CANCOM®

Führender Anbieter von IT-Infrastruktur und Professional Services

CLOUD COMPUTING
MANAGED SERVICES
IC INFRASTRUCTURE
SK CLOUD SERVICES
ONS ARCHITECTURE
IMIZED PROCESSES
ZENTRALISIERUNG
PRIVATE CLOUD
DATA ER
MOBILITY

Annual report 2010

CANCOM IT Systeme AG

About CANCOM…

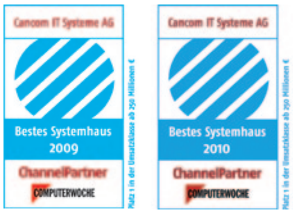



Integrated solutions for IT architecture, system integration, consulting and services

Since its foundation in 1992, the listed company CANCOM IT Systeme AG has grown to become one of the three largest full IT service providers in Germany. The integrated product and service portfolio caters for the requirements and needs of medium-sized companies as well as major enterprises and ranges from consulting and IT architecture design to IT procurement, integration and system operation. CANCOM perceives itself as a reliable and qualified IT partner which offers customers added value.

CANCOM maintains the highest partner certifications with leading manufacturers such as HP, Microsoft, IBM, SAP, Symantec, Citrix, VMware, Apple and Adobe, and therefore has essential expertise in the trend-setting IT topics of the future.

"Germany's Best Integrated Systems Provider" for the second time in a row



COMPUTERWOCHE, the leading German weekly magazine for the IT sector, has identified the customers' most popular integrated systems providers in cooperation with ChannelPartner.

In the categorie of more than € 250 million of revenues CANCOM outperformed the competitors clearly again and was ranked at No. 1 as "Best Integrated Systems Provider 2010" after the success in 2009.

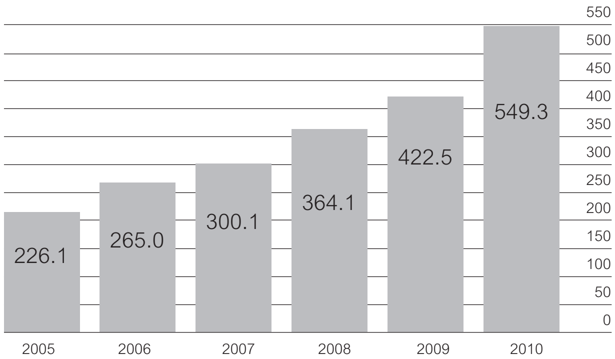


Overview of key figures CANCOM group (in € million)

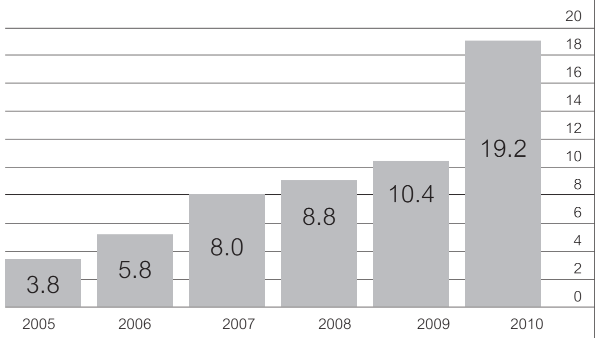
	2010	2009	2008	2007	2006	2005
Revenues	**549.3**	422.5	364.1	300.1	265.0	226.1
Gross profit	**151.0**	119.3	107.8	88.3	66.1	42.9
Gross profit margin %	**27.5**	28.2	29.6	29.4	24.9	19.0
Consolidated EBITDA	**19.2**	10.4	8.8	8.0	5.8	3.8
Consolidated EBIT	**13.7**	7.0	5.4	6.2	4.3	2.4
Net income for the period	**7.9**	5.1	2.7	4.7	2.4	1.0
Earnings per share (in €)	**0.80***	0.49	0.27	0.45	0.24	0.11
Balance sheet total	**177.4**	134.9	120.7	100.4	86.5	70.1
Equity	**51.0**	43.9	38.9	36.3	33.4	26.9
Equity ratio (%)	**28.7**	32.5	32.2	36.2	38.9	38.4
Adjusted average number of shares (in 1,000) (diluted)	**10,321**	10,387	10,391	10,391	9,924	9,462
Employees as of December 31	**2,039**	1,870	1,778	1,319	1,254	567
Cash and cash equivalents as of December 31	**31.5**	25.8	18.3	11.8	7.3	11.9

* Adjusted to take into account a non-recurring item amounting to € 0.04 relating to the writing-off deferred tax assets on a loss carryover not assessable as at the reporting date, following an EU action regarding Section 8c of the German Corporation Tax Act (Körperschaftsteuergesetz, KStG)

Revenues 2005-2010 (in € million)



EBITDA 2005-2010 (in € million)



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Letter to our shareholders

Dear Shareholders,

The year 2010 was a significant year for CANCOM, and it was another very successful year. The Group's success is clearly reflected in the business figures for the year, and is evidence that CANCOM's business strategy is focused on the latest IT developments.

Cloud Computing continues to shape the IT world and, with it, CANCOM, one of the three largest integrated systems providers in Germany. We have been addressing this trend for years, and are now one of the few IT service providers that offer an own field-tested private cloud solution designed especially for small and medium-sized enterprises. CANCOM's takeover of Plaut's SAP Hosting and IT Services business division last November has added considerable strength to the Group's cloud services segment. As part of the takeover we acquired the data centre in Ismaning, near Munich in Germany. Now we have a base from which to offer our customers an integrated IT one-stop service. The acquisition is therefore a significant step in the consolidation of our market position as a full-service provider and as a reliable partner for high-quality IT services. CANCOM's high standards of quality are reflected by the fact that the Group was awarded SAP Gold Status, the highest level in SAP's PartnerEdge programme, in December 2010.

We are honoured and delighted that our customers have again voted us the best integrated systems provider in a poll carried out by renowned German trade journals COMPUTERWOCHE and ChannelPartner. This is the second time in a row that CANCOM has won the title.

During 2010, as in previous years, we placed great importance on maintaining the strength of our balance sheet. Our good credit rating has given us an advantage in our dealings with banks, credit insurers and customers. Our comfortable cash position continues to provide us with a good basis for further growth. We are also adhering to our objective of a sustainable dividend policy.

We value our employees' commitment and thank them for their achievements during the year under review. We are confident that they remain optimistic about the future and will overcome the challenges faced by CANCOM.

Finally, we would like to thank you, our shareholders, for your confidence in us.

Klaus Weinmann   Rudolf Hotter

Executive Board of CANCOM IT Systeme Aktiengesellschaft

The share

The share

Key figures relating to the capital market (in €)

	31 Dec. 2010	31 Dec. 2009	Percentage change
Stock exchange price at financial year-end (Xetra closing price in €)	9.35	3.90	+ 139.7
Number of shares (at financial year-end, in million)	10.39	10.39	+ 0.0
Market capitalisation (at financial year-end, in € million)	97.15	40.52	+ 139.7
Earnings per share (in €)	0.80*	0.49	+ 63.3

* adjusted earnings per share, which take into account an extraordinary item increasing this figure by € 0.04.

The trend in the German equities market

Thanks to the upturn in the economy Germany's equity market closed the year 2010 significantly up on the previous year. The blue-chip index of Deutsche Börse, DAX, rose by 16 percent during the course of the year, outperforming many other international equities indices. The expectations of investors and analysts were greatly exceeded, despite the debt crisis in the eurozone and continuing scepticism over the economic trend in the USA. After a brief fall in prices at the start of the year, the DAX rose steadily over the course of the year and, after reaching its peak of just over 7,000 points at the start of December, finally closed the year at 6,914 points. The selection index of Deutsche Börse for mid-sized companies from technology sectors, TecDax, gained about 33 points, i.e. approx. 4 percent, over the course of the year, hitting 850.67 points. The Tec All Share index rose by about 9 percent to 1,017.33 points.

CANCOM share price performance

The year 2010 was a very good year for the stock market. The CANCOM share opened the year at € 4. Like the benchmark index, DAX, the CANCOM share made a weak start, but after reaching its year low of € 3.85 on 21 January, the price then rose rapidly to more than € 8 at its interim high in August. After levelling off for a short while in September, the share price then started to rise again in October, reaching its year high of € 10.24 on 6 December 2010. Braced by the positive mood on the German equity market, the CANCOM share finally closed the year at € 9.35.

This year, since the DAX regained the 7,000 points mark on a sustained basis already by the middle of January, prices have risen more or less continuously until March. The TecDAX also continued its upward trend at the start of the year and exceeded the 900 points mark.
All in all, many stock market experts are still optimistic about the outlook for the German stock market for the year 2011.

The CANCOM share also made a good start to the stock exchange year 2011. Its price had risen to € 11 by the beginning of February, but fell at the time of going to print on 16 March 2011.

Investor and public relations

CANCOM has always seen active financial communication as one of its central management tasks. We therefore attach great importance to openness and transparency.

In addition to fulfilling the mandatory requirements, such as ad hoc announcements and quarterly reporting, CANCOM works intensively on its investor and public relations. In addition to maintaining an extensive internet presence with a comprehensive website, one of our primary tasks is to keep in frequent contact with shareholders, investors, analysts, business media and IT media.

CANCOM held several road shows in Germany and in other European countries in 2010. It also took part in the German Equity Forum in Frankfurt am Main and the Capital Market Conference in Munich. Furthermore CANCOM invited analysts to conferences in Munich and Frankfurt am Main.

Up-to-date information about the CANCOM share can be found on the Investor Relations pages of our website at www.cancom.de.

Management report of CANCOM IT Systeme AG and the CANCOM Group for the financial year 2010

1. CANCOM's business and the general economic situation

Organisational and legal structure of the CANCOM Group

CANCOM IT Systeme Aktiengesellschaft, based in Jettingen-Scheppach, Germany, performs the central financial and management role for the equity investments held by the CANCOM Group.

The e-commerce/trade business segment comprises CANCOM Deutschland GmbH, HOH Home of Hardware GmbH, CANCOM Computersysteme GmbH, CANCOM a + d IT solutions GmbH, CANCOM (Switzerland) AG, and CANCOM Ltd. less the cost centres allocated to CANCOM IT Solutions GmbH. This business segment primarily includes the Group's business transacted via internet, catalogue, telesales and direct sales.

The IT solutions business segment comprises CANCOM NSG GmbH, CANCOM NSG GIS GmbH, CANCOM NSG ICP GmbH, CANCOM NSG SCS GmbH, CANCOM physical infrastructure GmbH, acentrix GmbH, CANCOM SCC GmbH, CANCOM Plaut Managed Services GmbH, CANCOM IT Solutions GmbH and the cost centres of CANCOM Deutschland GmbH allocated to it. This business segment offers comprehensive services relating to IT infrastructure and applications. The range of services offered includes IT strategy consulting, project planning and implementation, system integration, maintenance and training, as well as numerous IT services, right through to full IT operation.

Focus of activities and sales markets

The CANCOM Group is one of the three largest independent integrated systems providers in Germany. It offers IT architecture services, systems integration and managed services. As a provider of integrated services, CANCOM focuses on IT services, in addition to selling hardware and software from prestigious manufacturers. Its IT services range includes design of IT architectures and landscapes, design and integration of IT systems, and system operation.

The CANCOM Group's customer base therefore includes primarily commercial end-users, from independent professionals to medium and large-sized companies and public-sector institutions. Through the HOH Home of Hardware GmbH e-commerce platform at www.hoh.de the CANCOM Group provides products and services predominantly to private customers and small businesses.

Explanation of the control system used within the Group

To control and monitor the performance of the individual subsidiaries, once a month CANCOM analyses, among other things, their sales revenues, gross profit, operating expenditure and operating profit, and compares these key figures with the original plan as well as the quarterly forecast. Additionally, the Company regularly uses external indicators such as inflation rates, interest rates, the general economic trend and the performance of the IT sector, including forecasts, for the purpose of management control. Cash management procedures include the assessment of the daily status.

Research and development activities

Innovation is very important for economic momentum and growth. CANCOM focuses its research and development activities on the trend areas for IT. In 2010 it invested in the development of market-ready new products, processes and services.

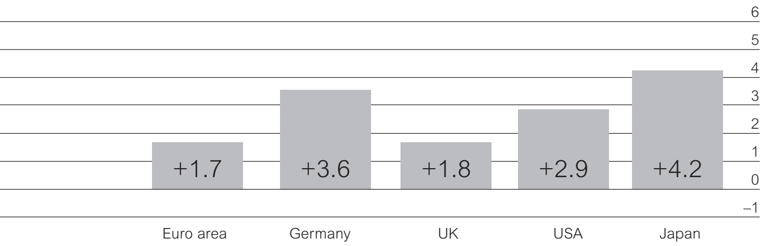
In the cloud computing business, a high-tech platform was developed, standard technologies were integrated and, based on this, an out-of-the-box solution was implemented as a middleware platform. The CANCOM AHP Private Cloud combines management services, provisioning services and data architecture. Companies, IT departments and users gain enormous advantages from the central provision of applications and desktops.

The performance of the economy as a whole

The German economy grew significantly again in 2010 as a result of higher exports, investments and consumer expenditure. Gross domestic product (GDP) grew by 3.6 percent in 2010; in 2009 it contracted by 4.7 percent. However, economic growth slowed down somewhat in the fourth quarter. GDP expanded by around 0.5 percent year on year. Earlier reports had forecast an increase of 0.7 percent in economic power for the third quarter.

Gross domestic product in 2010*

(real change compared with 2009, as a percentage)



*Forecast: Deutsche Bank Economic Research Bureau, Frankfurt am Main, Germany, 20 January 2011

According to estimates by the German Federal Statistics Office, the inflation rate in Germany in 2010 was 1.1 percent.

The last European Central Bank reduction in the key interest rate for the euro area was on 7 May 2009, when it was cut by 0.25 percentage points to 1.0 percent. Since then it has remained at a record low. In the UK, the Bank of England last reduced its base rate on 5 March 2009, to 0.5 percent.

According to the German Federal Employment Agency, in 2010 the unemployment rate rose by 0.5 percent compared with 2009, to 7.7 percent.

As things stand at present, the German Federal Government expects a real increase in gross domestic product of 2.3 percent for the year 2011 as a whole.

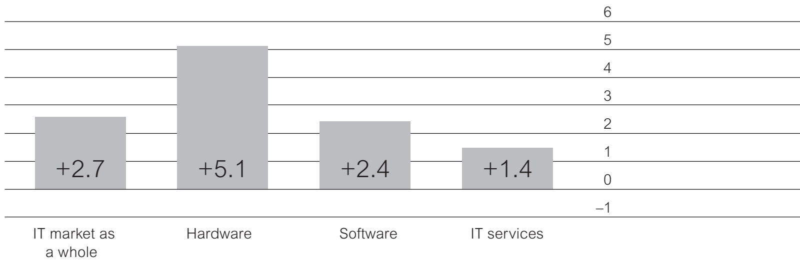
The performance of the information technology sector

According to the latest forecasts by the German Association of the Information Industry, Telecommunications and New Media (BITKOM), the German IT market grew by 2.7 percent in 2010. Final figures were not available at the time the financial statements were compiled.

The IT hardware segment benefited most strongly as companies worked to clear the backlog of IT investment. The IT hardware segment grew by 5.1 percent, IT software by 2.4 percent, and IT services by 1.4 percent.

Performance of the German IT sector in 2010**

(real change compared with 2009, as a percentage)



** Forecast: BITKOM, October 2010

Overview of the CANCOM Group's business performance

The CANCOM Group continued on its path of growth in the financial year 2010. Consolidated sales revenues and operating profits both exceeded the figures for the previous year, reaching their highest levels in the history of the Company.

Consolidated sales revenues were up 30.0 percent in 2010, from € 422.5 million to € 549.30 million.

Consolidated gross profits rose by 26.6 percent year-on-year, from € 119.3 million to € 151.0 million. The gross profit margin fell during the year from 28.2 percent to 27.5 percent.

Consolidated EBITDA rose by 84.6 percent year-on-year, from € 10.4 million to € 19.2 million.

Consolidated EBIT was up 95.7 percent year-on-year, from € 7 million to € 13.7 million.

The consolidated profit for the year rose from € 5.1 million to € 7.9 million. This resulted in earnings per share of € 0.76, compared with € 0.49 in 2009. The adjusted earnings per share, which take into account an extraordinary item increasing this figure by € 0.04, amount to € 0.80. This adjustment arose because the EU Commission considers the restructuring clause under Section 8 c of the German Corporate Income Tax Act (Körperschaftssteuergesetz, KStG) (Continuation of a company's loss carryovers following a change of ownership in the event of restructuring under certain conditions) as an unlawful benefit.

This meant that the value of the Group's deferred tax assets arising out of loss carryovers had to be adjusted. CANCOM's figure for earnings per share is therefore accompanied by a figure for adjusted earnings per share for the reasons explained above.

CANCOM Plaut Managed Services GmbH, which was acquired during the past year, is included in the consolidated financial statements with effect from 31 December 2010.

The balance sheet total rose from € 134.9 million to € 177.4 million as a result of the Company's continued growth. The nominal equity capital rose from € 43.9 million to € 51.0 million. This resulted in an equity ratio of 28.7 percent, compared with 32.5 percent in 2009.

The strong growth and the associated increase in current assets nevertheless resulted in a significant positive operating cash flow of € 16.9 million in 2010, compared with € 10.7 million in 2009. This was partly owing to an increase in the factoring volume.

Cash and cash equivalents as at 31 December 2010 was considerably higher than at the same date in 2009, having risen from € 25.8 million to € 31.5 million.

The good order book position in 2010 has continued into the first quarter of 2011, up to the time that this annual report went to print.

Significant events and investments

CANCOM regularly optimises its corporate structure in order to secure and consolidate its position in existing markets and also to tap new markets. For this purpose, CANCOM continued to pursue an active acquisition policy in the financial year 2010. Below is an overview of the events that had a significant effect on the Group's business performance, and other important events in the financial year 2010:

- On 11 February, CANCOM SYSDAT GmbH was merged into CANCOM IT Solutions GmbH based in Jettingen-Scheppach, Germany, with retroactive effect from 1 January 2010. The CANCOM Group's solutions business will be concentrated in the new unit, which will operate under the name CANCOM IT Solutions.

- On 17 March, CANCOM IT Systeme AG acquired a 17.73 percent shareholding in Plaut Aktiengesellschaft. Plaut, an exchange-listed management and IT consultancy company based in Vienna, Austria, develops innovative business solutions for controlling, logistics, IT governance, SAP consulting and IT services. With more than 20 years of experience with SAP and having handled more than 1,000 projects, it is among the most skilled and preferred SAP partners. CANCOM IT Systeme AG increased its stake in Plaut Aktiengesellschaft, Vienna, to more than 20 percent as of 21 June 2010.

- CANCOM IT Systeme AG has increased its shareholding in Live Netzwerk und Computer GmbH from 75 percent to 100 percent via its subsidiary CANCOM Bürotex GmbH. The share purchase is documented in a contract dated 7 May 2010.

- CANCOM Bürotex IT solutions GmbH and Live Netzwerk und Computer GmbH were merged into CANCOM Bürotex GmbH with effect from 1 January 2010. The merger is documented in a contract dated 7 May 2010.

- CANCOM Bürotex GmbH based in Nürtingen, Germany, was merged into CANCOM SCC GmbH based Stuttgart, Germany, on 27 July 2010 with retroactive effect from 1 January 2010.

- CANCOM IT Systeme AG took over the SAP Hosting and IT Services division of Plaut Systems & Solutions GmbH, a German subsidiary of Plaut Aktiengesellschaft, Vienna, Austria, through its own subsidiary CANCOM IT Services GmbH. The acquisition is documented in a contract dated 29 November 2010. This step has extended CANCOM's product portfolio to include cloud services (IT as a service) and consolidated its position in the field of cloud computing.

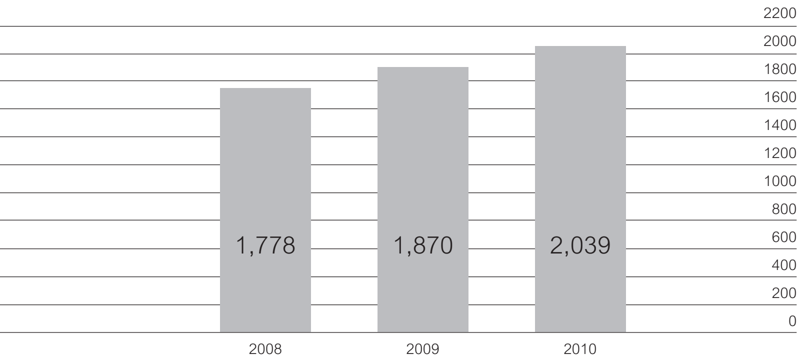
Employees

The CANCOM Group employed an average of 2,015 people during the financial year 2010, as compared with 1,777 in 2009. As at 31 December 2010, the Group employed 2,039 people, compared with 1,870 the previous year.

The employees worked in the following areas (as at 31 December):

Professional services:	1,365
Sales and distribution:	353
Marketing and product management:	31
Purchasing, logistics and order processing:	128
Central services:	162

Number of employees in the CANCOM Group, 2008–2010
(as at 31 December each year)



The personnel expenses were as follows (in € '000):

	2010	**2009**
Wages and salaries	84,079	69,965
Social security contributions	16,045	12,842
Of which pension provisions	330	198
Total	**100,124**	**82,807**

Environmental report

As an IT trading and services company, CANCOM's objective is to offer products and services of excellent quality at an attractive price, but also to be as environmentally friendly as possible. CANCOM therefore places great importance on conserving the resources at its disposal.

CANCOM also uses innovative green IT solutions to make a professional contribution to the environmentally-friendly and resource-conserving use of information and communications technology over the whole life cycle of the equipment. For instance, CANCOM offers its customers the advantages of state-of-the-art, energy-efficient data centres, which bring not only ecological benefits but also considerable savings on a company's energy costs.

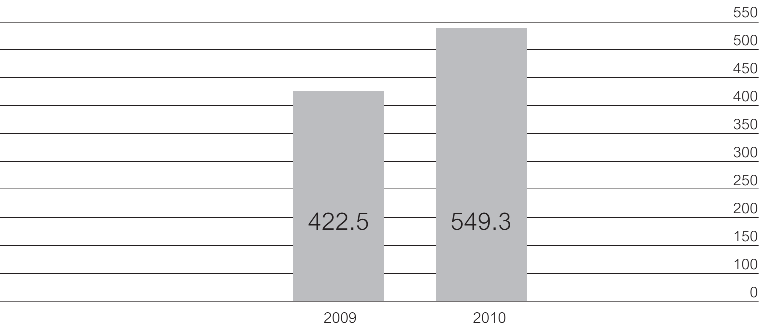
CANCOM is also conscious of its environmental responsibilities. Use of the latest technology at its headquarters ensures conservation of resources, reduction of CO2 emissions, and a healthy indoor climate for employees. The use of state-of-the-art virtualisation solutions in CANCOM's data centre saves energy and minimises environmental impact while increasing availability. CANCOM's use of advanced, intelligent systems, such as video conferencing, enables energy and resources to be conserved (green through IT). The resulting reduction in travel by employees leads to lower CO2 emissions, in addition to benefits such as process optimisation and considerable cost savings.

2. Earnings, financial and assets position of the CANCOM Group

a) Earnings position

The sales revenues of the CANCOM Group rose by 30.0 percent over the financial year 2010, from € 422.5 million to € 549.3 million.

Sales revenues of the CANCOM Group, 2009 – 2010 (in € million)



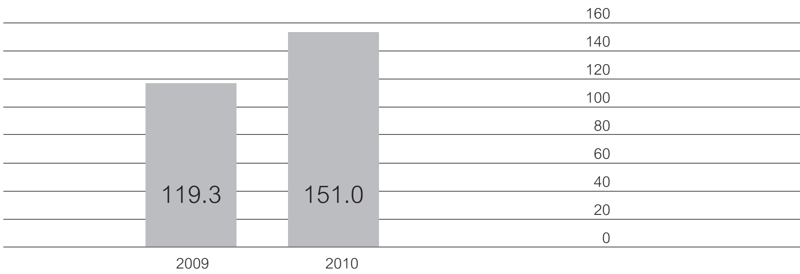
Sales revenues in Germany rose by 29.9 percent, from € 386.1 million to € 501.6 million.

In international business, Group sales revenues rose by 31.0 percent, from € 36.4 million to € 47.7 million. This is mainly due to the economic recovery and rising demand from companies, and in Germany also to the acquisition of Bürotex/SCC.

In the e-commerce/trade business segment, sales revenues rose by 13.0 percent to € 245.2 million, compared with € 217.0 million in 2009. In the IT solutions business segment, sales revenues rose by 48.0 percent from € 205.5 million to € 304.1 million.

The Group's gross profit rose by 26.6 percent year-on-year, from € 119.3 million to € 151.0 million. The gross profit margin fell year-on-year from 28.2 percent to 27.5 percent, as a result of strong growth in the trading business owing to companies catching up on IT expenditure.

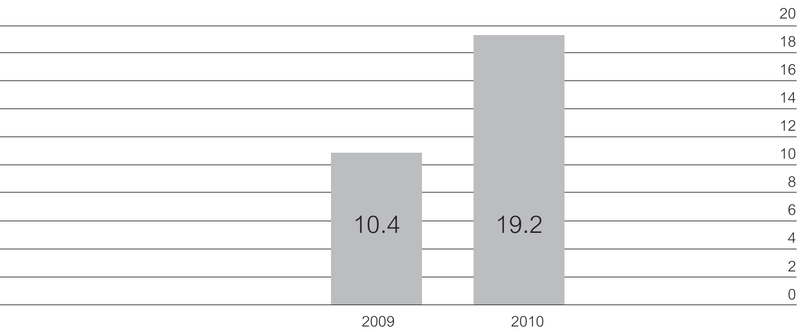
Gross profit of the CANCOM Group, 2009 – 2010 (in € million)



As a result of the acquisitions and the significant expansion of the Group's services activities, there was an exceptionally large increase in personnel expenses during the financial year, from € 82.8 million to € 100.1 million. Other operating expenditure rose to € 31.7 million, mostly as a result of acquisitions.

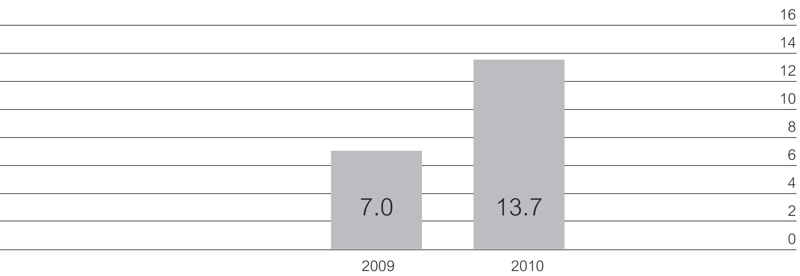
Consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) rose by 84.6 percent from € 10.4 million to € 19.2 million.

EBITDA of the CANCOM Group 2009 – 2010 (in € million)



Consolidated earnings before interest and tax (EBIT) rose by € 95.7 percent, from 7.0 million to € 13.7 million.

EBIT of the CANCOM Group, 2009 – 2010 (in € million)



The consolidated profit for the year rose from € 5.1 million to € 7.9 million. This resulted in earnings per share of € 0.76, compared with € 0.49 in 2009. The adjusted earnings per share, which take into account an extraordinary item increasing this figure by € 0.04, amount to € 0.80. This adjustment arose because the EU Commission considers the restructuring clause under Section 8 c of the German Corporate Income Tax Act (Körperschaftssteuergesetz, KStG) (Continuation of a company's loss carryovers following a change of ownership in the event of restructuring under certain conditions) as an unlawful benefit. This meant that the value of the Group's deferred tax assets arising out of loss carryovers had to be adjusted. CANCOM's figure for earnings per share is therefore accompanied by a figure for adjusted earnings per share for the reasons explained above.

The order position

In the e-commerce/trade business segment and parts of the IT solutions business segment, the majority of incoming orders are converted to sales within two weeks because of our large delivery capacity. Consequently, the reporting date figures on their own do not give a true picture of our order situation in this area of business, and for this reason they are not published.

In the IT solutions business segment, orders are often conferred over long periods. At present, the volume of orders is rising slightly.

Thanks to the stable services business – which now accounts for about two thirds of the gross profit (total output less materials costs and services rendered) – as well as the healthy condition of the balance sheet, the management feels the Group is in a strong position within the IT sector.

Explanations of individual items on the income statement

Further details on items in the statement of income are given in the notes to the consolidated statement of income.

b) Financial and assets position

Objectives of financial management

The core objective of the financial management of the CANCOM Group is to safeguard its liquidity at all times in a way that day-to-day business activities can be continued. In addition, the Group aims to achieve optimum profitability as well as a high credit status to ensure favourable refinancing rates.

Notes on the capital structure

The current liabilities, amounting to € 89.8 million (2009: € 67.5 million), include the component of long-term debt which is due within a year, trade accounts payable, provisions and other current liabilities. The increase in current liabilities in comparison with 2009 is due to an increase in trade accounts payable; however, against this there was an increase in the volume of accounts receivable, and cash and cash equivalents.

The non-current liabilities, which amount to € 36.6 million (2009: € 23.5 million), are liabilities with a residual term of at least one year.

In the financial year 2010, CANCOM IT Systeme Aktiengesellschaft received a commitment from the German publicly-owned development bank, KfW, to provide funds totalling € 8.8 million under its ERP Innovation Programme. This programme finances both research and development measures (part 1 of the programme) and the market introduction (part 2 of the programme) of new products, procedures and services. A conventional loan (debt capital tranche) forms 50 percent of the funds, and the remaining 50 percent is a subordinated loan (subordinated tranche).

