



secunet

6-Month Report 2006

- >> **Q2 2006 significantly better than Q1 2006**
- >> **Still ground to make up on excellent previous-year results**
- >> **Investing for the future marks operative business**
- >> **Outlook 2006: Public sector procurement in H2 decisive, challenging growth target**

Key figures

		H1 2006	H1 2005	Change in %
Sales	(kEuro)	15,176	16,361	-7
EBIT	(kEuro)	298	1,603	-81
EBT	(kEuro)	358	1,683	-79
Net income/loss for the period	(kEuro)	225	1,021	-78
Earnings per share for the period	(Euro)	0.03	0.16	-78
Cash flow from operations	(kEuro)	-8,286	-2,365	-/-
Investments	(kEuro)	532	530	0
Orders on hand	(million Euro)	15.3	24.0	-36
Employees (as of 30 June)		220	207	6

		Q2 2006	Q2 2005	Change in %
Sales	(kEuro)	8,446	8,812	-4
EBIT	(kEuro)	407	766	-47
EBT	(kEuro)	428	798	-46
Net income/loss for the period	(kEuro)	257	609	-58
Earnings per share for the period	(Euro)	0.04	0.09	-58

		30 Jun 2006	31 Dec 2005	Change in %
Cash and cash equivalents	(kEuro)	4,077	12,846	-68
Equity	(kEuro)	17,117	16,816	2
Equity ratio	(%)	72.6	59.9	+12.7-Points
Loans	(kEuro)	0.00	0.00	-/-

Financial Calendar 2006

9 November

9-month results 2006

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The secunet Share

Price changes January 2005 – June 2006 (Index, 3 Jan 2005 = 100)



Dear shareholders, customers, employees and friends of secunet,

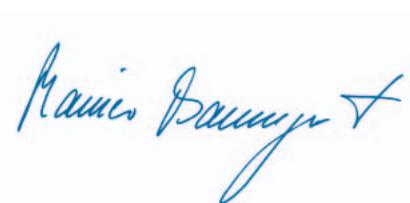
In the second quarter of 2006, we significantly improved the operating results of secunet Security Networks AG compared with the first quarter of this year. Revenues rose some 26% from Euro 6.7 million to Euro 8.4 million. At the same time we boosted our earnings before interest and taxes (EBIT) from Euro - 0.1 million in the first quarter of 2006 to Euro +0.4 million in Q2 2006.

However, we are still not satisfied with the business developments in this year so far. We have not succeeded in repeating the outstanding results of Q2 2005. Revenues were 4% down on last year's figure (Euro 8.8 million) and EBIT was only just over half of the comparable figure for 2005 (Euro 0.8 million). The cumulative business results of secunet Security Networks AG in the first half of 2006 do not meet our growth expectations, either. Revenues in the first six months of 2006 amounted to some Euro 15.2 million, a 7% drop year-on-year. EBIT as of 30 June 2006 was Euro 0.3 million – a significant drop compared with the Euro 1.6 million in the previous year.

The causes for this development are the continuing hesitant purchasing activities on the part of public clients and only average demand from the industrial sector. More significant for secunet are however the delays experienced in major projects such as the electronic health card or various government IT projects. What bodes well for the future is that we are well positioned as a supplier of high-quality IT security in many major IT projects and stand a good chance of success. IT security remains one of the main issues that will drive and accompany technological developments over the next few years. The figures have yet to reflect this development.

secunet is well prepared for the pending developments in IT and especially in IT security. This applies on the one hand to the technological side of the business: the improvement of software and hardware products in the field of high security is being driven forcefully, also in cooperation with our main customers. Solutions that prove themselves in high security can be migrated to the security needs in industry – here too we are expanding our portfolio. On the other hand, the know-how our employees acquire in consulting and development projects is leveraged to the benefit of all secunet customers and generates good market opportunities in the years ahead.

This varied investment in the future of secunet makes us very confident that we will hit our medium-term growth targets for revenue and profit. For the current fiscal year 2006 the forecast is, however, not simple: Even at the end of the first quarter we pointed out the risks arising from secunet's special customer structure and our dependence on larger projects. From the results in the first half of the year and our forecasts for the second half of the year, we expect the course of business to continue as in the previous months. Thus there is only subdued hope of beating the excellent quarterly results of 2005: crucial is still the purchasing behavior in the public sector.



Dr. Rainer Baumgart
CEO

D. Rainer Baumgart



Interim report on first half of 2006

Sales development

In the second quarter of fiscal year 2006, the secunet group generated revenues of some Euro 8.4 million. Compared with the first quarter of the current year, this is an increase of 26%. Thus secunet is following the seasonal pattern of the previous years: the second quarter is better than the first and there is a clearly positive trend.

