Half-Year Report 2018

» Sales increase by 15% in the first six months

» EBIT increased by around 2.8 million euros, or 54%, year-on-year

» Order book slightly decreased

» The forecast for the year overall is unchanged

Overview of the key figures for the first half of the year

in thousand euros	H1 2018	H1 2017	Change in %
Sales	63,161	54,761	+15
EBIT	7,762	5,030	+54
EBT	7,599	5,042	+51
Net income for the period	5,156	3,372	+53
Earnings per share (in euros)	0.80	0.52	+53
Cash flow from operating activities	-20,294	-20,417	–/–
Investments	2,767	1,313	+>100
Order book (IFRS, in million euros, as at 30 June)	68.1	77.3	-12
Employees as at 30 June	553	517	+7

in thousand euros	30 Jun 2018	31 Dec 2017	Change in %
Cash and cash equivalents	32,110	62,923	-49
Equity	56,460	59,087	-4
Equity ratio (in %)	56.5	44.1	+12.4 percentage points
Loans	0	0	–/–

Overview of the key figures for the second quarter

in thousand euros	Q2 2018	Q2 2017	Change in %
Sales	35,971	30,045	+20
EBIT	5,292	4,126	+28
EBT	5,246	4,140	+27
Net imcome for the period	3,572	2,788	+28
Earnings per share (in euros)	0.55	0.43	+28

The secunet share

Reuters	YSNG.DE
Bloomberg	YSN
WKN	727650
ISIN	DE0007276503

	29 Jun 2018	30 Jun 2017
Price (in euros)	124.40	93.15
Number of shares	6,500,000	6,500,000
Market capitalisation (in euros)	808,600,000	605,475,000
52W high / low (in euros)	H: 132.00 / L: 77.80	H: 104.45 / L: 25.51

	H1 2018	H1 2017
Average daily trading volume (Xetra)	1,771	5,802

Interim Group Management Report for the first half of 2018

Revenue performance

In the first half of 2018, secunet Group generated revenues of 63.2 million euros. Compared to the same reporting period the previous year (54.8 million euros), this represents a rise of 15%, or 8.4 million euros. The revenue growth was largely the result of increased demand in product business (trade goods, licences, maintenance and support – primarily for the SINA product family). Capacity utilisation in the services business (consultancy) continues to be high.

At 36.0 million euros, revenues for Q2 2018 are considerably higher than revenues for the same quarter of the previous year (30.0 million euros): a rise of 20%, or 6.0 million euros.

Earnings performance

secunet Group's earnings before interest and taxes (EBIT) improved by 2.8 million euros, or 54%, compared to the first half of 2017, from 5.0 million euros to 7.8 million euros.

The positive earnings trend is due to the fact that expenses in secunet Group, at 11% or 5.7 million euros, increased less than revenue. The improved EBIT was largely the result of increased demand in product business and continued good capacity utilisation in the consulting division. The following developments are recorded for the individual expense items:

The cost of sales increased by 4.9 million euros, or 12%, in the first six months of 2018, from 41.1 million euros in the same period of the previous year to 46.0 million euros. The primary reason for this is growth in the hardware segment, as a result of which material expenditure for the use of trading goods has increased.

At 6.3 million euros, the selling expenses are only slightly – 5%, or 0.3 million euros – above the previous year's figure (6.0 million euros).

Research & Development expenses increased from 12 thousand euros in the first half of 2017 to 364 thousand euros.

General administration costs were 2.9 million euros in the first half of 2018, and therefore only insignificantly higher than the previous year's figure. Compared to the previous year (2.7 million euros), this is a rise of 0.2 million euros, or 7%.

The financial result for the first half of 2017 was 7 thousand euros compared to 88 thousand euros the previous year. Earnings before tax totalled 7.6 million euros, compared with 5.0 million euros the previous year.

Due to improved earnings, tax expenses increased from 1.7 million euros in the previous year to 2.4 million in the first half of 2018.

The Group result for the period from January to June 2018 was a profit of 5.2 million euros compared with 3.4 million euros the previous year. Earnings per share for the first half of 2017 were 0.52 euros; in the current half of the year this figure stood at 0.80 euros.

Development of the segments

secunet is divided into two business units according to target group.

The Public Sector business unit is aimed at public agencies. The focus of secunet Group's business is this target group: The contribution from the Public Sector business unit to Group sales in the first half of 2017 is correspondingly high, at 88% (previous year: 86%).

One aspect of what the Public Sector business unit offers its customers is the SINA product family; i. e. solutions (software, hardware and management) for highly secure, cryptographic processing, transmission and storage of classified information at varying levels of confidentiality. On the other hand, it offers public customers a wide range of IT security products and services, from IT security consulting and training to products for electronic passports, automated (biometric) border controls, ELSTER electronic tax declaration and the equipment of large infrastructures with high security technology and public key infrastructures.

Sales in the Public Sector business unit increased by 17%, or 8.3 million euros, year on year, from 47.2 million euros in the first half of 2017 to 55.5 million euros in the same period of the current year. The growth was largely the result of increased product turnover (trade goods, licences, maintenance and support – primarily for the SINA product family).