On 27 December 2007, CANCOM IT Systeme Aktiengesellschaft concluded a contract with Bayern Mezzaninekapital GmbH & Co. KG for the provision of mezzanine capital amounting to € 4,000,000. It must be repaid in full by 31 December 2015. If the reported actual EBITDA is equal to 50 percent or more of the planned EBITDA, the mezzanine capital provider will receive earnings-related commission charges of 1 percent per annum.

In 2005, the CANCOM Group had already participated in two preferred pooled shares programmes (PREPS) arranged by HypoVereinsbank. PREPS is issued in the form of a profit participation right, securitised through a special purpose vehicle (SPV), and subsequently refinanced via the capital markets. PREPS is a mezzanine instrument. On the basis of the contractual arrangement (profit participation right), funds issued via PREPS are classifiable as subordinated and unsecured.

The financing structure was shifted further in favour of long-term financing over the course of the year. Interest-bearing liabilities mainly consist of long-term loans, and amount to € 24.0 million (2009: € 18.0 million); short-term liabilities and the current component of long-term loans amount to only € 1.6 million (2009: € 0.7 million). On top of this, the liable equity capital was raised by retention of profits and the taking up of subordinated loans.

The nominal equity capital was increased significantly during the year to € 51.0 million through transfers to net profits. Despite the increase in the nominal equity capital, there has been a slight fall in the equity ratio to 28.7 percent because of the Company's growth during the year and the resulting increase in the balance sheet total as at 31 December 2010.

On the assets side, current assets rose to € 120.3 million. The main reasons for this, apart from an increase in inventories, are a 22.1 percent increase in cash and cash equivalents to € 31.5 million and a 44.1 percent increase in trade accounts receivable to € 68.0 million. The latter is owing to the continued strong expansion of business activities in 2010.

Non-current assets increased to € 57.2 million. This increase is owing to a gain in property, plant and equipment and in intangible assets following the acquisition of CANCOM Plaut Managed Services GmbH and an increase in investments resulting from the purchase of a shareholding in Plaut Aktiengesellschaft based in Vienna, Austria.

The balance sheet total rose to € 177.4 million, compared with € 134.9 million in 2009.

Further details of the individual balance sheet items can be found in the Notes to the consolidated balance sheet.

Notes on the changes in the cash flow

Owing to the expansion of the Group's business activities – which involved an increase in liabilities and in trade accounts receivable as well as other liabilities and accounts payable – and the higher profits for the year before taxes and minority interest, the cash flow from operating activities amounted to € 16.9 million in 2010, compared with € 10.7 million in 2009. Mainly owing to the acquisitions referred to above, there was a negative cash flow from investing activities of € 17.3 million, compared with a negative cash flow of € 2.6 million in 2009. The cash flow from financing activities was € 5.9 million, compared with a negative cash flow of € 1.1 million in 2009. This is mainly owing to the taking up of loans from the German publicly-owned development bank, KfW. Overall, this gave rise to cash and cash equivalents of € 31.5 million, compared with € 25.8 million in 2009.

On balance, the earnings, financial and assets position of the Group improved further in the financial year 2010.

3. Earnings, financial and assets position of CANCOM IT Systeme Aktiengesellschaft

CANCOM IT Systeme Aktiengesellschaft performs the central financial and management role with regard to the equity investments held by the CANCOM Group. The risks and opportunities of CANCOM IT Systeme Aktiengesellschaft are therefore the risks and opportunities of its equity investments. These are commented on in detail in the sections on the risks and opportunities of future development.

CANCOM IT Systeme Aktiengesellschaft's sales revenues amounted to € 6.6 million in 2010, compared with € 5.6 million in 2009, and it achieved a net income for the year of € 8.0 million, compared with € 3.8 million in 2009.

Total assets as at 31 December 2010 were 5.8 percent higher than in 2009, at € 68.0 million (2009: € 64.3 million). The Company's equity capital was up 17.6 percent, from € 39.1 million to € 46.0 million. As a result, the equity ratio rose to 67.6 percent (2009: 60.7 percent).

The share capital of CANCOM IT Systeme Aktiengesellschaft remained unchanged throughout the year 2010, at € 10,390,751 divided into 10,390,751 shares of € 1 each.

The item of cash and cash equivalents as at 31 December 2010 was lower than on the same date in 2009, at € 12.9 million compared with € 16.6 million. Net liquidity (cash and cash equivalents less liabilities due to banks) amounts to € 7.3 million, compared with € 10.4 million in 2009.

Overall, the assets position of CANCOM IT Systeme AG at the end of 2010 was still good, and its earnings and financial position had improved further.

4. Events of particular significance after the reporting date

There were no events of particular significance after the reporting date up to the time the combined management report of CANCOM IT Systeme AG and the CANCOM Group was prepared by the Executive Board.

5. Disclosures in accordance with the German Takeover Directive Implementation Act (Übernahmerichtlinie-Umsetzungsgesetz, ÜbernRUmsG)

German Accounting Amendment Standard No. 5, which was adopted by the German Accounting Standards Board on 5 January 2010, amended the German Accounting Standard No. 15, which concerns the requirements regarding management report commentary. German Accounting Standard No. 15 permits references to other parts of the financial statements to avoid unnecessary repetition. This affects, among other things, the details regarding takeovers required by Section 315, paragraph 14 of the German Commercial Code (Handelsgesetzbuch, HGB). Individual details regarding takeovers can be found in the notes to the consolidated accounts or the notes to the Company accounts.

5.1. Share capital: amount and division

The share capital of CANCOM IT Systeme Aktiengesellschaft as at 31 December 2010 amounted to € 10,390,751 divided into 10,390,751 notional no-par-value bearer shares. They are evidenced by global certificates, and the shareholders have no claim to the issue of physical individual share certificates.
Each notional no-par-value share carries a voting right for general meetings of shareholders. There are no preference shares. Nor are there any holders of shares with special rights that confer controlling powers.

For details regarding authorised and conditional capital, please see page 68 of the notes to the consolidated accounts.

5.2. Purchase of the Company's own shares

For details regarding purchases of the Company's own shares, please see page 69 of the notes to the consolidated accounts.

5.3 Direct or indirect equity participations of 10 percent or more

For details of direct of indirect participating interests of 10 percent or more, please see page 92 of the notes to the Company accounts.

5.4 Appointment and dismissal of members of the Executive Board

Sections 84 and 85 of the German Stock Companies Act (Aktiengesetz, AktG) apply to the appointment and dismissal of members of the Executive Board. The Supervisory Board decides on the number of members in the Executive Board.

5.5 Changes to the articles of association

Sections 133 and 179 of the German Stock Companies Act apply to changes to the articles of association.

5.6. Significant agreements entered into by CANCOM IT Systeme Aktiengesellschaft that are subject to alteration in the event of a change of control

The contract of the CEO, Klaus Weinmann, contains a change-of-control clause. This states that, in the event of a change of control, the CEO is entitled to resign his current post as CEO and terminate his contract at six months' notice, as long as this is done within nine months after the change of control takes legal effect. In the event of his resignation, his emoluments would be paid by the Company for two years, but at the longest for the remainder of his term of office. Compensation for observing the changed restraint on competition would be deducted from the emoluments paid.
A change of control would therefore bring with it a risk of the resignation of the CEO, combined with an extraordinary expense in the area of remuneration to the Executive Board in the year of his resignation.

6. Remuneration report

The remuneration report summarises the basic principles applied to setting the remuneration of the Executive Board of CANCOM IT Systeme Aktiengesellschaft, and explains the level and structure of Executive Board members' emoluments. The report also covers the remuneration of the Supervisory Board members. The remuneration report conforms to the recommendations of the German Act on the Disclosure of Management Board Remuneration (Vorstandsvergütungs-Offenlegungsgesetz, VorstOG).

6.1. Remuneration of the Executive Board

The Supervisory Board is responsible for determining the remuneration of Executive Board members. The remuneration depends, among other things, on the size of the Company, its financial situation and the level of remuneration of the executive boards of other, comparable companies. The tasks and the contribution of the relevant Executive Board member are also taken into account.

The remuneration of the Executive Board is performance-related. In 2010, the remuneration of Klaus Weinmann, Rudolf Hotter and Paul Holdschik consisted of a fixed payment and a variable bonus. Paul Holdschik resigned from the Executive Board of CANCOM IT Systeme AG with effect from 29 July 2010, when his resignation was documented in the commercial register.

The fixed remuneration is paid as a monthly salary. Whether the variable bonus is paid, and how much is paid, depends on how well the CANCOM Group's target EBIT figure has been met in the financial year 2010.

The German Appropriateness of Management Board Remuneration Act (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG) and the German Corporate Governance Code require that the variable components of management board remuneration be based on performance over several years, and that both good and poor performance be taken into account. The Supervisory Board has therefore adjusted all contracts to take into account the requirements of the above Act with effect from 1 January 2011.

The amendments mainly concern the variable remuneration, half of which is a short-term bonus based on the achievement of objectives over one financial year, and the other half is a long-term bonus (for three financial years). The bonus paid to Klaus Weinmann will be 1 percent of the EBITDA generated, while Rudolf Hotter's bonus will be 0.5 percent of EBITDA. The amount of the bonus payment is capped for the financial year in question. If there is a significant worsening of the results within the three-year period of calculation in comparison with the relevant planned figures, the Executive Board members are obliged to pay back in full or in part the bonus payments received, in a type of negative incentive system.

The following level of remuneration was set for the Executive Board members in the financial year 2010 (rounded figures):

The remuneration of the CEO, Klaus Weinmann, consists of a fixed payment of € 280k, a bonus of € 315k and other remuneration components amounting to € 22k. His total remuneration is € 617k.
The remuneration of Rudolf Hotter consists of a fixed payment of € 200k, a bonus of € 145k and other remuneration components amounting to € 5k. His total remuneration is € 350k. The remuneration of Paul Holdschik consists of a fixed payment of € 200k, a bonus of € 110k and other remuneration components amounting to € 4k. His total remuneration is € 314k.
The total remuneration of the Executive Board for the financial year 2010 is € 1,281k.

6.2. Remuneration of the Supervisory Board

Each member of the Supervisory Board receives a fixed annual remuneration, which is set by the general meeting of shareholders and remains fixed until a general meeting of shareholders resolves on a change. In accordance with the articles of association, each member receives a payment of € 10k in addition to an attendance fee of € 750. The Chairperson receives double the amounts paid to other members. If a Supervisory Board member does not serve a full year, he/she receives the pro-rata remuneration for the period served.

The Company reimburses the Supervisory Board members with any expenses incurred that are directly connected with their position. Sales tax is reimbursed by the Company if the relevant Supervisory Board member is entitled to invoice separately for sales tax and exercises this entitlement.

The Supervisory Board members received the following remuneration in the financial year 2010 (rounded figures):

The remuneration of the Chairperson of the Supervisory Board, Walter von Szczytnicki, was € 26k. That of the other members of the Supervisory Board, Dr Klaus F Bauer, Stefan Kober, Raymond Kober, Walter Krejci and Regina Weinmann was € 13k. The total remuneration of the Supervisory Board in 2010 was € 91k.

6.3. Other notes

The Company has directors' and officers' insurance covering legal liability in relation to the activities of the Executive Board, the Supervisory Board and managerial employees.

Since 1 July 2007, a consultancy agreement has been in place between CANCOM IT Systeme Aktiengesellschaft and the Chairperson of its Supervisory Board, Walter von Szczytnicki. The contract was drawn up in accordance with Section 114 of the German Stock Companies Act (Aktiengesetz, AktG) and provides for an annual remuneration of € 60k. The remuneration paid in the financial year 2010 amounted to € 60k.

On 27 June 2007, the Supervisory Board approved an M&A consultancy agreement with Auriga Corporate Finance GmbH, Munich, Germany, on the occasion of the election to the Supervisory Board of CANCOM IT Systeme AG of Walter Krejci, managing director of Auriga Corporate Finance GmbH. The agreement had been signed on 7 March 2007 and required the approval of the Supervisory Board in accordance with Section 114 I of the German Stock Companies Act (Aktiengesetz, AktG). No payments were made to the company on the basis of the consultancy agreement in 2010.

7. Corporate governance declaration in compliance with Section 289a of the German Commercial Code (Handelsgesetzbuch, HGB)

Section 289a of the German Commercial Code was added when the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG) came into force on 29 May 2009. According to this Act, exchange-listed joint stock companies, among others, have to publish a corporate governance declaration. CANCOM IT Systeme Aktiengesellschaft has made the declaration required by Section 289a of the German Commercial Code available for its shareholders on the Company's website at www.cancom.de.

8. Risks of future development

CANCOM's business operations in various fields of the IT sector throughout Europe expose it to risks that are directly associated with its business activities. Below is an overview of the risk management system and the risks classified as substantial.

CANCOM's risk policy is designed to identify as early as possible any risks that could endanger the future of the Company as a going concern, and/or substantial business risks, and deal with them in a responsible way. Of course, there are always risks associated with business opportunities. It is therefore CANCOM's aim to increase the value of the Company for our shareholders by means of an optimal balance between the risks and opportunities. There are various risks that could have a considerable negative effect on the development of CANCOM's business and thus also on its financial position and results.

To identify risks and ensure that the risk control system is adequate, the Executive Board has formulated risk principles and engaged a central risk officer to monitor, measure and, where appropriate, control risks.

As part of CANCOM's risk analysis procedure, risks are regularly classified and valued according to the probability of their occurrence and their severity, and the information is then arranged in a risk matrix. All these risks are assigned to a specific person who takes responsibility for them. If the risks can be reasonably controlled through quantifiable values, appropriately defined values are used to assess them. If no precisely definable values can be found, they are assessed by the person responsible.

For risks to the Company as a going concern, the system for early identification of risks includes the defining of early warning indicators. Changes or trends in these are continually monitored and discussed in risk management meetings. The regular risk management meetings between the Executive Board and the risk officer ensure permanent and timely control of existing and future risks.

Additionally, this provides the best possible guarantee that the Executive Board and the Supervisory Board are informed in good time of any possible major risks.

In addition to the risk factors mentioned below, CANCOM may be exposed to other risks which are not yet known, or that are currently felt to be insignificant, which could be equally damaging to business.

External business risks

CANCOM's business activities throughout Europe expose it to tough competition in the various national sales markets as far as its range of products and services is concerned. Furthermore, the IT sector is characterised by fast and frequent changes, which means that new trends might be identified too late or interpreted wrongly. There is also a risk of a slump in the market or a downturn in growth, which is generally associated with a fall in incoming orders and may lead to increased competitive pressure.

There is also a risk from dependence on individual large customers. Because of its market positioning, CANCOM has a broad customer base. However, the success of the IT solutions business normally depends on a few large customers.

The CANCOM Group's largest customer by far is the Siemens Group, particularly Siemens AG. A significant reduction in orders from companies in the Siemens Group could have a considerable negative impact on the sales and results of the CANCOM Group. The risk from dependence on the Siemens Group is therefore classified as considerable.

In order to counter the risk from dependence on individual ,large customers in general, CANCOM is continuously expanding its direct sales in the IT solutions business, which will gradually broaden the customer base in this area.

Both in its investments and in its acquisition of companies or parts of companies, CANCOM sometimes ventures into business fields that are new to it. There is a risk that these business fields might not perform as well as anticipated. We attempt to reduce this risk by focusing on our core business. Our long-standing and sound knowledge of the market situation benefits us in this respect. However, exposure of our assets, financial position and earnings to consequential risks from new business fields cannot be ruled out.

There are risks inherent in CANCOM Group's strategic orientation. For instance, acquisitions may not perform as well as expected and have a negative impact on CANCOM's business performance. A significant worsening of the general economic conditions could also have a major negative impact on the Group's business prospects.

Supplier risk

CANCOM relies heavily on its manufacturers and/or distributors for its supply of hardware and software. Unexpected supply bottlenecks or price rises – as a result of shortages on the market, for example – can be detrimental to our sales revenues and our results, since our merchandise inventories at the logistics centres are of a short-term nature for reasons relating to optimisation. We try to reduce these risks by keeping in close contact with major manufacturers and signing long-term supply contracts. In particular, our broad base of manufacturers and distributors enables us to resort to alternative manufacturers or sources at relatively short notice.

Internal risks

The CANCOM Group's value chain covers all steps in its activities, from marketing, advice, distribution and logistics to training, service and maintenance. Disruptions within or between these areas could lead to problems, and possibly bring work processes in individual or several areas to a temporary standstill. In addition there is the risk of problems with quality, particularly in the IT solutions area, where advice is a major element of the service offered.

The Company's rapid growth also entails the risk that our administrative structures, as well as our organisational structures and processes, cannot be adapted at the same rate and that the control of the Group as a whole will suffer as a result. A high level of risk control is ensured by experienced employees, tried, tested and trusted administration and controlling systems, and the risk management system, which is continually adapted to reflect the latest developments and requirements.

Personnel risks

The loss of key personnel in the Company, on whose knowledge and familiarity CANCOM's success depends, constitutes a further short-term risk. CANCOM therefore applies various measures for long-term employee retention. There are appropriate rules on deputising, particularly in sensitive areas, so that any negative consequences due to the unexpected absence of an employee are minimised. Continual monitoring of employees' productivity makes it possible to identify at all times the key employees and devote particular attention to them.

Information technology risks

The success and functioning capacity of a company depends to a considerable degree on its IT equipment. There are fundamental information technology risks from operating computer-assisted databases as well as from the use of systems for merchandise management, e-commerce, controlling and financial accounting. The temperamental nature of these IT systems means they are susceptible to failure which, in extreme circumstances, could bring working processes to a standstill, and thus jeopardise the Company's continued existence. For instance, the Company's ability to supply merchandise might be at risk if the functioning of the IT systems necessary for trouble-free order processing is no longer safeguarded. CANCOM is aware of this risk, and therefore makes every effort to minimise it. However, despite due diligence, the above negative consequences cannot be completely ruled out.

Financial risks

• Liquidity and counterparty risks

A downturn in the cash situation of a company can bring with it considerable risks, which could endanger the future of the company as a going concern. At the reporting date, CANCOM was in a good cash position and had sufficient short-term credit facilities and guarantees from banks, totalling € 12.9 million. Of this amount, € 11.8 million was easily available, including guarantees. Of course, the Company regularly monitors the changes in the credit facilities and looks at the extent to which they have been used. In addition to the medium-term financial plan, the Group also prepares a monthly cash flow plan. All consolidated companies are now included in the planning system.

An adequate credit rating is essential for the procurement of borrowed capital, especially bank loans, and thus for the Company's long-term existence. Any marked deterioration in the credit rating therefore constitutes a significant risk for the Company's continued existence.

Since the equity ratio (calculated according to the method used by banks) is a decisive criterion for the granting of bank loans, it is monitored regularly so that prompt corrective action can be taken, if necessary.

The Company does not currently see any financing risks or other risks that could jeopardise its continued existence. CANCOM IT Systeme AG is mainly financed by long-term loans, particularly subordinated loans. The fact that the German publicly-owned development bank KfW has granted funding to CANCOM IT Systeme AG under its ERP Innovation Programme and its Capital for Work and Investments Programme in the autumn of 2010 demonstrates that the Company has continued positive access to the financial market.

• Default risks

Default on payment by customers constitutes a latent risk. In extreme cases, bad debts could cumulatively endanger a Company's continued existence. In order to hedge against this risk, CANCOM's customer deliveries are generally only carried out after a credit check has been made. In the financial year 2009, against the background of the financial and economic crisis, the internal guidelines for credit insurance and for the issuing of credit limits were tightened up with regard to both the limits granted and the employees authorised to approve them.

• Price risks

The majority of goods stored at our logistics centres are state-of-the-art hardware and software products, which are subject to rapid depreciation in value because of the typically very short product life cycles in the IT sector. CANCOM attempts to counter the ensuing risk of inventory value depreciation with the assistance of a catalogue of measures, which is continually revised.

These measures include monthly stocktaking and revaluation of inventories. In addition, as part of a product range analysis, sales statistics are automatically drawn up. The statistics include information on inventory depreciation, in order to minimise the risk of unexpectedly high depreciation of inventories. CANCOM has also agreed a 30-day right of return for inventory goods with its main suppliers.

• Risks associated with cash flow fluctuations
The CANCOM Group's international business operations generate cash flows in different currencies. However, the majority of transactions are conducted in the euro area, which limits the currency risk.

A loan was raised in Swiss francs in 2006. As at 31 December 2010, the loan balance was CHF 0.8 million.

Cash pooling within the Group reduces the volume of financing through borrowed capital, and thus optimises the CANCOM Group's interest management, with positive effects on the net interest income. The Group derives internal advantages relating to cash investments and borrowing from the cash management system. It enables the internal utilisation of the surplus funds of Group companies to finance the cash requirements of other Group companies. Nevertheless, a significant decline in the value of the euro against other currencies could give rise to currency losses.

• Interest risks
Apart from overdraft facilities, CANCOM IT Systeme AG has only fixed-interest loans or loans subject to a quantifiable interest rate change calculated on the basis of the Company's results.

• Financial market risks
A major objective of CANCOM IT Systeme AG is to acquire, hold and sell equity investments in companies, as well as to carry out activities connected with raising capital.

Dealing in financial instruments and structured products is not a core business of the Company, and is only used – if at all – as a means of safeguarding sound underlying transactions, such as currency hedging. At the balance sheet date CANCOM IT Systeme AG did not hold any structured products. The financial market risk is limited to the price risk of the securities held by the Company at the balance sheet date.

Authorisation for the purchase and sale of structured products from or to banks is restricted to the Executive Board and the Finance Director, and the cross-checking principle must be followed. This is intended to avoid the possibility of inexperienced persons carrying out transactions of this kind.

• Stock market price risk
Share price fluctuations can have a negative impact on the asset position of CANCOM IT Systeme AG. CANCOM therefore sees active financial communication as one of its central management tasks, and attaches great importance to openness and transparency. In addition to maintaining an extensive internet presence with a comprehensive website, one of the primary objectives of CANCOM's public relations work is to keep in close contact with shareholders, investors, analysts and business and IT media in the interests of sustaining the share price.

Legal risks
Current or future legal disputes could have a negative impact on the business of the CANCOM Group. In as much as CANCOM is involved in legal disputes in the context of its ordinary business activity, any expected effects on the consolidated profit are adequately covered, following cautious legal assessment.

The main features of CANCOM IT Systeme AG's internal control system and the risk management system with regard to the (Group) accounting process

- CANCOM IT Systeme AG has a clear management and corporate structure, in addition to a schedule of responsibilities. Cross-departmental key functions are centrally controlled by CANCOM IT Systeme AG.

- The functions of the departments with the greatest involvement in the accounting process are clearly divided. The areas of responsibility are clearly allocated.

- Integrity and responsibility in regard to finances and financial reporting are safeguarded by a commitment made to this effect in the Company's internal code of conduct.

- Appropriate facilities are in place in the IT department to protect CANCOM's financial systems against unauthorised access. Where possible, standard software is used in the financial systems.

- There is an integrated approach to corporate governance, in which all elements – risk management, compliance management, the in-house audit department and the internal control system – influence each other. The effectiveness of the various elements is regularly checked.

- An appropriate system of guidelines (for example accounting, payment and travel cost guidelines etc.) is in place, and these are continuously updated. The main assets of all the companies are regularly tested for impairment, and there is a manual for the checking of all accounting-related processes.

- All accounting-related processes are subject to cross-checking.

- Accounting-related processes are inspected by the in-house audit department, which is independent of these processes.

- The risk management system and the internal control system have appropriate measures for the control of accounting-related processes.

- Departments and divisions involved in the accounting process are appropriately equipped in terms of quantity and quality.

- Accounting data received and passed on are continuously checked to ensure they are complete and correct. Spot checks are regularly carried out. The software used automatically initiates plausibility checks, e.g. for payment runs. Tests are carried out at regular intervals; there is also a three-stage system for checking the correctness of financial statements. First, single-entity financial statements are generated by the financial accounting department. In a second control stage, Group accounts are prepared and consolidated figures produced; and in the third stage a review is carried out by Financial Management.

Explanation of the main features of the internal control system and the risk management system with regard to the accounting process

The internal control and risk management system with regard to the accounting process, the main features of which have been described above, ensures that Company data are always correctly recorded, processed and acknowledged in the balance sheet and included in the financial statements.

A proper, consistent and continuous accounting process is dependent on skilled and qualified personnel, appropriate software as well as clear legal and corporate guidelines. A well-defined demarcation of responsibilities and various controlling and checking mechanisms, as described above (especially plausibility checks and cross-checking), ensure that accounting is carried out correctly and responsibly.

In particular, the process entails recording, processing and documenting business transactions and entering them immediately and correctly in the accounts in compliance with the legal requirements, the articles of association and the corporate guidelines. At the same time it is ensured that assets and liabilities in the annual and consolidated financial statements are accurately estimated, reported and valued, and that comprehensive, reliable and relevant information is provided quickly.

9. Opportunities of future development

CANCOM's business activities throughout Europe in various fields of the IT sector offer many opportunities.

Below is an overview of the potential opportunities offered by future development.

Increase in sales revenues and profits resulting from expansion of existing business activities

CANCOM's acquisition of Plaut's SAP Hosting and IT Services division considerably expands the Group's cloud computing business. The product portfolio now includes cloud services (IT as a service), which means that, with the aid of the CANCOM AHP Private Cloud platform, the Group can now offer customers complete, integrated IT as a cloud service for a fixed monthly fee.

CANCOM's business policy provides for the continuation of its path of growth. For this purpose it plans to bundle and strengthen its existing business activities, moving further towards high-end integrated ITC solutions, both through organic growth and by means of acquisitions.

This will create an opportunity for a further increase in sales revenues. Taking advantage of synergy effects and economies of scale – for example improved purchase terms, better access to major projects, and centralised administrative tasks – can contribute to an accelerated growth in profits. Additionally, the planned expansion of the services business could lessen the impact of a downward trend in the price of hardware.

Opportunities from the recovery of the wider economy following the financial crisis

The investment backlog among companies had already started to clear in 2010 but, according to the market research company IDC, it should continue in 2011. Cost-saving IT solutions and services that bring a sustained improvement in companies' IT productivity are still in favour. Better gearing of IT services to the needs of specialist departments is also regaining importance.

At the same time, the consolidation process in different industries is continuing after the economic crisis, so increasing takeover activities and subsequent IT restructuring is giving the market additional impetus, which should also profit CANCOM.

Companies' increasing requirements with regard to IT and IT infrastructure – for instance to improve monitoring of compliance with the Basel II and Basel III guidelines on the granting of loans – could particularly boost the demand for hardware, software and services.

The German IT sector organisation BITKOM (Association of the Information Industry, Telecommunications and New Media), has identified what it sees as the most important IT trends of the future. According to BITKOM, technologies that bring users better performance and greater efficiency will retain a high profile. The topic of **cloud computing** is referred to as the most important trend, in which IT services (for instance storage space, computer capacity or various applications) are provided in real time via data networks 'in the cloud' instead of on local computers. By using cloud computing, companies can significantly reduce their IT costs, improve efficiency and so be more competitive. The market research organisation IDC expects the German cloud services market to grow by an average 41 percent per year until the year 2014. With CANCOM AHP Private Cloud, CANCOM now has its own field-tested cloud computing solution, enabling it to position itself as a strong and reliable IT partner.

Another hot topic is **mobile applications.** It is becoming increasingly important for users to be able to gain access to company data and applications from home or while on the move, as this increases the agility and productivity of a company. With the growing use of mobile devices, increasingly high-performance IT infrastructure is also necessary. This will also have a positive impact on CANCOM's business as the leading provider of IT infrastructure and professional services.

As the topics of cloud computing and mobility gain a higher profile, data protection and security requirements are being stepped up, so increasing the demand for **IT security** solutions. CANCOM's portfolio of security solutions brings positive opportunities for the CANCOM Group's business development.

Virtualisation and consolidation solutions offer effective instruments for reducing IT costs. According to BITKOM, the central, shared use of IT resources, including joint use of entire data centres, will continue to be another driver of IT investment. For computers at the workplace, there is also a trend towards thin clients. Desktop virtualisation not only enables slim desktop PCs to use individual applications, but also gives access to the entire work environment from a central computer. BITKOM expects the market for desktop virtualisation in Germany to grow by 13 percent in 2011. With professional solutions in the field of centralisation, consolidation and virtualisation, CANCOM will meet the increasing requirements for integrated system landscapes, ensure business continuity and increase the IT efficiency of its customers.

There is also a trend towards the use of **social media** in companies. Social networks, such as Facebook and Xing, are becoming increasingly important for companies. They facilitate fast, direct communication with customers, business partners, potential employees and other interested parties. There are certain technological and organisational prerequisites to be met before a company can use social media. As a leading IT architecture company, systems integrator and managed services provider, CANCOM can provide its customers with advice on and support for the technological implementation of social media systems and their integration into existing IT landscapes.

According to the global IT market research firm Pierre Audoin Consultants (PAC), in 2011, there will continued demand for service outsourcing and managed services for IT systems or particular business processes. Partial or total outsourcing of IT enables companies to keep costs variable, so that IT expenditure only affects operating costs, and no IT investments that tie up capital are necessary. For CANCOM, this business segment not only offers attractive growth prospects, but reduces dependence on economic trends thanks to extended contract periods, and thus makes business development easier to plan. Also, projects in the field of outsourcing and managed services promise higher margins than orders in the conventional trading business.