Compared with the previous year, the development is however not satisfactory. Sales fell 4% vis-à-vis the 2nd quarter of 2005 (Euro 8.8 million). The main cause for this development is that public clients remain hesitant about placing orders: the budget decision that is limiting this demand was, however, only taken towards the end of the second quarter. Thus, how government departments make use of the authorizations defined in this decision in the second half of the year will greatly influence the full-year sales.

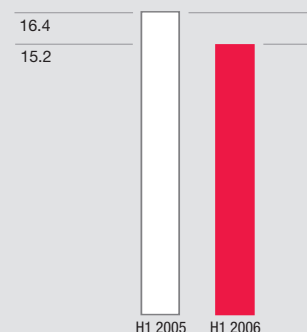
We were thus unable to make good the ground already lost in the first quarter of 2006 on the excellent prior year figures. Sales revenue in the first half of 2006 was some Euro 15.2 million, 7% below last year's figure (Euro 16.4 million).

Development of earnings

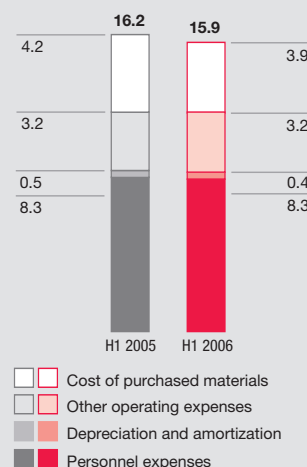
On the cost side, secunet is continuing to adhere to clear budget targets. The main cost items, personnel, depreciation and amortization, and other operating expenses, were actually slightly lower in the second quarter of 2006 compared with Q2 2005. The total for these items in the second quarter of 2006 was some Euro 8.3 million compared with Euro 8.4 million in the previous year. Material costs were higher (from Euro 2.2 million in the previous year to Euro 2.3 million in Q2 2006) – this item strongly depends on projects involving hardware shipments, in the main SINA projects. Also on a cumulative 6-month basis, the costs have fallen from Euro 16.2 million in the previous year to Euro 15.9 million in the current year (-2%). Noteworthy is the fact that despite a 6% increase in the headcount (previous year 207 employees, 220 employees as of 30 June 2006) personnel costs were actually slightly lower. This is because the business results led to a reduction in the variable remuneration components.

The drop in sales revenue with practically unchanged costs results in a corresponding large drop in earnings before interest and taxes: from Euro 1.6 million in the previous year EBIT fell to Euro 0.3 million in the first half of 2006. After allowing for the net interest income (slightly lower owing to the lower liquid funds) and also the tax charge, there were net earnings of Euro 0.2 million as of 30 June 2006. The earnings per share are thus Euro 0.03 compared with Euro 0.16 in the first half of 2005. On a positive note, the slightly negative net operating results of the first quarter 2006 have now been evened out.

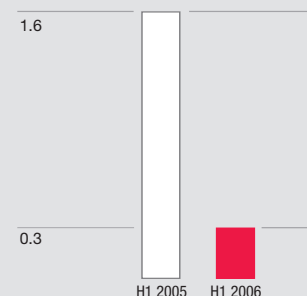
Sales in million Euro



Costs in million Euro



EBIT in million Euro



Net assets and financial position

The secunet group's balance sheet as of 30 June 2006 shows three significant changes compared with the end of 2005. Both the liquid funds and provisions are significantly lower, at the same time the accounts receivable are much higher. Liquid assets fell from Euro 12.8 million as of 31 December 2005 to Euro 4.1 million as of 30 June 2006 and provisions dropped from Euro 5.8 million to Euro 1.9 million. This is due to the payment of variable salary components for the very successful fiscal year 2005: liquid assets fell in line with the reversal of the corresponding deferred expenses. Liquid assets will soon increase significantly, once the invoices underlying the higher accounts receivable (from Euro 8.0 million as of 31 December 2005 to Euro 11.7 million as of 30 June 2006) are paid.

The earnings performance has also impacted the cash flow. The payment of the variable salary components and the higher level of accounts receivable have resulted in a negative cash flow for the first half of the year (Euro -8.3 million). In the previous year the cash flow was also negative in first half of the year, albeit not as much in absolute terms (Euro -2.4 million) because of the positive earnings, the lower bonus payments and the accounts receivable.

Investments

The first half of 2006 saw capital expenditure of Euro 0.5 million, which was in line with the previous year's figure. The expenditure was on new and replacement hardware, software and other equipment.

Employees

The number of employees in the secunet group as of 30 June 2006 was some 220; this is 13 employees more than at the end of H1 2005. The hirings were in the productive areas product management, sales, and also consulting and development. secunet is creating further potential and the preconditions for a sustainable expansion of business.