Expenses in the Public Sector business unit increased less than sales: Sales costs increased by 16%, from 34.8 million euros to 40.4 million euros. At 5.2 million euros in H1 2018, selling expenses only slightly exceeded the previous year's figure, by 8% (4.8 million euros). General administration costs were 2.5 million euros in H1 2018, compared with 2.2 million euros during the same reporting period for 2017: an increase of 14% on the previous year. In total, expenses increased by only 15%. Therefore, the EBIT in the Public Sector business unit increased from 5.4 million euros in the first half of 2017 to 7.3 million euros for the same reporting period in the current year.

The Business Sector offers (consulting) services and solutions for the specific requirements of private sector companies. The consulting services range from security assessments (known as penetration tests) via security consulting, such as 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.

In the first half of 2018, 12% of the Group's revenue (previous year: 14%) was achieved in the Business Sector business unit. In the first six months of 2018, the Business Sector business unit achieved a year-on-year increase in sales of 2%, from 7.5 million euros to 7.7 million euros. In addition, capacities are tied to the development of the secunet konnektor for integration into the telematics infrastructure for electronic health cards.

Total expenses in this business sector decreased by 9% or 0.7 million euros from H1 2017 to H1 2018, from 7.9 million euros to 7.2 million euros. The decline in expenditure is due to the development of the secunet konnektor. Preparations for this were recorded in the previous year, while corresponding investments were capitalised in the current year, 2018, from February. The EBIT in the Business Sector business unit increased accordingly from -0.3 million euros in the first half of 2017 to 0.5 million euros for the same reporting period in the current year.

Assets and financial position

The following items on the balance sheet show a significant change as at 30 June 2018 compared with the figure as at 31 December 2017:

- To ensure delivery at short notice in H2 2018, inventories were increased by 89% (or 10.2 million euros) from 11.4 million euros as of 31 December 2017, to 21.6 million euros.
- Intangible fixed assets increased from 0.5 million euros as at 31 December 2017 to 2.1 million euros. This increase is primarily due to the capitalisation of development expenditure in the amount of 1.5 million euros for the secunet konnektor.
- On the balance sheet date, both trade payables and trade receivables have decreased compared with the status as at 31 December 2017, due to the settlement of customer and supplier invoices. Trade receivables decreased from 40.9 million euros as at 31 December 2017 to 21.6 million euros as at 30 June of the current year. Trade payables were 9.9 million euros as at 30 June 2018, following 26.6 million euros at year-end 2017.
- The other provisions decreased, from 15.1 million euros as at the end of 2017 to 6.5 million euros as at 30 June 2018. This is mainly due to the payment of variable remuneration elements for the year 2017 in the first quarter of 2018.
- Income tax liabilities fell by 3.3 million euros to 3.4 million euros as of 30 June 2018, compared with 31 December 2017 (6.7 million euros). The other short-term liabilities (mainly sales tax) also decreased from 6.3 million euros as at 31 December 2017 to 1.5 million euros as at 30 June 2018.
- Parallel to this, cash and cash equivalents have decreased by 30.8 million euros, from 62.9 million euros as at 31 December 2017 to 32.1 million euros as at 30 June 2018.

secunet has not taken out any loans and has an unchanged debt/equity ratio of 0%.

Cash flow

Despite the increased earnings before taxes, at -20.3 million euros the cash flow from operational business activities after the first six months has hardly changed compared to the value for the same period of the previous year (-20.4 million euros). The main reasons for this are the utilisation of provisions for variable remuneration, the settlement of receivables by customers, the build-up of inventory (other assets), and the settlement of trade payables, as well as other short-term liabilities.

At -2.8 million euros in H1 2018, cash flow from investment activity was approximately at the level of the same period the previous year (-2.4 million euros).

In the first half of 2018, a dividend of around 7.8 million euros (previous year: 3.8 million euros) was paid to the shareholders from the 2017 balance sheet profit of secunet Security Networks AG. Primarily due to this, there was cash outflow of 7.7 million euros from financing activities in the first half of 2018, following 3.6 million euros in the previous year.

This resulted in an outflow of cash and cash equivalents of 30.8 million euros after six months of the 2018 financial year. Liquid funds as at 30 June 2018 were therefore 32.1 million euros.

Investments

In the first six months of 2018, secunet invested a total of 2.8 million euros in intangible assets and tangible fixed assets, compared with 1.3 million euros in the same period of the previous year. The main reason for this increase is investment in the development of the secunet konnektor, in the amount of 1.5 million euros. At around 1.3 million euros, other investments are at the level of the previous year, and likewise primarily concern the new procurement and replacement of hardware, software and other office and operating equipment.

Employees

As at 30 June 2018, the number of secunet Group employees totalled 553, which is 36 individuals, or 7%, more than on the same reporting date of the previous year. The appointments were made primarily in the areas of consulting, development and distribution.

Order book

As at 30 June 2018, secunet Security Networks AG's order book according to IFRS totalled 68.1 million euros, following 77.3 million euros as at the previous year's reporting date. Due to the German Federal authorities' provisional budget management applicable for H1 2018, procurements have not yet been commissioned.

Outlook, risks and opportunities

Compared with the preparation phase of the 2017 Annual Financial Statement in March 2018, the estimates of the Management Board with regard to risks and opportunities for secunet Group have not changed significantly. The risks associated with development investments (secunet konnektor) and investments in shares (finally safe GmbH) have been included in the consideration. The levels of risk arising from value changes in these investments have been assessed as low.