Both on a national and an international level, issues such as environmental protection, energy efficiency and sustainability affect the business policy. This includes **green IT,** the environmentally-friendly and resource-conserving use of information and communication technology, as well as e-energy, the optimisation of electricity supply with the help of intelligent electricity networks (smart grids). The advantages of green IT solutions, according to BITKOM, include not only environmental considerations, but considerable potential for savings on a company's energy costs. In order to take advantage of the opportunities this presents, CANCOM offers an innovative range of low-emission, energy-efficient IT solutions and products, so combining economy, quality and environmental protection.

CANCOM combines about two decades of experience in IT consultancy and integration with innovative services; it gives manufacturer and provider independent advice, and creates economical and technically optimised system infrastructures. CANCOM employees have many years of project experience and have been certified by major manufacturers for the latest technologies. On top of this, CANCOM has established various measures to attract, develop and retain 'high potentials' – highly qualified skilled employees and managers.

With its portfolio of services, CANCOM is positioned in the trend business areas referred to by BITKOM. Specialist sales staff facilitate focusing on particular IT segments by providing dedicated technical expertise. This know-how of the specialist sales staff is available to the sales and services units of all CANCOM Group companies.

CANCOM's concepts and solutions help their customers to obtain a full return on IT investments within a short time. They include the integration of new technologies and procedures in order to ensure that business-critical applications continue operating flawlessly, offer customers business flexibility and support them in setting up adaptable companies in which business processes and IT are in step with each other.

With a comprehensive range of ITC services and around 1,400 highly skilled and qualified employees in its professional services division, CANCOM offers IT solutions and managed services tailored to individual needs, and thus creates added value for customers.

In the trading business, there are opportunities in e-commerce.

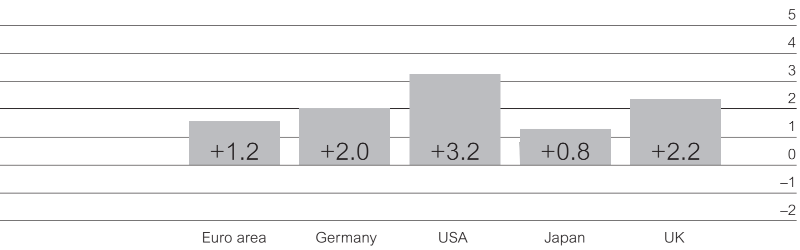
According to a study by the Centre for Retail Research, based in the UK, on behalf of the price comparison service Kelkoo, Germany is clearly one of the top
e-commerce providers in Europe, with online sales of € 39.2 million in 2010 and a growth rate of 15 percent for 2011. In other words, the performance of the
e-commerce segment is significantly above that of the conventional retail industry.

Through its unit HOH Home of Hardware GmbH (www.hoh.de), CANCOM has an efficient e-commerce model. It is in a position to benefit greatly from this trend.

10. Forecast

Following the rapid recovery of the Germany economy in 2010, economic experts are also optimistic about the year 2011. Deutsche Bundesbank feels gross domestic product (GDP) may return to pre-crisis levels by the end of 2011. The German Institute for Economic Research, DIW, forecasts growth of 2.2 percent for 2011, while the German Federal Government expects GDP to rise by 2.3 percent.

Gross domestic product in 2011*
(real change compared with 2009 as a percentage)



* Forecast: Deutsche Bank Research Bureau, Frankfurt am Main, Germany, 27 January 2011

According to the latest market figures from the German IT sector organisation BITKOM, experts expect the German European IT market to grow by 4.3 percent in 2011, compared with 2.7 percent in 2010.

Growth of 4.6 percent is forecast for IT services, compared with the decline of 1.4 percent in 2010. The software segment is expected to grow by 4.2 percent, compared with 2.4 percent in 2010, and the hardware segment is anticipated to increase by 4.0 percent, compared with 5.1 percent in 2010.

IT research specialists IDC have similar expectations. In a study published in October 2010, its experts predict annual growth in the IT services segment of 2.6 percent for the years 2011 to 2014. Global IT market research firm Pierre Audoin Consultants (PAC) agrees with this growth forecast. In the outsourcing segment, companies' expenditure is anticipated to rise by as much as 6.8 percent per year.

The German SAP services market went up 4.4 percent in 2010 year on year. PAC expects a further significant increase of 7.7 percent in Germany in 2011. CANCOM should also profit from this, since CANCOM Plaut Managed Services GmbH provides SAP users with support for SAP operation as well as with the necessary infrastructure.

In view of the opportunities for future growth in e-commerce, CANCOM is consolidating its activities in the area of e-procurement and customised shops. Customised shops are web-based shops containing a fixed, individual product range. They offer customers the advantage of ensuring that the infrastructure will be consistent for all orders. This in turn offers CANCOM the opportunity for sustained strengthening of customer loyalty.

CANCOM was early in gearing its business policy to the future IT trends referred to above, and designed its sales and services structure around them. In order to take advantage of the trends and efficiently translate them into solutions for customers, CANCOM provides on-going support for employees who wish to undergo further professional training and certification. With this aim in mind, CANCOM is building on strong, close partnerships with the manufacturers of leading technologies.

As part of a plan to encourage younger employees, CANCOM attempts to attract highly-qualified specialists (or high potentials) as new employees, while developing the Group's existing high-potential employees and encouraging them to acquire management and project-related skills.

CANCOM has expanded its market presence and improved its customer proximity in the German-speaking countries. The Group is represented all over Germany and Austria by its many service and consulting locations. CANCOM plans to continue to strengthen its market position in the IT environment in the German-speaking countries by means of targeted acquisitions. The current market environment continues to offer favourable conditions for this policy, since several small, mostly owner-managed, integrated systems providers and IT service providers are looking for prospective buyers.

CANCOM optimises its quality management, for instance by steadily improving customer satisfaction and the efficiency of certain business and work processes.

The financial situation was improved further in the financial year 2010. Sales revenues and operating profit were both up significantly on the figures for 2009, and greatly exceeded the previous year's results forecast.

Thanks to its proven expertise and outstanding market position in the IT trend areas described, CANCOM will continue to grow faster than the IT market if demand for IT products and services remains steady or continues to increase.

Against the background of the acquisitions made, and in consideration of the Group's positive performance, its good positioning in the growth market of cloud computing and the promising economic outlook, from today's point of view, the Executive Board expects the years 2011 and 2012 to bring further growth in sales revenues and profits, with a continued positive financial situation.

Jettingen-Scheppach, Germany, 14 March 2011

Klaus Weinmann   Rudolf Hotter

Executive Board of CANCOM IT Systeme Aktiengesellschaft

This document contains statements and information about the future that are based on the assumptions and estimates of the Executive Board of CANCOM IT Systeme Aktiengesellschaft. These statements are identifiable by words and phrases such as "plan", "intend", "wish" "will", "expect", "we feel" etc. and are based on current expectations, assumptions and assessments. Although we feel that these expectations are realistic, we cannot guarantee their correctness, especially in our forecast. The assumptions may be subject to several internal and external risks and uncertainties, which may lead to the actual results deviating considerably, either positively or negatively, from the situations and figures forecast. The following influencing factors are relevant in this respect: changes in the general economic and business situation; changes in interest rates and foreign currency exchange rates; changes in the competitive situation, for instance by the emergence of new competitors, new products and services or new technologies; changes in the consumer habits of target customer groups etc.; and changes to the business strategy.
CANCOM does not plan to update its forecasts beyond the legal requirements, nor does it make any commitment to do so.

Report of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

In 2009 our thoughts were still much occupied by the worst economic crisis in post-war years, but in 2010 the upturn was already well underway. Fortunately, the economic trend began to reverse sooner than expected. Consequently, CANCOM enjoyed another high-growth and successful financial year, with sales revenues of € 549.3 million – the highest generated in the almost 20-year history of the Company. The Executive Board's decision to join the cloud computing megatrend at an early stage showed great entrepreneurial skill and far-sightedness. This was rewarded by the capital market in the form of rising demand for CANCOM shares and a significant share price increase, particularly in the second half of the year.

The main topics at the meetings of the Supervisory Board were the legal requirements of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG), the Act for the Implementation of the Shareholders' Rights Directive (Gesetz zur Umsetzung der Aktionärsrechterichtlinie, ARUG) and the Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG). The takeover of the SAP Hosting and IT Services division of Plaut provided the main focus of the December meeting. The core of the acquisition was a data centre belonging to the Austrian Plaut company's subsidiary Plaut Systems & Solutions GmbH in Ismaning near Munich, Germany, from which Plaut provides SAP hosting and maintenance and SAP Basis consulting for about 70 customers. The acquisition has enabled cloud architect CANCOM to expand its product portfolio to include cloud services. This means that with the aid of its own cloud solution – CANCOM AHP Private Cloud – CANCOM can now offer these customers complete, integrated IT as a service 'out of the cloud'.

The Company's dividend policy was also discussed at length. Since the Company has reported good, sustainable profits, the management has decided to propose to the shareholders at the Annual General Meeting the payment of a dividend of 15 cent per share again this year. This is a sensible way of supporting the Company's growth strategy, which provides for further acquisitions of suitable businesses.

General notes on the work of the Supervisory Board

As part of their usual close cooperation, the Executive Board and the Supervisory Board had meetings together on 10 March, 22 June, 28 September and 7 December 2010. The Executive Board also kept the Supervisory Board informed of any events soon after they occurred, through comprehensive written reports and in face-to-face discussions. This meant that the Supervisory Board was updated regularly on the Company's situation and its prospects for the future, the principles of corporate policy, the Company's profitability and major business transactions. The Chairperson of the Supervisory Board was also regularly advised of notable developments and involved in important decisions. When necessary, resolutions were passed in writing.

The Supervisory Board routinely oversaw the activities of the Executive Board, as required by German law and the articles of association, asking for reports outside meetings where necessary. The Supervisory Board was consulted in decisions of fundamental importance. No committees were formed. There were no conflicts of interest between the members of the Supervisory Board; any arising conflicts were reported in line with the requirements.

The main focus of the Supervisory Board's work

The process of consolidation in the German integrated systems provider landscape is progressing. CANCOM, now one of the three largest integrated systems providers in Germany, plans to take an active part in shaping this consolidation. This led to discussions on the Company's strategic orientation and consideration of potential candidates for takeover. These topics and the increasingly important subject of compliance were reflected in the work of the Supervisory Board.

In each of the four regular meetings, the Supervisory Board received reports from the Executive Board on the following subjects and discussed them in depth:

- report on the market and the competition;
- report of the Executive Board in accordance with Section 90, paragraph 1, no. 2 and no. 3 of the German Stock Companies Act (Aktiengesetz, AktG) on the course of business, including presentation of the latest monthly r eports of CANCOM IT Systeme AG and the CANCOM Group;
- report of the Executive Board in accordance with Section 90, paragraph 1, no. 4 of the above Act, particularly on planned acquisitions and divestments.

In addition, the following topics and resolutions relating to the activities of the Supervisory Board are particularly noteworthy:

- At the scheduled meeting in March, the annual financial statements of CANCOM IT Systeme AG and the CANCOM Group were approved and the Group's risk management policy was discussed. At this meeting, the Supervisory Board approved the acquisition of the outstanding shares of the Bürotex subsidiary Live Netzwerk und Computer GmbH and the purchase of shares in Plaut Aktiengesellschaft, Vienna. The Supervisory Board also agreed the merger of CANCOM Bürotex GmbH into CANCOM SCC GmbH.
- At the meeting held on 22 June 2010, immediately after the Annual General Meeting, the Supervisory Board, inter alia, passed a resolution on a new schedule of responsibilities for the Executive Board to be drawn up when Paul Holdschik's contract of service expires.
- In July 2010, the Supervisory Board passed a resolution to end CANCOM IT Systeme AG's share buy-back programme, and in August 2010 it approved the merger of CANCOM Bürotex IT solutions GmbH and Live Netzwerk und Computer GmbH into CANCOM Bürotex GmbH. These resolutions were both passed in writing.
- In the scheduled meeting in September the Supervisory Board approved a seven-digit investment in a web shop.
- The rules of procedure for the Executive Board were revised and passed in writing in October 2010.
- In the December meeting, the Executive Board gave a comprehensive presentation of the planned business policy and other fundamental corporate planning matters, and approved the business plan for 2011. The December meeting focused primarily on the extension of Klaus Weinmann's contract of service, as well as the takeover of the SAP Hosting and IT Services division of Plaut Systems & Solutions in Ismaning, near Munich in Germany. The necessary resolutions were passed. CANCOM IT Systeme AG's risk officer gave a presentation of the Company's integrated corporate governance approach. This is set out in a risk manual and covers compliance management, risk management, the internal control system and internal audit. The Supervisory Board approved the raising of a loan from KfW, the German publicly-owned development bank, and passed a resolution regarding an amendment to Rudolf Hotter's contract of service that was necessary to take into account the German Corporate Governance Code's requirements regarding variable remuneration. In line with the recommendation of the Corporate Governance Code, the Supervisory Board drew up objectives for the composition of the Supervisory Board of CANCOM IT Systeme Aktiengesellschaft. It also discussed the reasonableness and applicability of the latest changes to the German Corporate Governance Code and agreed the declaration of conformity with the Code. CANCOM conforms to the Code in all but four of its recommendations. In a self-appraisal, the Supervisory Board assessed its own efficiency and found no improvement to be necessary. It also approved the topics for internal audit in 2011. Tribute was paid on behalf of all the Supervisory Board members to Dr Klaus F. Bauer, who had earlier in the year announced his resignation as Deputy Chairperson of the Supervisory Board with effect from 31 December 2010.

Annual financial statements approved

The annual financial statements prepared by the Executive Board for CANCOM IT Systeme AG and the CANCOM Group for the year ended 31 December 2010, and the combined management report for the Group and the Company, were available for examination at the Supervisory Board meeting on 15 March 2011. The financial statements were audited and the management reports examined by the auditing firm appointed by the shareholders at the Annual General Meeting, S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, Germany. The auditor gave his unqualified approval to all the financial statements. He was present at the meeting to approve the balance sheet on 15 March 2011, at which the annual financial statements of the Company and the Group were discussed. He gave a comprehensive report on the audit process and the major findings, and was able to provide additional information as needed. After discussing at length the audit reports, the financial statements and the management reports, the Supervisory Board had no objections to raise. It approved the annual financial statements in accordance with Section 172 of the German Stock Companies Act (Aktiengesetz, AktG).

Acknowledgements

The CANCOM Group overcame the market challenges admirably in the past year, achieving outstanding results for 2010, and leaving us optimistic about its continued growth in the future.

The members of the Supervisory Board would like to congratulate the Executive Board on this achievement and at the same time to thank its members for their reliable and constructive work with us in the financial year 2010.

The skill and outstanding commitment of CANCOM's employees contributed greatly to this success. They all deserve particular thanks.

We also thank the shareholders for the confidence they have shown in CANCOM.

Jettingen-Scheppach, Germany, March 2011

Corporate Governance at CANCOM

Joint report of the Supervisory and Executive Boards

1. General

Effective and responsible corporate governance is traditionally a major aspect of CANCOM's corporate culture. The Executive Board and the Supervisory Board work in close cooperation for the benefit of the Company. Continual, intensive dialogue between the two bodies is the basis for efficient company management at CANCOM. This two-way communication process has gradually been consolidated and improved, taking German and international standards into account.

CANCOM therefore welcomes and supports the German Corporate Governance Code, which was published in 2002 and amended most recently in July 2010. The Company follows the recommendations made in the current version of the Code with only four exceptions. On 7 December 2010, the Executive Board and the Supervisory Board discussed in depth CANCOM's compliance with the standards set by the Code. These discussions resulted in the approval of the declaration of conformity published on page 34 of this report. The declaration is also published on our website and is updated to reflect any changes.

CANCOM is conscious not only of its business responsibilities, but also demonstrates social commitment. In order to underline this position, in the autumn of 2005 the Company adopted a code of conduct covering its relations with employees, customers, suppliers, manufacturers, other business partners and authorities.

As stated in its introduction, the code of conduct reflects the Executive Board's aim of strengthening ethical standards throughout the Company and creating a working environment based on integrity, respect and fair dealing. In line with the motto Fairness first, employees at all levels are enjoined to abide by the statutory requirements and live up to the Company's high standards of ethics and quality.

The code of conduct is freely accessible to all CANCOM employees via the intranet. In the event of an evident or suspected violation of the code, those affected can approach the Compliance Officer, who will give them support and advice. CANCOM values and positively encourages open and objective feedback.

2. Basic principles of our corporate governance policy

Shareholders and their general meeting

Within the responsibilities structure of CANCOM IT Systeme AG, the general meeting of shareholders is the decision-making body, in which our shareholders can exercise their voting rights, with each notional no-par-value share giving entitlement to one vote in accordance with the articles of association. The general meeting of shareholders passes resolutions on the appropriation of profit, the discharge of the Executive and Supervisory Boards and the appointment of Supervisory Board members, and it chooses the auditing firm. In addition, the general meeting of shareholders decides on the Company's articles of association and its corporate purpose, on changes to the articles of association and on important managerial measures such as company agreements. It also makes decisions on issuing new shares, convertible bonds and option bonds, as well as on authorising the Company to purchase its own shares.
At their general meeting, our shareholders can exercise their voting rights in person or appoint proxies to vote on their behalf. CANCOM also offers its shareholders a special service whereby they can authorise a representative of the Company, who is bound to act in accordance with their wishes, to exercise their voting rights. Shareholders will take advantage of this opportunity at the next general meeting of shareholders on 8 June 2011 in Augsburg, Germany, as they have done in previous years. The agenda and the necessary reports and documents for the general meeting of shareholders are made available to them for viewing or downloading from our website at www.cancom.de.

A financial calendar that is published in the annual report (see page 96) and on the website provides shareholders of CANCOM IT Systeme Aktiengesellschaft with regular information about important dates.

Audit of the annual financial statements by S&P Wirtschaftsprüfung

The general meeting of shareholders of 22 June 2010 appointed the auditing firm S&P Wirtschaftsprüfungsgesellsch aft, Augsburg, Germany, to audit the annual statements for the financial year 2010.

The Executive Board – working closely with the Supervisory Board

The Executive Board of CANCOM IT Systeme Aktiengesellschaft is the Group's management body and consists of two members: CEO Klaus Weinmann (graduate in business administration) and Rudolf Hotter (graduate in business economics). Klaus Weinmann's responsibilities include the following areas: Finance/Controlling, Investor Relations/Public Relations, Mergers and Acquisitions, Legal, Corporate Strategy, Human Capital, Marketing, and Purchasing/Logistics. Rudolf Hotter's responsibilities include Sales, Consulting and Service, and Corporate Information Systems.

The work of the Executive Board is geared towards achieving a sustainable increase in the Company's going-concern value. Executive responsibilities include orienting the Company's business strategy, planning and setting the corporate budget, and preparing the interim and annual financial statements of CANCOM IT Systeme Aktiengesellschaft and the CANCOM Group. Naturally, the Executive Board works closely with the Supervisory Board and informs it regularly, comprehensively and without delay about relevant issues. This means that, for instance, the interim and quarterly reports are discussed by the Executive Board in telephone conferences before they are published. Important Executive Board decisions are subject to the approval of the Supervisory Board.

The Supervisory Board – advising and overseeing the work of the Executive Board

The Supervisory Board of CANCOM IT Systeme Aktiengesellschaft oversees the work of the Executive Board and advises it in matters relating to the management of the business. Since 1 January 2011 it comprises five members: Chairperson Walter von Szczytnicki, Deputy Chairperson Stefan Kober, Raymond Kober, Walter Krejci and Regina Weinmann, all of whom bring proven business expertise into the Company.
The Supervisory Board meets at regular intervals to discuss, inter alia, business performance and planning, as well as the business strategy and its implementation. It approves the annual financial statements of CANCOM IT Systeme Aktiengesellschaft and the CANCOM Group, taking into consideration the audit reports. Important Executive Board decisions are subject to the approval of the Supervisory Board.

Corporate governance and compliance are regularly of specific interest in meetings of the Supervisory Board and other discussions. Below are some examples of how corporate governance and compliance issues are dealt with.

A system of information provision was adopted in 2008 in accordance with a suggestion in No. 3.4 of the German Corporate Governance Code. This system governs the passing of information between the Executive Board and the Supervisory Board and also within the Supervisory Board. It documents and makes transparent the procedures already being practised at CANCOM IT Systeme Aktiengesellschaft, some of which, incidentally, go beyond the legal requirements.

2010 was the first year in which concrete objectives were specified regarding the composition of the Supervisory Board in line with the recommendation of No. 5.4.1 of the German Corporate Governance Code. While considering the specifics of the Group, the objectives take into account its international activities, an age limit to be specified for Supervisory Board members, and diversity.

In the December meeting, the Supervisory Board carried out a self-appraisal to establish how efficient its work was, in line with the recommendations of the Corporate Governance Code. No improvements were found to be necessary. The reasonableness and applicability of the latest changes to the Corporate Governance Code were also discussed, and the declaration of conformity with the Code was agreed. CANCOM conforms to the Code in all but four of its recommendations.

Compliance management

Following the setting up of a compliance system, CANCOM's Fairness First code of conduct is now brought to the attention of all employees of the Group, and also to any staff members who were not yet aware of it. There is a compliance officer who ensures that the code of conduct is complied with, as well as providing a contact for all compliance-related issues. To underline the importance of compliance for the CANCOM Group, the rules of procedure for the executives of the Group companies were reviewed and adapted to the latest requirements.

Risk management and the internal control system

CANCOM IT Systeme Aktiengesellschaft AG has a comprehensive system for the recording, mapping and control of business and financial risks, which is documented in a risk manual. The internal control and risk management systems are designed to recognise significant business risks in advance and to control them. However, they cannot fully eliminate risks and therefore do not offer absolute protection against losses or fraudulent acts.

Internal audit

The in-house audit department of CANCOM IT Systeme AG is central to the internal corporate governance system. Its function is to assess the effectiveness of the risk management system, the internal controls and the compliance management system, and to help improve them. In the fourth quarter of each year the Executive Board of CANCOM IT Systeme AG defines the topics for the coming year that need closer analysis in the interests of the Company.

3. CANCOM IT Systeme Aktiengesellschaft's declaration of conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Companies Act (Aktiengesetz, AktG)

At their meeting on 7 December 2010, the Supervisory Board and Executive Board of CANCOM IT Systeme Aktiengesellschaft approved the following declaration of conformity – which has both backward and forward-looking aspects – in accordance with Section 161 of the German Stock Companies Act:

1. Since its last declaration of conformity published on 10 December 2009, CANCOM IT Systeme AG has conformed to the recommendations of the German Corporate Governance Code issued on 18 June 2009 and published in the electronic German Federal Gazette (Bundesanzeiger) on 5 August 2009, up to the date on which the new version came into force on 2 July 2010, with the following exceptions:

1.1. Remuneration of the Executive Board

The Supervisory Board has changed the current Executive Board contracts with effect from 1 January 2011 to comply with the requirements of the German Appropriateness of Management Board Remuneration Act.

1.2. Deductible on directors' and officers' liability insurance

The German Corporate Governance Code recommends that an appropriate deductible be applied to claims on directors' and officers' liability insurance (D&O insurance). CANCOM IT Systeme Aktiengesellschaft does not agree that a deductible would have any effect in improving the attitude to work of, or the responsibility taken by, the members of the CANCOM Supervisory Board. There is therefore no deductible on the D&O insurance policy for the Supervisory Board held by CANCOM.

1.3. Setting up of committees

The German Corporate Governance Code recommends that committees of experts be set up, depending on the specific circumstances of the company and the number of employees. The Supervisory Board of CANCOM IT Systeme Aktiengesellschaft consists of six members, a number appropriately proportionate to the size of the Company. In the opinion of CANCOM IT Systeme Aktiengesellschaft, setting up committees from within this six-member board would not lead to any improvement in efficiency, and therefore no committees are set up. The Supervisory Board as a whole discusses in depth matters of accounting, risk management and compliance, the necessity for an independent auditor, commissioning the auditor, determining the focus of the audit and agreeing a fee. No nomination committee has been set up, since at present all members of the Supervisory Board are shareholders or persons nominated by shareholders.

1.4. Remuneration of Supervisory Board members

The German Corporate Governance Code recommends that the remuneration of Supervisory Board members be subdivided into a fixed portion and a performance-related portion and that higher remuneration be paid to the Chairperson and Deputy Chairperson than to the ordinary members. CANCOM IT Systeme Aktiengesellschaft deviates from this recommendation by offering fixed remuneration to its Supervisory Board members and not differentiating between the Deputy Chairperson and the ordinary members of the Supervisory Board with regard to the remuneration they are offered.

2. CANCOM IT Systeme AG has conformed with the recommendations of the German Corporate Governance Code issued on 26 May 2010 since it was published in the electronic German Federal Gazette (Bundesanzeiger) on 2 July 2010, with exceptions only as detailed in No.. 1.1 to No. 1.4..

Jettingen-Scheppach, Germany, 7 December 2010

For the Executive Board
Klaus Weinmann

For the Supervisory Board
Walter von Szczytnicki

4. Remuneration report

The remuneration report summarises the basic principles applied to defining and setting the remuneration of the Executive Board of CANCOM IT Systeme Aktiengesellschaft, and explains the level and structure of Executive Board members' emoluments.
The report also covers the remuneration of the Supervisory Board members. The remuneration report conforms to the recommendations of the German Act on the Disclosure of Management Board Remuneration (Vorstandsvergütungs-Offenlegungsgesetz, VorstOG).

4.1. Remuneration of the Executive Board

The Supervisory Board is responsible for determining the remuneration of Executive Board members. The remuneration depends, among other things, on the size of the Company, its financial situation and the level of remuneration of the executive boards of other, comparable companies. The tasks and the contribution of the relevant Executive Board member are also taken into account.

The remuneration of the Executive Board is performance-related. In 2010, the remuneration of Klaus Weinmann, Rudolf Hotter and Paul Holdschik consisted of a fixed payment and a variable bonus. Paul Holdschik resigned from the Executive Board of CANCOM IT Systeme AG with effect from 29 July 2010, when his resignation was documented in the commercial register.

The fixed remuneration is paid as a monthly salary. Whether the variable bonus is paid, and how much is paid, depends on how well the CANCOM Group's target EBIT figure has been met in the financial year 2010.

The German Appropriateness of Management Board Remuneration Act (Gesetz zur Angemessenheit der Vorstandsvergütung, VorstAG) and the German Corporate Governance Code require that the variable components of management board remuneration be based on performance over several years, and that both good and poor performance be taken into account. The Supervisory Board has therefore adjusted all contracts to take into account the requirements of the above Act with effect from 1 January 2011.

The amendments mainly concern the variable remuneration, half of which is a short-term bonus based on the achievement of objectives over one financial year, and the other half is a long-term bonus (for three financial years). The bonus paid to Klaus Weinmann will be 1 percent of the EBITDA generated, while Rudolf Hotter's bonus will be 0.5 percent of EBITDA. The amount of the bonus payment is capped for the financial year in question. If there is a significant worsening of the results within the three-year period of calculation in comparison with the relevant planned figures, the Executive Board members are obliged to pay back in full or in part the bonus payments received, in a type of negative incentive system.

The following level of remuneration was set for the Executive Board members in the financial year 2010 (rounded figures):

The remuneration of the CEO, Klaus Weinmann, consists of a fixed payment of € 280k, a bonus of € 315k and other remuneration components amounting to € 22k. His total remuneration is € 617k.
The remuneration of Rudolf Hotter consists of a fixed payment of € 200k, a bonus of € 145k and other remuneration components amounting to € 5k. His total remuneration is € 350k. The remuneration of Paul Holdschik consists of a fixed payment of € 200k, a bonus of € 110k and other remuneration components amounting to € 4k. His total remuneration is € 314k.
The total remuneration of the Executive Board for the financial year 2010 is € 1,281k.

4.2. Remuneration of the Supervisory Board

Each member of the Supervisory Board receives a fixed annual remuneration, which is set by the general meeting of shareholders and remains fixed until a general meeting of shareholders resolves on a change. In accordance with the articles of association, each member receives a payment of € 10k in addition to an attendance fee of € 750. The Chairperson receives double the amounts paid to other members. If a Supervisory Board member does not serve a full year, he/she receives the pro-rata remuneration for the period served.

The Company reimburses the Supervisory Board members with any expenses incurred that are directly connected with their position. Sales tax is reimbursed by the Company if the relevant Supervisory Board member is entitled to invoice separately for sales tax and exercises this entitlement.

The Supervisory Board members received the following remuneration in the financial year 2010 (rounded figures):

The remuneration of the Chairperson of the Supervisory Board, Walter von Szczytnicki, was € 26k. That of the other members of the Supervisory Board, Dr Klaus F Bauer, Stefan Kober, Raymond Kober, Walter Krejci and Regina Weinmann was € 13k. The total remuneration of the Supervisory Board in 2010 was € 91k.

4.3. Other notes

The Company has directors' and officers' insurance covering legal liability in relation to the activities of the Executive Board, the Supervisory Board and managerial employees.

Since 1 July 2007, a consultancy agreement has been in place between CANCOM IT Systeme Aktiengesellschaft and the Chairperson of its Supervisory Board, Walter von Szczytnicki. The contract was drawn up in accordance with Section 114 of the German Stock Companies Act (Aktiengesetz, AktG) and provides for an annual remuneration of € 60k. The remuneration paid in the financial year 2010 amounted to € 60k.

On 27 June 2007, the Supervisory Board approved an M&A consultancy agreement with Auriga Corporate Finance GmbH, Munich, Germany, on the occasion of the election to the Supervisory Board of CANCOM IT Systeme AG of Walter Krejci, managing director of Auriga Corporate Finance GmbH. The agreement had been signed on 7 March 2007 and required the approval of the Supervisory Board in accordance with Section 114 I of the German Stock Companies Act (Aktiengesetz, AktG). No payments were made to the company on the basis of the consultancy agreement in 2010.

