

Risk and opportunity report

Risk report

Risk management objectives and methods

Risk management is carried out in the same way and in parallel for secunet Group and secunet AG. The function presented below and the description of individual risks and opportunities thus apply to both secunet Group and secunet AG.

Risk management at secunet is carried out at various levels: accordingly, the assessment of the risk situation is fed from various sources.

Risks relating to the targets set in the current annual planning are dealt with in a dedicated risk committee.

Recurring operational risks are taken into account as part of regular operational routines and risk minimisation measures and are reduced or eliminated to the fullest extent possible.

Risks that are countered by means of strategic, medium to long-term measures are taken into account by the Management Board as framework conditions for medium-term strategic corporate planning.

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

Risk management for the current planning and financial year

The management of risks relating to the targets set in the current annual planning is carried out at secunet by a risk committee. This comprises the members of the Management Board, the commercial manager and the departmental manager responsible for risk management. The risk committee meets regularly once a quarter. Developments that could jeopardise the fulfilment of objectives, or which may even threaten the survival of the Company, are subjected to intense analysis, scrutiny and assessment by the risk committee. The aim of doing this is to ensure that information about risks, and the associated financial implications, is detected as early as possible in order to implement suitable measures. The existing opportunities and associated potential for earnings are to be identified and leveraged.

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

The Company-specific risks surveyed in this manner are then discussed at the risk committee meetings, implementing a top-down approach. The effects of risks and opportunities are not offset against each other. A net presentation is shown when evaluating the potential effects of risks, i.e. the effects of any risk minimisation measures already taken are considered as part of the evaluation. Depending on the probability-weighted damage value of the risks (risk value), the further treatment of the risks is then determined. This ranges from pure documentation where the value is negligible (the probability-weighted damage value in the 2021 financial year amounting to less than 0.5 million euros in EBIT losses) and further observation (monitoring of existing measures – for a risk value in the 2021 financial year in the amount of a mid-single-digit million amount) to the need to take and monitor measures immediately (reporting threshold – for a probability-weighted damage value in the 2021 financial year exceeding a mid-single-digit million amount).

The value limits defined above are re-determined annually based on the planned annual result. Insofar as the identified risks are quantifiable, the corresponding risk values (relating to the reporting date) are adopted in the reporting system.

Proposals for countermeasures are then drawn up, if required. The Management Board reviews these measures and ensures that they are implemented in a timely manner.

The risks considered in this part of risk management for secunet Group and thus also for secunet AG as the parent company of the Group are primarily classified according to their origin in the functional areas of secunet as follows:

- » Sales risks: these are risks in all areas connected with distribution. They relate primarily to the functions purchasing and inbound logistics, sales and outbound logistics as well as distribution and marketing.
- » Product risks: these are the risks that can arise in connection with products and solutions from secunet. They relate primarily to risks from technical defects or possible security weaknesses in the components used. Also included in this category are risks from the divisions responsible for planning and coordinating the market-readiness of products and solutions from secunet Group.

- » Project risks: these are the risks that can arise in connection with development and consulting projects. They mainly include the risks relating to budget planning and subsequent budget compliance.
- » Structural risks: these are the risks arising from support functions such as finance and controlling, legal and human resources, and IT. Risks from M&A activities and compliance risks are also recorded here.

Furthermore, the coronavirus pandemic represented a significant and constantly monitored risk for business development in 2021. The Management Board assessed its potential effects on secunet Group continuously and with high priority. Discussion of the risks and measures surrounding the coronavirus pandemic took place in a dedicated steering committee, which met considerably more often than the risk committee. All aspects of business operations were examined and evaluated, with appropriate measures being developed where necessary. In each case, the focus of the discussions was on maintaining the health of employees, the supplies from vendors and the services provided to our customers, as well as our own infrastructure. Since the beginning of the pandemic in 2020, secunet has proved to be a fast-reacting, flexible and adaptable organisation during this time of crisis, with the result that it was quickly possible to reduce risks in operational management.

During the 2021 financial year, it was mainly sales risks that were identified. None of these was individually above the upper limit for no longer being considered negligible. Operational damage management implemented in each case was able to contribute to a significant reduction of the relevant risk value in all cases.