There are no risks that endanger the continuation of the company, and no such risks are currently discernible for the future.

The business performance of secunet Security Networks AG was good in the first six months of the current financial year.

The 2018 federal budget came into effect on 1 July 2018. What is referred to as provisional budget management will apply for federal authorities until that date. For this reason, procurements have not yet been commissioned. In addition, uncertainty relating to the individual budget items has meant that it has not yet been possible to perform corresponding preliminary work regarding procurements, such as creating and negotiating quotes. Due to continued uncertainty, the Management Board remains conservative in its forecast for the entire 2018 year, despite positive development to date. Accordingly, the Management Board maintains the same outlook published at the same time as the Annual Report in March 2018: revenue and an EBIT slightly below the level of the previous year are still expected for secunet Group.

Forward-looking statements

This Group Interim Management Report contains statements regarding the future performance of secunet Group and 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, 6 August 2018

Dr Rainer Baumgart Axel Deininger Thomas Pleines

Condensed Consolidated Interim Financial Statement

of secunet Security Networks Aktiengesellschaft for the period from 1 January to 30 June 2018

Consolidated balance sheet

(according to IFRS) as at 30 June 2018

Assets

in euros	30 Jun 2018	31 Dec 2017[1]
Current assets		
Cash and cash equivalents	32,109,547.98	62,922,886.67
Trade receiveables	21,579,529.29	40,925,634.56
Intercompany financial assets	485,487.42	85,481.04
Contract assets	4,394,142.15	–
Inventories	21,571,112.62	11,427,628.95
Other current assets	1,041,180.89	1,164,076.06
Total current assets	**81,181,000.35**	**116,525,707.28**
Non-current assets		
Property, plant and equipment	4,558,485.00	4,424,652.83
Intangible assets	2,077,899.00	470,349.00
Goodwill	3,607,331.00	3,607,331.00
Non-current financial assets	5,680,079.31	5,646,493.00
Long-term financial assets shown in balance sheet in accordance with the equity method	595,114.54	93,346.08
Loans	660,465.67	1,307,444.44
Deferred taxes	1,559,742.19	1,360,653.26
Total non-current assets	**18,739,116.71**	**16,910,269.61**
Total assets	**99,920,117.06**	**133,435,976.89**

[1] The Group applied IFRS 15 and IRFS 9 for the first time as of 1 January 2018. Due to the transition methods applied, the comparative figures have not been restated.

Liabilities

in euros	30 Jun 2018	31 Dec 2017[1]
Current liabilities		
Trade accounts payable	9,895,632.34	26,629,285.89
Intercompany payables	124,896.95	463,669.89
Other provisions	6,321,185.52	14,990,960.98
Income tax payable	3,399,073.35	6,720,100.39
Other current liabilities	1,544,321.28	6,292,019.10
Contract liabilities	7,708,777.10	–
Deferred income	–	6,459,411.99
Total current liabilities	**28,993,886.54**	**61,555,448.24**
Non-current liabilities		
Deferred taxes	1,062,297.30	192,404.86
Provisions for pensions	6,537,724.59	6,029,924.67
Other provisions	133,977.00	133,977.00
Contract liabilities	6,731,774.64	–
Deferred income	–	6,436,887.85
Total non-current liabilities	**14,465,773.53**	**12,793,194.38**
Equity		
Share capital	6,500,000.00	6,500,000.00
Capital reserves	21,922,005.80	21,922,005.80
Other reserves	-1,555,717.76	-1,547,460.56
Retained earnings	29,594,168.95	32,212,789.03
Total equity	**56,460,456.99**	**59,087,334.27**
Total liabilities	**99,920,117.06**	**133,435,976.89**

1 The Group applied IFRS 15 and IRFS 9 for the first time as of 1 January 2018. Due to the transition methods applied, the comparative figures have not been restated.

Consolidated income statement

(according to IFRS) for the period from 1 January 2018 to 30 June 2018

in euros	1 Apr – 30 Jun 2018	1 Apr – 30 Jun 2017	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Revenue	35,970,854.27	30,044,893.55	63,161,164.35	54,760,536.94
Cost of sales	-25,712,151.08	-21,936,955.51	-45,976,906.05	-41,140,098.01
Gross profit on sales	**10,258,703.19**	**8,107,938.04**	**17,184,258.30**	**13,620,438.93**
Selling expenses	-3,300,883.16	-2,798,631.64	-6,299,830.75	-5,985,644.84
Research and development expenses	-246,849.25	-440.00	-364,319.87	-12,427.67
General administration costs	-1,479,430.57	-1,231,126.12	-2,852,993.81	-2,667,870.35
Other operating income	58,222.14	48,479.16	104,842.14	76,829.16
Other operating expenses	2,054.00	-629.00	-9,574.00	-847.00
Earnings before income and interest tax (EBIT)	**5,291,816.35**	**4,125,590.44**	**7,762,382.01**	**5,030,478.23**
Interest income	56,444.44	86,583.34	69,420.20	144,222.23
Interest expenses	-34,018.89	-28,118.69	-62,664.74	-55,856.69
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	-68,350.90	-44,376.90	-169,899.21	-76,974.29
Earnings before tax (EBT)	**5,245,891.00**	**4,139,678.19**	**7,599,238.26**	**5,041,869.48**
Income taxes	-1,674,096.20	-1,351,499.70	-2,443,155.94	-1,669,817.73
Group profit	**3,571,794.80**	**2,788,178.48**	**5,156,082.32**	**3,372,051.75**
Earnings per share (diluted / undiluted)	0.55	0.43	0.80	0.52
Average number of shares outstanding (diluted / undiluted), units	6,469,502	6,469,502	6,469,502	6,469,502

