secunet

Half-Year Report 2019

- Sales up by 60% on the first half of 2018
- EBIT increases by 4.0 million euros, or 51%, year-on-year
- Order book remains considerably higher than previous year's value
- The forecast for the year as a whole remains unchanged (as at publication May 2019)

Overview of the key figures for the first half-year

in thousand euros	H1 2019	H1 2018	Change in %
Sales	101,033	63,161	+60
EBIT	11,751	7,762	+51
EBT	11,643	7,599	+53
Group profit for the period	7,728	5,156	+50
Earnings per share (in euros)	1.22	0.80	+53
Cash flow from operating activities	-18,541	-20,294	–/–
Investments	2,640	2,767	-5
Order book (IFRS, in million euros, as at 30 June)	81.0	68.1	+19
Employees as at 30 June	624	553	+13

in thousand euros	30 Jun 2019	31 Dec 2018	Change in %
Cash and cash equivalents	20,462	56,084	-64
Equity (including non-controlling interests)	64,053	69,516	-8
Equity ratio (in %)	43.1	47.9	-4.8 percentage points
Loans	0	0	–/–

Overview of the key figures for the second quarter

in thousand euros	Q2 2019	Q2 2018	Change in %
Sales	60,593	35,971	+68
EBIT	9,381	5,292	+77
EBT	9,280	5,246	+77
Group profit for the period	6,154	3,572	+72
Earnings per share (in euros)	0.97	0.55	+75

The secunet share

Reuters ticker symbol	YSNG.DE
Bloomberg ticker symbol	YSN
WKN (German security identification number)	727650
ISIN	DE0007276503

	28 Jun 2019	29 Jun 2018
Share price (in euros)	114.50	124.40
Number of shares	6,500,000	6,500,000
Market capitalisation (in euros)	744,250,000	808,600,000
52W high / low (in euros)	H: 130.90 / L: 79.70	H: 132.00 / L: 77.80

	H1 2019	H1 2018
Average daily trading volume (Xetra)	1,527	1,771

Interim Group Management Report for the first half-year 2019

Sales revenue performance

In the first half-year 2019, secunet Group generated sales revenue of 101.0 million euros. Compared to the same period of the previous year (63.2 million euros), this represents an increase of 60% or 37.8 million euros. The growth in sales results primarily from the increased product business (trade goods, licences, maintenance and support). The significantly positive change on the previous year is mainly attributable to the revenues in conjunction with the secunet healthcare konnektor which was approved in December 2018.

For the same reasons, sales in the second quarter of 2019 amounted to 60.6 million euros, a significant increase of 24.6 million euros, or 68%, on sales in the prior-year quarter (36.0 million euros).

Earnings performance

The earnings before interest and taxes (EBIT) of secunet Group improved by 4.0 million euros, or 51%, compared to the first half-year 2018, rising from 7.8 million euros to 11.8 million euros.

The improvement in EBIT is primarily attributable to business in conjunction with the secunet healthcare konnektor.

The individual expenditure items showed the following developments:

The cost of sales rose by 32.2 million euros, or 70%, in the first six months of 2019, from 46.0 million euros in the same period of the previous year to 78.2 million euros. The primary reason for this is growth in the hardware business, as a result of which materials expenses for the use of trade goods have increased.

In the course of expanded sales activities, selling expenses rose by 15%, or 0.9 million euros, from 6.3 million euros in the previous year to 7.2 million euros.

In order to cope with the increasing and more complex tasks arising from Company growth, the workforce has also grown in the administrative areas. Accordingly, the general administration costs of 3.4 million euros in the first half of 2019 were up by 0.5 million euros, or 19%, on the previous year's value (2,9 million euros).

The financial result for the first half of 2019 was -108 thousand euros compared with 7 thousand euros the previous year. Earnings before tax totalled 11.6 million euros, compared with 7.6 million euros in the previous year.

Due to improved earnings, tax expenses increased from 2.4 million euros in the previous year to 3.9 million euros in the first half of 2019. The tax ratio of 33% is the same as that of the previous year.

After taxes, the Group profit for the period from January to June 2019 amounted to 7.7 million euros, compared with 5.2 million euros in the previous year. Earnings per share were 0.80 euros in the first half of 2018 and 1.22 euros in the first half of the current year.

Development of the segments

secunet Group is divided into the Public Sector and Business Sector business units.

The Public Sector business unit is geared towards public utility providers. Due to the strong growth in the healthcare market (secunet healthcare konnektor), which is allocated to the Business Sector, the Public Sector business unit accounted for 57% of Group sales in the first half-year 2019, compared with 88% in the previous year.

The Public Sector business unit offers its customers the SINA product family, i. e. solutions (software, hardware and management) for highly secure, cryptographic processing, transmission and storage of classified information with varying levels of confidentiality. The Public Sector business unit also offers products for electronic passports, automated (biometric) border controls and the ELSTER electronic tax declaration. Furthermore, the portfolio includes a wide range of IT security products and services for public customers, ranging from IT security consulting and training to the equipment of large infrastructures with high-security technology and public key infrastructures.