5. Shareholdings of the Executive and Supervisory Boards as at 31 December 2010

Shareholdings of Executive Board members

As at 31 December 2010, the members of the Executive Board held a total of 428,864 CANCOM shares, or 4.1 percent of the share capital of CANCOM IT Systeme Aktiengesellschaft.

The individual shareholdings of the Executive Board members were as follows:

	Number of shares	Percentage of share capital
Klaus Weinmann	353,864	3.4%
Rudolf Hotter	75,000	0.7%

Shareholdings of Supervisory Board members

As at 31 December 2010, Supervisory Board members held a total of 1,329,932 CANCOM shares, either directly or indirectly. This is equivalent to 12.8 percent of the share capital of CANCOM IT Systeme Aktiengesellschaft.

The individual shareholdings of the Supervisory Board members were as follows:

	Number of shares	Percentage of share capital
Walter von Szczytnicki	6,252	0.1 %
Dr Klaus F. Bauer	1,500	0.01%
Raymond Kober	720,891	6.9 %
Stefan Kober	601,289	5.8 %
Walter Krejci	0	0.0 %
Regina Weinmann	0	0.0 %

6. Financial calendar

12 May 2010
Publication of 3-month report for 2011

8 June 2011
Annual general meeting of shareholders of CANCOM IT Systeme AG in Augsburg, Germany

11 August 2011
Publication of 6-month report for 2011

10 November 2011
Publication of 9-month report for 2011

Consolidated balance sheet as at 31 December 2010 – IFRS

Assets (in €'000)	Notes	Financial statements 12/31/2010	Financial statements 12/31/2009
Current assets			
Cash	C.1.	31,472	25,836
Trade accounts receivable	C.2.	68,014	47,191
Other current financial assets	C.3.	4,663	3,223
Inventories	C.4.	13,363	12,589
Orders in process	C.5.	730	990
Prepaid expenses and other current assets	C.6.	2,025	3,384
Total current assets		**120,267**	**93,213**
Long-term assets			
Property, plant and equipment	C.7.1.	9,677	6,529
Intangible assets	C.7.2.	18,860	6,730
Goodwill	C.7.3.	23,682	24,812
Investments	C.7.4.	3,211	157
Notes receivable/loans	C.7.5.	43	0
Other financial assets		920	822
Deferred taxes arising from temporary differences	C.8.	406	338
Deferred taxes arising from tax loss carryover	C.8.	294	2,224
Other assets		81	77
Total long-term assets		**57,174**	**41,689**
Total assets		**177,441**	**134,902**

Equity and liabilities (in €'000)	Notes		**Financial statements 12/31/2010**	Financial statements 12/31/2009
Current liabilities				
Short-term debt and current portion of long-term debt	C.9.		1,196	707
Profit-participation capital and subordinated loans short-term portion			413	0
Trade accounts payable			64,437	47,852
Advance payments received			1,525	1,140
Other current financial liabilities	C.10.		3,460	3,158
Accrued expenses	C.11.		1,579	3,905
Prepaid expenses and deferred charges			989	908
Income tax payable	C.12.		1,634	438
Other current liabilities	C.13.		14,614	9,437
Total current liabilities			**89,847**	**67,545**
Long-term liabilities				
Long-term debt, less current portion	C.14.		9,607	5,194
Profit-participation capital and subordinated loans	C.15.		14,364	12,784
Prepaid expenses and deferred charges	C.16.		5,048	1,767
Deferred taxes arising from temporary differences	C.17.		4,309	1,967
Pension provisions	C.18.		80	26
Other long-term financial liabilities	C.19.		1,519	491
Other long-term liabilites			1,654	1,259
Total long-term liabilities			**36,581**	**23,488**
Equity				
Share capital	C.20.		10,391	10,391
Additional paid-in capital	C.20.		15,904	15,441
Net profit (incl. retained earnings)			24,768	18,476
Currency translation difference and exchange rate difference			–134	–279
Own shares at cost	C.20.		0	-165
Minority interest	C.21.		84	5
Total equity			**51,013**	**43,869**
Total equity and liabilities			**177,441**	**134,902**

Consolidated income statement – IFRS

(in €'000)	Notes	**01/01/2010 – 12/31/2010**	01/01/2009 – 12/31/2009
Revenues	D.2.	549,295	422,478
Other operating income	D.3.	3,352	2,679
Other capitalised services rendererd for own account	D.4.	1,270	953
Total operating income		**553,917**	**426,110**
Cost of purchased materials and services		–402,947	–306,843
Gross profit		**150,970**	**116,267**
Personnel expenses	D.5.	–100,124	–82,807
Depreciation on property, plant and equipment and amortisation of intangible assets		–5,520	–3,404
thereof depreciation on Goodwill		*–1,314*	*–56*
Other operating expenses	D.6.	–31,664	–26,100
Operating income		**13,662**	**6,956**
Interest and similar income	D.7.	132	164
Interest and other expenses	D.7.	–2,109	–1,468
Income from equity investments		1	0
Share in profit or loss from joint ventures accounted for by the equity method		0	11
Foreign currency exchange gains		–48	–5
Profit before taxes (and minority interest)		**11,638**	**5,658**
Income tax expense	D.8.	–3,740	–556
After-tax profit/loss from continuing operations		**7,898**	**5,102**
Profit/loss from discontinued operations	D.9.	0	–3
Net income for the period		**7,898**	**5,099**
thereof attributable to the shareholders of the parent		7,820	5,060
thereof attributable to minority interests	D.10.	78	39
Average number of shares outstanding (basic)		10,320,712	10,387,139
Average number of shares outstanding (diluted)		10,320,712	10,387,139
Earnings per share from continuing operations (non-diluted)		**0.76**	**0.49**
Earnings per share from continuing operations (diluted)		**0.76**	**0.49**
Earnings per share from discontinued operations (non-diluted)		**0.00**	**0.00**
Earnings per share from discontinued operations (diluted)		**0.00**	**0.00**
Adjusted for non recurring items (see notes to the consolidated accounts)	*D.11.*		
Earnings per share from continuing operations (non-diluted)		*0.80*	*0.49*
Earnings per share from continuing operations (diluted)		*0.80*	*0.49*
Earnings per share from discontinued operations (non-diluted)		*0.00*	*0.00*
Earnings per share from discontinued operations (diluted)		*0.00*	*0.00*

Statement of compehensive income – IFRS

(in €'000)	**01/01/2010 – 12/31/2010**	01/01/2009 – 12/31/2009
Net income for the period	**7,898**	**5,099**
Other income		
Currency translation difference	-14	65
Exchange rate difference	224	0
Income taxes	–64	-20
Other after-tax income for the period	**146**	**45**
Comprehensive income for the period	**8,044**	**5,144**
thereof attributable to the shareholder of the parent	7,966	5,105
thereof attributable to the minority interests	78	39

Consolidated cash flow statement – IFRS

(in €'000)	Notes	**01/01/2010 – 12/31/2010**	01/01/2009 – 12/31/2009
Cash flow from ordinary activities			
Profit for the year before tax and minority interest		11,638	5,658
Adjustments			
+/– Depreciation on property, pland and equipment and amortisation of intangible assets		5,520	3,404
+/– Changes in long-term provisions		284	–233
+/– Changes in short-term provisions		–1,705	239
+/– Gains/losses on the sale of intangible assets, property, plant and equipment and financial assets		39	66
+/– Interest expenditure		1,977	1,304
+/– Changes in inventories		311	–929
+/– Changes in trade accounts receivable and other accounts receivable		-15,228	814
+/– Changes in trade accounts payable and other accounts payable		17,119	2,748
+/– Interest payments and rebates		–592	–335
+/– Income tax payments and rebates		–179	–102
+/– Non-cash expenses and income		–2,264	–1,983
Net cash from operating activities		**16,920**	**10,651**
Cash flow from investing activities			
+/– Acquisition of subsidiaries and equity instruments of other companies		–10,502	–409
+/– Cash from acquisitions	E	776	1,791
+/– Payments for additions to intangible assets and property, pland and equipment		–8,076	–4,660
+/– Income from disposal of intangible assets, property, plant and equipment and financial assets		361	498
+/– Interest received		132	164
+/– Cash inflow / outflow from discontinued operations		0	–4
Net cash used in investing activities		**–17,309**	**–2,620**
Cash flow from financing activities			
+/– Take-up of long-term financial liabilities		8,935	3,284
+/– Repayment of long-term financial liabilities (incl. short-term portions)		–596	–2,272
+/– Changes in short-term liabilities		–48	–712
+/– Interest paid		–1,367	–1,133
+/– Dividendes paid		–1,547	0
+/– Inflows from sale of own shares	C.21.	722	0
+/– Outflows from purchases of own shares	C.21.	–94	–165
+/– Cash inflow / outflow finance lease		–221	–229
+/– Cash inflow / outflow from discontinued operations		100	123
Net cash used in financing activities		**5,884**	**–1,104**
Net change in cash and cash equivalents		**5,495**	**6,927**
+/– Changes in value resulting from foreign currency exchange		141	32
+/– Cash as at beginning of period		25,836	18,877
Cash and cash equivalents as at end of period	E	**31,472**	**25,836**
Breakdown:			
Cash		31,472	25,836
Cash from discontinued operations			0
		31,472	**25,836**

Consolidated statement of changes in equity – IFRS

	Shares	Share capital	Additional paid-in capital	Retained earnings	Foreign currency translation reserve	Exchange rate difference reserve	Revaluation reserve	Net profit / loss	Own shares at acquisition costs	Total investors parent company	Minority interest	Total equity cash
	units '000	in €'000	in €'000	in €'000	in €'000	in €'000	in €'000	in €'000	in €'000	in €'000	in €'000	in €'000
31 December 2008	**10,391**	**10,391**	**15,441**	**122**	**–324**		**–153**	**13,447**	**0**	**38,924**	**–8**	**38,916**
Purchase of own shares									–165	–165		–165
Comprehensive income for the period					45			5,060		5,105	39	5.144
Impact of derecognition of minority interests										0	–26	–26
31 December 2009	**10,391**	**10,391**	**15,441**	**122**	**–279**	**0**	**–153**	**18,507**	**–165**	**43,864**	**5**	**43,869**
Changes in reserves:												
Transfer net profit / retained earnings				10,483				–10,483		0		0
Purchase of own shares									–94	–94		–94
Sale of own shares			463						259	722		722
Payout in financial year								–1,546		–1,546		–1,546
Comprehensive income for the period					–10	155		7,820		7,965	78	8,043
Purchase of minority interests				18						18	129	147
Impact of derecognition of minority interests										0	–128	–128
31 December 2010	**10,391**	**10,391**	**15,904**	**10,623**	**–289**	**155**	**–153**	**14,298**	**0**	**50,929**	**84**	**51,013**

Segment information – IFRS

	e-commerce/trade		IT Solutions	
	12/31/10 €'000	12/31/09 €'000	12/31/10 €'000	12/31/09 €'000
Sales revenues				
– External sales	245,243	217,017	304,052	205,461
– Intersegment sales	5,909	3,784	40,907	18,843
– Total sales revenues	251,152	220,801	344,959	224,304
– Cost of purchased materials and services	–214,203	–188,430	–224,932	–136,322
– Personnel expenses	–18,271	–17,106	–78,057	–62,623
– Other operative income and expenses	–9,017	–9,897	–26,796	–15,250
EBITDA	9,661	5,368	15,174	10,109
– calculated depreciation and amortisation	1,873	2,138	2,291	1,138
Operating income (EBIT)	**7,788**	**3,230**	**12,883**	**8,971**
– Interest income	46	74	121	126
– Interest expenditure	–616	–390	–440	–230
– Write-downs of financial assets				
– Share in profit or loss of joint ventures accounted for by the equity				
Result from ordinary activities	7,218	2,914	12,564	8,867
– Result from extraordinary activities	0	0	0	0
– Foreign currency exchange gains / losses				
Pre-tax profit	7,218	2,914	12,564	8,867
– Income taxes				
– discontinued operations		0		
Consolidated income for the year				
thereof attributable to the shareholders of the parent				
thereof attributable to minority interests				
Other information				
– Assets [1)]	102,714	51,205	55,597	62,026
– Investments [1)]	1,372	1,839	18,733	4,609

1) Segment assets and investments including goodwill from consolidation of capital

2) Tax assets

Totals		Other companies		Reconcilation		consolidated	
02/31/10	12/31/09	12/31/10	12/31/09	12/31/10	12/31/09	12/31/10	12/31/09
€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
549,295	422,478	0	0				
46,816	22,627	0	0	–46,816	–22,627		
596,111	445,105	0	0	–46,816	–22,627	549,295	422,478
–439,135	–324,752	0	0	36,188	13,074	–402,947	–311,678
–96,328	–79,729	–3,795	–3,078	–1	0	–100,124	–82,807
–35,813	–25,147	–1,858	–2,039	10,629	9,553	–27,042	–22,468
24,835	15,477	–5,653	–5,117	0	0	19,182	10,360
4,164	3,276	1,356	128	0	0	5,520	3,404
20,671	**12,201**	**–7,009**	**–5,245**	**0**	**0**	**13,662**	**6,956**
167	200	389	286	–424	–322	132	164
–1,056	–620	–1,477	–1,170	424	322	–2,109	–1,468
0	0		0	1	0	1	0
0	0	0	11	0	0	0	11
19,782	11,781	–8,097	–6,118	1	0	11,686	5,663
0	0			0	0	0	0
0	0		0	–48	–5	–48	–5
19,782	11,781	–8,097	–6,118	–47	–5	11,638	5,658
				–3,740	–556	–3,740	–556
0	0	0	0	0	0	0	–3
						7,898	**5,099**
						7,820	5,060
						78	39
				Reconcilation 2)			
158,311	113,231	18,104	18,890	1,026	2,781	177,441	134,902
20,105	6,448	3,881	1,089			23,986	7,534

Schedule of fixed assets – IFRS

(in €'000)	Acquisition or manufacturing costs At 01/01/2010	Add. from first consol. 2010	Additions 2010	Disposals 2010	Transfers 2010
Property, plant and equipment	16,737	1,365	5,057	4,730	42
Intangible assets	10,419	10,941	2,967	1,729	11
Goodwill	43,277	273	0	583	0
Investments	167	8	3,279	233	0
Notes receivable/loans	0	43	0	0	0
Total	**70,600**	**12,630**	**11,303**	**7,275**	**53**

Financial year 2009

(in €'000)	Acquisition or manufacturing costs At 01/01/2009	Add. from first consol. 2009	Additions 2009	Disposals 2009	Transfers 2009
Property, plant and equipment	12,977	923	3,302	961	496
Intangible assets	7,194	1,861	1,358	11	17
Goodwill	41,129	51	0	320	2,417
Investments	129	26	2	–10	0
Investments accounted for by the equity method	14	0	11	25	0
Notes receivable/loans	199	0	0	199	0
Total	**61,642**	**2,861**	**4,673**	**1,506**	**2,930**

	Depreciation and amortisation					Earning amounts	
At 12/31/2010	At 01/01/2010	Add. from first consol. 2010	Additions 2010	Disposals 2010	At 12/31/2010	At 12/31/2010	At 12/31/2009
18,471	10,208	692	2,472	4,578	8,794	9,677	6,529
22,609	3,689	40	1,734	1,734	3,749	18,860	6,730
42,967	18,465	0	1,314	494	19,285	23,682	24,812
3,221	10	0	0	0	10	3,211	157
43	0	0	0	0	0	43	0
87,311	**32,372**	**732**	**5,520**	**6,786**	**31,838**	**55,473**	**38,228**

		Depreciation and amortisation					Earning amounts	
At 12/31/2009	At 01/01/2009	Add from first consol. 2009	Additions 2009	Transfers 2009	Disposals 2009	At 12/31/2009	At 12/31/2009	At 12/31/2008
16,737	7,576	748	2,444	243	803	10,208	6,529	5,401
10,419	2,650	139	904	0	4	3,689	6,730	4,544
43,277	17,342	0	56	1,064	–3	18,465	24,812	23,787
167	0	0	0	0	–10	10	157	129
0	1	0			1	0	0	13
0	0	0	0	0	0	0	0	199
70,600	**27,569**	**887**	**3,404**	**1,307**	**795**	**32,372**	**38,228**	**34,073**

Notes to the consolidated financial statements for the financial year from 1 January 2010 to 31 December 2010

Notes to the consolidated financial statements for the financial year from 1 January 2010 to 31 December 2010

A. The principles adopted for the consolidated financial statements

1. General information

The consolidated financial statements of CANCOM IT Systeme Aktiengesellschaft and its subsidiaries ("the CANCOM Group" or "the Group") for the financial year 2010 were drawn up according to the International Financial Reporting Standards or the International Accounting Standards (IFRS/IAS).

The main corporate objective of CANCOM IT Systeme Aktiengesellschaft and its consolidated subsidiaries is the sale and distribution of integrated IT system solutions (hardware, software and network products) and the provision of a broad range of IT services (e.g. consultancy, system integration, service and support, and training).

The consolidated financial statements were drawn up in euro. The financial year covers the period from 1 January to 31 December 2010. The address of the Company's registered office is Messerschmittstrasse 20, 89343 Jettingen-Scheppach, Germany.

The shares are traded on the Regulated Market of the FWB Frankfurt Stock Exchange under ISIN DE0005419105 and are admitted to the Prime Standard of Deutsche Börse AG.

2. Financial reporting according to International Financial Reporting Standards (IFRS)

All compulsory IFRS and IAS for the 2010 financial year as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) or Standing Interpretations Committee (SIC) were taken into account with no restrictions. The provisions of Section 315a, paragraph 1 of the German Commercial Code (Handelsgesetzbuch, HGB), which still apply, were also taken into consideration.

The consolidated statement of income was prepared on the basis of the total cost method. The balance sheet differentiates between non-current and current assets and liabilities. Assets and liabilities are considered as current if they are payable within a year or are going to be sold. They are classified as non-current when they remain in the company for longer than a year.

New reporting standards

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted the following standards, interpretations and amendments, which are not yet compulsory for the financial year 2010. The management did not apply these new principles ahead of schedule. The Company is currently investigating the impact that these changes will have on the consolidated financial statements.

IFRIC interpretations

IFRIC has issued the following interpretations covering issues that do not at present concern the Company.

IFRIC 13 Customer Loyalty Programmes – amendments with regard to the fair value of award credits (amendment as part of AIP 2010):
Applicable for reporting periods starting on or after 1 January 2011

IFRIC 14 – amendments with regard to voluntary prepayments under minimum funding requirements:
Applicable for reporting periods starting on or after 1 January 2011

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:
Applicable for reporting periods starting on or after 1 July 2010

IFRS and IAS Standards

In May 2010 the IASB published a collection of standards to amend various International Financial Reporting Standards as part of its annual improvements project (AIP) for 2010. Most of the amendments are effective for annual periods starting on or after 1 January 2011, but companies may apply them earlier than this. The Group did not apply any of the amendments ahead of schedule.

IFRS 1 First-time Adoption of International Reporting Standards: disclosures regarding accounting policy changes in the year of adoption, fair value as deemed acquisition cost and use of deemed acquisition costs also permitted for assets arising from operations subject to rate regulation.

IFRS 3 Business Combinations: amendments regarding the initial measurement of non-controlling interests, unreplaced and voluntarily replaced share-based payment awards and contingent considerations. The amendments are effective for annual periods starting on or after 1 July 2010.

IFRS 7 Financial Instruments: amendments to disclosures regarding the risks associated with financial instruments, the maximum default risk, the carrying amounts of financial assets, securities connected with overdue or impaired financial assets and securities withdrawn by the entity.

IAS 1 Presentation of Financial Statements: clarification that the breakdown of the portion of other profits attributable to equity components can be shown either in the statement of changes in equity or in the notes to the accounts.

IAS 27 Consolidated and Separate Financial Statements: clarification of effective dates for the consequential amendments to IAS 21.48A-D and 21.49, IAS 28.18-19A, and IAS 31.45-45B resulting from the revisions to IAS 27. The consequential amendments are effective for annual periods starting on or after 1 July 2010.

IAS 34 Interim Financial Reporting: clarification that significant events and transactions between the last annual financial statements and the interim report must be detailed in the notes to the interim report, and widening of the examples in IFRS 7 of events or conditions requiring disclosure.

In October 2010 the IASB published amendments to IFRS 7 Financial Instruments: disclosures to enhance the disclosure requirements for transfer transactions of financial assets. The standard is effective for annual periods starting on or after 1 July 2011.

In December 2010 the IASB published amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards with regard to fixed derecognition exception dates and severe hyperinflation. The amendments are effective for annual periods starting on or after 1 July 2011.

In December 2010 the IASB published a limited amendment to IAS 12 Income Taxes with regard to recovery of underlying assets. The amendment is effective for annual periods starting on or after 1 January 2012.

3. Reporting entity – scope of consolidation

The consolidated financial statements include CANCOM IT Systeme Aktiengesellschaft and all subsidiaries in which CANCOM IT Systeme Aktiengesellschaft has either a direct or an indirect majority shareholding, or in which it holds the majority of the voting rights. These subsidiaries are fully consolidated.

CANCOM IT Systeme Aktiengesellschaft has acquired 100 percent of the shares of CANCOM Bürotex GmbH (formerly BT IT-Systemhaus GmbH), nominally valued at € 120,000. The acquisition is documented in a contract drawn up on 21/22 December 2009 by notary Dr Thomas Braun.

The purchase price was € 3,655,328.42. Of this amount, € 96,000 was outstanding on 31 December 2010. Incidental acquisition costs of € 19k were incurred; these are reported on the statement of income under other operating expenses.

The company is included in the consolidated financial statements with effect from 1 January 2010.

The object of the company is the trading and distribution of computer, telecommunications, IT and document management systems and provision of related services, including consultancy, maintenance, repairs, support and project management.
At the time of acquisition the company held shares in CANCOM Bürotex IT solutions GmbH (formerly BT IT-Solutions GmbH) based in Nürtingen, Germany (100 percent) and in live Netzwerk & Computer GmbH based in Munich, Germany (75.0 percent).

The acquisition of the Bürotex group expands the CANCOM Group's presence in the German federal state of Baden-Württemberg, and gives it access to large customers in the region. This strengthens the position of the CANCOM Group in the German integrated systems provider market and underlines its role as an active consolidator of this market.

Changes in the reporting entity in 2010:

Name and registered office of the company	Date from which included in consolidated financial statements	Equity investment (percentage)	Share of voting voting rights (percentage)
CANCOM Bürotex GmbH, Nürtingen, Germany *and its subsidiaries*	01/01/2010	100	100
• CANCOM Bürotex IT solutions GmbH, Nürtingen, Germany	01/01/2010	100	100
• live Netzwerk & Computer GmbH, Munich, Germany	01/01/2010	75	75

The changes in the reporting entity had the following effects on the consolidated financial statements at the date on which CANCOM Bürotex GmbH was first included, on 1 January 2010:

	Fair values	Carrying amounts
	€'000	€'000
Cash and cash equivalents	776	776
Trade accounts receivable	3,667	3,667
Other current financial assets	571	571
Accounts payable due to related parties	1,255	1,255
Inventories	760	760
Prepaid expenses, deferred charges and other current assets	714	714
Current assets	7,743	7,743
Property, plant and equipment	493	493
Intangible assets	1,965	43
Financial assets	8	8
Other assets	100	100
Total non-current assets	2,566	544
Total assets	**10,309**	**8,287**
Short-term loans and current component of long-term loans	34	34
Trade accounts payable	2,865	2,865
Other current financial liabilities	262	262
Accrued expenses	272	272
Prepaid expenses	136	136
Deferred revenues	102	102
Other current liabilities	603	603
Current liabilities	4,274	4,274
Long-term debt	1,500	1,500
Dererred taxes from temporary differences	591	0
Other non-current liabilities	116	116
Non-current liabilities	2,207	1,616
Total liabilities	**6,481**	**5,890**
Net assets acquired	**3,828**	**2,397**

The receivables acquired consist of € 3,839k in receivables before provisions, less provisions of € 172k.

The figure for net assets acquired includes minority interest of € 130k (fair value) and € 50k (carrying amount). This figure is equivalent to 25 percent of the net assets of live Netzwerk & Computer GmbH.

The company acquisition, and the newly valued assets acquired and liabilities assumed, resulted in a negative difference of € 43k, which was recognised in the statement of income and shown under other operating income, as well as intangible assets of € 1,922k.

The valuation of the acquisition resulted in a negative amount, because the balance of the identified acquired assets and assumed liabilities at their acquisition-date values exceeds the purchase price (consideration rendered). The CANCOM Group once again reviewed the method used to identify the assets acquired and liabilities assumed, and found no change to the valuation to be necessary.

Since the acquisition date, the Bürotex cost centres within CANCOM SCC GmbH (the absorbing company in the merger of 1 January 2010 – explained below) made a net loss of € 576k. The sales revenues included in the consolidated figures since the acquisition date amount to € 26,946k.

CANCOM SYSDAT GmbH has been merged into CANCOM IT Solutions GmbH. This is documented in a merger agreement drawn up by notary Dr Braun on 11 February 2010. The merger was entered in the commercial register of CANCOM IT Solutions GmbH on 22 July 2010.

CANCOM Bürotex GmbH has acquired the remaining shares in live Netzwerk & Computer GmbH, nominally valued at € 37,500. The purchase price is € 110,000 and was paid on 17 May 2010. The acquisition is documented in a share purchase and transfer agreement drawn up by notary Dr Braun on 7 May 2010.

live Netzwerk & Computer GmbH has been merged into CANCOM Bürotex GmbH. The merger is documented in a merger contract drawn up by notary Dr Braun on 7 May 2010, and was entered in the commercial register of CANCOM Bürotex GmbH on 8 July 2010.

CANCOM Bürotex IT solutions GmbH has been merged into CANCOM Bürotex GmbH. The merger is documented in a merger contract drawn up by notary Dr Braun on 7 May 2010, and was entered in the commercial register of CANCOM Bürotex GmbH on 8 July 2010.

CANCOM Bürotex GmbH has been merged into CANCOM SCC GmbH. The merger is documented in a merger contract drawn up by notary Dr Braun on 27 July 2010, and was entered in the commercial register of CANCOM SCC GmbH on 13 August 2010.

CANCOM IT Systeme Aktiengesellschaft has established a new company named CANCOM VVM GmbH, based in Jettingen-Scheppach, Germany. The company's share capital is € 25,000 and was acquired in full by CANCOM IT Systeme Aktiengesellschaft. Half of the capital contribution for the share in the company was paid in on 9 December 2010. The object of the company is the management of its own assets. The company formation is documented in a contract drawn up by notary Dr Braun on 18 November 2010, and the new company was entered in the commercial register on 20 December 2010.

Changes in the reporting entity in 2010:

Name and registered office of the company	Date of acquisition	Equity investment (percentage)	Share of voting rights (percentage)
CANCOM VVM GmbH	12/09/2010	100	100

Via its subsidiary CANCOM Plaut Managed Services GmbH (formerly CANCOM IT Services GmbH), CANCOM IT Systeme Aktiengesellschaft has taken over with effect from 23.59 hours on 31 December 2010 all the assets and employees belonging to the SAP Hosting Business, Outsourcing and IT-Services division of Plaut Systems & Solutions GmbH, in particular its application management and the SAP PartnerEdge maintenance contracts. A purchase price of € 4,000,000 was agreed in addition to a variable (contingent) consideration, which is dependent on the EBIT generated in the years 2011 to 2014 inclusive, and will be between € 0 and € 1,600,000. The discounted maximum purchase price is € 5,225,192, of which a partial amount of € 1,225,192 is allocated to the contingent consideration. The acquisition is documented in a contract dated 29 November 2010.

Incidental acquisition costs connected with the asset deal amounting to € 3k were incurred; these are reported under other operating expenses.

The following assets were acquired in connection with the asset deal. Their effect on the recognition of deferred taxes is as follows:

	Fair values €'000	Carrying amounts €'000
Property, plant and equipment	180	180
Intangible assets	8,937	3,820
Loans	43	43
Deferred taxes from temporary differences	2	2
Non-current assets	9,162	4,043
Total assets	**9,162**	**4,043**
Other current liabilities	32	32
Current liabilities	32	32
Deferred taxes from temporary differences	1,550	0
Pension provisions	52	52
Non-current liabilities	1,602	52
Total liabilities	**1,634**	**84**
Net assets acquired	**7,528**	**3,959**

There was a resulting negative difference of € 2,303k plus intangible assets valued at € 8,937k. The negative difference was recognised in the statement of income and shown under other operating income in the statement of income. The reason for the negative difference is that the net assets acquired exceed the agreed purchase price.

The core of the acquisition is the purchase of Plaut Systems & Solutions GmbH's data centre, in Ismaning, near Munich, Germany. With the help of its cloud solution, CANCOM AHP Private Cloud, CANCOM can now offer complete, integrated IT services, such as an SAP ERP System and a Microsoft Office environment including email infrastructures, as a cloud service for a fixed monthly fee.

If the acquisition date for all the business combinations had been 1 January 2010, the sales revenues of the merged companies would have been € 555,107k and the net income for the year € 8,758k.

The purchase price for the shares in CANCOM SCC GmbH, which were acquired in the previous year, which was provisionally stated in the previous year at € 807,637, has been reduced to € 445,865.

The consolidated financial statements for CANCOM IT Systeme Aktiengesellschaft for the year ended 31 December 2010 include the German and international subsidiaries shown in the statement of shareholdings under F.13, in accordance with the principles of full consolidation.

4. Reporting entity – scope of consolidation

The basic accounting and valuation policies used to prepare the consolidated financial statements are explained below. The methods described were used consistently for the reporting periods shown, unless declared otherwise.