The sales risks discussed here are dominated by distribution risks. secunet is active in the project business. Many projects relate to infrastructures and solutions that are designed on an individual basis. The IT security infrastructures based on these are often associated with high investment volumes, resulting in a complex and often protracted tendering and decision-making process for the customer. This applies to both Public Sector and Business Sector customers and places great limitations on the ability to plan for sales revenues, leading to a potential associated volatility in secunet's business. The distribution risks are continuously monitored as part of risk management and in the ongoing Management Board meetings and, if necessary, they are countered with suitable measures. These measures for reducing the distribution risk often consist of establishing close contact, and thus ongoing cooperation with the customer, through the use of dedicated key account managers, for example. The distribution risks at the time of creating this report are classified as low.

Sales risks also include warehousing risks. These increase as secunet Group's product business grows. Warehousing risks include the risk associated with the ability to deliver at short notice, which is countered by suitably networked material planning (forecast of potential sales and inventory build-up). At the same time, hardware components in particular are becoming obsolete because of accelerating technical progress. Where applicable, inventories lose their value because of this technical ageing process. secunet stays abreast of these risks through professional inventory optimisation. In the 2021 financial year, inventories were written down by 0.1 million euros (previous year: 0.9 million euros).

Procurement risks that can lead to supply bottlenecks and thus to sales risks were newly included during the course of 2021. secunet products are also affected by the global shortage of semiconductors. It proved possible to partially mitigate the risks through a build-up of inventories and continuous close coordination with the most important suppliers. The risk effects were also included in the forecast and planning. For the coming year 2022, the supply risks will continue to have a restrictive effect (please also refer to the aspects noted in the forecast report below).

At the meeting of the risk committee in the fourth quarter of 2021, the risk situation for secunet was regarded as negligible. Due to the very good results for 2021 and the well-filled order book, no significant short-term risks were identified.

There were no product, project or infrastructure risks as at the end of 2021. Consequently, these risk classes were also classified as low.

Operational risk management

Operational risks are risks affecting ongoing business operations that can arise repeatedly. They are recorded, assessed and eliminated to the fullest extent possible by means of specific risk minimisation routines. These control mechanisms are applied at various points in the value creation process.

Distribution or sales risks are discussed within the framework of distribution coordination via risk committees. Risk committees must be held in the case of orders that exceed a defined value. These committees are made up of at least the representatives of the responsible (sales) department, the division/business unit expected to be entrusted with the desired order, the commercial manager, representatives of the legal department and purchasing as well as a member of the Management Board. The goal of the risk committees is to decide for the respective order or invitation to tender, on the basis of transparent criteria, whether and how a bid can be submitted or an order accepted.

Since a discussion of the risks, including an assessment of their acceptability, is conducted by the risk committees in each case, and the decision recognises the risks as acceptable, the associated risks are considered to be low at the time of writing this report.

In addition to the distribution risk for major projects already described under sales risks, there is also a project management risk. In addition, there are specific risks for long-term major projects. At secunet, such risks are identified and evaluated in the higher-level project coordination and mitigated by means of appropriate measures. The project management risk arises after the commissioning of major projects: these projects are characterised by multiple uncertainties in their implementation due to the sheer fact of their size. The risk may consist, for example, of a failure to maintain schedules and project budgets. secunet takes these risks into account by means of a comprehensive project management system, which is used to create regular management reports for project managers, division heads and the Management Board. The risks arising from major projects are continuously monitored – in the same way as development risks – with comprehensive project planning and control mechanisms, in conjunction with a risk-oriented reporting system. In the event of deviation from the set targets, measures to reduce the risk are resolved and implemented immediately. These can consist of making additional capacity available for processing the project or discussing deviations with the customer in order to bring expectations into line with the altered framework conditions. The risks arising in the course of project management are sufficiently mitigated by the corresponding measures. Accordingly, the project risks outlined are considered low at the time of writing this report.

There were no project risks as at the end of 2021; accordingly, this risk class was assessed as low.

Product risks can arise in various forms. They are largely mitigated within the framework of operational management processes, with the effect that these risks are considered low at the time of preparing this report.

Product risks can arise in the individual phases of a product life cycle. In conjunction with the development of new products – including corresponding major projects – the following risks are discussed and evaluated regularly:

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

In the past, secunet primarily developed products and solutions in response to orders to cover specific security needs in the public sector. Its high-security IT solutions are tailored precisely to customers' needs; secunet products are generally not designed without a specific requirement in mind. Most of the products developed by secunet are made to order and are accordingly financed by the customer. Therefore, no development risks exist in terms of potentially waning demand. The risks associated with developing new products that subsequently prove unsuccessful on the market have therefore not been of primary significance for secunet in most product areas.