Sales in the Public Sector business unit increased by 4%, or 2.3 million euros, year-on-year, from 55.5 million euros in the first half of 2018 to 57.8 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. Service sales remained at an unchanged high level.

Expenses in the Public Sector business unit changed as follows: costs of sales increased by 8% from 40.4 million euros to 43.4 million euros. At 5.1 million euros in the first half of 2019, selling expenses are at the same level as in the previous year (5.2 million euros). General administration costs were 2.0 million euros in the first half of 2019, compared with 2.5 million euros in the same period of 2018, a year-on-year decrease of 16%. Overall, expenses increased by 6%. With EBIT of 6.7 million euros in the first half of 2019, the Public Sector business unit was unable to match the previous year's result (7.3 million euros).

The Business Sector business unit offers IT security consulting and solutions for the healthcare market, the automotive industry and for providers in the field of critical infrastructures (including utilities). The healthcare market segment has made a very successful start: as a result of sales revenue in conjunction with the secunet healthcare konnektor, revenue in the Business Sector business unit in the first half-year 2019 rose sharply by 35.6 million euros to 43.3 million euros compared with the previous year's level (7.7 million euros). The business unit's share in the Group's sales revenue thus also increased significantly to 43% (previous year: 12%). Since shipment of the healthcare konnektors took place as planned in the first half of 2019, the bulk of business with the healthcare konnektor was also focused on this period. The high konnektor revenue can therefore be regarded as a one-off effect: no further significant deliveries of healthcare konnektors are expected from the second half of 2019 onwards. Further contributions to revenue will arise mainly from maintenance contracts.

Total expenses in the Business Sector business unit amounted to 38.2 million euros in the first half of 2019, compared with 7.2 million euros in the same period of the previous year. Expenses rose less strongly than sales, with the result that the business unit generated EBIT of 5.0 million euros in the first six months of 2019, compared with 0.5 million euros in the prior-year period. The improvement in EBIT is mainly attributable to business in conjunction with the secunet healthcare konnektor.

Assets and financial position

The following items on the balance sheet show a significant change as at 30 June 2019 compared with the figures as at 31 December 2018:

- Due to business with the healthcare konnektor, contract assets increased from 2.6 million euros as at 31 December 2018 to 19.0 million euros as at 30 June 2019.
- To ensure delivery capability, inventories increased by a further 15%, or 2.9 million euros, from 19.3 million euros as at 31 December 2018 to 22.2 million euros.
- On account of the new provisions of IFRS 16, vehicle leasing contracts and building rental agreements have now been recognised in the balance sheet, for the first time, since January 2019. The first-time application in the months January to June 2019 resulted in the initial recognition of right-of-use assets amounting to 18.0 million euros as at 30 June 2019. This is offset by leasing liabilities of almost the same amount.
- As compared with 31 December 2018, trade payables decreased as at the reporting date due to the settlement of supplier invoices. Trade payables totalled 17.5 million euros as at 30 June 2019, compared with 22.8 million euros at year-end 2018.
- Other current provisions declined from 12.6 million euros at the end of 2018 to 7.8 million euros as at 30 June 2019. This is mainly due to payment of the variable remuneration components for 2018 in the first quarter of 2019.
- The income tax liabilities of 6.7 million euros as at the reporting date 31 December 2018 were largely paid. As a result, tax liabilities decreased to 1.5 million euros as at the reporting date 30 June 2019.
- Due to advance payments on service contracts, contract liabilities increased from 19.6 million euros as at 31 December 2018 to 25.5 million euros.
- Cash and cash equivalents decreased by 35.6 million euros from 56.1 million euros as at 31 December 2018 to 20.5 million euros as at 30 June 2019 on account of dividends, employee bonuses and tax payments.

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

Cash flow

As a result of the increased earnings before taxes, cash flow from operating activities after the first six months of the 2019 financial year improved to -18.5 million euros compared with -20.3 million euros in the same period of the previous year. Significant cash outflows resulted from the utilisation of provisions for variable remuneration and increased tax payments.

At -2.6 million euros in the first half-year 2019, cash flow from investment activity was roughly on a par with the prior-year period (-2.8 million euros).

In the first half of 2019, a dividend of around 13.2 million euros (previous year: 7.8 million euros) was paid to the shareholders from the 2018 balance sheet profit of secunet Security Networks AG. This was the main reason for the higher cash outflow of 14.4 million euros from financing activities in the first half of 2019, following 7.7 million euros in the previous year.

Overall, after the first six months of the 2019 financial year, there was an outflow of cash and cash equivalents of 35.6 million euros. Cash holdings thus amounted to 20.5 million euros as at 30 June 2019.

Investments

In the first six months of the current year 2019, secunet invested 2.6 million euros in intangible assets and tangible fixed assets compared with 2.8 million euros in the prior-year period.