Consolidated statement of comprehensive income

(according to IFRS) for the period from 1 January 2018 to 30 June 2018

in euros	1 Apr – 30 Jun 2018	1 Apr – 30 Jun 2017	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Group profit	3,571,794.80	2,788,178.48	5,156,082.32	3,372,051.75
Items that will not be reclassified to profit and loss				
Revaluation of defined benefit pension plans	0.00	285,822.00	0.00	285,822.00
Income tax attributable to components of the other income / loss	0.00	-90,863.00	0.00	-90,863.00
	0.00	**194,959.00**	**0.00**	**194,959.00**
Items that may be reclassified subsequently to profit and loss				
Currency conversion differences (change not affecting income)	-1,456.11	2,172.76	-8,257.20	2,172.76
Other comprehensive income / loss	-1,456.11	197,131.76	-8,257.20	197,131.76
Consolidated comprehensive income / loss	**3,570,338.69**	**2,985,310.24**	**5,147,825.12**	**3,569,183.51**

Consolidated cash flow statement

(according to IFRS) for the period from 1 January 2018 to 30 June 2018

in euros	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Cash flow from operating activities		
Earnings before tax (EBT)	7,599,238.26	5,041,869.48
Depreciation and amortisation of tangible and intangible fixed assets	1,009,844.53	856,687.81
Change in provisions	-8,219,191.54	-5,432,632.55
Book losses on the sale of intangible assets and of property, plant and equipment	9,574.00	19.98
Interest result	-6,755.46	-88,365.54
Change in receivables, contract assets and other assets	4,516,506.65	-7,149,526.03
Change in liabilities, contract liabilities and deferred income	-20,279,434.01	-10,938,750.76
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	169,899.21	76,974.29
Tax paid	-5,093,379.47	-2,783,720.87
Cash from operating activities	**-20,293,697.83**	**-20,417,444.19**
Cash flow from investing activities		
Purchase of intangible assets and of property, plant and equipment	-2,766,806.70	-1,313,378.83
Proceeds from the sale of intangible assets and of property, plant and equipment	6,006.00	72,998.02
Purchase of financial assets	-33,586.31	-45,813.24
Disbursements for advances paid for non-current assets	0.00	-800,000.00
Disbursements for investments in long-term financial assets	0.00	-300,000.00
Cash from investing activities	**-2,794,387.01**	**-2,386,194.05**
Cash flow from financing activities		
Dividend payment	-7,763,402.40	-3,752,311.16
Interest received	44,731.30	116,666.67
Interest paid	-5,448.74	-380.69
Cash flow from financing activities	**-7,724,119.84**	**-3,636,025.18**
Effects of exchange rate changes on cash and cash equivalents	-1,134.01	2,275.22
Change in cash and cash equivalents	**-30,813,338.69**	**-26,437,388.20**
Cash and cash equivalents at the beginning of the period	62,922,886.67	50,213,287.76
Cash and cash equivalents at the end of the period	**32,109,547.98**	**23,775,899.56**

Consolidated statement of changes in equity

(according to IFRS) for the period from 1 January 2018 to 30 June 2018

			Other reserves						
in euros	Share capital	Capital reserves	Reserve for treasury shares	Currency conversion differences from the currency conversion of financial statements of foreign subsidiaries	Revaluation of defined benefit pension plans	Income taxes allocated to components of the other income / loss	Total Other reserves	Retained earnings	Total
Equity as at 31 Dec 2016 / 1 Jan 2017	6,500,000.00	21,922,005.80	-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
Group profit 1 Jan – 30 Jun 2017			0.00	0.00	0.00	0.00	0.00	3,372,051.75	3,372,051.75
Other comprehensive income / loss 1 Jan – 30 Jun 2017			0.00	2,172.76	285,822.00	-90,863.00	197,131.76	0.00	197,131.76
Consolidated comprehensive income 1 Jan – 30 Jun 2017			0.00	2,172.76	285,822.00	-90,863.00	197,131.76	3,372,051.75	3,569,183.51
Dividend payment			0.00	0.00	0.00	0.00	0.00	-3,752,311.16	-3,752,311.16
Equity as at 30 Jun 2017	6,500,000.00	21,922,005.80	-103,739.83	-4,624.35	-1,881,252.20	606,314.94	-1,383,301.44	19,718,746.46	46,757,450.82
Group profit 1 Jul – 31 Dec 2017			0.00	0.00	0.00	0.00	0.00	12,494,042.57	12,494,042.57
Other comprehensive income / loss 1 Jul – 31 Dec 2017			0.00	-866.06	-239,316.00	76,022.94	-164,159.12	0.00	-164,159.12
Consolidated comprehensive income 1 Jul – 31 Dec 2017			0.00	-866.06	-239,316.00	76,022.94	-164,159.12	12,494,042.57	12,329,883.45
Dividend payment				0.00	0.00	0.00	0.00	0.00	0.00
Equity as at 31 Dec 2017 / 1 Jan 2018	6,500,000.00	21,922,005.80	-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
Adjustment amount from first-time adoption of IFRS 9			0.00	0.00	0.00	0.00	0.00	-11,300.00	-11,300.00
Group profit 1 Jan – 30 Jun 2018			0.00	0.00	0.00	0.00	0.00	5,156,082.32	5,156,082.32
Other comprehensive income / loss 1 Jan – 30 Jun 2018			0.00	-8,257.20	0.00	0.00	-8,257.20	0.00	-8,257.20
Consolidated comprehensive income 1 Jan – 30 Jun 2018			0.00	-8,257.20	0.00	0.00	-8,257.20	5,156,082.32	5,147,825.12
Dividend payment			0.00	0.00	0.00	0.00	0.00	-7,763,402.40	-7,763,402.40
Equity as at 30 Jun 2018	6,500,000.00	21,922,005.80	-103,739.83	-13,747.61	-2,120,568.20	682,337.88	-1,555,717.76	29,594,168.95	56,460,456.99