The development of secunet's own products, such as the secunet konnektor, SINA Communicator and easykiosk, has increased the volume of related internal investments. This has brought development risks more into the focus of risk evaluation. The focus here is less on the sales prospects associated with the products than on the duration of development and certification. The greatest risk for development projects may be underestimation of the time required before they are ready for acceptance. This can lead to expenditure of time and personnel, which limits the profitability of these projects. In order to keep these risks as low as possible, secunet uses extensive project planning and control mechanisms in different locations, paired with a dedicated reporting line. This part of the risk analysis and risk management is identical to the activities that apply for major projects. In the area of development projects, the risk at the time of creating this report is classified as low.

The secunet AG product portfolio is concentrated on solutions in the area of cybersecurity. In the case of the SINA product family in particular, these solutions are protected and approved at a high level in cryptographic terms. One risk that is evaluated on an ongoing basis in connection with the technical properties of these products is the effect of any possible – as yet undetected – security weaknesses of these solutions. In this context, the focus is on the question of whether and to what extent the security promise made to its customers by secunet in connection with the solution as a whole might be compromised as a result of security holes in individual components. This is the task of operational incident management, another component of risk management at secunet. A comprehensive process of ongoing risk identification and assessment takes place in this area for the purposes of risk minimisation. As part of this process, secunet collects and evaluates findings about potential security risks from a wide range of sources. Even if potential vulnerability of the systems merely seems possible as a result of this evaluation, customers are informed immediately and supported in closing the potential security hole. This process of monitoring and solving potential technical security risks is implemented in close collaboration with the Company's development and certification partner, the German Federal Office for Information Security (BSI). In view of the risk minimisation measures in use, the economic risk connected with technical product security is believed to be low.

Strategic risk management and strategic risks

Medium and long-term risks for secunet are taken into account in the course of strategic planning. These framework conditions and the consequences for the strategy are regularly discussed with the Supervisory Board, which approves and follows up on this planning.

The risks considered here include the following:

Customer structure risk is to be seen as a medium-term distribution risk to the extent that secunet conducts the majority of its business with public sector authorities and organisations. The loss of segments of demand from this customer group can have negative effects on sales revenue and earnings. This risk is regularly discussed in depth. Investments in IT, and especially in IT security, are seen as particularly important for the smooth delivery of projects for the public sector, particularly in a world where information technologies play an increasingly important role. The risk of a downturn in demand from public sector customers is therefore constantly monitored, although it is currently considered to be relatively low.

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

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

Opportunities

Ongoing management of opportunities

The ongoing management of risks during the year is contrasted with the management of opportunities. They are defined as events that give rise to expectations that the planning or forecast for the current financial year will be exceeded. As in the case of risks, they are recorded as part of the quarterly bottom-up inventories that are included in the report to the risk committee.

In most cases, significant opportunities are promptly incorporated into the planning or the forecast. There were therefore no opportunities to be discussed at the risk committee meeting either during the year or at the end of the year.

Long-term positive trends

In the opinion of the Management Board, the trends outlined below continue to have a positive effect on the future growth of secunet:

Growth through new markets

IT security solutions "made in Germany" enjoy a good reputation around the world due to their quality and trustworthiness. There is rising international demand for corresponding high-quality solutions such as those offered by secunet.

Under the pressure of wiretapping cases and cyberattacks coming to light, demand is likely to stimulate even greater differentiation between producer countries, from which secunet benefits as a German manufacturer. In addition, many secunet products are approved for use in an international context, for example by the EU and NATO.

The range of products and services from the Business Sector division for customers in the industrial sector is to be expanded abroad, for example for foreign subsidiaries and production facilities of German corporations. To this end, promising potential is being identified and examined.

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

Growth through acquisitions

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

Overview of risks and opportunities

An overview of risks and opportunities which could impact on the further development of secunet Group shows a confident evaluation overall. The assessment revealed that the risks at the time of creating the report are negligible overall and can thus be controlled, and the identified risks do not threaten the continued existence of the Group and the Company in terms of illiquidity or excessive debts in the reporting period of at least one year. In the operational management of the Group, measures are continuously being taken to prevent a worsening of the risk situation. At the same time, the utilisation of the opportunities described above is being driven forward by a number of activities. No material risks are present as at the balance sheet date.