In the previous year's period, 1.5 million euros was invested in the development of new products. In the first half-year 2019, 0.5 million euros was invested in developments.

At the same time, investments in the new procurement and replacement of hardware, software and other operating and office equipment rose from around 1.3 million euros in the previous year to around 2.1 million euros due to the growing number of employees and the upgrading of the IT systems used.

Employees

As at 30 June 2019, secunet Group employed 624 people (previous year: 553). This is 71 persons or 13% more than on the same reporting date in the previous year.

Order book

As at 30 June 2019, secunet Group's order book in accordance with IFRS amounted to 81.0 million euros, after 68.1 million euros as at the previous year's reporting date.

Outlook, risks and opportunities

The business development of secunet Group in the first six months of the current financial year was good.

At the time of preparation of the 2018 consolidated financial statements in March 2019, the Company's Management Board still expected a slight increase in sales revenue for the 2019 financial year compared with the 2018 financial year. Due to rising costs, the Management Board also anticipated an EBIT margin slightly below the previous year's level and thus also EBIT slightly below that of the previous year. Against the backdrop of the significant increase in sales revenues in the first quarter of 2019 and the positive outlook for the financial year as a whole, the Management Board published an improved outlook for 2019 for secunet Group in its release (Insider Information) of 2 May 2019. The forecast since then is for sales revenues to reach around 190 million euros and earnings before interest and taxes (EBIT) around 30 million euros (2018 financial year: sales revenues 163.3 million euros, EBIT 26.9 million euros).

Based on the positive business development so far in the current financial year and an optimistic outlook for the second half of the year, also supported by the consistently well-filled order book, the Management Board confirms its forecast.

The Management Board's fundamental assessment of the opportunities and risks for secunet Group has not changed significantly since the 2018 consolidated financial statements were prepared.

There are no risks that could jeopardize the continued existence of the Company, nor are such risks currently discernible for the future.

Forward-looking statements

This Interim Group Management Report contains statements regarding the future performance of secunet Group, as well as 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 2019

Axel Deininger	Torsten Henn
Dr Kai Martius	Thomas Pleines

Condensed Consolidated Interim Financial Statements

of secunet Security Networks Aktiengesellschaft for the period from 1 January to 30 June 2019

Consolidated balance sheet

(according to IFRS) as at 30 June 2019

Assets

in euros	30 Jun 2019	31 Dec 2018[1]
Current assets		
Cash and cash equivalents	20,462,286.31	56,084,381.70
Trade receivables	35,957,981.34	41,776,937.04
Intercompany financial assets	40,947.90	452,438.07
Contract assets	18,986,162.00	2,648,354.51
Inventories	22,230,065.27	19,348,793.59
Other current assets	1,454,089.26	1,132,135.08
Total current assets	**99,131,532.08**	**121,443,039.99**
Non-current assets		
Property, plant and equipment	5,142,576.00	4,555,737.00
Right-of-use assets	18,002,145.74	–
Intangible assets	6,913,415.72	5,990,220.00
Goodwill	4,625,031.00	4,625,031.00
Non-current financial assets	5,861,596.22	5,860,888.00
Trade receivables	5,514,843.18	0.00
Deferred taxes	2,042,383.55	1,592,036.82
Other non-current assets	1,537,561.43	1,142,447.60
Total non-current assets	**49,639,552.84**	**23,766,360.42**
Total assets	**148,771,084.92**	**145,209,400.41**

[1] The Group adopted IFRS 16 for the first time as at 1 January 2019. Due to the transitional provision applied, the comparative figures have not been restated.

Liabilities

in euros	30 Jun 2019	31 Dec 2018[1]
Current liabilities		
Trade accounts payable	17,535,920.21	22,797,180.71
Intercompany payables	63,291.95	283,951.48
Lease liabilities	2,700,159.60	–
Other provisions	7,831,797.54	12,577,879.75
Income tax liabilities	1,531,877.09	6,695,131.05
Other current liabilities	4,060,862.88	4,739,511.25
Contract liabilities	9,730,112.45	8,682,677.88
Total current liabilities	**43,454,021.72**	**55,776,332.12**
Non-current liabilities		
Lease liabilities	15,451,508.06	–
Deferred taxes	1,860,295.44	1,886,488.94
Provisions for pensions	7,825,718.27	6,781,816.00
Other provisions	321,152.00	321,152.00
Contract liabilities	15,805,117.83	10,927,251.63
Total non-current liabilities	**41,263,791.60**	**19,916,708.57**
Equity		
Share capital	6,500,000.00	6,500,000.00
Capital reserves	21,922,005.80	21,922,005.80
Other reserves	-1,980,450.71	-1,627,934.01
Revenue reserves	36,723,625.48	42,363,484.81
Equity attributable to parent company shareholders	**63,165,180.57**	**69,157,556.60**
Non-controlling interests	**888,091.03**	**358,803.12**
Total equity	**64,053,271.60**	**69,516,359.72**
Total liabilities	**148,771,084.92**	**145,209,400.41**

[1] The Group adopted IFRS 16 for the first time as at 1 January 2019. Due to the transitional provision applied, the comparative figures have not been restated.