Selected consolidated explanatory notes

The Consolidated Interim Financial Statements as at 30 June 2018 have been created in accordance with the specifications of the International Accounting Standard (IAS) 34 "Interim Financial Reporting", which governs interim financial statements in accordance with the International Financial Reporting Standards. This is an abbreviated Consolidated Interim Financial Statement, with the result that it does not include all the information that is required in accordance with the IFRS at the end of a financial year. The Consolidated Interim Financial Statements are therefore to be read in conjunction with the IFRS consolidated financial statements dated 31 December 2017 (Consolidated Financial Statements). The Consolidated Interim Financial Statements are unverified; however, they have been reviewed pursuant to Section 115 of the German Securities Trading Law (Wertpapierhandelsgesetz, WpHG). The Condensed Consolidated Interim Financial Statements and the Interim Group Management Report relating to the first half of 2018, which are components of the Half-Year Report, were approved by the Management Board of secunet Security Networks AG on 6 August 2018.

Accounting principles

The consolidation principles and the process for currency conversion correspond to those used for the Consolidated Annual Financial Statements for the 2017 financial year. The accounting and valuation methods were retained. The Consolidated Financial Statements of secunet Security Networks AG as at 31 December 2017 were produced on the basis of Sections 315 and 315e of the German Commercial Code (Handelsgesetzbuch, HGB) and in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union.

The figures shown in the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity correspond to the normal course of business of secunet Group and do not include any extraordinary items.

A tax rate of 31.91% applies to the calculation of income taxes for national companies. Calculation of tax payable on income for foreign companies is based on the relevant rates of tax for those countries.

The preparation of the Consolidated Interim Financial Statements requires a series of assumptions and estimates on the part of the management. As a result, it is possible that the figures reported in the Consolidated Interim Financial Statements will deviate from the actual future figures. The main assumptions and estimations are fundamentally unchanged compared to the Consolidated Financial Statements as at 31 December 2017.

Heubeck AG published the new RT 2018 G mortality tables on 20 July 2018. These have not yet been applied for determining pension provisions in these Consolidated Interim Financial Statements as at 30 June 2018. Any effect arising from switching to the new mortality tables would need to be recorded in the OCI. According to Heubeck, a moderate increase in pension provisions is expected overall from the switch.

New accounting rules

The IFRS 15 and IFRS 9 standards came into effect in the 2018 financial year, and have been applied within secunet Group for the first time. The effects on the Group's balance sheet and income statement are explained in the following paragraphs. The additional, amended standards and interpretations that came into effect on 1 January 2018 do not affect secunet Group.

IFRS 9

IFRS specifies the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments.

i. Classification and measurement of financial assets and financial liabilities

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

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets to absorb contractual cash flows, and the contractual terms of the financial asset result in cash flows at specified dates which exclusively represent repayments and interest payments on the outstanding capital amount. The option to measure at fair value with changes in value in profit or loss (FVTPL) is not exercised.

Financial assets are measured at fair value through other comprehensive income (FVOCI) with no effect on income if they are held within a business model whose objective is both to collect the contractual cash flows and to sell financial assets, and the contractual terms of the financial asset result in cash flows at specified dates which exclusively represent repayments and interest payments on the outstanding capital amount. The option to measure at fair value with changes in value in profit or loss (FVTPL) is not exercised.

All financial assets that are not measured at amortised cost or FVOCI under these regulations must be measured in accordance with FVTPL.

There are no changes from IAS 39 in the classification of financial liabilities for the Group. All financial liabilities are classified as measured at amortised cost.

The following table shows the changed classification and effect of the new IFRS 9 measurement for each group of financial assets as of 1 January 2018.

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

The Group has analysed the valuation allowances and defaults on trade receivables from the past ten years and has separated credit risks from other reasons for value adjustment. Based on secunet AG's business model, which mainly generates sales with domestic and foreign authorities and major companies, the risk classes were also divided into public authorities and the private sector. This has shown that the credit risk-related default risk is in the low per mille range. On this basis, the adjustment requirement was recorded as at 1 January 2018.