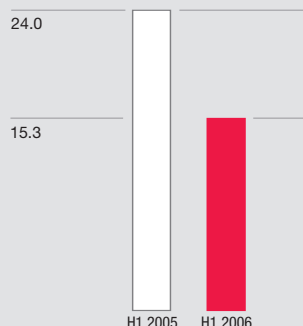
Outlook

The market for high-quality and complex IT security remains attractive. Public authorities, international organizations and corporations continue to have a strong need for services and products in the IT security and high security segment. secunet is excellently positioned in this growth market. At the same time secunet is intensively active in all pending major projects for expanding IT infrastructure, including the introduction of the electronic health card.

Both public and private clients are still relatively hesitant in their demand. There are also long delays in the taking of key decisions in major infrastructure projects. This is also reflected in the order books as of 30 June 2006. Whereas in the previous year a major government order of more than Euro 7 million boosted booked orders to Euro 24 million, the level at the end of H1 2006 was only Euro 15.3 million. Orders on hand are lower compared with both the previous year with the end of March 2006 (Euro 17.1 million).

The generally positive market environment, the good positioning with respect to key major projects that have yet to be decided, and the cautious demand from the public sector and industry make it difficult to produce a forecast for 2006 as whole. The positive trend since the beginning of 2006 will probably continue since in the past the second half of the year has been better for secunet than the first half. The market expectation of beating the very good 2005 will, however, be hard to fulfill.

Orders on hand in million Euro



Directors' dealings as per Section 15a German Securities Trading Act (WpHG)

Under Section 15a WpHG, members of the supervisory board / board of management and comparable managers of secunet Security Networks AG have to report their dealings in secunet shares or in related derivative financial instruments once the total amount of their dealings exceeds Euro 5,000 by the end of the calendar year. This reporting obligation also applies to natural and legal persons closely related to the aforementioned persons. The corresponding reports can be found under Directors' Dealings in the Investor Relations section of our web site.

Directors' Dealings H1 2006

Date of report	Reporting person	Type of transaction	Type of financial instrument	Number of securities traded	Value
27.02.2006	Ingo Baumgart	Sale	Shares	2,350	29,610.00
06.03.2006	Ingo Baumgart	Sale	Shares	5,000	62,500.00

Notes

The consolidation principles and the currency translation method for the period from 1 January to 30 June 2006 are the same as in the consolidated annual financial statements for fiscal year 2005. The accounting and valuation policies were also left unchanged. The initial application of IFRS 2 did not lead to any changes in the balance sheet presentation, because all options were issued before 7 November 2002.

The figures disclosed in the balance sheet, income statement, flow of funds statement and changes in shareholders' equity correspond to the normal course of business at secunet and do not include any exceptional items. There were no material events after the reporting date.

Consolidated Balance Sheet of secunet Security Networks (IFRS)

Assets in Euro	30 Jun 2006	31 Dec 2005
Current assets		
Cash and cash equivalents	4,077,228.97	12,845,872.17
Trade accounts receivable	11,706,946.93	8,015,239.43
Accounts receivable from affiliated subsidiaries	166,117.15	66,394.46
Inventories	433,492.12	168,485.19
Other current assets	193,524.14	223,349.82
Total current assets	16,577,309.31	21,319,341.07
Non-current assets		
Property, plant and equipment	1,285,359.17	1,199,728.01
Intangible assets	135,755.74	160,740.92
Goodwill	2,950,000.00	2,950,000.00
Investments	294,790.08	245,691.63
Deferred taxes	2,341,534.72	2,218,929.67
Total non-current assets	7,007,439.71	6,775,090.23
Total assets	23,584,749.02	28,094,431.30

Equity and liabilities in Euro	30 Jun 2006	31 Dec 2005
Current liabilities		
Current portion of capital lease obligations	79,201.14	99,944.94
Short-term debt and current portion of long-term debt	219.11	0.00
Trade accounts payable	1,176,966.57	1,756,378.04
Accounts payable to affiliated companies	620.44	0.00
Advances received	0.00	0.00
Accrued expenses	1,909,349.54	5,822,417.11
Income tax liabilities	573,221.82	607,559.00
Other current liabilities	902,801.52	1,150,733.27
Deferred items	85,582.22	425,219.29
Total current liabilities	4,727,962.35	9,862,251.65
Non-current liabilities		
Capital lease obligations, less current portion	103,678.81	97,696.99
Deferred taxes	384,469.18	129,097.30
Pension provisions	1,251,975.02	1,189,664.56
Total non-current liabilities	1,740,123.01	1,416,458.85
Equity		
Subscribed capital	6,500,000.00	6,500,000.00
Capital reserves	21,922,005.80	21,922,005.80
Treasury stock	-135,981.13	-168,771.13
Accumulated deficit	-11,201,109.58	-11,426,459.38
Accumulated other comprehensive income/loss	31,748.57	-11,054.49
Total equity	17,116,663.66	16,815,720.80
Total equity and liabilities	23,584,749.02	28,094,431.30