Consolidated income statement

(according to IFRS) for the period from 1 January 2019 to 30 June 2019

in euros	1 Apr – 30 Jun 2019	1 Apr – 30 Jun 2018	1 Jan – 30 Jun 2019	1 Jan – 30 Jun 2018
Sales revenue	60,592,812.44	35,970,854.27	101,032,671.88	63,161,164.35
Cost of sales	-44,915,385.44	-25,712,151.08	-78,194,447.13	-45,976,906.05
Gross profit on sales	**15,677,427.00**	**10,258,703.19**	**22,838,224.75**	**17,184,258.30**
Selling expenses	-4,055,065.63	-3,300,883.16	-7,242,782.76	-6,299,830.75
Research and development expenses	-342,959.32	-246,849.25	-407,782.92	-364,319.87
General administrative costs	-1,866,520.74	-1,479,430.57	-3,405,183.48	-2,852,993.81
Other operating income	122.24	58,222.14	122.24	104,842.14
Other operating expenses	-31,671.52	2,054.00	-31,591.52	-9,574.00
Earnings before interest and tax (EBIT)	**9,381,332.03**	**5,291,816.35**	**11,751,006.31**	**7,762,382.01**
Interest income	21,272.05	56,444.44	69,015.11	69,420.20
Interest expenses	-122,871.74	-34,018.89	-176,630.15	-62,664.74
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	0.00	-68,350.90	0.00	-169,899.21
Earnings before tax (EBT)	**9,279,732.34**	**5,245,891.00**	**11,643,391.27**	**7,599,238.26**
Income taxes	-3,125,468.40	-1,674,096.20	-3,915,438.99	-2,443,155.94
Group profit for the period	**6,154,263.94**	**3,571,794.80**	**7,727,952.28**	**5,156,082.32**
of which attributable to shareholders of secunet AG	6,249,104.49	3,571,794.80	7,916,338.91	5,156,082.32
of which attributable to non-controlling interests	-94,840.55	0.00	-188,386.63	0.00
Earnings per share (diluted / undiluted)	0.97	0.55	1.22	0.80
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 2019 to 30 June 2019

in euros	1 Apr – 30 Jun 2019	1 Apr – 30 Jun 2018	1 Jan – 30 Jun 2019	1 Jan – 30 Jun 20188
Group profit for the period	6,154,263.94	3,571,794.80	7,727,952.28	5,156,082.32
Items that cannot be transferred to the income statement				
Actuarial gains and losses from defined benefit plans	-920,000.00	0.00	-920,000.00	0.00
Income tax on accumulated other comprehensive income	293,756.00	0.00	293,756.00	0.00
	-626,244.00	**0.00**	**-626,244.00**	**0.00**
Items that may be transferred to the income statement				
Currency conversion differences (change not affecting income)	273,727.30	-1,456.11	273,727.30	-8,257.20
Other comprehensive income / loss	**-352,516.70**	**-1,456.11**	**-352,516.70**	**-8,257.20**
Consolidated comprehensive income / loss	**5,801,747.24**	**3,570,338.69**	**7,375,435.58**	**5,147,825.12**
of which attributable to shareholders of secunet AG	5,896,587.79	3,570,338.69	7,563,822.21	5,147,825.12
of which attributable to not-controlling interests	-94,840.55	0.00	-188,386.63	0.00

Consolidated cash flow statement

(according to IFRS) for the period from 1 January 2019 to 30 June 2019

in euros	1 Jan – 30 Jun 2019	1 Jan – 30 Jun 2018
Cash flow from operating activities		
Earnings before tax (EBT)	11,643,391.27	7,599,238.26
Depreciation and amortisation of tangible and intangible fixed assets	3,062,975.26	1,009,844.53
Change in provisions	-4,684,597.94	-8,219,191.54
Book gains/losses (net) on the sale of intangible assets and of property, plant and equipment	213.76	9,574.00
Interest result	107,615.04	-6,755.46
Change in receivables, contract assets, inventories and other assets	-19,219,631.75	4,516,506.65
Change in liabilities, contract liabilities and deferred income	-234,354.89	-20,279,434.01
Profit and loss portions of affiliated companies that are entered in the balance sheet in accordance with the equity method	0.00	169,899.21
Tax paid	-9,216,489.50	-5,093,379.47
Cash from operating activities	**-18,540,878.75**	**-20,293,697.83**
Cash flow from investing activities		
Purchase of intangible assets and of property, plant and equipment	-2,639,421.33	-2,766,806.70
Proceeds from the sale of intangible assets and of property, plant and equipment	2,843.46	6,006.00
Purchase of financial assets	-708.22	-33,586.31
Cash outflow from investing activities	**-2,637,286.09**	**-2,794,387.01**
Cash flow from financing activities		
Dividend payment	-13,197,784.08	-7,763,402.40
Repayment portion of lease payments [1]	-1,199,123.95	0.00
Interest received	69,015.11	44,731.30
Interest paid	-114,212.15	-5,448.74
Cash outflow from financing activities	**-14,442,105.07**	**-7,724,119.84**
Effects of exchange rate changes on cash and cash equivalents	-1,825.48	-1,134.01
Change in cash and cash equivalents	**-35,622,095.39**	**-30,813,338.69**
Cash and cash equivalents at the beginning of the period	56,084,381.70	62,922,886.67
Cash and cash equivalents at the end of the period	**20,462,286.31**	**32,109,547.98**