There has been no early adoption of standards that came into effect after the accounting date, so these standards have had no impact on the earnings, financial and assets position of the Group.

Preparation of the single-entity financial statements included in the consolidated statements

The financial statements of the German and international companies included in the consolidated financial statements were prepared as at the balance sheet date for CANCOM IT Systeme Aktiengesellschaft.

Principles of consolidation

The consolidated financial statements are based on the single-entity financial statements of the companies consolidated in the financial statements of CANCOM IT Systeme Aktiengesellschaft.

In accordance with IFRS 3.79 the amortisation of previously recognised goodwill has been discontinued. The carrying amount of the amortisation accumulated is charged against a corresponding reduction of the goodwill. The goodwill is analysed annually for impairment of assets in accordance with IAS 36.

The single-entity financial statements of the subsidiaries were included in the consolidated statements according to the acquisition method. Assets, liabilities and contingent liabilities identifiable within the scope of a business combination are valued at their acquisition-date fair value when they are first included in the consolidated accounts. The surplus acquisition costs beyond the Group's share in the net assets valued at fair value are recognised as goodwill. In line with IFRS 3 Business Combinations, IAS 36 Impairment of Assets and IAS 38 Intangible Assets, goodwill is no longer subject to scheduled amortisation. Instead, an impairment test must be carried out at least once a year to establish whether downward revaluation is necessary. The reviews of goodwill based on market values are to be carried out at business unit (cash generating unit) level. For the purposes of this rule, a business unit is an operating segment or one level below.

Profits, losses, revenues, expenses and income within the Group, and accounts payable and receivable between the Group companies, are eliminated. Interests held by other shareholders are shown as a separate adjusting item under the equity capital.

Estimates and assumptions

Discretionary decisions must be made when applying the accounting and valuation policies. The points below describe the most significant assumptions made about the future, and other major sources of uncertainty existing at the reporting date with regard to estimates. On account of these there is a risk that an adjustment in the carrying amounts of assets and liabilities will be necessary within the next financial year:

- The fair values of assets and liabilities and the useful life of assets are calculated on the basis of assessment by the management, as is the impairment of property, plant and equipment as well as intangible assets and financial assets.

- There are bad debt provisions in order to make allowances for doubtful accounts arising from customers' inability or unwillingness to pay.

- Assumptions must also be made when calculating current and deferred taxes. The possibility of generating corresponding taxable income plays a particularly important role in assessing whether deferred tax assets can be used.

- The main estimated values in reporting and valuing pension provisions are discount factors, expected salary and pension trends, staff turnover and expected mortality.

Where the above uncertainties regarding valuations exist, the best available knowledge given the circumstances at the balance sheet date is used. The actual amounts may differ from the estimates. The carrying amounts that are included in the financial statements and are subject to these uncertainties can be found in the balance sheet or the corresponding explanations in the notes.

At the time of compilation of the consolidated financial statements, no material changes in the assumptions forming the basis of the reporting and valuation are to be expected. In this respect no noteworthy adjustments to the assumptions and estimates or the carrying amounts of the affected assets and liabilities in the financial year 2010 are currently expected.

Currency conversion principles

Foreign currency business transactions in the single-entity financial statements of the companies are recognised at the exchange rate applicable at the time of the initial entry. Gains and losses from exchange rate fluctuations are recognised in the statement of income. Conversion of the financial statements of international subsidiaries is carried out according to the concept of functional currency. Within the CANCOM Group, all international subsidiaries are economically independent, and therefore the relevant national currency of the subsidiary is the functional currency. The assets, liabilities and equity capital are accordingly converted at the rate of exchange applicable on the reporting date, while income and expenditure are converted at the average rate for the year. Differences from the conversion rate on the reporting date in the previous year and between the net income for the year shown in the balance sheet and in the statement of income are recognised directly in equity and shown separately under equity capital.

Currency	2 010	2009	2008
Swiss francs			
Rate on reporting date	€ 1 = 1.252 SFR	€ 1 = 1.484 SFR	€ 1= 1.486 SFR
Average rate	€ 1 = 1.380 SFR	€ 1 = 1.510 SFR	€ 1= 1.587 SFR
British pound			
Rate on reporting date	€ 1 = 0.862 GBP	€ 1 = 0.889 GBP	€ 1 = 0.960 GBP
Average rate	€ 1 = 0.858 GBP	€ 1 = 0.891 GBP	€ 1 = 0.796 GBP

The currency translation differences recorded in the profits amount to € 48k in expenses. The currency translation differences shown as a separate item under equity capital amount to a loss of € 10k (2009: income of € 45k). As at 31 December 2010, the reserve for currency translation amounts to € 289k (2009: € 279k).

Realisation of revenues

Revenues from sales of hardware and software are realised when ownership and risk passes to the customer, if payment is pre-arranged or determinable by contract and it is probable that the receivables relating to the sale will be recovered. Sales revenues relating to the professional service segment are realised only after acceptance by the customer, or installation, if this is an essential condition for the initial operation of the product. Sales revenues are shown less cash discounts, price reductions, customer bonuses and rebates.

Service contracts in progress are recognised using the percentage of completion method in accordance with IAS 11. The stage of completion is calculated from the ratio between the costs at the balance sheet date and the estimated total costs, unless this would distort the representation of the stage of completion. If the outcome of a contract can be estimated reliably, revenues and costs are recognised at the balance sheet date in proportion to this stage of completion. If the outcome of a contract cannot be reliably estimated, revenue is recognised only to the extent of the costs incurred that are likely to be recoverable. An explanation of the sales revenues calculated using the POC method can be found in section D.2.

Payments on an operating lease are recorded as expenses in the statement of income using the straight-line method over the term of the lease contract, unless another systematic fundamental corresponds more closely to the changes in the benefit to the Company over the term. An operating lease is one in which not all major risks and opportunities are assigned to the lessee. The Company reviews all lease contracts at regular intervals to establish whether operating or finance lease terms apply.
In finance leases in which the Company is the lessee, the leases are recognised in the balance sheet at the beginning of the term of the lease as assets and liabilities of equal value. They are measured at the fair value of the leased asset at the beginning of the term of the lease or at the present value of the minimum lease payments, if this is lower.

In finance leases in which the Company is the lessor, the asset values of the lease are recognised in the balance sheet and presented as an account payable at the net investment value of the lease.

The rental agreement concluded for the premises in Jettingen-Scheppach, Germany represents a major lease agreement. The lease term ends in 2021, and there is no purchase or extension option.

In finance leases where the Company is the lessor, the total minimum lease payments amounts to € 1,621k, less the interest income not yet fully realised of € 121k, resulting in a total present value of € 1,500k.
In finance leases where the Company is the lessee, the total minimum lease payments amounts to € 516k, less the total discount of € 32k, resulting in a total present value of € 484k.

There are generally no options to extend or purchase with the above lease agreements. Apart from the sale and lease-back agreement on the head office building, for which the rent payments are linked to the national consumer price index, there are no adjustment clauses. There are incidental costs in relation to this rental agreement, but there are no other restrictions in relation to the lease agreements that would affect dividends, additional liabilities or other lease agreements.

Interest income is accrued under the relevant period, taking into account the outstanding loan amount and the applicable interest rate. The applicable interest rate is the interest rate that discounts the anticipated future cash inflows over the life of the financial asset with regard to the carrying amount of the asset. Dividend income from financial investments is recognised as soon as a shareholder becomes entitled to a dividend.

Leases in which the company is lessor	Minimum lease payments	Present value of the minimum lease payments	Minimum lease payments	Present value of the minimum lease payments	Minimum lease payments	Present value of the minimum lease payments	Financial income not realised	Totals minimum lease payments
	<1 year	<1 year	>1 <5 years	>1 <5 years	>5 years	>5 years		
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Operate Lease	84	0	73	0	0	0	0	91
Finance Lease	661	594	907	854	53	52	121	0

Leases in which the company is lessee	Carrying amount as of 31 Dec 2009	Minimum lease payments	Present value of the minimum lease payments	Minimum lease payments	Present value of the minimum lease payments	Minimum lease payments	Present value of the minimum lease payments	Total subleases	Recognised lease payments in 2010*
		<1 year	<1 year	>1 <5 years	>1 <5 years	>5 years	>5 years		
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Operate Lease	0	2,726	0	4,646	0	4,208	0	0	4,214
Finance Lease	483	258	234	258	250	0	0	695	0

*only minimum lease payments

Earnings per share

Earnings per share are measured in accordance with IAS 33 Earnings per Share. The basic earnings per share are calculated by dividing the consolidated net income less minority interest by the weighted average number of ordinary shares outstanding in the financial year.

Current assets

Inventories are valued at the lower of acquisition or manufacturing cost and market value (lower of cost or market) in accordance with IAS 2.9. Acquisition or manufacturing costs include direct materials costs and, where applicable, direct production costs as well as any overheads that have occurred in connection with the transfer of inventories to their current location and in order to bring inventories to their current condition. Acquisition and manufacturing costs are calculated according to the weighted average method and measured item-by-item according to the lower of cost or market principle. The net realisable value is the estimated selling price less all estimated costs up to completion and the cost of marketing, sales and distribution. Items with reduced marketability are valued at the lower net realisable value.

Where necessary, write-downs are made for overextending items, obsolescence and reduced marketability.

Any borrowed capital costs associated with manufacturing are capitalised.

The percentage of completion method is applied to orders in progress. Depending on the stage of completion, costs are recognised at the ratio between actual and estimated costs and revenue at the agreed contract revenue, in accordance with IAS 11.

Accounts receivable are shown at their net sale proceeds value, allowing for a write-down for receivables that may not be recoverable. Where the agreed interest rate for long-term receivables is less than the market rate, the nominal amount of the receivable is discounted. Trade receivables are not discounted. If a receivable is unlikely to be recoverable, the amount is written down.

Other assets are shown at their nominal values.

Cash and cash equivalents include cash in banks and cash in hand, and cash deposits that are not subject to any considerable value fluctuation and can be turned into cash within a period of three months.

Prepaid expenses are accrued to charge expenses to their relevant accounting period, and are measured at their nominal value.

Property, plant and equipment

Property, plant and equipment are carried at acquisition or manufacturing cost less depreciation in accordance with IAS 16. They are depreciated over their useful lives using the straight-line method. Their recognition is based on the following useful lives:

Fixtures, fittings and equipment	3-13 years

Acquisition/manufacturing costs include expenditure directly attributable to acquisition. Subsequent acquisition/manufacturing costs are only recorded as a part of the acquisition/manufacturing costs of an asset or – where relevant – as separate assets if it is probable that the Group will obtain economic benefit from them in the future and the costs of the assets can be reliably determined. All other repair and maintenance costs are recorded as expense in the financial year in which they occur. The carrying amounts and useful lives are reviewed at every balance sheet date and adjusted where necessary. Low-value assets with acquisition or manufacturing costs of € 150 or less are written off in full as operating expenses in the year of their acquisition.

Asset values are written down when there is expected to be permanent impairment as a consequence of changed circumstances. At each balance sheet date assets are reviewed to look for any indication of impairment. If such indications are present, the company makes an estimate of the recoverable amount for the respective asset. The recoverable amount is the higher of the value in use of the asset and the fair value less costs to sell. To calculate the value in use, the estimated future cash flows are discounted to their present value, taking as a basis a discount rate before tax which reflects the current market expectations in terms of the interest effect and the specific risks of the asset. If the fair value can not be calculated reliably, the value in use of the asset is taken as the recoverable amount. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and written down to its recoverable amount. If necessary the impairment charges are included in a separate expense item.

The need for partial or complete write-up is reviewed as soon as there are indications that the reasons for the depreciation carried out in the preceding financial years because of impairment no longer exist. A previously determined impairment charge must be derecognised if there has since been a change in the estimates used as a basis for calculating the recoverable amount. If this is the case, the carrying amount of the asset must be increased to its recoverable amount. This increased carrying amount must not exceed the carrying amount that would result after taking into consideration the depreciation if no impairment charge had been recorded in the earlier years. Such a write-up is immediately included in the result of the financial year. Once a write-up has been carried out, the provision for depreciation in future reporting periods is adjusted in order to distribute the adjusted carrying amount of the asset, less any residual carrying amount, systematically over its remaining useful life. There were no impairments in the year under review.

Intangible assets
In line with IAS 38, goodwill and other intangible assets acquired are recognised at acquisition cost and the estimated residual carrying amount is written down using the straight-line method over the expected useful life of the assets. Assets are written down uniformly throughout the Group using the straight-line method over the period in which the relevant company expects to benefit from the asset (generally over a useful life of 3–12 years). Goodwill from acquisitions and brand rights is not amortised. Instead, it is subject to an impairment test at least once a year (in line with IFRS 3 and IAS 36). IAS 38 distinguishes between intangible assets with finite lives and those with indefinite lives. Only intangible assets with finite lives are amortised, in contrast to intangible assets with indefinite lives. These are assessed for impairment at least once a year in accordance with IAS 36. With the exception of goodwill and brand rights, all intangible assets have finite lives.

The costs of development activities are capitalised if the development costs can be calculated reliably, the product or the process is technically and economically realisable and future economic benefit is probable. The company must also have the intention and sufficient resources to conclude the development and to use or sell the asset.

Goodwill and first inclusion of acquired companies in the Group financial statements
Group companies are included in the consolidated financial statements by the acquisition method. Under this method the acquired company's assets, liabilities and contingent liabilities identified according to IFRS 3 are valued at their acquisition-date fair value, and the costs of the acquirer are balanced against these (purchase price allocation). The interest in the fair values of assets and liabilities not acquired is shown under minority interest.

The surplus of the acquisition costs over the value of the acquired equity capital is capitalised as goodwill and subsequently subjected to a regular annual impairment test at the end of each financial year. In line with IAS 36, goodwill is tested for impairment at reporting unit (cash generating unit) level, following segment reporting. In this process the carrying amounts of cash generating units are compared with the recoverable amount.

Financial assets
The financial assets are securities, equity investments and other loans. Financial assets are recognised and derecognised at the date of the transaction. Financial assets are initially recognised at acquisition cost.

Financial assets are divided into the following categories:
- financial assets recognised at fair value in the statement of income,
- held-to-maturity investments,
- available-for-sale financial assets,
- loans and receivables.

The categorisation depends on the type and the intended use of the financial assets and is carried out at the time of addition.

Loans are categorised as loans and receivables. These are valued according to the effective interest rate method at carrying amounts less impairment.

Equity investments are assigned to the category of available-for-sale financial assets. If no market values can be calculated reliably the valuation is at the carrying amounts.

If there are objective, substantial indications of impairment of financial assets in the categories of loans and receivables, held-to-maturity investments or available-for-sale financial assets, a check is made to establish if the carrying amount exceeds the present value of the expected future cash flows which are discounted with the current market returns of a comparable financial asset. If this is the case, the asset is written down by the amount of the difference. Indications of impairment include a company's operating loss over several years, a fall in the market value, a significant deterioration in credit rating, a particular contract violation, a high probability of insolvency or another form of financial restructuring of the debtor.

If the reasons for impairment losses previously assessed no longer apply, corresponding write-ups are made – but not beyond the acquisition costs. No write-ups are carried out on available-for-sale equity securities, which are valued at carrying amounts.

Financial assets are derecognised when the contractual rights for payments from the financial assets expire or the financial assets are transferred with all major risks and opportunities.

Deferred taxes

Deferred taxes are included for the differences between the carrying amount of the assets and liabilities in the consolidated financial statements and the corresponding tax recognition in the calculation of taxable income, and are added to the balance sheet according to the asset and liability method. Deferred tax liabilities are included in the balance sheet for all assessable temporary differences. Deferred tax assets are included if it is likely that assessable profits are available for which the deductible temporary differences can be used. Deferred taxes are not recognised if the temporary differences are the result of goodwill.
The carrying amount of the deferred tax assets is checked each year at the reporting date and lowered if it is no longer likely that there is sufficient taxable income available to realise the claim.

Deferred taxes are calculated on the basis of the tax rates expected to apply at the time of the fulfilment of the liability or the realisation of the asset. The valuation of deferred tax claims and tax liabilities reflects the tax consequences that would arise from the way in which the Group expects to fulfil the liability or realise the asset at the balance sheet date.

Deferred tax claims and tax liabilities are balanced when there is an enforceable right to set off current tax claims with current tax liabilities and when they are associated with income taxes which are levied by the same tax authority.

Provisions and liabilities

Provisions for employee benefits mainly include performance-based pension obligations, which are determined on the basis of actuarial reports using the projected unit credit method and taking into account future increases in salary and pensions. Under defined contribution pension schemes, provisions are only made for the value of contributions still outstanding at the reporting date. In the event of any unforeseen changes in pension obligations or plan assets, there may be actuarial gains or losses which are not recognised in the statement of income. These accumulated gains or losses which have not yet been recognised in the statement of income are recognised as income or expense if, at the beginning of the financial year, they exceed 10 percent of the value of the pension obligation or the plan assets, whichever is higher. (The 10 percent limit is known as the 'corridor').

Other provisions are made where there is an uncertain current obligation arising from an event that occurred in the past with a legal or factual cause, which is expected to be claimed and which can be reliably quantified. The obligation is valued on the basis of best estimate, taking into account unit costs and overheads. General administrative, distribution and development costs are not taken into account.

Liabilities are recognised at their repayment value, which is equivalent to the current market value.

Utilised overdraft facilities are shown in the balance sheet as short-term loans under short-term financial liabilities.

B. Details of financial instruments

Classification of financial instruments

Financial assets and financial liabilities are grouped into different classes of financial instruments, in line with IAS 39 and IFRS 7. The categories are also presented in aggregated form.

	Category (IAS 39 und IFRS 7)	Carrying amount 31 December 2010	Fair Value 31 December 2010	Carrying amount 31 December 2010	Fair value 31 December 2010
Assets					
Cash and cash equivalents	LaR	31,472	31,472	25,836	25,836
Long-term investments	AfS	3,211	3,211	157	157
Trade accounts receivable	LaR	68,014	68,014	47,191	47,191
Other financial assets	LaR	5,583	5,583	4,045	4,045
Other assets	LaR	1,477	1,477	3,002	3,002
Liabilities					
Short-term loans and current component of long-term loans	FLAC	1,196	1,196	707	707
Capital from profit participation rights and subordinated loans (short-term portion)	FLAC	413	413	0	0
Trade accounts payable	FLAC	64,437	64,437	47,852	47,852
Long-term loans	FLAC	9,607	9,607	5,194	5,194
Capital from profit participation rights and subordinated loans	FLAC	14,364	14,364	12,784	12,784
Other financial liabilities	FLAC	4,979	4,979	3,649	3,649
Other liabilities	FLAC	16,268	16,268	10,696	10,696
Of which aggregated according to categories in line with IAS 39:					
Loans and receivables (LaR)		106,546	106,546	80,074	80,074
Held-to-maturity investments (HtM)		0	0	0	0
Available-for-sale financial assets (AfS)		3,211	3,211	157	158
Financial assets held for trading (FAHfT)		0	0	0	0
Financial liabilities measured at amortised cost (FLAC)		111,264	111,264	80,882	80,882
Financial liabilities held for trading (FLHfT)		0	0	0	0

Cash and cash equivalents, trade accounts receivable and other receivables mainly have short remaining terms. Their carrying amounts at the balance sheet date are therefore roughly equivalent to their fair value.

In the same way, trade accounts payable and other liabilities usually have short remaining terms. The amounts recognised are roughly equivalent to their fair value.

Financial assets classified as available for sale are not payable at term, are not held for commercial purposes and are available for sale at any time.

The fair values of the securities are equivalent to the quantities multiplied by the prices quoted at the balance sheet date.

The fair values of loans, capital from profit participation rights and subordinated loans, as well as other financial liabilities, are calculated as the present values of the payments arising from the debts and on the basis of the effective interest rate method.

The effective interest rate is the interest rate that discounts the estimated future payments (including all fees and charges that are part of the effective interest rate, transaction costs and other premiums and discounts) over the expected life of the debt instrument, or a shorter period where applicable, to their carrying amounts at the time of their first inclusion in the financial statements.

The values shown in the balance sheet are approximately equal to the fair values.

Net gains or net losses from financial assets and liabilities as described by IFRS 7.20 are recognised under other comprehensive profits in the statement of comprehensive income. Hedging instruments as defined by IFRS 7.22-23 were not used as at 31 December 2010.

Risk management

CANCOM's risk policy is geared towards the early identification of severe or serious risks that could endanger the future of the Company as a going concern, and aims to handle them in a responsible manner. To define and secure adequate risk controlling, the Executive Board has drawn up a risk policy and appointed a central risk officer who regularly monitors, measures and controls any risks that may emerge.

As part of CANCOM's risk analysis procedure, risks are regularly classified and valued according to the probability of their occurrence and their severity, and the information is then arranged in a risk matrix. All these risks become the responsibility of a special appointee. If the risks are quantifiable, they are measured with the aid of appropriately defined figures. If no precisely defined ratios are available, the risks are assessed by the special appointee.

For risks to the Company as a going concern, the system for early identification of risks includes the definition of early warning indicators. Changes or trends in these are continually monitored and discussed in risk management meetings. The regular risk management meetings between the Executive Board and the risk officer ensure the sustained and timely control of present and future risks.

Liquidity risk

CANCOM's exposure to liquidity risks is limited due to its strong equity position and the long-term nature of borrowed funds.

For a number of years CANCOM has been using a liquidity management system with daily monitoring of the changes in liquidity and assessment of the liquidity risks, with both short-term and long-term liquidity planning.

Short-term liquidity is guaranteed at all times by credit facilities. Long-term liquidity is safeguarded through long-term bank loans and ample equity. An important part of CANCOM's financing strategy is the employment of mezzanine capital, which is similar to equity, and subordinated loans. The terms of loans are deliberately dispersed over the time axis to spread the risk.

Early refinancing of financial liabilities minimises the liquidity risk. The table below was derived from the balance sheet and the contractual bases in addition to other lease contract records, and shows the maturities:

	2011 €'000	2012 €'000	2013–2015 €'000	2016 und danach €'000
Trade accounts payable	64,437	0	0	0
Liabilities to banks	1,196	2,324	2,494	4,789
Capital from profit participation rights and subordinated loans	413	6,825	4,351	3,188
Other financial liabilities	3,209	0	1,266	0
Financial leases	251	253	0	0
Other financial liabilities	5,562	3,593	5,756	4,960
Interest expense	1,512	1,308	2,349	1,134

The Group has access to credit facilities totalling € 12,942k. The full amount not yet utilised as at the balance sheet date is € 11,818k. During the financial year 2010 there were no delays in the payment of interest or capital on loans.

Currency risk

As CANCOM concentrates its activities in the euro area, the Group is exposed to a moderate currency risk. The units whose accounts are kept in other currencies account for less than 2 percent in total of the Group's equity.

CANCOM has a system of ongoing currency management. When payment dates are not precisely defined or postponed, currency transactions are prolonged for as long as possible and their size is estimated as precisely as possible on the basis of comparative figures from the past. The operating units are not allowed to take out loans or make investments in foreign currencies for speculative purposes. For funding or investments within the Group, preference is given to use of the functional currency or hedging. For currency transactions involving sums in excess of € 100k there is an approval system where hedging decisions are taken on an individual basis.

At 31 December 2010, the carrying amount of the Group's monetary assets and liabilities in foreign currencies is as follows:

	12/31/2010 €'000	12/31/2009 €'000
Assets in GBP	2,056	1,938
Liabilities in GBP	1,440	1,238
Assets in CHF	0	0
Liabilities in CHF	1	1
	615	699

Interest risk
Due to the largely long-term nature of its funding, CANCOM is not exposed to any serious interest risks. In the past, fluctuations in interest rates have had only minimal effects on the net income for the year. CANCOM's strong equity position also gives the Group access to credit at favourable rates.

There is a risk management system in place to optimise interest risks. This involves continual observation of market interest rates and the rates paid by the Group, and also maintaining constant contact with banks. Master loan agreements provide for interest rates to be adjusted. Concrete plans for interest hedges only exist in the case of heavy fluctuation.

Default risk
There is a credit risk for CANCOM in that the value of the assets could be impaired if transaction partners do not comply with their obligations. To minimise the credit risks, deals are concluded only subject to predetermined risk limits.

The default risks are the prevailing market risks; these are allowed for by appropriate provisions. The Group is not subject to any material default risks of a contract party or a group of contract parties with similar characteristics. The Group defines contract parties as having similar characteristics if they are related companies. In view of the financial market crisis, the internal guidelines for credit insurance and for the issuing of credit limits have been stepped up.

The maximum theoretical default risk for the categories shown above is equal to the carrying amounts. With the exception of the foreign currency hedging mentioned above, the Group has no other securities that would reduce the default risk.

Market risks
Sensitivity analyses are conducted for currency risks, and interest risks are then quantified.

Currency risk
Currency risks arise particularly when there are, or will be, receivables, liabilities, cash and cash equivalents, and planned transactions in a currency other than the domestic currency of the Company.

One of the currency risks the Group is exposed to is the exchange rate risk of the currencies of the United Kingdom (GBP) and Switzerland (CHF). The sensitivity analysis covers only outstanding monetary items in non-domestic currency and adjusts their conversion at the period end according to a 5 percent change in the exchange rates.

A rise of 5 percent in the value of the euro against the pound sterling would result in an increase in equity capital of € 10k and a fall in EBIT of € 16k.

A rise of 5 percent in the value of the euro against the Swiss franc would result in a fall in equity capital of € 9k and an increase in EBIT of € 1k.

Interest risk
All interest risks that the Group is exposed to depend on its profits. They only arise when the company makes a profit.

There is an interest risk with the mezzanine capital obtained from Bayern Mezzaninekapital GmbH & Co. KG. If the actual EBITDA reported reaches at least 50 percent of the planned EBITDA, the provider of the mezzanine capital will be paid 1 percent per annum as earnings-related remuneration. The additional interest payments are € 41k per annum. As the loan runs until December 2015, the maximum overall risk is € 203k.

The Group has entered an agreement concerning profit participation rights in connection with the subordinated preferred pooled shares, or PREPS. This involves an obligation to give the provider of the capital a share of the profits in the form of an increased interest rate. The Company must pay 1 percent per annum on reaching a net income for the year of € 7 million, essentially adjusted to take account of PREPS interest payments, and 2 percent per annum on reaching € 14 million. The risk at 1 percent amounts to € 60k per annum and € 120k per annum at 2 percent. As the agreement runs until December 2012, the maximum overall risk is € 240k.

Financial market risk
CANCOM IT Systeme Aktiengesellschaft's risk manual was reviewed in 2010 to take into account any risks arising from the financial market crisis.

Dealing in financial instruments and structured products is not a core business of the Company, and is only used – if at all – as a means of safeguarding sound underlying transactions, such as currency hedging. At the balance sheet date CANCOM IT Systeme Aktiengesellschaft did not hold any structured products. The financial market risk is limited to the price risk of the securities held by the Company at the balance sheet date.

Only the Executive Board and the Finance Director are authorised to purchase or sell structured products from or to banks, and the cross-checking principle must be followed. This is intended to avoid the possibility of inexperienced persons carrying out transactions of this kind.

C. Notes to the consolidated balance sheet

1. Cash and cash equivalents

Cash and cash equivalents consists exclusively of cash in banks payable on demand and cash in hand.

2. Trade accounts receivable

The trade accounts receivable are as follows:

	31 Dec. 2010 €'000	31 Dec. 2009 €'000
Accounts receivable before write-downs	68,255	47,518
Write-downs	241	327
Carrying amount of accounts receivable	68,014	47,191

The accounts receivable are written down uniformly throughout the Group, depending on their age structure.

Group receivables are written down, taking into account contractually agreed retentions for merchandise credit insurance on the basis of the assessment as to whether legal proceedings will be necessary, or on the basis of the most positive outcome to be expected regarding defaults.

Generally, all Group receivables that are more than two years old are written off in full. There were no receivables more than two years old at the reporting date.

Individual receivables are automatically written down after 120 days. An age analysis of receivables that are overdue but not impaired shows that those between one and two years old were written down by approximately 50 percent. At the reporting date, the value of these receivables was less than 1 percent of total receivables.
Before taking on a new customer the Group uses a system of external credit scoring to assess the credit rating of potential customers and to set their credit limits. The credit ratings of customers and their credit limits are reviewed annually.

When calculating the impairment of trade accounts receivable, every change in credit rating is taken into account, from the time the credit was granted up to the balance sheet date. There is no significant concentration of credit risk because the customer base is broad and there is no correlation. The management therefore believes that no provision for risks is necessary beyond the impairments already included.

The impairments include individually adjusted trade accounts receivable totalling € 1k (2009: € 56k) where insolvency proceedings have been instituted against the debtors. The impairment included is the difference between the carrying amount of the receivable and the present value of the anticipated liquidation proceeds. The Group has no security for these balances.

There were no impairments for trade accounts receivable totalling € 16,561k (2009: € 9,131k) which were due at the reporting date because no major change in the credit rating of these debtors was established and the outstanding amounts are expected to be paid. The accounts receivable that were due at the reporting date included invoices that were payable immediately without reduction.

The fair value of the trade accounts receivable is equal to the carrying amount. Additions in the financial year are posted in the statement of income under other operating expenses, while reversals are shown under other operating income.

The trade accounts receivable are due within a year.

3. Other current financial assets

This item includes bonuses due from suppliers (€ 2,777k; 2009: € 1,957k), a claim to the payment of a purchase price (€ 584k; 2009: € 361k), creditors with a debit balance (€ 372k; 2009: € 139k), marketing revenue (€ 310k; 2009: € 146k), receivables from employees (€ 236k; 2009: € 171k), claims in respect of loans (€ 203k; 2009: € 168k), receivables due from suppliers for returned goods (€ 135k; 2009: € 159k) and receivables from former shareholders (€ 46k; 2009: € 47k). In 2010, this item also included property, plant and equipment classified as held for sale, amounting to € 75k.