Cash and cash equivalents are deposited with banks or financial institutions rated A- to A-2 by S&P as at 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. Because of the insignificance of the determined value adjustment requirement, no recognition was applied.

ii. Impairment of 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 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.

iii. Transition
There were no material effects from the application of IFRS 9. An effect of 11.3 thousand euros was recognized in revenue reserves as at 1 January 2018, using the modified retrospective method. Comparative information for prior periods has not been adapted.

IFRS 15

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

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

i. Separate sale of hardware or licences
For the separate sale of hardware or licences, the breakdown into contractual obligations is unnecessary, since each respective sale represents an individual contractual obligation. With regard to the sale of hardware, revenue is recognised in line with IFRS 15 at the time at which the customer takes control of the asset. In the case of licence transfers, IFRS 15 necessitates an assessment as to whether the customer receives access or a right of use as a result. This shall determine whether 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. However, these cases are the exception in the Group: no licensing of this type has taken place in the transitional period.

ii. Sale of product bundles
The sale of product bundles is 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 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 revenue recognition, as out-lined above.

For the services included in the product bundles (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 formed a service bundle in combination with another contractual obligation from the product bundle.

However, corresponding considerations were applied under IAS 18. According to that, the sale of product bundles (when goods are delivered with additional services) to a consumer, in the context of a contract, was handled in accordance with the rules set out in IAS 18.13 Transactions involving multiple components. The realisation criteria for each component were assessed separately as part of this process.

As a result, the transition to IFRS 15 does not result in any changes in the assessment of whether components need be recognized as sales on the relevant date or over a period.

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

Service contracts

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 service 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, but a legal claim to payment for the service already provided. 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 work contracts, the revenue must be recognised in relation to the completion status (IFRS 15.39). To date, these contracts were handled on the basis of IAS 18.21, which also requires that revenue be recognised depending on the completion status.

In the case of license sales with extensive customizing, revenues may be recognized differently between IAS 18 and IFRS 15, depending on the form of contract. IFRS 15 requires the identification of the contractual obligation in these cases. secunet assumes that from the customer's perspective, the software adapted to the customer systems and customer requirements is the performance expectation. In this respect, this is a case of a bundle of services. In these instances, IFRS 15.39 also provides for revenue to be recognized according to the stage of completion. The transition from IAS 18 to IFRS 15 did not result in any significant changes in revenue recognition for the customer project in this category as at 31 December 2017, due to the details of the form of contract. As at 1 January 2018 an adjustment was not necessary.

Transition

As, in accordance with the modified retrospective method, none of the categories of revenue generated as a result of the transition from IAS 18 to IFRS 15 resulted in changes in the assessment of whether revenue was to be recognized on the relevant date or over a period, it was not necessary to recognize an adjustment amount as at 1 January 2018.

There were also no new projects with extensive customizing in the first half of 2018, and no license sales over fixed terms. It is therefore not necessary to compare revenue recognition in accordance with IFRS 15 and IAS 18.

Consolidated Group

In addition to secunet Security Networks AG, the Consolidated Financial Statements include all associate companies that are controlled by secunet Security Networks AG. Control is considered to exist if secunet has the authority to dispose of the associate company, has a right to variable returns from the participation and has the opportunity to use the authority to dispose of the associate company in a way that can influence the variable returns. In the reporting period and in the same period of the previous year, there were no non-controlling interests (minority interests) in equity or in Group profit or loss for the period.

Compared to 31 December 2017, the consolidated Group as at 30 June 2018 is unchanged and consists of secunet Security Networks AG, secunet Service GmbH, secunet International Management GmbH, secunet International GmbH & Co. KG, (all in Essen), secunet SwissIT AG, Solothurn, Switzerland, and secunet s.r.o., Prague, Czech Republic. The two consolidated subsidiaries secunet s.r.o., Prague, Czech Republic, and secunet SwissIT AG, Solothurn, Switzerland, are in liquidation.

Since the 2015 financial year, secunet Security Networks AG has held shares in finally safe GmbH, Essen. The share capital holding was 36.68% as of the reporting date, 30 June 2018 (previous year: 18%). Due to the significant influence on the company, finally safe GmbH is an associated company as a result of the participation, which means that the shares are reported and valuated using the equity method.

Treasury shares

As at 30 June 2018, the Company held 30,498 treasury shares, the same figure as at 31 December 2017; this equates to 0.5% of its share capital.

Recording of actuarial gains and loss in equity ("other income") from the re-evaluation of performance-related pension plans.

As of 30 June 2018, no re-evaluation of the defined benefit pension plans was necessary. The actuarial interest rate is unchanged from 31 December 2017 at 1.9%.

In the first half of the 2017 financial year, a total of 0.3 million euros – which had increased the equity – was recognised in other comprehensive income of secunet Group, without affecting the operating result. On the other hand, deferred taxes of 0.1 million euros had an offsetting effect in equity in this respect.

Capitalised development costs

In February 2018, the development project for the secunet konnektor, for integration into the electronic health card telematics infrastructure, fulfilled the criteria requiring capitalisation under IAS 38. Since this date, development costs of 1.5 million euros have been capitalised as intangible assets.