[1] The Group adopted IFRS 16 for the first time as at 1 January 2019. Due to the transitional provision applied, the comparative figures have not been restated.

Consolidated statement of changes in equity

(according to IFRS) for the period from 1 January 2019 to 30 June 2019

			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 tax attributable to components of the other income / loss	Total other reserves	
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	
Adjustment amount due to first-time adoption of IFRS 9			0.00	0.00	0.00	0.00	0.00	
Group profit 1 Jan – 30 Jun 2018			0.00	0.00	0.00	0.00	0.00	
Other comprehensive income / loss 1 Jan – 30 Jun 2018			0.00	-8,257.20	0.00	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	
Dividend payment								
Equity as at 30 Jun 2018 / 1 Jul 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	
Change in the consolidated Group			0.00	0.00	0.00	0.00	0.00	
Group profit 1 Jul – 31 Dec 2018			0.00	0.00	0.00	0.00	0.00	
Other comprehensive income / loss 1 Jul – 31 Dec 2018			0.00	0.00	-106,060.00	33,843.75	-72,216.25	
Consolidated comprehensive income 1 Jul – 31 Dec 2018			0.00	0.00	-106,060.00	33,843.75	-72,216.25	
Equity as at 31 Dec 2018 / 1 Jan 2019	6,500,000.00	21,922,005.80	-103,739.83	-13,747.61	-2,226,628.20	716,181.63	-1,627,934.01	
Change in the consolidated Group			0.00	0.00	0.00	0.00	0.00	
Group profit 1 Jan – 30 Jun 2019			0.00	0.00	0.00	0.00	0.00	
Other comprehensive income / loss – Change in the consolidated Group			0.00	273,727.30	0.00	0.00	273,727.30	
Other comprehensive income / loss 1 Jan – 30 Jun 2019			0.00	0.00	-920,000.00	293,756.00	-626,244.00	
Other comprehensive income / loss 1 Jan – 30 Jun 2019			0.00	273,727.30	-920,000.00	293,756.00	-352,516.70	
Consolidated comprehensive income 1 Jan – 30 Jun 2019			0.00	273,727.30	-920,000.00	293,756.00	-352,516.70	
Dividend payment						0.00	0.00	
Equity as at 30 Jun 2019	6,500,000.00	21,922,005.80	-103,739.83	259,979.69	-3,146,628.20	1,009,937.63	-1,980,450.71	

Revenue reserves	Equity attributable to shareholders of secunet AG	Non-controlling interests	Total
32,212,789.03	59,087,334.27	0.00	59,087,334.27
-11,300.00	-11,300.00	0.00	-11,300.00
5,156,082.32	5,156,082.32	0.00	5,156,082.32
0.00	-8,257.20	0.00	-8,257.20
5,144,782.32	5,136,525.12	0.00	5,136,525.12
-7,763,402.40	-7,763,402.40	0.00	-7,763,402.40
29,594,168.95	56,460,456.99	0.00	56,460,456.99
2,024.12	2,024.12	458,958.36	460,982.48
12,767,291.74	12,767,291.74	-100,155.24	12,667,136.50
0.00	-72,216.25	0.00	-72,216.25
12,769,315.86	12,697,099.61	358,803.12	13,055,902.73
42,363,484.81	69,157,556.60	358,803.12	69,516,359.72
-358,414.16	-358,414.16	717,674.54	359,260.38
7,916,338.91	7,916,338.91	-188,386.63	7,727,952.28
0.00	273,727.30	0.00	273,727.30
0.00	-626,244.00	0.00	-626,244.00
0.00	-352,516.70	0.00	-352,516.70
7,557,924.75	7,205,408.05	529,287.91	7,734,695.96
-13,197,784.08	-13,197,784.08	0.00	-13,197,784.08
36,723,625.48	63,165,180.57	888,091.03	64,053,271.60

Selected consolidated explanatory notes

These Consolidated Interim Financial Statements as at 30 June 2019 have been prepared in compliance with the provisions of International Accounting Standard (IAS) 34 “Interim Financial Reporting”, which governs interim financial statements in accordance with International Financial Reporting Standards. They are Condensed Consolidated Interim Financial Statements in accordance with IAS 34 as adopted by the EU, which means they do not include all the information required by IFRS for consolidated financial statements at the end of a financial year. The Consolidated Interim Financial Statements must therefore be read in conjunction with the IFRS consolidated financial statements as at 31 December 2018 (Consolidated Financial Statements). These Consolidated Interim Financial Statements have not been audited, but have been reviewed by an auditor pursuant to Article 115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). The Condensed Consolidated Interim Financial Statements and the Interim Group Management Report for the first half-year 2019 were approved by the Management Board of secunet Security Networks AG on 6 August 2019.