4. Inventories

Inventories consist almost exclusively of merchandise, particularly hardware components and software. Most of it is stored at the logistics centre in Jettingen-Scheppach, Germany.

Inventories consist of the following (company-specific breakdown):

	31 Dec. 2010 €'000	31 Dec. 2009 €'000
Finished products and goods	13,325	12,588
Down-payments rendered	38	1
	13,363	12,589

The cost of goods, raw materials and supplies in the financial year 2010 was € 377,015k.

Inventories were written down by € 608k in 2010 (2009: € 540k) owing to overextending items, obsolescence and reduced marketability.

There are no inventories that will be converted into cash in a period of more than 12 months.

The carrying amount of the inventories pledged as security as part of a factoring agreement is € 1.5 million in total.

5. Orders in process

The orders in process are orders calculated according to the percentage of completion method. They amount to € 735k (2009: € 1,035k) less down-payments of € 5k (2009: € 45k). The costs accumulated for current projects as at the balance sheet date amounted to € 694k. Gains resulting from current projects as at the balance sheet date totalled € 41k.

6. Prepaid expenses, deferred charges and other current assets

This item mainly consists of other current assets such as tax refunds (€ 1,105k; 2009: € 357k), compensation for damages (€ 80k; 2009: € 267k), receivables from social insurance institutions (€ 65k; 2009: € 233k), commission income (€ 54k; 2009: 15k), and receivables from the German Federal Employment Agency (€ 36k; 2009: € 141k) and a guarantee (€ 35k; 2009: € 0).

The prepaid expenses and deferred charges (€ 629k; 2009: € 459k) also include deferred insurance premiums.

7. Non-current assets

Changes in, and the composition of, non-current assets in 2010 are shown in the consolidated statement of changes in non-current assets (page 46-47)

7.1 Property, plant and equipment

Property, plant and equipment mainly consists of motor vehicles (€ 4,569k), the logistics centre (€ 730k) and the data centre (€ 425k). Computer equipment, tenant's fittings, and office furnishings and equipment are also shown under this item.
Motor vehicles valued at € 2,001k were pledged as security for the loans from Stadtsparkasse Augsburg.

7.2 Intangible assets

The intangible assets include purchased software (€ 1,815k; 2000: € 695k), capitalised development costs (€ 2,001k; 2009: € 945k), brand rights for HOH (€ 1,756k; 2009: € 1,756k), brand rights for Plaut (€ 288k; 2009: € 0), customer list (€ 11,671k; 2009: € 3,308k) and orders in hand (€ 1,329k; 2009: € 26k).
In connection with the takeover of the assets of Plaut Systems und Solutions GmbH, the CANCOM Group acquired a free right to use the Plaut brand in contractually fixed combinations for a period of four years. The brand was valued by the licence fee analogy method, which is the usual method for these assets.

The customer list and the orders in hand originate from acquisitions made in 2010 and in previous years, and are written down over their expected useful lives.

7.3 Goodwill

Goodwill at the balance sheet date mainly includes the relevant figures arising from the inclusion in the consolidated financial statements of CANCOM Deutschland GmbH (€ 11,426k; 2009: € 11,426k), CANCOM IT Solutions GmbH (€ 7,942k; 2009: € 7,989k), CANCOM NSG GmbH (€ 2,522k; 2009: € 2,568k) and CANCOM a+d IT solutions GmbH (€ 1,732k; 2009: € 1,459k). The goodwill of CANCOM Ltd. was written down by € 1,314k to € 0 in 2010 owing to the company's performance. The corresponding expense is recognised in the statement of comprehensive income under amortisation and allocated to the e-commerce/trade segment in the segment report.

The Group checks these figures once a year using valuation policies based on discounted cash flows. These discounted cash flows are themselves based on five-year forecasts which are based on finance plans approved by the management. The cash flow forecasts take into consideration the experiences of the past and are based on the best estimate of future developments made by the management. The cash flow forecasts are based on the sales forecasts of the individual companies. The sales forecasts for the larger companies in the Group in 2011 vary between a decline of 3.04 percent (CANCOM a+d IT solutions GmbH) and growth of 6.42 percent (CANCOM Deutschland GmbH). The forecasting process differentiates between projected sales revenues in the hardware and services businesses, and to a certain degree it takes into account non-recurring items in the financial year 2010. For the years 2012 to 2014, it is assumed that the trend in sales revenues will range between a decline of 4.69 percent and growth of 7.51 percent. Parts of the CANCOM Group are therefore expected to experience above-average growth compared with the rest of the IT sector and the market, with hardware increasing by 4.0 percent and software by 4.2 percent (figures from BITKOM, the German Association for Information Technology, Telecommunications and New Media, for the German IT market in 2011).

Cash flows outside the planning period are extrapolated without growth rates. The most important assumptions on which the calculation of the fair value less the costs to sell and the value in use is based are as follows:

	2010	2009
Risk-free interest	3.25 %	3.28 %
Market risk premium	5.00 %	4.00 %
Beta coefficent	1.3	1.35
Capitalisation interest rate	8.18 %	9.41 %
Input tax- WACC:	11.68 %	13.44 %

These premises and the underlying methodology may have a considerable effect on the respective values and ultimately on the amount of a possible impairment of the goodwill.

In the estimation of the management, it is unlikely that any change in the basic assumptions on which the calculation of the recoverable amount is based would lead to the carrying amount of the cash-generating unit exceeding its recoverable amount.

In 2010 variable purchase price components totalled € 0k (2009: € 177k). The variable purchase price depends on certain conditions and will only be due for payment (should the conditions arise) in the years to come.

7.4 Financial assets

In the financial year 2010 CANCOM IT Systeme Aktiengesellschaft acquired shares in Plaut Aktiengesellschaft. CANCOM IT Systeme Aktiengesellschaft does not exercise any significant influence on Plaut Aktiengesellschaft. The shares are therefore shown in the balance sheet under financial assets and valued at the Xetra closing price on 31 December 2010 of € 0.90 per share. The securities price difference is shown in the statement of comprehensive income.

7.5 Loans

The loans consist of the asset value from reinsurance, amounting to € 43k.

8. Deferred tax assets

The deferred tax assets are as follows:

Deferred tax resulting from	Temporary differences €'000	Tax loss carryforward €'000
As at 1 January 2010	338	2,224
Addition from capitalisation owing to first inclusion in consolidated financial statements	2	0
Addition from revaluation of financial instruments recognised directly in equity	1	0
Tax expenditure from profit and loss calculation	65	–1,930
As at 31 December 2010	**406**	**294**

As at 31 December 2010 the CANCOM Group had corporation tax loss carryovers of € 10.1 million (2009: € 14.4 million) and trade tax loss carryovers of € 9.1 million (2009: € 10.5 million). The unused corporation tax losses for which no deferred tax claim was recognised in the balance sheet amounted to € 9.2 million (2009: € 6.4 million), and the trade tax loss carryovers for which no deferred tax claim was recognised amounted to € 8.1 million (2009: € 5.0 million). The amounts referred to include a component of € 8.6 million (corporation tax) and € 8.1 million (trade tax), which has been called into question because of the EU Commission's legal interpretation of the restructuring clause in Section 8c of the German Corporate Tax Act (Körperschaftsteuergesetz, KStG).

The deferred taxes from temporary differences are mainly the result of differences in other provisions (€ 165k), goodwill (€ 144k), elimination of sales within the Group (€ 66k) and intangible assets (€ 29k).

9. Short-term loans and current component of long-term loans

This item shows liabilities to banks. These comprise the utilisation of credit facilities provided by banks, and those parts of the long-term loans that are due for repayment within one year.

10. Other current financial liabilities

This item includes purchase price liabilities (€ 1,675k; 2009: € 376k), debtors with a credit balance (€ 1,172k; 2009: € 681k), outstanding bills of charges (€ 578k; 2009: € 654k) and Supervisory Board remuneration (€ 35k; 2009: € 35k). In 2009 liabilities to former shareholders of a subsidiary amounting to € 1,412k were also shown.

11. Other provisions

The other provisions changed as follows during 2010:

	01/01/10 €'000	Addition first consolidation €'000	Used €'000	Reversal and transfer €'000	Addition €'000	12/31/10 €'000
Guarantees and warranties	1,155	264	769	75	875	1,450
Prices for shares in affiliated companies	901	0	890	11	1,296	1,296
Serverance payments and salaries	717	0	160	13	345	889
Additional leasing costs	244	49	52	51	249	439
Contingent risks	162	0	77	36	200	249
Cost of financial statements	198	59	300	2	159	114
Copyright levy	1,774	0	0	1,774	0	0
Other	10	16	10	24	70	62
	5,161	388	2,258	1,986	3,194	4,499

The total provisions include long-term provisions of € 2,920k (2009: € 1,256k), of which € 1,266k is disclosed under other non-current financial liabilities and € 1,654k under other non-current liabilities. The provisions are for the purchase price in the asset deal relating to Plaut (€ 1,266k), guarantees and warranties (€ 653k; 2009: € 579k), severance payments legally mandatory in Austria (€ 469k; 2009: € 347k), anniversaries (€ 184k; 2009: € 141k), additional leasing costs (€ 178k; 2009: € 77k), partial retirement (€ 91k; 2009: € 62k) and contingent risks (€ 79k; 2009: € 50k).

The obligation to pay a copyright levy to the German Central Agency for Private Copying Rights (Zentralstelle für Private Überspielrechte, ZPÜ) was dropped in 2010. The provision has therefore been reversed and the other asset offsetting this amount has been derecognised. The other asset arose because an exemption certificate had been issued by a supplier in relation to all costs.

12. Income tax liabilities

Income tax liabilities mainly consist of obligations for 2010.

13. Other current liabilities

Other current liabilities mainly include sales tax (€ 7,007k; 2009: € 3,425k), bonus payments to Board members and employees (€ 3,692k; 2009: € 2,781k), tax on wages and salaries and church tax (€ 1,289k; 2009: € 1,184k), holiday and overtime entitlements (€ 1,076k; 2009: € 741k), trade association payments (€ 619k; 2009: € 436k), social security contributions (€ 179k; 2009: € 75k), wages and salaries (€ 175k; 2009: € 340k) and compensation levy for non-employment of the severely handicapped (€ 170k; 2009: € 167k).

14. Long-term loans

Long-term loans consist purely of liabilities due to banks with a remaining term of at least one year. The part of these loans that is due for repayment within the next twelve months is shown under short-term loans and current component of long-term loans. Loans from Stadtsparkasse Augsburg and Sparkasse Günzburg-Krumbach are valued by the effective interest rate method. Subsidies from Germany's public-owned development bank, KfW, for the loans are distributed over the term. The market interest rate is between 4.5 percent and 5.53 percent.

15. Capital from profit-participation rights and subordinated loans

Capital from profit profit participation rights and subordinated loans includes profit participation rights of € 6,000,000.00 (PREPS 2005-1 and PREPS 2005-2); mezzanine capital of € 3,938,980.01 (loan proceeds € 4,000,000.00) from Bayern Mezzaninekapital GmbH & Co. KG; a subordinated loan from Sparkasse Günzburg-Krumbach of € 1,650,000.00; two subordinated loans from Sparkasse Günzburg-Krumbach of € 531,735.05 each (loan proceeds € 1,000,000.00 each); and four subordinated loans from Stadtsparkasse Augsburg of € 1,076,599.83 (loan proceeds € 1,995,600,00); € 207,090.84 (loan proceeds € 392,500.00), € 551,825.70 (loan proceeds € 1,621,000.00); and € 288,846.49 (loan proceeds € 846,000.00). The mezzanine capital, two of the subordinated loans from Sparkasse Günzburg-Krumbach and the subordinated loans from Stadtsparkasse Augsburg are valued by the effective interest rate method. By this method, the fees for the mezzanine capital and the subsidy from Germany's publicly-owned development bank, KfW, for the loans from Sparkasse Günzburg-Krumbach and Stadtsparkasse Augsburg are distributed over the term. The market interest rate is between 10 percent and 10.5 percent.

The € 3,000,000 portion of the profit participation rights designated as PREPS 2005-2 was granted under a contract dated 1 November 2005. The capital was paid on 8 December 2005. The profit participation rights expire on 8 December 2012. There is no participation in the Company's losses. Claims arising from the profit participation right are ranked below the claims of all current and future creditors, so that in the event of the liquidation or insolvency of the Company they are subordinate to the claims defined in Section 39, paragraph 1, number 4 of the German Insolvency Statute (Insolvenzordnung, InsO), and are therefore only to be satisfied after these and any higher-ranking claims have been satisfied in full, but before the claims defined in Section 39, paragraph 1, number 5 of the above Statute.

In line with the resolution of the general meeting of shareholders of 2005 authorising the Executive Board to grant profit participation rights, the € 3,000,000 portion (PREPS 2005-1) recognised as a subordinated loan at 31 December 2005 was converted to profit participation rights.

The conversion became effective from the interest-rate period beginning on 4 May 2006. The profit participation rights expire on 4 August 2012. There is no participation in the Company's losses. With regard to the ranking of any claims arising from these profit participation rights, the same applies as to the profit participation rights designated as PREPS 2005-2 above.

Mezzanine capital of € 4,000,000.00 (loan proceeds) was granted under a mezzanine capital agreement of 27 December 2007 between CANCOM IT Systeme Aktiengesellschaft and Bayern Mezzaninekapital GmbH & Co. KG. The funds were paid out on 31 December 2007. The mezzanine capital is due for repayment in full no later than 31 December 2015 and attracts interest at a fixed rate of 6.6 percent per annum. If the actual reported EBITDA reaches at least 50 percent of the planned EBITDA, the providers of the mezzanine capital will be paid 1 percent per annum as an earnings-linked remuneration. Claims under the mezzanine capital agreement are subordinate to the claims of all present and future creditors in that the providers of the mezzanine capital may not demand the satisfaction of their claims during the time that the company is in crisis in the meaning of Section 32a of the German Limited Liability Company Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, GmbHG) or if the enforcement of the claims would lead the Company into a crisis in the meaning of Section 32a of the above Act. During such a crisis these subordinated claims rank after the claims of other creditors, in accordance with Section 39, paragraph 1, number 5 and Section 39, paragraph 2 of the German Insolvency Statute (Insolvenzordnung, InsO).

A loan from Sparkasse Günzburg-Krumbach was taken out on 28 March 2003 and attracts interest at a rate of 6.67 percent per annum. The loan will be repaid from 30 September 2011 in four half-yearly instalments of € 412,500.00.

Two further loans of € 1,000,000.00 each (loan proceeds) were granted by Sparkasse Günzburg-Krumbach on 21 December 2010. Interest of 5.1 percent per annum is payable on the loan. These are specific-purpose loans out of funds from Germany's publicly-owned development bank, KfW. Repayment will start on 30 March 2018, with 11 quarterly instalments on each loan of € 83,334.00, followed by a final instalment on each loan of € 83,326.00.

A loan of € 1,995,600.00 (loan proceeds) from Stadtsparkasse Augsburg was granted in tranches of € 1,500,000.00 on 23 September 2009 and € 495,600.00 on 8 December 2009. Interest of 4.25 percent per annum is payable on the loan. This is another specific-purpose loan out of funds from KfW. Repayment, in 12 quarterly instalments of € 166,300.00, will commence on 30 December 2016.

A further loan of € 392,500.00 (loan proceeds) from Stadtsparkasse Augsburg was granted on 8 December 2009. Again, this is a specific-purpose loan from KfW, on which the annual rate of interest is 4 percent. Repayment will commence on 30 December 2016, with payment of 11 quarterly instalments of € 32,709.00 followed by a final instalment of € 32,701.00.

A further loan of € 1,621,000.00 (loan proceeds) was granted by Stadtsparkasse Augsburg on 26 November 2010. Interest of 2.9 percent per annum is payable on the loan. This is a specific-purpose loan out of funds from KfW. Repayment will begin on 30 March 2018, with 11 quarterly instalments of € 135,084.00 each, followed by a final instalment of € 135,076.00.

A further loan of € 846,000.00 (loan proceeds) from Stadtsparkasse Augsburg was granted on 2 December 2010. Interest of 2.9 percent per annum is payable on the loan. This is a specific-purpose loan out of funds from KfW. Repayment will begin on 30 March 2018, in 12 quarterly instalments of € 70,500.00.

16. Prepaid expenses and deferred charges

In addition to deferred revenues, this item includes deferrals for government grants. The latter are based on discounted interest rate differences (differences between the market rates and the contractually agreed rates over the entire remaining term), and amount to a total of € 4,440k. (See comments under D.3. Other operating income.)

17. Deferred tax liabilities

The deferred tax liabilities are as follows:

	€'000
As at 1 January 2010	1,967
Addition from recognition directly in equity owing to first inclusion in consolidated financial statements	2,142
Addition from revaluation of financial instruments recognised directly in equity	68
Tax expenditure from profit and loss calculation	270
As at 31 December 2010	**4,447**

The deferred tax liabilities arise from deviations from the tax balance sheets. They are the result of the revaluation of intangible assets (€ 4,327k), the revaluation of financial instruments recognised directly in equity (€ 68k), capital from profit participation rights and subordinated loans (€ 18k), other provisions (€ 14k), orders in process (€ 13k), property, plant and equipment (€ 5k) and pension provisions (€ 2k).

In line with IAS 12.39, deferred tax liabilities are not recognised for temporary differences connected with shares in subsidiaries, which amount to € 9,255k.

The deferred tax liabilities are recognised at an individual tax rate of between 25 percent (for the Austrian subsidiary) and 32.98 percent.

18. Pension provisions

This item comprises only provisions for pensions (€ 80k; 2009: € 26k) based on defined benefit obligations, which were assumed as a result of acquisitions.

The pension obligations for pension schemes in Germany are basically measured according to the number of years of service and the remuneration of the employees in question.

An actuarial profit of € 1k has already been recorded in the balance sheet.

The changes in the benefit obligation and the asset value of the funds for the defined benefit schemes are shown below:

	2010 €'000	2009 €'000
Changes in pension obliagtion		
Defined benefit obligation as at 1 January	26	150
Service cost: present value of claims accrued in 2010	2	8
Actuarial loss/gain	–1	18
Interest costs	2	9
Addition/release of pension obligations	51	–159
Defined benefit obligation as at 31 December	**80**	**26**

	2010 €'000	2009 €'000
Changes in plan assets		
Fair value of plan assets as at 1 January	0	199
Actual return on plan assets	0	10
Expected return on plan assets	0	10
Employer's contributions	0	8
Release/addition to plan assets	43	–227
Fair value of plan assets as at 31 December	**43**	**0**
Excess in fund = balance sheet amount	37	26
Composition:		
Provisions for pensions	80	26
Other loans	–43	0
	37	**26**

Below are the changes over time in the present value of the defined benefit obligation and the fair value of the plan assets.

	12/31/10 €'000	12/31/09 €'000	12/31/08 €'000	12/31/07 €'000	01/01/07 €'000
Defined benefit obligation	80	26	150	168	201
Fair value of plan assets	43	0	199	182	83

Computation of the actuarial pension scheme obligations was based on the following assumptions:

	2010 %	2009 %
Interest rate	6.00	6.00
Expected return on plan assets	5.00	5.00
Salary trends	0.00	0.00
Pension trend	2.00	2.00
Staff turnover	5.00	5.00

The total cost of the pension schemes according to IAS 19 consists of the following:

	2010 €'000	2009 €'000
Current service costs	2	8
Actuarial gain	–1	14
Interest costs	2	9
Expected return on plan assets	0	–10
	3	**21**

19. Other non-current financial liabilities

The item of other non-current financial liabilities refers to purchase price liabilities of € 1,519k (2009: € 491k).

20. Equity capital

Changes in the equity capital are shown on page 43.

Share capital

The Company's share capital at 31 December 2010 was € 10,390,751, divided into 10,390,751 notional no-par-value shares.

Authorised and conditional capital

In conformity with the articles of association, the Company's authorised share capital as at 31 December 2010 totalled € 5,000,000,00, subdivided as follows:

A resolution passed at the general meeting of shareholders on 22 June 2010 authorises the Executive Board to increase the share capital once or repeatedly by up to a total of € 4,000,000 by issuing up to 4,000,000 new notional no-par-value bearer shares in exchange for cash or non-cash contributions. The capital increases must be carried out by 20 June 2015 and are subject to the approval of the Supervisory Board.
The shareholders have statutory subscription rights, which may be rescinded in the following cases:

a) if the capital increase is in exchange for non-cash contributions in the event of the acquisition of a company or parts of a company or equity investments in a company;

b) if the capital increase is in exchange for cash, and the proportion of the share capital accounted for by the new shares for which subscription rights are rescinded is not greater than 10 percent of the share capital existing at the time the new shares were issued; and if the issue price of the new shares is not significantly lower than the stock market price of the shares of the same securities class and nature that are already quoted when the issue price is finally determined by the Executive Board, as laid down in Section 203, paragraphs 1 and 2, and Section 186, paragraph 3, sentence 4 of the German Stock Companies Act (Aktiengesetz, Aktg). The calculation of the 10 percent threshold must take into account the proportion of the share capital accounted for by new or repurchased shares issued or sold since 22 June 2010 with the simplified exclusion of pre-emptive rights in line with Section 186, paragraph 3, sentence 4 of the German Stock Companies Act, as well as the proportion of the share capital relating to option and/or conversion rights or obligations from bonds issued since 22 June 2010 in compliance with this Act.

The Executive Board is also authorised to exclude fractional amounts from the shareholders' subscription right.

The Executive Board will decide on the nature of the relevant rights conferred by the shares and the other conditions of the share issue (Authorised Capital 2010/I), subject to the approval of the Supervisory Board.

A resolution passed at the general meeting of shareholders on 25 June 2008 authorises the Executive Board to increase the share capital once or repeatedly by up to a total of € 1,000,000 by issuing up to 1,000,000 new notional no-par-value bearer shares in exchange for cash. The capital increases must be carried out by 24 June 2013 and are subject to the approval of the Supervisory Board.
The Executive Board is authorised to rescind the shareholders' statutory subscription rights in the following cases, subject to the approval of the Supervisory Board:

aa) for fractional amounts,

bb) if the capital increase is in exchange for cash and the proportion of the share capital accounted for by the new shares, for which subscription rights are excluded, is not greater than 10 percent of the share capital existing at the time the new shares are issued; and if the issue price of the new shares is not significantly lower than the stock market price of the shares of the same securities class and nature that are already quoted when the price is finally determined by the Executive Board, as laid down by Section 203, paragraphs 1 and 2, and Section 186, paragraph 3, sentence 4 of the German Stock Companies Act (Aktiengesetz, AktG). The calculation of the 10 percent threshold must take into account the proportion of the share capital accounted for by new or repurchased shares issued or sold since 25 June 2008 with the simplified exclusion of pre-emptive rights in line with Section 186, paragraph 3, sentence 4 of the German Stock Companies Act, as well as the proportion of the share capital relating to option and/or conversion rights or obligations from bonds which have been issued since 25 June 2008 in compliance with this Act.

The Executive Board will decide on the nature of the relevant rights conferred by the shares and the other conditions of the share issue (Authorised Capital 2008/II), subject to the agreement of the Supervisory Board.

In accordance with the articles of association, the conditional capital at 31 December 2010 amounted to € 5,000,000. The details of the conditional capital are as follows:

The share capital is increased conditionally by up to € 5,000,000 through the issue of up to 5,000,000 new notional no-par-value shares. The conditional increase in capital will only be implemented to the extent that the holders of bonds, which the Executive and Supervisory Boards have been authorised to issue up to 24 June 2013 by resolution of the general meeting of shareholders of 25 June 2008, exercise their conversion rights/obligations or their option rights. The new shares will be issued at an option exercise price or conversion price to be determined in accordance with the above resolution. The new shares will carry dividend rights from the beginning of the financial year for which, at the time of their issue, no resolution of the general meeting of shareholders has been passed on the appropriation of the net income for the year. The Executive Board is authorised to determine the other details for the implementation of the conditional capital increase with the approval of the Supervisory Board.

The Executive Board did not exercise these powers in the financial year 2010.

Furthermore the Executive Board is not aware of any restrictions on voting rights or on the transfer of shares.

Purchase of the Company's own shares

At the general meeting of shareholders of CANCOM IT Systeme AG on 24 June 2009 the Company was given authorisation to buy its own shares up to a value of € 1,000,000, or just under 10 percent of the share capital of € 10,390,751 as at 24 June 2009. The authorisation could be exercised up to 31 December 2010.

The authorisation took effect on 1 July 2009. It replaced the resolution made in the general meeting of shareholders held on 25 June 2008 and could be exercised up to 31 December 2010. The authorisation resolved by the general meeting of shareholders of 25 June 2008 ended as soon as the new authorisation became effective.

According to the resolution, the Company can purchase its own shares for the following purposes: to enable it to offer shares in the Company to third parties in connection with a business combination or in connection with the acquisition of a company or parts of a company or equity investments in a company; to enable it to offer and transfer shares to entitled parties in fulfilment of the Company's obligations from the issue of convertible bonds and/or option bonds, as authorised by general meeting of shareholders held on 25 June 2008; or to call in the shares.

The authorisation is limited to the purchase of shares with a value not greater than € 1,000,000, i.e. less than 10 percent of the share capital of € 10,390,751 existing at 24 June 2009. At no time may the purchased shares, together with other treasury shares held by the Company or that are attributable to it in accordance with Section 71 a ff of the German Stock Companies Act, account for more than 10 percent of the share capital. The authorisation may be exercised as a whole or in several tranches within the above limits.

The shares may only be purchased on the stock exchange.
The price per share paid by the Company (excluding incidental costs) may not exceed or undercut by more than 5 percent the opening price on the trading day in the Xetra trading system (or a comparable replacement system) operated by FWB Frankfurt Stock Exchange.

The Company bought back 23,010 shares as its own shares in the financial year 2010. In December 2010 it sold 74,329 shares. The selling price was € 722k. There was a capital gain of € 463k, which was transferred to additional paid-in capital. As at 31 December 2010, the Company did not hold any of its own shares.

Change in the number of shares outstanding:

	Number of shares
Number of shares outstanding as at 31 Dec. 2009	10,339,432
less own shares purchased in 2010	-23,010
plus own shares sold in 2010	74,329
Number of shares outstanding as at 31 Dec. 2010	10,390,751

Net profit

In accordance with the resolution of the general meeting of the shareholders, a dividend of € 0.15 per share (total € 1,546k) was paid in 2010 from the net profit achieved in the previous year.

21. Minority interests

Minority interests concern the share of the equity held by the minority shareholders of acentrix GmbH.

22. Capital risk management

The Group manages its capital with the aim of maximising the return to stakeholders through the optimisation of the debt and equity balance. It is ensured that all entities in the Group can operate under the going concern premise. The capital structure of the Group consists of debt, cash and the equity attributable to equity holders of the parent. This comprises issued shares, retained earnings, other reserves, currency translation differences and minority interests.

The goals of the capital management are to ensure that the Group will be able to continue as a going concern and to obtain an adequate interest rate for the equity. For implementation the Group balances its capital and the overall capital structure.

The capital is monitored on the basis of the economic equity. The economic equity is the balance sheet equity. The borrowed capital is defined as current and non-current financial liabilities, provisions, liabilities connected with disposals, accrued expenses, and other liabilities.

The equity in the balance sheet and the total assets are as follows:

		12/31/2010	12/31/2009
Equity capital	€ m	51,0	43,9
Equity capital as a percentage of the total capital	%	28,7	32,5
Borrowed capital	€ m	126,4	91,0
Borrowed capital as a percentage of the total capital	%	71,3	67,5
Total capital (equity and borrowed capital)	€ m	177,4	134,9

Some of the Company's loan contracts contain minimum capital requirements (covenants), which are calculated by the banks using various calculation methods. The relevant covenants are monitored on an ongoing basis to ensure that they are complied with.

The Group's capital structure is reviewed at regular intervals within the Group's risk management.

D.Notes to the consolidated statement of income

1. Segment information (see page 44-45)

Segment information is disclosed according to IFRS 8 Operating Segments. The segment information is based on the segmentation used for internal control purposes (management approach).
The Group reports on two operating segments – e-commerce/trade, and IT solutions.

Description of the segments subject to mandatory reporting
The e-commerce/trade operating segment includes CANCOM Deutschland GmbH, HOH Home of Hardware GmbH, CANCOM Computersysteme GmbH, CANCOM a+d IT solutions GmbH, CANCOM (Switzerland) AG, and CANCOM Ltd., less the cost centres allocated to CANCOM IT Solutions GmbH and CANCOM SCC GmbH. This operating segment mainly comprises the transaction-focused activities of the Group based on online, catalogue, telephone sales and direct sales.

The IT solutions operating segment includes CANCOM IT Solutions GmbH, CANCOM SCC GmbH, CANCOM NSG GmbH, CANCOM NSG GIS GmbH (formerly Novodrom People Value Service GmbH), CANCOM NSG SCS GmbH (formerly CANCOM Service Center Süd GmbH), CANCOM NSG ICP GmbH (formerly NSG Datacenter Services GmbH), CANCOM physical infrastructure GmbH, acentrix GmbH and CANCOM Plaut Managed Services GmbH (formerly CANCOM IT Services GmbH) and the cost centres of CANCOM Deutschland allocated to CANCOM IT Solutions GmbH and CANCOM SCC GmbH. This operating segment offers complete IT infrastructure and applications support. The range of services includes IT strategy advice, project planning and implementation, system integration, maintenance, training, and numerous IT services, including running entire IT departments.