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

Forecast

During the past financial year, sales revenue and EBIT increased sharply once again, and 2021 consequently ended with outstanding results. The Management Board of secunet AG is fundamentally optimistic about the conditions for good business performance in the current year 2022.

The framework conditions for the 2022 financial year give reason for optimism.

- » The macroeconomic growth forecast of the German federal government is positive: growth of 3.6% in the price-adjusted gross domestic product for the current year 2022. This is subject to the assumption that the restrictions due to the coronavirus pandemic will be lifted and supply bottlenecks will gradually ease over the course of the year.
- » For the domestic market, we were still expecting growing demand for IT security. This affects both the Public Sector, i.e. business with public customers, and the Business Sector, which serves companies in both the private sector and the healthcare sector. For 2022, Bitkom predicts growth of 5.9% to 108.6 billion euros in spending on hardware, software and services in the IT sector. The market for IT security is likely to show relatively stronger growth. secunet will be able to meet this growing demand well in future, with optimised and new services, products and solutions.
- » The foreign market continues to hold significant growth potential; secunet is generally well positioned to leverage this potential. The secunet AG and secunet International GmbH & Co. KG employees in international distribution have many years of experience in the Group and in dealing with international customers.
- » During the course of the year, secunet Group again increased its number of productive employees and can therefore translate increasing demand and high capacity utilisation into good business results.
- » The ongoing efforts to expand national and international defence budgets with a focus on cyber defence justify positive growth expectations.
- » The increasing requirement for digital sovereignty can be satisfied primarily through trustworthy national solutions. secunet meets these demands with products such as SecuStack.

At the time of preparing this report, the Management Board considers secunet Group and secunet AG to be well positioned and still sees the Company and the Group in a good situation:

- » The economic and financial standing of secunet Group and secunet AG is good; growth so far has been achieved profitably, there are no loans, and liquid funds are high.
- » The Management Board is of the opinion that secunet has high-performing, motivated and highly qualified employees, providing an excellent basis of expertise.
- » The Company's existing product and service portfolio has done well in terms of standing up to competition, and is continuing to expand in close cooperation with customers and their needs. Further additions to the product range will also support future growth.
- » secunet believes that secunet's products and solutions have an excellent reputation, the Company is well-known as a provider of high-quality and trustworthy IT security to meet the highest demands and therefore has a stable and reliable (existing) customer structure.

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

- » secunet is still largely dependent on the procurement activities of the German federal authorities. At the present time, the effects of changing budgetary policy cannot yet be assessed. Negative implications for secunet could include the postponement or cancellation of planned projects.
- » Project business also holds both opportunities and risks: the scope of investment decisions for major projects, especially if these are part of a political process, can significantly delay the start of expected procurements. In addition, ongoing major projects always face the potential risk of incalculable delays or budget overruns.
- » The great attention focused on the topic of IT security is fuelling the expectation of growing demand. However, the same attention is also leading to increasing competition.
- » Within the scope of a materiality analysis, climate risks have been assessed as not material for our business activities. In order to accommodate their high relevance for external stakeholders, however, voluntary environmental disclosures are included in the combined non-financial statement of the Group and the Company.

The Management Board reacts with concern and dismay to the news about the acts of war in Ukraine. No direct risks relating to procurement and sales are currently evident. The extent to which the sanction decisions will require action is under discussion. The German government is planning a special fund of 100 billion euros to improve its own defence capabilities as well as long-term increases in the defence budget. This will lead to a huge increase in defence spending. The extent to which this will create opportunities for secunet is also not yet foreseeable at this point in time.

The excellent business results achieved in the 2021 financial year represent a challenge for further growth – surpassing sustained record results is becoming increasingly difficult. An extraordinary economic boost as in the previous years is not expected for the 2022 financial year. In addition, the supply bottlenecks on the semiconductor market are leading to uncertainty with regard to the ability to deliver secunet products.

For this reason, the Management Board of the Company already published its forecast for secunet Group for the coming financial year 2022 on 16 November 2021 as follows: sales revenues of around 320 million euros and earnings before interest and taxes (EBIT) of around 50 million euros are expected.

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