Accounting principles

The consolidation principles and the method of currency translation correspond to those used for the Consolidated Annual Financial Statements for the 2018 financial year. The accounting and valuation methods were retained. The Consolidated Financial Statements of secunet Security Networks AG as at 31 December 2018 were prepared on the basis of Articles 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.

IAS 20 has been applied for the first time, as this is the first time that such material circumstances have arisen. Government subsidies for assets are offset against the procurement/production costs of the subsidised asset and thus represent a reduction in procurement costs. The subsidy is recognised on a pro rata basis in the income statement in the form of lower depreciation.

Other subsidies are recognised as income in the period in which the entitlement arises.

The values 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.

The calculation of income taxes for domestic companies is based on a tax rate of 31.93%. The calculation of income taxes for foreign companies is based on the relevant national tax rates.

The preparation of the Consolidated Interim Financial Statements requires a series of assumptions and estimates on the part of management. As a result, it is possible that the figures reported in the Consolidated Interim Financial Statements may deviate from the actual future figures. The main assumptions and estimates are fundamentally unchanged compared to the Consolidated Financial Statements as at 31 December 2018.

New accounting rules

The following standards were to be applied for the first time in the 2019 financial year:

Standard / interpretation	Content of the amendment
IFRS 9	Prepayment Features with Negative Compensation
IFRS 16	Lease Accounting
Annual Improvements to IFRS 2015–2017	Amendments to standards IFRS 3, IAS 12 and IAS 23
Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendment to IAS 19	Accounting for an adjustment, curtailment or settlement of a defined benefit plan
IFRIC 23	Uncertainty over Income Tax Treatments

With the exception of IFRS 16, the amended standards and interpretations that came into force on 1 January 2019 have no effect on secunet Group.

The effects of IFRS 16 on the consolidated balance sheet and income statement are explained in the following paragraphs.

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

i. Leases in which the Group is the lessee

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

In future, the Group will report new assets (right-of-use assets) and lease liabilities for these leases in accordance with IFRS 16. The nature of the expenses associated with these leases will change as the Group now recognises depreciation on right-of-use assets and interest results from lease liabilities.

The marginal borrowing rates applied range from 1.0% to 2.1%.

In the case of leases previously classified as operating leases in accordance with IAS 17, the lease liabilities are recognised at the present value of the remaining lease payments.

ii. Leases in which the Group is the lessor

The Group is not currently active as a lessor.

iii. Transition

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

In the changeover, the Group made use of the simplification rules in terms of retaining the definition of a lease. This means that the Group applies IFRS 16 to all contracts concluded before 1 January 2019 that have been identified as leases in accordance with IAS 17 or IFRIC 4. In addition, the term of leases for contracts with renewal options was determined retroactively.

The changeover had the following effects as at 1 January 2019:

in million euros	Rented buildings	Vehicle leasing	Total
Right-of-use assets	18.4	0.9	19.3
Lease liabilities	18.4	0.9	19.3
Revenue reserves	0.00	0.00	0.00

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 be in place if secunet has the power of disposition over the associate company, has a right to variable returns from the investment and has the opportunity to use the power of disposition over the associate company in a way that can influence the variable returns.

Non-controlling interests (minority shareholders) exist as a result of the consolidation of the two subsidiaries finally safe GmbH, Essen, and secustack GmbH, Dresden.

Compared with 31 December 2018, the group of consolidated companies has changed as follows as at 30 June: secunet SwissIT AG, Solothurn (Switzerland), liquidated (effective date: 30 June 2019) and deconsolidated, secustack GmbH, Dresden, newly founded and consolidated for the first time (effective date 1 April 2019).

The group of consolidated companies as at 30 June 2019 thus consists of secunet AG, secunet Service GmbH, secunet International Management GmbH, secunet International GmbH & Co. KG, finally safe GmbH (all Essen), secustack GmbH (Dresden) and secunet s.r.o. (Prague, Czech Republic). The consolidated subsidiary secunet s.r.o. (Prague, Czech Republic) is in liquidation.

Deconsolidation of secunet SwissIT AG, Solothurn (Switzerland)

As secunet SwissIT AG was already under liquidation, its deconsolidation only resulted in an insignificant deconsolidation loss of 32 thousand euros.

Initial consolidation of secustack GmbH, Dresden

With effect from 1 April 2019, secustack GmbH was fully consolidated by secunet AG on account of the control exercised as of this date (51% of the shares and thus the majority of voting rights). The company was newly founded.

secunet paid a total of 625 thousand euros in cash for the proportionate share capital and the capital reserve. The fair value of the consideration is thus 625 thousand euros. Immaterial transaction costs were incurred.

