. Dr-Ing. Günter Schäfer, Berlin
Member of the Supervisory Board

University professor, Technische Universität, Ilmenau

No other directorships.

Supplementary report

Two of the three new subsidiaries of secunet Security Networks AG founded in October 2017 will commence operations in the business divisions of international distribution (secunet International GmbH & Co. KG, Essen) and administration (secunet Service GmbH, Essen) with effect from 1 January 2018 through the spin-off of the corresponding business units from secunet Security Networks AG. secunet International Management GmbH, Essen, shall conduct its business as a partner to secunet International GmbH & Co. KG. The spin-offs will have a significant effect on the assets, liabilities, financial position and results of operations of secunet AG during the 2018 financial year.

Essen, 20 March 2018

Dr Rainer Baumgart   Axel Deininger   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 2017	Additions	Disposals	as at 31 Dec 2017
I. Intangible fixed assets				
1. Acquired concessions, industrial property rights and similar rights and values, and licences to such rights and values	120,000.00	0.00	0.00	120,000.00
2. Acquired software	1,446,968.35	293,341.73	-142,457.03	1,597,853.05
3. Goodwill	3,163,900.00	632,066.00	0.00	3,795,966.00
Intangible fixed assets, total	**4,730,868.35**	**925,407.73**	**-142,457.03**	**5,513,819.05**
II. Tangible fixed assets				
1. Other tangible assets, operating and office equipment	11,493,684.48	2,484,971.10	-587,843.34	13,390,812.24
2. Assets under construction	0.00	24,660.00	0.00	24,660.00
Tangible fixed assets, total	**11,493,684.48**	**2,509,631.10**	**-587,843.34**	**13,415,472.24**
III. Long-term financial assets				
1. Shares in affiliated companies	556,539.96	150,000.00	0.00	706,539.96
2. Loans to affiliated companies	613,550.26	0.00	0.00	613,550.26
3. Holdings	310,162.87	0.00	0.00	310,162.87
4. Loans to associated companies	635,666.67	671,777.77	0.00	1,307,444.44
5. Premium reserve shares from reinsurance contracts	5,412,940.00	233,553.00	0.00	5,646,493.00
Long-term financial assets, total	**7,528,859.76**	**1,055,330.77**	**0.00**	**8,584,190.53**
Total fixed assets	**23,753,412.59**	**4,490,369.60**	**-730,300.37**	**27,513,481.82**

Accumulated depreciations				Carrying amounts	
as at 1 Jan 2017	Additions	Disposals	as at 31 Dec 2017	as at 31 Dec 2017	as at 31 Dec 2016
120,000.00	0.00	0.00	120,000.00	0.00	0.00
1,134,407.35	135,553.73	-142,457.03	1,127,504.05	470,349.00	312,561.00
2,514,070.00	253,125.00	0.00	2,767,195.00	1,028,771.00	649,830.00
3,768,477.35	**388,678.73**	**-142,457.03**	**4,014,699.05**	**1,499,120.00**	**962,391.00**
8,053,070.48	1,667,311.27	-510,905.34	9,209,476.41	4,181,335.83	3,440,614.00
0.00	0.00	0.00	0.00	24,660.00	0.00
8,053,070.48	**1,667,311.27**	**-510,905.34**	**9,209,476.41**	**4,205,995.83**	**3,440,614.00**
556,539.96	0.00	0.00	556,539.96	150,000.00	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	310,162.87
0.00	0.00	0.00	0.00	1,307,444.44	635,666.67
0.00	0.00	0.00	0.00	5,646,493.00	5,412,940.00
1,170,090.22	**0.00**	**0.00**	**1,170,090.22**	**7,414,100.31**	**6,358,769.54**
12,991,638.05	**2,055,990.00**	**-653,362.37**	**14,394,265.68**	**13,119,216.14**	**10,761,774.54**

Independent Auditor's Report

To secunet Security Networks Aktiengesellschaft, Essen

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of secunet Security Networks Aktiengesellschaft, Essen, which comprise the balance sheet as of December 31, 2017, and the income statement for the financial year from January 1 to December 31, 2017, and notes to the annual financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report – report on the position of the company and the group (hereinafter referred to as 'management report') of secunet Security Networks Aktiengesellschaft, Essen, for the financial year from January 1 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

» the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2017 and of its financial performance for the financial year from January 1, 2017 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and

» the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Revenue recognition on an accrual basis (revenue recognition cut-off)

For the accounting policies applied, we refer to the explanatory notes to the financial statements under 'Accounting policies' and Section 9 13 'Revenue'. The Company's revenue performance is presented in Section 2.3.1.1 of the management report.