Other companies are CANCOM IT Systeme Aktiengesellschaft, CANCOM VVM GmbH and CANCOM Financial Services GmbH. CANCOM IT Systeme Aktiengesellschaft performs the staff or management function. As such, it provides a range of services for its subsidiaries. The costs of central management of the Group and investments in internal Group projects also fall within this company.

Basis of valuation of the profits and assets of the segments
The accounting methods used for internal segment reporting are in line with the accounting policies described in Section A. 4. The only differences arise from the translation of foreign currency and these give rise to slight deviations between the data for internal reporting and the relevant disclosures for the external presentations of financial statements.

Internal sales are recorded on the basis of either their cost or their current market prices, depending on the type of service or product sold.

Reconciliation
Reconciliation shows items not directly connected with the operating segments and the other companies. They include sales within the segments, and the income tax expense.
The income tax expense is not a component of the profits of the operating segments. Since the tax expense is allocated to the parent company where the parent company is the taxable entity, the allocation of the income tax does not exactly correspond to the structure of the segments.

Information on geographical regions

	Sales revenue according to customer location		Sales revenue according to company location	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000
Germany	491,619	379,860	501,611	386,098
Outside Germany	57,676	42,618	47,684	36,380
Group	549,295	422,478	549,295	422,478

	Non-current assets	
	12/31/10 €'000	12/31/09 €'000
Germany	50,795	35,257
Outside Germany	2,425	3,769
Group	53,220	39,026

Non-current assets includes property, plant and equipment; intangible assets; goodwill; and other non-current assets. Financial instruments and deferred tax claims are not included.

2. Sales revenues

The sales revenues of € 549,295k include order revenue of € 1,210k calculated using the POC method.

3. Other operating income

The other operating income is made up of the following:

	2010 €'000	2009 €'000
Rent	45	66
Negative goodwill from capital consolidation	2,357	1,812
Income from compensation to minority shareholders	0	171
Compensation for damanges on the basis of contracts of sale	0	47
Income not relating to the period	472	379
Government grants	324	146
Other operating income	154	58
Total	**3,352**	**2,679**

Income not relating to the period mainly includes income from derecognition of debtors with a credit balance, income from the reduction of allowances for bad debts on accounts receivable and the proceeds of the sale of non-current assets.

The item of government grants comprises a subsidy from the German Federal Employment Agency (€ 183k) and the profit allocated to the financial year 2010 from availing of loans at a favourable interest rate (€ 141k).
For more information see details on loans in sections C 14 and C 15.

4. Other own work capitalised

This item includes in-house services connected with the manufacture of non-current assets, as well as capitalised development costs in the intangible assets.

Other own work capitalised comprises the following:

	2010 €'000	2009 €'000
Capitalised development costs	1,257	945
Work capitalised for tenant's fittings	13	8
Total	**1,270**	**953**

Research and development costs amounted to a total of € 2.4 million in 2010; of this, € 1,257 is capitalised.

5. Personnel expenses

The personnel expenses consist of the following:

	2010 €'000	2009 €'000
Wages and salaries	84,079	69,965
Social security contributions	15,715	12,644
Pension expenses	330	198
Total	**100,124**	**82,807**

6. Other operating expenses

The other operating expenses consist of the following:

	2010 €'000	2009 €'000
Office space	6,132	5,215
Insurance and other charges	920	895
Motor vehicles	6,334	4,360
Advertising	2,278	1,793
Stock exchange and entertainment	722	341
Hospitality and travelling expenses	2,345	1,794
Delivery costs	3,255	3,105
Third-party services	2,578	2,730
Repairs, maintenance, leasing	1,260	1,520
Communication and office expenses	1,998	1,706
Legal and consultancy expenses	1,124	812
Fees and charges, costs of money transactions	621	485
Other operating expenses	2,097	1,344
Total	**31,664**	**26,100**

7. Interest income and expenses

	2010 €'000	2009 €'000
Interest and similar income	132	164
Interest and similar expenses	–2,109	–1,468
Interest income / expenses	**–1,977**	**–1,304**

Interest income mainly consists of interest on cash in banks and interest from customers.

8. Income tax

The rate of income tax for German companies was 30.29 percent (2009: 30.77 percent). This is made up of corporation tax, trade tax and the solidarity surcharge. The slight fall in the income tax rate is owing to the reduction in the average rate of trade tax.

The divergence between the tax expenses reported and those at the tax rate of CANCOM IT Systeme Aktiengesellschaft is shown below:

	2010 €'000	2009 €'000
Earnings before tax	**11,560**	**5,616**
Expected tax expense at rate for German companies (30.29 percent; 2009: 30.77 percent)	**3,502**	**1,728**
- Difference from tax paid outside Germany	-103	30
- Change in value adjustment of deferred tax assests on loss carryforwards	387	-233
- Tax-exempt income / non tax-relevant capital losses	47	-422
- Actual income tax not relating to the period	0	-40
- Permanent differences: non-deductible operating expenses, and additions and reductions due to trade tax	606	105
- Earnings from differences from consolidation of capital	-682	-610
- Miscellaneous	-17	-3
- Tax savings recognised under discontinued operations	0	1
Total Group income tax	**3,740**	**556**

The increase in income tax owing to non-deductible operating expenses is mainly due to the amortisation of the goodwill of CANCOM Ltd.

The actual tax rate is calculated as follows

	€'000
Income before tax	11,560
Income tax	3,740
Actual tax expense rate	32.35 %

Income tax comprises the income tax paid or owed in the individual countries, and the deferred taxes:

	2010 €'000	2009 €'000
Actual income tax paid	1,742	152
Deferred taxes:		
Assets	1,865	249
Liabilities	133	155
	1,998	404
Group income tax	**3,740**	**556**

The calculation of income tax in accordance with IAS 12 takes account of tax deferrals resulting from different methods of measurement used for the tax balance sheet, as well as from realisable loss carryforwards, from differences in the results produced by the measurement of tax in the single-entity financial statements of the consolidated subsidiaries and those produced by the Group's standard method, and from the consolidation processes, in as far as these balance out over the course of time. Deferred tax claims relating to the carrying forward of tax losses which have not yet been utilised are capitalised, where results are expected to be positive within the next 4 years. The deferred taxes are calculated on the basis of the tax rates expected to apply in the period in which an asset is realised or a liability satisfied. The tax rates are those that apply or will apply on the balance sheet date.

9. Discontinued operations

The impact of discontinued operations on the consolidated statement of income of the previous year was a loss € 3k.

This amount consisted of income (including other operating income) of € 0k, expenditure of € 4k and a pre-tax loss of € 4k. The related income tax gain (expenditure) was € 1k.

10. Minority interests

Minority interests account for 49 percent of acentrix GmbH's net income in 2010 (€ 79k) and 25 percent of the net loss made by live Netzwerk und Computer GmbH between January and April 2010 (€ 1k). Please see Annex 4 for changes in minority interests in the equity capital.

11. Impact of non-recurring items on the earnings per share
The non-recurring items mainly relate to the writing-off of deferred tax assets on a loss carryover amounting to € 328k (calculated at € 0.04 per share). The deferred tax assets were correctly recognised in 2009 for restructuring, in accordance with Section 8 c of the German Corporation Tax Act (Körperschaftsteuergesetz, KStG). The restructuring clause in Section 8 c of the above Act enables a company requiring restructuring to offset losses against future profits, even if there is a change of owner. However, the EU Commission considers this to constitute a form of state aid that is not compatible with EU aid rules. The relevant loss carryovers have therefore been written off for the time being.

	2010 €
Earnings per share from continuing operations (basic/diluted)	0.76
Adjustment (see note)	0.04
Adjusted earnings per share from continuing operations (basic/diluted)	0.80

E. Notes to the cash flow statement

The consolidated cash flow statement is prepared in accordance with IAS 7 Cash flow statements. This requires that a distinction be made between cash flows from operating activities, investing activities and financing activities. The cash and cash equivalents shown in the cash flow statement comprises cash in hand and cash at banks.

The indirect method was used to establish the cash flow from current activities. The cash flow from ordinary activities rose by € 9.2 million compared with 2009. One of the reasons for this was an increase in non-recourse factoring of accounts receivable.

For disclosures regarding the acquisition of the subsidiary CANCOM Bürotex GmbH and the takeover of a division of Plaut Systems & Solutions GmbH, please see section A. 3 of the notes (Reporting entity – scope of consolidation). Cash amounting to € 776k was acquired with CANCOM Bürotex GmbH.

The cash resources of € 31,472k (2009: € 25,836k) include the cash and cash equivalents shown in the balance sheet. This comprises cash in hand and cash at banks.

F. Other disclosures

1. Related party disclosures
CANCOM IT Systeme Aktiengesellschaft has prepared these consolidated financial statements as the parent company with ultimate control. They are not included in the consolidated financial statements of any other group..

For the purposes of IAS 24, Klaus Weinmann can be considered a related party, who can exercise a significant influence on the CANCOM Group, both as an Executive Board member and as a shareholder in CANCOM IT Systeme Aktiengesellschaft. Rudolf Hotter and Paul Holdschik, the other Executive Board members, are also related parties for the purposes of IAS 24, as are the members of the Supervisory Board.

The following level of remuneration was set for the Executive Board members in the financial year 2010:

The remuneration of the CEO, Klaus Weinmann, consisted of a fixed payment of € 280k, a bonus of € 315k and other remuneration components amounting to € 22k. His total remuneration was € 617k. The remuneration of Rudolf Hotter consisted of a fixed payment of € 200k, a bonus of € 145k and other remuneration components amounting to € 5k. His total remuneration was € 350k. The remuneration of Paul Holdschik consisted of a fixed payment of € 200k, a bonus of € 110k and other remuneration components amounting to € 4k. His total remuneration was € 314k. The total remuneration of the Executive Board for the financial year 2010 was € 1,281k.

The Supervisory Board members received the following remuneration in the financial year 2010:

The remuneration of the Chairperson of the Supervisory Board, Walter von Szczytnicki, was € 26k. That of the other members of the Supervisory Board, Dr Klaus F Bauer, Stefan Kober, Raymond Kober, Walter Krejci and Regina Weinmann, was € 13k. The total remuneration of the Supervisory Board in 2010 was € 91k.

There were no receivables from, or payables to, related parties at the balance sheet date.

Since 1 July 2007, a consultancy agreement has been in place between CANCOM IT Systeme Aktiengesellschaft and the Chairperson of its Supervisory Board, Walter von Szczytnicki. The contract was drawn up on 9 March 2007 and approved in accordance with Section 114 of the German Stock Companies Act (Aktiengesetz, AktG). It provides for an annual remuneration of € 60,000. The remuneration paid in the financial year 2010 therefore amounted to € 60,000.

Transactions with related parties were settled in the same way as arm's length transactions.

2. Shares held by members of the Executive and Supervisory Boards (at the balance sheet date)

Shareholder	Number of shares	%
Klaus Weinmann	353,864	3.4061
Rudolf Hotter	75,000	0.7219
Walter von Szczytnicki	6,252	0.0602
Stefan Kober	601,289	5.7876
Raymond Kober	720,891	6.9388
Dr. Klaus F. Bauer	1,500	0.0144
Free float	8,631,955	83.0710
	10,390,751	**100.0000**

3. Contingent liabilities and other financial obligations

The financial obligations of the companies in the CANCOM Group under tenancy and leasing agreements are as follows:

Due	2011 €'000	2012 €'000	2013 €'000	2014 €'000	2015 €'000	later €'000	total €'000
under tenancy agreements	3,570	2,594	1,799	1,673	1,604	4,958	16,198
under leasing agreements	1,992	999	457	210	13	2	3,673
	5,562	**3,593**	**2,256**	**1,883**	**1,617**	**4,960**	**19,871**

The leasing agreements are for operating leases.

4. Transactions not included in the balance sheet according to Section 314, no. 2 of the German Commercial Code (Handelsgesetzbuch, HGB)

In addition to obtaining financing through the parent company, CANCOM IT Systeme Aktiengesellschaft's subsidiaries CANCOM NSG GmbH and CANCOM Deutschland GmbH improve their liquidity by using factoring master agreements for the sale of trade accounts receivable. The factoring method is non-recourse, meaning that the factor assumes the credit and default risk.

In 2007, CANCOM IT Systeme Aktiengesellschaft sold its business premises under a sale and lease-back agreement to improve liquidity and optimise the structure of its balance sheet.

5. Declaration of conformity with the German Corporate Governance Code

CANCOM IT Systeme Aktiengesellschaft made a statement of conformity in 2010 in accordance with Section 161 of the German Stock Companies Act (Aktiengesetz, AktG). This was published for the information of shareholders on the company's website at www.cancom.de on 14 December 2010.

6. Auditors' fees

The following fees (total fees plus expenses, excluding value-added tax) were charged in the financial year 2010 by the auditors appointed in accordance with Section 318 of the German Commercial Code (Handelsgesetzbuch, HGB), including affiliated companies and subsidiaries as defined by Section 271, paragraph 2 of the same Code:

a) Financial statements	€'000	209
b) Tax consultancy	€'000	0
c) Other services	€'000	37

7. Employees

	2010	2009
Average over the year	2,011	1,777
At year-end	2,039	1,870

8. Equity interests in the Company as defined in Section 20 IV of the German Stock Companies Act (Aktiengesetz, AktG)

CANCOM IT Systeme Aktiengesellschaft did not receive written notice from any shareholder disclosing a majority shareholding as defined in Section 20 of the above Act in 2010.

9. Executive Board and Supervisory Board

The members of the Executive Board are:

- Klaus Weinmann, graduate in business administration (Dipl.-Kaufmann), Aystetten, Germany (CEO)
- Rudolf Hotter, graduate in business economics (Dipl.-Betriebswirt), Füssen, Germany
- Paul Holdschik, businessmann, Eurasburg, Germany (up to 29 July 2010)

All members of the Executive Board are authorised to represent the Company jointly with one other Executive Board member or a person holding general commercial power of attorney ("Prokura" under German commercial law).

The following persons hold general commercial power of attorney ("Prokura" under German commercial law):

- Thomas Stark, graduate in industrial engineering (Dipl.-Wirtsch.-Ing.), Wittislingen, Germany
- Dr Johannes Mauser, Stuttgart, Germany (up to 1 April 2010)

The members of the Supervisory Board are:

- Walter von Szczytnicki, self-employed management consultant, Kirchseeon, Germany (Chairperson)
- Dr Klaus F Bauer, corporate lawyer, Riemerling, Germany (up to 31 December 2010) (Deputy Chairperson)
- Stefan Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany
- Raymond Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany
- Herr Walter Krejci, managing director of AURIGA Corporate Finance GmbH, Munich, Germany
- Regina Weinmann, graduate in business administration (Dipl.-Kauffrau), managing director of WFO Finanzberatung GmbH, Aystetten, Germany

Memberships of other supervisory boards:

- Walter von Szczytnicki:
  - AL-KO Kober AG
- Dr Klaus Bauer:
  - S-Partner Kapital AG

10. Significant events after the reporting date

In the estimation of the Executive Board, there were no significant reportable events after the reporting date.

11. Proposal for the appropriation of retained profit of CANCOM IT Systeme AG

The Executive Board of CANCOM IT Systeme AG has resolved to propose to the Supervisory Board and the general meeting of shareholders that the € 8,023,812.57 retained profit from the financial year 2010 be used for a dividend payment of € 0.15 per eligible share and that the balance of the retained profit remaining after the dividend payment be transferred to other reserves.

12. Approval of consolidated financial statements in accordance with IAS 10.17

These consolidated financial statements were approved for publication by the Executive Board on 14 March 2011.

13. Statement of ownership in accordance with Section 313 of the German Commercial Code (Handelsgesetzbuch, HGB)

Subsidiary	Company‘s registered office	Shareholding (percentage)
1. CANCOM Deutschland GmbH	Jettingen-Scheppach, Germany	100.0
and its subsidiaries		
– CANCOM (Switzerland) AG	Caslano, Switzerland	100.0
– CANCOM Computersysteme GmbH	Grambach, Austria	100.0
and its subsidiary		
– CANCOM a+d IT solutions GmbH	Perchtoldsdorf, Austria	100.0
2. CANCOM NSG GmbH	Jettingen-Scheppach, Germany	100.0
and its subsidiaries		
– CANCOM NSG GIS mbH	Jettingen-Scheppach, Germany	100.0
– CANCOM NSG SCS mbH	Jettingen-Scheppach, Germany	100.0
– CANCOM NSG ICP mbH	Jettingen-Scheppach, Germany	100.0
3. CANCOM IT Solutions GmbH	Jettingen-Scheppach, Germany	100.0
and its subsidiary		
– acentrix GmbH	Jettingen-Scheppach, Germany	51.0
4. HOH Home of Hardware GmbH	Jettingen-Scheppach, Germany	100.0
5. CANCOM SCC GmbH	Jettingen-Scheppach, Germany	100.0
6. CANCOM physical infrastructure GmbH	Jettingen-Scheppach, Germany	100.0
7. CANCM Plaut Managed Services GmbH	Jettingen-Scheppach, Germany	100.0
8. CANCOM Ltd.	Guildford, UK	100.0
9. CANCOM Financial Services GmbH	Jettingen-Scheppach, Germany	100.0
10. CANCOM VVM GmbH	Jettingen-Scheppach, Germany	100.0
Other equity investments:		
Plaut AG (equity € 16,460k, net income € 264k)	Vienna, Austria	21.1

Jettingen-Scheppach, Germany, 14 March 2011

Klaus Weinmann   Rudolf Hotter

Executive Board of CANCOM IT Systeme Aktiengesellschaft

Responsibility Statement of the consolidated financial statement

The members of the Executive Board have assured that, to the best of their knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, give a true overall picture of the Group's situation, and present an accurate view of the opportunities and risks of future development.

Jettingen-Scheppach, Germany, 14 March 2011

Klaus Weinmann   Rudolf Hotter

Executive Board of CANCOM IT Systeme Aktiengesellschaft

We have audited the consolidated annual financial statements (consisting of balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the accounts) prepared by CANCOM IT Systeme Aktiengesellschaft, as well as the management report of CANCOM IT Systeme AG and the CANCOM Group for the financial year from 1 January to 31 December 2010. It is the responsibility of the Executive Board of the Company to prepare the consolidated annual financial statements and Group management report in accordance with IFRS as applicable in the EU, and in line with the requirements of German commercial law according to Section 315a (1) of the German Commercial Code (Handelsgesetzbuch, HGB). Our task is to issue an opinion on the consolidated annual financial statements and the Group management report on the basis of our audit. We were also instructed to judge whether the consolidated annual financial statements also comply overall with IFRS.

We have carried our audit of the consolidated annual financial statements in accordance with Section 317 of the German Commercial Code, in compliance with the German standards for the audit of financial statements laid down by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). These require us to plan and conduct our audit in such a way that any inaccuracies or irregularities significantly affecting the asset, financial and earnings position presented by the consolidated annual financial statements prepared in compliance with statutory accounting requirements, and by the Group management report, can be detected with reasonable certainty. In establishing the audit procedures, we took into consideration our knowledge of the Group's business activities, and of the economic and legal environment in which it operates, as well as our expectations with regard to possible errors. The audit reviews the efficacy of the internal controlling system relating to the accounting system, and seeks proof for the details provided in the consolidated financial statements and Group management report primarily on the basis of random checks. The audit includes an assessment of the financial statements of the companies included in the consolidated financial statements, of the demarcation of the scope of consolidation, of the accounting principles and consolidation policy applied, and of the significant estimates made by the Executive Board, as well as an evaluation of the overall presentation of the facts by the consolidated annual financial statements and the management report for the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, based on the information we have obtained during our audit, the consolidated financial statements conform with IFRS as applicable in the EU, and the requirements of German commercial law according to Section 315a (1) of the German Commercial Code, as well as the IFRS overall, and give a true and fair view of the assets, financial situation and earnings of the Group, while complying with these requirements. The Group management report is in line with the consolidated financial statements, it gives a true overall picture of the Group's situation, and presents an accurate view of the opportunities and risks of future development.

Augsburg, Germany, 14 March 2011

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Tobias Wolf	Johann Dieminger
Certified auditor	Certified auditor

Company financial statements

Company balance sheet as at 31 December 2010

Assets		
in €	12/31/2010	12/31/2009
A. FIXED ASSETS		
I. Intangible assets and goodwill		
1. Concessions, industrial property rights and other similar rights and values, as well as licenses to such rights and values	17,549.09	12,116.96
2. Goodwill	0.00	176,395.85
	17,549.09	**188,512.81**
II. Property, plant and equipment		
1. Plant and machinery	228,093.13	259,323.23
2. Other plant, fixtures, fittings and equipment	623,797.20	520,347.90
	851,890.33	**779,671.13**
III. Financial assets		
1. Shares in affiliated companies and subsidiaries	40,503,469.23	38,520,560.47
2. Investments	2,919,373.23	0.00
	43,422,842.46	**38,520.560.47**
B. CURRENT ASSETS		
I. Accounts receivable and other assets		
1. Accounts receivable due from affiliated companies and subsidiaries	9,692,219.43	7,641,600.70
2. Other assets	1,129,517.39	386,784.64
	10,821,736.82	**8,028,385.34**
II. Securities		
Own shares	0.00	164,602.01
III. Cash and cash equivalents due from banks	**12,890,312.57**	**16,599,564.72**
C. PREPA ID EXPENSES	**18,680.77**	**68,508.21**
	68,023,012.04	**64,349,804.69**

Equity and Liabilities

in €	12/31/2010	12/31/2009
A. EQUITY		
I. Share capital	10,390,751.00	10,390,751.00
II. Additional paid-in capital	16,975,841.56	16,513,442.57
III. Retained earnings		
1. Statutory reserves	6,665.71	6,665.71
2. Reserve for own shares	0.00	164,602.01
3. Other reserves	10,597,990.63	0.00
	10,604,656.34	171,267.72
IV. Unappropriated profit	8,023,812.57	11,980,851.92
	45,995,061.47	**39,056,313.21**
B. PROVISIONS		
1. Deferred taxes	1,080,008.57	341,667.66
2. Other provisions	750,367.39	1,672,123.17
	1,830,375.96	**2,013,790.83**
C. LIABILITIES		
1. Profit participation capital and subordinated loans	14,038,100.00	14,038,100.00
2. Liabilities due to banks	5,608,175.87	6,203,818.61
3. Trade accounts payable	124,486.01	136,207.41
4. Liabilities to affiliated companies and subsidiaries	23,416.94	1,395,659.41
5. Other liabilities	403,395.79	1,505,915.22
	20,197,574.61	**23,279,700.65**
	68,023,012.04	**64,349,804.69**

Company income statement for the period from 1 January 2010 to 31 December 2010

in €	**01/01/2010 – 12/31/2010**	01/01/2009 – 12/31/2009
1. Revenues	6,599,000.00	5,601,000.00
2. Other operating income	3,906,849.01	1,565,087.15
3. Personnel expenes		
a) Wages and salaries	–3,452,495.39	–2,783,386.31
b) Social security, pension and other benefit costs	–376,168.27	–324,509.41
	–3,828,663.66	–3,107,895.72
4. Depreciation and amortisation: on intangible and tangible fixed assets	–340,097.20	–158,476.63
5. Other operating expenses	–3,568,932.17	–3,656,489.35
6. Income from equity investments	232,921.93	700,000.00
7. Profits gained on the basis of a profit transfer agreement	8,359,969.59	3,880,261.69
8. Other interest and similar income	389,488.17	285,776.29
9. Depreciation on investments	–1,182,523.00	0.00
10. Interest and similar expenses	–1,340,632.70	–1,153,819.61
11. Profit / loss from ordinary activities	**9,227,379.97**	**3,955,443.82**
12. Taxes on income	–1,199,913.90	–126,715.47
13. Other taxes	–3,653.50	–4,224.44
14. Net profit for the year	**8,023,812.57**	**3,824,503.91**
15. Net profit carried forward	11,980,851.92	8,205,145.24
16. Allocation to retained earnings	–10,433,388.62	–48,797.23
17. Payout	–1,547,463.30	0.00
18. Balance sheet profit	**8,023,812.57**	**11,980,851.92**

Statement of Changes in Fixed Assets

Statement of Changes in Fixed Assets

	Acquisition or manufacturing costs		
	Balances at 01/01/2010 in €	Additions 2010 in €	Disposals 2010 in €
I.Intangible assets and goodwill			
1. Concessions, industrial property rights and similar rights and values as well as licences	128,593.86	1,325,479.00	1,393,082.59
2. Goodwill	460,162.69	0.00	460,162.69
	588,756.55	1,325,479.00	1,853,245.28
II. Property, plant and equipment			
1. Technical equipment and machinery	473,409.88	8,169.00	0.00
2. Other plants, fixtures, fittings and equipment	776,610.00	213,608.25	67,502.06
	1,250,019.88	221,777.25	67,502.06
III. Financial assets			
1. Shares in affiliated companies	43,356,814.30	3,335,568.96	2,643,167.00
2. Equity investments	0.00	3,055,134.88	135,761.65
	43,356,814.30	6,390,703.84	2,778,928.65
Total	45,195,590.73	7,937,960.09	4,699,675.99

	Depreciation and amortisation					Earning amounts	
Balance as at 12/31/2010 in €	Balance as at 01/01/2010 in €	Additions 2010 in €	Write-up 2010 in €	Disposals 2010 in €	Balance as at 12/31/2010 in €	Balance as at 12/31/2010 in €	Balance as at 12/31/2009 in €
60,990.27	116,476.90	20,044.32	0.00	93,080.04	43,441.18	17,549.09	12,116.96
0.00	283,766.84	176,395.85	0.00	460,162.69	0.00	0.00	176,395.85
60,990.27	400,243.74	196,440.17	0.00	553,242.73	43,441.18	17,549.09	188,512.81
481,578.88	214,086.65	39,399.10	0.00	0.00	253,485.75	228,093.13	259,323.23
922,716.19	256,262.10	104,257.93	0.00	61,601.04	298,918.99	623,797.20	520,347.90
1,404,295.07	470,348.75	143,657.03	0.00	61,601.04	552,404.74	851,890.33	779,671.13
44,049,216.26	4,836,253.83	1,182,523.00	2,473,029.80	0.00	3,545,747.03	40,503,469.23	38,520,560.47
2,919,373.23	0.00	0.00		0.00	0.00	2,919,373.23	0.00
46,968,589.49	4,836,253.83	1,182,523.00	2,473,029.80	0.00	3,545,747.03	43,422,842.46	38,520,560.47
48,433,874.83	5,706,846.32	1,522,620.20	2,473,029.80	614,843.77	4,141,592.95	44,292,281.88	39,488,744.41

Notes to the Company accounts for the financial year 2010

A. General information

The Company is a large joint-stock company, for the purposes of Section 267, paragraph 3 of the German Commercial Code (Handelsgesetzbuch, HGB). The accounting and valuation methods are subject to the provisions of the German Commercial Code on financial reporting for joint-stock companies, in addition to the supplementary provisions of the German Stock Companies Act (Aktiengesetz, AktG).

B. Accounting and valuation principles

Intangible assets
Intangible assets are valued at acquisition cost less amortisation (based on a useful life of 3 to 5 years). Items are written down according to the straight-line method of depreciation.

Property, plant and equipment
Property, plant and equipment are recognised at acquisition cost less depreciation calculated according to the straight-line method.

A useful life of between 2 and 13 years is applied to property, plant and equipment.

Low-value assets with acquisition costs of € 150 or less are written off in full as operating costs in the year of their acquisition.

Since 1 January 2008, assets with acquisition costs of between € 150 and € 1,000 are capitalised in a collective item. All assets for the whole year are accumulated in this collective item and depreciated over five years by the straight-line method.

Investments
Financial investments are valued at acquisition cost or at the lower fair value.

Accounts receivable and other assets
Accounts receivable and other assets are carried at their nominal value.

Provisions
Provisions have been measured on the basis of reasonable commercial assessment and take account of all identifiable risks, contingent liabilities and anticipated losses.

Liabilities
Liabilities are recognised at their settlement values.

Deferred taxes
If a tax burden is expected overall in future financial years, a surplus of deferred tax liabilities is recognised for the differences between the financial and tax recognition of assets, liabilities and prepaid expenses/deferred charges, taking into consideration allowable losses. Provided that a tax benefit is expected overall, the Company does not recognise deferred tax assets, which is an option offered by Section 274, paragraph 1, sentence 2 of the German Commercial Code (Handelsgesetzbuch, HGB). Loss carryovers are taken into account to the extent that they can be offset against taxable income within the next five years. Additionally, differences between the financial and tax recognition of the assets, liabilities and prepaid expenses/deferred charges of subsidiaries are taken into account to the extent that future tax burdens and tax benefits are anticipated from the reversal of temporary differences at the parent company, CANCOM IT Systeme Aktiengesellschaft.

Deferred taxes are measured on the basis of the tax rates applicable in the future financial year in which the temporary differences in measurement are reversed, provided that the future tax rates are already known. The income tax rate is 30.11 percent (2009: 30.56 percent), and consists of corporation tax and trade tax as well as the solidarity surcharge. The slight reduction in the income tax rate compared with 2009 is owing to the reduction in the average trade tax rate.

Basis for currency conversion
Accounts payable and receivable in foreign currencies within the Group were converted at the rate applicable on the balance sheet date. Monetary balance sheet items in foreign currencies were also converted at the rate applicable on the reporting date. Liabilities with a remaining term to maturity of more than one year are converted at the higher historical rate.

C. Explanations and disclosures concerning individual balance sheet items

Fixed assets

Changes in fixed assets are shown in the statement of changes in fixed assets (page 84-85).

For the composition of the Company's financial assets and the results of the subsidiaries in 2009, please see the statement of shareholdings in companies (page 93).