Paid dividends

The distribution of dividends from secunet Security Networks AG is aligned with the company's Annual Financial Statements under commercial law. Pursuant to the resolution of the Annual General Meeting of 9 May 2018, one dividend of 1.20 euros for each share was paid out from the reported accumulated profits for the 2017 financial year, making a total of 7,763,402.40 euros.

Segment reporting

secunet Group is split into two parts: the Public Sector business unit and the Business Sector business unit. Both business units are shown separately for the purposes of segment reporting, as they meet at least one of the quantitative thresholds defined in IFRS 8.13.

One aspect of what the Public Sector business unit offers its customers is the SINA product family, i. e. solutions (software, hardware and management) for highly secure, cryptographic processing, transmission and storage at varying levels of confidentiality. On the other hand, it offers public customers a wide range of IT security products and services, from IT security consulting and training to products for electronic passports, automated (biometric) border controls, ELSTER electronic tax declaration and the equipment of large infrastructures with high security technology and public key infrastructures.

The Business Sector business unit offers (consulting) services and solutions for the specific requirements of private sector companies. The consulting services range from security assessments (known as penetration tests) via security consulting, such as 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.

Segment Report H1 2018

in thousand euros	Public Sector	Business Sector	secunet H1 2018
Segment revenue	55,492	7,669	63,161
Cost of sales	-40,392	-5,585	-45,977
Selling expenses	-5,197	-1,103	-6,300
Research and development expenses	-167	-197	-364
Administrative costs	-2,449	-308	-2,757
Segment result (EBIT)	7,287	476	7,763
Interest result			6
Income from investments			-170
Group profit before tax			7,599
Goodwill	3,325	282	3,607

Segment Report H1 2017

in thousand euros	Public Sector	Business Sector	secunet H1 2017
Segment revenue	47,231	7,530	54,761
Selling expenses	-34,833	-6,307	-41,140
Distribution expenses	-4,816	-1,170	-5,986
Research and development expenses	-12	0	-12
Administrative costs	-2,206	-386	-2,592
Segment result (EBIT)	5,364	-333	5,031
Interest result			88
Income from investments			-77
Group profit before tax			5,042
Goodwill	2,745	282	3,027

The accounting principles for the segments are identical to those used for the Consolidated Interim Financial Statements. Using apportionments, expenses (e. g. overhead costs) that are not directly allocable to the reportable segments are allocated to the reportable segments. An allocation table is used for the majority of cost items. 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 reporting date.

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

Revenue

secunet Group generates all of its revenue in the context of contracts with customers.

The following overview breaks down revenue according to geographical characteristics, main revenue streams, and revenue recognition.

	Public Sector		Business Sector		Group	
in thousand euros	2018	2017	2018	2017	2018	2017
Geographical assignment						
Domestic	48,618.8	39,993.7	7,518.0	7,362.6	56,136.8	47,356.3
Abroad	6,873.0	7,236.4	151.2	167.8	7,024.2	7,404.2
Total	**55,491.8**	**47,230.1**	**7,669.2**	**7,530.4**	**63,161.0**	**54,760.5**
Revenue generated						
Consultancy business	11,452.5	11,434.1	5,716.1	5,587.5	17,168.6	17,021.6
Product business	44,039.3	35,796.0	1,953.1	1,942.9	45,992.4	37,738.9
Total	**55,491.8**	**47,230.1**	**7,669.2**	**7,530.4**	**63,161.0**	**54,760.5**
Revenue recognition						
over a period	16,622.4	15,618.7	6,820.3	6,390.3	23,442.7	22,009.0
on the relevant date	38,869.4	31,611.4	848.9	1,140.1	39,718.3	32,751.5
Total	**55,491.8**	**47,230.1**	**7,669.2**	**7,530.4**	**63,161.0**	**54,760.5**

Additional notes on financial instruments

The carrying values and fair values of the reported financial instruments are as follows:

30 Jun 2018	Carrying amounts				Fair value			
in euros	Mandatory at FVTPL	At amortised cost	Other financial liabilities	Total of carrying amount	Level 1	Level 2	Level 3	Total of fair value
Financial assets measured at fair value								
Non-current financial assets	5,680,079.31	–	–	5,680,079.31	–	5,680,079.31	–	5,680,079.31
Financial assets that are not measured at fair value								
Cash and cash equivalents	–	32,109,547.98	–	32,109,547.98	–	–	–	0.00
Trade receivables	–	21,579,529.29	–	21,579,529.29	–	–	–	0.00
Intercompany financial assets	–	485,487.42	–	485,487.42	–	–	–	0.00
Other current assets	–	1,041,180.89	–	1,041,180.89	–	–	–	0.00
Loans	–	660,465.67	–	660,465.67	–	–	–	0.00
	0.00	55,876,211.25	0.00	55,876,211.25	0.00	0.00	0.00	0.00
Financial liabilities that are not measured at fair value								
Trade accounts payables	–	–	9,895,632.34	9,895,632.34	–	–	–	0.00
Intercompany payables	–	–	124,896.95	124,896.95	–	–	–	0.00
Other current liabilities	–	–	1,544,321.28	1,544,321.28	–	–	–	0.00
	0.00	0.00	11,564,850.57	11,564,850.57	0.00	0.00	0.00	0.00