Financial Statement Risk

As presented in the financial statements, secunet Security Networks Aktiengesellschaft generated revenue in the amount of EUR 158.3 million in financial year 2017. The main contributors to revenue besides the sale of products and provision of services are multiple-element contracts. Multiple-element contracts are concluded for the supply of hardware, the granting of software licenses (including updates) and support and maintenance services (servicing and other services).

secunet Security Networks Aktiengesellschaft recognizes revenue from the sale of products and services when the services have been rendered or the Company has transferred to the buyer the significant risks and rewards of ownership of the goods sold. Services are invoiced primarily on the basis of hours worked. In the case of multiple-element arrangements, the criteria for recognition must be applied separately for each component.

Most of secunet Security Networks Aktiengesellschaft's revenue is generated from public contracts. Other customers include automobile manufacturers among others. These place a disproportionately large number of orders at the end of the year, resulting in a large number of contracts and therefore considerable transfer of goods and services at year-end.

Due to the large number of transactions in the last few weeks prior to the reporting date, discrepancies in progress with delivery as of the reporting date, and the large share of multiple-element contracts, there is the risk for the financial statements that revenue recognized for the year under review is too high and therefore not allocated to the period in which it is incurred.

Our Audit Approach

In order to audit whether revenue is recognized in the period in which it is incurred, we assessed the design, setup and effectiveness of internal controls relating to order acceptance, outgoing goods or acceptance of services, and invoices.

Furthermore, we assessed revenue recognition cut-off by reconciling invoices to the related orders, contracts, external proof of delivery, acceptance protocols or time sheets. This was based on revenue recognized in December 2017 and selected using a mathematical/statistical procedure.

In addition, balance confirmations were obtained for trade receivables not yet settled as of the reporting date, which were entered in the accounts prior to December 1, 2017 and consequently not covered by the above-mentioned sample. These were also selected on the basis of a mathematical/statistical procedure. In cases where obtaining balance confirmations remained unsuccessful, we conducted alternative audit procedures by reconciling revenue to the underlying orders, contracts, internal invoice release, invoices, proof of delivery and acceptance protocols or time sheets as well as payment received.

For multiple-element contracts contained in the two samples, the break-down into individual transactions and the related recognition of revenue was assessed based on the underlying contracts.

Our Observations

secunet Security Networks Aktiengesellschaft's procedure for revenue recognition cut-off is appropriate.

Other Information

Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited annual financial statements, the consolidated financial statements and management report and our auditor's reports.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- » is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- » otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

» Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

» Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

» Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

» Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

» Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

» Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company’s position it provides.

» Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the annual general meeting on May 4, 2017. We were engaged by the supervisory board on November 16, 2017. We have been the auditor of secunet Security Networks Aktiengesellschaft, Essen, without interruption since financial year 2010.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Martin C. Bornhofen.

Essen, March 21, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bornhofen Wirtschaftsprüfer [German Public Auditor]	Dr Sommerhoff Wirtschaftsprüfer [German Public 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, 20 March 2018

Dr Rainer Baumgart Axel Deininger Thomas Pleines

Service

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Financial Calendar 2018

22 March
Annual Report 2017

22 March
Analysts' conference

4 May
Quarterly Group Statement

9 May
Annual General Meeting

7 August
Half-year Financial Report

9 November
Quarterly Group Statement

Information

Annual Report on the Internet
The secunet Security Networks AG Annual Report can be viewed as a PDF file on the Internet at www.secunet.com. This Annual Report is also available in German. In the event of conflicts the German-language version shall prevail.

Brand names
All the brand and trade names or product names mentioned in this Annual Report are the property of the corresponding holder. This applies in particular for DAX, MDAX, SDAX, TecDAX and Xetra as registered trademarks and property of Deutsche Börse AG.

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