The non-controlling interests were valued at 600 thousand euros at the acquisition date. This corresponds to the proportionate net assets (49%) at the time of acquisition.

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

in thousand euros	
Cash	637
Intangible assets	588

The carrying amounts of the assets correspond to their fair values.

Stock of treasury shares

As at 30 June 2019, the Company held 30,498 treasury shares, unchanged from 31 December 2018; this corresponds to 0.5% of the share capital.

Recognition of actuarial gains and losses in equity (“other comprehensive income”) from the revaluation of defined benefit pension plans

In the first six months of the financial year, a total of 0.9 million euros from the revaluation of the defined benefit pension plans as at 30 June 2019 was recognised in the other comprehensive income of secunet Group, with no effect on profit or loss, which reduced equity. The revaluation includes the effects of the reduction in the actuarial interest rate from 1.9% as at 31 December 2018 to 1.3% as at 30 June 2019. In this connection, an effect from deferred taxes totalling 0.3 million euros had an opposite effect on equity.

Capitalised development expenses

The development project for the secunet communicator fulfilled the criteria for mandatory capitalisation as at the reporting date. Development costs amounting to 0.5 million euros were capitalised as intangible assets.

Dividend paid

The dividend payment of secunet Security Networks AG is based on the Company’s annual financial statements in accordance with commercial law. In accordance with the resolution passed by the Annual General Meeting on 15 May 2019, a dividend of 2.04 euros per share, i. e. a total of 13,197,784.08 euros, was paid from the reported balance sheet profit for the 2018 financial year.

Segment reporting

secunet Group is split into two business units: 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.

The Public Sector business unit offers its customers the SINA product family, i. e. solutions (software, hardware and management) for highly secure, cryptographic processing, transmission and storage of classified information with varying levels of confidentiality. Further solutions from the Public Sector business unit include products for electronic passports, automated (biometric) border controls and the ELSTER electronic tax declaration. Furthermore, a wide range of IT security products and services for public customers, ranging from IT security consulting and training to the equipment of large infrastructures with high-security technology and public key infrastructures, are also offered.

The Business Sector business unit offers IT security consulting and solutions for the healthcare market, the automotive industry and for providers in the field of critical infrastructures (including utilities).

Segment report H1 2019

in thousand euros	Public Sector	Business Sector	secunet H1 2019
Segment revenue	57,769	43,264	101,033
Cost of sales	-43,446	-34,749	-78,195
Selling expenses	-5,147	-2,096	-7,243
Research and development costs	-395	-13	-408
Administrative costs	-2,045	-1,392	-3,437
Segment result (EBIT)	6,736	5,015	11,751
Interest result			-108
Income from investments			0
Group profit before tax			11,643
Goodwill	3,325	1,300	4,625

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

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. A revenue-based allocation table is used for most cost items. The segments are managed on the basis of the segment results.

With the exception of non-essential components, the segments' assets are focused on the domestic market.

Sales revenue

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

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

	Public Sector		Business Sector		Group	
in thousand euros	2019	2018	2019	2018	2019	2018
Geographical allocation						
Domestic	49,675.2	48,618.8	43,031.1	7,518.0	92,706.3	56,136.8
Abroad	8,093.8	6,873.0	232.9	151.2	8,326.7	7,024.2
Total	**57,769.0**	**55,491.8**	**43,264.0**	**7,669.2**	**101,033.0**	**63,161.0**
Revenue generation						
Consultancy business	10,430.7	11,452.5	3,705.9	5,716.1	14,136.6	17,168.6
Product business	47,338.3	44,039.3	39,558.1	1,953.1	86,896.4	45,992.4
Total	**57,769.0**	**55,491.8**	**43,264.0**	**7,669.2**	**101,033.0**	**63,161.0**
Recognition of sales revenue						
Over time	22,877.6	16,622.4	5,886.8	6,820.3	28,764.4	23,442.7
At a point in time	34,891.4	38,869.4	37,377.2	848.9	72,268.6	39,718.3
Total	**57,769.0**	**55,491.8**	**43,264.0**	**7,669.2**	**101,033.0**	**63,161.0**

Additional notes on financial instruments

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

30 Jun 2019	Carrying amounts				Fair value			
in euros	Mandatory as FVTPL	At amortised cost	Other financial liabilities	Total carrying amounts	Level 1	Level 2	Level 3	Total fair values
Financial assets measured at fair value								
Non-current financial assets	5,861,596.22	–	–	5,861,596.22	–	5,861,596.22	–	5,861,596.22
Financial assets not measured at fair value								
Cash and cash equivalents	–	20,462,286.31	–	20,462,286.31	–	–	–	0.00
Trade receivables	–	41,472,824.52	–	41,472,824.52	–	–	–	0.00
Intercompany financial assets	–	40,947.90	–	40,947.90	–	–	–	0.00
Other current and non-current assets	–	2,991,650.69	–	2,991,650.69	–	–	–	0.00
	0.00	64,967,709.42	0.00	64,967,709.42	0.00	0.00	0.00	0.00
Financial liabilities not measured at fair value								
Trade accounts payable	–	–	17,535,920.21	17,535,920.21	–	–	–	0.00
Intercompany payables	–	–	63,291.95	63,291.95	–	–	–	0.00
Other current liabilities	–	–	4,060,862.88	4,060,862.88	–	–	–	0.00
	0.00	0.00	21,660,075.04	21,660,075.04	0.00	0.00	0.00	0.00