Consolidated Income Statement of secunet Security Networks (IFRS)

in Euro	1 Apr – 30 Jun 2006	1 Apr – 30 Jun 2005	1 Jan – 30 Jun 2006	1 Jan – 30 Jun 2005
Revenues	8,446,303.86	8,812,113.61	15,175,614.71	16,361,261.51
Other operating income	234,386.99	363,920.02	990,683.01	1,449,065.01
Cost of purchased materials and services	-2,300,804.64	-2,163,736.98	-3,941,996.12	-4,163,621.96
Personnel expenses	-4,271,070.11	-4,301,806.92	-8,292,568.95	-8,340,860.40
Depreciation and amortization	-220,356.54	-305,901.23	-422,499.79	-521,705.18
Other operating expenses	-1,481,731.36	-1,638,876.59	-3,211,103.53	-3,180,907.77
Operating income/loss	406,728.20	765,711.91	298,129.33	1,603,231.21
Interest income/expense	19,332.64	30,683.76	53,531.52	74,627.26
Foreign currency exchange gains/losses	2,199.53	1,347.02	6,455.79	5,108.88
Earnings before tax	428,260.37	797,742.69	358,116.64	1,682,967.35
Taxes on income	-171,578.68	-188,400.09	-132,766.84	-662,057.39
Earnings before minority interests	256,681.69	609,342.60	225,349.80	1,020,909.96
Net income	256,681.69	609,342.60	225,349.80	1,020,909.96
Earnings per share (basic)	0.04	0.09	0.03	0.16
Earnings per share (diluted)	0.04	0.09	0.03	0.16
Average number of shares outstanding (basic)	6,444,415	6,437,556	6,440,214	6,427,636
Average number of shares outstanding (diluted)	6,500,000	6,500,000	6,500,000	6,500,000

Consolidated Statement of Changes in Equity secunet Security Networks (IFRS)

in Euro	Subscribed capital	Capital reserves	Treasury stock	Net loss	Accumulated other comprehensive income/loss	Total
Equity as at 31 Dec 2004	6,500,000.00	21,922,005.80	-265,700.38	-15,705,593.41	22,306.50	12,473,018.51
Changes in treasury stock			96,929.25			96,929.25
Foreign currency differences					-33,360.99	-33,360.99
Net profit 1 Jan – 31 Dec 2005				4,279,134.03		4,279,134.03
Equity as at 31 Dec 2005	6,500,000.00	21,922,005.80	-168,771.13	-11,426,459.38	-11,054.49	16,815,720.80
Changes in treasury stock			32,790.00			32,790.00
Foreign currency differences					42,803.06	42,803.06
Net loss 1 Jan – 31 Jun 2006				225,349.80		225,349.80
Equity as at 30 Jun 2006	6,500,000.00	21,922,005.80	-135,981.13	-11,201,109.58	31,748.57	17,116,663.66

Consolidated Cash Flow Statement of secunet Security Networks (IFRS)

in Euro	1 Jan – 30 Jun 2006	1 Jan – 30 Jun 2005
Cash flows from operating activities		
Net profit	225,349.80	1,020,909.96
Adjustments for: Depreciation and amortization	422,499.79	521,705.18
Increase/decrease in provisions and deferred taxes	-3,752,327.45	-1,505,461.24
Net interest income	53,531.52	74,627.26
Cash flows to taxes	0.00	0.00
Gains/losses on the disposal of fixed assets	0.00	0.00
Foreign currency exchange gains/losses	-6,455.79	-5,108.88
Other (non-cash transactions)	32,790.00	52,080.00
Change in net working capital	-5,261,045.70	-2,523,467.60
Net cash used in/provided by operating activities	-8,285,657.83	-2,364,715.32
Cash flows from investment activities		
Acquisition of subsidiaries, less acquired cash and cash equivalents	0.00	0.00
Acquisition of property, plant and equipment	-532,244.22	-530,045.69
Income from the sale of equipment	0.00	0.00
Net cash used in investment activities	-532,244.22	-530,045.69
Cash flow from financing activities		
Net cash provided by/used in financing activities	0.00	0.00
Net effect of currency translation in cash and cash equivalents	49,258.85	12,999.92
Increase/reduction in cash and cash equivalents	-8,768,643.20	-2,881,761.09
Cash and cash equivalents at beginning of period	12,845,872.17	8,782,893.53
Cash and cash equivalents at end of period	4,077,228.97	5,901,132.44

Concept and design

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