Accounts receivable and other assets

This item consists of the following:

	12/31/2010 €'000	With remaining term to maturity of over 1 year €'000	12/31/2009 €'000	With remaining term to maturity of over 1 year €'000
Accounts receivable from subsidiaries and affiliated companies	9,692	0	7,641	0
Other assets	1,130	0	387	0
	10,822	**0**	**8,028**	**0**

Accounts receivable from subsidiaries and affiliated companies relate to CANCOM Plaut Managed Services GmbH (€ 3,010k; 2009: € 0), CANCOM NSG GmbH (€ 2,829k; 2009: € 2,282k), CANCOM Computersysteme GmbH (€ 1,773k, 2009: € 1,641k), CANCOM Deutschland GmbH (€ 1,403k; 2009: € 0), CANCOM Limited (€ 217k; 2009: € 205k), acentrix GmbH (€ 209k; 2009: € 259k), CANCOM IT Solutions GmbH (€ 111k; 2009: € 699k), CANCOM NSG ICP GmbH (€ 71k; 2009: € 0), CANCOM a+d IT solutions GmbH (€ 36k; 2009: € 36k), HOH Home of Hardware GmbH (€ 23k; 2009: € 2,144k), CANCOM NSG GIS GmbH (€ 6k; 2009: € 3k), CANCOM physical infrastructure GmbH (€ 3k; 2009: € 203k) and CANCOM NSG SCS GmbH (€ 1k; 2009: € 0). In the previous year, an account receivable from CANCOM (Switzerland) AG of € 169k was also reported. The claim in respect of this account receivable was waived in 2010.

Share capital

As at 31 December 2010, the Company's share capital was € 10,390,751, divided into 10,390.751 notional no-par-value bearer shares.

Authorised and conditional capital

In conformity with the articles of association, the Company's authorised share capital totalled € 5,000,000.00 as at 31 December 2010, and it was subdivided as follows:

A resolution passed at the general meeting of shareholders on 22 June 2010 authorises the Executive Board to increase the share capital once or repeatedly by up to a total of € 4,000,000 by issuing up to 4,000,000 new notional no-par-value bearer shares in exchange for cash or non-cash contributions. The capital increases must be carried out by 20 June 2015 and are subject to the approval of the Supervisory Board.
The shareholders have statutory subscription rights, which may be rescinded in the following cases:

a) if the capital increase is in exchange for non-cash contributions in the event of the acquisition of a company or parts of a company or equity investments in a company;

b) if the capital increase is in exchange for cash, and the proportion of the share capital accounted for by the new shares for which subscription rights are rescinded is not greater than 10 percent of the share capital existing at the time the new shares were issued; and if the issue price of the new shares is not significantly lower than the stock market price of the shares of the same securities class and nature that are already quoted when the issue price is finally determined by the Executive Board, as laid down in Section 203, paragraphs 1 and 2, and Section 186, paragraph 3, sentence 4 of the German Stock Companies Act (Aktiengesetz, AktG). The calculation of the 10 percent threshold must take into account the proportion of the share capital accounted for by new or repurchased shares issued or sold since 22 June 2010 with the simplified exclusion of pre-emptive rights in line with Section 186, paragraph 3, sentence 4 of the German Stock Companies Act, as well as the proportion of the share capital relating to option and/or conversion rights or obligations from bonds issued since 22 June 2010 in compliance with this Act.

The Executive Board is also authorised to exclude fractional amounts from the shareholders' subscription right.

The Executive Board will decide on the nature of the relevant rights conferred by the shares and the other conditions of the share issue (Authorised Capital 2010/I), subject to the approval of the Supervisory Board.

A resolution passed at the general meeting of shareholders on 25 June 2008 authorises the Executive Board to increase the share capital once or repeatedly by up to a total of € 1,000,000 by issuing up to 1,000,000 new notional no-par-value bearer shares in exchange for cash. The capital increases must be carried out by 24 June 2013 and are subject to the approval of the Supervisory Board.
The Executive Board is authorised to rescind the shareholders' statutory subscription rights in the following cases, subject to the approval of the Supervisory Board:

aa) for fractional amounts,

bb) if the capital increase is in exchange for cash and the proportion of the share capital accounted for by the new shares, for which subscription rights are excluded, is not greater than 10 percent of the share capital existing at the time the new shares are issued; and if the issue price of the new shares is not significantly lower than the stock market price of the shares of the same securities class and nature that are already quoted when the price is finally determined by the Executive Board, as laid down by Section 203, paragraphs 1 and 2, and Section 186, paragraph 3, sentence 4 of the German Stock Companies Act (Aktiengesetz, AktG). The calculation of the 10 percent threshold must take into account the proportion of the share capital accounted for by new or repurchased shares issued or sold since 25 June 2008 with the simplified exclusion of pre-emptive rights in line with Section 186, paragraph 3, sentence 4 of the German Stock Companies Act, as well as the proportion of the share capital relating to option and/or conversion rights or obligations from bonds which have been issued since 25 June 2008 in compliance with this Act.

The Executive Board will decide on the nature of the relevant rights conferred by the shares and the other conditions of the share issue (Authorised Capital 2008/II), subject to the agreement of the Supervisory Board.

In accordance with the articles of association, the conditional capital at 31 December 2010 amounted to € 5,000,000. The details of the conditional capital are as follows:

The share capital is increased conditionally by up to € 5,000,000 through the issue of up to 5,000,000 new notional no-par-value shares. The conditional increase in capital will only be implemented to the extent that the holders of bonds, which the Executive and Supervisory Boards have been authorised to issue up to 24 June 2013 by resolution of the general meeting of shareholders of 25 June 2008, exercise their conversion rights/obligations or their option rights. The new shares will be issued at an option exercise price or conversion price to be determined in accordance with the above resolution. The new shares will carry dividend rights from the beginning of the financial year for which, at the time of their issue, no resolution of the general meeting of shareholders has been passed on the appropriation of the net income for the year. The Executive Board is authorised to determine the other details for the implementation of the conditional capital increase with the approval of the Supervisory Board.

The Executive Board did not exercise these powers in the financial year 2010.

The Executive Board is not aware of any restrictions on voting rights or on the transfer of shares.

Purchase of the Company's own shares
By resolution of CANCOM IT Systeme AG's general meeting of shareholders held on 24 June 2009, the Company is authorised up to 31 December 2010 to buy its own shares up to a value of € 1,000,000, or just under 10 percent of the share capital of € 10,390,751 as at 24 June 2009.

The authorisation took effect on 1 July 2009. It replaced the resolution made in the general meeting of 25 June 2008 and could be exercised up to 31 December 2010. The authorisation resolved by the general meeting of 25 June 2008 ended as soon as the new authorisation became effective.

According to the resolution, the Company can purchase its own shares for the following purposes: to enable it to offer shares in the Company to third parties in connection with a business combination or in connection with the acquisition of a company or parts of a company or equity investments in a company; to enable it to offer and transfer shares to entitled parties in fulfilment of the Company's obligations from the issue of convertible bonds and/or option bonds, as authorised by the general meeting of 25 June 2008; or to call in the shares.

The authorisation is limited to the purchase of shares with a value not greater than € 1,000,000, i.e. less than 10 percent of the share capital of € 10,390,751 existing at 24 June 2009. At no time may the purchased shares, together with other treasury shares held by the Company or that are attributable to it in accordance with Sections 71 a ff of the German Stock Companies Act, account for more than 10 percent of the share capital. The authorisation may be exercised as a whole or in several tranches within the above limits.

The shares may only be purchased on the stock exchange.
The price per share paid by the Company (excluding incidental costs) may not exceed or undercut by more than 5 percent the opening price on the trading day in the Xetra trading system (or a comparable replacement system) operated by FWB Frankfurt Stock Exchange.

The Company bought back 23,010 of its own shares in the financial year 2010. In December 2010 it sold 74,329 shares. The selling price was € 722k. There was a capital gain of € 463k, which was transferred to additional paid-in capital. As at 31 December 2010, the Company did not hold any of its own shares.

Other revenue reserves

The other revenue reserves consist of the following:

	2010 €'000	2009 €'000
Transfer of capital redemption reserves	116	0
Transer from retained profit for 2009	10,482	0
Other reserves	10,598	0

Retained profit

Retained profit consists of the following:

	2010 €'000	2009 €'000
Amount brought forward at 1 January	11,981	8,205
Transfer to / reversal of capital redemption reserves	49	-49
Dividend distribution	-1,548	0
Transfer to other revenue reserves	-10,482	0
Net income for the year	8,024	3,825
Retained profit	8,024	11,981

Provisions

The provision of € 1,080k for deferred taxes (2009: € 342k) mainly comprises corporation tax, solidarity surcharge and trade tax for 2010 (€ 1,014k). In 2009 it included corporation tax, solidarity surcharge and trade tax for 2008 and 2009.

The other provisions are mainly for bonuses (€ 557k; 2009: € 480k), financial statements and audit fees (€ 77k; 2009: € 131k), emoluments to Supervisory Board members (€ 35k; 2009: € 35k), overtime and holiday entitlements (€ 32k; 2009: € 5k), outstanding invoices (€ 27k; 2009: € 195k) and printing costs for the annual financial statements (€ 13k; 2009: € 12k). In the previous year, the provisions also included the purchase price for the shareholding in CANCOM SCC GmbH, which amounted to € 808k.

Liabilities

For a breakdown of liabilities, please see the statement of liabilities on page 90+91.

Capital from profit participation rights and subordinated loans includes profit participation rights of € 6,000,000 (PREPS 2005-1 and PREPS 2005-2), mezzanine capital of € 4,000,000 (Bayern Mezzaninekapital GmbH & Co. KG), and subordinated loans of € 1,650,000 (Sparkasse Günzburg-Krumbach), € 1,995,600 (Stadtsparkasse Augsburg) and € 392,500 (Stadtsparkasse Augsburg).

The € 3,000,000 portion of the profit participation rights designated as PREPS 2005-2 was granted under a contract dated 1 November 2005. The capital was paid on 8 December 2005. The profit participation rights expire on 8 December 2012.

There is no participation in the Company's losses. Claims arising from the profit participation right are ranked below the claims of all current and future creditors, so that, in the event of the liquidation or insolvency of the Company, they are subordinate to the claims defined in Section 39, paragraph 1, number 4 of the German Insolvency Statute (Insolvenzordnung, InsO), and are therefore only to be satisfied after these and any higher-ranking claims have been satisfied in full, but before the claims defined in Section 39, paragraph 1, number 5 of the above Statute.

In line with the resolution of the general meeting of shareholders of 2005 authorising the Executive Board to grant profit participation rights, the € 3,000,000 portion recognised as a subordinated loan at 31 December 2005 (PREPS 2005-1) was converted to profit participation rights. The conversion became effective from the interest-rate period beginning on 4 May 2006. The profit participation rights expire on 4 August 2012. There is no participation in the Company's losses. With regard to the ranking of any claims arising from these profit participation rights, the same applies as to the profit participation rights designated as PREPS 2005-2 above.

The reward for granting profit participation rights consists of a guaranteed profit plus a share of the profits depending on the Company's net profit. This is taken to be the higher of the net profit of CANCOM IT Systeme Aktiengesellschaft or the consolidated net profit of the CANCOM IT Systeme Aktiengesellschaft group. The investor only receives a share of the profits if the higher of the two net profit figures exceeds € 7 million. The investor's share of the profits for the financial year 2010 for PREPS 2005-2 and PREPS 2005-1 was € 60k.

Mezzanine capital of € 4,000,000 was granted under a mezzanine capital agreement of 27 December 2007 between CANCOM IT Systeme Aktiengesellschaft and Bayern Mezzaninekapital GmbH & Co. KG. The funds were paid out on 31 December 2007. The entire mezzanine capital is due for repayment by no later than 31 December 2015. If the actual reported EBITDA reaches at least 50 percent of the planned EBITDA, the providers of the mezzanine capital will be paid 1 percent per annum as performance-linked remuneration. Claims under the mezzanine capital agreement are subordinate to the claims of all present and future creditors of the Company in that the providers of the mezzanine capital may not demand the satisfaction of their claims during the time that the company is in crisis in the meaning of Section 32a of the German Limited Liability Company Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, GmbhG) or if the enforcement of the claims would lead the Company into a crisis in the meaning of the Section 32a of the above Act. During such a crisis these subordinated claims rank after the claims of other creditors pursuant to Section 39, paragraph 1, number 5 in conjunction with Section 39, paragraph 2 of the German Insolvency Statute (Insolvenzordnung, InsO).

The loan from Sparkasse Günzburg-Krumbach was taken out on 28 March 2003. The loan will be repaid from 30 September 2011 in four half-yearly instalments of € 412,500. The loan was already a subordinated loan at the time that it was drawn down.

A loan of € 1,995,600 from Stadtsparkasse Augsburg was granted in tranches of € 1,500,000 on 23 September 2009 and € 495,600 on 8 December 2009. This is a specific-purpose loan out of funds from Germany's publicly-owned development bank, KfW. Repayment in 12 quarterly instalments of € 166,300 will commence on 30 December 2016.

A loan of € 392,500 from Stadtsparkasse Augsburg was granted on 8 December 2009. This is another specific-purpose loan from KfW. Repayment in 11 quarterly instalments of € 32,709 and a final instalment of € 32,701 will commence on 30 December 2016.

Liabilities due to affiliated companies relate to CANCOM SCC GmbH (€ 23k; 2009: € 0). In 2009 the figure included liabilities of € 1,202k to CANCOM SYSDAT GmbH and € 194k to CANCOM Deutschland GmbH.

D. Explanations and disclosures concerning the statement of income

The statement of income was prepared according to the total cost accounting principle.

Revenues for 2010 consist solely of Group allocations (€ 6,599k; 2009: € 5,601k).

Other operating income consists of income not relating to the period, amounting to € 2,488k (2009: € 50k). This comprises income from a write-up of financial assets € 2,473k; 2009: € 0) and income from the retransfer of provisions (€ 15k; 2009: € 33k).

Depreciation and amortisation on tangible and intangible fixed assets includes extraordinary amortisation of goodwill amounting to € 146k.

The item of other operating expenses comprises the expense connected with waiving the claim in respect of a loan to CANCOM (Switzerland) AG.

Income from equity investments amounting to € 233k comprises the dividend for CANCOM physical infrastructure GmbH.

Profits made on the basis of a profit transfer agreement consists of CANCOM Deutschland GmbH's profit for the year (€ 5,641k; 2009: € 1,552k) and that of CANCOM NSG GmbH (€ 2,719k; 2009: € 2,328k), which were transferred to CANCOM IT Systeme Aktiengesellschaft.

Interest and similar income comprises interest income of € 380k (2009: € 261k) from subsidiaries and affiliated companies.

Write-downs of financial assets of € 1,183k are included in the financial assets in 2010. This relates to a write-down following the revaluation of the Company's wholly-owned subsidiary CANCOM Ltd. in the UK.

Of the interest and other expenses, € 13k (2009: € 46k) is attributable to subsidiaries and affiliated companies.

Statement of company liabilities

1. Profit participation rights and subordinated loans
2. Liabilities due to banks
3. Trade accounts payable
4. Accounts payable to subsidiaries and affiliated companies
5. Other liabilities
– of which taxes
– of which social security

E. Other disclosures

Disclosures in compliance with Section 285, no. 3 of the German Commercial Code (Handelsgesetzbuch, HGB)

In 2007 the business premises were sold in a sale and lease-back agreement to improve liquidity and optimise the condition of the balance sheet.
Information regarding the risks connected with this agreement can be found under other financial obligations.

Disclosures in compliance with Section 285, no. 29 of the German Commercial Code (Handelsgesetzbuch, HGB)

In the financial year 2010, there were differences between the financial balance sheet and the tax balance sheet in terms of the recognition of assets, liabilities and prepaid expenses/deferred charges of the subsidiaries, which would have given rise to both deferred tax assets and deferred tax liabilities.

However, there is a surplus of deferred tax assets. Section 274, paragraph 1, sentence 2 of the German Commercial Code (Handelsgesetzbuch, HGB) offers an option to account for these, but the Company did not exercise this option.

The resulting net deferred tax assets are made up of deferred tax liabilities on the tax adjustment items of the subsidiaries and shares in affiliated companies and subsidiaries, as well as deferred tax assets on goodwill and pension provisions.

Other financial obligations

Obligations under current tenancy and lease agreements are as follows:

	Due in 2011 €'000	Total €'000
Tenancy agreements	761	8,096
Lease agreements	69	149
of which from subsidiaries and affiliated companies	*1*	*1*

Contingent liabilities

As at the reporting date there are guarantees for CANCOM Deutschland GmbH (€ 11,642k, 2009: € 3,200k), CANCOM NSG GmbH (€ 3,692k, 2009: € 0), a joint guarantee for CANCOM IT Solutions GmbH and CANCOM Deutschland GmbH (€ 7,200k; 2009: € 0), HOH Home of Hardware (€ 1,650k, 2009: € 1,950k), CANCOM physical infrastructure GmbH (€ 150k, 2009: € 150k), CANCOM NSG ICP GmbH (formerly NSG Datacenter Services GmbH) (€ 100k, 2009: € 100k), and a joint guarantee for CANCOM SCC GmbH, CANCOM physical infrastructure GmbH, CANCOM NSG GIS GmbH (formerly Novodrom People Value Service GmbH), CANCOM NSG SCS GmbH (formerly CANCOM Service Center Süd GmbH), CANCOM NSG ICP GmbH, acentrix GmbH and CANCOM Plaut Managed Services GmbH (€ 200k).

	12/31/2010 €'000	12/31/2009 €'000
Joint and serveral liability for financial guarantees and other loans	339	673

Contingent liabilities, which amount to € 339k (2009: € 673k) relate entirely to subsidiaries and affiliated companies.

CANCOM IT Systeme Aktiengesellschaft only enters into contingent liabilities after careful assessment of the risks, and strictly only in respect of its own subsidiaries and affiliated companies, or companies that engage in related business activities. Based on the Company's continuous assessment of the risk situation regarding the contingent liabilities it has entered into, and in consideration of its findings up to the time that these financial statements were compiled, CANCOM IT Systeme Aktiengesellschaft anticipates at present that the commitments on which the contingent liabilities are based can be fulfilled by the principal debtors. CANCOM IT Systeme Aktiengesellschaft therefore assesses the likelihood of a loss on any of the contingent liabilities listed as remote.

Remaining term						
Up to 1 year €	Over 1 year €	Over 5 years €	12/31/2010 €	12/31/2009 €	Secured by lien or similar rights €	Type
412,500.00	11,237,500.00	2,388,100.00	14,038,100.00	14,038,100.00	0.00	
1,246,644.06	3,115,901.34	1,245,630.47	5,608,175.87	6,206,818.61	1,280,000.00 2,000,744.97	Pledging of shares, deed no. B 876/2008 Assignment of motor vehicle as security
124,486.01	0.00	0.00	124,486.01	136,207.41	0.00	
23,416.94	0.00	0.00	23,416.94	1,395,659.41	0.00	
403,395.79	0.00	0.00	403,395.79	1,505,915.22	0.00	
49,621.95	*0.00*	*0.00*	*49,621.95*	*1,219,211.21*		
0.00	*0.00*	*0.00*	*0.00*	*501.59*		
2,210,442.80	14,353,401.34	3,633,730.47	20,197,574.61	23,279,700.65	3,280,744.97	

Management

The members of the Executive Board are:

- Klaus Weinmann, graduate in business administration (Dipl.-Kaufmann) Aystetten, Germany (CEO)
- Rudolf Hotter, graduate in business economics (Dipl.-Betriebswirt), Füssen, Germany
- Paul Holdschik, businessman, Eurasburg, Germany (up to 29 July 2010)

All members of the Executive Board are authorised to represent the Company jointly with one other Executive Board member or a person holding general commercial power of attorney ("Prokura" under German commercial law).

The following persons hold general commercial power of attorney ("Prokura" under German commercial law):

- Thomas Stark, graduate in industrial engineering (Dipl.-Wirtsch.-Ing.), Wittislingen, Germany
- Dr Johannes Mauser, lawyer Stuttgart, Germany (up to 1 April 2010)

Supervisory Board

The members of the Supervisory Board are:

- Walter von Szczytnicki, self-employed management consultant, Kirchseeon, Germany (Chairperson)
- Dr Klaus F Bauer, corporate lawyer, Riemerling, Germany (up to 31 December 2010) (Deputy Chairperson)
- Stefan Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany
- Raymond Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany
- Herr Walter Krejci, managing director of AURIGA Corporate Finance GmbH, Munich, Germany
- Regina Weinmann, graduate in business administration (Dipl.-Kauffrau), managing director of WFO Finanzberatung GmbH, Aystetten, Germany

Memberships of other supervisory boards:

- Walter von Szczytnicki:
  - AL-KO Kober AG
- Dr Klaus F Bauer:
  - S-Partner Kapital AG

Employees

The average number of employees working for the Company during 2010 was 58, including part-time employees, but excluding trainees, interns and the three members of the Executive Board.

Auditors' fees

The disclosures according to Section 285 no. 17 of the German Commercial Code (Handelsgesetzbuch, HGB) are omitted because they are included in the consolidated financial statements of CANCOM IT Systeme Aktiengesellschaft.

Declaration of conformity with the Corporate Governance Code

In 2002 the Company issued its first statement of conformity under Section 161 of the German Stock Companies Act (Aktiengesetz, AktG). It was last renewed in December 2010 and then published for the information of the shareholders on the website of CANCOM IT Systeme AG.

Total emoluments paid to the Executive Board and the Supervisory Board

The total emoluments paid to the Executive Board in 2010 amounted to € 1,281k.

The total emoluments paid to members of the Executive Board are subdivided into fixed and variable components. The variable components are dependent on the attainment of defined performance targets. No stock options were granted to the members of the Executive Board in 2010.

Full disclosures in compliance with Section 285, number 9a, sentences 5 to 9 of the German Commercial Code (Handelsgesetzbuch, HBG) can be found in the management report.

The total emoluments of the Supervisory Board in 2010 amounted to € 91k.

Direct or indirect shareholdings exceeding 10 percent

As at 31 December 2010, the Company did not know of any direct or indirect shareholdings exceeding 10 percent of the voting rights.

Proposal for the appropriation of retained profit

The Executive Board has resolved to propose to the Supervisory Board and the general meeting of shareholders that the retained profit for the financial year 2010 amounting to € 8,023,812.57 be used for a dividend payment of € 0.15 per eligible share and that the balance of the retained profit remaining after the dividend payment be transferred to other reserves.

Parent company

CANCOM IT Systeme Aktiengesellschaft, Jettingen-Scheppach, Germany, is the company that prepares the consolidated financial statements. The consolidated financial statements of CANCOM IT Systeme Aktiengesellschaft are published on the Company's website. They are also available on the electronic Federal Gazette's website at www.bundesanzeiger.de.

Jettingen-Scheppach, Germany, 14 March 2011

Klaus Weinmann Rudolf Hotter

Executive Board of CANCOM IT Systeme Aktiengesellschaft

Statement of shareholdings in companies

Subsidiaries	Shareholding as a percentage	Equity capital as at 31 Dec 2010 €'000	Net income for the year 2010 €'000
Shares in subsidiaries and affiliated companies			
1. CANCOM Deutschland GmbH, Jettingen-Scheppach, Germany	100.0	5,933	0 *
2. CANCOM NSG GmbH, Jettingen-Scheppach, Germany	100.0	3,761	0 *
3. CANCOM IT Solutions GmbH, Jettingen-Scheppach, Germany	100.0	1,415	407
4. CANCOM SCC GmbH, Jettingen-Scheppach, Germany	100.0	3,303	–909
5. HOH Home of Hardware GmbH, Jettingen-Scheppach, Germany	100.0	398	20
6. CANCOM physical infrastructure GmbH, Jettingen-Scheppach, Germany	100.0	656	406
7. CANCOM NSG GIS GmbH, Jettingen-Scheppach, Germany	100.0 B)	25	0**
8. acentrix GmbH, Jettingen-Scheppach, Germany	51.0 C)	194	155
9. CANCOM NSG SCS GmbH, Jettingen-Scheppach, Germany	100.0 B)	40	14
10. CANCOM NSG ICP GmbH, Jettingen-Scheppach, Germany	100.0 B)	2	–22
11. CANCOM Plaut Managed Services GmbH, Jettingen-Scheppach, Germany	100.0	11	–13
12. CANCOM Financial Services GmbH, Jettingen-Scheppach, Germany	100.0	94	–2
13. CANCOM VVM GmbH, Jettingen-Scheppach, Germany	100.0	25	–1
14. CANCOM Computersysteme GmbH, Grambach, Austria	100.0 A)	434	28
15. CANCOM a+d IT Solutions GmbH, Perchtoldsdorf, Austria	100.0 D)	1,872	1,768
16. CANCOM Limited, Guilford, UK	100.0	198 1)	–395
17. CANCOM (Switzerland) AG, Caslano, Switzerland	100.0 A)	–179 2)	20
		18,182	1,476
Shareholdings			
Plaut Aktiengesellschaft, Vienna, Austria	21.1	16,460	264

A) = Indirect shareholding through CANCOM Deutschland GmbH

B) = Indirect shareholding through CANCOM NSG GmbH

C) = Indirect shareholding through CANCOM IT Solutions GmbH

D) = Indirect shareholding through CANCOM Computersysteme GmbH

1) = Converted at the reporting date rate of GBP 1 = EUR 0.86

2) = Converted at the reporting date rate of CHF 1 = EUR 1.25

* Profit transfer agreement with CANCOM IT Systeme Aktiengesellschaft

**Profit transfer agreement with CANCOM physical infrastructure GmbH (until 31 Dec. 2010)

Responsibility Statement of the company financial statement CANCOM IT Systeme Aktiengesellschaft

The members of the executive board have assured that the company financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the company management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Jettingen-Scheppach, Germany, 14 March 2011

Klaus Weinmann   Rudolf Hotter

Executive Board of CANCOM IT Systeme Aktiengesellschaft

We have audited the annual financial statements (consisting of the balance sheet, income statement and notes to the accounts) of CANCOM IT Systeme Aktiengesellschaft, Jettingen-Scheppach, Germany, including the accounts and management report of CANCOM IT Systeme AG and the CANCOM Group for the financial year from 1 January to 31 December 2010. The accounting system and the preparation of the financial statements and management report according to German commercial law and the supplementary provisions of the articles of association are the responsibility of the legal representatives of the Company. Our task is to submit an opinion, based on our audit, on the annual financial statements, including the accounting system used, and on the management report.

We have conducted our audit of the Company's annual financial statements in accordance with Section 317 of the German Commercial Code (Handelsgesetzbuch, HGB), in compliance with the German standards for the audit of financial statements laid down by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). These require us to plan and perform the audit in such a way that inaccuracies or irregularities significantly affecting the asset, financial and earnings position of the Company presented by the Company annual financial statements prepared in compliance with the principles of proper accounting, and by the management report, can be detected with reasonable certainty. In establishing the audit procedures, we took into consideration our knowledge of the Company's business activities, and of the economic and legal environment in which the Company operates, as well as our expectations with regard to possible errors. The audit reviews the efficacy of the internal controlling system relating to the accounting system and seeks proof for the details provided in the accounts, the financial statements and the management report primarily on the basis of random checks. The audit includes an assessment of the accounting principles applied, and the significant estimates made by the Company's legal representatives, as well as an appraisal of the overall presentation of the facts by the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, based on the information we have obtained during our audit, the annual financial statements conform with the legal requirements and the supplementary provisions of the articles of association, and give a true and fair view of the assets, financial situation and earnings of the Company, while complying with the principles of sound accounting practice. The management report is in line with the financial statements, it gives a true overall picture of the Company's situation, and presents an accurate view of the opportunities and risks of future development.

Augsburg, Germany, 14 March 2011

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Tobias Wolf	Johann Dieminger
Certified auditor	Certified auditor

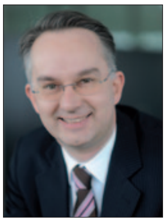
CANCOM IT Systeme AG financial calendar

Important dates

Interim Report Q1 / 2011	**12 May 2011**
Annual General Meeting in Augsburg, Germany Start: 11 Uhr Location: IHK für Augsburg und Schwaben Stettenstraße 1–3 86150 Augsburg, Germany	**8 June 2011**
Interim Report Q2 / 2011	**11 August 2011**
Interim Report Q3 / 2011	**10 November 2011**
Analysts' Conference within the **German Equity Forum in Frankfurt, Germany** Start: Time is not yet determined Location: Congress Center der Messe Frankfurt Ludwig-Erhard-Anlage 1 60327 Frankfurt, Germany	**21 - 23 November 2011**

Note: The German Securities Trading Act (Section 15 of the German Securities Trading Act - Wertpapierhandelsgesetz, WpHG) obligates issuers to publish immediately all information with a considerable potential to influence the share price. For that reason we might publish our financial reports before the fixed dates listed above.

Executive Board



Dipl.-Kaufmann
Klaus Weinmann
CEO

Dipl.-Betriebswirt Rudolf Hotter
Member of the Executive Board

Supervisory Board

Walter von Szczytnicki
Chairperson,
self-employed management consultant

Raymond Kober
Member of the Supervisory Board,
member of the board of management of AL-KO Kober AG, Kötz, Germany

Stefan Kober
Deputy Chairperson,
member of the board of management of AL-KO Kober AG, Kötz, Germany

Walter Krejci
Member of the Supervisory Board,
managing director of Auriga Corporate Finance GmbH, Munich, Germany

Regina Weinmann
Member of the Supervisory Board,
managing director of WFO Finanzberatung GmbH, Aystetten, Germany

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CANCOM IT Systeme AG Annual report 2010

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