31 Dec 2017[1]	Carrying amounts				Fair value			
in euros	Designated at FVTPL	Loans and receivables	Other financial liabilities	Total of carrying amount	Level 1	Level 2	Level 3	Total of fair value
Financial assets measured at fair value								
Non-current financial assets	5,646,493.00	–	–	5,646,493.00	–	5,646,493.00	–	5,646,493.00
Financial assets that are not measured at fair value								
Cash and cash equivalents	–	62,922,886.67	–	62,922,886.67	–	–	–	0.00
Trade receivables[2]	–	38,539,890.62	–	38,539,890.62	–	–	–	0.00
Intercompany financial assets	–	85,481.04	–	85,481.04	–	–	–	0.00
Other current assets	–	1,164,076.06	–	1,164,076.06	–	–	–	0.00
Loans	–	1,307,444.44	–	1,307,444.44	–	–	–	0.00
	0.00	104,019,778.83	0.00	104,019,778.83	0.00	0.00	0.00	0.00
Financial liabilities that are not measured at fair value								
Trade accounts payables	–	–	26,629,285.89	26,629,285.89	–	–	–	0.00
Intercompany payables	–	–	463,669.89	463,669.89	–	–	–	0.00
Other current liabilities	–	–	6,292,019.10	6,292,019.10	–	–	–	0.00
	0.00	0.00	33,384,974.88	33,384,974.88	0.00	0.00	0.00	0.00

1 The Group applied IFRS 15 and IRFS 9 for the first time as of 1 January 2018. Due to the transition methods applied, the comparative figures have not been restated.
2 Consultancy orders with an outstanding balance due from customers in the amount of 2.4 million euros have not been included.

Related party disclosures

The consolidated companies within secunet Group have an association with their main shareholder, Giesecke & Devrient GmbH, Munich and its affiliated companies, in the course of their normal business activities. In addition, the main shareholder is granted short-term loans. All transactions are conducted in accordance with normal market practice.

Mr Axel Deininger was appointed to the Management Board of secunet Security Networks AG effective January 1, 2018. Pensions entitlements of 366 thousand euros have been assumed by his previous employer, G+D Mobile Security GmbH, Munich. A settlement for the same amount will be paid by G+D Mobile Security GmbH.

In the first six months of the 2018 financial year, no Management Board members were promised or granted any benefits by a third party in respect of their activity as members of the Management Board. In the first six months of the 2018 financial year, the members of the Supervisory Board did not receive any other remuneration or benefits for services provided personally over and above the Supervisory Board remuneration as regulated in the Articles of Association of secunet Security Networks AG, in particular consulting and agency services. Neither the members of the Management Board nor the members of the Supervisory Board received any loans from the Company.

Events after the end of the interim reporting period

There were no significant events after the balance sheet date.

Essen, 6 August 2018

Dr Rainer Baumgart   Axel Deininger   Thomas Pleines

Review Report

To secunet Security Networks Aktiengesellschaft, Essen:

We have reviewed the Consolidated Interim Financial Statements, comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and selected explanatory notes, together with the Interim Group Management Report of secunet Security Networks AG, Essen, for the period from 1 January to 30 June 2018, which are the components of the Half-Year Report pursuant to Section 115 of the German Securities Trading Law (WpHG). The company's legal representatives are responsible for the preparation of the Condensed Consolidated Interim Financial Statements in accordance with the International Accounting Standard IAS 34 "Interim Financial Reporting", as applicable in the EU, and of the Interim Group Management Report in accordance with the provisions of the German Securities Trading Law (WpHG) applicable to interim group management reports. Our responsibility is to issue a review report on the Condensed Consolidated Interim Financial Statements and on the Interim Group Management Report based on our review.

We conducted our review of the Condensed Consolidated Interim Financial Statements and the Interim Group Management Report in accordance with the generally accepted standards for the review of financial statements in Germany promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the review to obtain some degree of certainty, through critical evaluation, that the Condensed Consolidated Interim Financial Statements have been prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as applicable in the EU, and that the Interim Group Management Report has been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Law (WpHG) applicable to interim group management reports. A review is limited primarily to making enquiries of company personnel and analytical procedures and thus provides less assurance than an audit. Since, in accordance with the terms of our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

On the basis of our review, no matters have come to our attention that cause us to presume that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as applicable in the EU, nor that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Law (WpHG) applicable to interim group management reports.

Düsseldorf, 6 August 2018

KPMG AG
Audit Firm

Bornhofen Auditor	Dr Sommerhoff Auditor

Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable accounting principles for interim financial reporting, the Consolidated Interim Financial Statements give a true and fair view of the assets, liabilities, financial position and results of operations of the Group, and the Interim Group Management Report includes a 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 for the rest of the financial year.”

Essen, 6 August 2018

Dr Rainer Baumgart Axel Deininger Thomas Pleines

Financial calendar 2018

7 August
Half-Year Report 2018

9 November
Consolidated Quarterly Report as of 30 September 2018

Imprint

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This Half-Year Report is also available in German. In the event of conflicts, the German-language-version shall prevail.