31 Dec 2018	Carrying amounts				Fair value			
in euros	Mandatory as FVTPL	At amortised cost	Other financial liabilities	Total carrying amounts	Level 1	Level 2	Level 3	Total fair values
Financial assets measured at fair value								
Non-current financial assets	5,860,888.00	–	–	5,860,888.00	–	5,860,888.00	–	5,860,888.00
Financial assets not measured at fair value								
Cash and cash equivalents	–	56,084,381.70	–	56,084,381.70	–	–	–	0.00
Trade receivables	–	41,776,937.04	–	41,776,937.04	–	–	–	0.00
Intercompany financial assets	–	452,438.07	–	452,438.07	–	–	–	0.00
Other current and non-current assets	–	2,274,582.68	–	2,274,582.68	–	–	–	0.00
	0.00	100,588,339.49	0.00	100,588,339.49	0.00	0.00	0.00	0.00
Financial liabilities not measured at fair value								
Trade accounts payable	–	–	22,797,180.71	22,797,180.71	–	–	–	0.00
Intercompany payables	–	–	283,951.48	283,951.48	–	–	–	0.00
Other current liabilities	–	–	4,739,511.25	4,739,511.25	–	–	–	0.00
	0.00	0.00	27,820,643.44	27,820,643.44	0.00	0.00	0.00	0.00

Related party disclosures

Mr Axel Deininger took over as Chairman of the Management Board of secunet Security Networks AG with effect from 1 June 2019. He succeeds Dr Rainer Baumgart, who has retired. Torsten Henn (Chief Operating Officer (COO)) and Dr Kai Martius (Chief Technical Officer (CTO)) were appointed as new members of the Management Board with effect from 1 June 2019. Together with Chief Financial Officer (CFO) Thomas Pleines, the Management Board thus consists of four members.

The consolidated companies of secunet Group have dealings with the main shareholder Giesecke & Devrient GmbH, Munich, and its affiliated companies in the course of their normal business activities. Furthermore, the main shareholder is granted short-term loans. All transactions are conducted in accordance with standard market terms.

In the first six months of the 2019 financial year, no members of the Management Board were promised or granted any benefits by a third party with regard to their activities 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 further remuneration or benefits for services provided personally, in particular consulting and agency services, beyond the remuneration of the Supervisory Board regulated in the Articles of Association of secunet Security Networks AG. Neither the members of the Management Board nor the members of the Supervisory Board receive 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 2019

Axel Deininger　　Torsten Henn

Dr Kai Martius　　Thomas Pleines

Review Report of the Consolidated Interim Financial Statements and the Interim Group Management Report for the Period from 1 January to 30 June 2019

To secunet Security Networks Aktiengesellschaft, Essen:

We have reviewed the Condensed Consolidated Interim Financial Statements – comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity and selected explanatory notes – and the Interim Group Management Report of secunet Security Networks Aktiengesellschaft, Essen, for the period from 1 January to 30 June 2019, which are integral parts of the Half-Year Report pursuant to Article 115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). The preparation of the Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard IAS 34 “Interim Financial Reporting”, as adopted by the EU, and of the Interim Group Management Report in accordance with the requirements of the German Securities Trading Act (WpHG) applicable to interim group management reports is the responsibility of the Company’s management. Our task 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 German Generally Accepted Standards for Financial Statement Audits as promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the review in such a way that we can preclude, through critical appraisal and with reasonable assurance, that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU, and that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act (WpHG) applicable to interim group management reports. A review is essentially limited to the questioning of Company personnel and analytical assessments and therefore does not provide the same assurance as is attainable in a financial statement audit. Since, in accordance with our mandate, we have not performed an audit of the financial statements, we cannot issue an auditor’s report.

Based on 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 adopted by the EU, or that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the requirements of the German Securities Trading Act (WpHG) applicable to interim group management reports.

Düsseldorf, 6 August 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bornhofen	Dr Sommerhoff
Auditor	Auditor

Responsibility Statement

"To the best of our knowledge, and in accordance with the applicable reporting 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 true and fair presentation of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remainder of the financial year."

Essen, 6 August 2019

Axel Deininger	Torsten Henn
Dr Kai Martius	Thomas Pleines

Financial Calendar 2019

7 August
Half-Year Report 2019

6 November
Group Quarterly Statement as at 30 September 2019

Imprint

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